GATX Corporation

2014 Fourth Quarter Conference Call — January 22, 2015

Operator:

Good day and welcome to the GATX fourth-quarter conference call. Today's conference is being recorded. At this time, I would like to turn the conference over to Jennifer Van Aken. Please go ahead, ma'am.

Jennifer Van Aken:

Thank you, Richelle, and good morning, everyone. Thanks for joining us for the fourth-quarter and 2014 year-end conference call. With me today are Brian Kenney, President and CEO of GATX Corporation, and Bob Lyons, Executive Vice President and Chief Financial Officer. As a reminder, any forward-looking statement made on this call represents our best judgment as to what may occur in the future. We have based these forward-looking statements on information currently available and disclaim any intention or obligation to update or revise these statements to reflect subsequent events or circumstances. The Company's actual results will depend on a number of competitive and economic factors, some of which may be outside the control of the Company. For more information, refer to our 2013 Form 10-K for a discussion of these factors. You can find this report as well as other information about the Company on our website, www.gatx.com.

I will give an overview of the results provided in our press release earlier this morning, provide some brief comments regarding our expectations for 2015, and then Brian will provide his insight on some key areas for GATX in the year ahead. After that, we'll open it up to questions.

Today, we reported 2014 fourth-quarter net income of $58.5 million, or $1.30 per diluted share. This compares to 2013 fourth-quarter net income of $53.3 million, or $1.14 per diluted share. For full-year 2014, net income was $205 million, or $4.48 per diluted share. By comparison, 2013 net income was $169.3 million, or $3.59 per diluted share, including a benefit of $4.5 million, or $0.09 per diluted share, from Tax Adjustments and Other Items. Details related to these Tax Adjustments and Other Items can be found on Page 12 of this morning's press release. The fourth-quarter and full-year 2014 results are reflective of the continued strong demand for tank cars and improved demand for freight cars in North America. The following fleet performance discussion excludes GATX's boxcar fleet.

At the end of the fourth quarter, GATX's North American fleet utilization was 99.2%. In the fourth quarter, the renewal rate change of GATX's Lease Price Index was 39.2%, resulting in the full-year renewal rate change of the LPI of 38.8%. We continued to optimize our fleet through railcar sales, generating more than $60 million in asset remarketing income. We also capitalized on opportunities to grow the railcar fleet as investment volume exceeded $800 million.

Within Rail International, the economic environment was challenging for GATX Rail Europe and, in certain instances, it took longer to place cars on lease. Utilization was affected throughout the year, but improved to 95.9% at the end of the fourth quarter. 2014 was another sizable investment year for GATX Rail Europe with investment volume of more than $150 million as we continued to invest in new tank cars.

American Steamship Company operated 15 vessels and carried 30.5 million net tons of cargo in 2014, compared with 13 vessels that carried 28.8 million net tons in 2013. Higher water levels on the Great Lakes contributed to the increased volume of cargo shipped. Segment profit in 2014 was lower than in 2013, however, as harsh weather conditions and ice cover on the Great Lakes caused extreme delays and operating inefficiencies early in the navigation season.

Within the Portfolio Management segment, the Rolls-Royce and Partners Finance affiliates continued to post very strong results and the performance of the inland marine barges improved due to strong grain shipments. In the coming year, leases on approximately 17,000 railcars in our North American term lease fleet are scheduled for renewal. In addition, we have approximately 6,000 boxcars scheduled for renewal. As noted in the press release, we currently expect 2015 earnings to be in the range of $5.15 to $5.35 per diluted share, excluding any impact from Tax Adjustments and Other Items. With that quick overview, I'll turn it over to Brian for additional color on 2014 and our outlook for the year ahead.

Brian Kenney:

Okay. Thanks, Jennifer. Before we open up the call to questions, I want to address three topics fairly quickly. First, I'll provide some color on our 2015 earnings outlook. Second, I'll give you a quick update on the tank car regulatory situation. And third, I'd like to address upfront some of the questions we have been receiving concerning the impact of the sharply lower crude prices on our lease fleet. So let's start with that 2015 outlook.

As the press release stated, we've never been in a stronger position from a fleet perspective than we are entering 2015. I mean, you see 99% utilization, a renewal success rate in the mid-80s. We saw an average renewal rate increase, as Jennifer said, in our Lease Price Index of close to 40%. We have had continuous success at lengthening lease term. And, in general, the team has done an outstanding job of using the strong market of the past few years to position us for continued earnings and cash flow growth in the years ahead. So, in 2015, we project North American Rail segment profit to increase close to 10% from last year.

To run down the income statement for you, lease revenue should increase primarily due to renewing expiring leases at higher rates again in 2015. We'll also see a full-year revenue contribution from the acquired boxcar fleet. We actually expect a smaller increase in 2015 maintenance expense than in recent years. We will have a full year of impact, once again, in the boxcar fleet from a maintenance perspective, but that's going to be offset by a drop in our tank qualification compliance events compared to last year. Asset remarketing should approximate 2014's level. And, if you look at investment activity, it will still be robust in 2015. We expect to purchase close to 4,000 cars, but it'll probably fall short of the investment activity we saw last year when we had that $340 million boxcar acquisition; unless, of course, we see another attractive opportunity.

In International Rail, we expect a slight increase in segment profit. Lease rates and lease revenue are expected to increase again. They're going to have higher lease rates as they continue their fleet renewal program of the last few years where they've been adding new cars and scrapping older cars. But, Rail Europe will be wrestling with another uneven year for tank car demand in 2015, so we expect utilization to bounce around from quarter to quarter. That Euro exchange rate is not helping comparisons to last year either. Net fleet maintenance is expected to increase slightly due to scheduled revision activity. And investment will be likely lower than in recent years, although they still plan on adding over 1,000 cars in the fleet in Europe in 2015.

Turning to ASC, we expect a small increase in segment profit this year. As you know, they had a very difficult start to the sailing season in '14 due to the extreme icing conditions on the Great Lakes. But they were able to bring on another vessel and they had a tremendous fourth quarter operationally. They both met their tonnage commitments for the year as well as they took on some spot cargoes which were very profitable. But if you assume a more normal start to the sailing season, we expect lower tonnage in 2015 because those spot cargoes are unlikely to be available. But segment profits should still increase slightly due to some price increases as well as ASC's ability to deliver those tonnage requirements with a lower number of vessels than in 2014.

And, finally, in Portfolio Management, we expect comparable segment profit in 2015 to last year. We'll have continued strong performance from Rolls-Royce, that engine leasing joint venture and steady performance of the marine assets within the segment. So the net effect of all this is, along with the expectation of slightly lower SG&A in 2015 -- that leads us to our earnings guidance of $5.15 to $5.35 per diluted share. That would be another record earnings per share year for GATX and should result in return on equity approaching 17%. So it would be outstanding performance again.

So let's turn to that tank car regulatory update. It's short this time because there's no real development here. As you may remember, the comments to PHMSA's notice of proposed rulemaking were due last September. PHMSA reportedly received thousands of comments. I know they've spent the interim period trying to finalize their new rules and they were meeting with various interested parties to understand their comments that were submitted. They were trying to harmonize with Transport Canada. The gist here is the latest public schedule has the rule being sent to OMB at the end of January. OMB clearance is expected by April 30 with the rule finalized and published by mid-May. So we'll obviously monitor that situation closely, but any discussion on the form of the final rule or the time frames involved is really pure speculation at this point.

And the final topic before we open the call to questions is to address the inquiries that we're receiving about the effect of the dramatically lower crude prices and its effect on our lease fleet. As you know, if you've listened to our calls over the last few years, we have been a relatively -- cautionary voice, really, relatively speaking, in the industry about whether it made sense to aggressively deploy tank cars in crude-by-rail service. As we have discussed on prior calls, our analysis has always suggested that the market could become overbuilt for a variety of reasons. You know, we've talked about potential pipeline construction, excess manufacturing capacity for tank cars. We've talked about the volatility of both the absolute price of crude and the WTI to Brent differentials. There is a number of factors here and, although we discussed that risk of crude price volatility, we certainly didn't predict or anticipate this recent freefall in crude prices. But it was one of the reasons that our strategy has been to not aggressively pursue this crude-by-rail business and to, instead, use that high demand environment created by crude by rail to continue to diversify our tank car fleet across a variety of high-quality customers in commodities and car types and to lock up those attractive rates for a long period.

So, at the end of 2014, we only have 2,500 cars in crude-by-rail service in North America, none in Europe; so direct crude-by-rail exposure comprises about 1.7% of the worldwide fleet. But, having said that, petroleum customers and related commodities are obviously an important source of GATX's revenue worldwide. In fact, about 18% of our cars in North America are leased to petroleum-related customers.

For example, we own another 2,300 cars that are in ethanol service in North America. We have approximately 3,000 -- 3,100 cars in frac sand service. A big part of our European tank car fleet is in refined product service. So naturally, we do have an interest in what the effects of these lower crude prices will be. But, once again, let me start by saying that our North American tank car fleet is essentially 100% utilized right now. And, as I said, these cars are leased at historically high rates for very long average terms.

And, to date, we have received no indication from any customer that they intend to return their cars. In fact, we're out there asking them if they feel that they're long cars right now given the situation and if they want us to re-market them. And no one has taken us up on that offer. If you look at our order book, very few cars are designated for petroleum service and none of those customers has expressed an interest in cancelling an order at this time either.

And we really haven't seen any weakness in the existing fleet. Obviously, at 99% utilization, or in pricing, either, other than what we have discussed over the last year or so -- about the 30,000-gallon tank cars and the pressure on those -- but that was due to the overhang of the impending tank car regulations. So, having said that, despite what you might hear from others in the industry, I think it's a little premature to think there will be no effect in this sector of the rail market if these low crude prices persist for a long period. Actually, we think many customers are still in the assessment phase regarding the effect on their business. This precipitous drop has only been here for two or three months.

So, in our view, the car types that could potentially be the most impacted are, first and foremost, the small-cube covered hopper market. Obviously, one of the commodities that car carries is frac sand. This is the car that is most directly related to the drilling of new wells. It already has been a volatile car type over the last few years. This march-up in demand and lease rates due to frac sand has been interrupted a few times by some temporary overbuilding. In particular, small cubes designated for frac sand appear to be a big part of the manufacturers' freight car backlog and we believe that backlog could be under pressure for cancellation if this new drilling is curtailed.

As far as our fleet, as I said, while we do have 3,100 cars in frac sand service, it's obviously a very small part of our fleet. They are deployed with high-credit customers, again, for very long terms. In addition, our small cubes are deployed in a variety of other commodities and we are seeing increased demand for cars in this other service. So cement, would be a good example. And, current rates for small cubes actually remain very strong.

The second type of probably most obvious type of car that would be affected are the 30,000-gallon tank cars that carry crude, ethanol, and other refined products. I actually mention this car type after small cubes because, in a low crude price environment, it's unclear how much pressure this existing fleet of 30,000-gallon cars would experience. Even though the economics of drilling new wells could be tough, which would definitely affect frac sand cars, lower crude prices that continue to drive healthy demand for crude and refined products in North America -- that demand could continue to be filled by existing North American wells and that would still create demand for these cars. So time will tell if these production and transportation patterns will change, but, once again, it is arguably a bigger issue for the manufacturers and their order backlog for new cars than it is for the existing fleet out there. So once again, GATX's exposure is with high-quality customers and for very long terms.

Beyond those two car types, you can see second and third quarter negative effects, certain high-pressure cars or certain asset car types, but none of these other car types experienced the boom that small cubes and 30,000-gallon tank cars did over the last decade. And they're also tied to movements, other rail movements, in other industries as well.

Also, you can see a number of positive effects from low crude and energy prices on a variety of car types in our fleet. An example would be car types serving the construction industry; the fertilizer industry, both tank and freight; cars serving the plastics industry, both tank and freight; cars serving the steel industry; the auto industry. I mean, I could go on, but beyond the obvious effects of crude drilling and production and the cars that serve those markets, the fact is that the U.S. economy and the European economy, for that matter, are largely consumption-based, and we believe the net effect of sustained lower oil prices should be a net positive for those economies; that economic activity generally benefits rail transportation and a lease fleet such as ours, which is in great shape and well-positioned from a diversification and term perspective.

And, outside of rail, low crude prices could also affect our other businesses, so inland and blue water marine vessels could see their fuel costs decrease. Airlines will obviously benefit for the same reason. That could be positive for the portfolio in our Rolls-Royce joint venture. Once again, all this is going to play out over the coming months as customers assess the effects on their business. Obviously, we'll monitor it and keep everybody informed.

So I hope that helps you think about it. Now, let's go ahead and open it up to questions.

QUESTION AND ANSWER

Operator:

(Operator Instructions). And first question we'll hear from Mike Baudendistel with Stifel.

Mike Baudendistel:

Thanks and good morning. I just wanted to note that you didn't provide an outlook for the Lease Price Index in 2015. And just wondering if you think it is likely that's going to be at a lower rate of change than it was in 2014 -- just due to more difficult comps associated with expiring leases.

Bob Lyons:

Good morning, Mike. It's Bob Lyons. We actually expect the LPI to have another very strong year in 2015. As you know, we came into 2014 expecting the LPI to be in the mid-30% range and we actually finished the year, as Jennifer noted, right around 39% -- so very strong performance. So in 2015, we're, again, expecting the LPI, as we look at it today, to be in that mid-30% range, which is an incredibly strong number. So very positive outlook there.

I would echo some of the comments that Brian made that if the energy markets remain low and we're in an extended period of low crude prices, our customers' behavior may change and we may have to adjust our commercial strategy accordingly. And, as a result, I think the LPI could be more volatile in 2015 on a quarter-to-quarter basis. We'll have to see how that plays out as the year progresses.

Now, I'd add that, despite the potential for some volatility in the LPI, we don't envision, and can't envision, a scenario where the LPI is not in very, very positive territory and very strong in 2015. And I think that speaks very directly to the diversity of our fleet and the renewal strategy and term strategy we've had over the course of the last few years. So our outlook for the LPI in 2015 is, again, very positive.

Mike Baudendistel:

Good. And I also wanted to ask -- have you seen, as a result of the really strong production, in terms of the number of tank cars, the past several quarters really being at record levels? Is that having an impact on the new lease rates? I understand you said that the lease rates are still up for most commodity types, but if you were to compare lease rates on tank cars right now versus a couple of months ago, is that sort of having a disruptive impact on the market at all?

Brian Kenney:

That's a good question. And, generally, it's tough to do quarter-to-quarter sequential quarter comparisons. But if I look at what tank rates did throughout 2014 and continuing in the fourth quarter, they're generally up low single, mid-digits; say 5%, 7% from 2013 fourth quarter. And that progressed pretty evenly through the year. Once again, the exception being that 30,000-gallon tank car, which has been under pressure due to that regulatory uncertainty for quite some time. Those rates have come down over the last year.

Mike Baudendistel:

Okay, great. Those were my questions. Thank you.

Operator:

And next, we'll move to Justin Long with Stephens.

Justin Long:

Thanks and good morning, guys.

Bob Lyons:

Good morning.

Justin Long:

First question -- you guys have been pretty clear about the strategy of pushing term on tank cars. And just being in the later innings of that process, is there any way you could provide some more color on the magnitude of your tank car fleet that's coming up for renewal over the next, call it, three years?

Bob Lyons:

Well, over the three -- some of that will be determined, really, on what takes place here in 2015 and 2016, but our renewal level this year at 17,000 cars, typically is a little bit more weighted towards tank. Actually, this year, for the first time in a very long time, we have more freight cars renewing than tank cars in 2015. That's ideal and, really, by design, over what we have done over the course of the last few years. As we have extended term -- the number of tank cars scheduled for renewal this year and into 2016 will actually be less than freight. And, again, as I mentioned, that's a really good position to be in because the freight car market has been gathering -- generating strength throughout 2014 as the year progressed and we expect that to continue in 2015.

Brian Kenney:

Yeah, and I'd add that having those tank cars come up in '15, that is a good thing because a lot of those expiring leases are still at lower rates, and we expect strong pricing again in '15 on a variety of tank car types.

Justin Long:

And maybe to just follow up on that -- once you have re-priced those tank cars in 2015, I mean, if you look at your total tank car book, will all of it at that point be re-priced at the higher lease rates we have seen this cycle?

Brian Kenney:

A significant part of it will have been over the last few years, yes.

Justin Long:

Okay, great. You're obviously an active participant in the secondary market for railcars. I was just curious, too, if you could comment on the recent activity and how it's trended. It seems like your approach to the market more recently has been more of a net seller. I'm just wondering -- is there potential for that dynamic to start flipping in the other direction or what are you seeing out there?

Brian Kenney:

We see very high railcar values and a very competitive market when groups of cars come up for sale in the secondary market. And so it's very difficult to invest right now beyond our committed purchase program. Now, we had some success in 2014, and we always do, but it's tough, given these railcar prices. Naturally, as you saw in 2008 to 2010, as those railcar prices come down at some point, it's going to be easier for us.

Bob Lyons:

Yes. I would add on that, too, is we are both a buyer and seller of cars in the secondary market. So while it does make it challenging to buy cars in the secondary market and we see a lot of competition on that front; when we've put packages out for sale, we have also seen a pretty broad and deep pool of buyers as well, which is very good. And, as Brian indicated in his comments, we expect remarketing income in 2015 to be in the same very strong level that it was in 2014. So we can continue to optimize our fleet.

Brian Kenney:

And I should object to what you said because we weren't a net seller in 2014. Obviously, we added 19,000 boxcars, so --

Justin Long:

That's true, yes.

Brian Kenney:

But that is an example of where our rail group had to go. It's very tough to do the standard investment that you have seen in the past. And they did something that was pretty creative in buying those older cars and putting them out. And they've had great success so far. That has been – that's performed, so far, well beyond our expectation.

Justin Long:

Right. That is a great point. And just to be clear, I mean, I guess you have not seen any change in new car prices over the last quarter or two or the pool of buyers that you referenced?

Brian Kenney:

You know, no, they certainly haven't come down. New car prices have not come down.

Justin Long:

Okay.

Brian Kenney:

Now, we're not a participant in the spot market, generally, for new car prices, but what we've seen out there and what we are paying, especially on the freight side, they are not coming down -- tank either.

Justin Long:

Great. That's what I wanted to get a sense for. And I will just ask one more question and pass it along. Right now, the talk is about the energy-related railcar market. It makes sense, given that is the majority of the backlog and what's going on with oil prices. But, if you look at the non-energy related railcar types in your fleet and in the industry, where do you think we generally stand in that cycle and what are some of these other car types where you think we could see accelerating demand in 2015?

Brian Kenney:

Yeah, it's an interesting question. People always ask me, has it peaked? And we're at 99.2% utilization, so it's a little bit hard to assume it gets much better, especially on the utilization side, obviously. But, on the freight side, there still seems to be some room to run on certain car types.

And, you know, example, obviously coal is not at a peak and that has improved significantly through 2014. Some construction-related cars still have room to go. Plastic pellets would be another example where we expect to see stronger pricing in 2015. So, it's hard to generalize on a car type-by-car type basis. There are still some areas where we -- it certainly doesn't seem as if it has peaked yet.

Justin Long:

Okay, perfect. I'll leave it at that. I appreciate the time.

Bob Lyons:

Thank you.

Operator:

And next we'll move on to Art Hatfield with Raymond James.

Art Hatfield:

Morning, everyone. Most of my questions have been answered, but I want to follow up on the LPI question and comments. Is there a point in time -- and, Bob, you had mentioned some potential volatility and it sounds like you would say that it is more near-term demand in the market at that given time that could create that volatility. But is there a time coming at some point, maybe this year or in the next year, where there's a step up in the comps and it gets more difficult to get the same level of success that you've had on the LPI over the last couple of years?

Brian Kenney:

You know, yes. The answer is yes, eventually. It is really hard to tell you when that's going to be because it changes every year. So what we say 2016 looks like it will change throughout 2015 depending on what we pull forward, what we renew for a year. So last year, I think we said we had a different idea of what 2015's expiring rate would be than we do right now. In fact, it appears it's going to be comparable to the rate last year. That's why you'll see the LPI increase continue to be very healthy in 2015. That rate, expiring rate, is not going up yet. It will eventually, but it's not happening in 2015.

Bob Lyons:

And, I would say, Art, too, when it does go up, too, and it starts to move up, it'll be in a lockstep fashion. There isn't a date certain out there where there's a sudden dramatic jump up in that expiring rate. That's not -- the way the portfolio is structured.

Art Hatfield:

And that's due to your ability to manage terms throughout the cycle? Is that a fair way to think about it?

Brian Kenney:

Yes, that's one of the reasons. Yes.

Bob Lyons:

Correct.

Art Hatfield:

Okay. And just real quick, on the quarter, SG&A, the step up there -- and I know, Brian, you'd given us guidance that that should be down year over year. But any way that we can kind of quantify that or think about what happened in Q4 and what that will do relative to next year?

Bob Lyons:

Yeah. The Q4 number certainly will not be the run rate for 2015. As Brian mentioned, we actually expect, on a full-year basis, for SG&A to be a little bit below where we came in in 2014. So on a run rate basis, I'd dial that back.

And when I look at what occurred in 2014 in the fourth quarter, there is some year-end compensation and benefit true-ups that need to take place based on full-year performance. We also had a software write-down that we took for a few million dollars in one of our businesses based on some software that we will not be utilizing going forward and a couple of other kind of year-end items that filtered in there that won't occur on a go-forward basis. Nothing of significance, but enough items that, in aggregate, bump that number up quite a bit. So I would expect, on a quarterly basis, to be back more in that $46 million, $47 million range going forward.

Art Hatfield:

Okay. And then, one last thing and this is kind of a math question to help me understand something. In the European business, just doing my rough calculation on lease revenue or lease income in the quarter divided by the average utilized cars in service, I was coming up with a lease rate, a monthly lease rate in the quarter that was down about 5%, 6% year over year.

And, one, I'm wondering if there is something that may occur occasionally in that lease income line that I need to think about, or if maybe I'm getting the right number, but it's a mix issue that is occurring in the quarter.

Brian Kenney:

No. What it really is is an FX issue, Art.

Art Hatfield:

Oh, okay.

Brian Kenney:

Rates are marching up in Europe, but I don't want to give the impression that it's a robust market over there. It's a very choppy market. And the reason average rate is moving up in Euros, it is because of the new cars and the scrapping of the older cars, but

Bob Lyons:

Yeah. I would just add that, as you know from looking at what transpired with the Euro FX rate over the course of the year, the real devaluation there took place primarily in the fourth quarter. So there's a revenue hit that's taken there around that translation. So it affects – you're looking just on a quarterly run rate basis converted to dollars. That is the effect.

Art Hatfield:

Can we think about what it would have been -- can you tell us -- you may not even know this off the top of your head -- what the rate increases were ex the FX issue.

Bob Lyons:

In terms of lease rates?

Art Hatfield:

Yes.

Bob Lyons:

Yeah. I mean, that is much more of a low, single-digit type lease rate environment in terms of percentage increase.

Art Hatfield:

And should we think about – I'm getting into the weeds here, but when we think about modeling for '15, should we -- is it safe to assume, where the Euro is today, kind of try and figure out something with regards to that -- how that will impact the lease rates for the year? Obviously, subject to change throughout the year and timing of renewals and all that nonsense?

Bob Lyons:

No. That's a good question. I can tell you what we did assume in our 2015 outlook is the Euro right around $1.17, $1.18. It's actually below that today. But we also, for a good portion of the Euro income, we hedged a significant portion of that with a floor that's not much below $1.17, $1.18 today.

Art Hatfield:

Okay, that's very helpful. Thanks for the time.

Operator:

(Operator Instructions). Next we'll move to Kristine Kubacki with Avondale Partners.

Kristine Kubacki:

Good morning. Just some questions on the maintenance. I know you talked a little bit about it for 2015. But could you talk -- will maintenance expense be pretty level through 2015 or should we think about any seasonality with that? And then, can you give us, remind us just how that will start to ebb in 2016?

Bob Lyons:

Sure, Kristine. It's Bob Lyons. There's really no -- I wouldn't factor in any significant seasonality to the maintenance expense as the year progresses. Even the compliance work should be relatively evenly spread out. Third quarter to fourth quarter '14, it was probably not lost on you, there was a material pick up in that maintenance expense in North America. That's actually -- part of that is very much a good news story because we were pulling cars out of inventory; boxcars, center-beams and coal cars we were pulling out of inventory and prepping for work to put those into service. So there was a little bit of an abnormal pickup third quarter to fourth quarter. '15, it would be relatively stable.

Brian Kenney:

Yes. And, as I said, it's the boxcar fleet that is driving it both from a full-year impact of that fleet as well as some work we are doing on boxcar -- idle boxcars to put it back into service. And some of that's capitalized, some of it's spent, so that's why it was higher, as Bob said, in '14. It will probably be a little bit higher in '15 because of that offset by those compliance events.

In general, compliance events actually increase in '15. But the tank qualification event, which is what drives most of that cost decrease in '15, we did close to 5,000 in '14 and we should do over 1,000 less in '15. And, to your question, beyond that, once again, scheduled -- and things change as you buy and sell cars -- but scheduled, we expect that to drop again in the '16/'17 timeframe.

Kristine Kubacki:

Okay. That's helpful. And then, did you give us some thoughts on remarketing income for 2015?

Bob Lyons:

Yes. We indicated it should be in the same -- it would be in the same general range as what it was in 2014 with North American Rail, again, being the big driver there.

Kristine Kubacki:

Okay. Any cadence quarter to quarter we should think about?

Bob Lyons:

Nothing significant right now that I would highlight. We do have some packages in the market, so those would likely occur in first and second quarter, but then we'll reassess and see what is available in the back half of the year, too.

Kristine Kubacki:

Okay, that's helpful. And then just -- since many of my questions were answered, just a little bit on the ASC side. You mentioned about the spot cargo. I was kind of wondering if you could give us some color around that and why you don't think that will repeat in '15.

Brian Kenney:

Sure. So it's a very late start to the sailing season for everyone. We were able to bring on another vessel that enabled us to fulfill our contractual commitments for the year. Not everybody else was able to do that. Therefore, some spot cargoes became available and we were able to pick those up and those were pretty profitable.

If you assume a normal start to the sailing season -- and I'm going to knock on some wood when I say that -- then it would be a more normal year and everybody should be able to fulfill their commitments and those spot cargoes may not become available. But, once again, it depends on the weather.

Kristine Kubacki:

Okay, fair enough. Thank you very much for the time.

Operator:

And next we'll move on to Matt Brooklier with Longbow Research.

Matt Brooklier:

Hey, thanks. Good morning. Good color on the potential impact from crude oil prices dropping here. I just have one additional question. Of the 3,100 -- and this is a little bit nitpicky, but I will ask it anyway. Of the 3,100 cars that you have -- covered hoppers in frac sand -- what percentage of those cars are up for renewal this year? Is it about in line with the average for your total fleet or does that number differ a little bit? Thanks.

Jennifer Van Aken:

Yeah. Matt, actually, if you look at the renewals for small-cube covered hoppers, particularly in frac sand this year, it's actually a pretty small percentage -- so relatively smaller than the composition of the rest of our fleet.

Matt Brooklier:

Okay, so a lower number.

Jennifer Van Aken:

Yes.

Brian Kenney:

A lower number and, in general, the volume we've done over the last couple of years in sand has been very long dated. So the cars we did over the last couple of years we don't expect to come up for renewal for quite some time.

Matt Brooklier:

Are you able to talk to, on a relative basis I guess, the impact? And you may have talked a little bit to it earlier, but with prices dropping here, the impact in terms of crude cars versus sand cars? It sounds like maybe you're a little bit more concerned with that particular market, the sand cars, versus crude here. Or maybe if you could just talk a little bit more to what you're seeing and which cars could be impacted if we have sustained lower oil prices moving forward.

Brian Kenney:

Yeah, it's those two car types. And when you say concerned about it, ironically, our small-cube covered hopper fleet right now is at pretty close to record lease rates, and I mean in the existing market and what we've done in the fourth quarter and third quarter. So we have not seen rates decline there, but with what you're reading and with low crude, that's just a potential in 2015, obviously, especially if that new drilling doesn't continue. But right now, rates are still extremely high.

On the crude cars, we've seen those prices come down. If you remember that story, we didn't really participate in the six-month and two-year leases. We locked this stuff up for term and we had lower rates during this upturn than the rest of our – I'd say, the rest of the industry on average. But, still, a rate on a 30,000-gallon tank car that was $175 in 2010 went to over $1,000 two years ago, it's probably come up probably

20%, 30% since then, which, by the way, is still an outstanding rate, historically, for that car.

Matt Brooklier:

Right.

Brian Kenney:

We anticipate that will still be under pressure in 2015 on the 30,000s. And that one has materialized for other reasons.

Matt Brooklier:

Okay. Thank you for the time.

Operator:

And next we'll move on to Steve Barger with KeyBanc Capital Markets.

Bob Lyons:

Hi, Steve.

Steve Barger:

As you look across the entire fleet, what percentage of the tank cars have not yet reset at current prices are higher prices?

Bob Lyons:

Well, I would say at least 20% and probably a little bit more. And keep in mind the real acceleration in lease rates in tank occurred over the course of the last 18, 24 months. So even cars that we renewed in 2012, if we had the opportunity to renew those today, even though we did them in 2012 at good rates, they'd be better today.

Steve Barger:

Right. So, obviously some of that goes into the discussion about the LPI remaining strong for coming years.

Bob Lyons:

Yes.

Steve Barger:

What percentage of your non-tank fleet is still at what you would consider cyclically low price and term?

Bob Lyons:

Well, I mean, we still have a significant -- on the freight car side of the business?

Steve Barger:

Yeah, freight.

Bob Lyons:

Yes. A very big -- not 20%. It would probably be the reverse of that, maybe 70%, 80%, because the freight car rates really did not start to improve materially across the broad spectrum of freight cars until last year.

Steve Barger:

Right. And I know there will be timing associated with this, but when you look at the average freight car lease rate that you see right now versus the average market rate, how big is that differential?

Bob Lyons:

Well, I don't want to get into too much detail on that because you really then have to start going car type by car type by car type. But it's material -- a significant number.

Steve Barger:

Okay. I mean material like they are 50% below market rates, or just any way to frame that?

Bob Lyons:

No. I wouldn't go all the way to 50%. Again, it's a pretty difficult number to frame up just given the diversity of that fleet. But, you know, you're in that 20%, 25% type range or greater in certain car types.

Steve Barger:

Got it. And the press release talked about the $3.6 billion of embedded cash flow and that was up $400 million from 2013. Do you happen to know what that change was in '13 from '12?

Bob Lyons:

I don't have each of the annual numbers with me. I can tell you the -- kind of in modern history, if you look back to 2010, coming out of a down cycle, that number was $2.3 billion. (multiple speakers).

Steve Barger:

-- of committed cash. Okay.

Bob Lyons:

Yes. And today it's $3.6 billion. So we've added another $1.3 billion of high-quality, very long-term cash flow and we've embedded that into the business. And it'll go up again in 2015.

Steve Barger:

What is the -- I guess, if this is the right term, the duration of that cash flow? Does it mirror your lease renewal term? Is that how you think about it? Six years or --?

Bob Lyons:

Yeah. That's a fair assessment. I would say the other thing we look at is the percentage of those cash flows that are beyond five years. And that number has gone up; that percentage has gone up over the course of the last few years, as you would expect, as we've been stretching term. So not only have we been able to gravitate to our highest quality customers on very long-term leases, we're putting that cash flow into the business for an extended period of time, far more than at any point in our history.

Steve Barger:

Right. And I know this question requires a lot of assumptions, but when you think about how you will deploy that, just in broad numbers, how much goes to asset purchases? How much gets returned to shareholders? How do you think about being able to spend that embedded cash flow?

Bob Lyons:

Sure. It's a very good question and it's something we actually spend a lot of time on -- Brian and I and others around here -- thinking about what that cash flow profile looks like over the course of the next three-to-five years because it's significant and, as mentioned, high quality. So it's coming in the door.

If you look over the course of the last few years, just for an example, '12, '13, and '14, we invested $2.6 billion during that time, primarily in our rail business. At the same time, we paid dividends of about $180 million in terms of returning capital back to shareholders and about another $190 million in stock repurchase. So just under $400 million returned back to shareholders over the course of the last few years and $2.6 billion invested in assets and growing the balance sheet.

As I look out over the course of the next few years, there's a significant number of assumptions, as you mentioned, that play into that, but all three of those will, again, be in the mix in a very material way. Looking to continue to grow our rail business, both here in North America, Europe, and elsewhere.

The dividend is extremely important to our shareholders. Our Board looks at the dividend very closely and, typically, we'll look at that in January, which is the meeting we have every year, which is next week. They clearly recognize the strength of that cash flow and we'll take that into consideration when we think about what we do with the dividend next week.

And we still have $125 million of authorization left under the existing authorization of share repurchase. And, as I mentioned, last year at this time, we expected to do about $125 million of the $250 million last year, which we did, and likely do another $125 million, roughly, in 2015. That is baked into the EPS guidance that I gave you. So we have a significant amount of leeway, given the cash flow coming in the door, to return some of that capital to shareholders and also invest very opportunistically in our rail business.

Brian Kenney:

And if I could get back to your first question where it looks like we're trying to give you -- or giving you an evasive answer on the percentage of our freight cars -- this really isn't the way we think about it. That's why I always reluctantly talk about and generalize about the freight car fleet. It's really a variety of different markets and car types. So it wouldn't necessarily be a good thing if I said there's a very high percentage of our freight car fleet that has yet to re-price. For example, the small-cube covered hoppers, we have term on that, as I've said. It's out there very long at very high rates. On the other hand, coal intentionally has been put out on very short terms because we're waiting for pricing to increase, different car type. Grain, we have tried to get some more term as those rates have come up in the last few years, but there's still a lot of that fleet to roll over. Plastic pellets generally in the industry can have very long terms because a lot of those are finance leases. That's not the way we play. We have a lot of that portfolio to run over. So we really don't generalize about freight cars overall. It's really on a car type-by-car type basis. Having said that, there's a number of those car types -- plastic pellets, grain -- where there's still a lot of re-pricing to occur, and we are especially excited about the pellet market.

Steve Barger:

Yeah. Your last point is really what I was trying to get to, is that there does seem to be still significant amounts of room for the freight side of your business to both push term and raise price.

Brian Kenney:

Right, for certain car types. For others, not so much. That's why we struggle to say, well, 40%, because that is not the way we think about it.

Steve Barger:

Understood. Last question for me. You've always talked about how important it is to have high-quality customers from a credit standpoint. Are you comfortable with the customer base across the board here, or is there room to improve quality in some categories?

Bob Lyons:

We are absolutely comfortable with the customer base we have. It's an outstanding -- if you saw the top 50 names, you would probably recognize all 50. And we've used this strong market over the course of the last few years to continue to put our cars with some of our strongest and highest quality customers. So the strength of our customer base is outstanding. It's in great shape. We don't see any need to significantly alter that going forward.

Brian Kenney:

And this is where I give kudos to our fleet and sales organizations because they have done an outstanding job here. And this is -- in an upmarket, that's when their job gets really tough. That is when they have the difficult conversations with customers about extending term and not necessarily doing business with customers that are not that great a credit quality but offer very high lease rates. And so they've done a tremendous job doing what Bob suggested, really locking it up with the best customers for the long term. And that's hard to do. Those are difficult conversations to have.

Steve Barger:

Very good. Thanks for the time.

Bob Lyons:

Thank you.

Operator:

And next we'll move to David Richards with Pine River Capital.

David Richards:

Hey, guys. My questions were asked and answered. Thanks so much.

Bob Lyons:

Okay. Thank you.

Operator:

And we have no further questions at this time.

Jennifer Van Aken:

Okay. I would just like to thank everyone for their participation on the call this morning. I will be available this afternoon to answer any follow-up questions. Thanks.

Operator:

And that will conclude today's call. We thank you for your participation.