GATX Corporation

2019 Second Quarter Conference Call — July 18, 2019

Operator:

Good day, and welcome to the GATX second quarter conference call. Today's conference is being recorded.

At this time, I would like to turn the conference over to Jennifer McManus. You may begin.

Jennifer McManus:

Good morning, everyone, and thank you for joining GATX's 2019 Second Quarter Earnings Call. I'm joined today by Brian Kenney, President and CEO; and Tom Ellman, Executive Vice President and CFO.

Please note that some of the information you'll hear during our discussion today will consist of forward-looking statements. Actual results or trends could differ materially from those statements or forecasts. For more information, please refer to the risk factors discussed in GATX's Form 10-K for 2018. GATX assumes no obligation to update or revise any forward-looking statements to reflect subsequent events or circumstances.

Earlier today, GATX reported 2019 second quarter net income of $68 million or $1.86 per diluted share. This compares to 2018 second quarter net income of $38.8 million or $1.01 per diluted share.

Year-to-date 2019, we reported net income of $109.5 million or $2.97 per diluted share. This compares to $115.1 million or $2.99 per diluted share for the same period in 2018.

2019 second quarter and year-to-date results include a net deferred tax benefit of $2.8 million or $0.08 per diluted share related to an enacted tax rate reduction in Alberta, Canada. 2018 second quarter and year-to-date results include a net negative impact of $5.8 million or $0.15 per diluted share attributed to costs associated with the closure of a railcar maintenance facility in Germany. These items are detailed on Page 12 of our earnings release.

Now, I will briefly address each segment. Our second quarter results are reflective of an operating environment in Rail North America consistent with our expectations coming into the year. Rail North America's fleet utilization increased to 99.5% at the end of the second quarter and our renewal success rate was 85.3%. The lease rate environment in 2019 continues to be consistent with our expectations for most car types. Absolute lease rates across our fleet were flat quarter-to-quarter, with tank car lease rates remaining solid and freight car lease rates remaining relatively weak.

During the quarter, the renewal rate change of GATX's Lease Price Index was negative 2.8%, which is in line with our full-year LPI expectations. The average renewal term associated with the LPI was 40 months.

We continue to successfully place new railcars from our committed supply agreements with the diverse customer base. We have already placed 8,250 railcars from our 2014 Trinity Supply Agreement and 650 railcars from our 2018 Trinity Supply Agreement. Additionally, we have placed over 1,200 railcars from our 2018 ARI Supply Agreement. Our earliest available scheduled delivery under our supply agreements is essentially in the second quarter of 2020.

We continue to capitalize on the active secondary market for railcars in North America. Rail North America's remarketing income was approximately $26.9 million during the quarter, bringing total remarketing income for the year to $36.7 million.

Within Rail International, the European railcar leasing market continues to be strong. GATX Rail Europe is seeing steady demand across the fleet with utilization remaining at a historic high of 98.9% at quarter end. Rail International's investment volume was approximately $73.7 million during the second quarter as GATX Rail Europe and GATX Rail India continue to take delivery of new cars and grow the fleet.

Portfolio Management's results were supported primarily by the excellent performance of the Rolls-Royce & Partners Finance affiliates. We are expecting 2019 to be another excellent year for investment volume as global demand for aircraft spare engines remains robust.

American Steamship Company is performing well and is benefiting from high water levels and favorable commodity mix. ASC is currently operating 11 vessels.

Finally, GATX repurchased nearly 580,000 shares for approximately $43 million during the second quarter. Year to date, we have repurchased over 1.1 million shares for approximately $83 million.

Those are the prepared remarks. And now, I'll hand it over to the operator so we can open it up for Q&A.

QUESTION AND ANSWER

Operator:

(Operator Instructions) Our first question will come from Justin Long, Stephens.

Justin Long:

Thanks and good morning.

Brian Kenney:

Good morning.

Justin Long:

So Jen, maybe circling back to the comment you made on absolute rates being flat quarter-to-quarter, I was wondering if you guys could give us a sense for, if that was true, for both tank and freight. Were both categories showing trends that were fairly stable sequentially? And then as we look out over the rest of the year, is your assumption that, that stability continues in the back half?

Tom Ellman:

Yeah. Justin, this is Tom. That is true for both tank and freight cars in terms of what they've done versus a quarter ago. As we've discussed, tank cars are up much more significantly versus second quarter 2018, and that's primarily, we've talked about it before, a result of the lengthening backlog that began in the middle of 2018 and really continued up through the first quarter, where the backlog got over 12 months.

During the course of the second quarter, I would say that the tank car backlog shrank a little bit from a little over 12 months to a little bit under 12 months, which drove sort of that stabilization as opposed to further increases.

On the freight car side, we never had that same advantage so they never saw that run-up. And so for the freight cars versus where they were a year ago, they're probably down 5% or 10%, but like the tank cars, are pretty flat versus Q1. And as far as what we expect for the rest of the year, I would say on the freight car side, we expect more of the same. And on the tank car side, the level we're at is probably our best expectation right now, but we're going to want to keep an eye on that backlog. And if it sort of stays where it is or even shortens, then we would have a little different view.

Justin Long:

Okay. But as of right now, it sounds like your expectation for the LPI this year is unchanged versus what you guided to last quarter?

Tom Ellman:

Yeah, yeah, correct. So what we guided to is between negative 10% and positive 5%. And if you look at the last 3 quarters, we're at negative 9% in Q4 '18, positive 5% in Q1, and then negative 2.8% this quarter. And we've talked about before, those quarterly bumps, you can't take much of look at. But if you look at those in totality, it's kind of right in that range we expected.

Justin Long:

Okay. Great. And then one of the things we've been hearing about in the market is that lease rates on new railcars are lower than lease rates on existing railcars. I know it's going to vary by car type, but is there any way you can give us a rough sense for what that gap looks like today and how you see that gap progressing in the quarters ahead?

Tom Ellman:

Yes. Justin, unfortunately, to some degree, you answered your question in the question. What I would say, first of all, what you're describing is more of a tank car than a freight car phenomenon because, as noted, the freight car existing car lease rates are still struggling. So when you look -- when someone looks at investing in a new freight car, those rates are probably, to the extent it can happen, going to be a little bit better than the existing car lease rates.

On tank, what's going on is if you're looking at a new car a year from now versus an existing car today, getting the existing car today for most tank car types is a challenge. So the -- there is less competition for the new car a year from now. The amount by which that gap changes, it's going to vary by the different tank car types. And for obvious reasons, we don't want to get too granular there. The one thing I would point out is the exception to that general tank car rule about what lease rates are doing is in the legacy flammable liquids cars, and that's primarily as a result of new DOT-117s are displacing some of the retrofit DOT-117s, which in turn displace the legacy flammable cars. So that's one car type on the tank side that's a counter to the rest of them and probably down, order of magnitude, 25% versus a quarter ago.

Justin Long:

Okay. That's helpful. Then lastly, just real quickly on the model, is the assumption for remarketing income this year still the same as it was last quarter?

Tom Ellman:

Yeah. So interest remains strong for existing assets with attractive leases attached, and we're continuing to see several attractive bids for portfolios like that. However, there probably are fewer total bidders than we saw about a year ago. And as we indicated at the beginning of 2019, rail market uncertainty can have a dampening effect on secondary market pricing. For these reasons, we anticipate that full year 2019 remarketing will be more front-end loaded and may be a bit lower than the $65 million in 2018. Having said that, market conditions can change very quickly, so we'll continue to monitor the secondary market closely.

Justin Long:

Okay, it’s great to clarify. I appreciate the time.

Operator:

Thank you. Our next question will come from Allison Poliniak, Wells Fargo.

Allison Poliniak:

Hi, guys. Good morning.

Brian Kenney:

Good morning.

Allison Poliniak:

First, obviously, PSR concerns, there's traffic and macro, all would indicate that there's sort of a weakening demand, but your renewal rates and utilizations still remain high. Could you maybe talk, is it your customer exposure, fleet mix? What's driving some of your success here in the face of some of these headwinds?

Tom Ellman:

Okay. Well, just, first of all, address PSR directly. We continue to believe that PSR will have the greatest impact on high-mileage cars like coal, intermodal boxcars. And much less on the lower-mileage tank and specialty hoppers that make up the bulk of the GATX fleet. There is one area where we have seen that. Allison, you were commenting on the non-boxcar fleet, but if you look at the boxcar fleet, we actually saw a dip in utilization, about 1%. And until recently, the impacts of PSR on the boxcar fleet have been largely offset by fleet attrition. But during the second quarter, those PSR impacts, combined with the weather and a flattening of the growth in loadings of packaging materials, caused the boxcar utilization to decline from 95% to 94%. These same factors could lead to another 1% or 2% decline in our boxcar fleet by year end. So it's worth noting that, that piece is maybe acting a little different than everything else. It's also worth noting though that our boxcar fleet is approximately 40 years old. So any long-term PSR impacts on the boxcar fleet are going to be muted by that.

As far as the other car types, we are definitely helped by our fleet mix, the fact that we're 50% tank and the majority of the rest is specialty-covered hoppers, with the exception of that boxcar fleet. And those car types tend to be stickier, and they also tend to operate in non-unit train service, which are again less impacted by the PSR. And we act -- as we talk about all the time, really try to maintain cyclically-aware management and, car type by car type, are always looking at that tradeoff between rate and term to keep our utilization high. And our commercial team has done a great job at keeping that up there. We expect that to continue for the non-boxcar fleet and be at that plus-99% level through the end of the year.

Allison Poliniak:

That's great. That's helpful. And then following on Justin's question, you said fewer -- you're seeing fewer rail bidders. Do you sense that there could be an inflection to your favor where there could be some fleets for you guys to actually buy this time versus sell?

Tom Ellman:

Yeah. So, we've talked about that on a lot of these calls. And yeah, we continue to believe that when some of the other players realize some of the challenges in the market, it's a great potential investment opportunity for GATX.

Allison Poliniak:

Great. And then last question, the Rail North America, the Other Revenue was a little elevated again. Anything unusual this quarter in that number?

Tom Ellman:

Yeah. So, the one piece of the revenue that we called out is the repair revenue. So when we do maintenance, even though the cars are on a full-service lease, some of that maintenance is customer responsibility and that dollar amount can move around a bit. And we had more success than historical at billing a higher percentage of the repairs back to customers.

Allison Poliniak:

Great, thank you.

Operator:

Thank you. Our next question will come from Matt Brooklier, Buckingham Research.

Matt Brooklier:

Thanks, good morning. Tom, did you want to put a number to the maintenance revenue that you guys were able to capture incrementally this quarter?

Tom Ellman:

Yeah. It's really -- any kind of number would give you a false sense of security because of the way it can move around.

Matt Brooklier:

Okay. Fair enough. And then just moving back to the LPI. I know it can jump from quarter to quarter, and you gave us some color sequentially on lease rates in the quarter. Just trying to get a sense for what drove the negative comp in LPI for Q2? It sounds like it was the renewal -- price on renewals versus lease rates heading south, but just wanted to confirm that.

Tom Ellman:

Yeah. There's no particular car type or event that I would call out in the Q2 activity. Again, relative to our expectation between the negative 10% and the positive 5%, in the middle there is pretty flat, pretty close to zero and that's where we came out.

Matt Brooklier:

Okay, great. That’s all I’ve got. Thank you.

Operator:

Thank you. Our next question will come from Matt Elkott, Cowen.

Matt Elkott:

Good morning. Thank you. Just wanted to follow up on the remarketing bit. Sorry if I missed it, but you guys had a very strong quarter, obviously, but you maintained the guidance. Was that fully attributable to the fact that you expect remarketing income to be lower in the second half? Or are there any other pieces like deferred maintenance expense?

Tom Ellman:

Yeah. So, you hit the other piece worth noting, which is that we do expect maintenance expense to be a little bit higher in the second half of the year versus the first half of the year. A couple of different reasons for that. One, is some of the TQs that have been coming in -- they're coming in at a good pace, but actually getting them done and getting them through the shop, should see a little bit higher expense in the second half of the year for that.

Matt Elkott:

Got it. And then I was just looking back at the last few years, Tom, and you guys, back in 2016, you hit your peak earnings. That 2016 was the bottom of a cycle measured by really market conditions and railcar demand. As we stand today with what the company has evolved to, is that something that we should expect going forward? Like now we started kind of a -- somewhat of a down cycle, it seems, and as far as demand, are earnings going to peak at the bottom of the cycle again?

Tom Ellman:

Yeah. So the important thing to note about 2016 is that it was coming off that all-time peak of 2013, '14 with the crude oil demand, the frac sand cars, the super long backlogs, and we were able to reprice virtually our entire fleet at very high rates for very long terms. If we ever see another cycle like that, that is that high, the back half of that cycle, you would see peak performance. We haven't seen another hill like we did in 2013, '14.

Brian Kenney:

Yeah. The whole strategy here has been to reduce the volatility of our earnings. That's the whole concept of cyclically-aware management. And so you've heard it 100 times of extending lease terms when times are good and shortening when they're not as good. And that has proven to cut off the extreme cycles that we've seen. It's also because of our lease term, it's like moving an aircraft carrier, it takes a while. So the longer -- if this market truly is turning down, and we're not really seeing that, but if it is, it will take a while to show up in our financial results.

Matt Elkott:

No, all that makes sense. And just finally, can you guys talk about where you see the most compelling area for investment, both in railcars and outside of railcars and geographically in North America and in Europe and India?

Brian Kenney:

Sure. The -- probably, the most -- the best risk-adjusted return at GATX right now is in Rail Europe. That traditionally hasn't been the case. That's something we've really come to the conclusion in the last few years. Generally, we have a more positive outlook in 2019 for Rail Europe than I can remember, at least in my tenure. Some of the same factors that drive North America are driving that outlook, it's manufacturing backlog. The backlog at the major European manufacturers is quite long right now. They're sold out this year. They're sold out between 50% and 90% in 2020. And in any period of solid demand, that long manufacturing backlog drives a very high renewal success of lease rates that we're seeing. You're also seeing in Europe customer desire for fleet renewal. They're replacing their older lower-capacity cars with newer ones. And in general, the European industry railcar fleet is older than North America so those -- there's more replacement needed. And then there's just more, I would summarize it as public policy focused on moving traffic from road to rail due to the air and noise pollution. So all that's driving growth in Europe and we're seeing very attractive lease rate factors and returns. So no evidence of a weaker European economy that's showing up in the railcar fleet, at least ours, in Europe. And we're seeing very attractive investment opportunities.

In India, things are going great right now. The fleet is growing very quickly. In fact, this year, we could see by the end of the year, the fleet reach almost 3,700 cars and $140 million of investment. It's 100% utilized. The average lease term of the existing fleet is 90 months right now in India at very attractive rates. So it's tempting to call that a higher risk-adjusted return, but the market is so new, I can't do that yet. At least right now, it's going very well as we expected, and it's a decent return. But time will tell about the risk-adjusted return there. But certainly, the investment opportunities are there.

And then the last place I'd point for attractive investment is the Rolls-Royce joint venture. We invested over $900 million last year along with our partner. We expect a similar year this year and the growth outlook is tremendous there. It's probably one of the best investments GATX has ever made.

So there's the uncertainty in North American Rail. You've seen us be a counter-cyclical investor. But in our other jurisdictions and businesses, investment opportunities are very attractive right now.

Matt Elkott:

That's very helpful. I mean, if there aren't a lot of compelling opportunities in the railcar market in North America, will you guys consider new markets that you don't operate in right now?

Brian Kenney:

I think we're probably geographically where we want to be between India and Europe. We have a very, very small presence in Russia. For obvious reasons, we don't want to increase there right now.

I wouldn't give up on Rail North America, as Tom alluded to with an earlier question. We do think portfolios will come up for sale over the next couple of years. I don't have any evidence of that other than I think it has to happen. And if history is any indication, it will happen. There's been a lot of financial investors coming in over the last 5 to 7 years. I think they're struggling somewhat now and trying to figure out what to do. We took out a fleet at the end of last year, one of those examples. Will more come? I don't know. I think it should, I remain confident that it will happen. I think people will tend to exit the market. One thing that would help, and we're not getting help right now, is interest rates increasing. That would show perhaps yields higher in their traditional businesses, then it might distract them away from rail. That hasn't happened yet. But I think there's enough struggling out there that we'll see some churn in fleets in the next couple of years.

Matt Elkott:

Perfect. Thank you very much.

Operator:

Thank you. Our next question will come from Steve O'Hara, Sidoti & Company.

Steve O'Hara:

Hi, good morning.

Brian Kenney:

Good morning.

Steve O'Hara:

Just I was curious, relative to your initial guidance on the fourth quarter call, I mean, you talked about maintenance expense being up, I think, 7% to 10%, and I think segment income being down $40 million to $50 million. Is that still kind of the expectation? And then in terms of the -- I mean, I guess if I look at the results thus far, they're stronger than I think would've been expected based on the guidance, and I'm wondering if we're still expecting that maintenance expense to increase. And then other than the asset -- dispositions on assets, where is the differential between kind of what has happened so far and maybe the what appears to be maybe more muted expectations for the second half?

Brian Kenney:

Sure. It's a good catch on maintenance expense. I did say we'd be up 7% to 10%, expecting it coming into the year. And on a gross basis, it's probably up 3% through the second quarter. There's a lot of things going on there. I think we will complete more tank qualification work in 2019 than 2018, and that work and associated expense will show up and be a little more back-end loaded, but that's pretty typical, actually. In addition to more tank compliance work, we do expect a little more commercial churn in the fleet. Tom alluded to some of it in the second half of the year and that could drive more maintenance expense. So I do think you'll see increased maintenance expense in the second half. But to your point, having said that, we are running favorable expectations in other areas that drive maintenance spending.

Railroad repairs is a good example. There are a couple of million favorable to expectations. Really tough item to predict, especially in this time of intense railroad focus on precision railroading. But it's a phenomena we've seen and it could continue, could not continue, but it has happened so far. And then Tom also alluded to repair revenue and the mix of repairs being -- allowing us to charge more to our customers for their liability. So still expect maintenance to increase in the second half and be up for the year, but perhaps is not as much as originally expected.

Tom Ellman:

Yeah. And the other one, and we already talked about, I mentioned it a couple of times, would be our expectation that remarketing will be front-end loaded.

Steve O'Hara:

Okay. Okay. And then maybe just on the, again, the cost side. I mean, SG&A, I think, was expected to be down by about $10 million this year. I mean, it's kind of, I think, flat so far. Is there anything in fourth quarter of '18 that was kind of maybe temporary or anything like that where it would be down? Or is it kind of business was maybe a little bit better than expected and SG&A runs a little hotter in that case?

Tom Ellman:

Yeah. So as you mentioned, we did expect SG&A to be approximately $10 million lower this year versus last year. And the year-to-date totals are roughly in line with our expectations, but we may fall a few million dollars short of our $10 million reduction goal. And that's partially due to the higher-than-expected sales incentive compensation related to our commercial success for the lease renewal activity, that high renewal success percentage. Also, we've restructured our maintenance organization in 2019 to improve our overall capabilities, and more of those savings will end up being in maintenance cost than in SG&A as we originally thought. So for those reasons, we may be a little short of that $10 million goal.

Steve O'Hara:

Okay, alright. Thank you. I'll jump back in the queue.

Operator:

Thank you. Our next question will come from Justin Bergner, G. Research.

Justin Bergner:

Good morning, Brian. Good morning, Tom.

Tom Ellman:

Morning.

Steve O'Hara:

I want to start off with the sequential sort of trajectory for tank car rates. What would be a likely scenario that would cause sequential tank car rates to sort of restart their upward trajectory?

Tom Ellman:

Yeah. So the number one thing, again, would be keeping an eye on that new car backlog. The demand situation for most tank car types, putting aside flammable liquids, for most tank car types, you had the Great Recession, then relatively quickly, demand came back and has been fairly steady to kind of GDP, increasing since then. So it's really the supply side on those tank car rates that have driven the movement. And what we saw through the back of 2018 and into 2019 was as that alternative of ordering a new car became further and further away time-wise, it gave us more leverage to increase existing car lease rates. So that's really the piece that I would look -- take the biggest look at on what conceivably could restart that.

Justin Bergner:

Okay. That makes sense. I'm not sure I fully follow what was going on with the DOT-117s. Could you sort of clarify that again?

Tom Ellman:

Sure. So moving flammable liquids, you have three alternatives: you have that brand-new DOT-117Rs; a retrofit car which is a DOT-117, so a formerly legacy car that some work has been done to and is now DOT-117; and then you have the legacy cars. For a variety of reasons, one of which is one of the Class Is has differential pricing on the various car types, customer preferences, what have you, some of the previously -- commodities previously moved in a DOT-117R are being displaced by the DOT 1 -- I'm sorry, DOT-117J -- I'm sorry, got it reversed again. DOT-117R, the retrofit car, being displaced by the DOT-117J, the new car. And in turn, those retrofit cars, the DOT-117R, are displacing legacy cars.

Justin Bergner:

Okay. Then the effect on pricing is?

Tom Ellman:

So, yup. So, then you have too much supply for commodities that had previously been served mostly by legacy cars because now you have legacy cars and the DOT-117Rs creating the supply/demand imbalance.

Justin Bergner:

Okay, got it. Thanks. And then lastly, the Portfolio Management profitability this quarter was very strong. Was that all operating profitability or were there larger-than-normal gains in the Rolls-Royce joint venture?

Tom Ellman:

So, as we've talked about previously, the gains on the Rolls-Royce side tend to be pretty lumpy, and gains were bigger in the second quarter versus the first quarter. But our expectation for Rolls for the year is consistent with our beginning-of-year expectation that we'd earn between $55 million and $65 million on that JV.

Justin Bergner:

Okay, thank you.

Operator:

Thank you. Our next question will come from DeForest Hinman, Walthausen & Co.

DeForest Hinman:

Thanks for taking my questions. A couple of ones I got to bounce around a little bit. You mentioned interest rates, briefly, going up. You guys have been doing this for a really long time. Yield curve, short-term rates have gone up quite a bit, not as much of impact on the long-term side. Is there anything we can point to in the past in terms of how competitive capital has looked at our space? Wondered if you've seen a flat yield curve, early drifting towards a shorter-duration investment in terms of it becoming more attractive. And how long does it take to see that move?

Brian Kenney:

No. There's nothing I can point to historically that -- no, interest rates really don't drive our business. There's supply and demand factors peculiar to the rail industry that generally drive it. And I will say, when you talk to investors that have come in the market in the last five years, they are saying, "Well, the yields in rail are stronger than yields in my normal investments." So outside of that, there's nothing I can point to that describes their behavior with a flat yield curve or rates going up or down.

DeForest Hinman:

Okay. I thought it was worth asking if you had any insights. Can you give us any color in terms of the discussions with customers as it relates to the term of the renewals? They seem to have moved up quite a bit. I think the last time we were over 50 was in 2015.

Tom Ellman:

Yeah. So, we -- our original release had a lease term -- LPI lease term at 53 months. That was mistake, it's been corrected to 40 months, which is actually quite consistent with the prior couple of quarters. In general, though, what happens is as lease rates improve, we try to lengthen that lease term. As we talked about earlier, we haven't seen that at all in -- on the freight car side.

On the tank car side, over the last few quarters, we have seen significant improvement. And so for those individual tank car types, we are attempting to make -- take rates and make them relatively longer than when lease rates were more depressed. But it's worth noting that if you look at lease rates versus long-term averages, even the tank car rates, which have been increasing for several quarters, are sort of near long-term averages as a group, again, with the exception of those legacy flammable liquids cars. So it makes sense that overall, we're kind of in that 3- to 4-year range. And you would need to see rates go up more before you'd see sustained terms above that. Again, as we've talked about, in a single quarter, you can have anomalies, but I wouldn't expect sustained longer lease terms without further improvement in lease rates.

DeForest Hinman:

Okay. That's helpful. And then shifting to the Rolls-Royce JV. Big-picture question. You've all read the headlines on MAX grounding. But if you look at the -- your Trent portfolio, it's really Airbus-centric, and you look at how you do the disclosures in the 10-K with contracted backlog. The longer the MAX is grounded, does that potentially increase flight hours on Airbus-centric planes, so there's more demand? And then even in terms of how it all flows through order book and delivery, is this an event that's a meaningful positive, not just this year but a couple of years out within that Rolls-Royce portfolio?

Brian Kenney:

Yeah. We've gotten that question a couple of times. There's no impact in 2019. You've already answered your question as far as engines we have on leases are locked up and there's no real repricing opportunities. We have to wait and see how long the situation lasts. I mean, it's a good question. If it were to last for a number of years, certainly, you could see that, but it's way too early to count on that.

DeForest Hinman:

Okay. And then last question. Can you update us on the outlook for share repurchases for 2019?

Tom Ellman:

Sure. So our current authorization is $300 million, that's an authorization we generally get for a multi-year period. In the first quarter, we did $40 million of repurchase. Second quarter, $43 million. So year to date, we've done $83 million. And then we mentioned on a previous call, our expectation for the year was to do approximately $150 million total in 2019, and that remains our expectation.

DeForest Hinman:

Okay, thank you.

Operator:

Thank you. Our next question will come from Scott Scher, LMJ Capital.

Scott Scher:

Two quick questions. Can you talk about the average age of the fleet as it exists today? And what was the average age of the cars that you sold, the 1,560 cars, what was the average age of that? Did the average age of the fleet materially change?

Tom Ellman:

Yeah. So, change in the average age of the fleet is really challenging to do just because of the total size. It's around 20 years old and has been for quite some time. The -- and this is in North America. And no, the sale wouldn't materially change it. The ages of those cars, I don't have in front of me.

Scott Scher:

Okay. Second question, can you just remind me what your cash taxes will be for 2019?

Tom Ellman:

Yeah. So, because of the amount of investment we do, cash taxes are essentially zero.

Scott Scher:

Thank you.

Operator:

Thank you. Our last question will come from Steve O'Hara, Sidoti & Company.

Steve O'Hara:

Yeah, thanks for taking the follow-up. I just -- I wanted to -- just maybe a housekeeping item -- [Technical difficulties]

Operator:

One moment. Yes, one moment, please. (Operator Instructions)

Steve O'Hara:

[Technical difficulties] Just a housekeeping item. You talked about $55 million to $60 million, I think, from RRPF or affiliates in 2019. And that's the line on the income statement, it's actually not the line within kind of the segment breakout. And then that's the first thing. And then the second thing, the tax benefit that you had in the quarter, should that be taken out of share of affiliates or just the general tax line, the corporate tax line? Thank you.

Tom Ellman:

Yeah. So, the Rolls-Royce JV shows up both in the breakout by segment, it's the Portfolio Management share of affiliates. And then that is, by far, the majority of, for quite some time, anything for the total company. So you'll also see that in share of affiliates for all of GATX.

The tax item had to do with provincial taxes in Canada, related to the North American Rail business -- so wouldn't touch the portfolio.

Steve O'Hara:

Okay, thank you very much.

Operator:

Thank you very much. Speakers, at this time, we have no further questions in the queue.

Jennifer McManus:

Okay. I'd like to thank everyone for their participation on the Call this morning. Please contact me with any follow-up questions. Thank you.

Operator:

Thank you very much. Ladies and gentlemen, at this time, this now concludes our conference. You may disconnect your phone lines, and have a great rest of the week. Thank you.