Operator:

Good day and welcome to the GATX Second Quarter Conference Call. Today's call is being recorded. At this time, I'd like to turn the conference over to Jennifer Van Aken, Director, Investor Relations. Please go ahead.

Jennifer Van Aken:

Thank you Ann and good morning everyone. Thanks for joining us for the second quarter conference call. With me today are Brian Kenney, President and CEO of GATX Corporation and Bob Lyons, Executive Vice President and Chief Financial Officer. I'll give a brief overview of the results provided in our press release earlier this morning and then we'll take questions.

As a reminder, any forward-looking statements 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 2011 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.

Today, we reported 2012 second quarter net income of $23.5 million or $0.49 per diluted share. This includes the negative impact of $15.3 million or $0.31 per diluted share from Tax Adjustments and Other Items which are detailed on Page 12 of the press release. This compares to 2011 second quarter net income of $26.4 million or $0.56 per diluted share, which includes the positive impact from Tax Adjustments and Other Items of $6.2 million or $0.13 per diluted share.

Year-to-date 2012 we reported net income of $53.8 million or $1.13 per diluted share, including the negative impact of $17.5 million or $0.36 per diluted share from Tax Adjustments and Other Items. Again, these items are detailed on Page 12 of the press release.

Year-to-date 2011, we reported net income of $46.3 million or $0.98 per diluted share, including the positive impact from Tax Adjustments and Other Items of $12.6 million or $0.27 per diluted share.

At the end of the second quarter, GATX's North American fleet utilization was 98.3%, and utilization in Europe was 96.3%.

The renewal rates for railcars in the Lease Price Index were 23.9% above expiring lease rates, and lease terms were 59 months on average to renewals in the quarter. The renewal success rate in North America remains strong, in the mid-70% range, which is reflective of the continued strong demand for many car types in the GATX fleet. In particular, we continue to see strong demand across our tank car fleet. We are seeing ample opportunity to lock-in attractive rates on long-term leases, and will continue to pursue this objective.

American Steamship Company has moved more tonnage year-to-date 2012 compared to the same period of 2011 driven by increased demand for iron ore shipments by steel manufacturers. ASC expects to move modestly more volume in 2012 than in the prior year.

Portfolio Management had another solid quarter, benefiting from strong results at Rolls-Royce and Partners Finance, and improving charter rates for the ocean-going marine joint ventures operating in the ethylene market.

During the second quarter, investment volume was nearly $240 million, primarily in rail and inland marine assets. Rising asset prices make it more challenging to find economically attractive investments in secondary market assets, but our team is doing an excellent job of executing on select opportunities. In addition, railcars delivering under our multi-year order program are in significant demand, and we will continue allocating these cars on long-term leases to some of our strongest customers.

As we noted in the press release, we are raising our full-year 2012 earnings guidance to a range of $2.65 to $2.75 per diluted share. The increase is based on the continued strength in Rail, and excludes any impact from Tax Adjustments or Other Items. So with that overview, we'll go to your questions. Ann?

QUESTION AND ANSWER

Operator:

Thank you very much. (Operator Instructions) We'll take our first question from Art Hatfield with Raymond James.

Art Hatfield:

Good morning everyone.

Jennifer Van Aken:

Good morning.

Art Hatfield:

Hey, just a couple quick questions and I want to see if I understand this, but I want to start with the American Steamship. It looks like -- I think the numbers that I had calculated in the quarter that roughly revenue year-over-year was up about 34%, ballpark. It looks like in your stats the tonnage was up about 17%. Is it fair to say that pricing is kind of the difference there, and that you're probably seeing mid-teens type pricing increases at American Steamship this year?

Bob Lyons:

Art, it's Bob. Yes, we have seen favorable pricing environment at American Steamship. I can't comment specifically on the percentage rate increases, but it has been a very good environment for us.

Art Hatfield:

Is that business mostly -- my understanding is it's predominantly contractual. If that's the case, is it fair to say what we saw in Q2 is -- should be something we could see the rest of the year, or am I wrong about my thinking about it being mostly contractual?

Bob Lyons:

No, it is mostly contractual. We expect a very solid year or second half of the year for American Steamship. The only two things I would point out -- one is, we did move a disproportionately higher percentage of iron ore during the second quarter, which is a higher margin move for us. We would expect to see a more kind of traditional balance during the second half of the year. Ore will still be the majority of it, but we'll move more coal and limestone, too. Also, we have -- in the fourth quarter, a lot of the activity is really weather-dependent.

Art Hatfield:

Right.

Bob Lyons:

Last year in the fourth quarter, we had a great operating environment with very good temperatures and very little wind, so we were able to operate almost straight through the fourth quarter. We'll have to just see what this year entails.

Art Hatfield:

Just one last thing on ASC, then. Can you talk about how we can think about how the strike maybe impacts the year-over-year comps this year relative to last year?

Bob Lyons:

Well, I'd say in the -- through the second quarter, there wasn't a significant amount of strike expense incurred yet. That really was in the first part of July --

Art Hatfield:

Okay.

Bob Lyons:

-- really where we had the operational disruption. And we -- as we talked about last year, at year-end, it was probably in the maybe $3 million range total when you looked at it over the full year. But most of that was really incurred in July.

Art Hatfield:

Okay, thanks on that. Just so -- I'll move to the Rail group then. My recollection, and I really didn't have a chance to go back and look at the long term, but the quarter that we just ended, that was the best performance of the LPI that I can remember, and maybe ever. Can you talk a little bit about what was going on there? Because my – and I recall last quarter you had discussed the possibility that you didn't expect to repeat the performance we had seen in Q1. So, is the market kind of surprising you with where it's at, or were you just trying to be conservative within your guidance or your thought process coming out of Q1?

Brian Kenney:

No. It's Brian. Art, it's fair to say that we have been pleasantly surprised by the strength, and it's in the tank car market.

Art Hatfield:

Right.

Brian Kenney:

I mean, the tank car fleet's almost fully utilized. As you know, it's driven at this point mostly by the demand for petroleum, and we're seeing very healthy price increases in that on the tank car side. That's really across the tank car fleet. There's no real car type that I would single out as being weak.

Art Hatfield:

Yes, that's helpful. Does the market -- I go back to the ethanol boom, and how that was really focused on a select segment of the tank car market, but are you -- you just mentioned you're seeing a much broader base demand, but is it fair to say that this market for tank cars is one of the healthiest you have ever seen? If that is the case, what are the factors you think that could cause this to slow down, or is this a -- are we at the beginning of maybe a multi-year trend based on some of the changes that have occurred in the U.S. economy over the last couple of years?

Brian Kenney:

Well, we see no slowdown in that demand for crude, for sure, but there's always things that can affect it. People can bring on more capacity, that's been relatively constrained to this point. I know Greenbrier announced a slight capacity increase on tank -- I think in the earnings release actually, but that's relatively minor. I think it was 1,500 additional cars.

Art Hatfield:

Right.

Brian Kenney:

But more capacity could come on. Another thing -- we're not seeing it yet, but the ethanol producers are under stress right now with that corn crop projected to be what it is, which is down from the initial estimates. Remember that travels -- the ethanol travels in the same type of car, so those cars could become available for crude service, and that might take some of the gas off those huge pricing increases. But right now, the demand looks strong. We don't see any difference. But it's very important to point out that just like we were very careful during the ethanol boom, we're being very selective during this boom as well. As you know, we're pushing term out dramatically. You saw that in the numbers in the quarter.

Art Hatfield:

Right.

Brian Kenney:

We're being very careful about who we lease to, their creditworthiness, and the term that we lease those cars to them for.

Art Hatfield:

Okay. Great, that's all I got today. Thanks for your time.

Operator:

We'll take our next question from Steve Barger with KeyBank Capital Markets. I apologize. Actually, it's Steve O'Hara from Sidoti.

Steve O'Hara:

Hi. Good morning.

Jennifer Van Aken:

Good morning.

Steve O'Hara:

Can you just talk about -- I think one of your competitors had noted that they had a number of cars ordering over the next couple of years, and I think their order wasn't as sold out as yours is through 2013. I'm just wondering, do you think that's -- and I think it was primarily a tank order. I'm just wondering -- is that a difference in maybe specific car types, or do you think maybe they're pushing price a little more than you guys are? If you could just talk about that a little bit.

Brian Kenney:

I don't really have specifics on what they're doing -- I assume you're referring to CIT?

Steve O'Hara:

Correct.

Brian Kenney:

Okay, well, it's unclear how much of that order they announced was a new order versus a compilation of other earlier smaller orders, so we don't really know. Honestly, you should seek comment from them, but I think it just reflects a different procurement strategy than ours. We try to be counter-cyclical, and place large, new car orders when the market is in a down cycle, and others try to place orders across the cycle. It's just a different approach.

Steve O'Hara:

Okay. I guess, in terms of the LPI, it would appear that you're maybe seeing some benefit from 2009 renewals, and maybe some headwinds from 2007, is that fair to say? What do you see maybe next year in terms of -- when do those renewals -- when does maybe a less favorable renewal mix come into play, if at all?

Brian Kenney:

Oh, I see what you're saying. You mean in terms of the expiring rate on those cars that are renewing?

Steve O'Hara:

Yes.

Brian Kenney:

That did come down in 2012 from 2011 due to that very phenomenon you'd mentioned, which is -- we placed cars in the down market on very short-term leases, so we didn't lock up those sub-standard rates on a long-term basis. We're seeing benefit from that in 2012. For the rest of the year, I believe that expiring rate is relatively steady. I don't think you'll see a pickup just from the expiring rate for the last half of this year, but pricing remains strong. Even if pricing capped out at where it is today, you would see similar LPI numbers for the last half of the year.

Steve O'Hara:

All right. Thanks very much.

Operator:

And now we go to Steve Barger with KeyBanc Capital Markets.

Steve Barger:

Good morning. I know that lead times are really long right now at the OEMs, but have you been in the market checking prices? Is there any change out there that makes you think that you want to get involved in buying more cars?

Brian Kenney:

No, as I just said, generally our strategy is to place the big, long-term order as the market is in a down cycle, or starting to recover. It's unlikely that you'll see a lot of new car volume for GATX with prices the way they are. They have increased substantially, I'd say, for tank cars. Cost out there in the market for a spot order is higher than the prior peak.

Steve Barger:

Right.

Brian Kenney:

For freight cars, it's probably equal to a little less than the prior peak out there in the market for a spot order. Given that pricing, or car cost, I would say it's unlikely you'll see us go out there and place a sizeable new car order. In fact, the only way we would really consider that is if we could have a -- we wouldn't do it on a speculative basis. If we had somebody locked up for a very long term at an attractive rate where we could amortize that cost, then we'd consider it, but it's unlikely in this market.

Steve Barger:

Right, I understand. From your market knowledge, are tank car prices still going up sequentially quarter-to-quarter, or have those started to top out from the OEMs?

Brian Kenney:

I haven't seen our latest order data. I think, in general, it's been steady increases over the last year or so for the market cost of a tank car.

Steve Barger:

Okay.

Brian Kenney:

But with steel starting to show some signs of weakness, and scrap prices coming down, it's something we're definitely going to watch over the next six months.

Steve Barger:

Got it. Okay. A question on the guidance. Historically, you've put up at least half of the EPS in the back half, and I think you just said that LPI should be the same, running at these rates, which I know is more future periods. But will the earnings cadence be different this year than it has been in past years?

Bob Lyons:

Yes, based on the guidance we've given, Steve, that would be correct. And the biggest driver to that is remarketing income. We came into the year -- 2011 we had remarketing income of $45 million. We indicated at the beginning of the year that we would eclipse that number by a modest amount. If you look at it year to date, we've already achieved $37 million of remarketing income. That will not happen in the second half of the year.

Steve Barger:

Got it. Okay.

Bob Lyons:

That really is the big driver.

Steve Barger:

Okay, perfect.

Bob Lyons:

Any -- any of the planned bigger sales that we had coming into the year, we've achieved and done very well on.

Steve Barger:

Of the 700 -- I think you sold 723 cars in the quarter -- can you tell us what type those were?

Bob Lyons:

Not in specifics. Typically, when we're out selling cars, they are targeted either as car type or leases that we've identified for sale. There isn't any one concentration of car type sold.

Steve Barger:

Okay. Looking forward, you're signing cars at very strong rates right now, and we know pushing terms out very aggressively and locking in very good economics, it looks like. Is there any structural reason why you can't get back to the prior peak margins that you ran in the Rail group? I think you were running around 29% gross margin for a stretch back in ‘07, ‘08?

Brian Kenney:

No, there is no reason.

Steve Barger:

Does that -- given the cadence of how you're signing cars, does that start to happen in the early part of 2013, or even the latter half of ‘12?

Brian Kenney:

Well, it's a nice try on guidance for 2013, but you're not getting it. [laughter] We're not ready to talk about it yet. What I'm looking at this year is, with the rates that we put out there, we'll see a double-digit ROE. So, things are getting pretty healthy. But there’s no reason that we can't exceed the prior peak, especially with pricing the way it is today. Now, it has to keep up, but so far things look pretty good.

Steve Barger:

All right, perfect. I'll get back in line, thanks.

Bob Lyons:

Thank you.

Operator:

We’ll go next to Matt Brooklier with Longbow Research.

Matt Brooklier:

Thanks. Good morning. You've seen a nice benefit from a higher overall rate of lease renewals within your maintenance expense line. I was just curious as to what's kind of baked into your guidance with respect to the maintenance expense and lease renewals?

Brian Kenney:

Well, I'll let Bob talk about the guidance. In general, what you're seeing is -- as you pointed out -- a very high renewal percentage, not a lot of cars coming into the maintenance network. In fact, for year to date, I believe we repaired 2,500 fewer cars, which is what's driving that huge positive variance. That should continue, but I'll let Bob talk about the guidance.

Bob Lyons:

Yeah, in terms of the renewal success rate, we're -- when we looked at the forecast of the second half of the year, we're in the same ballpark as where we were in the first half of the year, which is an extremely healthy renewal success rate. Now, we do anticipate that we'll have more compliance cars coming through the shop in the second half of the year, for their HM201 recertification. The expectation, or kind of what's baked into our forecast is really that maintenance expense in the second half of the year will be modestly higher than it was in the first half of the year.

Matt Brooklier:

Okay, that's helpful. It's very apparent that lease rates on tank cars are very strong at this point in the cycle. Maybe you could talk a little bit more about some of the other cars in your fleet with respect to pricing and lease rates at this point?

Brian Kenney:

It's definitely a tank car-driven market in terms of pricing. There is a little more upset on the freight car side and some clouds out there. You look at grain, with the weather in the Midwest, they've taken down the estimates of the corn crop, and there's some possibility that grain cars become surplus later in the year. We don't have a big exposure there. I don't think that really affects our numbers.

We've talked in prior quarters about small cube-covered hoppers, and most of those are carrying frac sand. As far as the explosion in that market, it looked like there was some over-supply there. There still looks like there's some over-supply there, but actually rates have hung in there pretty well.

Matt Brooklier:

Okay.

Brian Kenney:

Maybe that's something that actually has done a little better than we thought in the quarter, and looks a little better for the last half of the year than we would've guessed. Then there's the whole thing around steel, with some steel weakness out there, as well as potential strikes in the U.S. makers. There's a couple of freight car types where pricing could be a little weaker, in addition to what we've already said about coal in prior quarters.

Matt Brooklier:

Okay. Thank you.

Operator:

We'll take our next question from Steven St. Pierre with South Ferry Capital.

John Reilly:

Good morning, it's John Reilly at South Ferry. I was just curious -- more of a strategic question -- but you guys are obviously sitting in a sweet spot, and there's going to be volatility in life and in the markets you deal with going forward. But it just seems to me with your stock where it is, there's a tremendous opportunity here. As a standalone, it just seems to me that the cost of capital that you're being charged -- I know you just did bonds with a four-handle, but there's a whole lot of cash in this world that's absolutely paying through the nose for any sort of certainty on a cash flow stream. And you've got a five-year U.S. dollar swap at 82 basis points. You guys are signing things up on 59 months, so five-year leases going up 24% in price.

And so, instead of having, quarter after quarter, people worried about tiny little things like whether your maintenance margin goes up or down 5 bps, wouldn't it be in the best interest to shareholders to actually take this company and say -- look, this is actually a -- two strips -- a very certain income stream, and then obviously there could potentially be up and downs with the economy over a long period of time. But given what the need for yield in this world out of infrastructure funds, pensions, other types of strategics, it just seems to me that this stock is extremely undervalued, and part of the reason it's undervalued is it's being shopped to the wrong audience.

We're having conference calls about things, which I understand are very important for the business, but at the end of the day, as a shareholder of this company, whether or not you guys miss or make earnings by a penny over a quarter really doesn't change the long-term value. The long-term value of this country -- of this company, I believe, is substantially higher than where it trades. And I was just curious if you've given a thought or would give a thought to actually shopping it to the proper audience, as opposed to kind of the way it's thought of and covered right now?

Brian Kenney:

Oh, okay, you're done? So, I think,[laughter] what we've been really clear about in the past is that we will always do what's in the best interest of the shareholder, and if we think there's a transaction out there that maximizes value for them, we will not hesitate to do it.

John Reilly:

Okay. No, I'm not -- I'm certainly not insinuating you -- you gentlemen are obviously doing a fantastic job managing this business, and that's clearly not what I was saying in terms of -- and so, please don't think that's what I was insinuating. I just think that --

Brian Kenney:

No, but what was -- what just struck me by your comments, though, is you talk about quarterly earnings and all that, and we don't talk about quarterly earnings. So, I don't know how familiar you are with GATX, but we don't get into that quarterly earnings guidance. We manage the company on an economic basis, on a cash flow basis, because we have --

John Reilly:

No, I'm not saying you do, but the audience, as you could tell by questions and -- and analysts have to worry about Q3 and what they're telling their clients about 2013 and what the next three months are going to look like. That's just the nature of their business. So, I'm not saying it's from you, it's just that's why I was talking about the audience. Whereas you have a big competitor who could care less about quarterly earnings, and there are a lot of folks that value cash flow streams right now at extremely high levels that could probably care a lot less about quarterly earnings. I just think that -- I agree and I hear you, but I think that there may be a chance here to realize a lot more value than where we currently trade. That's all.

Brian Kenney:

Okay. Thank you.

John Reilly:

Thanks a lot, guys. I appreciate it.

Operator:

(Operator Instructions) We'll take our next question from Barry Haimes with Sage Asset Management.

Barry Haimes:

Good morning. Thank you. Had a couple of questions. One is, I wonder if you could give us a feel for the tank car industry. How much of incremental demand, let's say, this year, would be coming from the various shale areas? Is that a big percentage of your incremental year-over-year demand? And then secondly, related to that, as we look out over the next two or three years, are there any increases in pipeline takeaway capacity that could change the supply and demand for tank cars?

And then finally, you talked a little bit about, or alluded to the weakness in coal cars, but could you give us a little more color on maybe what rates have done this quarter versus last quarter? And whether the number of surplus cars in the industry has changed much? Have we just hit bottom, or has it gotten a little bit worse this quarter versus last? Thank you.

Brian Kenney:

Okay, let's start with the demand from the petroleum side in the Bakken and the shale play. The -- that is driving the tank car -- the spectacular tank car demand in this country, absolutely. And we expect a lot more of that. That's most of the backlog that we see in tank cars in the new orders, are people trying to participate in that business.

As I said earlier, we also participate in that business. We have a big fleet of $30,000 -- 30,000-gallon tank cars. Only half of our 30,000-gallon tank cars are in ethanol service; the rest are in a wide variety of commodities. We do participate in it, but we've been very careful about what we do in response to the Bakken demand. We only place it with very credit-worthy customers, and only for very long terms at very attractive rates, similar to how we handled the ethanol boom. But, yes, that is driving tank car demand in this country.

As far as coal --

Jennifer Van Aken:

As far as coal, we talked about weakness in coal. In terms of how that's going to impact GATX for this year, our exposure there is actually fairly low on our wholly-owned coal car fleet. I think we said on our last earnings call, we had about 1,700 coal cars exposed during 2012. We had about 700 of those come up for renewal in the second quarter here. About two-thirds of those came back to us; the rest were renewed. In terms of exposure for the remainder of the year, we have about another 900 coal cars that we have coming up for renewal.

Brian Kenney:

As far as rates on those cars, they were seeing steady increases over the last year, year and a half, and then you came into 2012 and we've seen those slip, obviously, dramatically, to the point where if you want some, we can put you in some nice ones.

Barry Haimes:

Okay, thanks. Back on the pipeline takeaway capacity, is there anything coming that will --

Brian Kenney:

Yes, that's why we've been -- sure, there is. That's the concern, is that eventually pipelines come in and take that. That's going to happen, which is why we're being very careful about how we do that business. It's unclear how much it will take away, but they will come in and they will get built, and it will take it away. That's why you focus on having a very diverse set of customers and services for that type of car. And for the existing cars that go into that service, you try to push them out as long as you can at the highest rate possible, and only deal with customers that value the relationship and are very credit worthy. That's how we approach markets where it looks like things are maybe a little too high.

Barry Haimes:

Great, thanks very much. Great job.

Operator:

We'll go back to Kristine Kubacki with Avondale Partners.

Kristine Kubacki:

Good morning. Just a question. You talked a little bit about Europe in your press releases, and you'd cited it's still a pretty strong market there, which I guess is a bit surprising if you read the headlines everyday. Can you talk about where the pockets of strength are, and what your expectations are for that market?

Brian Kenney:

Sure. It's a -- we participate in the European rail market in two different ways, and that delineates the strength and the weakness right there. The tank car side is very strong. That's our own platform. It's a little shy of 22,000 cars -- very high utilization, 96-plus percent. Their primary market is petroleum, and that's what remains very robust in Europe, the petroleum on the tank car side. We're seeing high utilization, good demand for new high-capacity cars, seeing scrapping of older and smaller cars. It's just a very strong market.

The other major market for the tank car business in Europe is the chemical side. That's been a little more volatile over the last few years. It's becoming more stable in 2012. There's customers looking to reduce capacity because of the economy; there's also others considering capacity additions, and fleet modernization is occurring. So, it's hanging in there pretty well, and in general, the tank car market and the tank car business for us is very strong in Europe.

On the other hand, we participate in the freight car market in Europe through our AAE joint venture; that's just shy of 25,000 cars, heavily intermodal, highly dependent on the European economy and on container traffic, which has been down dramatically since 2009. Utilization is much lower there, and I'd say that business is basically bumping across the bottom right now.

Kristine Kubacki:

And I do have a question on the Indian market, then. You talked a little bit about that as well, and your entry there. Can you talk a little bit about how you're going to step into that market -- how many cars, what kind of car types, and what you expect for that market to grow, say, over maybe the first five years of your entry there?

Brian Kenney:

Sure. We received our license in May; the first license actually granted to lease railcars in India was to GATX. We also completed our first lease transaction in May. That transaction was for 10, what they call, rakes, or train sets here in North America, about 45 wagons, or 450 total cars on those 10 rakes, approximately $23 million. They were container flat cars. That's going to be the market that we pursue initially. Other possibilities over the next couple of years include auto carriers and certain cars that carry, what I call commodities, such as steel and coal.

The attraction of GATX to India is not only is it a huge rail market, it's obviously a relatively quickly -- relatively fast-growing economy. They have approximately a 70/30 highway-to-rail split as far as freight movement right now. Because of the tens of billions of dollars they had earmarked for freight infrastructure on the rail side in India, we think that's going to reverse over the next 10 years, so there's going to be a tremendous demand for railcars, and that's why we're invested in India. Initially, it's in the intermodal flats.

Kristine Kubacki:

Okay, very good. Thank you very much.

Operator:

And with no further questions in the queue, I would like to turn the call back over to Jennifer Van Aken for any additional or closing remarks.

Jennifer Van Aken:

I'd just like to thank everyone for your participation this morning, and I will be available all afternoon in case there are any follow-up questions. Thank you.

Operator:

This does conclude today's conference. We thank you for your participation.