S&P Global
Market Intelligence

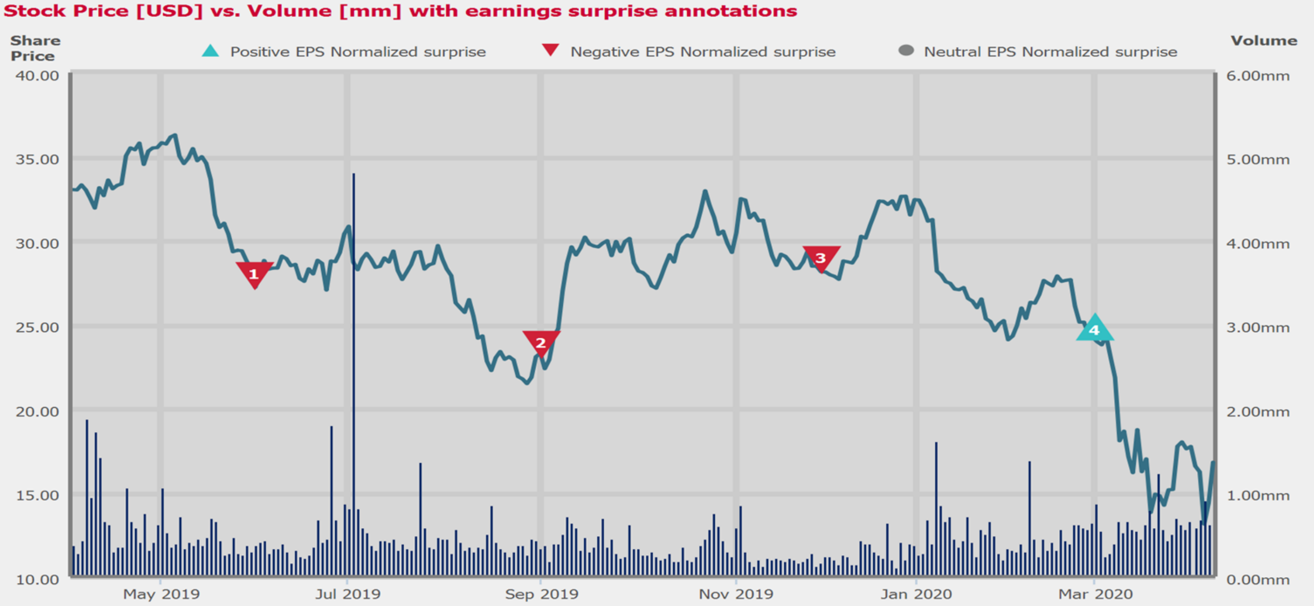
The Greenbrier Companies, Inc.
NYSE:GBX
FQ2 2020 Earnings Call Transcripts

Tuesday, April 07, 2020 3:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2020-			-FQ3 2020-	-FY 2020-	-FY 2021-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.26	0.46	▲76.92	0.83	2.40	2.28
Revenue (mm)	780.64	623.85	▼(20.08 %)	898.82	3343.56	2926.75

Currency: USD
Consensus as of Apr-07-2020 12:20 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2019	0.95	0.89	▼1 (6.32 %)
FQ4 2019	1.38	1.31	▼2 (5.07 %)
FQ1 2020	0.43	0.30	▼3 (30.23 %)
FQ2 2020	0.26	0.46	▲4 76.92 %

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Call Participants

EXECUTIVES

Adrian J. Downes
Senior VP, CFO & Chief Accounting Officer

Justin M. Roberts
VP of Corporate Finance & Treasurer

Lorie L. Tekorius
President & COO

William A. Furman
Chairman & CEO

ANALYSTS

Allison Poliniak-Cusic
Wells Fargo Securities, LLC, Research Division

Bascome Majors
Susquehanna Financial Group, LLLP, Research Division

Justin Trennon Long
Stephens Inc., Research Division

Kenneth Scott Hoexter
BofA Merrill Lynch, Research Division

Matthew Youssef Elkott
Cowen and Company, LLC, Research Division

Robert Stephen Barger
KeyBanc Capital Markets Inc., Research Division

Presentation

Operator

Hello, and welcome to the Greenbrier Companies' Second Quarter of Fiscal Year 2020 Earnings Conference Call. [Operator Instructions] At the request of the Greenbrier Companies, this conference call is being recorded for instant replay purposes. At this time, I would like to turn the conference over to Mr. Justin Roberts, Vice President and Treasurer. Mr. Roberts, you may begin.

Justin M. Roberts
VP of Corporate Finance & Treasurer

Thank you, Misty. Good morning, everyone, and welcome to our second quarter of fiscal 2020 conference call. On today's call, I'm joined by Greenbrier's Chairman and CEO, Bill Furman; Lorie Tekorius, President and COO; and Adrian Downes, Senior Vice President and CFO. They will provide an update on Greenbrier's near-term priorities as we manage through the COVID-19 pandemic, and then we will discuss the results for the second quarter. Following our introductory remarks, we will open up the call for questions.

In addition to the press release issued this morning, which includes supplemental data, additional financial information and key metrics can be found in a slide presentation posted today on the IR section of our website.

Matters discussed on today's conference call include forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Throughout our discussion today, we will describe some of the important factors that could cause Greenbrier's actual results in 2020 and beyond to differ materially from those expressed in any forward-looking statements made by or on behalf of Greenbrier.

And with that, I'll pass it over to Bill.

William A. Furman
Chairman & CEO

Thank you, Justin, and good morning, everyone. As we begin, I want to take a moment to extend good wishes for the health of everyone on the line with us today. I also call out the work of the many health professionals, emergency responders, government officials and individuals who are on the front lines battling this pandemic and those in our Armed Forces and National Guard around the world and here in America. Finally, I thank all the Greenbrier employees in our factories, offices and at home, each now operating under essential industry status.

The world is not only in a severe health crisis, but obviously, an economic crisis affecting businesses differently. As you will hear today, the ability to continue to operate our factories with a strong backlog in hand allows us to protect liquidity and maneuver in a way others in -- other industries and other businesses cannot under current circumstances.

We're now operating under 2 essential priorities: number one, to provide for the safety and security of our workforce; and number two, to provide for the liquidity and economic well-being of the enterprise and its shareholders.

In the face of this pandemic, management priorities and behavior immediately shifted to the extraordinary challenges at hand. We quickly implemented contingency plans and assembled incident response teams. We assessed the risk to our business in real-time and are taking swift actions to ensure Greenbrier is defensively positioned to manage through a period that presents a range of unknown and unknowable challenges.

We are safely operating, and I emphasize safely operating all our manufacturing and essential service sites, including those sites that manage over 1/4 of industry railcars in the United States and North America. Greenbrier's operations constitute essential infrastructure and essential businesses as defined by the U.S. Department of Homeland Security and other U.S. and international agency -- agencies, including all stay-at-home orders issued in the jurisdictions where we operate at home and abroad.

Greenbrier supports operations vital for the national transportation system, the Department of Defense and other federal agencies. We perform our functions under the statutory and regulatory authority of the Department of Transportation, Surface Transportation Board, the Federal Railroad Administration and under the Jones Act in our marine operations.

Accordingly, Greenbrier will help maintain the delivery of vital goods, including food, medical supplies and fuel to communities in the United States and in all the nations that we supply around the world. We will keep our nations and those nations smoothly functioning in the railroad system.

Along with the welfare of our employees, we are determined to protect the economic well-being of the enterprise during unprecedented market and economic conditions. As discussed in our earnings release today, we are laser-focused on liquidity. Our goal is to produce $1 billion in available, reliable liquidity within the remaining 5 months of our fiscal year ending in August of 2020.

Before the onset of the pandemic, we had already begun to reduce the size of our manufacturing footprint due to anticipated lower levels of railcar demand and reduced aftermarket activity. Adjustments to production and staffing levels that began in September of last year continued into the second and third quarter as we idled excess capacity in North American manufacturing facilities, largely in Mexico as well as at Greenbrier Rail Services locations.

Since we began this initiative, we have adjusted global operations through workforce reductions equal to approximately 20% of Greenbrier's total global workforce. These reductions now exceed 3,500 workers. Yesterday, we took steps which would add another 200 workers over time.

Our colleagues who left us this fiscal year are people who each made important contributions to our success. Many have spent their entire careers in this business. They are leaving us through no fault of their own. Each affected employee is a person with a name and a family. This is a fact we never forget.

We recognize that this is a period of shared sacrifice. As a result, I have taken a voluntary immediate reduction in my salary of $250,000. And for our Board of Directors, each has voluntarily reduced their cash compensation. We have frozen pay increases for members of management. Moreover, cash and earnings will automatically flow from curtailed bonus payments if we do not meet targeted performance metrics and along with the discretionary reduction that I or the Compensation Committee of the Board of Directors can request. All that remains to be seen, but it is an automatic relief valve for difficult times baked into a company that is well-seasoned in dealing with difficult times in a cyclical business.

This is not our first rodeo. Greenbrier's business is flexible enough to quickly adapt to changing market conditions. Our franchise is strong and we hold the position as the #1 or #2 players in 3 core markets: in South America, more specifically, Brazil; North America; and Europe. The strength of this franchise is demonstrated by the fact that half of this quarter's earnings were generated from abroad -- orders -- I'm not -- not earnings, but orders.

And of that half, about 1,000 cars are to be built in North America by a good customer in the Gulf Cooperative (sic) [Cooperation] Council. We have a strong experienced management team. Greenbrier, again, has navigated through difficult markets in the past. Historically, we've come out stronger as a result of our combined efforts. Not only did we recover, but we transformed and dramatically increased the scale of our business through hard work, focus, execution and diversification of our revenue stream.

Although this is a stressful time no matter how the remainder of this year plays out, we know our role in the transportation industry remains vital. Beyond layoffs and other obvious reductions, we're committed to take aggressive actions to shrink Greenbrier's cost profile, its balance sheet -- to improve its balance sheet. And Lorie and Adrian will speak more to this a little later.

Based on our current backlog, we were left with very little open production capacity for the remainder of both the fiscal and the calendar year. At Gunderson, our marine backlog extends through the fiscal year and the calendar year.

Our backlog production -- current production rate stretches into 2021 and beyond. A large multiyear manufacturing backlog of railcar units provides one source of stability in difficult times as we operate our facilities. These long-term customers are very reliable and have virtually never wavered in fulfilling commitments even if they have to, at times, put cars in storage. All that provides resilience and a bridge to industry dynamics and economic conditions improve.

In addition to the liquidity goals I mentioned, we have stress tested Greenbrier's balance sheet to our ensure -- to ensure our liquidity, and we have run very many scenarios to look at worst case. While we have suspended earnings guidance, we expect to remain profitable.

We do not know nor can anyone know how this crisis will evolve and resolve. Today, this is the biggest risk we all face together. Scenarios may emerge that we cannot reasonably anticipate. But we are confident we're managing those factors within our control, and we're also to manage others through the worst of times. This means we are prepared to adapt to the new economic realities. We'll take the difficult and necessary actions to protect Greenbrier's economic base, preserve its financial stability, focus on our core business, remove essential (sic) [non-essential] activities and restore shareholder value for years to come.

Now over to you, Lorie, for your comments.

Lorie L. Tekorius
President & COO

Thank you, Bill. Good morning, everyone, and thank you for joining us. I'll briefly provide some additional detail on the quarter, although I have to admit that February 29, the end of our quarter, seemed like a lifetime ago. The world has shifted very quickly, and we've pivoted to respond to the shifting global landscape.

Over the last 6 months, we've been rationalizing production capacity and overhead in response to anticipated levels of new freight railcar demand and reduced aftermarket activity. Demand has weakened due to macroeconomic conditions, including trade disputes; faster train speeds resulting from the implementation of PSR; and significantly lower freight rail loadings, which have dropped sequentially for almost 15 months in nearly all commodity categories.

The industry remains supported by a backlog of over 51,000 railcars, but all builders in North America have taken steps to slow production lines in 2020. It's important to note that these conditions were present, and we were adjusting capacity prior to the COVID-19 pandemic and the collapse in global oil markets. We continue to adjust operations as needed to ensure the long-term health of Greenbrier.

And as a brief recap to the quarter, deliveries this quarter were 4,500 railcars, and we received orders for approximately 8,500 units valued over $815 million. These orders originating from international sources accounted for over 50% of the activity in the quarter. And about 1,000 of those units were part of a joint international commercial effort for a customer in the Kingdom of Saudi Arabia and will be built in and service the North American market.

Our backlog worldwide remained strong at 30,800 units valued at $3.2 billion. Operating performance at our ARI manufacturing facilities improved in the quarter. And our North American manufacturing group continued to perform profitably, producing high-quality railcars safely even as production rates were adjusted and demand declined.

Our European and our Brazilian operations performed as expected in Q2, and order activity was strong. Notably, we received the first multiyear order in Brazil in many years. And both our European and Brazilian operations are benefiting from some rightsizing that we executed in fiscal 2019.

The continued improvement in our repair operations is a reflection of the remedial actions taken over the last 18 months. The Wheels & Parts operations benefited from their higher seasonal volumes, although volumes were pressured compared to past winters. And our leasing revenue in the quarter included externally sourced railcar syndication activity. And as a reminder, this activity causes leasing's gross margin percentage to be lower as a percentage of revenue than its typical 45% to 50% range. Excluding the externally sourced syndication activity, our leasing segment's margin percentage was 47.2%.

And with respect to the business' response to the COVID-19 pandemic, all global operations are currently meeting or exceeding the CDC's recommendations. To protect our workforce, Greenbrier has implemented health screenings, including daily temperature readings, operating through split shifts, enhanced social distancing and expanded deep cleaning at all locations. We're operating under a dual mandate of maintaining business continuity alongside ensuring employee health and welfare.

As an essential business that supports global infrastructure, Greenbrier is dedicated to fulfilling its role to facilitate the continued stability of the transportation supply network. Greenbrier and its employees take the responsibility of helping to ensure the delivery of vital goods, including food, medical supplies and fuel to communities very seriously.

As you heard from Bill, in addition to ensuring the business continues to operate, we are focused on increasing liquidity. This will be accomplished through a variety of actions, including eliminating nonessential capital expenditures, aggressively reducing our overheads and general and administrative expenses and evaluating other strategic actions. We expect to come through the current crisis as stronger, more resilient Greenbrier.

As a management team, we remain confident in the long-term strategy developed with our Board of Directors but are focused on executing the near-term priorities that Bill described.

Now over to you, Adrian.

Adrian J. Downes
Senior VP, CFO & Chief Accounting Officer

Thank you, Lorie, and good morning, everyone. As a reminder, quarterly financial information is available in the press release and supplemental slides on our website.

Highlights for the second quarter include revenue of $624 million and deliveries of 4,500 units, which includes 800 units in Brazil. Aggregate gross margin of 13.8%. The quarter included a contract modification payment of $9.2 million, net of tax, which strengthened our backlog and profitability. A hallmark of Greenbrier is the flexibility to find win-win solutions to our customers' needs.

Net earnings attributable to Greenbrier of $13.6 million or $0.41 per share. Excluding approximately $1.7 million net of tax or $0.05 per share of integration-related expenses, adjusted net earnings attributable to Greenbrier were $15.3 million or $0.46 per share. And adjusted EBITDA in the quarter was $71.6 million or 11.5% of revenue.

We successfully achieved $4.3 million of pretax cost synergies related to the ARI acquisition in the quarter and $7.1 million year-to-date. Because of the current uncertainties and shifting priorities, we are not reaffirming our synergy targets of $15 million in fiscal 2020 at this time, although we will continue to work towards this target.

Total liquidity at February 29 was $620 million, which includes $170 million of cash, and we have no significant debt maturities until late 2023. As you've heard on the call already, we are working to significantly expand liquidity through a variety of actions with a target of $1 billion.

We are also in the process of examining the various governmental programs available to Greenbrier and our employees, including programs like the payroll tax deferral provision and employee-friendly modifications of existing employee plans as a result of the Cares Act. We plan to utilize these to the fullest extent possible where beneficial.

Greenbrier's Board of Directors remains committed to a balanced deployment of capital that protects our business and simultaneously creates long-term shareholder value. Greenbrier declared a quarterly dividend for 24 consecutive quarters with periodic increases. Today, we're announcing a dividend of $0.27 per share, which represents a yield of 7.5% based on yesterday's closing stock price.

As announced in our earnings release, we are suspending our prior guidance for the year. Greenbrier's management team has a long history of managing through volatile times. While the COVID-19 pandemic is without precedent and has created significant uncertainty on a global basis, we remain convinced that the proactive actions we have taken so far and the planned actions we have described today will position the company for long-term strength.
Now we'll open the call for questions.

Question and Answer

Operator

[Operator Instructions] First question comes from Justin Long.

Justin Trennon Long
Stephens Inc., Research Division

Maybe to start just bigger picture on the industry and what you're anticipating from a railcar production standpoint, FTR has recently lowered their forecast for 2020 and 2021 to that kind of low to mid-20,000 unit range. I'm curious. As you think about kind of cutting back your capacity and some of the things you discussed in the prepared remarks, is that the type of build rate from an industry perspective that you're planning on? Or do you anticipate any upside or downside to that? And then also if you could just talk about cancellation risk in the backlog or deferral risk in the backlog. Curious if you've seen any of that play out in the last month or so.

Lorie L. Tekorius
President & COO

Sure. So I'll start out, and I'm sure that Bill will supplement. From an industry outlook perspective, FTR certainly has gone through several iterations of dropping expected deliveries in 2020 and 2021. Right now, with everything that's going on, I think it is really hard to say specifically what deliveries might look like the next couple of years. I think it certainly is reasonable that the numbers that they're projecting might be the numbers as you look across the years.

Absolutely, there is upside. We've seen that historically in our markets where we can be predicting that the sky is falling, and then the next thing, something wonderful happens. That's one of the things that we believe our management team and our manufacturing group, in particular, is very good at is being responsive to when opportunities present themselves.

Our commercial team is very focused on working closely with our customers and remaining flexible so that we can take advantage of those opportunities. So that's why you see us slowing production as opposed to stopping it all together. If we can continue it at a fairly slow rate, we think that gives us optionality.

And then turning to your second question about risk in the backlog, we -- as we've poured through the backlog and looking at the different car types that we're building, and it is a broad variety of car types, at this point in time, we don't have anything that we're overly concerned about. But then again, how can you work in this point in time and not be overly concerned about something.

I think we have a good history of working closely with our customers if there is an issue that they raise or a concern that we may need to modify car types or look at delivery timing. But again, at this point in time, we're feeling like our backlog is a very solid position and a good indicator of future activity.

William A. Furman
Chairman & CEO

The only thing I would add, and thank you for your question, is that, obviously, we've had a number of things occur. Lorie mentioned a few. But the oil market volatility is of concern, not only for the petrochemical and oil by rail business but -- and while Greenbrier doesn't have a strong sand concentration, many of our investors, institutional investors, only managed cars due. So we're very focused on that. But we're not seeing cancellations in the sense that you mean it. They're -- obviously, the qualitative aspects of the portfolio is another thing. But I think the kind of nimbleness our commercial team showed in this deal that was done to work with a customer to not only improve our backlog but improve our profitability and drive immediate cash flow is something that we'll try to do more of in the future. And we have great customers. We think things are going to -- on the back -- backlog is the strongest thing we've got plus the fact we can operate our factories under the essential service rules.

Justin Trennon Long
Stephens Inc., Research Division

Okay. That's really helpful. And then second question I had was on SG&A. I get the suspension of guidance totally understandable in this type of environment. But when you look at the things you can control and you think about some of the headcount reductions that you've seen, is there any clarity you can give us on what you're expecting for SG&A this year? What's getting baked into the comment that you may build that you expect to remain profitable?

William A. Furman
Chairman & CEO

Lorie, you should address that. I think we want to be cautious about throwing numbers out there. As I said, we expect to be profitable. Manufacturing operations are particularly resilient. We do expect to have G&A instructions in all categories -- G&A reductions, I mean. It's not just going to be factory people. We already have had -- and I don't think -- I don't know what you would like to say about it, Lorie.

Lorie L. Tekorius
President & COO

Thank you, Bill. That was a good lead-in. We are looking across the board. We don't take lightly the number of production workers that we've had to let go over the last 6 months. So I would say, while we're not willing to put a specific target out there since we are suspending guidance, I would say that it's going to be -- double-digit percentage reduction is going to be the goal in our SG&A, coupled with looking at overhead costs, which are some of the things that oftentimes can get overlooked. But as we're resizing our manufacturing footprint, particularly here in North America, there are overhead types of activities that can also be scaled down. So that's where we're pleased that our manufacturing margins have remained in the double digits. And we believe that's because we do know how to scale our workforce, both the line workers as well as the overhead, to adjust to reduced production rates. And you will be seeing some reductions in SG&A head count as well as some of the other things that Bill mentioned regarding his compensation, the Board's compensation. Clearly, travel restrictions, the way that they've played out, that's going to have a big impact on SG&A going forward. We have a hiring freeze, and we'll be looking at other areas where we can call back some costs.

Operator

Next question comes from Allison Poliniak.

Allison Poliniak-Cusic
Wells Fargo Securities, LLC, Research Division

Lorie, I just want to follow on that train of thought. Obviously, you guys were addressing operations to begin with, trying to fix and support some of them. As you step back, I know it's probably hard today because you're just dealing with the general sort of impact on a daily basis. But can you maybe comment in terms of what you think you can do structurally to support the foundation that make Greenbrier, obviously, much stronger coming out of this? I mean, are you guys even thinking of that at this point?

Lorie L. Tekorius
President & COO

Absolutely. We're thinking about when we come out of this COVID-19 -- focus right now, trying to make particularly our core operations and manufacturing and our commercial group a lot stronger. I think one of the very interesting things about the pandemic is it is forcing us to rethink how we work. If you -- and I think you've been here in our offices in Lake Oswego, Allison. It's really amazing how much of our services we can continue while probably 90% of our workforce telecommute. So I think that will be a foundation for how we think about what is going to be our core to support our operations, whether it's the folks that we have down in Dallas, the folks that we have here in the Portland metropolitan area or even our workforce in St. Charles to rethink how do we use technology to build on having a solid base to support our operations and really thinking how do we make certain that we've got the best and the brightest supporting that. And maybe there are some costs that we were going to realize that we don't have to continue to incur.

Allison Poliniak-Cusic
Wells Fargo Securities, LLC, Research Division

Great. And then just -- I know you touched on Europe, obviously, closing for 2 weeks there. Any color on Brazil? I guess it wasn't clear to me because we've heard some industry shutting down in Brazil today. Is there sort of a slowdown or a stoppage there that you guys are preparing for near term? Or is that just business as usual in this environment, I guess?

Lorie L. Tekorius
President & COO

Right. And yes, business as usual to the extent that you can today. It is one of the more interesting things because we do operate around the globe. Every country seems to have a different approach, and those approaches can change on a daily basis. As I understand it today, our operations in Brazil do continue to operate, and the government officials do encourage our employees to go to work. That would probably be one of the places that we started implementing additional health screening measures early on. Touch wood, everything has been going just fine down there, but we'll just continue to monitor that. We believe that we have good governmental support. The transportation via the rail will be an essential service, and our workers will continue to work.

As you know, we rightsized that operation last year. So they are able to operate with a fairly thin bench. And their production rates are a bit more modest than you would see here in North America. So we'll just have to watch and...

William A. Furman
Chairman & CEO

I'd just like to emphasize that the U.S. relationship with Brazil, the current administration has shown a great deal of interest in Brazil. Most of the countries in the world are following U.S. and Western -- we, on essential industries, it is an essential industry in Brazil so much of their exports and their economy relies in transportation. We're the largest builder of the equipment we build in Brazil. So I think Brazil and Europe, we expect those rules to continue in place, and we're working with -- diplomatically with our own government to encourage that to occur.

Operator

Next question comes from Bascome Majors.

Bascome Majors
Susquehanna Financial Group, LLLP, Research Division

Yes. I wanted to talk a little bit about the syndication channel. That's been a really important piece of your growth over the last several years, and it's pretty embedded in the model now. Can you give us an indication of how some of these financial buyer customers of yours are responding here? And any indication of how much of the backlog today was sort of slated for that channel?

William A. Furman
Chairman & CEO

Thank you, Bascome. I'll let Lorie or Adrian possibly address the last question. In general, we still see a strong distribution network there. I think it's an interesting question because the railcar leasing business is peculiar. It's a business that we have evolved to be in the leasing business. We can create portfolios at will, and we can also sell them in effect.

I don't believe personally in borrowing short and lending long on a 40-year asset. These assets, as Tiger Air learned long ago in North American Car, can come back to haunt you. And they can sink a ship. Our system is set up so that we attach leases that are quality leases. And those leases can be deployed to create cash flow, and as you point out, to create cash, margins, liquidity and extra value in the model we have.

As late as last week, we just closed a $48 million deal with a -- one of our existing portfolio companies, a leasing portfolio of companies that is a loyal customer. All of our customers who have multiyear agreements, including leasing companies with whom we work closely, are fulfilling their obligations. So I think that we are in good shape there.

If we were relying on the ABS market or something of that nature, and where we have partners who are in the fund business, they have firm commitments and no ability to have their funds pulled. If we were solely in that market, I think it would be much weaker position, but we have a mixed bag. We're still accepting orders. And we think we're doing well. Lorie, you want to talk a little bit more about that?

Lorie L. Tekorius
President & COO

Sure. And just doing a quick scan of our backlog detail, I would say, of our Feb 29 backlog, probably less than 10% of it is going into the syndication market at this point in time.

Bascome Majors
Susquehanna Financial Group, LLLP, Research Division

Yes. That's great news. So it sounds like some of the build in that inventory was sold subsequent to quarter end and the $50 million deal you mentioned, Bill. Am I hearing that right?

William A. Furman
Chairman & CEO

Yes.

Lorie L. Tekorius
President & COO

Right. And Bascome, as you know, when you look at that line item on our balance sheet, railcars held for syndication, if you were to do some sort of a trend line over it for the last, I don't know, 8 to 12 quarters, it does go move up and down. Not necessarily an indication of anything that's going on in that particular market, but oftentimes, it's more a result of when the cars are being produced and as we're packaging a variety of different car types together to put together those syndication packages.

William A. Furman
Chairman & CEO

And again, the majority of those are attached to what in a normal market would be money good leases. We could syndicate, sell them and receive a margin just for the origination of the -- today, those are good customers. And they have good 5- to 7-year, even 10-year or 8-year cash flows attached. So we're simply in the leasing business but in a moderate way.

I'll also point out that our balance sheet, with that embedded in it, it still has a 1:1 debt equity ratio. We have $1.5 billion in net book value equity sitting beside our market cap. We also have the -- a very low amount of debt, I guess at about $1 billion or so. So I think if you look at the leasing portfolio, in the future, we're going to have more clarity for The Street and for our shareholders. We're going to still continue to try to make this more transparent and clearer. The attractiveness of our system in downturn like this is far and away above those who have these leases in returning rapid -- rapidly in rapid amounts.

Bascome Majors
Susquehanna Financial Group, LLLP, Research Division

Thank you for that detailed answer. If I could just tack on a related question on the funding side of that. Bill, you mentioned in short order, hoping to have access to $1 billion worth of liquidity. I think you said today, you're at about $600 million. Can you just give us maybe a sneak peek at what you think that other $400 million could look like?

William A. Furman
Chairman & CEO

Yes. I'm going to let Lorie walk through that. Unless you want me to take that, Lorie? I could generally make some comments, CapEx and...

Lorie L. Tekorius
President & COO

No. I would say I'll -- thanks, Bill, and I'm sure that you'll supplement or Adrian can as well or Justin, our Treasurer. We've all been up to our eyeballs in thinking about all the various ways that we can look towards liquidity in this time of uncertainty.

So CapEx is one of the more significant items that we had already been thinking about putting on the brakes -- we're putting on the brakes a lot harder. If you look at what we were thinking we would do as we enter this fiscal year versus where we're saying we're going to be now, and even at that, I would suspect that our CapEx can come down further from what we're showing in the 10-Q when it gets filed later today or if you're looking at the supplemental slides.

And I don't expect that when we hit August 31, it's just going to -- we're going to flip a switch and go back to business as usual. I think that we're going to be focused on really making certain that we're deploying capital in the best way possible from a capital -- from a property, plant and equipment perspective for a time to come.

Additionally, like we talked about, there would be overhead and G&A reductions. I would say that could be probably nearly as much as what we're expecting in the CapEx reductions. Some of that will take a little bit of time to get momentum. We are seeing our spending levels being lower in the first half of -- actually this fiscal year isn't what we were initially anticipating. Again, a lot of that comes as we were making adjustments to reduced production rates and lower demand.

And the other things that we'll be looking at are what I consider strategic initiatives, and some of that is looking at our existing credit facilities and figuring out there are a couple of avenues where we can access additional capital under our existing credit facility. So these are not amendments. These are not going out for new debt. This is just utilizing what we currently have at our fingertips as well as evaluating our operating base.

William A. Furman
Chairman & CEO

And that particular bucket would be fairly sizable, $100 million, $150 million, for example. There's a number of these things. We don't have -- we're not talking about tapping the credit markets in any unusual way. The markets, of course, tightened up, and there are some markets open. We are not looking at a financing other than maybe some top-off financing if we find a good deal. So if you look at all of these things, we're -- theoretically, it should be able to go over $1 billion. But the strategic aspects of noncore businesses, cutting costs, conserving cash, it all starts mounting up pretty quickly. So we think the target is realistic and achievable in the next 5 months of this year.

Operator

Next question comes from Ken Hoexter.

Kenneth Scott Hoexter
BofA Merrill Lynch, Research Division

Great. Just can you talk maybe, Lorie, about base levels of production given your contracts? Usually, you see a bounce in the second half. Is that production line capabilities or demand for car types that scale in the second half? I guess you got to go back to maybe 2013 before we saw real weakness in that fiscal third quarter. So I guess what I'm asking is if the backlog is so strong and ops are ongoing, what do you need to slash? Does the backlog have greater deferrals than you target? Can you cancel your own self orders? But that kind of doesn't make sense if you noted all slots were filled for production. So maybe just talk about how we should think about that railcar build going into the rest of the year.

Lorie L. Tekorius
President & COO

Sure. And we have been, as we said, reducing production rates. I would say right now in North America, we're probably maybe 75% of our theoretical capacity is where we're operating. We would see that coming down maybe another 5% or 10% as we exit the fiscal year. And that's knowing what we know today.

Obviously, there's a number of things that can change. We don't believe that we've got any significant issues with any of our scheduled production or any of our customers looking to defer that further. Matter of fact, we have some customers who are pretty excited to accelerate production, but we're trying to balance that with our workforce. We don't want to let people go and then pull them back and then let them go again.

One of the ways that we're able to maintain good manufacturing margin is having setting production rates and a steady workforce. So as we look at the rest of the year, we're looking at things like reducing where we were running on 3 shifts at some of our facilities and pulling that back to running just 2 shifts, maybe working 4 days instead of 5 or 6 days a week. Those are the kinds of measures that our manufacturing team is looking at to balance our headcount with the production rates.

And again, as you think about it, we do have strong backlog, but overall demand has subsided. And we want to make certain that we are appropriately pacing our production to meet our customers' needs but also to take us through the next 1.5 years or so.

William A. Furman
Chairman & CEO

Yes. Unfortunately, if you look at that production, you've got to increase inventories. We're going to constrict inventories. We'd like to pace things, as Lorie said. If you take a step back, a couple of steps back, though, and you see the government policy as it sorts out at different levels, it's quite clear what the intent is, keep people home, break the back of the virus level of curve. We hear all those things, but I'm not so sure everybody understands why they're doing it, what the end game is. There are various scenarios, of course, as we hit the peak in this, but they're basically trying to push this down to maintain our hospital and capabilities to deal with the patients.

There will be, therefore, an effort to return to normalcy. And already you're seeing in Europe, and we have the benefit of that vision from 2 or 3 months ago, what happens if there is success. Even Italy is having some now green shoots as reported this morning. So I think that if you look at what's going on here, you can have more comfort that there might be a return to normalcy or closer -- something closer to normalcy by the middle of the summer. It's really hard to predict, though, whether demand will come back for some of the things that we normally see at the end of -- by the last 2 quarters of our fiscal year. We're not expecting that. We're managing for cash, and our resolve is very firm. We're looking to protect the downside and hope -- very hopeful, very hopeful for the upside, and we'll be willing and capable of responding to it when it comes, and it will come.

Kenneth Scott Hoexter
BofA Merrill Lynch, Research Division

I guess what I'm just confused by the answer, maybe just to clarify it a little bit more, is if every slot is filled and nothing has changed on that, what changes on the second half, right? Because you've said every production slot is filled. Is it that you are slowing down because customers don't want it?

William A. Furman
Chairman & CEO

Lorie said it seems -- right. Let me interrupt you just for a moment. Just say what Lorie's saying -- I think what I'm saying is every slot is filled, but we're reducing the flow-through so we can reduce our overhead and we can optimize cash. So this is something we are working with our customers to do. And I don't think the last 2 quarters of this year will be necessarily following a pattern of the last few years. At least that's a simple answer to, I think, your question.

Kenneth Scott Hoexter
BofA Merrill Lynch, Research Division

No. That makes a lot -- that makes sense. Again, I appreciate that.

William A. Furman
Chairman & CEO

We're doing this as -- we're self-imposing a lot of this ourselves.

Kenneth Scott Hoexter
BofA Merrill Lynch, Research Division

Yes. No, no. I get it, slowing production. And then Lorie, just to clarify on what you were talking with Bascome about the leased railcars for syndication. Does that mean you're keeping more of what you build? Or I just want to understand the temporary view of what Bill said was the $50 million sale. Is that just you had some extra at the end of the quarter and then you sold them? Or I just want to understand -- or are you building more because you said the backlog wasn't that great in terms of what you're keeping? But it looks like with those lease railcars for syndication on the balance sheet jumped up. So is that temporary keeping more of what you build?

Lorie L. Tekorius
President & COO

Right. So again, what I was trying to say to Bascome, and thanks for the question, is the timing of syndication is not necessarily linear. And so as you look at the February balance sheet, it had a higher-than-normal value and number of units in railcar sales for syndication.

What Bill was referencing is something that happened in March, meaning that the syndication and our partners are still open for business. And some of that moved off of our balance sheet in the month of March. We expect that to continue.

To the question about how much is in our backlog associated with leases that we expect to syndicate, that being a fairly small number, I think what you're seeing is what has been happening over the last 6 months, where lease originations have flowed. It's not that we're expecting to keep those on our balance sheet. It's just that side of the market slowed down a little bit, consistent with the broader demand for new railcars.

William A. Furman
Chairman & CEO

In our scenarios, I anticipate that we may have to keep a large amount on our balance sheet, and that's why we think we need the extra capital.

Lorie L. Tekorius
President & COO

Our downside scenarios.

William A. Furman
Chairman & CEO

Our downside scenarios. And we did, post-quarter, do a lot more in clearing syndications and assets a lot, much more than the $48 million. That was a single deal. We did...

Adrian J. Downes
Senior VP, CFO & Chief Accounting Officer

2 or 3.

William A. Furman
Chairman & CEO

2 or 3 times that, I imagine. 2 or 3 other big deals. And so the market is still open to us. And I think the terms are changing. Profitability might change, but we think we've got a good handle on that. And that is, however -- that is the other big risk that we are managing besides keeping our factories running under the protection that we have and other car builders may have as essential industries.

Adrian J. Downes
Senior VP, CFO & Chief Accounting Officer

Just to underline what Bill said earlier, again, even if these assets stay on the balance sheet, they are generating lease income.

Kenneth Scott Hoexter
BofA Merrill Lynch, Research Division

Yes. No, I appreciate all the answers and time. If I could just get one housekeeping, Justin, what's the marine backlog for the quarter?

Justin M. Roberts
VP of Corporate Finance & Treasurer

It was probably around, I think, $60 million to $70 million.

Adrian J. Downes
Senior VP, CFO & Chief Accounting Officer

I think it was $59 million or $60 million.

Justin M. Roberts
VP of Corporate Finance & Treasurer

Yes. So about $60 million.

Operator

Next question comes from Steve Barger.

Robert Stephen Barger
KeyBanc Capital Markets Inc., Research Division

Understandable why you would want to reduce capacity. But how did you decide which plants to close? And I'm specifically thinking about seeing more of the reductions coming from the lower-cost Mexican facilities. Are there supply chain issues down there or anywhere in North America? Or are you refocusing on the U.S. to avoid potential border issues?

William A. Furman
Chairman & CEO

Partly the second one. But mainly, it was the product mix. The big hit was the general-type cars hit in plant -- our Plant 2 in Sahagun in Hidalgo, the State of Hidalgo. Our joint venture plant has a very good specialization in tank cars. We produce tank cars at our Plant 3, which is Tlaxcala -- State of Tlaxcala in Tlaxcala -- the city is Tlaxcala. So I think it was more selected product mix coupled with, at the time, some concerns about moving a bit more to the U.S. footprint and testing the efficiency of the ARI facilities. And they are reasonably efficient. But it is true that the Mexican base in normal circumstances is in a very, very efficient base. And we expect when normalcy returns to go back to business as usual in all 3 factories in Mexico.

Lorie L. Tekorius
President & COO

And I would say at this point, we are not having any significant supply chain issues for the North American market. We had actually planned ahead as many companies do before the Lunar New Year and had stocked up on inventory that we would have been getting elsewhere. The essential business that we're operating under actually impacts our suppliers as well, so we've been able to maintain the supply chain. The one exception is a little bit in Europe where that part of what led to a 2-week closure for the year, an extended Easter holiday, is to allow the supply chain to get caught up. They do transport more via the roads versus on the rails. And I'm sure everyone saw the pictures as borders were shut, and they -- it took a little bit of time for them to figure out how to expedite the transportation of some of those supplies across border.

William A. Furman
Chairman & CEO

It's really important to understand what happened in Europe and compare it here. You can imagine what would occur at interstate commerce if each state put up roadblocks and barriers and delayed interstate commerce from one state to another, or in the case of Europe, from one city to the other.

In Italy, for example, the individual accounts are -- have blockades. You can't go in. You can't go out. But we don't -- haven't come to that in America yet. We're prepared, if it were to come, to deal in that environment. And we've issued credentials to all of our essential employees so that they can continue business operating as an essential U.S. industry. And we believe our supply chain is through the railroad system. This is a great advantage of rail. And it's a spectacular advantage of rail because they don't have to stop at the borders, and they're protected. This is a very big thing to understand. It's going to give us a real hit in the rail sector in Europe in a sense of a heavy uplift. So I think that's kind of a silver lining in this cloud. We don't hope -- we hope that this is not going to occur in America, but it could. And if it happens, we're ready for it, and the rail is going to be the solution.

Robert Stephen Barger
KeyBanc Capital Markets Inc., Research Division

That's great color. And just to the point on the mix for the south of the border facilities, how should we think about modeling minority interest in the back half? Will you see lower production from GIMSA?

Lorie L. Tekorius
President & COO

I would suspect if you wanted to model, and we're not giving guidance, but I think one of the things you might notice in our press release today is minority interest was a bit lower than normal. That is tied into the timing of railcar syndications. So less of the GIMSA joint venture, up in revenue and gross margin, therefore, less going out as our partners share. I would expect that to turn to be more normalized like in the first quarter for the next couple of quarters as the syndications work their way out.

William A. Furman
Chairman & CEO

However, can I just make one comment? We are working with our partner there given these special circumstances to correct that imbalance. And if we succeed in reaching an accord, I think we'll have an uplift to that category. So all of Lorie's comments, we may have a more favorable picture. And that's a bucket of cash that we expect we might be able to also obtain in that relationship, that we have a very supportive partner there. I'm really pleased with their cooperation. So it's a source of cash. And I think we'll see -- I'm pretty positive we'll have some good news to announce on that. We'll probably -- we'll be very transparent when we finish it, too.

Robert Stephen Barger
KeyBanc Capital Markets Inc., Research Division

And just for clarity around liquidity and cash flow. You've given a lot of detail around being able to generate cash savings from the actions you're taking. And -- but as you think about production expectations, managing working capital, timing of syndication activity, do you expect positive operating cash flow this year?

Adrian J. Downes
Senior VP, CFO & Chief Accounting Officer

Yes.

Justin M. Roberts
VP of Corporate Finance & Treasurer

Yes, we do.

Robert Stephen Barger
KeyBanc Capital Markets Inc., Research Division

And with lower CapEx, will you generate free cash flow this year?

Justin M. Roberts
VP of Corporate Finance & Treasurer

I would say that we feel pretty confident that we'll be -- I think at this point, based on what we see, that is a strong possibility. Again, borrowing Bill's phrase, we don't know what we don't know at this point. And -- but from what we see as the lay of the land, currently, that's the plan that we're working towards.

William A. Furman
Chairman & CEO

The great thing, if you can operate your factories, is that this kind of business throws off cash flow as you liquidate inventories. Normally, in normal cycle, you wouldn't have this issue with cash because you throw off a lot of cash. So it should be positive. However, if you can't operate your factories, which is the situation many companies are in, then you can't run it up, and everything is on its -- turned upside down. We expect to keep our factories operating safely, and that's a core risk or threat we're managing.

Operator

Last question comes from Matt Elkott.

Matthew Youssef Elkott
Cowen and Company, LLC, Research Division

Once we've made it out of this pandemic and it's well in the rearview mirror, are we looking at a manufacturing footprint that is adjusted and rightsized on a permanent basis, meaning total production output less than pre-pandemic levels?

William A. Furman
Chairman & CEO

We would call it optimized. Yes. We're optimizing our total footprint for the expected market longer term. We have a great franchise. We have great markets. We simply need to prune the tree a bit. And we need to look very, very hard in the strategic bucket that Lorie is talking about, about noncore, nonessential businesses to Greenbrier, not nonessential in the nature of the business, but those businesses that aren't central to our new footprint. It's just time to prune the tree, create cash, run the company for cash, improve shareholder value over the immediate future.

I might remind you that after the Great Depression or the last pandemic of this scale after World War I, the Great War, everybody came back. They had great casualty rate from that. And then came the roaring '20s. So with people housebound and unable to buy, once they get out, they're going to be shopping, I think. At least some of them will. Many of them that I know will.

Matthew Youssef Elkott
Cowen and Company, LLC, Research Division

Yes. That's helpful. Thought I'd know. And also I just wanted to make sure I understood something on the cadence and deliveries. I know you guys removed for a fee some cars from -- for the backlog that was supposed to be delivered in future periods. Historically, your second half deliveries are higher than your first half deliveries at least in the last couple of fiscal years. Now given the fact that it seems like you guys are not currently engaged in any further conversations about further cancellations or deferments, will the second half deliveries be higher than the first half deliveries if no more cancellations occur?

Lorie L. Tekorius
President & COO

I think that's a good estimation is that the second half would be stronger than the first half on a deliveries perspective. Some of it is just again the timing of syndications and the stuff that's on the balance sheet, which will flow through and be counted as a delivery in the second half. That will offset some of the production reductions that we're doing. But all in, I would say, at least what we know today, second half deliveries, possibly a little bit stronger than first half. Some of that being driven by international operations, not necessarily North American operations.

So -- and again, this is part of why we are suspending guidance is every day brings new activities. And by new activities, I don't mean conversations with customers about potential cancellations, but edicts by government and municipalities and that creating a stir and stress on workforce and whether or not people can go to work, et cetera, et cetera. We feel very comfortable and strongly that we are an essential business, and we will continue to operate, but that doesn't mean that we're not a little bit less efficient as you continue to deal with some of the unavoidable stress associated with this pandemic.

Matthew Youssef Elkott
Cowen and Company, LLC, Research Division

Got it. So you mentioned, Lorie, the international deliveries. So when all this is said and done, when you -- are we likely to look back and say that the fact that you're the only North American manufacturer with significant international operations helped you kind of soften or mitigate the blow of the apex given the rolling infection apexes around the world? So if one place is in lockdown, another place may not be. So is that going to, you think, play to your advantage when this is all said and done?

Lorie L. Tekorius
President & COO

I would say that our strategy of expanding our footprint internationally absolutely is going to help us be a stronger and more resilient and more liquid entity going forward. Unfortunately, it's not like you can shift production out of, let's say, the United States down to Brazil to bring back to the United States, so -- but we do think having manufacturing and rail freight presence in some of these markets that we believe will be very strong markets for railcar production and freight loadings. So Brazil and Europe does make us a stronger company going forward.

William A. Furman
Chairman & CEO

Can I just give an example of that, Lorie?

Lorie L. Tekorius
President & COO

Of course.

William A. Furman
Chairman & CEO

In Europe, the difference is post crisis that favor rail aren't going to be dramatic because of the issues with border crossings they've had, and that's quite clear. But there already is a very healthy green movement and a very large investment in rail in the billions to take traffic away from choked highway and other business. So this is going to be very positive for Europe. Brazil, similarly has those kinds of forces going on. So I think that diversification, as Europe comes out of this earlier than we do, will help Greenbrier a very great deal.

Matthew Youssef Elkott
Cowen and Company, LLC, Research Division

Got it. And just one final question, Bill, related to what you were just explaining. In past recessions, you guys dealt with losses in the Great Recession and I think in 2013. Can you maybe summarize for us how Greenbrier is different today than it was in 2013 and then during the Great Recession?

William A. Furman
Chairman & CEO

Sure. I'll take a shot at it, and Lorie can add. But basically, our product mix is dramatically different. Our industry leadership is different. We have a spectacularly different franchise #1 or #2 in 3 major markets, 2 internationally.

North America, we've diversified our footprint to have more optionality in the United States. We have some efficient plans for getting those knocked into shape, and they're making progress every quarter in Arkansas. So I think the company is dramatically different than it was.

Our management team is together. It's experienced. Lorie and the financial team are doing a great job, but Lorie is also getting a great deal of experience in operations, turned around a lot of -- some of the last year's issues. And I think the company is really on a very solid strategic footing at this point. We have to get through this crisis like everybody else.

Justin M. Roberts
VP of Corporate Finance & Treasurer

Thank you very much, everyone, for your time today and your attention. If you have any other questions, you can reach out to myself, Justin, or Adrian Downes or Lorie, and we also have the Investor Relations e-mail address on our website as well. Thank you, and stay safe and healthy out there.

Lorie L. Tekorius
President & COO

Wash your hands.

Operator
Thank you. That does conclude today's conference. Thank you for joining, and have a great day.