



# The North American Railcar Market

Supply Clarity, Demand Uncertainty

September 30, 2021



# Agenda

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**About GATX**

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**North American Railcar Market Overview**

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**Current Market Conditions**

# Forward-Looking Statements

Statements in this presentation not based on historical facts are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 and, accordingly, involve known and unknown risks and uncertainties that are difficult to predict and could cause our actual results, performance, or achievements to differ materially from those discussed. These include statements as to our future expectations, beliefs, plans, strategies, objectives, events, conditions, financial performance, prospects, or future events. In some cases, forward-looking statements can be identified by the use of words such as “may,” “could,” “expect,” “intend,” “plan,” “seek,” “anticipate,” “believe,” “estimate,” “predict,” “potential,” “outlook,” “continue,” “likely,” “will,” “would,” and similar words and phrases. Forward-looking statements are necessarily based on estimates and assumptions that, while considered reasonable by us and our management, are inherently uncertain. Accordingly, you should not place undue reliance on forward-looking statements, which speak only as of the date they are made, and are not guarantees of future performance. We do not undertake any obligation to publicly update or revise these forward-looking statements. The following factors, in addition to those discussed in our other filings with the U.S. Securities and Exchange Commission (“SEC”), including our Form 10-K for the year ended December 31, 2020 and subsequent reports on Form 10-Q, could cause actual results to differ materially from our current expectations expressed in forward-looking statements:

- the duration and effects of the global COVID-19 pandemic, including adverse impacts on our business, personnel, operations, commercial activity, supply chain, the demand for our transportation assets, the value of our assets, our liquidity, and macroeconomic conditions
- exposure to damages, fines, criminal and civil penalties, and reputational harm arising from a negative outcome in litigation, including claims arising from an accident involving our transportation assets
- inability to maintain our transportation assets on lease at satisfactory rates due to oversupply of assets in the market or other changes in supply and demand
- a significant decline in customer demand for our transportation assets or services, including as a result of:
  - weak macroeconomic conditions
  - weak market conditions in our customers' businesses
  - adverse changes in the price of, or demand for, commodities
  - changes in railroad operations, efficiency, pricing and service offerings, including those related to "precision scheduled railroading"
  - changes in supply chains
  - availability of pipelines, trucks, and other alternative modes of transportation
  - changes in conditions affecting the aviation industry, including reduced demand for air travel, geographic exposure and customer concentrations
  - other operational or commercial needs or decisions of our customers
  - customers' desire to buy, rather than lease, our transportation assets
- higher costs associated with increased assignments of our transportation assets following non-renewal of leases, customer defaults, and compliance maintenance programs or other maintenance initiatives
- events having an adverse impact on assets, customers, or regions where we have a concentrated investment exposure
- financial and operational risks associated with long-term purchase commitments for transportation assets
- reduced opportunities to generate asset remarketing income
- inability to successfully consummate and manage ongoing acquisition and divestiture activities
- reliance on Rolls-Royce in connection with our aircraft spare engine leasing businesses, and the risks that certain factors that adversely affect Rolls-Royce could have an adverse effect on those businesses
- fluctuations in foreign exchange rates
- failure to successfully negotiate collective bargaining agreements with the unions representing a substantial portion of our employees
- asset impairment charges we may be required to recognize
- deterioration of conditions in the capital markets, reductions in our credit ratings, or increases in our financing costs
- changes in banks' inter-lending rate reporting practices and the phasing out of LIBOR
- competitive factors in our primary markets, including competitors with significantly lower costs of capital
- risks related to our international operations and expansion into new geographic markets, including laws, regulations, tariffs, taxes, treaties or trade barriers affecting our activities in the countries where we do business
- changes in, or failure to comply with, laws, rules and regulations
- inability to obtain cost-effective insurance
- environmental liabilities and remediation costs
- potential obsolescence of our assets
- inadequate allowances to cover credit losses in our portfolio
- operational, functional and regulatory risks associated with severe weather events, climate change and natural disasters
- inability to maintain and secure our information technology infrastructure from cybersecurity threats and related disruption of our business

# ABOUT GATX

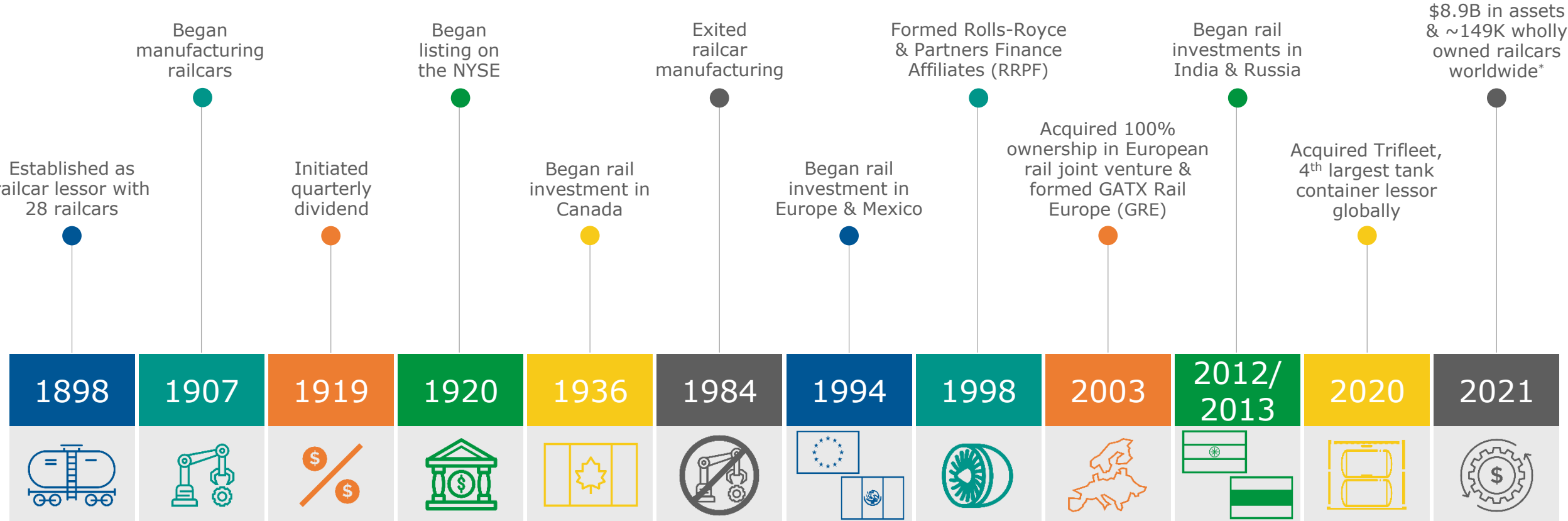


DISCIPLINED

**123**  
YEARS OF  
EXPERIENCE

PROVEN

# GATX's 123-Year History



\*As of 12/31/2020

# GATX Today: Business Segments



## RAIL NORTH AMERICA

- Premier railcar lessor
- Diversified fleet of over 118,000 railcars
- Strong customer credit quality, diversification in car types and commodities carried
- \$2.4 billion of contractual lease receipts as of 12/31/2020



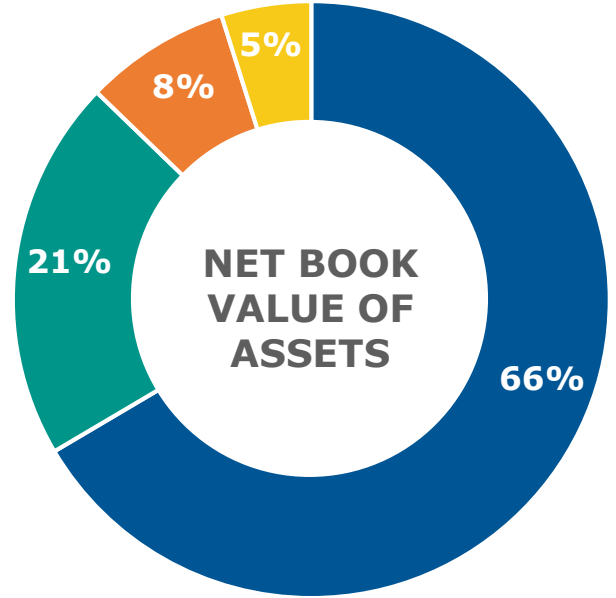
## RAIL INTERNATIONAL

- GATX Rail Europe (GRE) is a leading European tank car and freight car lessor with over 26,000 railcars
- Strong customer credit quality, diversification in car types, geography, and commodities carried
- GATX Rail India (GRI) is the largest private railcar lessor in India with over 4,000 railcars



## PORTFOLIO MANAGEMENT

- Largely comprised of our 50% ownership of Rolls-Royce and Partners Finance Affiliates (RRPF), a leading worldwide lessor of aircraft spare engines
- RRPF has 445 aircraft spare engines with \$4.8 billion of net book value
- In January 2021, GATX commenced a program of direct investment in aircraft spare engines



~\$8.9 Billion NBV

- Rail North America
- Rail International
- Portfolio Management
- Other (Includes Trifleet)



# GATX Rail North America Overview

## 2020 OVERVIEW

### WHOLLY OWNED FLEET COUNT

118,000+

### CAR TYPE COUNT

160+

### AVERAGE FLEET AGE

20 Years

### LOCOMOTIVE COUNT

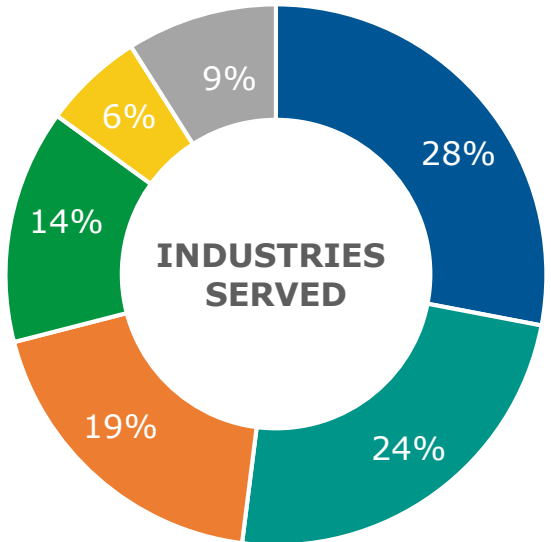
625+

### NUMBER OF CUSTOMERS

850+

### COUNTRIES OF OPERATIONS

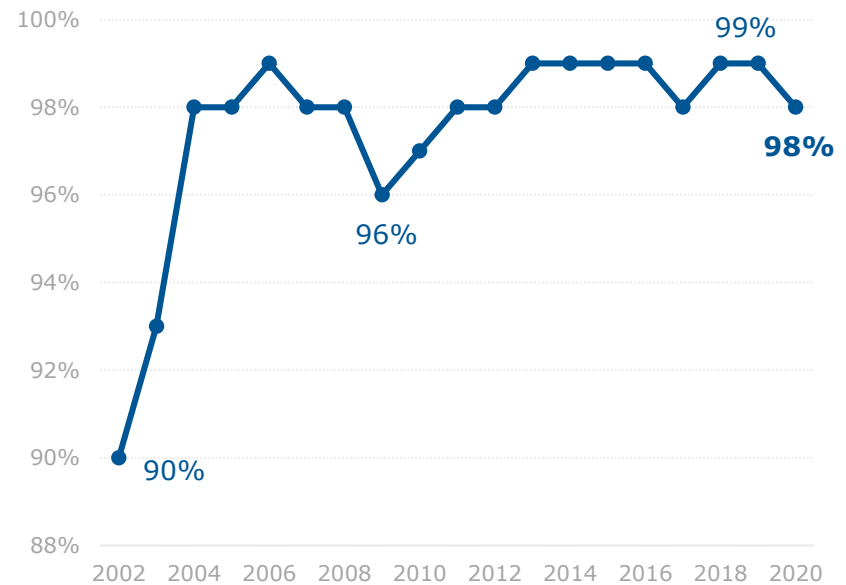
U.S., Canada, & Mexico



- Chemicals
- Refiners & Other Petroleum
- Railroads & Other Transports
- Food & Agriculture
- Mining, Minerals & Aggregates
- Other

Based on 2020 Rail North America Revenue

### FLEET UTILIZATION\*



\*Excludes boxcar fleet



# Maintenance Network

**GATX is known for integrity, safety, and quality of our operations and superior execution.**

## EXTENSIVE MAINTENANCE NETWORK

- Eight maintenance facilities
- Three locations with mobile repair
- One customer site location

## MAINTENANCE CUSTOMERS RELY ON GATX

In 2020, performed approximately 48,000 maintenance events in its owned and third-party maintenance network

- Directing an increased percentage of work to GATX-owned shops; improves safety, quality, delivery, and cost metrics



*Services range from routine maintenance and regulatory programs to car modifications and rebuilds, including all mechanical repairs, interior cleaning, interior/exterior blasting, interior/exterior coatings, valve maintenance and qualification, and more.*

# Technology Focus: RailPulse

## RailPulse

A joint venture formed by



Created to develop

### A NEW TECHNOLOGY PLATFORM

that provides real-time data via GPS and other telematics technology across the North American Railcar fleet

#### Goal of the new platform:

- Increase adoption of railcar telematics
- Improve overall rail safety
- Provide meaningful insights into rail performance
- Help drive growth for our industry

Represents  
**20%**  
of North American  
railcar fleet

Expected roll-out by  
**YEAR END  
2022**

Initial focus on  
**SAFETY**  
(e.g. Handbrake and  
impact data)

# Locomotive Leasing

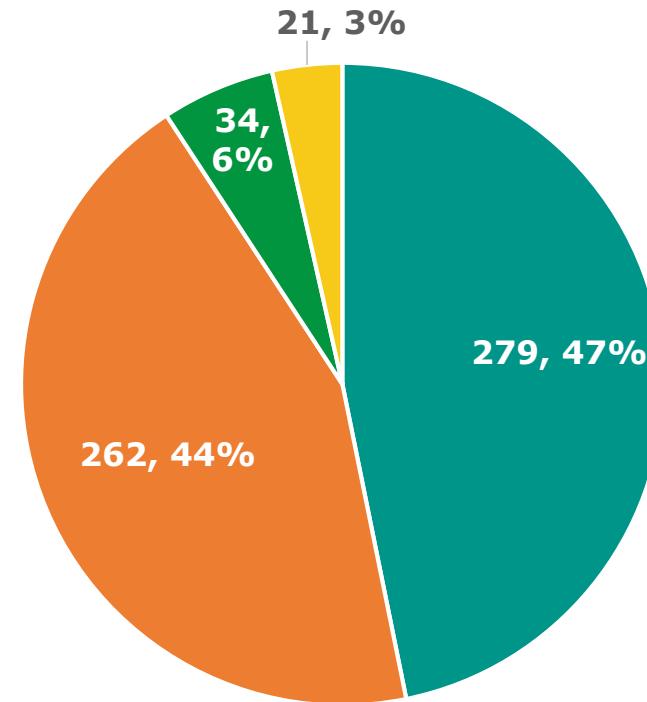
**GATX owns, manages or has an interest in more than 600 Locomotives, 94% of which are four-axle locomotives.**



## Locomotive customers include:

- Regional and short-line railroads
- Industrial users
- Class I railroads

**GATX LOCOMOTIVE FLEET (#, %)**



■ Switchers ■ 4-Axle Road Switchers ■ 6-Axle Units ■ Other

# Other GATX Areas of Focus

## Industry Training

- GATX is a leader in implementing and teaching safety, as exemplified by our **Responsible Care Partnership**
- Since 1993, GATX has hosted **310** TankTrainer™ events training **18k+** people

## Regulatory Participation

- GATX employees are **involved in many** regulatory committees and trade/supplier associations
- GATX is the only tank car owner to get **FRA/Transport Canada approval for an extension** of tank qualification intervals

## Engineering Expertise

- GATX's engineering team includes **experienced mechanical, structural, and chemical engineers**
- Engineers work with customers to **tailor solutions to their needs**, such as increasing gross rail load or car type conversions

## ESG Priorities

- GATX believes that investing in our **people**, in our **communities**, and in operating our business **sustainably** and **ethically** will drive long-term value
- In 2020, we ensured our railcar maintenance facility employees and inspectors could **safely perform** their jobs every day, continued our **Diversity Hiring Initiative**, and pursued programs to **reduce the amount of waste** sent to landfills

# Trifleet Overview

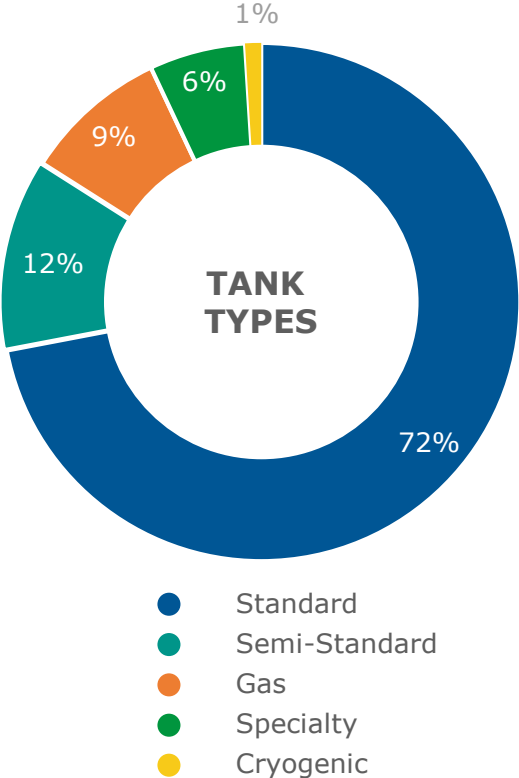
**GATX owns Trifleet, the 4<sup>TH</sup> largest global tank container lessor.**

Trifleet maintains a fleet of 19,000+ tank containers

Trifleet operates a **Worldwide Network** of offices, agents, depots, and surveyors

**Trifleet serves industries including...**

- |            |                |
|------------|----------------|
| Cryogenics | Food-grade     |
| Gas        | Logistics      |
| Chemicals  | Pharmaceutical |



## 2020 OVERVIEW

### FLEET COUNT

Over 19,000\* (54% owned/46% managed)

### AVERAGE FLEET AGE

Owned: Approx. 7 Years  
 Managed: Approx. 10 Years

### ESTIMATED USEFUL LIFE

15 – 25 Years

### TYPICAL LEASE TERM

1 – 5 Years

### NUMBER OF CUSTOMERS

Approx. 300

### MAJOR COUNTRIES OF OPERATION

The Netherlands, U.S., Singapore, China, France, and Germany



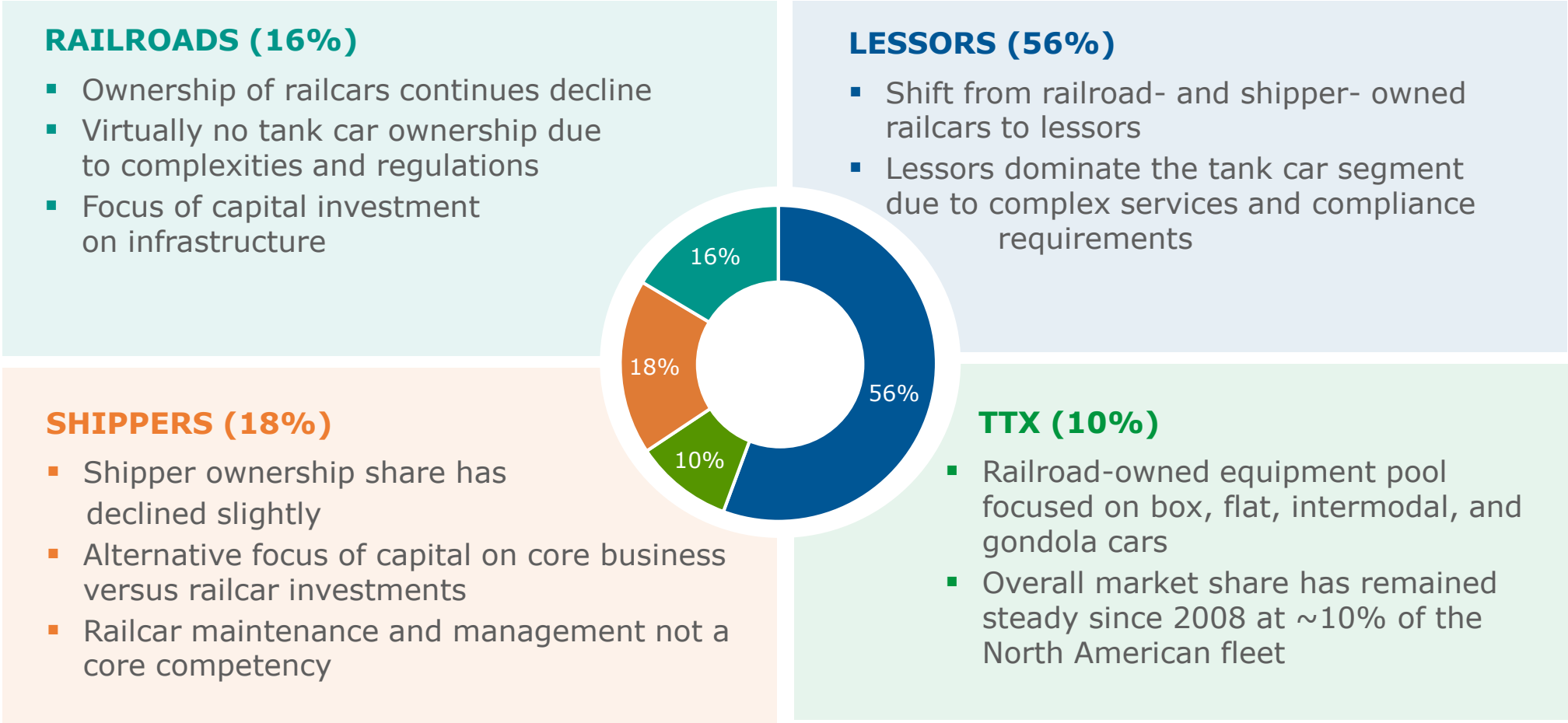
\*Includes finance leases  
As of 12/31/2020



# NORTH AMERICAN RAILCAR MARKET

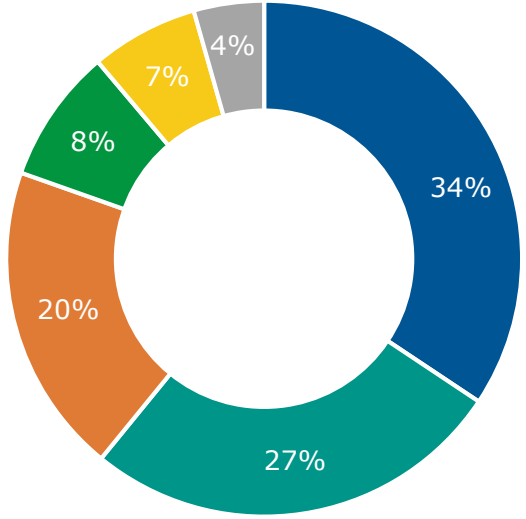
# Industry Ownership: North America

Approximately 1.65 million railcars



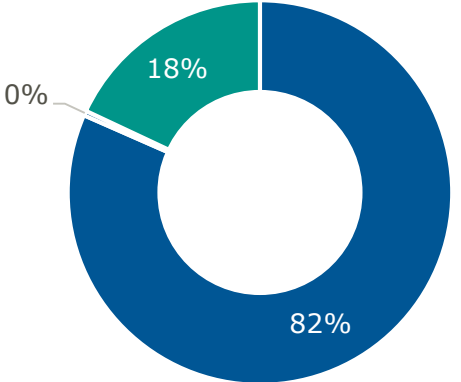
# Industry Fleet & Ownership Mix: North America

**RAILCARS BY TYPE**  
(Approximately 1.65M railcars)



- Covered Hopper
- Tank
- Open Top
- Flat
- Boxcar
- Intermodal

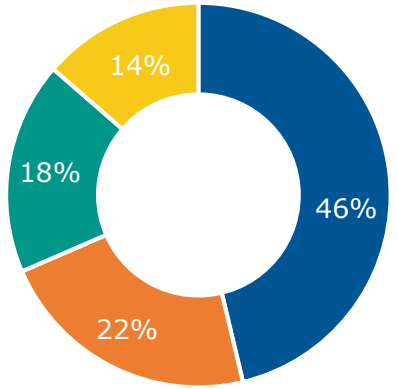
**TANK CAR OWNERSHIP SHARE**



- Lessor
- Shipper/Other
- <1% Railroad

*Based on approximately 438K tank cars*

**FREIGHT CAR OWNERSHIP SHARE**



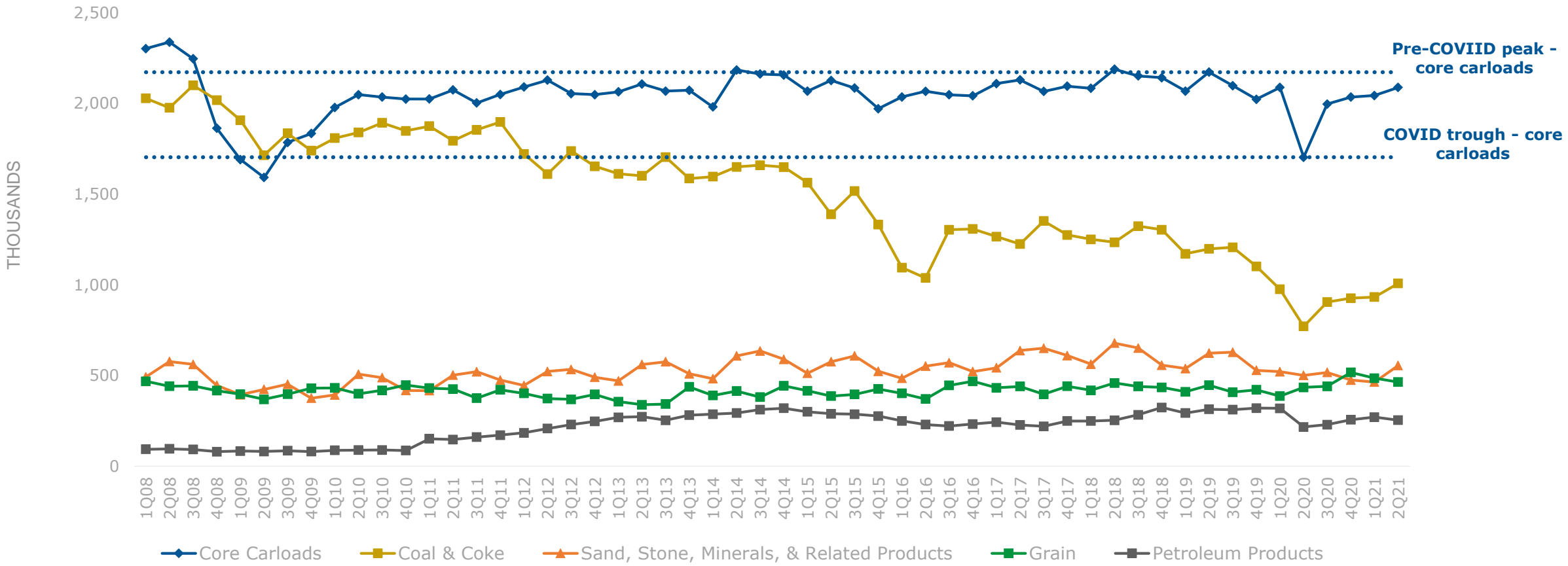
- Lessor
- Railroad
- Shipper/Other
- TTX

*Based on approximately 1.2M freight cars*



# Industry Commodity Carloadings: North America

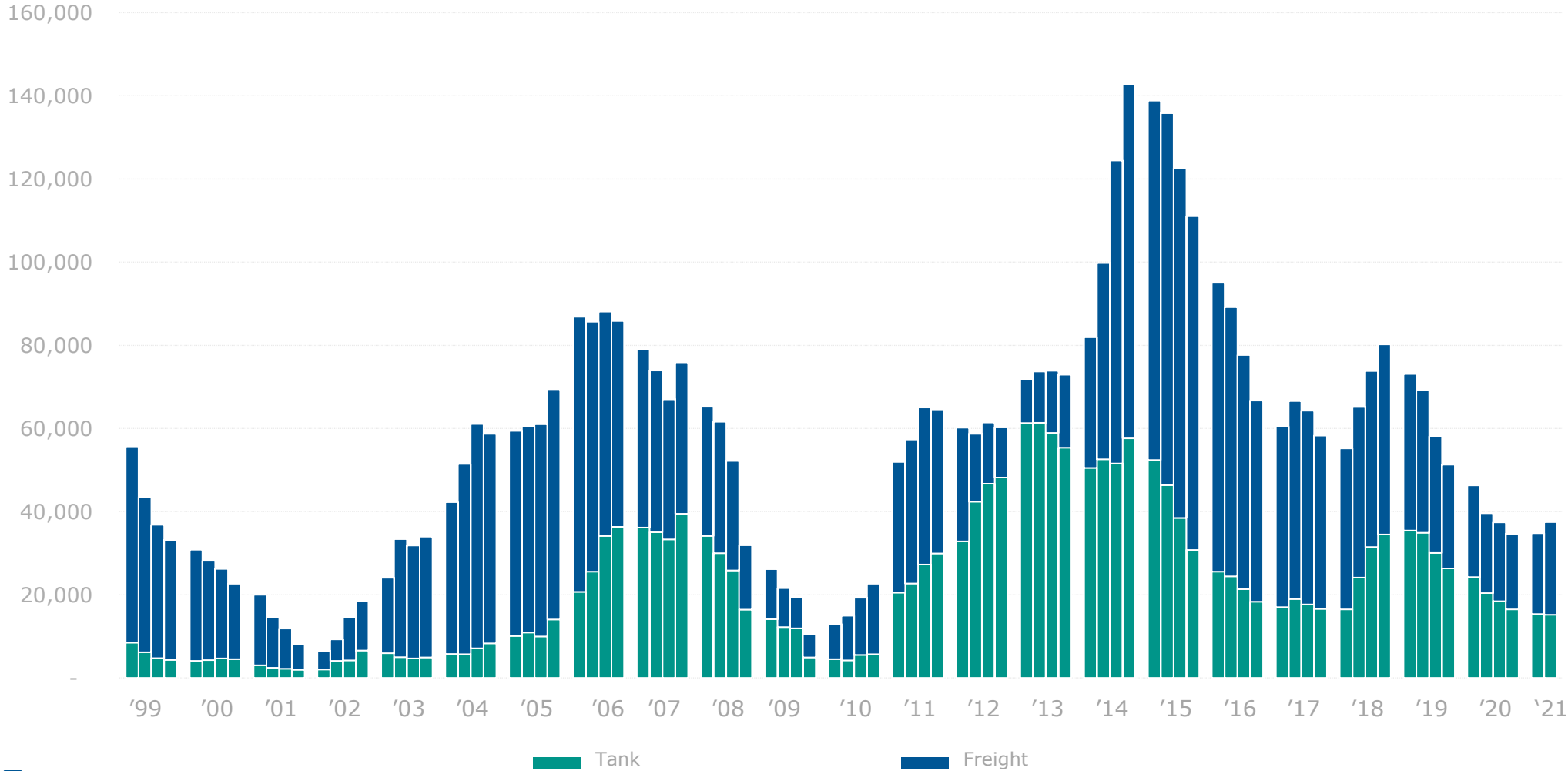
## QUARTERLY COMMODITY CARLOAD TRAFFIC



Source: Association of American Railroads; Note: Pre-COVID peak is based on maximum quarterly carloads in 2019

# Industry Backlog: North America

INDUSTRY BACKLOGS





# CURRENT MARKET CONDITIONS

# Supply/Demand Fundamentals for Railcars

## Railcar Demand Fundamentals

- Macroeconomic conditions (unclear for railcar demand)
- Freight demand (positive for railcar demand)
- Rail modal share (neutral/negative for railcar demand)

## Railcar Supply Fundamentals

- Steel pricing (negative for railcar supply)
  - New car pricing
  - Fleet attrition
- Velocity (negative for railcar supply)
- Interest rates/funding costs (positive for railcar supply)
- Builder capacity (positive for railcar supply)

# What does all this mean?

## Demand environment better than 2020

Modal share and macro uncertainty are headwinds



## Supply environment partly constrained

High asset prices are a barrier to building, but cheap money and excess capacity are mitigants

Reduced velocity simply clouds the picture—how long will it last?



# Practical Effects of Current Market Conditions



**Railcar market is not a monolith**



Have to look at car types and commodities

**The “re-opening trade” has meant different things for different railcar types**



Winners: IM, boxcars, and steel-related cars

Auto poised for strength but waiting for chip shortage to abate

Modest improvement in non-energy tanks and covered hoppers



# Recent Market Developments



## Lagging Recovery for Energy-Related Cars

Energy-related car types have lagged in the COVID recovery, but weather events may be changing demand dynamics



## Severe Weather

Hurricane Ida-related shut-ins are exacerbating an already tight natural gas market

September prices reaching their highest level since 2008<sup>1</sup>



## Effect of High Gas on Weak Fleets?

Will coal car and pressure car utilization rise?



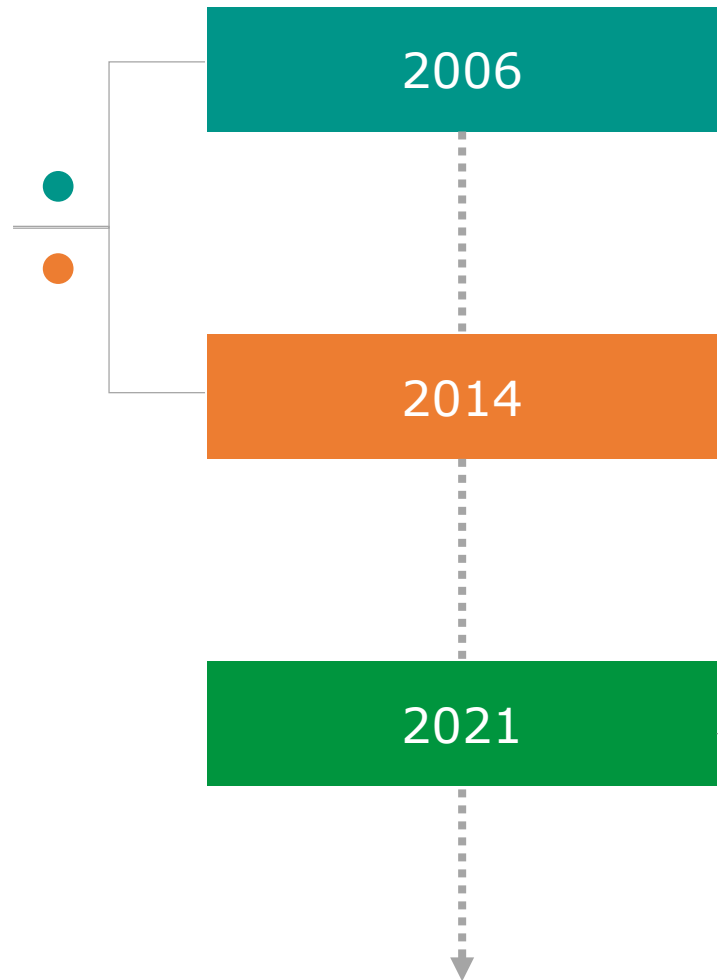
## Plastics Hopper Disruption?

Anecdotal reports indicate storm-related issues are creating tightness

# Why this market is not like prior markets

Prior high-railcar-cost environments were **demand-driven**

- Backlogs lengthened
- Leasing markets were uniformly robust
- High degree of speculation



New railcar prices are **cost-driven** more than **demand-driven**

- Backlogs remain relatively weak
- Leasing markets are moving unevenly
- Relatively low speculation

# Possible Scenarios for 2022: Railcar Bull Case

## Macro strength accelerates

- Core **carloads rise** above pre-COVID levels
- Velocity **remains slow**
- Steel pricing **remains high**, furthering attrition
- Lease **pricing rises** to meet car costs
- New railcar **backlogs grow**

## Risks to Achievement

-  Delta variant
-  U.S. fiscal policy
-  Interest rates
-  Commodity prices

# Possible Scenarios for 2022: Railcar Bear Case

## Macroeconomic conditions weaken

- Core **carloads tail off**
- Velocity **improves**
- **Steel pricing drops**, stemming attrition and making new cars cheap
- Cheap steel and low interest rates **push builders to support speculation**

## Possible Mitigants

- ⊕ Infrastructure bill
- ⊕ Truck driver shortage/  
rising trucker wages

# Possible Scenarios for 2022: Railcar Balanced Case

## Steady economic conditions

- Non-energy carload **strength continues**
- **Velocity normalizes** but does not radically improve
- Steel **pricing moderates** but remains above historical norms
- Modal share **remains flat** and core carloads settle at 2019 levels
- Interest **rates rise modestly**
- Railcar market participants **remain disciplined**

## Risks to Achievement\*

-  Delta variant
-  U.S. fiscal policy
-  Interest rates
-  Commodity prices

*\*Note: Same as in Bull case*

# What should rail shippers do?



## Expect uncertainty, and prepare for it

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- Don't assume tightness in the railcar market will subside



## Understand how current market disruptions affect railcar procurement

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- Parts and materials shortages
- Labor availability



## Recognize the impact of velocity and supply chain disruptions on railcar supply and demand

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- Size your fleet accordingly, and ensure flexible fleet sizing going forward

# We can't know the future

- No one knows which scenario 2022 will deliver for the railcar market
- In all railcar markets, the key for rail shippers is **risk mitigation**
  - **Know** where your railcar supply is coming from
  - **Ensure** capacity to deal with the unexpected

