

GATX CORPORATION

Railcar Leasing: A Historical Perspective



Forward Looking Statement

Forward-looking statements in this presentation that are not historical facts are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These include statements that reflect our current views with respect to, among other things, future events, financial performance and market conditions. 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,” “continue,” “likely,” “will,” “would,” and variations of these terms and similar expressions, or the negative of these terms or similar expressions. Specific risks and uncertainties include, but are not limited to, (1) inability to maintain our assets on lease at satisfactory rates; (2) weak economic conditions, financial market volatility, and other factors that may decrease demand for our assets and services; (3) decreased demand for portions of our railcar fleet due to adverse changes in commodity prices, including, but not limited to, sustained low crude oil prices; (4) events having an adverse impact on assets, customers, or regions where we have a large investment; (5) operational disruption and increased costs associated with increased railcar assignments following non-renewal of leases, compliance maintenance programs, and other maintenance initiatives; (6) financial and operational risks associated with long-term railcar purchase commitments; (7) reduced opportunities to generate asset remarketing income; (8) changes in railroad efficiency that could decrease demand for railcars; (9) operational and financial risks related to our affiliate investments, including the RRPf affiliates; (10) fluctuations in foreign exchange rates; (11) failure to successfully negotiate collective bargaining agreements with the unions representing a substantial portion of our employees; (12) the impact of new regulatory requirements for tank cars carrying crude, ethanol, and other flammable liquids; (13) deterioration of conditions in the capital markets, reductions in our credit ratings, or increases in our financing costs; (14) asset impairment charges we may be required to recognize; (15) competitive factors in our primary markets; (16) risks related to international operations and expansion into new geographic markets; (17) exposure to damages, fines, and civil and criminal penalties arising from a negative outcome in our pending or threatened litigation; (18) changes in or failure to comply with laws, rules, and regulations; (19) inability to obtain cost-effective insurance; (20) environmental remediation costs; (21) inadequate allowances to cover credit losses in our portfolio, and (22) other risks discussed in our filings with the US Securities and Exchange Commission (SEC), including our Form 10-K for the year ended December 31, 2015, and our subsequently filed Form 10-Q reports, all of which are available on the SEC’s website (www.sec.gov).

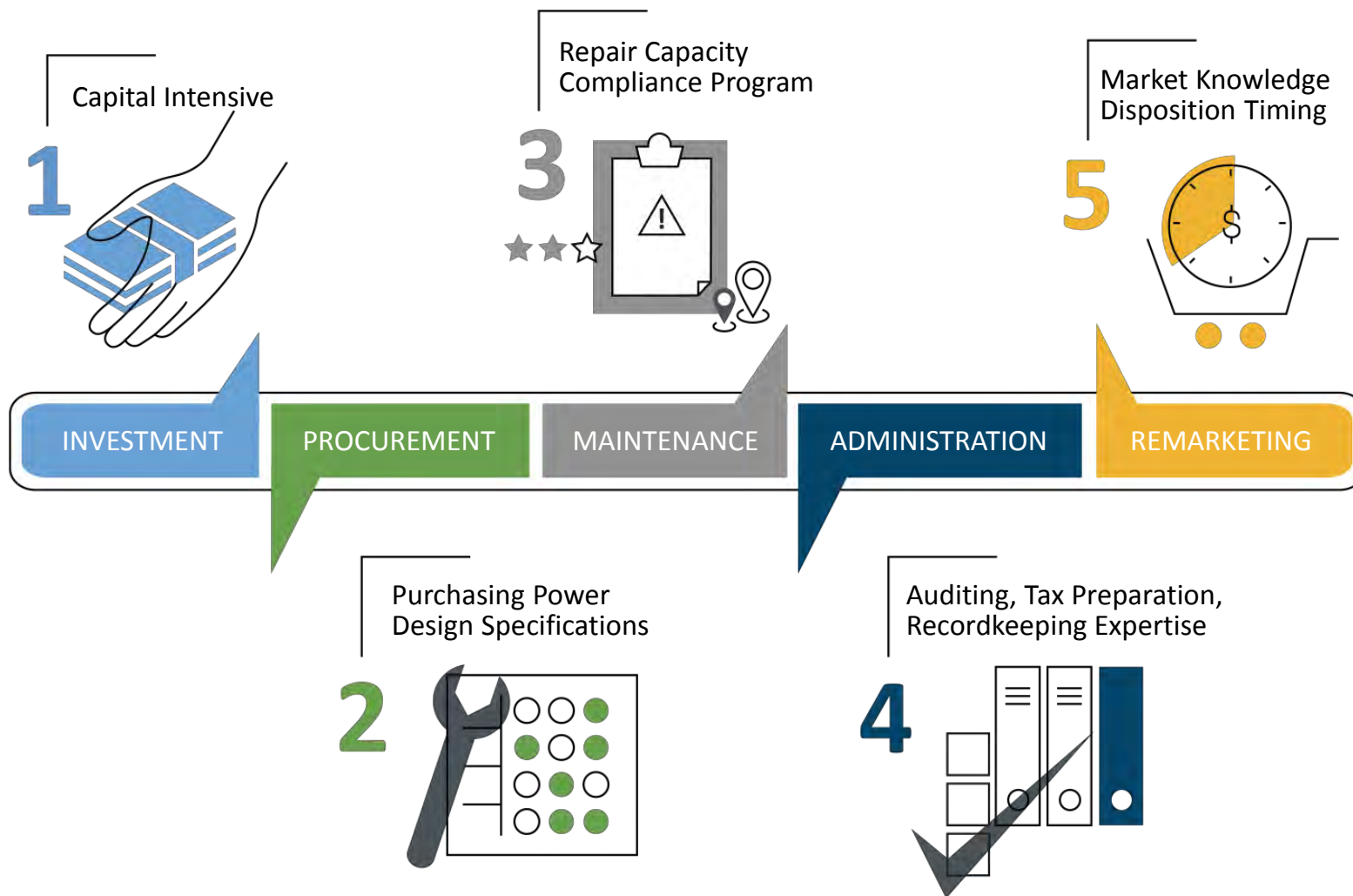
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Introduction: The Railcar Market Today

- Why do railcars exist?
- Why do railcar operating lessors exist?
 - Capital
 - Services
 - Risk

Lessors Provide Capital & Value-add Services



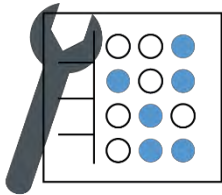
Lessors Assume Operating Risks & Associated Costs

EXPECTED COSTS



LEASE OR PURCHASE

Financing or leasing expense



MAINTENANCE

Expense incurred to maintain asset – bad order, compliance, other cleaning and repair needs



ADMINISTRATION

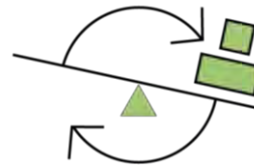
Maintenance management, car taxes, insurance, engineering, recordkeeping costs

ADDITIONAL UNEXPECTED COSTS



OBSOLESCENCE

Obsolete car design resulting in distressed fleet



CHANGING BUSINESS NEEDS

Imbalanced demand and supply resulting in surplus equipment

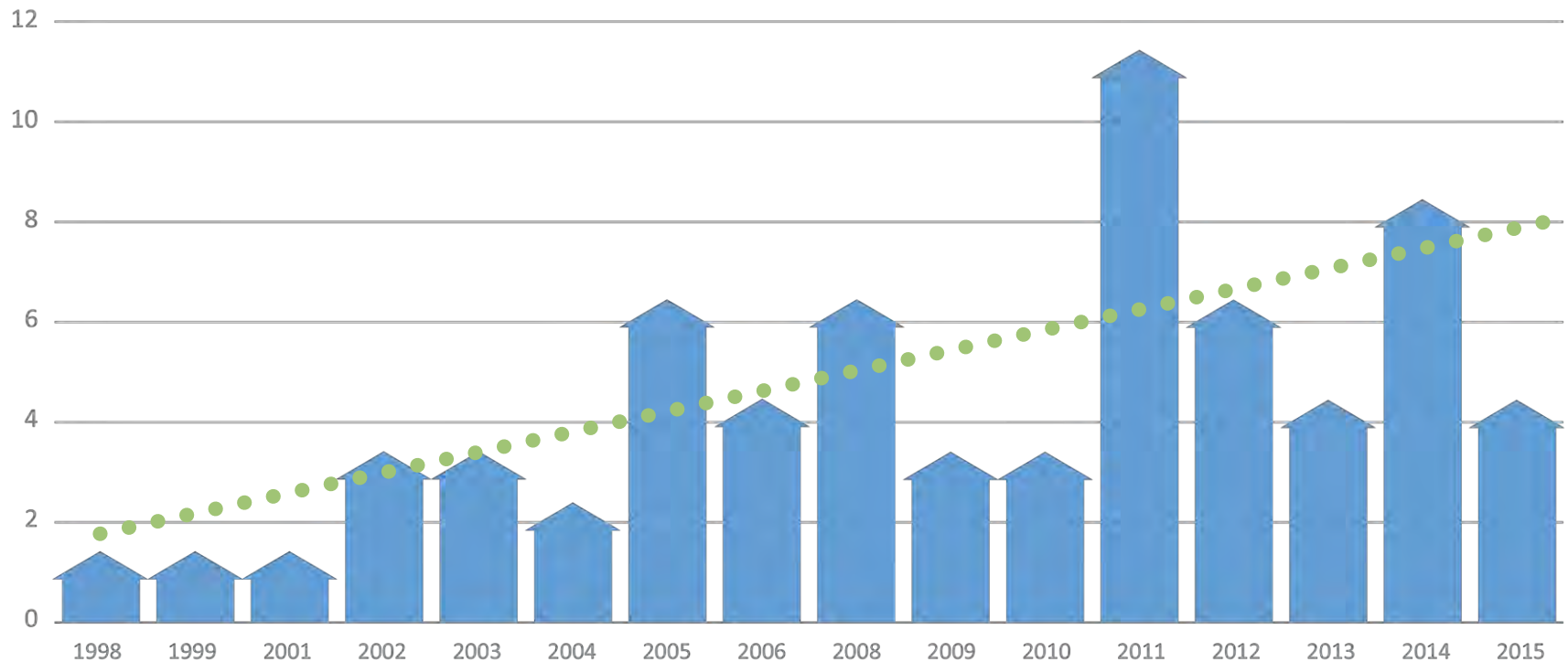


NEW COMPLIANCE REQUIREMENTS

Cost of making modifications to remain compliant

Increasing Regulatory and Maintenance Risks

NUMBER OF REGULATORY AND MAINTENANCE PROGRAMS PER YEAR
(BY EFFECTIVE DATE)



COMPLIANCE / MAINTENANCE PROGRAM EXAMPLES

SOUTHERN
WHEELS

MEXICAN
BOLSTERS

TANK CAR
QUALIFICATIONS

REFLECTORIZATION

FLAMMABLE
LIQUIDS

SLACK
ADJUSTERS

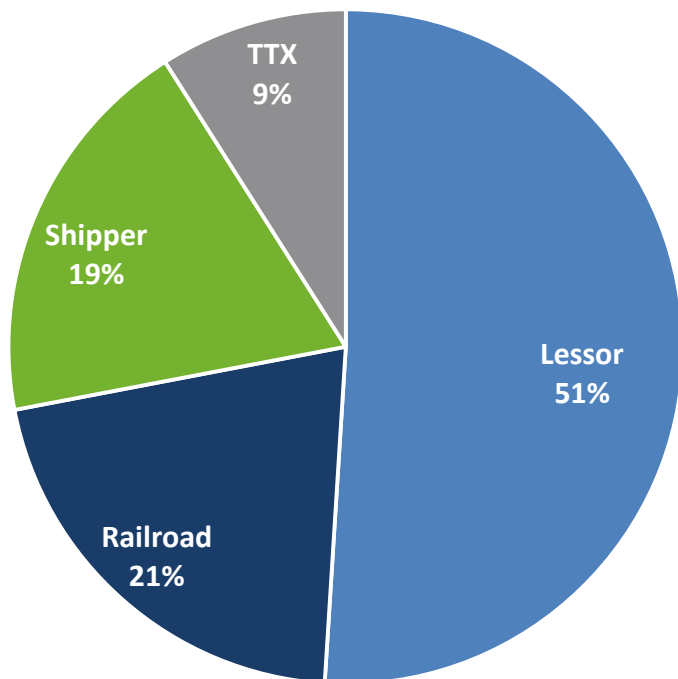
MCKENZIE
VALVES

Source: DOT, AAR, FRA

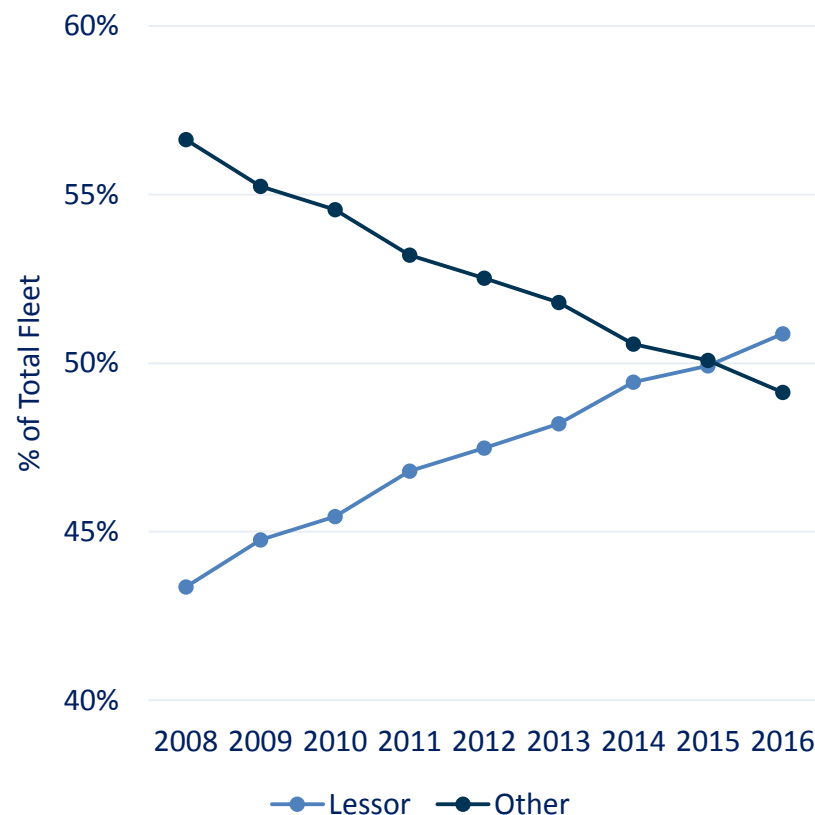
**WHAT ROLE DO OPERATING
LESSORS PLAY IN TODAY'S MARKET?**

Lessors Own More Than Half the North American Fleet

FLEET BY OWNERSHIP



OWNERSHIP OVER TIME

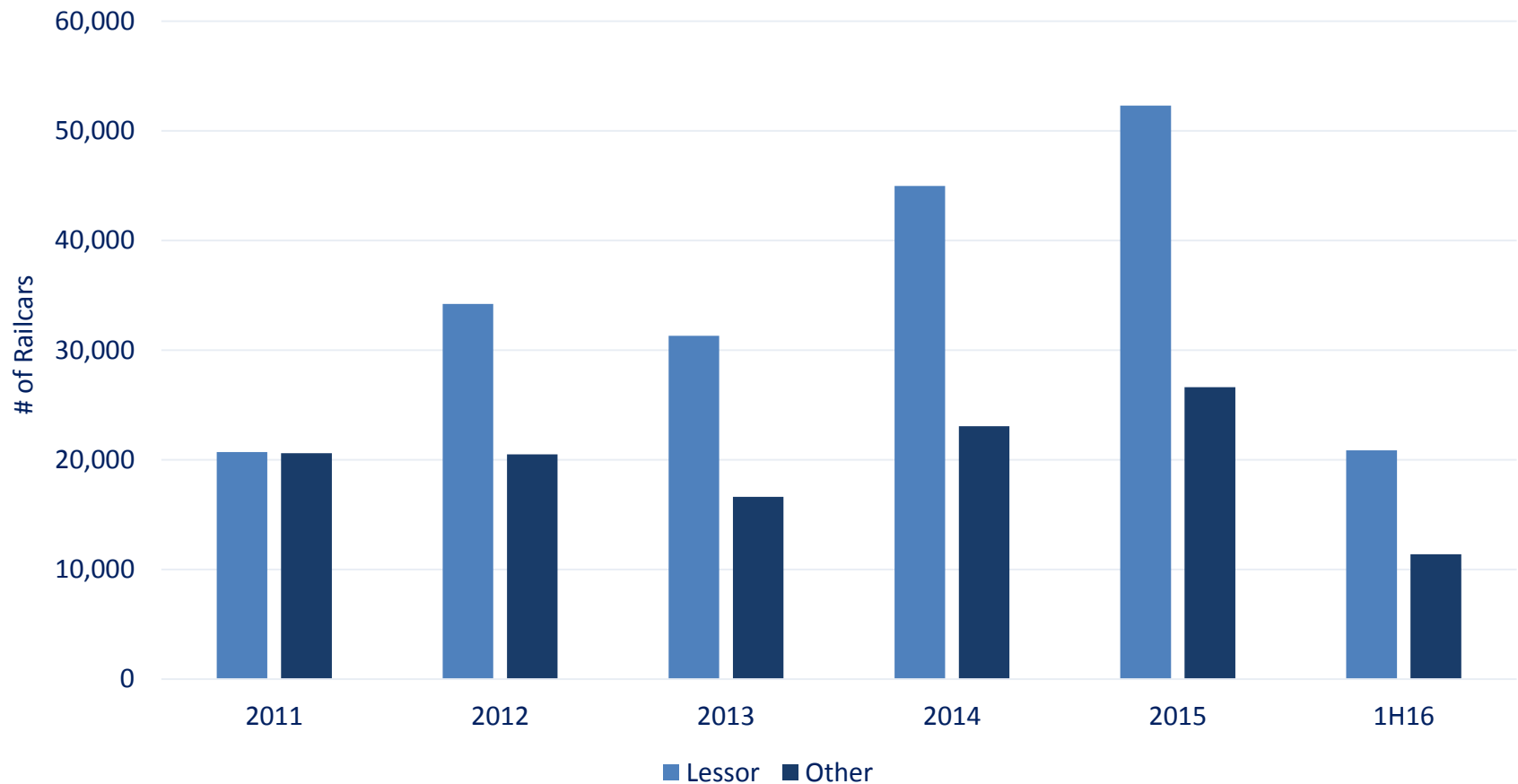


Approximately 1.6 million railcars as of 2016

Source: UMLER

Lessors Take Delivery of Majority of New Car Orders

Annual Fleet Additions by Owner Type

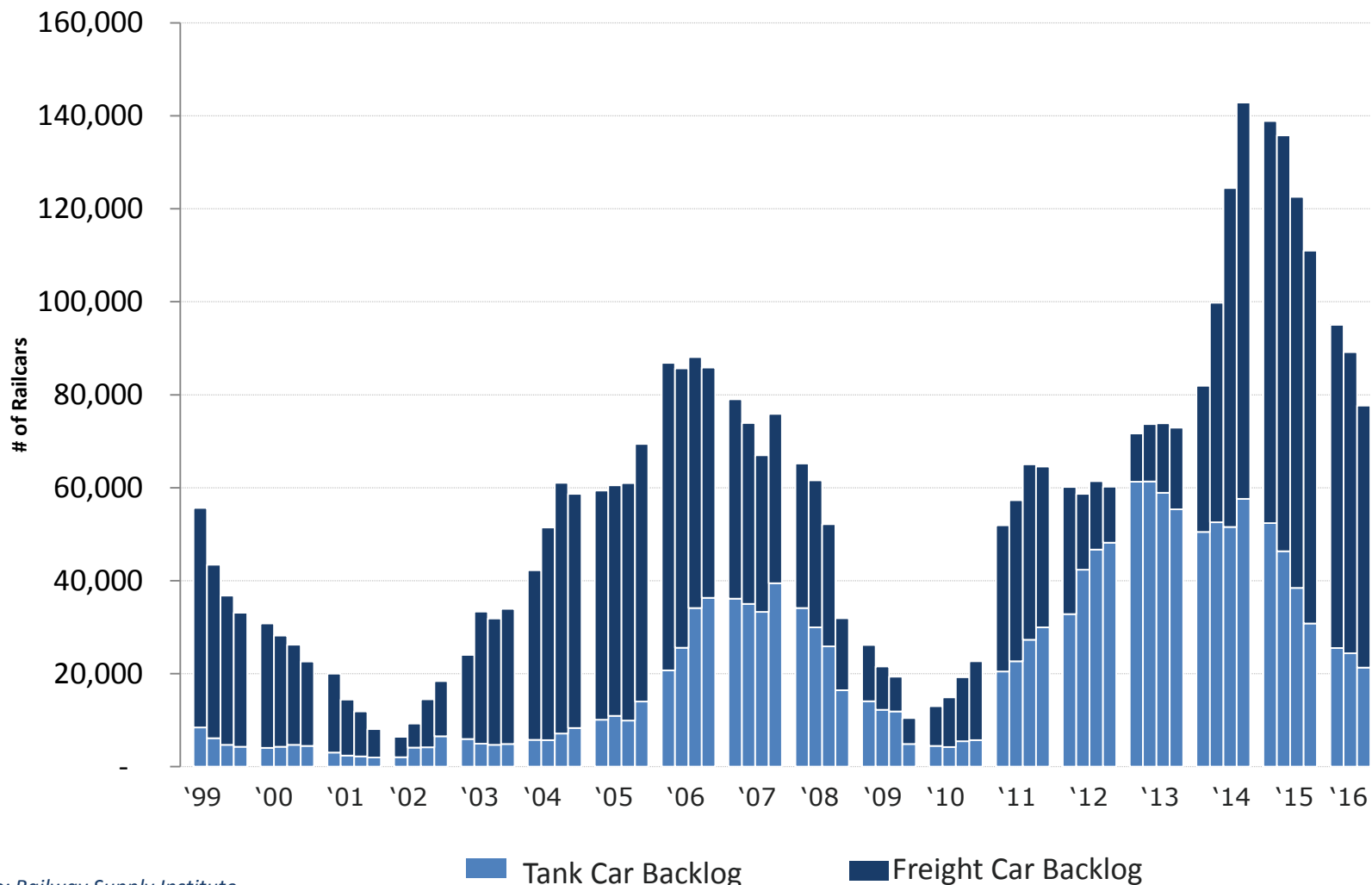


Source: UMLER

Is today's railcar market healthy?

- Excess new car capacity
- Excess existing car supply
- Increased railroad velocity
- Lower rail freight demand

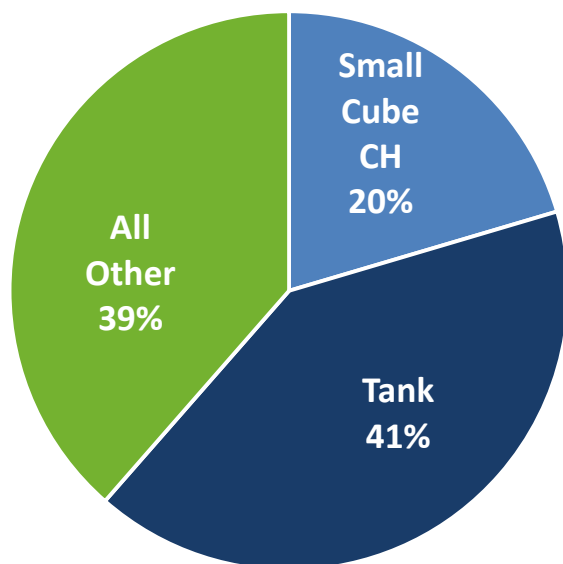
North American New Car Backlog Shows Cyclicity



Source: Railway Supply Institute

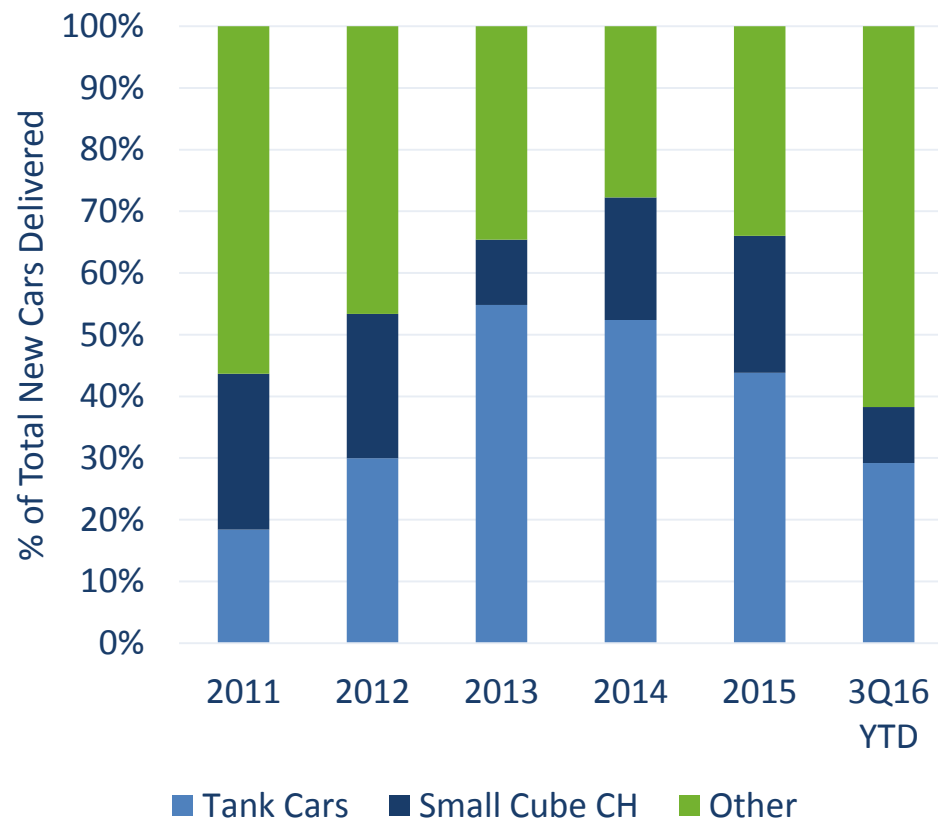
Recent Upturn Featured Speculation and Lack of Diversity

**New Car Deliveries
2011-2015**



Approx. 309K Railcars

New Car Deliveries 2011-2015



Source: Railway Supply Institute

**CAN A HISTORICAL PERSPECTIVE HELP
US UNDERSTAND HOW WE GOT HERE?**

The world before 1887

- As historians have observed, railroads were to the 19th century as internet companies were to the late 20th
 - Capital virtually unlimited
 - Volatility high
 - Era of the “robber barons”
 - Essentially no economic regulation
- Railroads buy virtually all of their own rolling stock
 - Fledgling “private car companies” focus on specialty cars

Regulation and Growth: 1887-1945

- ICC imposes economic regulation
 - Railroad dominance remains due to lack of alternatives
 - Capital availability robust
- Subsidized competition emerges
- WWII the last heyday of railroad dominance
- Railroads continue to own rolling stock
 - Private car companies remain roughly the same



Decline and the Emergence of Modern Leasing: 1945-1980

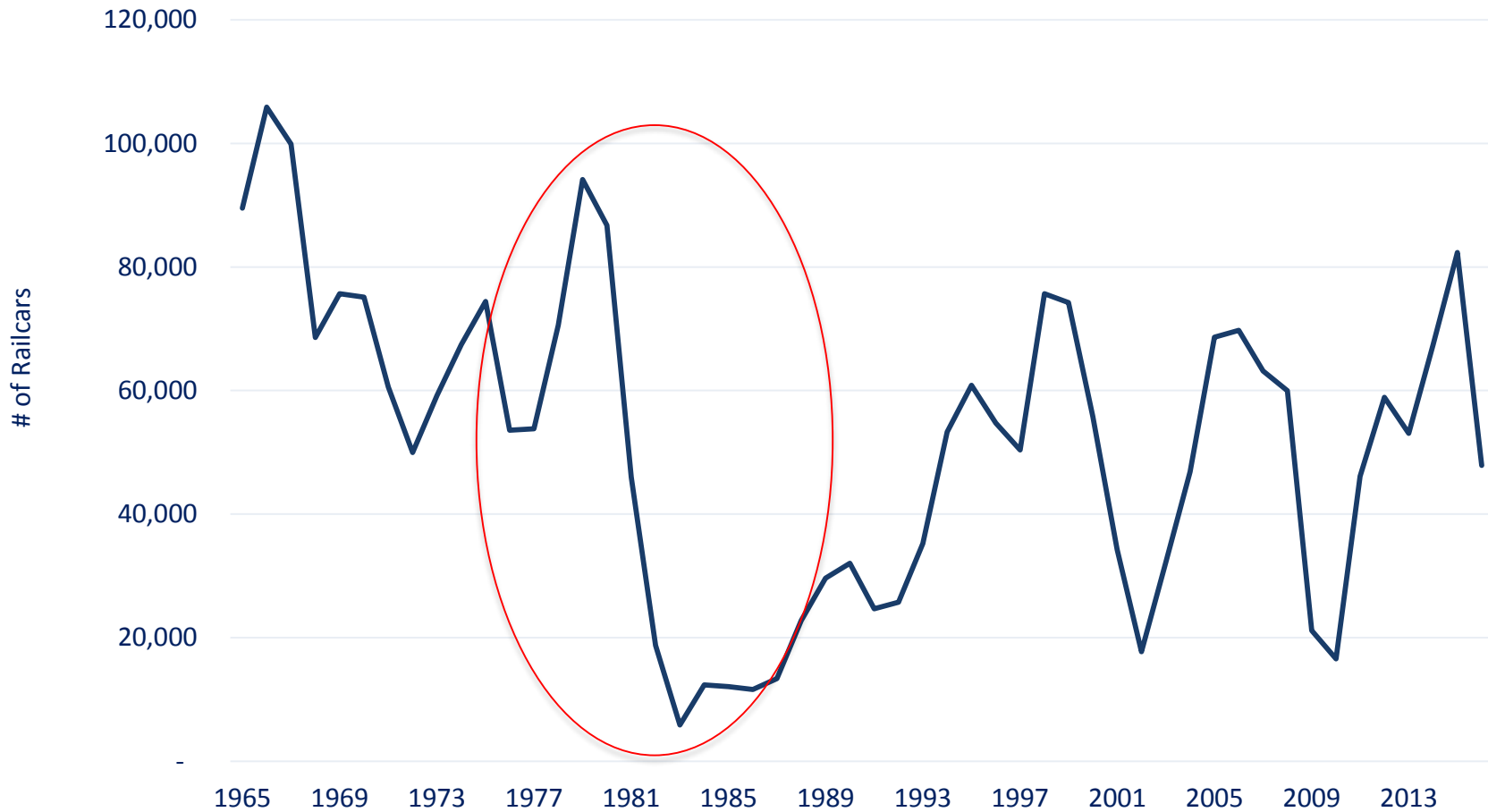
- Rise of trucking
- Regulation limits competitive response
- Railroads consolidate and/or encounter financial difficulty
- Network shrinks
- Railroad capital availability constrained
- Alternatives for rolling stock began to emerge
 - 1960s: Utility coal trains and leveraged leasing
 - 1970s: “Incentive per diem” boxcars and expansion of leasing market

1980-2000: Deregulation and Rationalization

- Staggers act of 1980
- Uncertainty wipes out many carbuilders
 - Decade-and-a-half railcar slump
- “Railroad renaissance” begins in 1990s
 - Railroads begin to focus capital on fixed plant
 - Rise of new generation of operating lessors
 - Re-casting of traditional private car companies
 - New 286K standard drives fleet replacement

The Post-Deregulation Railcar Collapse

Annual Railcar Deliveries



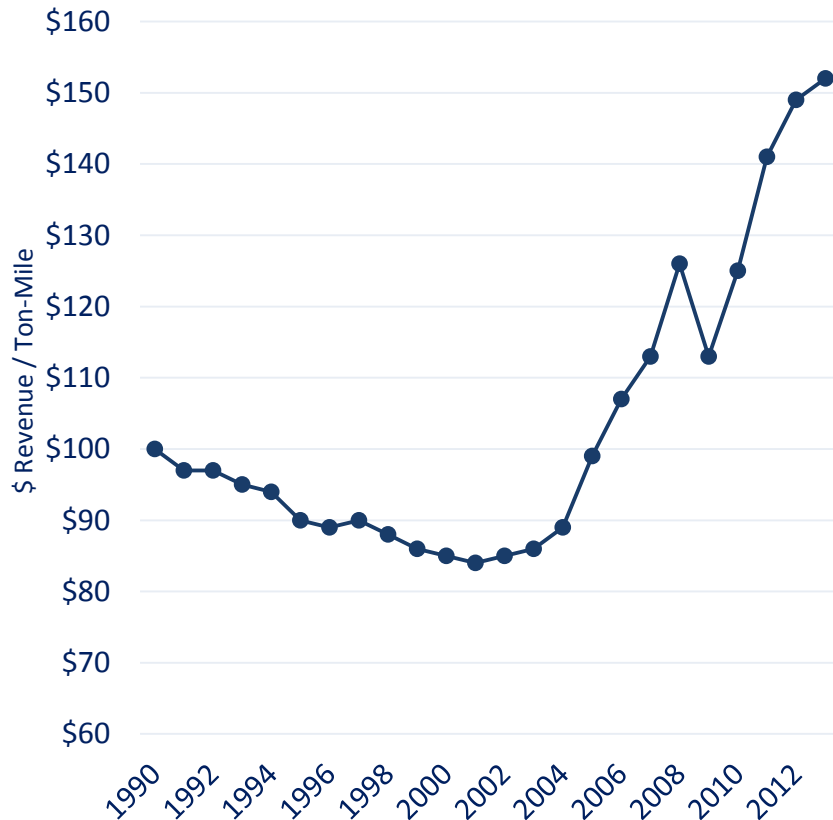
Source: Railway Supply Institute

2000-Present: Railroad Renaissance, Railcar Boom and Bust

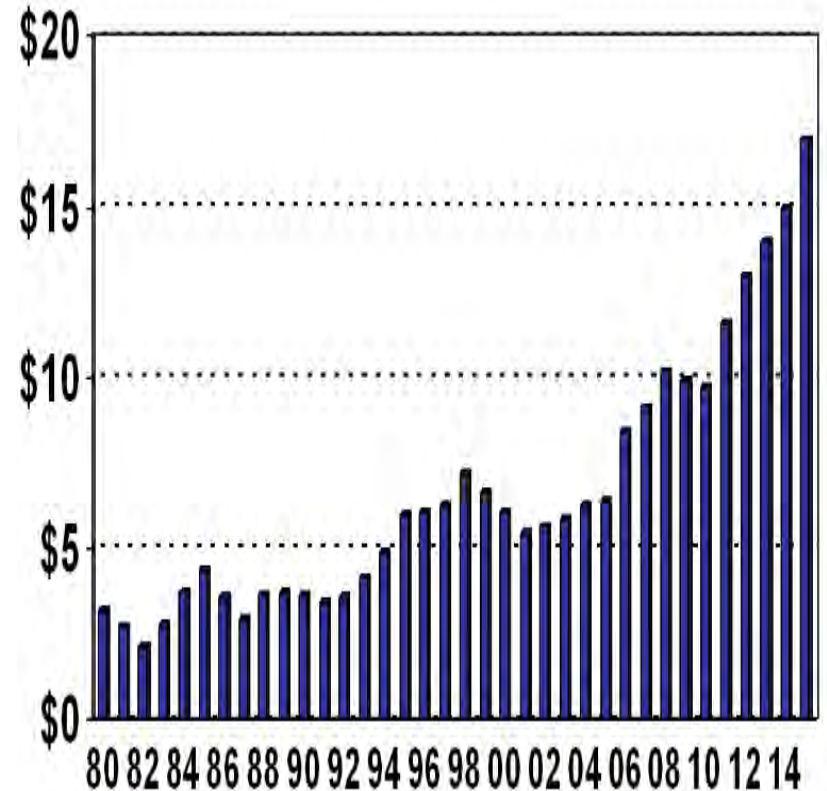
- Railroads capture pricing power and drive returns
 - Fixed plant reinvestment in full swing
- New (and newer) rail commodities drive huge lessor investment
 - PRB coal, ethanol, frac sand, crude oil, NGLs
- Railcar cycle becomes exaggerated and volatility reigns
 - Rise and fall of PRB coal and CBR
 - Severe recessions
 - Cheap money
 - Aggressive new entrants
 - Accidents and regulatory responses

The Railroad Renaissance in Graphical Form

Class I RR Avg. Revenue Per Ton-mile
(1990=100)



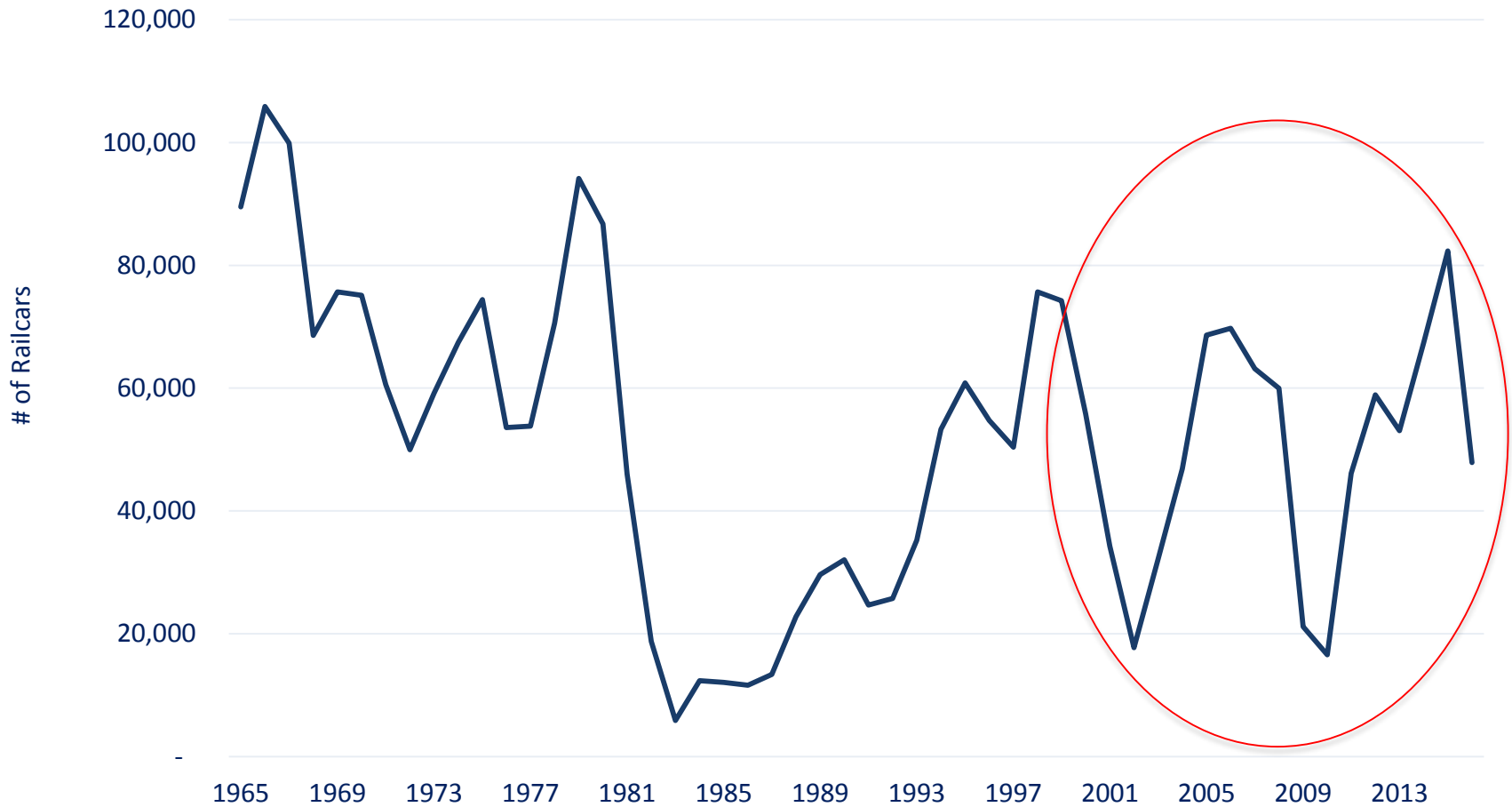
Class I RR Capital Expenditure
(billions)



Source: US DOT Bureau of Transportation Statistics; ABH Consulting

The Exaggerated Cyclicalality of the Modern Market

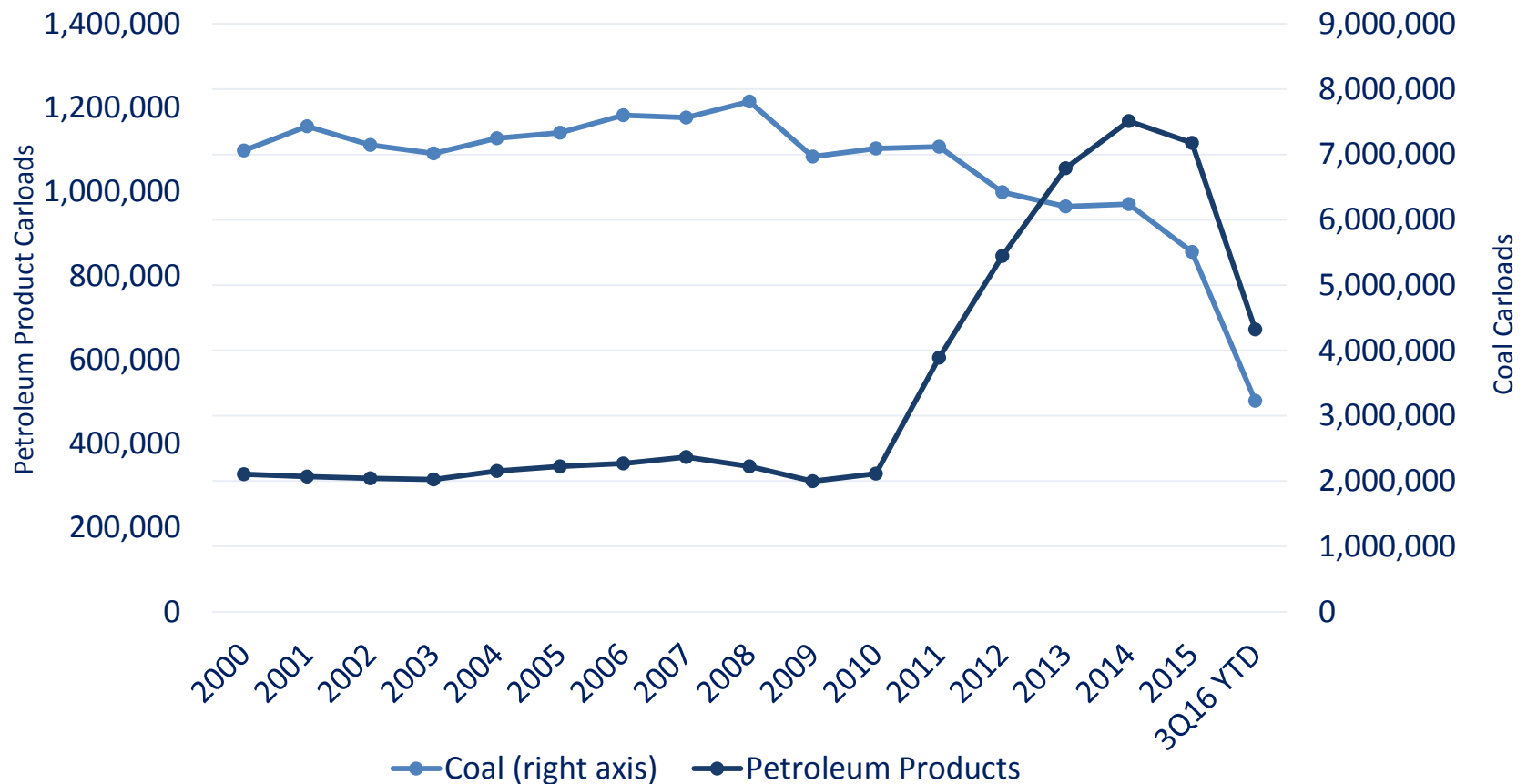
Annual Railcar Deliveries



Source: Railway Supply Institute

The Extremes of Rail-Hauled Energy Products

Boom and Bust in Rail Commodity Carloads

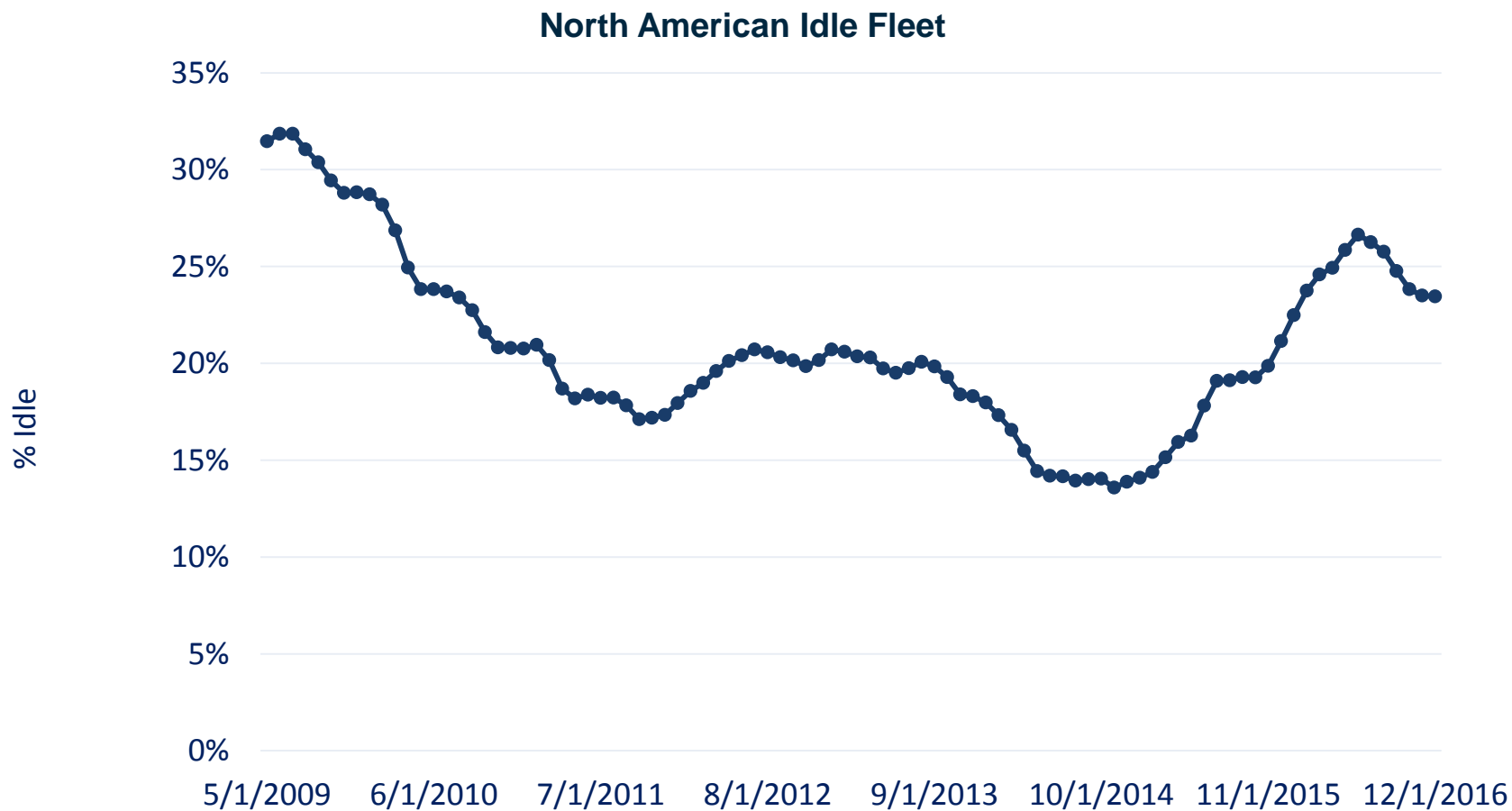


Source: AAR

2017: Where are we now?

- Reaping the effects of volatile energy markets and excessive speculation
 - Excess capacity, especially for energy-related railcars
 - Utilization pressure
 - Builder retrenchment
- The operating lesson model remains relevant
 - Recent developments **reinforce** the model
 - Regulatory actions further underscore leasing value, especially for tank cars
- Despite the negatives, money in search of yield can't seem to stay away from railcars

Idle assets are moderating, but still high



Source: AAR

Whither goes the future?

- The current market has not finished wreaking havoc
 - Poorly positioned fleets
 - Regulatory complexity
- GATX continues to believe that disciplined, diversified, large-scale, full-service operating lessors are well-positioned to withstand the downturn and thrive long-term

QUESTIONS?