

TEXTAINER GROUP HOLDINGS LTD
Form 20-F
March 25, 2019
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE
ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934

Date of event requiring this shell company report _____

For the transition period from _____ to _____

Commission file number 001-33725

Textainer Group Holdings Limited

(Exact name of Registrant as specified in its charter)

Not Applicable

(Translation of Registrant's name into English)

Bermuda

(Jurisdiction of incorporation or organization)

Century House

16 Par-La-Ville Road

Hamilton HM 08

Bermuda

(Address of principal executive offices)

Michael J. Harvey

Textainer Group Holdings Limited

Century House

16 Par-La-Ville Road

Hamilton HM 08

Bermuda

(441) 296-2500

mjh@textainer.com

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
Common Shares, \$0.01 par value	New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

57,402,164 Common Shares

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was

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required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or an emerging growth company. See definitions of “accelerated filer”, “large accelerated filer” and “emerging growth company” in Rule 12b-2 of the Exchange Act.:

Large accelerated filer Accelerated filer Non-accelerated filer Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board Other

If “Other” has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

TABLE OF CONTENTS

	Page
<u>Information Regarding Forward-Looking Statements: Cautionary Language</u>	1
Part I	
Item 1. <u>Identity of Directors, Senior Management and Advisers</u>	2
Item 2. <u>Offer Statistics and Expected Timetable</u>	2
Item 3. <u>Key Information</u>	2
Item 4. <u>Information on the Company</u>	33
Item 4A. <u>Unresolved Staff Comments</u>	51
Item 5. <u>Operating and Financial Review and Prospects</u>	51
Item 6. <u>Directors, Senior Management and Employees</u>	73
Item 7. <u>Major Shareholders and Related Party Transactions</u>	78
Item 8. <u>Financial Information</u>	82
Item 9. <u>The Offer and Listing</u>	84
Item 10. <u>Additional Information</u>	85
Item 11. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	94
Item 12. <u>Description of Securities Other than Equity Securities</u>	95
PART II	
Item 13. <u>Defaults, Dividend Arrearages and Delinquencies</u>	96
	Page
Item 14. <u>Material Modifications to the Rights of Security Holders and Use of Proceeds</u>	96
Item 15. <u>Controls and Procedures</u>	96
Item 16. <u>[Reserved]</u>	98
Item 16A. <u>Audit Committee Financial Expert</u>	98
Item 16B. <u>Code of Ethics</u>	98
Item 16C. <u>Principal Accountant Fees and Services</u>	99
Item 16D. <u>Exemptions from the Listing Standards for Audit Committees</u>	99
Item 16E. <u>Purchases of Equity Securities by the Issuer and Affiliated Purchasers</u>	99
Item 16F. <u>Change in Registrant's Certifying Accountant</u>	99
Item 16G. <u>Corporate Governance</u>	100
PART III	
Item 17. <u>Financial Statements</u>	102
Item 18. <u>Financial Statements</u>	102
Item 19. <u>Exhibits</u>	102
<u>Signatures</u>	114

In this Annual Report on Form 20-F, unless indicated otherwise, references to: (1) “Textainer,” “TGH,” “the Company,” “we,” “us” and “our” refer, as the context requires, to Textainer Group Holdings Limited, which is the registrant and the issuer of the class of common shares that has been registered pursuant to Section 12(b) of the Securities Exchange Act of 1934, as amended, or Textainer Group Holdings Limited and its subsidiaries; (2) “TEU” refers to a “Twenty-Foot Equivalent Unit,” which is a unit of measurement used in the container shipping industry to compare shipping containers of various lengths to a standard 20’ dry freight container, thus a 20’ container is one TEU and a 40’ container is two TEU; (3) “CEU” refers to a Cost Equivalent Unit, which is a unit of measurement based on the approximate cost of a container relative to the cost of a standard 20’ dry freight container, so the cost of a standard 20’ dry freight container is one CEU; the cost of a 40’ dry freight container is 1.6 CEU; the cost of a 40’ high cube dry freight container (9’ 6” high) is 1.7 CEU; and the cost of a 40’ high cube refrigerated container is 8.0 CEU; (4) “our owned fleet” means the containers we own; (5) “our managed fleet” means the containers we manage that are owned by other container investors; (6) “our fleet” and “our total fleet” mean our owned fleet plus our managed fleet plus any containers we lease from other lessors; (7) “container investors” means the owners of the containers in our managed fleet; and (8) “Trencor” refers to Trencor Ltd., a public South African investment holding company, listed on the JSE Limited in Johannesburg, South Africa, which, directly owns approximately 47.5% of our common shares. See Item 4, “Information on the Company” for an explanation of the relationship between Trencor and us.

Dollar amounts in this Annual Report on Form 20-F are expressed in thousands, unless otherwise indicated.

INFORMATION REGARDING FORWARD-LOOKING STATEMENTS; CAUTIONARY LANGUAGE

This Annual Report on Form 20-F, including the sections entitled Item 3, “Key Information -- Risk Factors,” and Item 5, “Operating and Financial Review and Prospects,” contains forward-looking statements within the “safe harbor” provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements include all statements that are not statements of historical facts and may relate to, but are not limited to, expectations or estimates of future operating results or financial performance, capital expenditures, introduction of new products, regulatory compliance, plans for growth and future operations, as well as assumptions relating to the foregoing. In some cases, you can identify forward-looking statements by terminology such as “may,” “will,” “should,” “could,” “expect,” “plan,” “anticipate,” “estimate,” “predict,” “intend,” “potential,” “continue” or the negative of these terms or other similar terminology.

Although we do not make forward-looking statements unless we believe we have a reasonable basis for doing so, we cannot guarantee their accuracy, and actual results may differ materially from those we anticipated due to a number of uncertainties, many of which cannot be foreseen. Our actual results could differ materially from those anticipated in these forward-looking statements for many reasons, including, among others, the risks we face that are described in the section entitled Item 3, “Key Information -- Risk Factors” and elsewhere in this Annual Report on Form 20-F.

We believe that it is important to communicate our future expectations to potential investors, shareholders and other readers. However, there may be events in the future that we are not able to accurately predict or control and that may cause actual events or results to differ materially from the expectations expressed in or implied by our forward-looking statements. The risk factors listed in Item 3, “Key Information -- Risk Factors,” as well as any cautionary language in this Annual Report on Form 20-F, provide examples of risks, uncertainties and events that may cause our actual results to differ materially from the expectations we describe in our forward-looking statements. Before you decide to buy, hold or sell our common shares, you should be aware that the occurrence of the events described in Item 3, “Key Information -- Risk Factors” and elsewhere in this Annual Report on Form 20-F could negatively impact our business, cash flows, results of operations, financial condition and share price. Potential investors, shareholders and other readers should not place undue reliance on our forward-looking statements.

Forward-looking statements regarding our present plans or expectations involve risks and uncertainties relative to return expectations and related allocation of resources and changing economic or competitive conditions which could cause actual results to differ from present plans or expectations, and such differences could be material. Similarly, forward-looking statements regarding our present expectations for operating results and cash flow involve risks and uncertainties related to factors such as utilization rates, per diem rates, container prices, demand for containers by container shipping lines, supply and other factors discussed under Item 3, “Key Information -- Risk Factors” or elsewhere in this Annual Report on Form 20-F, which could also cause actual results to differ from present plans. Such differences could be material.

All future written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. New risks and uncertainties arise from time to time, and we cannot predict those events or how they may affect us. We assume no obligation to, and do not plan to, update any forward-looking statements after the date of this Annual Report on Form 20-F as a result of new information, future events or developments, except as required by federal securities laws. You should read this Annual Report on Form 20-F and the documents that we reference and have filed as exhibits with the understanding that we cannot guarantee future results, levels of activity, performance or achievements and that actual results may differ materially from what we expect.

Industry data and other statistical information used in this Annual Report on Form 20-F are based on independent publications, reports by market research firms or other published independent sources. Some data are also based on our good faith estimates, derived from our review of internal surveys and the independent sources listed above.

Although we believe these sources are reliable, we have not independently verified the information.

In this Annual Report on Form 20-F, unless otherwise specified, all monetary amounts are in U.S. dollars. To the extent that any monetary amounts are not denominated in U.S. dollars, they have been translated into U.S. dollars in accordance with our accounting policies as described in Item 18, "Financial Statements" in this Annual Report on Form 20-F.

1

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

The selected financial data presented below under the heading “Statement of Income Data” for the years ended December 31, 2018, 2017 and 2016 and under the heading “Balance Sheet Data” as of December 31, 2018 and 2017 have been derived from our audited consolidated financial statements included in Item 18, “Financial Statements” in this Annual Report on Form 20-F. The selected financial data presented below under the heading “Statement of Income Data” for the years ended December 31, 2015 and 2014 and under the heading “Balance Sheet Data” as of December 31, 2016, 2015 and 2014 are audited and have been derived from our audited consolidated financial statements not included in this Annual Report on Form 20-F. The data presented below under the heading “Other Financial and Operating Data” have not been audited. Historical results are not necessarily indicative of the results of operations to be expected in future periods. You should read the selected consolidated financial data and operating data presented below in conjunction with Item 5, “Operating and Financial Review and Prospects” and with Item 18, “Financial Statements” in this Annual Report on Form 20-F.

	Fiscal Years Ended December 31,				
	2018	2017	2016	2015	2014
	(Dollars in thousands, except per share data)				
Statement of Income Data:					
Revenues:					
Lease rental income - owned fleet	\$501,362	\$444,888	\$460,427	\$512,544	\$506,538
Lease rental income - managed fleet (1)	111,342	104,566	105,511	133,961	149,703
Lease rental income	612,704	549,454	565,938	646,505	656,241
Management fees - non-leasing (1)	8,529	7,146	5,937	5,612	6,125
Trading container sales proceeds (2)	19,568	4,758	15,628	12,670	27,989
Cost of trading containers sold (2)	(16,118)	(3,302)	(15,904)	(12,475)	(27,465)
Trading container margin	3,450	1,456	(276)	195	524
Gain on sale of owned fleet containers, net (2)	36,071	26,210	6,761	3,454	13,070
Operating expenses:					
Direct container expense - owned fleet	58,813	60,321	62,596	47,342	47,446
Distribution to managed fleet owners (1)	102,992	96,718	98,028	123,963	138,420
Depreciation expense	235,705	231,043	236,144	191,930	164,209
Container impairment	26,775	8,072	94,623	35,345	13,108
Amortization expense	3,721	4,092	5,053	4,741	4,010
General and administrative expense (3)	44,317	39,677	34,540	35,598	36,492
Bad debt expense (recovery), net	2,697	477	21,166	5,028	(474)

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Gain on insurance recovery	(8,692)	—	—	—	—
Total operating expenses	466,328	440,400	552,150	443,947	403,211
Income from operations	194,426	143,866	26,210	211,819	272,749

2

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	Fiscal Years Ended December 31,				
	2018	2017	2016	2015	2014
	(Dollars in thousands, except per share data)				
Other (expense) income:					
Interest expense	(138,427)	(117,475)	(85,215)	(76,063)	(79,117)
Write-off of unamortized deferred debt					
costs and bond discounts	(881)	(7,550)	—	(458)	(6,814)
Interest income	1,709	613	408	125	119
Realized gain (loss) on interest rate swaps,					
collars and caps, net	5,238	(1,191)	(8,928)	(12,823)	(10,293)
Unrealized (loss) gain on interest rate					
swaps, collars and caps, net	(5,790)	4,094	6,210	(1,947)	1,512
Other, net	—	3	(8)	26	23
Net other expense	(138,151)	(121,506)	(87,533)	(91,140)	(94,570)
Income (loss) before income tax and					
noncontrolling interest	56,275	22,360	(61,323)	120,679	178,179
Income tax (expense) benefit	(2,025)	(1,618)	3,447	(6,695)	18,068
Net income (loss)	54,250	20,742	(57,876)	113,984	196,247
Less: Net (income) loss attributable to the					
noncontrolling interests	(3,872)	(1,377)	5,393	(5,576)	(5,692)
Net income (loss) attributable to Textainer Group Holdings Limited common					
shareholders	\$50,378	\$19,365	\$(52,483)	\$108,408	\$190,555
Net income (loss) attributable to Textainer Group Holdings Limited common					
shareholders per share:					
Basic	\$0.88	\$0.34	\$(0.93)	\$1.90	\$3.36
Diluted	\$0.88	\$0.34	\$(0.93)	\$1.90	\$3.34
Weighted average shares outstanding					
(in thousands):					
Basic	57,200	56,845	56,608	56,953	56,719
Diluted	57,487	57,159	56,608	57,093	57,079
Other Financial and Operating Data					
(unaudited):					
Cash dividends declared per common share	\$—	\$—	\$0.51	\$1.65	\$1.88
Purchase of containers and fixed assets	\$854,383	\$300,125	\$505,528	\$533,306	\$818,451
Utilization rate (4)	98.10 %	96.40 %	94.70 %	96.80 %	96.10 %
Total fleet in TEU (as of the end of the	3,354,724	3,279,892	3,142,556	3,147,690	3,233,364

period)					
Balance Sheet Data (as of the end of the					
period):					
Cash and cash equivalents	\$ 137,298	\$ 137,894	\$ 84,045	\$ 115,594	\$ 107,067
Containers, net	4,134,016	3,791,610	3,717,542	3,696,311	3,635,314
Net investment in direct financing and					
sales-type leases (current and long-term)	167,060	182,624	237,234	331,792	361,010
Total assets	4,744,296	4,380,342	4,294,026	4,365,312	4,334,748
Long-term debt (including current portion)	3,409,827	2,990,308	3,038,297	3,003,648	2,974,311
Total liabilities (5)	3,508,305	3,174,305	3,113,486	3,103,672	3,089,705
Total Textainer Group Holdings Limited (5)					
shareholders' equity	1,206,813	1,148,297	1,121,681	1,197,388	1,185,223
Noncontrolling interest	29,178	57,740	58,859	64,252	59,820

- (1) Amounts for the years ended 2014 to 2017 have been reclassified to present the gross amounts of lease rental income and expenses for the managed fleet instead of the net presentation. Management fees – non-leasing include acquisition fees and sales commission earned on the managed fleet (also see Note 2 “Immaterial Reclassification and Adjustment of Prior Periods” in Item 18, “Financial Statements” in this Annual Report on Form 20-F).
- (2) Amounts for years ended 2014 to 2017 have been reclassified to conform with the 2018 presentation.
- (3) Amounts for years ended 2014 to 2017 have been reclassified out of the separate line items “short-term incentive compensation expense” and “long-term incentive compensation expense” and included within “general and administrative expense” to conform with the 2018 presentation.
- (4) We measure the utilization rate on the basis of CEU on lease, using the actual number of days on-hire, expressed as a percentage of CEU available for lease, using the actual days available for lease. CEU available for lease excludes CEU that have been manufactured for us but have not yet been delivered to a lessee and CEU designated as held-for-sale units.
- (5) Amounts for the years ended 2014 to 2017 have been adjusted to defer acquisition fees for the managed fleet as earned over the deemed lease term. (also see Note 2 “Immaterial Reclassification and Adjustment of Prior Periods” in Item 18, “Financial Statements” in this Annual Report on Form 20-F).

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

An investment in our common shares involves a high degree of risk. You should carefully consider the following risk factors, together with the other information contained elsewhere in this Annual Report on Form 20-F, including our financial statements and the related notes thereto, before you decide to buy, hold or sell our common shares. Any of the risk factors we describe below could adversely affect our business, cash flows, results of operations and financial condition. The market price of our common shares could decline and you may lose some or all of your investment if one or more of these risks and uncertainties develop into actual events.

Risks Related to Our Business and Industry

The demand and pricing for leased containers depends on many factors beyond our control.

Substantially all of our revenue derives from activities related to the leasing, managing and selling of containers. Our ability to continue successfully leasing containers to container shipping lines, earning management fees on leased containers, selling used containers and sourcing capital required to purchase new and used containers depends, in part, upon the continued demand to lease new and used and purchase used containers.

Demand for leased containers depends largely on the rate of growth of world trade and economic growth, with worldwide consumer demand being the most critical factor affecting this growth. Demand for leased containers is also driven by our customers' "lease vs. buy" decisions. In the past, economic downturns in the U.S., Europe, Asia and countries with consumer-oriented economies have resulted in a reduction in the rate of growth of world trade and demand by container shipping lines for leased containers and it is likely that any future downturns would have similar results. Thus, a decrease in world trade can and has adversely affected our utilization and per diem rates and led to reduced revenue and increased operating expenses (such as storage and repositioning costs) and can have an adverse effect on our financial performance. We cannot predict whether, or when, such downturns will occur. Other material factors affecting demand for leased containers, utilization and per diem rates include the following:

- prices of new and used containers;
- economic conditions, profitability, competitive pressures and consolidation in the container shipping and container leasing industry;
- shifting trends and patterns of cargo traffic;
- fluctuations in demand for containerized goods outside their area of production;
- the availability and terms of container financing for us and for our competitors and customers;
- fluctuations in interest rates and currency exchange rates;
- overcapacity, undercapacity and consolidation of container manufacturers;
- the lead times required to purchase containers;
 - the number of containers purchased in the current year and prior years by competitors and container lessees;
- container ship fleet overcapacity or undercapacity;
- repositioning by container shipping lines of their own empty containers to higher demand locations in lieu of leasing containers;
- port congestion and the efficient movement of containers as affected by labor disputes, work stoppages, increased vessel size, shipping line alliances or other factors that reduce or increase the speed at which containers are handled;
- consolidation, withdrawal or insolvency of individual container shipping lines, such as the bankruptcy of Hanjin Shipping Co. in August 2016 which is discussed below;
- import/export tariffs, duties and restrictions;
- customs procedures, foreign exchange controls and other governmental regulations, including environmental or maritime rules that impact container shipping, such as the low sulphur oxide emission rules that will take effect in January 2020;
- natural disasters that are severe enough to affect local and global economies or interfere with trade; and
- other political and economic factors.

Many of these and other factors affecting the container industry are inherently unpredictable and beyond our control. These factors will vary over time, often quickly and unpredictably, and any change in one or more of these factors may have a material adverse effect on our business and results of operations. In addition, many of these factors also influence the decision by container shipping lines to lease or buy containers. Should one or more of these factors influence container shipping lines to buy a larger percentage of the containers they operate, our utilization rate and/or per diems could decrease, resulting in decreased revenue and increased storage and repositioning costs, which would harm our business, results of operations and financial condition.

Global economic weakness has in the past and may in the future materially and negatively impact our business, results of operations, cash flows, financial condition and future prospects.

While domestic and global economic growth resumed and has continued following the global financial crisis in 2008 and 2009, the continued sustainability of the U.S. and international economic growth is uncertain. Any slowdown or reversal of the U.S. and global trade growth could heighten a number of material risks to our business, results of operations, cash flows and financial condition, as well as our future prospects, including the following:

• Containerized cargo volume growth -- A contraction or slowdown in containerized cargo volume growth would likely create lower utilization, higher direct costs, weaker shipping lines going out of business, pressure for us to offer lease concessions and lead to a reduction in the size of our customers' container fleets.

• Credit availability and access to equity markets -- Issues involving liquidity and capital adequacy affecting lenders could affect our ability to fully access our credit facilities or obtain additional debt and could affect the ability of our lenders to meet their funding requirements when we need to borrow. Further, a high level of volatility in the equity markets could make it difficult for us to access the equity markets for additional capital at attractive prices, if at all. If we are unable to obtain credit or access the capital markets, our business could be negatively impacted. In several of the years prior to 2017 the returns provided from lease transactions were lower due to increased competition in part caused by increased debt financing access for the container leasing industry. At the end of 2016, lower container returns coupled with the impact of Hanjin's bankruptcy and lower residual values impacted our ability to meet the financial covenants in our lending facilities, required covenant amendments and limited our ability to access funds for investment in additional new containers for the first few months of 2017.

Lease and/or utilization rates may decrease, which could adversely affect our business, results of operations and financial condition.

We compete mostly on the pricing and the availability of containers. Lease rates for our containers depend on a large number of factors, including the following:

- the supply of, and demand for, containers available;
- the price of new containers (which is positively but not exclusively correlated with the price of steel);
- the type and length of the lease;
- interest rates and the availability of financing for leasing companies and shipping lines;
- assumptions regarding residual value and future lease pricing;
- the type and age of the container;
- the location of the container being leased;
- the quantity of containers available for lease by our competitors; and
- lease rates offered by our competitors.

Most of these factors are beyond our control. In particular the price of steel declined materially in 2015 and continued to decline in the beginning of 2016 and this was a significant factor in the decline in new container prices and lease rates at that time. New container prices and lease rates reached historically low levels in the beginning of 2016, but starting in the second half of 2016 and until late 2018 steel prices, container prices and lease rates all increased materially. In addition, lease rates can be negatively impacted by, among other things, the entrance of new leasing companies or container factories, overproduction of new containers by factories and the over-buying by shipping lines, leasing companies and tax-driven container investors. In 2012 and continuing in 2013 and 2014, container leasing companies, including us, raised substantial amounts of new funds in the debt and equity markets and were able to repeatedly refinance existing debt on ever more favorable terms. This increased availability and reduced cost of debt, which given a limited demand for containers, contributed to downward pressure on lease rates.

The impact on us of the market downturn that ended in the second half of 2016 was more severe than in the past due to the substantial growth in our owned fleet in the past few years and the relatively high prices paid for new containers in the period from 2010 to 2012 that were initially leased at historically high rates on leases that matured during this period of low lease rates. If future market lease rates again decrease or return to historically low levels, revenues generated by our fleet will be adversely affected, which will harm our business, results of operations, cash flows and financial condition. Container utilization rates for us and our competitors are currently at very high levels by historical standards. If future container utilization rates decrease, revenues generated by our fleet will be adversely affected, which will harm our business, results of operations, cash flows and financial condition.

We face risks associated with re-leasing containers after their initial long-term lease.

We estimate the useful lives of our standard dry freight containers to be 13 to 14 years, open-top and flat-rack containers to be 14 to 16 years, refrigerated containers to be 12 years and tank containers to be 20 years. When we purchase newly produced containers, we typically lease them out under long-term leases with terms of 5 or more years at a lease rate that is correlated to the price paid for the container and prevailing interest rates. As containers leased under term leases are not leased out for their full economic life, we face risks associated with re-leasing containers after their initial long-term lease. If prevailing container lease rates decline significantly between the time a container is initially leased out and when its initial long-term lease expires, or if overall demand for containers declines, we may be unable to earn a similar lease rate from the re-leasing of containers when their initial term leases expire which could materially adversely impact our results and financial performance. Additionally, for containers purchased new in 2015 and 2016, many of these containers are on long-term leases with low per diems that are below current lease rates. Our ability to improve our financial performance depends in part on the ability to renew or re-lease these containers at the time of the expiration of their initial leases at higher rates than the per diems these containers were originally leased out. If container lease rates decline and we are unable to renew these leases at higher rates our financial results may not improve.

The bankruptcy of Hanjin Shipping Co. in August 2016 substantially impacted us.

On August 31, 2016 Hanjin filed for bankruptcy protection in South Korea. In the following months its services ceased operation. The insolvency of Hanjin severely disrupted container trade and the container shipping industry. At the time of the insolvency, containers leased to Hanjin with ownership interests attributable to Textainer represented approximately 4.8% of the total owned and managed fleet in TEU. We incurred substantial costs from the Hanjin insolvency, arising from container recovery expenses, unpaid current and future rental income from Hanjin, container repair expenses, container repositioning expenses, re-leasing expenses and the loss of unreturned containers. Additionally, many containers formerly leased to Hanjin were re-leased at substantially lower lease rates than the rates in the leases with Hanjin and other containers were disposed, often at prices below the book value for the containers. We recovered 94% of the containers formerly leased to Hanjin, with the balance of the containers uneconomic or impossible to recover. We maintain insurance that covers certain costs and losses from customer defaults. At the time of the Hanjin default our policy provided for \$80 million of coverage after a \$5 million deductible was met. We collected substantially all of our insurance claim related to the Hanjin insolvency, however this was insufficient to cover all of our losses and disruptions related to Hanjin. At the time of its insolvency Hanjin was the 7th largest container shipping line in the world and the bankruptcy of Hanjin substantially impacted us, including as follows:

- A material portion of the losses we reported for 2016 were attributable to Hanjin's default and the expenses caused by the default and these expenses related to the default continued in 2017 and were not fully covered by insurance;
- As a result of the Hanjin default, lower container lease rates and lower used container sales prices, our cash flow was substantially reduced in the second half of 2016 and the first half of 2017 and this impacted our ability to comply with financial covenants in certain debt facilities and to invest in new containers in 2016 and the first half of 2017; we obtained waivers and amendments from lenders to address these issues and subsequently refinanced the majority of our debt;
- Customer default insurance may not be available in the future to us or may not be affordable; we have renewed our insurance several times since the Hanjin default; however, the policy and coverage terms are not as favorable as before the Hanjin default and the premium has substantially increased; and
- The Hanjin bankruptcy has led to further consolidation in the shipping line industry, increasing our reliance on a reduced number of customers; as a result of the Hanjin default shippers have heightened concern about the shipping line that carries their cargo and this may impact the container shipping industry in ways we are unable to anticipate and which may adversely impact us.

Reductions in the prices of new containers would harm our business, results of operations and financial condition.

Lease rates for new containers are positively but not exclusively correlated to the price of new containers, which is positively correlated with the price of steel, a major component used in the manufacture of new containers. In the past five years, prices for new standard 20' dry freight containers have moved in a wide range, with prices ranging between \$1,185 and \$2,363 during this time. Our average new container cost per CEU remained flat during 2018 compared to 2017. Container prices have substantially increased since late 2016, but if new container prices return to very low levels, the lease rates achievable when older, off-lease containers are leased out will also decrease and the prices obtained for containers sold at the end of their useful lives will also decrease. Since the beginning of 2013 until the second half of 2016 we saw new container pricing and the sale prices of our containers sold at the end of their useful lives decline. A decline in new container prices cause low market lease rates and low resale values for containers, which have and may in the future adversely affect our business, results of operations and financial condition, even if low new container prices allow us to purchase new containers at a lower cost. Our future financial performance and profitability depends in part on the lease rates increasing for current leases that expire during the next two to three years as many of these leases were concluded with low initial lease rates. A reversal in the current recovery of new container prices and lease rates would increase the difficulty of raising lease rates on long-term container leases that expire in the future.

Gains and losses associated with the disposition or trading of used equipment may fluctuate and adversely affect our business, results of operations and financial condition.

We regularly sell used containers at the end of their useful lives in marine service or when we believe it maximizes the projected financial return, considering the location, sale price, cost of repair, possible repositioning expenses, earnings prospects and remaining useful life. The realized residual value of these containers affects our profitability. The volatility of the residual values of used containers may be significant. These values depend upon, among other factors, demand for used containers for secondary purposes, comparable new container costs, used container availability, condition and location of the containers, and market conditions. Most of these factors are outside of our control. Additionally, if shipping lines or our leasing company competitors determine to sell their used containers at a younger age than we believe to be the useful life of our equipment, our containers may be more difficult to sell or may sell for less than containers that were more recently manufactured.

Gains or losses on the disposition of used container equipment and the sales fees earned on the disposition of managed containers fluctuate and may be significant if we sell large quantities of used containers. In 2018, 2017 and 2016, we incurred approximately \$14 million, \$4 million and \$66 million, respectively, of container impairments due to the fact that when we determined to dispose of containers their book value exceeded the fair market value. Low disposal

prices and the high volume of containers being disposed of can cause an elevated level of container impairments to occur. Continued low disposal prices and/or disposal volumes could harm our business, results of

8

operations and financial condition. See Item 5, “Operating and Financial Review and Prospects” for a discussion of our gains or losses on the disposition of used container equipment.

In addition to disposing of our fleet’s used containers at the end of their useful life, we opportunistically purchase used containers for resale from our shipping line customers and other sellers. Shipping lines either enter into trading deals with us at the time they are ready to dispose of older containers or enter into purchase leaseback transactions with us where they sell us older containers and then lease them back until the shipping line is ready to dispose of the containers. We face resale price risk with both transactions since by the time the container is provided to us from the shipping line the prevailing prices for older containers may have declined from the value we assumed at the time of purchase.

If the supply of trading equipment becomes limited because these sellers develop other means for disposing of their equipment or develop their own sales network, our equipment trading revenues and our profitability could be negatively impacted. If selling prices rapidly deteriorate and we are holding a large inventory that was purchased when prices for trading equipment were higher or if prices decline over the life of our purchase leaseback transactions, then our gross margins from trading and the sale of containers acquired through purchase leaseback transactions will decline or become negative. Low resale prices coupled with the higher prices paid for purchase leaseback transactions completed several years ago have caused some purchase leaseback transactions to be unprofitable.

The impact of new low sulphur emission rules is uncertain and may adversely affect us and the container shipping industry.

Effective January 1, 2020, under the rules of the International Maritime Organization (“IMO”) the permitted level of sulphur oxide emissions from ships, including container ships, will be reduced from 3.5% of emission mass to 0.5% of emissions mass. In order to comply with these regulations our shipping line customers will need to either switch to low sulphur diesel fuels, install emissions scrubbers on vessels to remove sulphur oxide from emissions gases or switch to alternative fuels like natural gas for their ships. Shipping lines are still determining and implementing their compliance strategies which may include a mix of the compliance approaches. It is expected that the cost for low sulphur diesel fuel will be substantially more than what shipping lines currently pay for bunker fuel. Installing gas scrubbers is an expensive capital expenditure to a ship and requires extensive retrofitting. If the higher fuel and environmental compliance costs from these rules are not successfully passed on via higher freight rates to shippers, or if freight demand declines due to higher shipping costs, our shipping line customers’ financial performance may weaken and the risk of default by our customers could increase. If higher freight rates cause lower cargo demand, the demand for our containers may decline and/or container lease rates and used container prices may decline, which would harm our business, results of operations and financial condition.

Lessee defaults have and may continue to harm our business, results of operations and financial condition by decreasing revenue and increasing storage, repositioning, collection, insurance and recovery expenses.

Our containers are leased to numerous container lessees. Lessees are required to pay rent and to indemnify us for damage to or loss of containers. Lessees may default in paying rent and performing other obligations under their leases. A delay or diminution in amounts received under the leases (including leases on our managed containers), or a default in the performance of maintenance or other lessee obligations under the leases could adversely affect our business, results of operations and financial condition and our ability to make payments on our debt.

We experienced several lessee defaults in 2016, including the default of Hanjin discussed above, which severely negatively impacted our financial performance and we believe that there is the continued risk of lessee defaults in the future. During the last several years shipping lines have made a number of efforts to raise freight rates on the major trade lanes, however rate increases have generally not been sustainable for long periods of time. Excess vessel

capacity due to new ship production, including the production of very large ships, and the re-activation of previously laid up vessels will continue to be a factor in the future, especially if older vessels are not scrapped. Major shipping lines are expected to be profitable overall for 2018, however reliable information about the financial position and resources of many shipping lines can be difficult to obtain. While containerized trade grew in 2018, it was not sufficient to fully utilize vessel capacity and major shipping lines both took delivery of, and

resumed ordering, large vessels. Existing excess vessel capacity and continued new vessel deliveries, especially the delivery of very large vessels, are expected to continue to pressure freight rates for some time. Additionally, the commencement of various tariff and trade restriction actions between major trading nations in 2018 has increased uncertainty about container trade growth and demand and may increase default risk if tariff actions continue and/or increase. The implementation of low sulphur oxide emissions rules noted above may weaken the financial performance of our customers and increase their risk of default. As a result, we continue to face heightened risk that our financial performance and cash flow could be severely affected by defaults by our customers.

When lessees default, we may fail to recover all of our containers, and the containers that we do recover may be recovered in locations where we will not be able to quickly re-lease or sell them on commercially acceptable terms. In recovery actions we must locate the containers and often need to pay accrued storage and handling charges to depots and terminals, which may include debts incurred by the defaulting shipping line. We also may have to reposition these containers to other places where we can re-lease or sell them, which could be expensive, depending on the locations and distances involved. Following repositioning, we may need to repair the containers and pay container depots for storage until the containers are re-leased. These recovery, repair and repositioning costs generally are reflected in our financial statements under direct container expense. Accordingly, the amount of our bad debt expense may not capture the total adverse financial impact on us from a shipping line's default. For our owned containers, these costs directly reduce our income and for our managed containers, lessee defaults decrease rental revenue and increase direct container expense, and thus reduce our management fee revenue. While we maintain insurance to cover some defaults, it is subject to large deductible amounts and significant exclusions and, therefore, may not be sufficient to prevent us from suffering material losses. In 2015 and 2016 we filed significant insurance claims for lessee defaults we experienced. As a result of these insurance claims, potential future insurance claims or changes in the perceived risk of providing default insurance, such insurance might not be available to us in the future on commercially reasonable terms or at all. In the renewals of our default insurance following the Hanjin bankruptcy, the policy premium was significantly increased and coverage was reduced. In any insurance claim our insurers may not agree with our determination that we have suffered an insured loss or our calculation of the amount of the insured loss. Any such future defaults could harm our business, results of operations and financial condition.

Historically we have recovered a very high percentage of the containers from defaulted lessees. However, in the last six years we encountered defaults from several smaller lessees and lessees in locations where recoveries did not track to our historical experience and significant losses were incurred. These losses were due to a number of containers being unrecoverable as the containers were not in the control of the lessee or the containers were detained by depots or terminals that demanded storage charges in excess of the value of the detained containers after accounting for repair and repositioning costs. Additionally, in certain recent insolvencies, even when we have recovered the containers, they have generally been in very poor condition which limits their ability to be re-leased and reduces their disposal value, both of which add to the ultimate cost of the default. If a material amount of future recoveries from defaulted lessees continue to deviate from our historical recovery experience, our financial performance and cash flow could be severely adversely affected.

Certain liens may arise on our containers.

Depot operators, manufacturers, repairmen, terminals, ship owners and transporters do come into possession of our containers from time to time and have amounts due to them from the lessees or sublessees of the containers. In the event of nonpayment of those charges by the lessees or sublessees, we may be delayed in, or entirely barred from, repossessing the containers, or be required to make payments or incur expenses to discharge such liens on our containers.

We derive a substantial portion of our lease billings from a limited number of container lessees, and the loss of, or reduction in business, by any of these container lessees could harm our business, results of operations and financial condition.

We have derived, and believe that we will continue to derive, a significant portion of lease billings and cash flow from a limited number of container lessees. Lease billings from our 20 largest container lessees represented \$493.9 million or 82.8% of the total fleet billings during 2018. Our two largest customers in 2018 were Mediterranean Shipping Company S.A., which accounted for \$84.2 million or 13.7% and CMA-CGM S.A., which

accounted for \$82.4 million or 13.4% of our total fleet's container lease rental income. Due to the ongoing consolidation in the shipping line industry, our 20 largest container lessees are becoming an increasing percentage of our total revenue, with correspondingly increased concentration of credit risk. Given the high concentration of our customer base, a default by any of our largest customers would result in a major reduction in leasing revenue, large repossession expenses, potentially large lost equipment charges and a material adverse impact on our performance and financial condition. Our experience with the Hanjin bankruptcy that commenced on August 31, 2016 is an example of the occurrence of these materially adverse events.

The introduction and use of very large container ships (18,000 TEU+) on the major trade lanes may lead to further industry consolidation and shipping line alliance participation, and even greater reliance by us on our largest customers, and negatively impact the performance of smaller and mid-size shipping lines. Several of the largest shipping lines have invested heavily in these very large ships and reportedly have achieved meaningful unit cost advantages and increased market shares on the major trade lanes. In response, some smaller shipping lines have started to exit the major trade lanes, while others are seeking to form closer operating partnerships.

Consolidation, shipping line alliances, and concentration in the container shipping industry could decrease the demand for leased containers.

We primarily lease containers to container shipping lines. The container shipping lines have historically relied on a large number of leased containers to satisfy their needs. The shipping industry has been consolidating for a number of years, and further consolidation is expected. In recent years two major German shipping lines have each acquired different South American shipping lines, a French shipping line acquired a Singaporean shipping line, two large Chinese shipping lines merged, a German shipping line merged with a Middle Eastern shipping line and a Danish shipping line acquired a German shipping line. Three major Japanese shipping lines also completed their merger in April 2018. Additionally, Hanjin declared bankruptcy in August 2016, further reducing the number of large shipping lines. Historically, shipping lines have also formed a number of alliances to share vessel space and the creation of new alliances and changes in the membership of each alliance is ongoing. Consolidation of major container shipping lines and growth of alliances could create efficiencies and decrease the demand that container shipping lines have for leased containers because they may be able to fulfill a larger portion of their needs through their owned container fleets. Consolidation could also create concentration of credit risk if the number of our container lessees decreases. If shipping line alliances are effective at making shipping lines more efficient, this could reduce the demand for containers. The growth of alliances may add pressure to those shipping lines that do not join an alliance as they may find it more difficult to cost effectively serve shippers needs and/or shippers may choose to only ship cargo with alliances due to solvency concerns or otherwise. Additionally, large container shipping lines with significant resources could choose to manufacture or purchase their own containers, which would decrease their demand for leased containers and could harm our business, results of operations and financial condition.

Our indebtedness reduces our financial flexibility and could impede our ability to operate.

We have historically operated with, and anticipate continuing to operate with, a significant amount of debt. As of December 31, 2018, we had outstanding indebtedness of \$3,437.8 million under our debt facilities. All of our outstanding indebtedness is secured debt collateralized primarily by our container assets and finance leases. There is no assurance that we will be able to refinance our outstanding indebtedness on terms that we can afford or at all. If we are unable to refinance our outstanding indebtedness, or if we are unable to increase the amount of our borrowing capacity, it could limit our ability to grow our business.

The amount of our indebtedness, and the terms of the related indebtedness (including interest rates and covenants), could have important consequences for us, including the following:

• require us to dedicate a substantial portion of our cash flows from operations to make payments on our debt, thereby reducing funds available for operations, investments, dividends, and future business opportunities and other purposes;

• limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;

• reduce our ability to make acquisitions or expand our business;

11

- make it more difficult for us to satisfy our current or future debt obligations;
- failure to comply with our debt obligations, including financial and other restrictive covenants, could result in an event of default under the agreements governing such indebtedness, which could lead to, among other things, an acceleration of our indebtedness or foreclosure on the assets securing our indebtedness and have a material adverse effect on our business or financial condition;
- limit our ability to borrow additional funds or to sell assets to raise funds, if needed, for working capital, capital expenditures, acquisitions or other purposes; and
- increase our vulnerability to general adverse economic and industry conditions, including changes in interest rates.

We may not generate sufficient cash flow from operations to service and repay our debt and related obligations and have sufficient funds left over to achieve or sustain profitability in our operations, meet our working capital and capital expenditure needs and/or compete successfully in our industry. An uncured event of default in some or all of our debt facilities could cause some or all of our entities to be declared bankrupt or liquidated.

We will require a significant amount of cash to service and repay our outstanding indebtedness, fund future capital expenditures, and our ability to generate cash depends on many factors beyond our control.

Our ability to make payments on and repay our indebtedness and to fund planned capital expenditures will depend on our ability to generate cash in the future. Our business primarily generates cash from our container assets. Our lenders, rating agencies and the investors in our asset-backed debt securities look to the historical and anticipated performance of our container assets when deciding whether to lend to us and the terms for such lending. It is possible that:

- our business will not generate sufficient cash flow from operations to service and repay our debt and to fund working capital requirements and future capital expenditures;
- future borrowings will not be available under our current or future credit facilities in an amount sufficient to enable us to refinance our debt; or
- we will not be able to refinance any of our debt on commercially reasonable terms or at all due to declining historical or anticipated financial performance of our assets or for other reasons.

The terms of our debt facilities impose, and the terms of any future indebtedness may impose, significant operating, financial and other restrictions on us and our subsidiaries.

Restrictions imposed by our secured debt facilities, revolving credit facilities, term loan and bonds may limit or prohibit, among other things, our ability to:

- incur additional indebtedness;
- pay dividends on or redeem or repurchase our common shares;
- enter into new lines of business;
- issue capital stock of our subsidiaries;
- make loans and certain types of investments;
- incur liens;
- sell certain assets or merge with or into other companies or acquire other companies;
- enter into certain transactions with shareholders and affiliates; and
- restrict dividends, distributions or other payments from our subsidiaries.

We are also required to comply with certain financial covenants. These restrictions could adversely affect our ability to finance our future operations or capital needs and pursue available business opportunities. A breach of any of these financial covenants and restrictions, due to weaker financial performance, reduced asset values or otherwise could result in a default in respect of the related indebtedness. If a default occurs, the relevant lenders could elect to

declare the indebtedness, together with accrued interest and fees, to be immediately due and payable and proceed against any collateral securing that indebtedness, which will constitute substantially all of our container assets and finance leases. As a result of the Hanjin bankruptcy, coupled with the lower container returns provided in recent years due to increased competition and lower realized used container prices, in 2016 and 2017 we experienced difficulty in meeting certain of the financial covenants on our lending facilities. We obtained various covenant amendments and waivers to address this situation and subsequently refinanced the majority of our debt with revised covenants. If needed in the future we may be unable to obtain covenant amendments and waivers from our lenders and some or all of our indebtedness could be in default. Additionally, covenant amendments and waivers may limit our ability to access additional funds for container investment and the cost and expense of covenant amendments, waivers and/or refinancing may limit our available funds for container investment.

If we are unable to enter into interest rate swaps, collars and caps on reasonable commercial terms or if a counterparty under our interest rate swap, collar and cap agreements defaults, our exposure associated with our variable rate debt could increase.

We have typically funded a significant portion of the purchase price of new containers through borrowings under our revolving credit facilities and our secured debt facilities and intend to use borrowings under our revolving credit facilities and our secured debt facilities for such funding in the future. All of our outstanding debt, other than the \$1,327.2 million in aggregate principal amount under our TMCL VI Term Loan, Series 2017-1, Series 2017-2 and Series 2018-1 Fixed Rate Asset Backed Notes are subject to variable interest rates. We have entered into various interest rate swap, collar and cap agreements to mitigate our exposure associated with variable rate debt. The swap agreements involve payments by us to counterparties at fixed rates in return for receipts based upon variable rates indexed to the London Inter Bank Offered Rate. There can be no assurance that interest rate swaps, collars and caps will be available in the future, or if available, will be on terms satisfactory to us. Moreover, our interest rate swap agreements are subject to counterparty credit exposure, which is defined as the ability of a counterparty to perform its financial obligations under a derivative contract. While we monitor our counterparties' credit ratings on an on-going basis, we cannot be certain that they will stay in compliance with the related derivative agreements and not default in the future. If we are unable to obtain interest rate swaps, collars and caps or if a counterparty under our interest rate swap, collar and cap agreements defaults, our exposure associated with our variable rate debt could increase.

Even with hedged variable rate debt and fixed rate debt, we face interest rate risk.

We generally hedge and fix our overall debt exposure to have a maturity similar to the average remaining lease term of our long-term lease contracts. However if during the duration of our hedging, interest rates increase but lease rate per diems do not also increase, as our hedges expire our financial performance may decline due to higher interest rates not being offset by higher per diems. If this occurs we may not be able to generate sufficient cash flows to service our debt obligations and/or we may breach our debt covenants, all of which would materially and adversely impact us.

We may incur significant costs to reposition our containers, which could harm our business, results of operations and financial condition.

When lessees return containers to locations where supply exceeds demand and when lessees default and we recover containers, we sometimes reposition containers to higher demand areas. Repositioning expenses vary depending on geographic location, distance, freight rates and other factors, and may not be fully covered by drop-off charges collected from the previous lessee of the containers or pick-up charges paid by the new lessee. We seek to limit the number of and impose surcharges on containers returned to low demand locations. Market conditions, however, may not enable us to continue such practices. In addition, we may not be able to accurately anticipate which locations will

be characterized by higher or lower demand in the future, and our current contracts will not protect us from repositioning costs if locations that we expect to be higher demand locations turn out to be lower demand locations at the time the containers are returned. For example, the vast majority of our long-term leases require that a high percentage of the containers are returned in Asia, primarily in China. If long-term trade patterns change, it may not be economically desirable to have the bulk of our containers returned in China at the end of long-term leases. Additionally, our customer default insurance that covers lessee insolvencies does not sufficiently insure

us for container repositioning expense. Any such increases in costs to reposition our containers could harm our business, results of operations and financial condition.

The demand for leased containers is partially tied to international trade. If this demand were to decrease due to increased barriers to trade, or for any other reason, it could reduce demand for intermodal container leasing, which would harm our business, results of operations and financial condition.

A substantial portion of our containers are used in trade involving goods being shipped from the People's Republic of China (the "PRC" or "China") and other Asian countries to the United States, Europe, Latin America or other regions and within Asia. The willingness and ability of international consumers to purchase foreign goods is dependent on political support, in the United States, Europe Latin America and other countries, for an absence of government-imposed barriers to international trade in goods and services. For example, international consumer demand for foreign goods is related to price; if the price differential between foreign goods and domestically-produced goods were to decrease due to increased tariffs on foreign goods, strengthening in the applicable foreign currencies relative to domestic currencies, rising wages, increasing input or energy costs or other factors, demand for foreign goods could decrease, which could result in reduced demand for intermodal container leasing. A similar reduction in demand for intermodal container leasing could result from an increased use of quotas or other technical barriers to restrict trade. In 2018 a number of major trading economies implemented and increased tariffs and other trade restrictions and significant renegotiations of existing trade agreements commenced and continue. If these trade restrictions and tariffs continue or increase it may materially impact container demand and change trade patterns. The current regime of relatively free trade may not continue.

A contraction or slowdown in containerized cargo growth or negative containerized cargo growth would lead to a surplus of containers and a lack of storage space, which could negatively impact us.

We depend on third party depot operators to repair and store our equipment in port areas throughout the world. Growth in the world's container fleet has significantly outpaced growth in depot capacity and even in the current period of historically high utilization, we continue to experience limited depot capacity in certain major port cities. Additionally, the land occupied by depots is increasingly being considered prime real estate, as it is coastal land in or near major cities, and this land may be developed into other uses or there may be increasing restrictions on depot operations by local communities. This trend has already caused depot storage costs to increase and could further increase depots' costs and in some cases force depots to relocate to sites further from the port areas. If these changes affect a large number of our depots, or if we experience a period of lower container utilization, it could significantly increase the cost of maintaining and storing our off-hire containers. Additionally, if depot space is unavailable, we may be unable to accept returned containers from lessees, which may cause us to breach our lease agreements.

We own a large number of containers in our fleet and are subject to significant ownership risk and increasing our owned fleet entails increasing our debt, which could result in financial instability.

Ownership of containers entails greater risk than management of containers for container investors. In 2018, the percentage of containers in our fleet that we own increased from 74.6% at the beginning of the year to 78.9% at the end of the year. In the years prior to 2017 we have consistently increased the number of owned containers in our fleet as a percentage of the total fleet, however in 2017 we assumed management of a large fleet from an insolvent leasing company which caused the owned percentage of our fleet to decline a few percentage points. In October 2018 we purchased the 75% of TW Container Leasing Limited that we did not own from an affiliate of Wells Fargo and this caused the owned percentage of our fleet to increase 2 percentage points. The increased number of containers in our owned fleet increases our exposure to financing costs, financing risks, changes in per diem rates, re-leasing risk, changes in utilization rates, lessee defaults, repositioning costs, storage expenses, impairment charges and changes in sales prices upon the disposition of containers. The number of containers in our owned fleet fluctuates over time as we

purchase new containers, sell containers into the secondary resale market, and acquire other fleets.

If we increase the number of containers in our owned fleet, we will likely have more capital at risk and may need to maintain higher debt balances. Additional borrowings may not be available under our revolving credit facilities or our secured debt facilities, and we may not be able to refinance these facilities, if necessary, on commercially reasonable terms or at all. We may need to raise additional debt or equity capital in order to fund our

business, expand our sales activities and/or respond to competitive pressures. We may not have access to the capital resources we desire or need to fund our business or may not have access on attractive terms. These factors, among others, may reduce our profitability and adversely affect our plans to maintain the container ownership portion of our business.

If we are unable to lease our new containers shortly after we purchase them, our business, results of operations, cash flows and financial condition may be harmed.

Lease rates for new containers are positively correlated to the fluctuations in the price of new containers, which is positively correlated with the price of steel, a major component used in the manufacture of new containers. If we are unable to lease the new containers that we purchase within a short period of time of such purchase, the market price of new containers and the corresponding market lease rates for new containers may decrease, regardless of the higher cost of the previously purchased containers. Additionally, if we believe new container prices are attractive, we may purchase more containers than we have immediate demand for if we expect container prices or lease rates may rise. If prices do not rise or new container demand weakens, we may be unable to lease this speculative inventory on attractive terms or at all. Declines in new container prices, lease rates, or the inability to lease new containers could harm our business, results of operations and financial condition.

Consolidation of container manufacturers or the disruption of manufacturing for the major manufacturers could result in higher new container prices and/or decreased supply of new containers. Any material increase in the cost or reduction in the supply of new containers could harm our business, results of operations and financial condition.

We currently purchase almost all of our containers from manufacturers based in the PRC. If it were to become more expensive for us to procure containers in the PRC or to transport these containers at a low cost from the manufacturer to the locations where they are needed by our container lessees because of changes in exchange rates between the U.S. Dollar and Chinese Yuan, consolidation among container suppliers, increased tariffs imposed by the U.S. or other governments, changing trade patterns, increased fuel costs, increased labor costs, or for any other reason, we may have to seek alternative sources of supply and we may not be able to make alternative arrangements quickly enough to meet our container needs, and the alternative arrangements may increase our costs.

The availability and price of containers depend significantly on the capacity and bargaining position of the major container manufacturers. Three major manufacturers have approximately 80% of that industry's market share. This market structure and the commodity inputs used in manufacturing have led to significant variability in container prices. In particular, the increased focus on environmental matters in China may reduce the supply (and increase the cost) of steel and other raw materials used in our containers and the mandatory use of water borne paint by all container factories in China has already increased the cost of containers and created container production constraints. If an increased cost of purchasing containers is not matched by a corresponding increase in lease rates, or if we have difficulty in sourcing containers, our business, results of operations and financial condition would be harmed.

Sustained reduction in the production of new containers could harm our business, results of operations and financial condition.

The lack of new production of standard dry freight containers from the fourth quarter of 2008 through the end of 2009, combined with continued retirement of older containers in the ordinary course, led to a decline in the world container fleet of approximately 4% in 2009, creating a shortage of containers as worldwide cargo volumes increased by 12.0% in 2010 and 8.6% in 2011. During the period of decline in the world container fleet, container manufacturers lost up to 60% of their skilled work force due to long shutdowns, and had limited production capacity in 2010 as they had to

hire and train a new skilled work force. Although manufacturers resumed production in 2011 and continued steady production from 2012 through 2018, if there is a sustained reduction in the production of new containers, it could impact our ability to expand our fleet, which could harm our business, results of operations and financial condition.

Terrorist attacks, the threat of such attacks or the outbreak of war and hostilities could negatively impact our operations and profitability and may expose us to liability.

Terrorist attacks and the threat of such attacks have contributed to economic instability in the U.S. and elsewhere, and further acts or threats of terrorism, violence, war or hostilities could similarly affect world trade and the industries in which we and our container lessees operate. For example, worldwide containerized trade dramatically decreased in the immediate aftermath of the September 11, 2001 terrorist attacks in the U.S., which affected demand for leased containers. In addition, terrorist attacks, threats of terrorism, violence, war or hostilities may directly impact ports, depots, our facilities or those of our suppliers or container lessees and could impact our sales and our supply chain. A severe disruption to the worldwide ports system and flow of goods could result in a reduction in the level of international trade and lower demand for our containers.

Our lease agreements require our lessees to indemnify us for all costs, liabilities and expenses arising out of the use of our containers, including property damage to the containers, damage to third-party property and personal injury. However, our lessees may not have adequate resources to honor their indemnity obligations after a terrorist attack. Our insurance coverage is limited and is subject to large deductibles and significant exclusions and we have very limited insurance for liability arising from a terrorist attack. Accordingly, we may not be protected from liability (and expenses in defending against claims of liability) arising from a terrorist attack.

We face extensive competition in the container leasing industry.

We may be unable to compete favorably in the highly competitive container leasing and container management businesses. We compete with a relatively small number of major leasing companies, many smaller lessors, companies and financial institutions offering finance leases, and promoters of container ownership and leasing as a tax-efficient investment. Some of these competitors may have greater financial resources and access to capital than we do. Additionally, some of these competitors may have large, underutilized inventories of containers, which could, if leased, lead to significant downward pressure on per diem rates, margins and prices of containers. Competition among container leasing companies depends upon many factors, including, among others: per diem rates; supply reliability; lease terms, including lease duration, drop-off restrictions and repair provisions; customer service; and the location, availability, quality and individual characteristics of containers. In recent years several container leasing companies have acquired other container lessors and we may face increased competition from these merged firms. Following the completion of each consolidation, the new entity may face further pressure for fleet growth and may compete even more aggressively, causing further declines in rental rates available from container leases. New entrants into the leasing business may be attracted by the historically high rate of containerized trade growth, access to the capital markets and low pricing for containers. New entrants may be willing to offer pricing or other terms that we are unwilling or unable to match. Additionally, the management agreements under which we manage containers for other parties do not restrict these container owners from having other container fleets managed by competing leasing companies or from directly competing with us.

Our lessees may decide to buy, rather than lease their containers.

We, like other suppliers of leased containers, are dependent upon decisions by shipping lines to lease rather than to buy their container equipment. Shipping lines own a significant amount of the world's intermodal containers and effectively compete with us. In part due to constraints on their financing and need to allocate capital to new ship purchases and port terminals, in recent years, shipping lines have generally reduced their purchases of new containers. In 2018 we believe that about 60% of all shipping containers were purchased by leasing companies. Although we believe that this percentage should somewhat rebalance itself we still expect leasing companies to be a majority purchaser of the new containers to be produced. Should shipping lines decide to buy a larger percentage of the containers they operate, our utilization rate would decrease, resulting in decreased leasing revenues, increased storage

costs and increased positioning costs. A decrease in the portion of leased containers would also reduce our investment opportunities and significantly constrain our growth.

For reporting periods beginning in 2019, the new accounting guidance under both generally accepted accounting principles in the United States of America (“U.S. GAAP”) and International Financial Reporting Standards (“IFRS”) requires recognition of right-of-use asset and corresponding lease liability of operating leases on the lessees’ balance sheet. Because the new leasing guidance virtually eliminates the financial statement benefit of entering into operating leases for the lessees, it could change our customers’ “lease vs. buy” decision and/or decision on lease structures and terms.

Our results of operations are subject to changes resulting from the political and economic policies of the PRC and economic activity in the PRC.

A substantial portion of our containers are leased out from locations in the PRC. The main manufacturers of containers are also located in the PRC. The political and economic policies of the PRC and the level of economic activity in the PRC may have a significant impact on our company and our financial performance.

Changes in the political leadership of the PRC may have a significant effect on laws and policies that impact economic growth and trade and the corresponding need for containers to ship goods from the PRC, including the introduction of measures to control inflation, changes in the rate or method of taxation, and the imposition of additional restrictions on currency conversion, remittances abroad, and foreign investment. Moreover, economic reforms and growth in the PRC have been more successful in certain provinces than in others, and the continuation of or increases in such disparities could affect the political or social stability of the PRC. Furthermore, the current high level of debt by some companies in China may lead to defaults which may not be supported by the Chinese government. In recent years the rate of economic growth in the PRC has declined. Additionally, government policies that reduce the emphasis on manufacturing and increase priorities for domestic consumption and services may alter trade patterns and reduce demand for containers. Chinese government environmental policies and practices may reduce steel production which would impact container costs and may limit factory production, which could impact trade growth and container demand.

A large number of our shipping line customers are domiciled either in the PRC (including Hong Kong) or in Taiwan. In 2018, approximately 29.6% of our revenue was attributable to shipping line customers that were either domiciled in the PRC (including Hong Kong) or in Taiwan. Almost all container manufacturing facilities from which we purchased our containers in 2018 are located in the PRC. A reduced rate of economic growth, changes to economic or trade policy or political instability in either the PRC or Taiwan could have a negative effect on our major customers, our ability to obtain containers and correspondingly, our results of operations and financial condition.

The legal systems in the PRC and other jurisdictions have inherent uncertainties that could limit the legal protections available to us and even if legal judgments are obtained, collection may be difficult.

We currently purchase almost all of our containers from manufacturers based in the PRC. In addition, a substantial portion of our containers are leased out from locations in the PRC. California law governs almost all of these agreements. However, disputes or settlements arising out of these agreements may need to be enforced in the PRC. The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since 1979, PRC legislation and regulations have significantly enhanced the protections afforded to various forms of foreign investments in the PRC. However, since these laws and regulations are relatively new and the PRC legal system continues to evolve, the interpretations of many laws, regulations and rules are not always uniform and may be subject to considerable discretion, variation, or influence by external forces unrelated to the legal merits of a particular matter. The enforcement of these laws, regulations, and rules involves uncertainties that may limit remedies available to us. Any litigation or arbitration in the PRC may be protracted and may result in substantial costs and diversion of resources and management attention. In addition, the PRC may enact new laws or amend current laws that may be detrimental to us, which may have a material adverse effect on our business operations. If we are unable to enforce any legal rights that we may have under our contracts or otherwise in the PRC, our ability to compete and our results of operations could be harmed.

In addition, as our containers are used in trade involving goods being shipped to locations throughout the world, it is not possible to predict, with any degree of certainty, the jurisdictions in which enforcement proceedings may be commenced. Litigation and enforcement proceedings have inherent uncertainties in any jurisdiction and are expensive. These uncertainties are enhanced in countries that have less developed legal systems where the interpretation of laws

and regulations is not consistent, may be influenced by factors other than legal merits and may be cumbersome, time-consuming and even more expensive. For example, repossession from defaulting lessees may be difficult and more expensive in jurisdictions whose laws do not confer the same security interests and rights to creditors and lessors as those in the United States and where the legal system is not as well developed. Additionally, even if we are successful in obtaining judgments against defaulting lessees, these lessees may have limited owned assets and/or heavily encumbered assets and the collection and enforcement of a monetary judgment may be unsuccessful. As a result, the remedies available and the relative success and expedience of collection and enforcement proceedings with respect to the containers in various jurisdictions cannot be predicted.

Because substantially all of our revenues are generated in U.S. dollars, but a significant portion of our expenses are incurred in other currencies, exchange rate fluctuations could have an adverse impact on our results of operations.

The U.S. dollar is our primary operating currency. Almost all of our revenues are denominated in U.S. dollars, and approximately 81% of our direct container expenses were denominated in U.S. dollars for the year ended December 31, 2018. Accordingly, a significant amount of our expenses are incurred in currencies other than the U.S. dollar. This difference could lead to fluctuations in net income due to changes in the value of the U.S. dollar relative to the other currencies. During 2018, 2017 and 2016, 19%, 25%, and 36%, respectively, of our direct container expenses were paid in up to 20 different foreign currencies. A decrease in the value of the U.S. dollar against non-U.S. currencies in which our expenses are incurred translates into an increase in those expenses in U.S. dollar terms, which would decrease our net income. While the prices of the used containers we trade or dispose are primarily quoted and billed in U.S. Dollars, declines in the currencies where these containers are sold relative to the U.S. Dollar can serve to reduce the market prices for used containers, which will decrease our net income. We do not engage in foreign currency hedging activities which might reduce the volatility associated with exchange rates.

Sustained Asian economic instability could reduce demand for leasing, which would harm our business, results of operations and financial condition.

Many of our customers are substantially dependent upon shipments of goods exported from Asia. From time to time, there have been health scares, such as Severe Acute Respiratory Syndrome and avian flu, financial turmoil, natural disasters and political instability in Asia. If these events were to occur in the future, they could adversely affect our container lessees and the general demand for shipping and lead to reduced demand for leased containers or otherwise adversely affect us. Any reduction in demand for leased containers would harm our business, results of operations and financial condition.

The international nature of the container shipping industry exposes us to numerous risks.

We are subject to risks inherent in conducting business across national boundaries, any one of which could adversely impact our business. These risks include:

- regional or local economic downturns;
- fluctuations in currency exchange rates;
- changes in governmental policy or regulation;
- restrictions on the transfer of funds or other assets into or out of different countries;
- import and export duties and quotas;
- domestic and foreign customs, tariffs and taxes;
- war, hostilities and terrorist attacks, or the threat of any of these events;
- government instability;
- nationalization of foreign assets;
- government protectionism;
- compliance with export controls and economic sanctions, including those of the U.S. Department of Commerce and the U.S. Treasury or other governments;
- compliance with import procedures and controls, including those of the U.S. Department of Homeland Security or other governments;
- consequences from changes in tax laws, including tax laws pertaining to the container investors;
- potential liabilities relating to foreign withholding taxes;
- labor or other disruptions at key ports;

• difficulty in staffing and managing widespread operations; and
• restrictions on our ability to own or operate subsidiaries, make investments or acquire new businesses in various jurisdictions.

One or more of these factors or other related factors may impair our current or future international operations and, as a result, harm our business, results of operations and financial condition.

We rely on our proprietary information technology systems to conduct our business. If these systems fail to perform their functions adequately, or if we experience an interruption in their operation, our business, results of operations and financial condition could be harmed.

The efficient operation of our business is highly dependent on our proprietary information technology systems. We rely on our systems to record transactions, such as repair and depot charges, purchases and disposals of containers and movements associated with each of our owned or managed containers. We use the information provided by these systems in our day-to-day business decisions in order to effectively manage our lease portfolio, reduce costs and improve customer service. We also rely on these systems for the accurate tracking of the performance of our managed fleet for each container investor. The failure of our systems to perform as we expect could disrupt our business, adversely affect our results of operations and cause our relationships with lessees and container investors to suffer. Our information technology systems are vulnerable to damage or interruption from circumstances beyond our control, including fire, natural disasters, power loss and computer systems failures and viruses or cyber-attacks. Even though we have developed redundancies and other contingencies to mitigate any disruptions to our information technology systems, these redundancies and contingencies may not completely prevent interruptions to our information technology systems. In recent years we have moved various information technology systems and data to cloud-based storage providers and software vendors. We face additional risks from relying on third parties to store, process and manage our data and software. Any such interruptions could harm our business, results of operations and financial condition.

Cyber attacks and/or information technology security breaches on us or our customers could materially and adversely affect us.

If we, our customers or other third parties with which we do business were to fall victim to successful cyber-attacks or experience other cybersecurity incidents that cause the system failure, downtime, or the loss of sensitive data, we may incur substantial costs and suffer other negative consequences. Our ability to handle the delivery and return of containers, lease billing, and the sale of older containers is dependent on the stable operation of our information technology systems. Our customers' ability to generate revenue and make timely payments to us is similarly dependent on the stable operation of their information technology systems. Successful breaches, employee malfeasance, or human or technological error could result in, for example, unauthorized access to, disclosure, modification, misuse, loss, or destruction of company, customer, or other third party data or systems; theft of sensitive, regulated, or confidential data; the loss of access to critical data or systems through ransomware, destructive attacks or other means; and business delays, service or system disruptions or denials of service.

Cybersecurity incidents have increased in number and severity and it is expected that these trends will continue. Should the Company be affected by such an incident, we may incur substantial costs and suffer other negative consequences, which may include substantial remediation costs, such as liability for stolen assets or information, repairs of system damage, and incentives to customers or business partners in an effort to maintain relationships after an attack, as well as litigation and legal risks.

Use of counterfeit and improper refrigerant in refrigeration machines for refrigerated containers could cause irreparable damage to the refrigeration machines, death or personal injury, and materially impair the value of our refrigerated container fleet.

In past years, there were a limited number of reports of counterfeit and improper refrigerant gas being used to service refrigeration machines in depots primarily in Asia. The use of this counterfeit gas has led to the explosion of several refrigeration machines. Several of these incidents resulted in personal injury or death, and in all cases, the counterfeit gas led to irreparable damage to the refrigeration machines.

Safer testing procedures were developed and implemented by refrigeration manufacturers and industry participants in order to determine whether counterfeit or improper gas was used to service a refrigeration machine. However, there can be no assurance that these procedures will prove to continue to be reliable and cost effective. If industry procedures and tests are not proven safe and effective or if the use of such counterfeit and improper refrigerant recurs and is widespread or other counterfeit refrigerant issues emerge in the future, the value of our refrigerated container fleet and our ability to lease refrigerated containers could be materially impaired and could therefore have a material adverse effect on our financial condition, results of operations and cash flows. Additionally, we might be subject to claims for damages by parties injured by contaminated refrigeration machinery operated by our lessees which may materially adversely affect us.

We face risks from our tank container management agreement with Trifleet Leasing (The Netherlands) B.V.

In June 2013 we announced that we had entered into a tank container management agreement with Trifleet Leasing (The Netherlands) B.V. (“Trifleet”). Under this agreement, we invest funds with Trifleet for the purchase and leasing of tank containers. Trifleet is our exclusive manager for investments in tank containers. Intermodal tank containers are used for the transport and storage of liquid foodstuffs, chemicals and gases. This is a specialized market subject to a number of regulations and strict operating procedures. As Trifleet is investing funds on our behalf in tank containers, our return on any investments under this management agreement are highly reliant on their skill and performance, as well as, the overall investment climate for tank containers. While we approve of the amounts committed under the management agreement, Trifleet selects the lessees, negotiates lease terms, determines equipment specifications, negotiates equipment orders and supervises production, and is responsible for all other management activities including customer billing, equipment return, re-leasing, maintenance and repairs. If Trifleet or the tank container market does not perform as we anticipate, we may not receive adequate returns on our investment and our results could be materially impacted. Additionally, given the nature of tank containers and their cargos, our ownership of tank containers could expose us to different and additional risks than we generally face as the owner and lessor of dry freight and refrigerated containers. While lessees, Trifleet and ourselves all maintain insurance, and lessees agree to accept liability for claims caused by the operation of tank containers, this may still be inadequate to shield us from costs and liability from any claims arising from tank containers that we own pursuant to the Trifleet management agreement.

If our insurance is inadequate or if we are unable to obtain insurance, we may experience losses.

Under all of our leases, our lessees are generally responsible for loss of or damage to a container beyond ordinary wear and tear, and they are required to purchase insurance to cover any other liabilities. Our depots are also required to maintain insurance and indemnify us against losses. We also maintain our own insurance to cover our containers when they are not on-hire to lessees or when the lessee fails to have adequate primary coverage, and third-party liability insurance for both on-hire and off-hire containers. In addition, we maintain insurance that, after satisfying our deductibles, would cover loss of revenue as a result of default under most of our leases, as well as, the recovery cost or replacement value of most of our containers. Lessees’ and depots’ insurance policies and indemnity rights may not protect us against losses. Our own insurance may prove to be inadequate to prevent against losses or in the future coverage may be unavailable or uneconomic, and losses could arise from a lack of insurance coverage.

U.S. investors in our company could suffer adverse tax consequences if we are characterized as a passive foreign investment company for U.S. federal income tax purposes.

Based upon the nature of our business activities, we could be classified in the future as a passive foreign investment company (“PFIC”) for U.S. federal income tax purposes. Such characterization could result in adverse U.S. tax consequences to direct or indirect U.S. investors in our common shares. For example, if we are a PFIC, our U.S. investors could become subject to increased tax liabilities under U.S. tax laws and regulations and could become subject to burdensome reporting requirements. The determination of whether or not we are a PFIC is made on an annual basis and depends on the composition of our income and assets from time to time. Specifically, for any taxable year we will be classified as a PFIC for U.S. tax purposes if either:

- 75% or more of our gross income in the taxable year is passive income, or
- the average percentage of our assets (which includes cash) by value in a taxable year which produce or are held for the production of passive income is at least 50%.

In applying these tests, we are treated as owning or generating directly our pro rata share of the assets and income of any corporation in which we own at least 25% by value. In addition, the composition of our income and assets will be affected by how, and how quickly, we spend the cash we have raised.

Under the PFIC rules, unless a U.S. investor is permitted to and does elect otherwise under the Internal Revenue Code, such U.S. investor would be liable to pay U.S. federal income tax at the then prevailing income tax rates on ordinary income plus interest upon excess distributions and upon any gain from the disposition of our common shares, as if the excess distribution or gain had been recognized ratably over the investor’s holding period for our common shares. Based on the composition of our income, valuation of our assets (including goodwill), and our election to treat certain of our subsidiaries as disregarded entities for U.S. federal income tax purposes, we do not believe we were a PFIC for any period after our initial public offering (“IPO”) date and we do not expect that we should be treated as a PFIC for our current taxable year. However, there can be no assurance at all in this regard. Because the PFIC determination is highly fact intensive and made at the end of each taxable year, it is possible that we may be a PFIC for the current or any future taxable year or that the U.S. Internal Revenue Service (“IRS”) may challenge our determination concerning our PFIC status.

We may become subject to unanticipated tax liabilities that may have a material adverse effect on our results of operations.

Textainer Group Holdings Limited is a Bermuda company, and we believe that a significant portion of the income derived from our operations will not be subject to tax in Bermuda, which currently has no corporate income tax, or in many other countries in which we conduct activities or in which our customers or containers are located. However, this belief is based on the anticipated nature and conduct of our business, which may change. It is also based on our understanding of our position under the tax laws of the countries in which we have assets or conduct activities. This position is subject to review and possible challenge by taxing authorities and to possible changes in law that may have retroactive effect.

A portion of our income is treated as effectively connected with our conduct of a trade or business within the U.S., and is accordingly subject to U.S. federal income tax. It is possible that the IRS will conclude that a greater portion of our income is effectively connected income that should be subject to U.S. federal income tax.

Our results of operations could be materially and adversely affected if we become subject to a significant amount of unanticipated tax liabilities.

Our U.S. subsidiaries may be treated as personal holding companies for U.S. federal tax purposes now or in the future.

Any of our direct or indirect U.S. subsidiaries could be subject to additional U.S. tax on a portion of its income if it is considered to be a personal holding company (“PHC”) for U.S. federal income tax purposes. This status depends on whether more than 50% of the subsidiary’s shares by value could be deemed to be owned (taking into account constructive ownership rules) by five or fewer individuals and whether 60% or more of the subsidiary’s

adjusted ordinary gross income consists of “personal holding company income,” which includes certain forms of passive and investment income. The PHC rules do not apply to non-U.S. corporations. We believe that none of our U.S. subsidiaries should be considered PHCs. In addition, we intend to cause our U.S. subsidiaries to manage their affairs in a manner that reduces the possibility that they will meet the 60% income threshold. However, because of the lack of complete information regarding our ultimate share ownership (i.e., particularly as determined by constructive ownership rules), our U.S. subsidiaries may become PHCs in the future and, in that event, the amount of U.S. federal income tax that would be imposed could be material.

Changes in tax laws or their application could adversely affect the results of our operations.

Our worldwide operations are taxed under the laws of the jurisdictions in which we operate. However, the integrated nature of our worldwide operations can produce conflicting claims from revenue authorities in different countries as to the profits to be taxed in the individual countries, including disputes relating to transfer pricing. Some of the jurisdictions in which we operate have double tax treaties with other foreign jurisdictions, which provide a framework for mitigating the impact of double taxation on our revenues and capital gains. However, mechanisms developed to resolve such conflicting claims are largely uncertain, and can be expected to be very lengthy in coming to a final determination in the applicable jurisdictions.

In recent years, tax authorities around the world have increased their scrutiny of company tax filings, and have become more rigid in exercising any discretion they may have. As part of this, the Organization for Economic Co-operation and Development (“OECD”) has proposed a number of tax law changes under its Base Erosion and Profit Shifting (“BEPS”) Action Plans to address issues of transparency, coherence and substance.

These OECD tax reform initiatives also need local country implementation, including in the Bermuda and U.S., which may result in significant changes to established tax principles. In response to EU efforts to investigate the tax policies of non-EU jurisdictions, effective December 31, 2018 Bermuda adopted the Economic Substance Act of 2018, which requires that Bermuda registered entities engaged in certain relevant activities (which include finance, leasing and shipping) maintain sufficient economic substance and activities in Bermuda. The failure to comply with the Economic Substance Act may result in fines and penalties and ultimately the striking off of an entity from the Bermuda corporate register. The Economic Substance Act takes effect on July 1, 2019 and additional guidance is expected from the Bermuda government about the implementation of, and compliance with, the Act. Bermuda was blacklisted by the EU on March 12, 2019 as they claim that Bermuda failed to enact the required Economic Substance legislation on time. Bermuda has stated that this was the result of a typographical error in the legislation that had been corrected and they expect to be removed from this list at the next meeting of the EU Council in May 2019. However, there can be no assurance that Bermuda will be removed from this list and this could have implications for the Company. We may be unable to comply with the Economic Substance Act or compliance with the act may materially adversely impact our operations and results. Penalties for noncompliance could adversely affect our operations and results.

In addition, in the U.S., the U.S. Tax Cuts and Job Act of 2017 was signed into law on December 22, 2017 (the “New Tax Act”), which includes substantial changes to the U.S. taxation of individuals and businesses. The New Tax Act also establishes new tax laws that will affect our operations, including, but not limited to, (1) reduction of the U.S. federal corporate tax rate; (2) elimination of the corporate alternative minimum tax; (3) the creation of the base erosion anti-abuse tax (“BEAT”), a new minimum tax on taxable income adjusted for certain base erosion payments; (4) a general elimination of U.S. federal income taxes on dividends from foreign subsidiaries; (5) a new provision designed to currently tax certain global intangible low-taxed income (“GILTI”) of controlled foreign corporations, which allows for the possibility of using foreign tax credits (“FTCs”) and a deduction of up to 50% to reduce this income tax liability (subject to some limitations); (6) a new limitation on deductible interest expense; (7) limitations on the deductibility of certain executive compensation; (8) limitations on the use of FTCs to reduce the U.S. income

tax liability; and (9) limitations on net operating losses generated in the taxable years beginning after December 31, 2017, to 80% of taxable income. Our financial statements for the year ended December 31, 2018 reflect the effects of the New Tax Act based on current guidance. However, there are uncertainties and ambiguities in the application of certain provisions of the New Tax Act, and as a result we made certain judgments and assumptions in the interpretation thereof. The U.S. Treasury Department and the Internal Revenue Service may issue further guidance on how the provisions of the New Tax Act will be applied or otherwise administered that differs from our current interpretation. In addition, the New Tax Act could be subject to potential amendments and

technical corrections, any of which could materially lessen or increase certain adverse impacts of the legislation on us. As we further analyze the impact of the New Tax Act and collect relevant information, we may make adjustments to the provisional amounts.

In general, such tax reform efforts, including with respect to tax base or rate, transfer pricing, intercompany dividends, cross border transactions, controlled corporations, and limitations on tax relief allowed on the interest on intercompany debt, will require us to continually assess our organizational structure against tax policy trends, and could lead to an increased risk of international tax disputes and an increase in our effective tax rate, and could adversely affect our financial results.

Our ability to use our net operating losses to offset future taxable income may be subject to certain limitations.

We have significant net operating loss carry-forwards in the United States. As of December 31, 2018, we had net operating loss carry-forwards of \$123,079 relating to U.S. federal income taxes, which will begin to expire from December 31, 2019 through December 31, 2038 if not utilized.

In the United States, utilization of these net operating loss carry-forwards for federal income tax purposes may be subject to an annual limitation if there is an ownership change within the meaning of Section 382 of the Internal Revenue Code (“Section 382”). In general, an ownership change within the meaning of Section 382 occurs if a transaction or series of transactions over a three-year period result in a cumulative change of more than 50% in the beneficial ownership of a company’s stock. We do not believe we have a limitation on the ability to utilize our net operating loss carry-forwards under Section 382 as of December 31, 2018. However, issuances, sales and/or exchanges of our stock (including, potentially, relatively small transactions and transactions beyond our control) occurring after December 31, 2018, taken together with prior transactions with respect to our stock over a three-year period, could trigger an ownership change under Section 382 in the future and therefore a limitation on our ability to utilize our net operating loss carryforwards. Any such limitation could cause some loss carryforwards to expire before we would be able to utilize them to reduce taxable income in future periods, possibly resulting in a substantial income tax expense or write down of our tax assets or both. Furthermore, net operating losses generated subsequent to December 31, 2017 are subject to the New Tax Act, which removes net operating loss expirations, but limits utilization against 80% of taxable income.

The U.S. government has special contracting requirements that create additional risks.

In January 2019, we were informed that the U.S. Transportation Command Directorate of Acquisition (“USTranscom”) had issued a multi-vendor contract that included us as one of the vendors selected to supply leased marine containers and intermodal equipment to the U.S. Military. As a multi-vendor contract, there is no guarantee that the U.S. Military will accept our bids to supply containers and related services. Thus, expected revenues from the USTranscom contract are difficult to predict and may not materialize or prove profitable. If we do not perform in accordance with the terms of the USTranscom contract, we may receive a poor performance report that would be considered by the U.S. military in making any future awards.

In contracting with the U.S. Military, we are subject to U.S. government contract laws, regulations and other requirements that impose risks not generally found in commercial contracts. For example, U.S. government contracts require contractors to comply with a number of socio-economic requirements and to submit periodic reports regarding compliance, are subject to audit and modification by the U.S. government in its sole discretion, and impose certain requirements relating to software and/or technical data that, if not followed, could result in the inadvertent grant to the U.S. government of broader licenses to use and disclose such software or data than intended.

These laws, regulations and contract provisions also permit, under certain circumstances, the U.S. government unilaterally to:

- suspend or prevent us for a set period of time from receiving new government contracts or extending existing contracts based on violations or suspected violations of laws or regulations;
- terminate the USTranscom contract;

23

- reduce the scope and value of the USTranscom contract;
- audit our performance under the USTranscom contract and our compliance with various regulations; and
- change certain terms and conditions in the USTranscom contract.

In addition, the U.S. Military may terminate the USTranscom contract either for its convenience at any time or if we default by failing to perform in accordance with the contract schedule and terms. Termination for convenience provisions generally enable the contractor to recover only those costs incurred or committed, and settlement expenses and profit on the work completed prior to termination. Termination for default provisions do not permit these recoveries and make the contractor liable for excess costs incurred by the U.S. Military in procuring undelivered items from another source.

In addition, the U.S. government could bring criminal and civil charges against us based on intentional or unintentional violations of the representations and certifications that we have made in the USTranscom contract. Although adjustments arising from U.S. government audits and reviews have not seriously harmed our business in the past, future audits and reviews could cause adverse effects. We could also suffer serious harm to our reputation if allegations of impropriety were to be made against us.

We may choose to pursue acquisitions or joint ventures that could present unforeseen integration obstacles or costs and we face risks from our joint venture.

We may pursue acquisitions and joint ventures. Acquisitions involve a number of risks and present financial, managerial and operational challenges, including:

- potential disruption of our ongoing business and distraction of management;
- difficulty integrating personnel and financial and other systems;
- hiring additional management and other critical personnel; and
- increasing the scope, geographic diversity and complexity of our operations.

In addition, we may encounter unforeseen obstacles or costs in the integration of acquired businesses. Also, the presence of one or more material liabilities of an acquired company that are unknown to us at the time of acquisition may have a material adverse effect on our business. Acquisitions or joint ventures may not be successful, and we may not realize any anticipated benefits from acquisitions or joint ventures.

On December 20, 2012, Textainer Limited (“TL”), our wholly-owned subsidiary, purchased 50.1% of the outstanding common shares of TAP Funding Ltd. (“TAP Funding”). TAP Funding owns a fleet of containers under our management. TAP Funding is governed by members and management agreements. TL has two voting rights and TAP Ltd. (“TAP”), the 49.9% shareholder, has one voting right in TAP Funding, with the exception of certain matters such as bankruptcy proceedings, the incurrence of debt and mergers and consolidations, which require unanimity. TL also has two seats and TAP has one seat on TAP Funding’s board of directors. While we own the majority of TAP Funding, we face risks associated with TAP Funding’s structure that requires both shareholders to agree on certain significant matters such as debt financing, mergers and liquidation. It is possible that the interests of the other shareholder could be different from our interests. Conflicts between us and the other shareholder of TAP Funding could result in litigation, an inability to finance and operate TAP Funding, and other problems that might have a material adverse impact on us as a whole.

Our senior executives are critical to the success of our business and any inability to retain them or recruit and successfully integrate new personnel could harm our business, results of operations and financial condition.

Our senior management has a solid history in the container leasing industry. We rely on this knowledge and experience in our strategic planning and in our day-to-day business operations. Our success depends in large part upon our ability to retain our senior management, the loss of one or more of whom could have a material adverse effect on

our business.

24

In August 2018, our current President and CEO, Olivier Ghesquiere, assumed this position upon the retirement of Philip Brewer, our former President and CEO. In October 2018, our Executive Vice President and CFO, Michael Chan, assumed this position upon the departure of our former Executive Vice President and CFO, Hilliard Terry. We face risks from the recent changes in senior management and our performance will depend on the success of our management transition and the integration of these personnel into their new roles with the Company.

Our success also depends on our ability to retain our experienced sales force and technical personnel as well as recruit new skilled sales, marketing and technical personnel. Competition for these individuals in our industry is intense and we may not be able to successfully recruit, train or retain qualified personnel. If we fail to retain and recruit the necessary personnel, our business and our ability to obtain new container lessees and provide acceptable levels of customer service could suffer. We have “at will” employment agreements with all of our executive officers.

The lack of an international title registry for containers increases the risk of ownership disputes.

Although the Bureau International des Containers registers and allocates a four letter prefix to every container in accordance with ISO standard 6346 (Freight container coding, identification and marking) to identify the owner/operator and each container has a unique prefix and serial number, there is no internationally recognized system of recordation or filing to evidence our title to containers nor is there an internationally recognized system for filing security interests in containers. Although this has not occurred to date, the lack of a title recordation system with respect to containers could result in disputes with lessees, end-users, or third parties who may improperly claim ownership of containers.

We may incur costs associated with cargo security regulations, which may adversely affect our business, results of operations and financial condition.

We may be subject to regulations promulgated in various countries, including the U.S., seeking to protect the integrity of international commerce and prevent the use of containers for international terrorism or other illicit activities. For example, the Container Security Initiative, the Customs-Trade Partnership Against Terrorism and Operation Safe Commerce are among the programs administered by the U.S. Department of Homeland Security that are designed to enhance security for cargo moving throughout the international transportation system by identifying existing vulnerabilities in the supply chain and developing improved methods for ensuring the security of containerized cargo entering and leaving the U.S. Moreover, the International Convention for Safe Containers, 1972, as amended, adopted by the International Maritime Organization, applies to containers and seeks to maintain a high level of safety of human life in the transport and handling of containers by providing uniform international safety regulations. As these regulations develop and change, we may incur compliance costs due to the acquisition of new, compliant containers and/or the adaptation of existing containers to meet new requirements imposed by such regulations. Additionally, certain companies are currently developing or may in the future develop products designed to enhance the security of containers transported in international commerce. Regardless of the existence of current or future government regulations mandating the safety standards of intermodal shipping containers, our competitors may adopt such products or our container lessees may require that we adopt such products. In responding to such market pressures, we may incur increased costs, which could have a material adverse effect on our business, results of operations and financial condition.

Environmental liability and regulations may adversely affect our business, results of operations and financial condition.

We are subject to federal, state, local and foreign laws and regulations relating to the protection of the environment, including those governing the discharge of pollutants to air, ground and water, the management and disposal of hazardous substances and wastes and the cleanup of contaminated sites. We could incur substantial costs, including

cleanup costs, fines and costs arising out of third-party claims for property or natural resource damage and personal injury, as a result of violations of or liabilities under or compliance with environmental laws and regulations in connection with our or our lessees' current or historical operations. Under some environmental laws in the U.S. and certain other countries, the owner or operator of a container may be liable for environmental damage, cleanup or other costs in the event of a spill or discharge of material from the container without regard to the fault of the owner or operator. While we typically maintain certain limited liability insurance and typically require lessees to

provide us with indemnity against certain losses, the insurance coverage may not be sufficient to protect against any or all liabilities and such indemnities may not be sufficient, or available, to protect us against losses arising from environmental damage. Moreover, our lessees may not have adequate resources, or may refuse to honor their indemnity obligations and our insurance coverage is subject to large deductibles, coverage limits and significant exclusions.

Environmental regulations also impact container production and operation, including regulations on the use of chemical refrigerants due to their ozone depleting and global warming effects. Our refrigerated containers currently use R134A refrigerant. While R134A does not contain chlorofluorocarbons (“CFCs”), the European Union (“EU”) instituted regulations to phase out the use of R134A in automobile air conditioning systems which began in 2011 due to concern that the release of R134A into the atmosphere may contribute to global warming. While the European Union regulations do not currently restrict the use of R134A in refrigerated containers or trailers, it is possible that the phase out of R134A in automobile air conditioning systems will be extended to containers in the future and our operations could be impacted. It has been proposed that R134A usage in containers be banned beginning in 2025, although the final decision has not been made as of yet.

Container production also raises environmental concerns. The floors of dry freight containers are plywood typically made from tropical hardwoods. Due to concerns regarding de-forestation and climate change, many countries have implemented severe restrictions on the cutting and export of this wood. Accordingly, container manufacturers have switched a significant portion of production to alternatives such as birch, bamboo, and other farm grown wood and users are also evaluating alternative designs that would limit the amount of plywood required and are also considering possible synthetic materials. New woods or other alternatives have not proven their durability over the typical life of a dry freight container, and if they cannot perform as well as the hardwoods have historically, the future repair and operating costs for these containers may be impacted. Also, the insulation foam in the walls of certain refrigerated containers requires the use of a blowing agent that contains CFCs. Manufacturers are phasing out the use of this blowing agent in manufacturing, however, if future regulations prohibit the use or servicing of containers with insulation manufactured with this blowing agent we could be forced to incur large retrofitting expenses and these containers might bring lower rental rates and disposal prices. EU regulations currently restrict the sale or use of refrigerated containers manufactured with the CFC containing blowing agent and strict enforcement of these regulations could impact our ability to lease or sell these refrigerated containers in EU countries. The container industry in China has always used solvent-based paint systems. New regulations in China for the container industry require stopping the use of solvent-based paint systems, due to the restrictions on volatile organic compounds used in solvent-based paints. To comply with the new regulations, new water borne paint systems have been developed and are being used by container manufacturers. This change was already implemented in all factories in Southern China as of July 2016. The remaining container factories in China have been required to use water borne paint systems since April 1, 2017. The use of water borne paint systems has required significant factory investment and it is problematic to apply water borne paint during the winter in colder parts of China. The conversion to water borne paint may impact factory capacity, increase the cost of containers and require greater investment by us in container inspection and factory supervision.

We are subject to certain U.S. laws that may impact our international operations and any investigation or determination that we violated these laws may affect our business and operations adversely.

As a Bermuda corporation that has an indirect wholly-owned U.S. subsidiary with operations in the U.S., our U.S. operations are subject to certain U.S. laws that may also impact our international operations. We are subject to the regulations imposed by the Foreign Corrupt Practices Act, which generally prohibits U.S. companies and their intermediaries from making improper payments to foreign officials for the purpose of obtaining or keeping business. We are also subject to U.S. Executive Orders and U.S. Treasury sanctions regulations restricting or prohibiting business dealings in or with certain nations and with certain specially designated nationals (individuals and legal

entities). Any determination or investigation into violations of these laws and regulations could have a material adverse effect on our business, financial condition, results of operations and cash flows.

We could face litigation involving our management of containers for container investors.

We manage containers for container investors under management agreements that are negotiated with each container investor. We make no assurances to container investors that they will make any amount of profit on their

investment or that our management activities will result in any particular level of income or return of their initial capital. Although our management agreements contain contractual protections and indemnities that are designed to limit our exposure to such litigation, such provisions may not be effective, and we may be subject to a significant loss in a successful litigation by a container investor.

We may not be able to resume paying a dividend and any dividends paid in the future could be reduced or eliminated.

We eliminated our dividend payment in fourth quarter of 2016. We may not be able, or may choose not to reinstate our dividend program and pay future dividends, and if reinstated any future dividend could again be eliminated or reduced. The declaration, amount and payment of future dividends are at the discretion of our board of directors and will be dependent on our future operating results and the cash requirements of our business. There are a number of factors that can affect our ability to pay dividends and there is no guarantee that we will pay dividends in any given year, in each quarter of a year, or pay any specific amount of dividends. In addition, we will not pay dividends in the event we are not allowed to do so under Bermuda law, are in default under (or such payment would cause a default under) TL's revolving credit facilities or term loan, or if such payment would cause us to breach any of our covenants. These covenants include certain financial covenants, which would be directly affected by the payment of dividends, such as a maximum ratio of consolidated funded debt to consolidated tangible net worth (which amount would decrease by the amount of any dividend paid). The reduction, suspension or elimination of dividends may negatively affect the market price of our common shares. Furthermore, since we are a holding company, substantially all of the assets shown on our consolidated balance sheet are held by our subsidiaries. Accordingly, our earnings and cash flow and our ability to pay dividends are largely dependent upon the earnings and cash flows of our subsidiaries and the distribution or other payment of such earnings to us in the form of dividends as permitted under our lending agreements.

The calculation of our income tax expense requires judgment and the use of estimates.

We periodically assess tax positions based on current tax developments, including enacted statutory, judicial and regulatory guidance. In analyzing our overall tax position, consideration is given to the amount and timing of recognizing income tax liabilities and benefits. In applying the tax and accounting guidance to the facts and circumstances, income tax balances are adjusted appropriately through the income tax provision. We account for income tax positions on uncertainties by recognizing the effect of income tax positions only if those positions are more likely than not of being sustained and maintain reserves for income tax positions we believe are not more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. However, due to the judgment required in estimating those reserves, actual amounts paid, if any, could differ from these estimates.

Future changes in accounting rules could significantly impact how we, our managed fleet owners and our customers account for our leases.

Our consolidated financial statements are prepared in accordance with U.S. GAAP. In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2016-02, Leases (Topic 842) ("ASU 2016-02"). Under this new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers. Lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (1) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. The new lease guidance also simplified the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. Lessees will no longer be provided with a source of off-balance sheet financing. The

guidance is effective for interim and annual periods beginning after December 15, 2018 and early application is permitted. Additionally, IFRS has issued similar changes to lease accounting under IFRS 16 Leases. Because the new leasing guidance virtually eliminates for lessees the financial statement benefit of entering into operating leases, it could change the way we and our customers conduct our businesses. Future changes in accounting rules will also impact container owners whose containers are managed by us. These changes could make

it more difficult for such owners to raise funding and may also make managed container programs less attractive to owners.

Risks Related to Our Common Shares

The market price and trading volume of our common shares, which may be affected by market conditions beyond our control, have been volatile and could continue to remain volatile.

The market price of our common shares has been, and may continue to be highly volatile and subject to wide fluctuations. In addition, the trading volume in our common shares has fluctuated and may continue to fluctuate, causing significant price variations to occur. Since our initial public offering, our common shares have fluctuated from an intra-day low of \$4.23 per share to an intra-day high of \$43.96 per share. If the market price of the shares declines significantly, the value of an investment in our common shares would decline. The market price of our common shares may fluctuate or decline significantly in the future. Some of the factors that could negatively affect the price of our common shares or result in fluctuations in the price or trading volume of our common shares include:

- variations in our quarterly operating results;
- failure to meet analysts' earnings estimates;
 - publication of research reports about us, other intermodal container lessors or the container shipping industry or the failure of securities analysts to cover our common shares or our industry;
- additions or departures of key management personnel;
- adverse market reaction to any indebtedness we may incur or preference or common shares we may issue in the future;
- changes in our dividend payment policy or failure to execute our existing policy;
- actions by shareholders;
- changes in market valuations of similar companies;
- announcements by us or our competitors of significant contracts, acquisitions, dispositions, strategic partnerships, joint ventures or capital commitments;
- speculation in the press or investment community;
- changes or proposed changes in laws or regulations affecting the container shipping industry or enforcement of these laws and regulations, or announcements relating to these matters; and
- impact of global financial crises or stock market disruptions.

Recently and in the past, the stock market has experienced extreme price and volume fluctuations. These market fluctuations could result in extreme volatility in the trading price of our common shares, which could cause a decline in the value of your investment in our common shares. In addition, the trading price of our common shares could decline for reasons unrelated to our business or financial results, including in reaction to events that affect other companies in our industry even if those events do not directly affect us. You should also be aware that price volatility may be greater if the public float and trading volume of our common shares are low.

One of our major shareholders, Trecor Limited, could act in a manner with which other shareholders may disagree or that is not necessarily in the interests of other shareholders.

Trecor Limited, a company traded on the Johannesburg Stock Exchange (the “JSE”) in South Africa, currently owns approximately 47.5% of our issued and outstanding common shares. Trecor has entered into a voting limitation deed with the Company, pursuant to which Trecor agreed to limit its shareholder voting rights in the Company, solely in respect of the appointment and/or removal of directors. Otherwise, Trecor has the ability to influence the outcome of matters submitted to our shareholders for approval, including any amalgamation, merger, consolidation or sale of all or substantially all of our assets. Two of our eight directors are also directors of Trecor. Trecor may have interests that are different from other shareholders. For example, it may support proposals and actions with which you may disagree or which are not in your interests as a shareholder of our company. The concentration of ownership could delay or prevent a change in control of us or otherwise discourage a potential acquirer from attempting to obtain control of us, which in turn could reduce the price of our common shares. Additionally, we have no agreements with Trecor that limit or restrict its ability to sell or transfer shares in us. Any sale or transfer of some or all of the common shares owned by Trecor could adversely affect our share price.

Affiliates of Trecor may compete with us and compete with some of our customers.

Trecor, through its affiliates, is free to compete with us, and has engaged in the past and may continue to engage in businesses that are similar to ours. In particular, Leased Assets Pool Company Limited (“LAPCO”), an indirect subsidiary of Trecor, owns containers, has competed against us and our customers through its investment in containers and has used our competitors to manage some of its containers in the past. Thus, although we have a management agreement with LAPCO to manage a substantial majority of its containers, we may continue to compete with LAPCO in the future, which may result in various conflicts of interest.

Our current management and share ownership structure may create conflicts of interest.

Two of our eight directors are also directors of Trecor. These directors owe fiduciary duties to each company and may have conflicts of interest in matters involving or affecting us as well as Trecor, including matters arising under our agreements with LAPCO. In addition, to the extent that some of these directors may own shares in Trecor, they may have conflicts of interest when faced with decisions that could have different implications for Trecor than they do for us. Furthermore, Trecor, as a South African company, endorses the Code of Corporate Practices and Conduct in the King IV Report on Corporate Governance. The King IV Report on Corporate Governance is a document accepted by the JSE on which Trecor is listed and promulgated by the South African Institute of Directors which, among other things, suggests that corporations in their corporate decision-making consider the following stakeholders in addition to the owners of shares: parties who contract with the enterprise; parties who have a non-contractual nexus with the enterprise (including civic society and the environment); and the state. Trecor may seek to impose these corporate governance practices on us, which may result in constraints on management and may involve significant costs. Your interests as a holder of our common shares may not align with the interests of Trecor and its affiliates and shareholders.

We are a holding company with no material direct operations and rely on our operating subsidiaries to provide us with funds necessary to meet our financial obligations and to pay dividends.

We are a holding company with no material direct operations. Our principal assets are the equity interests we directly or indirectly hold in our operating subsidiaries, which own our operating assets. As a result, we are dependent on loans, dividends and other payments from our subsidiaries to generate the funds necessary to meet our financial obligations and to pay dividends on our common shares. Our subsidiaries are legally distinct from us and may be prohibited or restricted from paying dividends or otherwise making funds available to us under certain conditions or

lending covenants. If we are unable to obtain funds from our subsidiaries, we may be unable to, or our board may exercise its discretion not to, pay dividends on our common shares.

Our ability to issue securities in the future may be materially constrained by Trecor's South African currency restrictions and JSE Listings Requirements and Trecor's results may differ from our results due to their use of different accounting standards.

Trecor, a South African company listed on the JSE, currently holds 47.5% of our issued and outstanding shares. Two of our eight directors are also directors of Trecor. Both South African exchange control authorities and the JSE impose certain restrictions on Trecor.

South Africa's exchange control regulations provide for restrictions on exporting capital from South Africa. These restrictions require Trecor to obtain approval from South African exchange control authorities before Trecor engages in transactions that would result in dilution of Trecor's share interest in us below certain thresholds, whether through Trecor's sale of its own shareholdings or through its approval of our issuance of new shares. The exchange control authorities may decide not to grant such approval if a proposed transaction were to dilute Trecor's interest in us below certain levels. While the South African government has, to some extent, relaxed exchange controls in recent years, it is difficult to predict whether or how it will further relax or abolish exchange control measures in the future. The above requirements could restrict or limit our ability to issue new shares. In addition, Trecor is required to comply with JSE Listings Requirements in connection with its holding or sale of our common shares.

The above requirements could limit our financial flexibility by, among other things, impacting our future ability to raise funds through the issuance of securities, preventing or limiting the use of our common shares as consideration in acquisitions, and limiting our use of option grants and restricted share grants to our directors, officers and other employees as incentives to improve the financial performance of our company. Additionally, while we report under U.S. GAAP, Trecor reports its results under a different accounting standard. This may cause Trecor's reporting of our results to differ from what we report and may result in an inability to reconcile the results of both companies, market confusion and an inconsistent market reaction when both companies report results.

It may not be possible for investors to enforce U.S. judgments against us.

We and all of our direct and indirect subsidiaries, except Textainer Equipment Management (U.S.) Limited and Textainer Equipment Management (U.S.) II LLC, are incorporated in jurisdictions outside the U.S. A substantial portion of our assets and those of our subsidiaries are located outside of the U.S. In addition, half of our directors are non-residents of the U.S., and all or a substantial portion of the assets of these non-residents are located outside the U.S. As a result, it may be difficult or impossible for U.S. investors to serve process within the U.S. upon us, our non-U.S. subsidiaries, or our directors, or to enforce a judgment against us for civil liabilities in U.S. courts. In addition, you should not assume that courts in the countries in which we or our subsidiaries are incorporated or where our assets or the assets of our subsidiaries are located would enforce judgments of U.S. courts obtained in actions against us or our subsidiaries based upon the civil liability provisions of applicable U.S. federal and state securities laws, or would enforce, in original actions, liabilities against us or our subsidiaries based on those laws.

We are a foreign private issuer and, as a result, under New York Stock Exchange ("NYSE") rules, we are not required to comply with certain corporate governance requirements.

As a foreign private issuer, we are permitted by the NYSE to comply with Bermuda corporate governance practice in lieu of complying with certain NYSE corporate governance requirements. This means that we are not required to comply with NYSE requirements that:

- the board of directors consists of a majority of independent directors;
- independent directors meet in regularly scheduled executive sessions;

-

the audit committee satisfy NYSE standards for director independence (although we must still comply with independence standards pursuant to Rule 10A-3 promulgated under the U.S. Securities Exchange Act of 1934, as amended);

•the audit committee have a written charter addressing the committee's purpose and responsibilities;

•we have a nominating and corporate governance committee composed of independent directors with a written charter addressing the committee's purpose and responsibilities;

30

- we have a compensation committee composed of independent directors with a written charter addressing the committee's purpose and responsibilities;
- we establish corporate governance guidelines and a code of business conduct;
- our shareholders approve any equity compensation plans; and
- there be an annual performance evaluation of the nominating and corporate governance and compensation committees.

Our board of directors has adopted an audit committee charter, a compensation committee charter and a nominating and governance committee charter. Additionally, we have a company code of conduct, corporate governance guidelines, conduct performance evaluations of our board and committees, and have obtained shareholder approval for our equity compensation plan. However, we use some of the exemptions available to a foreign private issuer. As a result, our board of directors may not consist of a majority of independent directors and our compensation committee may not consist of any or a majority of independent directors. Accordingly, our shareholders may not have the same protections afforded to shareholders of companies that are subject to all of the NYSE corporate governance requirements.

Required public company corporate governance and financial reporting practices and policies have increased our costs, and we may be unable to provide the required financial information in a timely and reliable manner.

Our management may not be able to continue to meet the regulatory compliance and reporting requirements that are applicable to us as a public company. This result may subject us to adverse regulatory consequences, and could lead to a negative reaction in the financial markets due to a loss of confidence in the reliability of our financial statements. If we do not maintain compliance with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002, or if we or our independent registered public accounting firm identify deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses, we could suffer a loss of investor confidence in the reliability of our financial statements, which could cause the market price of our common shares to decline.

In addition, if we fail to maintain effective controls and procedures, we may be unable to provide the required financial information in a timely and reliable manner or otherwise comply with the standards applicable to us as a public company. Any failure by us to timely provide the required financial information could materially and adversely impact our financial condition and the market value of our common shares. Furthermore, testing and maintaining internal controls can divert our management's attention from other matters that are important to our business. These regulations have increased our legal and financial compliance costs, we expect the regulations to make it more difficult to attract and retain qualified officers and directors, particularly to serve on our audit committee, and make some activities more difficult, time consuming and costly.

Future sales of a large number of our securities into the public market, or the expectation of such sales, could cause the market price of our common shares to decline significantly.

Sales of substantial amounts of common securities into the public market, or the perception that such sales will occur, may cause the market price of our common shares to decline significantly. In September 2012, we completed a sale of 8,625,000 common shares, including 2,500,000 common shares offered by a selling shareholder, Halco. The price of our shares could be negatively impacted if we undertake additional offerings to sell securities. In addition, at our 2010 Annual General Meeting of Shareholders held on May 19, 2010, our shareholders approved an amendment to our 2007 Share Incentive Plan to increase the maximum number of our common shares issuable pursuant to such plan by 1,468,500 shares from 3,808,371 shares to 5,276,871 shares. On May 21, 2015, our shareholders approved an amendment and restatement of the 2007 Share Incentive Plan as the 2015 Share Incentive Plan and to increase the maximum number of our common shares issuable pursuant to such plan by 2,000,000 shares and to extend the term of such plan for ten years from the date of the annual meeting of shareholders. The common shares to be issued pursuant to awards under our 2015 Share Incentive Plan have been registered on registration statements on Form S-8 filed with

the Securities Exchange Commission and, when issued, will be freely tradable under the Securities Act of 1933.

We have provisions in our bye-laws that may discourage a change of control.

Bermuda law and our bye-laws contain provisions that could make it more difficult for a third party to acquire us without the consent of our board of directors. These include provisions:

- requiring the approval of not less than 66% of our issued and outstanding voting shares for certain merger or amalgamation transactions that have not been approved by our board of directors;
- prohibiting us from engaging in a business combination with an interested shareholder for a period of three years after the date of the transaction in which the person becomes an interested shareholder, unless certain conditions are met;
- authorizing our board of directors to issue blank-check preference shares without shareholder approval;
- establishing a classified board with staggered three-year terms;
- only authorizing the removal of directors (i) for cause by the affirmative vote of the holders of a majority of the votes cast at a meeting or (ii) without cause by the affirmative vote of the holders of 66% of the common shares then issued and outstanding and entitled to vote on the resolution; and
- establishing advance notice requirements for nominations for election to our board of directors.

These provisions may make it difficult and expensive for a third party to pursue a tender offer, change in control or takeover attempt that is opposed by our management and/or our board of directors. Public shareholders who might desire to participate in these types of transactions may not have an opportunity to do so. These provisions could substantially impede the ability of public shareholders to benefit from a change in control or change our management and board of directors and, as a result, may adversely affect the market price of our common shares and your ability to realize any potential change of control premium.

As a shareholder of our company, you may have greater difficulties in protecting your interests than as a shareholder of a U.S. corporation.

The Companies Act 1981 of Bermuda, as amended (the "Companies Act"), applies to our company and differs in material respects from laws generally applicable to U.S. corporations and their shareholders. Taken together with the provisions of our bye-laws, some of these differences may result in your having greater difficulties in protecting your interests as a shareholder of our company than you would have as a shareholder of a U.S. corporation. This affects, among other things, the circumstances under which transactions involving an interested director are voidable, whether an interested director can be held accountable for any benefit realized in a transaction with our company, what approvals are required for business combinations by our company with a large shareholder or a wholly-owned subsidiary, what rights you may have as a shareholder to enforce specified provisions of the Companies Act or our bye-laws, and the circumstances under which we may indemnify our directors and officers.

Our bye-laws restrict shareholders from bringing legal action against our officers and directors.

Our bye-laws contain a broad waiver by our shareholders of any claims or right of action, both individually and on our behalf, against any of our officers or directors. The waiver applies to any action taken by an officer or director, or the failure of an officer or director to take any action, in the performance of his or her duties, except with respect to any matter involving any fraud or dishonesty on the part of the officer or director. This waiver limits the right of shareholders to assert claims against our officers and directors unless the act or failure to act involves fraud.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

Our business began operations in 1979. We reorganized our business in 1993 and incorporated Textainer Group Holdings Limited under the laws of Bermuda as a holding company of a group of corporations involved in the purchase, ownership, management, leasing and disposal of a fleet of intermodal containers. Textainer Group Holdings Limited is incorporated with an indefinite duration under registration number EC18896. Textainer Group Holdings Limited's common shares are listed on the New York Stock Exchange ("NYSE") under the symbol "TGH". Textainer Group Holdings Limited's headquarters office is located at Century House, 16 Par-La-Ville Road, Hamilton HM 08 Bermuda and our telephone number is (441) 296-2500. Our agent in the United States is Daniel W. Cohen, Textainer Group Holdings Limited, c/o Textainer Equipment Management (U.S.) Limited, 650 California Street, 16th Floor, San Francisco, CA 94108.

At December 31, 2018, Textainer Group Holdings Limited had two directly-owned subsidiaries:

- Textainer Equipment Management Limited ("TEML"), our wholly-owned subsidiary incorporated in Bermuda, which together with its four wholly-owned subsidiaries (see Item 4 (C), "Organizational Structure") provides container management, acquisition and disposal services to affiliated and unaffiliated container investors; and
 - Textainer Limited ("TL"), our wholly-owned subsidiary incorporated in Bermuda, which owns containers directly and via six subsidiaries:
 - Textainer Marine Containers II Limited ("TMCL II"), a Bermuda company which is wholly-owned by TL;
 - Textainer Marine Containers V Limited ("TMCL V"), a Bermuda company which is wholly-owned by TL;
 - Textainer Marine Containers VI Limited ("TMCL VI"), a Bermuda company which is wholly-owned by TL;
 - Textainer Marine Containers VII Limited ("TMCL VII"), a Bermuda company which is wholly-owned by TL;
 - TW Container Leasing Ltd. ("TW"), a Bermuda company which is wholly-owned by TL; and
 - TAP Funding Ltd. ("TAP Funding"), a Bermuda company in which TL and TAP Limited ("TAP") hold common shares of 50.1% and 49.9%, respectively, and voting rights of 66.7% and 33.3%, respectively.
- Trencor Limited ("Trencor"), a company publicly traded on the JSE Limited (the "JSE") in Johannesburg, South Africa under the symbol "TRE", currently owns 47.5% of our issued and outstanding common shares.

Our internet website address is www.textainer.com. The information contained on, or that can be accessed through, our website is not incorporated into and is not intended to be a part of this Annual Report on Form 20-F.

Significant Events

In February and March 2016, we concluded two separate purchases totaling approximately 41,000 containers that we had been managing for an institutional investor for a total purchase consideration of \$71.0 million.

In April and June 2016, we concluded two separate purchase leaseback transactions for approximately 15,000 containers from a shipping company for a total purchase consideration of \$21.2 million.

In August 2016, Hanjin Shipping company Co., Ltd ("Hanjin"), filed for bankruptcy. The Company maintains insurance that covers a portion of the exposure related to the value of containers that are unlikely to be recovered from its customers, the cost to recover containers and up to 183 days of lost lease rental income.

Accordingly, during the year ended December 31, 2016, an impairment of \$22,149 representing \$17,399 to write down the containers on direct finance leases with Hanjin to the lower of estimated fair market value or net book value and \$4,750 insurance deductible. In addition, bad debt expense of \$18,992, net of estimated insurance proceeds of \$2,592, was recorded for the year ended December 31, 2016 to fully reserve for Hanjin's outstanding accounts receivable (see Note 3 "Insurance Receivable and Impairment" to our consolidated financial statements in Item 18, "Financial Statements" in this Annual Report on Form 20-F for additional information).

During the second quarter of 2017, Textainer Marine Containers III Limited's ("TMCL III"), an indirect wholly-owned subsidiary of the Company, 2013-1 Bonds and 2014-1 Bonds were early terminated and were fully repaid by the proceeds from the TMCL III's 2017-A Notes, which itself was fully repaid by the proceeds from the TMCL V's 2017-1 Bonds. The Company wrote off \$7,228 of unamortized debt issuance costs and bond discounts during the period (see Note 12 "Debt and Derivative Instruments" to our consolidated financial statements in Item 18, "Financial Statements" in this Annual Report on Form 20-F for additional information).

During the second quarter of 2017, TMCL V issued the Series 2017-1 Fixed Rate Asset Backed Notes (the "2017-1 Bonds") and the Series 2017-2 Fixed Rate Asset Backed Notes ("2017-2 Bonds") in an aggregated principal amount of \$420,000 and \$500,000, respectively. Both 2017-1 Bonds and 2017-2 Bonds were issued at fixed interest rates. Proceeds from the 2017-1 Bonds and 2017-2 Bonds were primarily used to fully repay the TMCL III debts and to repay the Company's certain short-term debts, respectively (see Note 12 "Debt and Derivative Instruments" to our consolidated financial statements in Item 18, "Financial Statements" in this Annual Report on Form 20-F for additional information).

During the second half of 2017, we concluded three separate purchases totaling approximately 20,000 containers that we had been managing for institutional investors for a total purchase consideration of \$19.9 million (see Note 4 "Container Purchases" to our consolidated financial statements in Item 18, "Financial Statements" in this Annual Report on Form 20-F for additional information).

During the third quarter of 2017, the Company entered into an agreement with a third-party to manage approximately 112,000 containers (or 182,000 TEU) owned by that third-party effective August 1, 2017.

On August 31, 2017, TMCL II entered into an amendment of the TMCL II Secured Debt Facility which extended the conversion date to August 2020 and lowered the interest margin (see Note 12 "Debt and Derivative Instruments" to our consolidated financial statements in Item 18, "Financial Statements" in this Annual Report on Form 20-F for additional information).

On December 8, 2017, TAP Funding entered into an amendment of the TAP Funding Revolving Credit Facility which extended the maturity date to December 2021, increased the advance rate, lowered the interest rate margin and increased the aggregate commitment amount from \$150,000 to \$190,000 (see Note 12 "Debt and Derivative Instruments" to our consolidated financial statements in Item 18, "Financial Statements" in this Annual Report on Form 20-F for additional information).

On December 22, 2017, the U.S. Tax Cuts and Jobs Act of 2017 (TCJA) was enacted. The most significant impact on the Company is the U.S. federal corporate income tax reduction from 35% to 21% beginning January 01, 2018. A change in tax law is accounted for in the period of enactment, which requires re-measurement of all our U.S. deferred income tax assets and liabilities during this period-end. The corporate tax reduction resulted in a \$2,653 one-time reduction in our net deferred tax liabilities and was recorded as a credit adjustment to our 2017 income tax expense (see Note 11 "Income Taxes" to our consolidated financial statements in Item 18, "Financial Statements" in this Annual

Report on Form 20-F for additional information).

On January 31, 2018, Textainer Marine Containers IV Limited (“TMCL IV”), an indirect wholly-owned subsidiary of the Company, terminated its secured debt facility and the unpaid debt amount of \$129,400 was fully repaid by \$124,608 proceeds from the TL Revolving Credit Facility and TMCL IV’s available cash of \$4,792.

On February 15, 2018, TMCL VI Limited completed a \$300 million seven-year fixed rate term facility. The proceeds of the facility were used to pay down certain of the Company’s short-term debt (see Note 12 “Debt and Derivative Instruments” to our consolidated financial statements in Item 18, “Financial Statements” in this Annual Report on Form 20-F for additional information).

In August 2018, TMCL VII issued \$250,000 aggregate Class A principal amount and \$9,100 aggregate Class B principal amount of Series 2018-1 Fixed Rate Asset Backed Notes (“the 2018-1 Bonds”). Proceeds from 2018-1 Bonds was primarily used to pay down debt in our short-term secured debt facility and revolving credit facility (see Note 12 “Debt and Derivative Instruments” to our consolidated financial statements in Item 18, “Financial Statements” in this Annual Report on Form 20-F for additional information).

In September 2018, TL entered into an amendment of the TL Revolving Credit Facility, which increased its aggregate commitment amount from \$700,000 to \$1,500,000, extended the maturity date from June 2020 to September 2023, and lowered the interest margin from 2.00% to 1.50%. Borrowings under the TL Revolving Credit Facility were primarily used to acquire containers and to pay in full its TL Revolving Credit Facility II and

TL Term Loan (see Note 12 “Debt and Derivative Instruments” to our consolidated financial statements in Item 18, “Financial Statements” in this Annual Report on Form 20-F for additional information).

In September 2018, TL terminated its TL Revolving Credit Facility II, which would have expired in July 2020, and the unpaid debt amount of \$167,000 was fully repaid by proceeds from the TL Revolving Credit Facility (see Note 12 “Debt and Derivative Instruments” to our consolidated financial statements in Item 18, “Financial Statements” in this Annual Report on Form 20-F for additional information).

In September 2018, TL terminated its TL Term Loan, which would have matured in April 2019, and the unpaid debt amount of \$332,000 was fully repaid by proceeds from the TL Revolving Credit Facility (see Note 12 “Debt and Derivative Instruments” to our consolidated financial statements in Item 18, “Financial Statements” in this Annual Report on Form 20-F for additional information).

In October 2018, TL entered into an agreement to purchase 75% of the total outstanding common shares of TW from Wells Fargo Container Corp. (“WFC”) for a cash consideration of \$29,658 (see Note 1 “Nature of Business and Summary of Significant Accounting Policies” to our consolidated financial statements in Item 18, “Financial Statements” in this Annual Report on Form 20-F for additional information).

In October 2018, the Company dissolved its dormant wholly-owned subsidiaries, TMCL III, TMCL IV, Textainer Marine Containers Limited (“TMCL”) and Textainer Asset Finance Limited (“TAF”).

In November 2018, TL terminated its TW Credit Facility, which would have matured in September 2026, and the unpaid debt amount of \$65,200 was fully repaid by proceeds from the TL Revolving Credit Facility (see Note 12 “Debt and Derivative Instruments” to our consolidated financial statements in Item 18, “Financial Statements” in this Annual Report on Form 20-F for additional information).

In January 2019, the Company dissolved its wholly-owned subsidiary, TWCL (see Note 1 “Nature of Business and Summary of Significant Accounting Policies” to our consolidated financial statements in Item 18, “Financial Statements” in this Annual Report on Form 20-F for additional information).

Principal Capital Expenditures

Our capital expenditures for containers in our owned fleet and fixed assets during 2018, 2017 and 2016 were \$854.4 million, \$300.1 million and \$505.5 million, respectively. We received proceeds from the sale of containers and fixed assets during 2018, 2017 and 2016 of \$147.3 million, \$135.3 million and \$126.6 million, respectively.

As all of our containers are used internationally, where no one container is domiciled in one particular place for a prolonged period of time, all of our long-lived assets are considered to be international with no single country of use. Our capital requirements are primarily financed through cash flows from operations and our debt facilities.

B. Business Overview

Our Company

We are one of the world's largest lessors of intermodal containers based on fleet size, with a total fleet of approximately 2.2 million containers, representing almost 3.4 million TEU. Containers are an integral component of intermodal trade, providing a secure and cost-effective method of transportation because they can be used to transport freight by ship, rail or truck, making it possible to move cargo from point of origin to final destination without repeated unpacking and repacking. We lease containers to approximately 250 shipping lines and other lessees, including almost all of the world's top 20 container lines, as measured by the total TEU capacity of their container vessels. We believe that our scale, global presence, customer service, market knowledge and long history with our customers have made us one of the most reliable suppliers of leased containers. We have a long track record in the industry, operating since 1979, and have developed long-standing relationships with key industry participants. Our top 20 customers, as measured by revenues, have leased containers from us for an average of almost 30 years.

We have provided an average of almost 240,000 TEU of new containers per year for the past five years and have been one of the largest buyers of new containers over the same period. We are one of the largest sellers of used containers, having sold an average of almost 140,000 containers per year for the last five years to more than 1,500 customers.

We provide our services worldwide via an international network of 14 regional and area offices and almost 500 independent depots.

We operate our business in three core segments.

• **Container Ownership.** As of December 31, 2018, we owned containers accounting for approximately 79% of our fleet.

• **Container Management.** As of December 31, 2018, we managed containers on behalf of 13 affiliated and unaffiliated container investors, providing acquisition, management and disposal services. As of December 31, 2018, total managed containers accounted for approximately 21% of our fleet.

• **Container Resale.** We generally sell containers from our fleet when they reach the end of their useful lives in marine service or when we believe it is financially attractive for us to do so, considering location, sale price, the cost of repair, and possible repositioning expenses. We also purchase and lease or resell containers from shipping line customers, container traders and other sellers of containers.

Our total revenues primarily consist of leasing revenues derived from the lease of owned and managed containers and, to a lesser extent, other non-leasing fees received for managing containers owned by third parties and equipment resale. The most important driver of our profitability is the extent to which revenues on our owned fleet and management fee income exceed our operating costs. The key drivers of our revenues are fleet size, rental rates, utilization and direct costs. Our operating costs primarily consist of depreciation and amortization, container impairment, interest expense, direct operating expenses and administrative expenses. Our lessees are generally responsible for loss of or damage to a container beyond ordinary wear and tear, and they are required to purchase insurance to cover any other liabilities.

Our total fleet consists of containers that we own, and containers owned by other container investors that we manage. In general, owning containers during periods of high demand for containers provides higher margins than managing containers, since we receive all of the net operating income for the containers that we own but only a percentage of the net operating income of the containers that we manage as a management fee. On the other hand, managing containers during periods of low demand for containers reduces the negative financial impact of such periods since the container investors bear the cost or risk of owning the containers.

For 2018, our income from operations was \$194.4 million and income before income tax and noncontrolling interests was \$56.3 million. During 2018, the average utilization of our owned fleet was 98.1%. As mentioned above, we operate in three reportable segments: Container Ownership, Container Management and Container

Resale. For geographic and financial information relating to each of our reportable operating segments, see Note 13 “Segment Information” in Item 18, “Financial Statements” in this Annual Report on Form 20-F.

General and administrative expenses are allocated to the reportable business segments based on direct overhead costs incurred by those segments. Amounts reported in the “Other” column represent activity unrelated to the active reportable operating segments. Amounts reported in the “Eliminations” column represent inter-segment management fees between the container management, container resale and container ownership segments.

Our container lessees use containers for their global trade utilizing many worldwide trade routes. The Company earns its revenue from these international carriers when the containers are on lease. Substantially all of our leasing related revenues are denominated in U.S. dollars.

The largest portion of our fleet is comprised of dry freight containers, which are by far the most common of the three principal types of intermodal containers. Dry freight intermodal containers are large, standardized steel boxes used to transport cargo by multiple modes of transportation, including ships, trains and trucks. We also lease refrigerated containers, which have integral refrigeration units on one end that plug into an outside power source and are used to transport perishable goods. Compared to traditional shipping methods, intermodal containers typically provide users with faster loading and unloading as well as some protection from weather and theft, thereby reducing both transportation costs and time to market for our lessees’ customers.

Our expertise and flexibility in managing containers after their initial lease is an important factor in our success. The administrative process of leasing new containers is relatively easy because initial leases for new containers typically cover large volumes of units and are fairly standardized transactions. However, to successfully compete in our industry, we must not only obtain favorable initial long-term leases for new containers, but also maximize the return generated by these containers throughout their useful life in marine service and their ultimate sale into the secondary market. To do that, we focus on renewing or extending our long-term container leases beyond their expiration dates (typically three to five years from the start of the lease). In addition, we attempt to negotiate favorable return provisions on all leases, maintain an active presence in the master and spot lease markets, and work to increase our options for disposing of off-lease containers so that we have attractive alternatives if it is not possible to achieve reasonable renewal or extension of terms with the current lessee. We have the capability and the infrastructure to re-lease or dispose of our containers at comparatively attractive terms, which increases our leverage with the lessees.

We supply and earn fees on leased containers to the U.S. Military pursuant to a contract with the U.S. Transportation Command Directorate of Acquisition (“USTranscom”). We are one of the main suppliers of leased intermodal containers to the U.S. Military.

We have the ability to reposition containers, if necessary, that are returned in lower demand locations to higher demand locations at competitive costs as a result of our experienced logistics team. Our large customer base of approximately 250 lessees increases our ability to re-lease returned containers. Our Container Resale segment sells containers to optimize their residual value in multiple markets, including locations with low lease-out demand. This system of generating an attractive revenue stream from and achieving high utilization of our container fleet has enabled us to become one of the world’s largest container lessors.

Industry Overview

Containers are built in accordance with standard dimensions and weight specifications established by the International Organization for Standardization (“ISO”). The industry-standard measurement unit is the Twenty-Foot Equivalent Unit

("TEU"), which compares the length of a container to a standard 20' container. For example, a 20' container is equivalent to one TEU and a 40' container is equivalent to two TEU. Standard dry freight containers are typically 8' wide, come in lengths of 20', 40' or 45' and are either 8' 6" or 9' 6" high. The three principal types of containers are described as follows:

- Dry freight standard containers. A dry freight standard container is constructed of steel sides, roof, an end panel on one end and a set of doors on the other end, a wooden floor and a steel undercarriage. Dry freight standard containers are the least expensive and most commonly used type of container. They are

used to carry general cargo, such as manufactured component parts, consumer staples, electronics and apparel. According to the latest available data, dry freight standard containers comprised approximately 88.7% of the worldwide container fleet, as measured in TEU, at December 31, 2017.

Dry freight specialized containers. Dry freight specialized containers consist of open-top and flat-rack containers. An open-top container is similar in construction to a dry freight standard container except that the roof is replaced with a tarpaulin supported by removable roof bows. A flat-rack container is a heavily reinforced steel platform with a wood deck and steel end panels. Open-top and flat-rack containers are generally used to transport heavy or oversized cargo, such as marble slabs, building products or machinery. According to the latest available data, dry freight specialized containers comprised approximately 2.9% of the worldwide container fleet, as measured in TEU, at December 31, 2017.

Other containers. Other containers include refrigerated containers, tank containers, 45' containers, pallet-wide containers and other types of containers. The two most prominent types of such containers are refrigerated containers and tank containers. A refrigerated container has an integral refrigeration unit on one end which plugs into an outside power source and is used to transport perishable goods. Tank containers are used to transport liquid bulk products such as chemicals, oils, and other liquids. According to the latest available data, other containers comprised approximately 8.4% of the worldwide container fleet, as measured in TEU, at December 31, 2017.

Containers provide a secure and cost-effective method of transportation because they can be used in multiple modes of transportation, making it possible to move cargo from a point of origin to a final destination without repeated unpacking and repacking. As a result, containers reduce transit time and freight and labor costs, as they permit faster loading and unloading of shipping vessels and more efficient transportation of cargo than traditional break bulk shipping methods. The protection provided by containers also reduces damage, loss and theft of cargo during shipment. While the useful life of containers varies based upon the damage and normal wear and tear suffered by the container, we estimate that our useful life for a standard dry freight container used in intermodal transportation is on average 13 to 14 years. Some shipping lines have recently indicated that they intend to keep their containers for longer than 13 to 14 years.

According to World Cargo News, as of January 2018, leasing companies owned approximately 53% of the total worldwide container fleet of 39.2 million TEU. The percentage of containers owned by shipping lines ranged from 39% to 54% from 1980 through 2018. Given the uncertainty and variability of export volumes and the fact that shipping lines have difficulty in accurately forecasting their container requirements at different ports, the availability of containers for lease significantly reduces a shipping line's need to purchase and maintain excess container inventory. In addition, leasing a portion of their total container fleets enables shipping lines to serve their manufacturer and retailer customers better by:

- increasing their flexibility to manage the availability and location of containers;
- increasing their ability to meet peak demand requirements, particularly prior to holidays such as Christmas and Lunar New Year; and
- reducing their capital expenditures.

Based on industry analyst reports, we expect 2019 new dry freight container production to reach only 3 million TEU of dry van as opposed to the strong volume of 4 million TEU reached in 2018. We expect lessors to continue to purchase 60 % of the total production which is higher than the historical average while shipping lines focus on investing on ships and IMO 2020 compliance. Global demand growth for shipping is expected to slow with the overall market dominated by trade uncertainty and slower overall GDP growth expectation of 3.5%. While new production inventory is not excessive at about 800,000 TEU, availability of depot containers has increased slightly and new container prices have come under pressure due to lower demand and production costs at the start of 2019. Deliveries of mega ships and introduction of IMO 2020 are expected to generate a positive impact on leased container demand in 2019.

The shipping business has been characterized by cyclical swings due in part to lengthy periods of excess or scarce vessel capacity. We believe that these sustained periods of vessel supply/demand imbalances are mainly a function of the multi-year ordering and production cycle associated with the manufacture of new vessels, which

requires shipping lines to estimate market growth many years into the future, and the shipping line industry's shift to the use of significantly larger vessels. Container leasing companies are partially insulated from the risks of these shipping cycles by the relatively short production time associated with the manufacture of new containers. Lead times for new container orders are typically only a few months, so the rate of new container ordering can be quickly adjusted to reflect unexpected market changes.

Our term leases maturing in 2019, represent approximately 11.4% of our fleet. Additionally, for most leasing companies, the percentage of containers on long-term leases has grown over the past ten years, while the percentage on master leases has declined. As of December 31, 2018, approximately 81% of our total on-hire fleet was on long-term leases, compared to approximately 70% ten years ago. As a result, changes in utilization have become less volatile for Textainer and most leasing companies.

According to World Cargo News, intermodal leasing companies, as ranked by total TEU as of January 2018, are as follows:

Company	TEU (000's)	Percent of Total
Triton International Limited	5,650	27.2 %
Florens Leasing	3,700	17.8 %
Textainer(1)	3,355	16.1 %
SeaCo Global	2,400	11.5 %
Beacon Intermodal Leasing	1,320	6.3 %
CAI International, Inc.	1,220	5.9 %
SeaCube Container Leasing Ltd.	1,140	5.5 %
Touax Global Container Solutions	525	2.5 %
Blue Sky Intermodal	365	1.8 %
UES International	265	1.3 %
Other	865	4.2 %
Grand Total	20,805	100.0 %

(1)Textainer Group's owned and managed fleet consisted of 3,355 TEU at December 31, 2018.

Competitive Strengths

We believe that we possess a number of strengths that provide us with a competitive advantage, including:

One of the Largest Container Lessors in the Industry. We operate one of the world's largest fleets of leased intermodal containers, with a total fleet of approximately 2.2 million containers, representing almost 3.4 million TEU, as of December 31, 2018. We provide our services worldwide via a network of regional and area offices and independent depots. We have been one of the largest buyers of new containers purchasing an average of almost 240,000 TEU per year for the last five years and are also one of the largest sellers of used containers, selling an average of almost 140,000 containers per year for the last five years. Our consistent presence in the market buying and selling containers provides us with broad market intelligence, and valuable insight into the demand patterns of our shipping line customers and resale container buyers.

Proven Ability to Grow Our Fleet Over Time. Our ability to invest in our fleet has allowed us to become one of the world's largest container lessors. We have demonstrated our ability to increase the size of our container fleet by purchasing containers from manufacturers and by acquiring existing container fleets or their management rights. Over the past 21 years, we have acquired the rights to manage over 1,500,000 TEU from former competitors and we have acquired approximately 725,000 TEU of containers from our managed fleet. As one of the largest buyers of new containers, we have developed strong relationships with container manufacturers. These relationships, along with our large volume buying power and solid financial structure, enable us to reliably purchase containers during periods of high demand.

Ability to Generate Attractive Returns Throughout the Container Life-Cycle. One of our major strengths is our demonstrated ability to generate attractive revenue streams throughout the economic life of a container in marine service and upon resale of the container at the end of its marine service life. At the end of a lease,

we generally have the ability to either negotiate an extension of the lease term or to take back the container and re-lease or sell it maximizing the container's return. This flexibility, coupled with our international coverage, organization and resources, allows us to deploy containers to those markets where we can re-lease or sell them on comparatively attractive terms, thereby optimizing our returns and the residual value of our fleet.

Strong Long-Standing Relationships with Customers. Our scale, long presence in the business and reliability as a supplier of containers has resulted in strong relationships with our customers. We lease containers to approximately 250 shipping lines and other lessees, including almost all of the world's top 20 container lines, as measured by vessel fleet size in TEU and we have sold containers to an average of more than 1,500 resale customers for the last five years. We believe our ability to consistently supply containers in locations where our customers need them makes us one of the most reliable lessors of containers. Our top 20 customers, as measured by revenues, have leased containers from us for an average of almost 30 years.

Multiple Sources of Revenue. We believe that the long-term nature of our lease portfolio, as well as the presence of both owned and managed containers in our fleet, provides us with a more predictable source of revenues and operating cash flow and higher operating margins over time, enabling us to manage and grow our business more effectively. We derive revenues from leasing our owned containers, managing containers owned by third parties and buying and selling containers. These multiple revenue streams provide for a diverse income base, help to mitigate the effects of our cyclical industry on profitability and allow us to optimize our use of capital.

Experienced Management Team. Our management team has a solid history in the industry. The management team has extensive experience in sourcing, leasing, financing, selling, trading and managing containers, as well as a long track record of successfully acquiring and selling container assets.

Business Strategies

We intend to grow our business profitably by pursuing the following strategies:

Leverage Our Status as one of the Largest Container Lessors and Consistent Purchaser and Seller of Containers. We endeavor to make regular purchases of containers to replace older containers and increase the size of our fleet. We believe that this consistent purchasing behavior and the resulting scale and young fleet age profile provides us with a competitive advantage in maintaining strong relationships with manufacturers and growing our market share with our existing customers.

Be the Most Reliable Supplier of Quality Containers. We continue to provide superior equipment and ensure that it is available in the right location and at the right time. Having one of the world's largest owned and managed container fleets, we are in a strong position to be the most reliable supplier of dry freight containers to meet the demands of shipping lines.

Pursue Attractive Container Related Acquisition Opportunities. We will continue to seek to identify and attempt to acquire attractive portfolios of containers and companies to allow us to grow our fleet profitably. We believe that the consolidation trend in our industry will continue and may offer us future growth opportunities. We also believe that current economic conditions may also result in potential acquisition opportunities, including the purchase and leaseback of customer-owned containers. Purchase and leaseback transactions can be attractive to our customers because they free up cash for other capital needs. These transactions enable us to buy attractively priced containers and at the same time place them on leases for the remainder of their marine service lives.

Focus on Maintaining High Levels of Utilization, Prioritize Profitability and Operating Efficiency. We will continue to target higher utilization. We will prioritize profitability with attractive yields on our assets through our disciplined

focus on optimal lease pricing , longer-term leases and portfolio management. As of December 31, 2018, approximately 81% of our total on hire fleet (based on total TEU) was on long-term leases, compared to approximately 70% ten years ago. We also drive operating efficiency by maintaining a low-cost structure, having brought down our fleet management cost per CEU per day by approximately 12% over the 10 years ended December 31, 2018. We believe that we can grow our fleet without a proportionate increase in our headcount, thereby improving our profitability by spreading our operating expenses over a larger revenue base.

Extend the Lease of In-fleet Containers. Since many shipping lines must utilize capital to finance vessels, it is possible that some will conclude in 2019, as they did in prior years, that it is more cost-effective to extend leases of in-fleet containers than either buy containers or lease new containers.

Grow Our Container Resale Business. We look to sell containers from our fleet when they reach the end of their useful lives in marine service or when we believe it is financially attractive for us to do so, considering the location, sales price, cost of repair, and possible repositioning expenses. In order to improve the sales price of our containers, we often move them from the location where they are returned by the lessee to another location that has a higher market price. We benefit not only as a result of the increased sales price but also because we often receive rental revenue from a shipping line for the one-way lease of the container. We also buy and resell containers from shipping line customers, container traders and other sellers of containers. We attempt to improve the sales price of these containers in the same manner as with containers from our fleet.

Maintain Access to Diverse Sources of Capital. We have successfully utilized a wide variety of financing alternatives to fund our growth, including secured debt financings, bank financing, and equity from third party investors in containers. We believe this diversity of funding, combined with our access to the public equity markets, provides us with an advantage in terms of both cost and availability of capital, versus our smaller competitors and also some of our shipping line customers.

Operations

We operate our business through a network of regional and area offices and independent depots. We maintain four regional offices as follows:

- Americas Region in Cranford, New Jersey, USA responsible for North and South America;
- European Region in New Malden, UK responsible for Europe, the Mediterranean, the Middle East, and Africa;
- North Asia Region in Yokohama, Japan responsible for Japan, South Korea, and Taiwan; and
- South Asia Region in Singapore, responsible for Southeast Asia, the PRC (including Hong Kong) and Australia.

Regional vice presidents are in charge of regional leasing and operations. Marketing directors and assistants located in the regional and area offices handle day-to-day marketing and collection activities. Our operations include a global sales force, container operations group, container resale group and logistics services group. Our headquarters office is in Hamilton, Bermuda. Our administrative office is located in San Francisco, California.

Our Container Fleet

As of December 31, 2018, we operated 3,354,724 TEU. We attempt to continually invest in our container fleet each year in an effort to replace the older containers being retired from marine service and to build our fleet size. We purchased an average of almost 240,000 TEU of new containers per year over the past five years. Our ability to invest in our fleet on a consistent basis has been instrumental in becoming one of the world's largest container lessors. Our container fleet consists primarily of standard dry freight and refrigerated containers. The containers that we lease are either owned outright by us or owned by third parties and managed by us. The table below summarizes the composition of our owned and managed fleets, in TEU and CEU, by type of containers as of December 31, 2018 (unaudited):

	TEU			CEU		
	Owned	Managed	Total	Owned	Managed	Total
Standard dry freight	2,450,688	686,108	3,136,796	2,202,187	611,918	2,814,105

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Refrigerated	141,883	14,706	156,589	572,929	59,444	632,373
Other specialized	53,460	7,879	61,339	82,757	13,023	95,780
Total fleet	2,646,031	708,693	3,354,724	2,857,873	684,385	3,542,258
Percent of total fleet	78.9	% 21.1	% 100.0	% 80.7	% 19.3	% 100.0

The amounts in the table above did not change significantly from December 31, 2018 to the date of this Annual Report on Form 20-F.

Our containers are designed to meet a number of criteria outlined by the ISO. The standard criteria include the size of the container and the gross weight rating of the container. This standardization ensures that the widest possible number of transporters can use containers and it facilitates container and vessel sharing by the shipping lines. The standardization of the container is also an important element of the container leasing business since we can operate one fleet of containers that can be used by all of our customers.

Maintenance and repair of our containers is performed by independent depots that we retain in major port areas and inland locations. Such depots also handle and inspect containers that are either picked up or redelivered by lessees, and store containers that are not leased.

Our Leases

Most of our revenues are derived from leasing our owned fleet and managed fleet of containers to our core shipping line customers. The vast majority of our container leases are structured as operating leases, though we also provide customers with finance leases. Regardless of lease type, we seek to exceed our targeted return on our owned and managed containers over the life of each container by managing container utilization, lease rates, drop-off restrictions and the disposal process. We lease containers under three different types of operating leases (term leases, master leases and spot leases) and also under finance leases.

Term leases

Term leases (also referred to as long-term leases) provide a customer with a specified number of containers for a specified period, typically for 5 or more years, with an associated set of pick-up and drop-off conditions. Our term leases generally require our lessees to maintain all units on lease for the duration of the lease. Term leases also include lifecycle leases, under which lessees will lease containers until they reach a pre-specified age which is typically near the end of their useful lives rather than for a specified period. Once containers under lifecycle leases are returned to us, they are generally sold due to the age of the containers. Term leases provide us with enhanced cash flow certainty due to their extended duration but carry lower per diem rates than other lease types. As of December 31, 2018, 80.7% of our total on-hire fleet, as measured in TEU, was on term leases.

As of December 31, 2018, our term leases had an average remaining duration of 41 months, assuming no leases are renewed. However, we believe that many of our customers will renew leases for containers that are less than sale age at the expiration of the lease. In addition, for leases that are not extended our containers typically remain on-hire at the contractual per diem rate for an average of an additional 12 months beyond the end of the contractual lease term. For additional information about the minimum future rentals under the long-term leases for our owned and managed fleet at December 31, 2018, see Note 1 “Nature of Business and Summary of Significant Accounting Policies” in Item 18, “Financial Statements” in this Annual Report on Form 20-F.

Some of our term leases give our customers Early Termination Options (“ETOs”). If exercised, ETOs allow customers to return containers prior to the expiration of the term lease. However, if an ETO is exercised, the customer is required to pay a penalty per diem rate that is applied retroactively to the beginning of the lease. As a result of this retroactive penalty, ETOs have historically rarely been exercised.

Master leases

Master leases provide a framework of terms and conditions pursuant to which lessees can lease containers on an as-needed basis for unspecified periods of time. Master lease terms and conditions are valid for a set period, typically one year, and provide the lessee with greater flexibility than is typical in term leases. Under our master leases, lessees know in advance their per diem rates and drop-off locations, subject to monthly drop-off location limits. In addition, under these master lease agreements, the lessee is generally not committed to leasing a minimum number of containers from us during the lease term and may generally return the containers to us at any time, subject to certain restrictions. Due to their flexibility and duration, master leases command higher per diem rates than term leases. As of December 31, 2018, 12.8% of our total on-hire fleet, as measured in TEU, was on master leases.

Spot leases

Spot leases provide the customer with containers for a relatively short lease period with fixed pick-up and drop-off locations. Spot leases are generally used to position a container to a desired location for subsequent lease or sale. As of December 31, 2018, 2.2% of our total on-hire fleet, as measured in TEU, was on spot leases.

Finance Leases

Finance leases provide our lessees with an alternative method to finance their container acquisitions. Finance leases are long-term in nature, typically ranging from three to eight years and require relatively little customer service attention. They ordinarily require fixed payments over a defined period and provide lessees with a right to purchase the subject containers for a nominal amount at the end of the lease term. Per diem rates include an element of repayment of capital and, therefore, typically are higher than rates charged under other leases. Finance leases require the lessee to keep the containers on lease for the entire term of the lease. Finance leases are reflected as “Net investment in direct financing and sales-type leases” on our consolidated balance sheets. As of December 31, 2018, approximately 4.3% of our total on-hire fleet, as measured in TEU, was on finance leases with an average remaining term of 38 months.

Maintenance, Repair and Damage Protection

Under all of our leases, our lessees are generally responsible for loss of or damage to a container beyond ordinary wear and tear, and they are required to purchase insurance to cover any other liabilities. Any damage must be repaired at the expense of the lessee according to standardized guidelines promulgated by the Institute of International Container Lessors (“IICL”). Lessees are also required to obtain insurance to cover loss of the equipment on lease, public liability and property damage insurance as well as indemnify us from claims related to their usage of the leased containers. In some cases, a Damage Protection Plan (“DPP”) is provided whereby the lessee pays us (in the form of either a higher per-diem rate or a fixed one-time payment upon the return of a container) to assume a portion of the financial burden of repairs up to a pre-negotiated amount. This DPP does not cover damages from war or war risks, loss of a container, constructive total loss of the container, damages caused by contamination or corrosion from cargo, damages to movable parts and any costs incurred in removing labels, which are all responsibilities of the lessees. DPP is generally cancelable by either party with prior written notice. Maintenance is monitored through inspections at the time that a container is leased out and returned. In 2018, DPP revenue was 2.2% of total lease rental income. We also maintain our own insurance to cover our containers when they are not on-hire to lessees or when the lessee fails to have adequate primary coverage, and third-party liability insurance for both on-hire and off-hire containers. In addition, we maintain insurance that, after satisfying our deductibles, would cover loss of revenue as a result of default under most of our leases, as well as the recovery cost or replacement value of most of our containers.

Lease Agreements

In general, our lease agreements consist of two basic elements, a master terms and conditions agreement (“Master Agreement”), and a lease schedule. Lease schedules contain the business terms (including daily rate, term duration and drop-off schedule, among other things) for specific leasing transactions, while Master Agreements outline the general rights and obligations of the lessor and lessee under all of the lease schedules covered by the Master Agreement. For most customers, we have a small number of Master Agreements (often one) and a large number of lease schedules.

Our standard Master Agreements generally require the lessees to pay rentals, depot charges, taxes and other charges when due, to maintain the containers in good condition and repair, to return the containers in good condition in accordance with the return conditions set forth in the Master Agreement, to use the containers in compliance with all laws, and to pay us for the value of the containers as determined under the terms of the agreements if the container is lost or destroyed. The default clause gives us certain legal remedies in the event that the lessee is in breach of the lease.

Re-leasing, Logistics and Depot Management

We believe that managing the period after termination of our containers’ first lease is one of the most important aspects of our business. The container shipping industry is characterized by large regional trade imbalances, with loaded containers generally flowing from export-oriented economies in Asia to North America and Western Europe. Because of these trade imbalances, container shipping lines have an incentive to return leased containers in North America and Western Europe to avoid the cost of shipping empty containers back to Asia. Successful management of the deployment of our containers after they come off their first lease requires disciplined re-leasing capabilities, logistics management, depot management, careful cost control and effective sales of used containers.

Re-leasing

Since our leases allow our lessees to return their containers, we typically lease a container several times during its life. New containers can usually be leased with a limited sales and customer service infrastructure because initial leases for new containers typically cover large volumes of units and are fairly standardized transactions. Used containers, on the other hand, are typically leased in smaller transactions that are structured to accommodate pick-ups and returns in a variety of locations. Our utilization rates depend in part on our re-leasing capabilities. Factors that affect our ability to re-lease used containers include the size of our lessee base, ability to anticipate lessee needs, their presence in relevant geographic locations and the level of service we provide our lessees. We believe that our global presence and relationships with approximately 250 container lessees provide us an advantage in re-leasing our containers relative to many of our smaller competitors.

Logistics

Other methods of reducing off-lease risks include:

- Limiting or prohibiting container returns to low-demand areas. In order to reduce our repositioning costs, our leases typically include a prohibition on returning containers to specific locations, limitations on the number of containers that may be returned to lower demand locations, drop-off charges for returning containers to lower demand locations or a combination of these provisions.
- Taking advantage of a robust resale market when available. In order to optimize the investment return on a container, we have sold containers in our excess inventory and/or weak demand locations when an analysis indicates it is financially more attractive than attempting to re-lease or reposition the container.
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Seeking one-way lease opportunities to move containers from lower demand locations to higher demand locations. One-way leases may include incentives, such as free days, credits and limited damage waivers. The cost of offering these incentives is generally less than the cost we would incur if we were to pay to reposition the containers. We also use one-way leases to move containers from locations where the market price for selling containers is low to locations with a higher market price, to improve the resale value of the containers.

44

• Paying to reposition our containers to higher demand locations. At locations where our inventories remain high, despite the efforts described above, we will selectively choose to pay to reposition excess containers to locations with higher demand or higher resale prices.

• Diversifying our customers. We have sought to diversify our customers and, correspondingly, the locations where containers are needed around the world.

Depot Management

As of December 31, 2018, we managed our container fleet through approximately 500 independent container depot facilities in more than 200 locations. Depot facilities are generally responsible for repairing containers when they are returned by lessees and for storing the containers while they are off-hire. Our operations group is responsible for managing our depot relationships and periodically visiting the depot facilities to conduct quality assurance audits to control costs and ensure repairs meet industry standards. We occasionally supplement our internal operations group with the use of independent inspection agents. Furthermore, depot repair work is periodically audited to prevent over-charging. We are in regular communication with our depot partners through the use of electronic data interchange (“EDI”) and/or e-mail. The electronic exchange of container activity information with each depot is conducted via the internet. As of December 31, 2018, a large majority of our off-lease inventory was located at depots that are able to report container activity and damage detail via EDI. We use the industry standard, ISO 9897 Container Equipment Data Exchange messages, for most EDI reporting.

Most of the depot agency agreements follow a standard form and generally provide that the depot will be liable for loss or damage of off-hire containers and, in the event of loss, will pay us the previously agreed loss value of the applicable containers. The agreements require the depots to maintain insurance against container loss or damage and we carry insurance to cover the risk when a depot’s insurance proves insufficient.

Our container repair standards and processes are generally managed in accordance with standards and procedures specified by the IICL. The IICL establishes and documents the acceptable interchange condition for containers and the repair procedures required to return damaged containers to the acceptable interchange condition. At the time that containers are returned by lessees, the depot arranges an inspection of the containers to assess the repairs required to return the containers to acceptable IICL condition. As part of the inspection process, damages are categorized either as lessee damage or normal wear and tear. Items typically designated as lessee damage include dents in the container and debris left in the container, while items such as rust are typically designated as normal wear and tear. In general, lessees are responsible for the lessee damage portion of the repair costs and we are responsible for normal wear and tear. The lessees are generally billed the lessee damage portion at the time the containers are returned. As discussed above in “Operations—Our Leases,” for an additional fee, we sometimes offer our lessees a DPP, pursuant to which we assume financial responsibility for repair costs up to a previously negotiated amount.

Management Services

As of December 31, 2018, we owned 79% of the containers in our fleet and managed the rest on behalf of 13 affiliated and unaffiliated container investors. We earn acquisition, management and disposal fees on managed containers. Our information technology (“IT”) systems track revenues and operating expenses attributable to specific containers and the container investors receive payments based on the net operating income of their own containers. Fees to manage containers typically include acquisition fees of 1% to 2% of the purchase price; daily management fees of 8% to 13% of net operating income; and disposal fees of 5% to 10% of cash proceeds when containers are sold. We earned combined acquisition, management and disposal fees on our managed fleet of \$16.9 million, \$15.0 million and \$13.4 million for the years ended December 31, 2018, 2017 and 2016, respectively. If operating expenses were to exceed revenues, the container investors would be obligated to pay the excess or we would deduct the excess, including our management fee, from future net operating income. In some cases, we are compensated for sales through a percentage sharing of sales proceeds over an agreed floor amount. We will typically indemnify the container investors for

liabilities or losses arising from negligence, willful misconduct or breach of our obligations in managing the containers. The container investors will indemnify us as the manager against any claims or losses arising with respect to the containers, provided that such claims or losses were not caused by our negligence, willful misconduct or breach of our obligations. Typically, the terms of the management agreements are for the expected remaining useful life in marine service of the containers subject to the agreement.

45

In June 2003, we entered into a contract with the USTranscom pursuant to which we serve as a major supplier of leased marine containers to the U.S. Military. Compared to our shipping line customers, we provide a much broader level of services to the U.S. Military under the USTranscom contract. Furthermore, unlike our shipping line customers, who pick up from and return containers to container depots, for the U.S. Military we are required to arrange transportation from a container depot to a military facility upon lease out and to pick up a container at a military facility and return it to a container depot when the lease period has ended. This requires us to arrange for movement of the empty containers by truck, rail and/or vessel. The USTranscom contract provides added compensation for these services.

This contract also allows the U.S. Military to return containers in many locations throughout the world. Since the inception of the USTranscom contract, we have delivered or transitioned approximately 180,000 containers and chassis to the U.S. Military, of which approximately 120,000 containers have been returned. In addition, approximately 53,000 containers have been reported as unaccounted for and the U.S. Military paid a stipulated loss value for each such container. The USTranscom contract expired on June 23, 2013 and we were awarded a new contract on December 12, 2013. The new contract covered a base year starting on December 24, 2013, was subsequently renewed annually from 2014 to 2017. The USTranscom contract expired on September 30, 2018 and was extended through February 28, 2019. Textainer, as one of the vendors, was awarded a new contract on January 28, 2019. The new contract covers a base year starting on March 1, 2019, with four option years running through February 29, 2024.

Resale of Containers

Our Resale Division sells off-hire containers from our fleet at the end, typically about 13 years, of their useful lives in marine service or when we believe it is financially attractive for us to do so, considering the location, sale price, cost of repair, and possible repositioning expenses. In addition, we buy used containers (trading containers) from shipping lines and other third parties that we then lease or resell. Our Resale Division has a team of 19 container sales and operations specialists in five offices globally that manage the sale process for these used containers. Our Resale Division is one of the largest sellers of used containers among container lessors, selling an average of almost 140,000 containers per year for the last five years to more than 1,500 customers. Our Resale Division has been a significant profit center for us. From 2014 through 2018, this Division generated \$52.8 million in income before income tax and noncontrolling interests, including \$16.1 million during 2018. We generally sell containers to depots, domestic storage companies, freight forwarders (who often use the containers for one-way trips into less developed countries) and other purchasers of used containers.

Underwriting and Credit Controls

We only lease to container shipping lines and other lessees or sell to buyers that meet our credit criteria. Our credit approval process is rigorous, and all of our underwriting and credit decisions are controlled by our credit committee, which is made up of senior management from different disciplines. Our credit committee sets different maximum exposure limits depending on our relationship and previous experience with each customer lessee and container sales customer. Credit criteria may include, but are not limited to, trade route, country, social and political climate, assessments of financial performance including net worth and profitability, asset ownership, bank and trade credit references, credit bureau reports, operational history and financial strength. Our marketing and resale staff are also responsible for collections, which positively contributes to our strong collection and credit approval process through our staff's close communication with our customers.

Our credit department sets and reviews credit limits for new and existing customer lessees and container sales customers, monitors compliance with those limits on an on-going basis, monitors collections, and deals with customers in default. Our credit department actively maintains a credit watch report on our proprietary information technology systems, which is available to all regional and area offices. This credit watch report lists customer lessees and container sales customers at or near their credit limits. New leases of containers to lessees on the credit watch report is only allowed with the approval of our credit department. Similarly, management may decide to stop sales of containers to purchasers whose payments are delinquent. Our credit committee meets regularly to assess performance of our container lessees and to recommend actions to be taken in order to reduce credit risks. Our underwriting processes are aided by the long payment experience we have with most of our customer lessees and container sales customers, our broad network of relationships in the container shipping industry that provides current information about customer lessees' and container sales customers' market reputations and our focus on collections.

Other factors reducing losses due to default by a lessee or customer include the growth in the container shipping industry, our constant monitoring of collections, effective collection mechanism, our historically high recovery rate for containers in default situations and the re-marketability of our container fleet. The growth in the container shipping industry helps reduce the risk of customer defaults since the core assets of a poorly performing shipping line, its ships and containers, have historically been needed to meet the demand for world containerized trade. In addition, the law in several major port locations is highly favorable to creditors and many of our large customers call on ports that will allow us to arrest, or seize, the customers' ships or fuel storage bunkers, or repossess our containers if the customer is in default under our container leases. Finally, we also purchase insurance for equipment recovery and loss of revenue due to customer defaults for most of our customers, in addition to the insurance that our customers are required to obtain, however our equipment recovery insurance is subject to high deductibles and has coverage limits and exclusions. In recent years our container recovery rate has declined as we have experienced several defaults where the containers are difficult to locate or when located are subject to liens for repairs and/or storage that make recovery uneconomical.

During 2014 through 2018, we recovered, on average, 82% of the containers that were the subject of defaulted contracts which had at least 1,000 CEU on lease. In connection with the Hanjin bankruptcy, 94% of the containers leased to Hanjin have been turned in, with the balance of the containers uneconomic or impossible to recover. We maintain insurance that covers certain costs and losses from customer defaults. At the time of the Hanjin default our policy provided for \$80 million of coverage after a \$5 million deductible was met. We collected substantially all of our insurance claim related to the Hanjin insolvency, however this was insufficient to cover all of our losses and disruptions related to Hanjin. We typically incur operating expenses such as repairs and repositioning when containers are recovered after a default. However, recovery expenses are typically covered under insurance and we are reimbursed above our deductible amount. Due to the above, over the last five years, our write-offs of customer receivables for our owned and managed fleet have averaged 1.8% of our lease rental income over such period.

Marketing and Customer Service

Our global sales and customer service force is responsible for developing and maintaining relationships with senior management staff at our shipping line customers, negotiating lease contracts and maintaining day-to-day coordination with operations staff. This close customer communication often assists us in negotiating lease contracts that satisfy both our financial return requirements and our customers' operating needs. It also makes us more likely to be aware of our customers' potential equipment shortages and makes our customers more likely to be aware of our available container inventories.

Our senior sales people have considerable industry experience and we believe that the quality of our customer relationships and the level of communication with our customers represent an important advantage for us. As of December 31, 2018, our global sales and customer service group consisted of 86 people, with 18 in North America, 43

in Asia and Australia, 19 in Europe and 6 in Africa.

Customers

We believe that our staff, organization and long presence in the business have resulted in very strong relationships with our shipping line customers. Our top 20 customers, as measured by lease billings of our total owned and managed fleet, have leased containers from us for an average of almost 30 years and have an average

47

Dynamar credit rating, a common credit report used in the maritime sector, of 3.7. The Dynamar credit rating ranges from 1 to 10, with 1 indicating low credit risk. Our top 20 customers include almost all of the world's largest shipping lines, as measured by container vessel fleet size. We currently have containers on-hire to approximately 250 customers. Our customers are mainly international shipping lines, but we also lease containers to freight forwarding companies and the U.S. Military. Our top 20 and top 5 customers accounted for approximately 82.8% and 49.5%, respectively, of our total owned and managed fleet's 2018 lease billings. Our two largest customers in 2018 were Mediterranean Shipping Company S.A., which accounted for \$84.2 million or 13.7% and CMA-CGM S.A., which accounted for \$82.4 million or 13.4% of our total owned and managed fleet's container lease rental income. A default by any of our major customers, such as the bankruptcy of Hanjin in 2016, could have a material adverse impact on our business, results from operations and financial condition. In addition, the largest lessees of our owned fleet are often among the largest lessees of our managed fleet. The largest lessees of our managed fleet are responsible for a significant portion of the billings that generate our management fee revenue. For further discussion, see Note 1 "Nature of Business and summary of Significant Accounting Policies" to our consolidated statements in Item 18, "Financial Statements" in this Annual Report on Form 20-F.

Proprietary Information Technology

We have developed proprietary IT systems that allow us to monitor container status and offer our customers a high level of service. Our systems include internet-based updates regarding container availability and booking status. Our systems record the status of and provide the accounting and billing for each of our containers individually by container number. We also have the ability to produce complete management reports for each portfolio of equipment we own and manage. This makes us a preferred candidate to quickly assume management of competitors' container fleets. We also maintain proprietary technology in support of our military business.

In addition, our systems allow our business partners to conduct certain business with us through our website, www.textainer.com. These systems allow customers to check our container inventories, review design specifications, request bookings for container pick-ups, create redelivery bookings and review and approve repair bills. Our website also allows depots to download recent statements for self-billing activity and to check the status of containers.

Suppliers

We have long relationships with all of our major suppliers. We currently purchase almost all of our containers in the PRC. There are four major manufacturers of dry freight standard and specialized containers. Our operations staff reviews the designs for our containers and periodically audits the production facilities of our suppliers. In addition, we use our Asian operations group and occasionally third-party inspectors to visit factories when our containers are being produced to provide an extra layer of quality control. Nevertheless, defects in our containers do sometimes occur. We work with the manufacturers to correct these defects, and our manufacturers have generally honored their warranty obligations in such cases.

Competition

According to World Cargo News, as of January 2018, the top ten container leasing companies, as measured on a TEU basis, control approximately 95.8%, and the top five container leasing companies control approximately 78.8%, of the total equipment held by all container lessors. According to this data, we are one of the world's largest lessors of intermodal containers based on fleet size by TEU and we operate approximately 15.7% by TEU of the equipment held by all container leasing companies.

We compete with approximately ten other large or medium size container leasing companies, many smaller lessors, companies and financial institutions offering finance leases, and promoters of container ownership and leasing as a

tax-efficient investment. It is common for our shipping line customers to utilize several leasing companies to meet their container needs.

Other lessors compete with us in many ways, including pricing, lease flexibility and supply reliability, as well as the location, availability, quality and individual characteristics of their containers and customer service. While we are forced to compete aggressively on price, we emphasize our supply reliability and high level of customer service

48

to our customers. We invest heavily to ensure container availability in higher demand locations. We dedicate a large part of our organization to building customer relationships, maintaining close day-to-day coordination with customers' operating staff and have developed powerful and user-friendly systems that allow our customers to transact business with us through the internet. We believe that our close customer relationships, experienced staff, reputation for market leadership, scale efficiencies and proprietary systems provide important competitive advantages.

Legal Proceedings

From time to time we are a party to litigation matters arising in connection with the normal course of our business. While we cannot predict the outcome of these matters, in the opinion of our management, any liability arising from these matters will not have a material adverse effect on our business. Nevertheless, unexpected adverse future events, such as an unforeseen development in our existing proceedings, new claims brought against us or changes in our current insurance arrangements could result in liabilities that have a material adverse impact on our business.

Environmental

We are subject to federal, state, local and foreign laws and regulations relating to the protection of the environment, including those governing the discharge of pollutants to air and water, the management and disposal of hazardous substances and wastes and the cleanup of contaminated sites. While we maintain certain limited liability insurance coverage as well as require our lessees to provide us with indemnity against certain losses, the insurance coverage may not be sufficient to protect us against losses arising from environmental damage and/or systems or services we may be required to install.

In addition to environmental regulations affecting container movement, shipping, movement and spillage, environmental regulations also impact container production and operation, including regulations on the use of chemical refrigerants (i.e. CFC's and solvent-based paints) due to their ozone depleting and global warming effects, and regulations on the cutting and export of hardwood due to concerns regarding de-forestation and climate change. These environmental regulations may impact the future repair and operating costs for these containers and we could be forced to incur large retrofitting expenses for our refrigerated containers. To comply with the new regulations, new water borne paint systems have been developed and are being used by container manufacturers. The conversion to water borne paint may impact factory capacity, increase the cost of containers and require greater investment by us in container inspection and factory supervision.

For further discussions, see Item 3, "Key Information -- Risk Factors – Environmental liability and regulations may adversely affect our business, results of operations and financial condition."

Regulation

We may be subject to regulations promulgated in various countries, including the U.S., seeking to protect the integrity of international commerce and prevent the use of containers for international terrorism or other illicit activities. As these regulations develop and change, we may incur increased compliance costs due to the acquisition of new, compliant containers and/or the adaptation of existing containers to meet any new requirements imposed by such regulations. For further discussions, see Item 3, "Key Information -- Risk Factors – We may incur costs associated with cargo security regulations, which may adversely affect our business, results of operations and financial condition."

We may also be affected by legal or regulatory responses to potential global climate change. Please see Item 3, "Key Information -- Risk Factors – Environmental liability and regulations may adversely affect our business, results of operations and financial condition."

C. Organizational Structure

Our current corporate structure is as follows:

50

We currently own 100% of all of our direct and indirect subsidiaries, except for TAP Funding. TAP Funding is a joint venture involving TL and TAP. As of December 31, 2018, TL owned 50.1% and TAP owned 49.9% of the common shares and TL had two voting rights and TAP had one voting right of TAP Funding, with the exception of certain matters such as bankruptcy proceedings, the incurrence of debt and mergers and consolidations, which require unanimity.

Our principal shareholder, Trencor, owned 47.5% of our outstanding share capital as of December 31, 2018. Trencor is a South African public investment holding company, that has been listed on the JSE in Johannesburg, South Africa since 1955. Trencor's origins date from 1929, and it currently has businesses owning, leasing and managing marine cargo containers and finance related activities. These shares were previously held by Halco Holdings Inc. ("Halco"), a company owned by Halco Trust, a discretionary trust. In February 2018, Halco Trust distributed and transferred to Trencor Limited, a nominated discretionary beneficiary of Halco Trust, the trust's 100% shareholding in Halco. In May 2018, Halco declared dividends to Trencor which resulted in Trencor becoming the direct shareholder of 47.5% of our common stocks. Halco went into voluntary liquidation on October 12, 2018. Hennie Van der Merwe and David M. Nurek are members of our board of directors and the board of directors of Trencor.

D. Property, Plant and Equipment

As of December 31, 2018, our employees were located in 14 regional and area offices in 13 different countries. We maintain an office in Bermuda, where Textainer Group Holdings Limited is incorporated. We have 13 offices outside Bermuda, including our administrative office in San Francisco, California and offices in Cranford, New Jersey; New Malden, United Kingdom; Hamburg, Germany; Durban, South Africa; Yokohama, Japan; Seoul, South Korea; Taipei, Taiwan; Singapore; Sydney, Australia; Port Klang, Malaysia; Hong Kong; and Shanghai, China.

We lease our office space in Bermuda, the U.S., United Kingdom and Singapore and have exclusive agents that secure office space for us in our other locations. The lease for our Bermuda office expires in December 2020, the lease for our San Francisco office expires in May 2027, the lease for our Cranford, New Jersey office expires in August 2021, the lease for our New Malden, United Kingdom office expires in December 2019 and our lease for our Singapore office expires in August 2021. In addition, we have non-exclusive agents who represent us in India, Indonesia, Pakistan, Republic of the Philippines, Sri Lanka, Thailand and Vietnam. We believe that our current facilities are adequate to meet current requirements and that additional or substitute space will be available as needed to accommodate our expected growth.

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following Operating and Financial Review and Prospects should be read in conjunction with our audited consolidated financial statements and related notes included elsewhere in this Annual Report on Form 20-F. In addition to historical consolidated financial information, the following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results may differ materially from those contained in or implied by any forward-looking statements. See "Information Regarding Forward-Looking Statements; Cautionary Language." Factors that could cause or contribute to these differences include those discussed below and elsewhere in this Annual Report on Form 20-F, particularly in Item 3, "Key Information-- Risk Factors."

Dollar amounts in this section of this Annual Report on Form 20-F are expressed in thousands of U.S. dollars unless otherwise indicated.

Executive Summary

Operating since 1979, we are one of the world's largest lessors of intermodal containers based on fleet size, with a total fleet of approximately 2.2 million containers, representing almost 3.4 million TEU. During 2018: (i) container investment of approximately \$830 million accepted into our total fleet, (ii) utilization averaged 98.1% compared to 96.4% in 2017, (iii) we leased out over 500K TEU, and (iv) we completed over \$2.0 billion of financing in the debt markets, resulting in approximately \$720 million in net incremental debt funding.

Our business comprises of three reportable segments for financial reporting purposes: Container Ownership, Container Management and Container Resale. Our total revenues primarily consist of leasing revenues derived from the leasing of our owned containers and fees received for managing containers owned by third parties, equipment resale and military management. The most important driver of our profitability is the extent to which net operating income on our owned fleet and management fee income exceed our operating costs. The key drivers of our net operating income are fleet size, rental rates, direct costs and utilization. Our operating costs primarily consist of depreciation, container impairment, amortization, interest expense, direct container expense and administrative expenses. Damages to containers beyond ordinary wear and tear (and certain other expenses) are the responsibility of our lessees and are not operating costs for us.

Key Factors Affecting Our Performance

We believe there are a number of key factors that have affected, and are likely to continue to affect, our operating performance. These key factors include the following, among others:

- the demand for leased containers;
- lease rates;
- steel prices;
- interest rates;
- our ability to lease our new containers shortly after we purchase them;
- prices of new and used containers and the impact of changing prices on containers held for sale and the residual value of our in-fleet owned containers;
- remarketing risk;
- the creditworthiness of our customers;
- further consolidation among shipping lines and/or container lessors;
- further consolidation of container manufacturers and/or decreased access to new containers; and
- global and macroeconomic factors that affect trade generally, such as recessions, terrorist attacks, pandemics or the outbreak of war and hostilities.

For further details of these and other factors which may affect our business and results of operations, see Item 3, "Key Information-- Risk Factors."

Revenue

Our revenue comprises lease rental income, management fees – non-leasing and trading container margin.

Lease Rental Income. We generate lease rental income by leasing our owned container fleet and managed container fleet to container shipping lines and other customers. Lease rental income comprises daily per diem rental charges due under the lease agreements, together with payments for other charges set forth in the leases, such as handling fees, drop-off charges and pick-up charges and credits (together "geography revenue") and charges for a DPP. The operating results of our owned container business are determined by the amount by which our container rental revenue exceeds our ownership costs, consisting primarily of depreciation, interest expense, storage, handling and other direct

operating expenses and management costs.

52

Lease rental income and operating expenses arising from the leasing services of the managed portion of our fleet are included on a gross amount basis in our consolidated statements of comprehensive income (loss). We earn management fees from management of the Owner's containers, which include the leasing, repair, repositioning and storage of the managed fleet pursuant to management agreements with container investors. The management agreements typically cover the entire economic life of the containers.

Utilization is a key performance indicator that demonstrates how much of our equipment is on lease at a point in time or over a period of time. We measure utilization on the basis of CEU on lease, dividing the actual number of CEU days on-hire by actual CEU days available for lease. We calculate containers available for lease by excluding containers that have been manufactured for us but have not yet been delivered to a lessee and containers designated as held-for-sale units. Our utilization is primarily a function of our current lease structure, overall level of container demand, the location of our available containers and prevailing lease terms by location. The location of available containers is critical because containers available in high-demand locations are more readily leased and are typically leased on more favorable terms than containers available in low-demand locations.

Lease rental income is also affected by per diem rates. The per diem rate for a lease is set at the time we enter into a lease agreement. Our long-term per diem rate for new containers has historically been strongly influenced by new container pricing (which in turn is heavily influenced by the cost of container manufacturing inputs such as steel, paint, wood, labor and other components), interest rates, the balance of supply and demand for containers at a particular time and location, our estimate of the residual value of the container at the end of its useful life in marine service, the type of the container being leased, container purchasing activities by container shipping lines and competitors, and efficiencies in container utilization by container shipping lines. Average per diem rates for containers in our owned fleet and in the portfolios of containers comprising our managed fleet change slowly in response to changes in new container prices because existing lease agreements can only be re-priced upon expiration of the lease.

Management Fees – non-leasing. Management fee from non-leasing services is generated by our management services, which include the acquisition and disposition of containers. We provide these management services pursuant to management agreements with container investors. Under these agreements, we earn fees for the acquisition of new containers and a sales commission upon disposition of containers under management. Our acquisition fees are calculated as a percentage of the cost of the container. Our sales commissions are either a fixed dollar amount or based on a percentage of the sales price.

All rental operations are conducted worldwide in our name as agent for the container investors. Customer accounts receivable and vendor payables arising from direct container operations of the managed portion of our fleet are excluded from our consolidated balance sheets.

Trading Container Margin. Our Container Resale Division purchases used containers from third parties, primarily shipping lines, and resells these containers to a wide variety of buyers. Trading container margin represents the sales proceeds of these containers net of the cost at the time the containers are sold.

Gain on Sale of Owned Fleet Containers, net

Gain on sale of owned fleet containers, net, represents the excess of the sale price of our owned fleet containers over their net book value at the time of sale. Containers are generally sold at the end of their useful lives in marine service or when we believe it is financially attractive for us to do so, considering the location, sale price, cost of repair and possible repositioning expenses. Gain on sale of owned fleet containers, net, also includes gains (losses) recognized at the inception of sales-type leases of our owned fleet, representing the excess (deficiency) of the estimated fair value of containers placed on sales-type leases over (below) their book value.

Operating Expenses

Our operating expenses include direct container expenses – owned fleet, distribution expenses to managed fleet owners, depreciation of container rental equipment, container impairment, amortization expense, general and administrative expenses and bad debt expense (recovery).

Direct Container Expenses – owned fleet. Storage, handling, maintenance, repositioning, agency costs, insurance expenses and other direct container expenses are operating costs of our owned fleet. Storage and handling expenses occur when our customers drop off containers at depots around the world. Storage and handling expenses vary significantly by location. Other direct container expenses include maintenance expenses, which are the result of normal wear and tear on the containers, and repositioning expenses, which are incurred when we contract to move containers from locations where our inventories exceed actual or expected demand to locations with higher demand. Other direct container expenses also include agency costs, which are operational expenses incurred in our agent offices, and insurance expenses, which include customer default insurance premiums, and recovery costs for problem lessees. Storage, handling, maintenance, repositioning, and other direct container expenses are directly related to the number of containers in our owned fleet and inversely related to our utilization rate for those containers. As utilization increases, we typically have lower storage, handling, maintenance and repositioning expenses. We use the direct expense method of accounting for maintenance and repairs.

Our leases require the lessee to pay for any damage to the container beyond normal wear and tear at the end of the lease term. We also offer a DPP pursuant to which the lessee pays a fee over the term of the lease (per diem) or a lump sum upon return of containers in exchange for not being charged for certain damages at the end of the lease term. This revenue is recognized as earned over the term of the lease. We do not recognize DPP revenue and related expense over the lease term for customers who are billed at the end of the lease term under the DPP or for other lessees who do not participate in the DPP. Based on past history, there is uncertainty as to collectability of these amounts from lessees who are billed at the end of the lease term because the amounts due under the DPP are typically re-negotiated at the end of the lease term or the lease term is extended.

Distribution to Managed Fleet Owners. Our distribution amounts to Owners for the managed fleet includes the net operating income of each Owner's fleet, reduced by the management fees earned and retained by the Company. This amount also includes expenses related to the operation of the managed containers which are presented on a gross basis in the consolidated statements of comprehensive income (loss).

Our management fees from leasing services are calculated as a percentage of net operating income of the containers. Net operating income is calculated as the lease payment and any other revenue attributable to a container, minus operating expenses related to that container (but not depreciation or financing expenses of the container investor). The container investors are responsible for the direct container expenses incurred in the operation of the managed fleet. The management fee percentage generally varies based upon the type of lease and the terms of the management agreement. Management fee percentages for long-term leases are generally lower than management fee percentages for master or spot leases because less daily involvement by management personnel is required to manage long-term leases.

Depreciation Expense. We depreciate our standard dry freight containers over a period of 13 to 14 years, refrigerated containers over a period of 12 years, tank containers over a period of 20 years and open top and flat rack containers over a period of 14 to 16 years, on a straight-line basis to a fixed residual value. We regularly assess both the estimated useful life of our containers and the expected residual values, and, when warranted, adjust our depreciation estimates accordingly. Depreciation expense will vary over time based upon the number and the purchase price of containers in our owned fleet. Beginning from the third quarter of 2016, depreciation of our existing owned fleet increased as a result of a decrease in the estimated residual values of our 20' dry containers, 40' dry containers, 40' high cube dry containers and 40' folding flat rack containers, partially offset by an increase in the estimated useful lives of 40' dry containers, 20' folding flat rack containers, 20' open top containers and 40' folding flat rack containers. Beginning from the third quarter of 2017, depreciation of our existing owned fleet decreased as a result of an increase in the estimated residual value of our 20' dry containers, 40' dry containers and 40' high cube dry containers. Beginning from the third quarter of 2018, depreciation of our existing owned fleet decreased as a result of an increase in the estimated residual value of our 40' high cube dry containers, partially offset by a decrease in the estimated residual value of our

40' high cube refrigerated containers.

Container Impairment. We evaluate our containers held for use in our leasing operation to determine whether there has been any event such as a decline in results of operations or residual values that would cause the book value of our containers held for use to be impaired. When an impairment exists, containers held for use are written down to their fair value and the amount of the write down is recorded in container impairment.

54

When the Company is required to write down the cost basis of its containers identified for sale to fair value less cost to sell, the Company measures the fair value of its containers identified for sale under a Level 2 input. The Company relies on its recent sales prices for identical or similar assets in markets, by geography, that are active. The Company records impairments to write down the value of containers identified for sale to their estimated fair value less cost to sell. Any subsequent increase in fair value are recognized as reversal of container impairment but not in excess of the cumulative loss previously recognized.

Amortization Expense. Amortization expense represents the amortization of the price paid for the rights to manage the container fleets of Capital Intermodal Limited, Capital Intermodal GmbH and Capital Intermodal Assets Limited (collectively "Capital Intermodal") and Amphibious Container Leasing Limited ("Amficon"); Capital Lease Limited, Hong Kong ("Capital"). The purchase prices are being amortized over the expected useful lives of the contracts on a pro-rata basis to the expected management fees.

General and Administrative Expense. Our general and administrative expenses are primarily employee-related costs such as salary, employee benefits, short-term and long-term incentive compensation expense, rent, travel and entertainment costs, as well as expenses incurred for outside services such as legal, consulting, tax and audit-related fees.

Bad Debt Expense, net. Bad debt expense, net, represents the amounts recorded to provide for an allowance for the doubtful collection of accounts receivable for the owned fleet.

A. Operating Results

Comparison of the Years Ended December 31, 2018, 2017 and 2016

The following table summarizes our revenues and gain on sale of owned fleet containers, net for the years ended December 31, 2018, 2017 and 2016 and percentage changes between those periods:

	Year Ended December 31,			% Change Between			
	2018	2017	2016	2018 and 2017 and 2016			
	(Dollars in thousands)						
Lease rental income - owned fleet	\$501,362	\$444,888	\$460,427	12.7 %	(3.4	%)	
Lease rental income - managed fleet (1)	111,342	104,566	105,511	6.5 %	(0.9	%)	
Lease rental income	\$612,704	\$549,454	\$565,938	11.5 %	(2.9	%)	
Management fees - non-leasing (1)	\$8,529	\$7,146	\$5,937	19.4 %	20.4	%	
Trading container sales proceeds	\$19,568	\$4,758	\$15,628	311.3 %	(69.6	%)	
Cost of trading containers sold (2)	(16,118)	(3,302)	(15,904)	388.1 %	(79.2	%)	
Trading container margin	\$3,450	\$1,456	\$(276)	137.0 %	(627.5	%)	
Gain on sale of owned fleet containers, net	\$36,071	\$26,210	\$6,761	37.6 %	287.7	%	

(1) Amounts for the years ended December 31, 2017 and 2016 have been adjusted and reclassified to conform with the 2018 presentation (see Note 2 "Immaterial Reclassification and Adjustment of Prior Periods" in Item 18, "Financial Statements" in this Annual Report on Form 20-F).

(2) Amounts for the years ended December 31, 2017 and 2016 have been reclassified out of the operating expense section and included within revenue section to conform with the 2018 presentation.

Lease rental income increased \$63,250 (11.5%) from 2017 to 2018. This increase was primarily due to a 2.9% increase in average per diem rental rates, a 2.0% increase in utilization and a 6.5% increase in our total fleet that was available for lease. Lease rental income decreased \$16,484 (-2.9%) from 2016 to 2017. This decrease was primarily due to a 9.1% decrease in average per diem rental rates, partially offset by a 2.0% increase in utilization and a 5.0% increase in our total fleet that was available for lease.

Management fees – non-leasing increased \$1,383 (19.4%) from 2017 to 2018 primarily due to a \$767 increase in sales commissions due primarily to higher used container prices and a \$609 increase in acquisition fees due to increase in container purchases. Management fees – non-leasing increased \$1,209 (20.4%) from 2016 to 2017 primarily due to a \$1,723 increase in sales commissions due primarily to higher used container prices, partially offset by a \$551 decrease due from lower acquisition fees due to a decline in container purchases.

Trading container margin increased \$1,994 (137.0%) from 2017 to 2018, \$3,118 of the increase resulted from a growth in unit sales volume resulting from an increase in the number of trading containers that were available to source and sell, partially offset by a \$1,124 decrease due to a decrease in per unit margin. Trading container margin decreased \$1,732 (-627.5%) from 2016 to 2017, \$1,505 of the decrease due to a decrease in per unit margin and \$227 of the decrease resulted from a decline in unit sales volume resulting from a decrease in the number of trading containers that were available to source and sell.

Gain on sale of owned fleet containers, net, increased \$9,861 (37.6%) from 2017 to 2018 primarily due to a \$10,787 increase resulting from an improvement in average gain of \$101 per container sold, partially offset by a \$840 decrease resulting from a 3.3% reduction in the number of containers sold. Gain on sale of owned fleet containers, net, increased \$19,449 (287.7%) from 2016 to 2017 primarily due to a \$20,751 increase resulting from an improvement in average gain of \$189 per container sold and a \$988 increase in gain on sales-type leases, partially offset by a \$1,453 decrease resulting from a 21.2% reduction in the number of containers sold.

The following table summarizes our total operating expenses for the years ended December 31, 2018, 2017 and 2016 and percentage changes between those periods:

	Year Ended December 31,			% Change Between		
	2018	2017	2016	2018 and 2017	2017 and 2016	
	(Dollars in thousands)					
Direct container expense - owned fleet	\$58,813	\$60,321	\$62,596	(2.5 %)	(3.6 %)	
Distribution to managed fleet owners (1)	102,992	96,718	98,028	6.5 %	(1.3 %)	
Depreciation expense	235,705	231,043	236,144	2.0 %	(2.2 %)	
Container impairment	26,775	8,072	94,623	231.7%	(91.5 %)	
Amortization expense	3,721	4,092	5,053	(9.1 %)	(19.0 %)	
General and administrative expense (2)	44,317	39,677	34,540	11.7 %	14.9 %	
Bad debt expense, net	2,697	477	21,166	465.4%	(97.7 %)	
Gain on insurance recovery	(8,692)	—	—	100.0%	—	
Total operating expenses	\$466,328	\$440,400	\$552,150	5.9 %	(20.2 %)	

(1) Amounts for the years ended December 31, 2017 and 2016 have been adjusted to conform with the 2018 presentation (see Note 2 "Immaterial Reclassification and Adjustment of Prior Periods" in Item 18, "Financial Statements" in this Annual Report on Form 20-F).

(2) Amounts for the years ended December 31, 2017 and 2016 include reclassification of short-term and long-term incentive compensation expense to conform with the 2018 presentation.

Direct container expense – owned fleet decreased \$1,508 (-2.5%) from 2017 to 2018 primarily due to a \$6,830 decrease in storage expense, partially offset by a \$4,383 increase in container recovery costs for slow-paying and insolvent lessees. Direct container expense decreased \$2,275 (-3.6%) from 2016 to 2017 primarily due to a \$8,754 decrease in storage expense, a \$2,950 decrease in container recovery costs for slow-paying and insolvent lessees, partially offset

by a \$5,191 increase in repositioning expense, a \$2,039 increase in maintenance expense and a \$1,401 increase in insurance expense.

Depreciation expense increased \$4,662 (2.0%) from 2017 to 2018 and decreased \$5,101 (-2.2%) from 2016 to 2017. The following table summarizes the variances included within these changes,

From
2017
to
2018