

TEXTAINER GROUP HOLDINGS LTD
Form 20-F
March 11, 2016
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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

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2015

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

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16 Par-La-Ville Road

Hamilton HM 08

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(Address of principal executive offices)

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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.

56,533,095 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 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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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

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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, together with certain of its subsidiaries, are the discretionary beneficiaries of a trust that indirectly owns approximately 48.2% of our common shares (such interest, beneficiary interest). 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.

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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, believe, estimate, predict, intend, potential, continue or the negative of these terms or other similar terminology. Forward-looking statements include, among others, statements regarding: (i) our belief that the consolidation trend in our industry will continue and will likely offer us growth opportunities; (ii) our belief that the ongoing downturn in the world's major economies and the constraints in the credit markets may result in potential acquisition opportunities, including the purchase and leaseback of customer-owned containers; (iii) our belief that many of our customers will renew leases for containers that are less than sale age at the expiration of their leases; (iv) our expectation that containers under our current term leases will be re-priced downward due to the current low level of new container rental rates; (v) our belief that improved performance depends largely on an increase in demand, container prices interest rates and/or freight rates; (vi) our belief that new container prices are currently lower than the cost of production and we do not expect them to increase materially over the first half of 2016; (vii) our belief that if the credit markets tighten, borrowing costs will increase and the debt markets will become more selective, which we believe we would benefit from relative to our smaller competitors and more highly levered competitors; (viii) our belief that freight rates are at near their lowest levels since 2009, attempts to enforce general rate increases have failed and rates are expected to remain under pressure for at least 2016; (ix) our belief that maturing leases that are extended will continue to be repriced at lower rental rates; (x) our belief that container impairments are likely to remain high until resale prices improve; and (xi) our expectation that the combined factors discussed above will lead to reduced financial results in 2016.

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

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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.

Table of Contents**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, 2015, 2014 and 2013 and under the heading *Balance Sheet Data* as of December 31, 2015 and 2014 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, 2012 and 2011 and under the heading *Balance Sheet Data* as of December 31, 2013, 2012 and 2011 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,				
	2015	2014	2013	2012	2011
	(Dollars in thousands, except per share data)				
Statement of Income Data:					
Revenues:					
Lease rental income	\$ 510,466	\$ 504,225	\$ 468,732	\$ 383,989	\$ 327,627
Management fees	15,610	17,408	19,921	26,169	29,324
Trading container sales proceeds	12,670	27,989	12,980	42,099	34,214
Gains on sale of containers, net	3,454	13,469	27,340	34,837	31,631
Total revenues	542,200	563,091	528,973	487,094	422,796
Operating expenses:					
Direct container expense	47,342	47,446	43,062	25,173	18,307
Cost of trading containers sold	12,475	27,465	11,910	36,810	29,456
Depreciation expense	191,373	163,488	140,083	104,844	81,330

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Container impairment	35,345	13,108	8,891		1,847
Amortization expense	4,741	4,010	4,226	5,020	6,110
General and administrative expense	27,645	25,778	24,922	23,015	23,495
Short-term incentive compensation expense	913	4,075	1,779	5,310	4,921
Long-term incentive compensation expense	7,040	6,639	4,961	6,950	5,950
Bad debt expense (recovery), net	5,028	(474)	8,084	1,525	3,007
Gain on sale of containers to noncontrolling interest					(19,773)
Total operating expenses	331,902	291,535	247,918	208,647	154,650
Income from operations	210,298	271,556	281,055	278,447	268,146

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	Fiscal Years Ended December 31,				
	2015	2014	2013	2012	2011
	(Dollars in thousands, except per share data)				
Other (expense) income:					
Interest expense	(76,521)	(85,931)	(85,174)	(72,886)	(44,891)
Interest income	125	119	122	146	32
Realized losses on interest rate swaps, collars and caps, net	(12,823)	(10,293)	(8,409)	(10,163)	(10,824)
Unrealized (losses) gains on interest rate swaps, collars and caps, net	(1,947)	1,512	8,656	5,527	(3,849)
Bargain purchase gain				9,441	
Other, net	26	23	(45)	44	(115)
Net other expense	(91,140)	(94,570)	(84,850)	(67,891)	(59,647)
Income before income tax and noncontrolling interest	119,158	176,986	196,205	210,556	208,499
Income tax (expense) benefit	(6,695)	18,068	(6,831)	(5,493)	(4,481)
Net income	112,463	195,054	189,374	205,063	204,018
Less: Net (income) loss attributable to the noncontrolling interests	(5,576)	(5,692)	(6,565)	1,887	(14,412)
Net income attributable to Textainer Group Holdings Limited common shareholders	\$ 106,887	\$ 189,362	\$ 182,809	\$ 206,950	\$ 189,606
Net income attributable to Textainer Group Holdings Limited common shareholders per share:					
Basic	\$ 1.88	\$ 3.34	\$ 3.25	\$ 4.04	\$ 3.88
Diluted	\$ 1.87	\$ 3.32	\$ 3.21	\$ 3.96	\$ 3.80
Weighted average shares outstanding (in thousands):					
Basic	56,953	56,719	56,317	51,277	48,859
Diluted	57,093	57,079	56,862	52,231	49,839
Other Financial and Operating Data (unaudited):					
Cash dividends declared per common share	\$ 1.65	\$ 1.88	\$ 1.85	\$ 1.63	\$ 1.28
Purchase of containers and fixed assets	\$ 533,306	\$ 818,451	\$ 765,418	\$ 1,087,489	\$ 823,694
Utilization rate(1)	96.80%	96.10%	94.90%	97.40%	98.40%

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Total fleet in TEU (as of the end of the period)	3,147,690	3,233,364	3,040,454	2,775,034	2,469,039
Balance Sheet Data (as of the end of the period):					
Cash and cash equivalents	\$ 115,594	\$ 107,067	\$ 120,223	\$ 100,127	\$ 74,816
Containers, net	3,698,011	3,629,882	3,233,131	2,916,673	1,903,855
Net investment in direct financing and sales-type leases (current and long-term)	331,134	369,005	282,121	216,887	110,196
Total assets	4,386,254	4,358,977	3,908,983	3,476,080	2,310,204
Long-term debt (including current portion)	3,023,548	2,995,977	2,667,284	2,261,702	1,509,191
Total liabilities	3,119,327	3,106,612	2,763,489	2,429,947	1,625,278
Total Textainer Group Holdings Limited shareholders equity	1,202,675	1,192,545	1,097,823	1,007,503	683,828
Noncontrolling interest	64,252	59,820	47,671	38,630	1,098

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(1) 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 been delivered yet to a lessee and CEU designated as held-for-sale units.

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 comes 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. Economic downturns in the U.S., Europe, Asia and countries with consumer-oriented economies can and have resulted in a reduction in the rate of growth of world trade and demand by container shipping lines for leased containers. Thus, a decrease in world trade can and has adversely affected our utilization and per diem rates and lead 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;