

TEXTAINER GROUP HOLDINGS LTD
Form 6-K
May 09, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO
RULE 13a-16 OR 15d-16 UNDER

THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2018

Commission File Number 001-33725

Textainer Group Holdings Limited

(Translation of Registrant's name into English)

Century House

16 Par-La-Ville Road

Hamilton HM 08

Bermuda

(441) 296-2500

(Address of principal executive office)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

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Form 20-F Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934. Yes No

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): Not applicable

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (17 CFR §230.405) or Rule 12b-2 of the Securities Exchange Act of 1934 (17 CFR §240.12b-2). 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.

This report contains the quarterly report of Textainer Group Holdings Limited for the three months ended March 31, 2018.

Exhibits

Exhibits

1. Quarterly Report of Textainer Group Holdings Limited for the Three Months Ended March 31, 2018.

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Exhibit 1

TEXTAINER GROUP HOLDINGS LIMITED

Quarterly Report on Form 6-K for the Three Months Ended March 31, 2018

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INFORMATION REGARDING FORWARD-LOOKING STATEMENTS; CAUTIONARY LANGUAGE

This Quarterly Report on Form 6-K, including the section entitled Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, 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, 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,” “believe,” “estimate,” “pre,” “potential,” “continue” or the negative of these terms or other similar terminology. The forward-looking statements contained in this Quarterly Report on Form 6-K include, but are not limited to, statements regarding (i) factors that are likely to continue to affect our performance and (ii) our belief that, assuming that our lenders remain solvent that our cash flow from operations, proceeds from the sale of containers and borrowing availability under our debt facilities are sufficient to meet our liquidity needs, including for the payment of dividends, for the next twelve months.

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” included in our Annual Report on Form 20-F for the fiscal year ended December 31, 2017 filed with the U.S. Securities and Exchange Commission (the “SEC”) on March 14, 2018 (our “2017 Form 20-F”).

We believe that it is important to communicate our expectations about the future 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” included in our 2017 Form 20-F, as well as any cautionary language in this Quarterly Report on Form 6-K, 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” included in our 2017 Form 20-F and elsewhere in this Quarterly Report on Form 6-K could negatively impact our business, cash flows, results of operations, financial condition and share price. Potential investors, shareholders and other readers are cautioned not to place undue reliance on our forward-looking statements.

Forward-looking statements regarding our present plans or expectations for fleet size, management contracts, container purchases, sources and availability of financing, and growth involve risks and uncertainties relative to return expectations and related allocation of resources, and changing economic or competitive conditions, as well as the negotiation of agreements with container investors, 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” included in our 2017 Form 20-F or elsewhere in this Quarterly Report on Form 6-K, 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. The forward-looking statements contained in this Quarterly Report on Form 6-K speak only as of, and are based on information available to us on, the date of the filing of this Quarterly Report on Form 6-K. We assume no obligation

to, and do not plan to, update any forward-looking statements after the date of this Quarterly Report on Form 6-K as a result of new information, future events or developments, except as expressly required by U.S. federal securities laws. You should read this Quarterly Report on Form 6-K and the documents that we reference and have furnished 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.

In this Quarterly Report on Form 6-K, 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" included in our 2017 Form 20-F.

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
 TEXTAINER GROUP HOLDINGS LIMITED AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income (Loss)

Three Months Ended March 31, 2018 and 2017

(Unaudited)

(All currency expressed in United States dollars in thousands, except per share amounts)

Three Months Ended March 31,
 2018 2017

Revenues:		
Lease rental income	\$ 120,222	\$ 107,617
Management fees	3,988	3,222
Trading container sales proceeds	2,401	1,800
Gain on sale of containers, net	6,627	4,048
Total revenues	133,238	116,687
Operating expenses:		
Direct container expense	13,696	19,659
Cost of trading containers sold	2,105	1,289
Depreciation expense	56,334	60,608
Container impairment	832	3,811
Amortization expense	1,822	948
General and administrative expense	8,104	7,345
Short-term incentive compensation expense	938	1,360
Long-term incentive compensation expense	1,358	1,376
Bad debt (recovery) expense, net	(607)	252
Total operating expenses	84,582	96,648
Income from operations	48,656	20,039
Other (expense) income:		
Interest expense	(31,619)	(28,913)
Interest income	303	128
Realized gains (losses) on interest rate swaps, collars and caps,		
net	1,184	(1,162)
Unrealized gains on interest rate swaps, collars		
and caps, net	2,263	2,294
Other, net	2	(14)
Net other expense	(27,867)	(27,667)
Income (loss) before income tax and noncontrolling interests	20,789	(7,628)
Income tax expense	(560)	(447)
Net income (loss)	20,229	(8,075)
Less: Net (income) loss attributable to the noncontrolling		
interests	(1,511)	1,101
Net income (loss) attributable to Textainer Group Holdings	\$ 18,718	\$ (6,974)

Limited common shareholders		
Net income (loss) attributable to Textainer Group Holdings Limited		
common shareholders per share:		
Basic	\$0.33	\$(0.12)
Diluted	\$0.33	\$(0.12)
Weighted average shares outstanding (in thousands):		
Basic	57,099	56,790
Diluted	57,530	56,790
Other comprehensive income (loss):		
Foreign currency translation adjustments	106	32
Comprehensive income (loss)	20,335	(8,043)
Comprehensive (income) loss income attributable to the		
noncontrolling interests	(1,511)	1,101
Comprehensive income (loss) attributable to Textainer Group Holdings		
Limited common shareholders	\$18,824	\$(6,942)

See accompanying notes to condensed consolidated financial statements.

TEXTAINER GROUP HOLDINGS LIMITED AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

March 31, 2018 and December 31, 2017

(Unaudited)

(All currency expressed in United States dollars in thousands)

	2018	2017
Assets		
Current assets:		
Cash and cash equivalents	\$180,685	\$137,894
Accounts receivable, net of allowance for doubtful accounts of \$5,001 and \$5,775, respectively	85,654	78,312
Net investment in direct financing and sales-type leases	57,186	56,959
Trading containers	9,445	10,752
Containers held for sale	26,011	22,089
Prepaid expenses and other current assets	12,957	12,243
Insurance receivable	14,922	15,909
Due from affiliates, net	1,323	1,134
Total current assets	388,183	335,292
Restricted cash	91,985	99,675
Containers, net of accumulated depreciation of \$1,209,766 and \$1,172,355, respectively	3,968,240	3,791,610
Net investment in direct financing and sales-type leases	126,399	125,665
Fixed assets, net of accumulated depreciation of \$11,040 and \$10,788, respectively	2,155	2,151
Intangible assets, net of accumulated amortization of \$41,534 and \$44,279, respectively	9,283	11,105
Interest rate swaps, collars and caps	10,020	7,787
Deferred taxes	1,569	1,563
Other assets	5,137	5,494
Total assets	\$4,602,971	\$4,380,342
Liabilities and Equity		
Current liabilities:		
Accounts payable	\$6,822	\$6,867
Accrued expenses	10,751	13,365
Container contracts payable	158,793	131,087
Other liabilities	228	235
Due to owners, net	6,523	11,131
Debt, net of unamortized deferred financing costs of \$6,278 and \$3,989, respectively	243,703	233,681
Total current liabilities	426,820	396,366
Debt, net of unamortized deferred financing costs of \$18,628 and \$20,045, respectively	2,926,440	2,756,627
Interest rate swaps, collars and caps	51	81
Income tax payable	9,184	9,081
Deferred taxes	6,359	5,881
Other liabilities	1,971	2,024
Total liabilities	3,370,825	3,170,060
Equity:		
Textainer Group Holdings Limited shareholders' equity:		

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Common shares, \$0.01 par value. Authorized 140,000,000 shares; 57,729,249 shares issued and

57,099,249 shares outstanding at 2018; 57,727,220 shares issued and 57,097,220 shares

outstanding at 2017	578	578
Additional paid-in capital	399,350	397,821
Treasury shares, at cost, 630,000 shares	(9,149)	(9,149)
Accumulated other comprehensive loss	(203)	(309)
Retained earnings	782,319	763,601
Total Textainer Group Holdings Limited shareholders' equity	1,172,895	1,152,542
Noncontrolling interests	59,251	57,740
Total equity	1,232,146	1,210,282
Total liabilities and equity	\$4,602,971	\$4,380,342

See accompanying notes to condensed consolidated financial statements.

TEXTAINER GROUP HOLDINGS LIMITED AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

Three Months Ended March 31, 2018 and 2017

(Unaudited)

(All currency expressed in United States dollars in thousands)

	Three Months Ended March	
	31, 2018	2017 (1)
Cash flows from operating activities:		
Net income (loss)	\$ 20,229	\$ (8,075)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation expense	56,334	60,608
Container impairment	832	3,811
Bad debt (recovery) expense, net	(607)	252
Unrealized gains on interest rate swaps, collars and caps, net	(2,263)	(2,294)
Amortization of unamortized deferred debt issuance costs and accretion of bond discount	2,213	4,639
Amortization of intangible assets	1,822	948
Gain on sale of containers, net	(6,627)	(4,048)
Share-based compensation expense	1,504	1,597
Changes in operating assets and liabilities	(8,339)	(10,743)
Total adjustments	44,869	54,770
Net cash provided by operating activities	65,098	46,695
Cash flows from investing activities:		
Purchase of containers and fixed assets	(253,619)	(8,898)
Proceeds from sale of containers and fixed assets	32,639	31,741
Receipt of payments on direct financing and sales-type leases, net of income earned	12,893	17,616
Net cash (used in) provided by investing activities	(208,087)	40,459
Cash flows from financing activities:		
Proceeds from debt	714,000	30,000
Principal payments on debt	(533,367)	(88,976)
Debt issuance costs	(2,674)	(7,480)
Issuance of common shares upon exercise of share options	25	—
Net cash provided by (used in) financing activities	177,984	(66,456)
Effect of exchange rate changes	106	32
Net increase in cash, cash equivalents and restricted cash	35,101	20,730
Cash, cash equivalents and restricted cash, beginning of the year	237,569	142,123
Cash, cash equivalents and restricted cash, end of period	\$ 272,670	\$ 162,853

(1)

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Certain amounts for the three months ended March 31, 2017 have been restated for the adoption of Accounting Standards Update No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments and Accounting Standards Update No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. The Company adopted ASU 2016-15 and ASU 2016-18 on April 1, 2017.

See accompanying notes to condensed consolidated financial statements.

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TEXTAINER GROUP HOLDINGS LIMITED AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

Three Months Ended March 31, 2018 and 2017

(Unaudited)

(All currency expressed in United States dollars in thousands)

	Three Months Ended March	
	31,	2017
	2018	2017
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest expense and realized losses on interest rate swaps, collars and caps, net	\$ 27,755	\$ 25,130
Net income taxes paid	\$ 14	\$ 160
Supplemental disclosures of noncash investing activities:		
Increase (decrease) in accrued container purchases	\$ 27,706	\$ (7,330)
Containers placed in direct financing and sales-type leases	\$ 14,335	\$ 1,337
Decrease in insurance receivable due to a decrease in estimated unrecoverable containers	\$ 1,246	\$ —

See accompanying notes to condensed consolidated financial statements.

TEXTAINER GROUP HOLDINGS LIMITED AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

(All currency expressed in United States dollars in thousands, except per share amounts)

(1) Nature of Business

Textainer Group Holdings Limited (“TGH”) is incorporated in Bermuda. TGH is the holding company of a group of companies, consisting of TGH and its subsidiaries (collectively, the “Company”), involved in the purchase, management, leasing and resale of a fleet of marine cargo containers. The Company manages and provides administrative support to the affiliated and unaffiliated owners (the “Owners”) of the containers and structures and manages container leasing investment programs.

The Company conducts its business activities in three main areas: Container Ownership, Container Management and Container Resale (see Note 8 “Segment Information”).

(2) Accounting Policies and Recent Accounting Pronouncements

(a) Basis of Accounting

Certain information and footnote disclosure normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) have been condensed or omitted. The accompanying unaudited condensed consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 20-F for the fiscal year ended December 31, 2017 filed with the Securities and Exchange Commission on March 14, 2018.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of only normal and recurring adjustments) necessary to present fairly the Company’s condensed consolidated financial position as of March 31, 2018, and the Company’s condensed consolidated results of operations for the three months ended March 31, 2018 and 2017 and condensed consolidated cash flows for the three months ended March 31, 2018 and 2017. These condensed consolidated financial statements are not necessarily indicative of the results of operations or cash flows that may be reported for the remainder of the fiscal year ending December 31, 2018.

The condensed consolidated financial statements of the Company include TGH and all of its subsidiaries. All material intercompany balances have been eliminated in consolidation.

(b) Principles of Consolidation and Variable Interest Entity

The condensed consolidated financial statements of the Company include TGH and all of its subsidiaries in which the Company has a controlling financial interest. All significant intercompany accounts and balances have been eliminated in consolidation.

TAP Funding Ltd. (“TAP Funding”) (a Bermuda company) is a joint venture between the Company’s wholly-owned subsidiary, Textainer Limited (“TL”) (a Bermuda company) and TAP Ltd. (“TAP”) in which TL owns 50.1%, TAP owns 49.9% of the common shares of TAP Funding, and TAP Funding is a voting interest entity (“VME”). The Company

consolidates TAP Funding as the Company has a controlling financial interest in TAP Funding.

The Company has determined that it has a variable interest in TW Container Leasing, Ltd. (“TW”) (a Bermuda company), a joint venture between the Company’s wholly-owned subsidiary, TL, and Wells Fargo Container Corp (“WFC”) in which TL owns 25% and WFC owns 75% of the common shares of TW, and that TW is a variable interest entity (“VIE”). The Company has determined that it is the primary beneficiary of TW by its equity ownership in the entity and by virtue of its role as manager, namely that the Company has the power to direct the activities of TW that most significantly impact TW’s economic performance.

The equity owned by TAP and WFC in TAP Funding and TW, respectively, is shown as noncontrolling interests on the Company’s condensed consolidated balance sheets and the net income (loss) attributable to the noncontrolling interests’ operations is shown as net (income) loss attributable to the noncontrolling interests on the Company’s condensed consolidated statements of comprehensive income (loss).

(c) Cash and Cash Equivalents and Restricted Cash

Cash and cash equivalents are comprised of interest-bearing deposits or money market securities with original maturities of three months or less. The Company maintains cash and cash equivalents and restricted cash (see Note 9 “Commitments and Contingencies—Restricted Cash”) with various financial institutions. Restricted cash is excluded from cash and cash equivalents and is included in long-term assets.

TEXTAINER GROUP HOLDINGS LIMITED AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

(All currency expressed in United States dollars in thousands, except per share amounts)

The Company adopted Accounting Standards Update No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (“ASU 2016-18”) in April 2017, which resulted in a \$10,757 decrease in net cash used in financing activities and the inclusion of restricted cash balances of \$58,078 and \$68,835 to the beginning of the year and end of period cash, cash equivalents and restricted cash, respectively, in the Company’s condensed consolidated statements of cash flows for the three months ended March 31, 2017.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported in the condensed consolidated balance sheets that sum to the amounts shown in the condensed consolidated statements of cash flows:

	March	
	31, 2018	December 31, 2017
Cash and cash equivalents	\$180,685	\$ 137,894
Restricted cash included in long-term assets	91,985	99,675
Cash, cash equivalents and restricted cash, end of period	\$272,670	\$ 237,569

(d) Containers

Capitalized container costs include the container cost payable to the manufacturer and the associated transportation costs incurred in moving the containers from the manufacturer to the containers’ first destined port. Containers are depreciated using the straight-line method over their estimated useful lives to an estimated dollar residual value. Used containers are depreciated based upon their remaining useful lives at the date of acquisition to an estimated dollar residual value.

The cost, accumulated depreciation and net book value of the Company’s container leasing equipment by equipment type as of March 31, 2018 and December 31, 2017 were as follows:

	March 31, 2018			December 31, 2017		
		Accumulated	Net Book		Accumulated	Net Book
	Cost	Depreciation	Value	Cost	Depreciation	Value
Dry containers other than folding flat rack and open top						

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containers:						
20' standard	\$1,589,312	\$ (356,075)	\$1,233,237	\$1,497,557	\$ (347,910)	\$1,149,647
40' standard	210,752	(72,124)	138,628	223,916	(75,610)	148,306
40' high cube	2,160,537	(492,318)	1,668,219	2,043,253	(476,238)	1,567,015
45' high cube dry van	28,396	(8,835)	19,561	29,010	(8,494)	20,516
Refrigerated containers:						
20' standard	23,821	(5,763)	18,058	24,062	(5,394)	18,668
20' high cube	5,094	(2,399)	2,695	5,139	(2,327)	2,812
40' high cube	1,015,650	(244,045)	771,605	1,002,843	(229,465)	773,378
Floating flat rack and open top containers:						
20' folding flat rack	16,547	(3,673)	12,874	16,595	(3,525)	13,070
40' folding flat rack	45,218	(14,716)	30,502	43,334	(14,394)	28,940
20' open top	10,799	(1,310)	9,489			