Textainer Letter to its Shareholders

TO OUR SHAREHOLDERS:

As we noted in this letter last year, container leasing is a cyclical business. Textainer has been leasing containers since 1979 to shipping lines throughout the world. Over that time, we have successfully navigated both strong and weak markets. During the last year, we have seen a strengthening of the positive market conditions that emerged in the fourth quarter of 2016. Each quarter of 2017 our performance improved. We returned to profitability and purchased over 300,000 TEU which have already been leased out on excellent terms.

We entered 2017 with new and used container prices, lease-out demand, and new and depot container lease rates at levels that were significantly higher than those that prevailed prior to Hanjin Shipping Co.'s bankruptcy in August 2016 (Hanjin). And these rates further improved during the year. Additionally, last year we saw solid growth in container trade, a trend that has continued into 2018. Building on these positive trends and our focus on operational discipline and prudent investment policy, we expect continued improvement in our financial performance during 2018.

YEAR IN REVIEW

Container leasing market conditions at the start of 2017 were very favorable. New container prices had increased almost $1,000 over the lowest prices of 2016. Disposal container prices also improved greatly from 2016's lows and climbed a further 70% by year-end. These higher new and used container prices, coupled with limited depot container inventories, caused lease rates to reach levels that were more than double those prevailing in 2016. Although these rates moderated towards the end of the year, they remain at attractive levels which support new investment. Of equal importance, recent lease agreements require a high percentage of containers to be returned in China and other locations in Asia where we anticipate there will be demand.

The strong market conditions last year resulted in higher utilization, increased lease-outs of depot containers, reduced downward pressure on the repricing of maturing term leases and increased gains on sales of used containers. Lease rental income increased each quarter of the year. We were not profitable during the first half of the year because of the ongoing costs of recovering, repairing and repositioning containers from Hanjin, the loss of revenue from these units, the costs of restructuring and refinancing debt facilities to address covenant issues, and ongoing but declining container impairments. We returned to profitability in the second half of 2017 due to continued lease revenue growth, further increases in utilization, reduced costs related to Hanjin, gains from disposal container sales and the elimination of material container impairments. We also invested heavily in new containers during the second half of the year, ending 2017 as the second largest investor among container lessors.

Container trade grew approximately 5.5% in 2017, 1.7 times the rate of growth in global GDP. During 2016, container trade growth lagged global GDP growth, making the increase during 2017 even more impressive. In addition to benefiting container lessors, the growth in container trade resulted in most shipping lines experiencing dramatic improvements in their performance. They also benefited from continued consolidation, increased operating efficiencies, lower fuel prices and higher freight rates. Notwithstanding their improved financial results, shipping lines generally preferred to lease instead of buy containers. More than 60% of new container production in 2017 was purchased by lessors.

New container rental rates peaked in the first half of the year as a limited number of lessors purchased containers. While rates have declined somewhat since then, they remain among the highest levels we have experienced since 2012, supported by strong demand, low depot container inventories, moderate interest rate increases and stable new container prices. Depot container rental rates also rose significantly last year and are currently double the lowest levels for new containers in 2016.

New container prices were very stable during 2017, generally $2,200 +/- $50 per CEU, a significant change from the preceding years when wide price fluctuations occurred. The container manufacturers, in the face of increases in iron ore and steel prices and increased costs resulting from the use of waterborne paint, became more disciplined in their approach to production and pricing. Approximately 3.5 million TEU were built in 2017, a significant increase from the 2 million produced in 2016 and only the third time since 2009 that more than three million TEU were produced. With strong trade growth and minimal depot inventories, new production was the primary source of containers to satisfy demand.

Prices for used containers increased in tandem with the increases in new container prices. The used container price increase was due not just to higher new container prices but also to the limited inventory of sales containers as a result of high utilization and reduced returns of on-lease containers. Higher used container prices reversed the significant container impairments of 2016 and resulted in over $26 million in gains on sale last year. These gains arose even though we sold fewer containers in 2017, than in the previous year.

Increased used container prices led us to change our residual values at the start of the third quarter of 2017. We increased the residual value for 20' standard, 40' standard, and 40' high cube containers from $950, $1,150, and $1,300 to $1,000, $1,200, and $1,350, respectively. These changes resulted in an ongoing decrease in quarterly depreciation expense of $3.6 million.

We invested $625 million to purchase more than 300,000 TEU of new and used containers in 2017, the second most of any container lessor. 94% of our investments were for our own fleet. We also assumed the management of 182,000 TEU of dry freight and refrigerated containers from Magellan Maritime Services GmbH. At year-end, our fleet totaled 3.3 million TEU. We own 79% of our fleet.

Utilization increased during the year from 94.2% at the beginning of the year to 97.7% at year-end. Utilization has subsequently increased and is currently 97.9%.

Our adjusted net income for the year was $23.2 million, or $0.41 per diluted common share, a substantial turnaround from the $58.0 million adjusted loss in 2016.

We continue to maintain a strong balance sheet. During 2017, we completed $2.7 billion in debt financings, including raising new funds and refinancing existing facilities. In several facilities we were able to improve pricing and increase our advance rate. We finished the year with approximately $900 million of available liquidity. Our debt-to-equity ratio at 2.4:1 remains the lowest among our publicly listed peers.

OUTLOOK

Global GDP is expected to grow 3.9% in 2018. Global trade grew 1.7 times the growth of global GDP during 2017. Even if the multiplier declines from this level, the projections for container trade growth of 5-6% in 2018 appear realistic. We continue to see strong demand for new and depot containers from our shipping line customers. Additionally, due to high utilization and low depot inventory, shipping lines have reduced returns of on-lease containers.

We expect container production in 2018 to be similar to the 3.5 million TEU produced last year. Due to the similar conditions that led to higher prices in 2017 – increases in component costs, a strengthening Renminbi and increased discipline among manufacturers – we expect new container prices to remain in the range of $2,150-2,250. The rate of increase in used container prices has moderated recently. Given the level of new container prices, high utilization and limited depot supply we expect used container prices to remain around their current levels. Factory inventory currently is around 700,000 TEU, of which approximately 66% TEU belongs to lessors, much of which is already committed to lease. With all lessors enjoying high utilization and low depot inventories, there is no surplus of containers and the market can support another year of strong container production.

Rental rates remain at levels that provide attractive returns and are two or more times the lows of 2016. Perhaps more importantly, new container rental rates are above both our fleetwide average rate and the average rate of term leases maturing this year. This provides the opportunity to increase revenue from containers subject to maturing term leases. Since the average rental rate on our maturing leases declines each year going forward to a low of $0.37 in 2021, we expect to benefit from upwards repricing for several years. Furthermore, the full impact of higher new container rental rates will grow over time as containers reprice and new containers are put on lease.

Most major shipping lines saw improved financial performance in 2017 as industry profitability exceeded $7 billion. This improved performance should continue into 2018 as shipping lines continue to consolidate and the three major alliances improve their operating efficiency. The critical question, as in every year, is what will happen to freight rates? Deliveries of new ships combined with limited scrapping are expected to result in containership capacity growth exceeding demand growth both this year and next. Freight rates weakened during the fourth quarter of 2017 and the start of 2018 while vessel utilization declined and fuel costs remained elevated. Several lines have plans to increase freight rates but excess vessel capacity may undermine these efforts.

We expect the positive trends benefitting container lessors to continue this year. The outlook for container trade is positive and container prices seem likely to remain at their current level or increase. While current rental rates provide attractive returns on equity, higher interest rates, competition among lessors and the increased supply of capital to our industry will impact lease rates and could negatively affect the performance of all container lessors. Serious trade disputes, were they to arise, could have a similar impact. Nonetheless, we expect our financial results to improve as we move through 2018.

As noted at the beginning of this letter, our industry is and always has been cyclical. We have been in business for almost 40 years and have successfully managed through many business cycles. We are extremely gratified by our performance in 2017 after a very challenging 2016 and look forward to continued growth and improved results this year.

To our shareholders, customers, suppliers and employees, thank you for your trust in and support of Textainer. You are the reason we are here.