

Tiptree Inc. NasdaqCM:TIPT

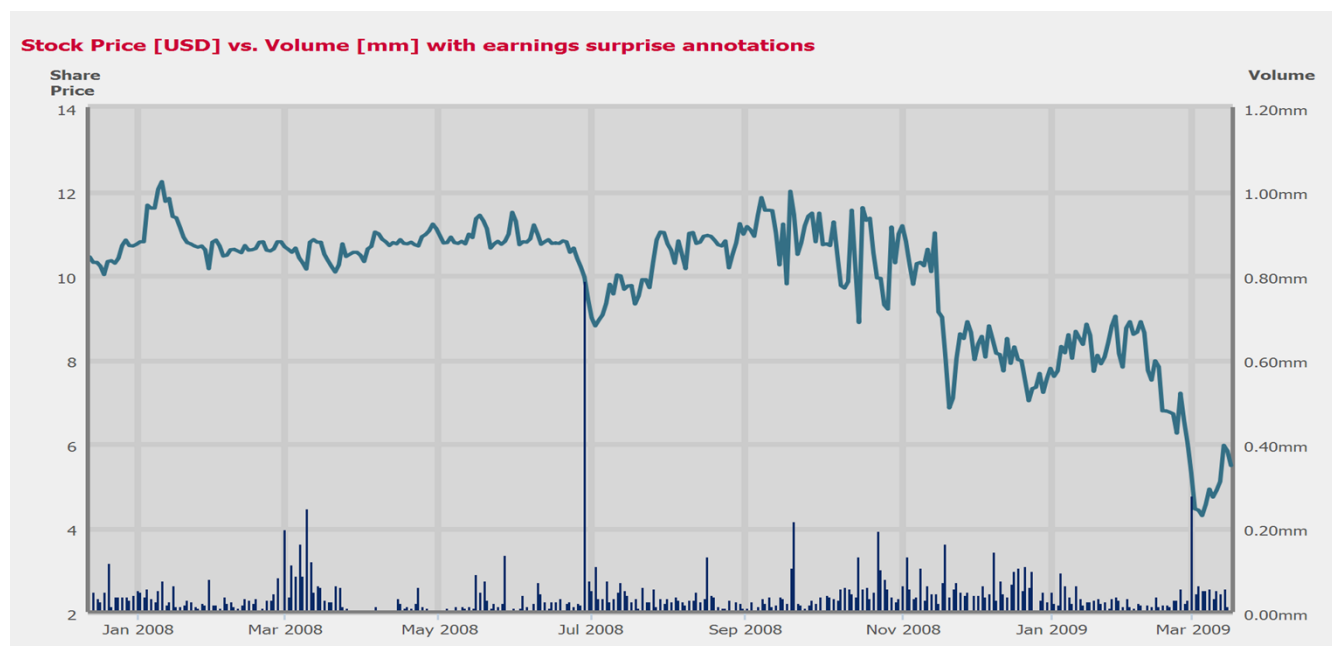
FQ1 2015 Earnings Call Transcripts

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Call Participants

EXECUTIVES

Geoffrey N. Kauffman

*Former Co-Chief Executive Officer
and Director*

Julia Helene Wyatt

Chief Operating Officer

Suzanne Karpick

ANALYSTS

Steve Emerson

Presentation

Operator

Greetings, and welcome come to Tiptree Financial's First Quarter 2015 Earnings Conference Call. [Operator Instructions] As a reminder, this conference is being recorded. I would now like to turn the conference over to your host, Ms. Anne Karpick, with ICR. You may begin.

Suzanne Karpick

Thank you, and good morning. By now everyone should have access to Tiptree Financial Inc.'s earnings announcement, which was released prior to this call. The earnings release may also be found on our website at tiptreefinancial.com as well as the SEC's website as an exhibit to the Form 8-K we previously filed.

References to Tiptree in today's call mean Tiptree operating company and its consolidated subsidiaries, together with the stand-alone net assets held by Tiptree Financial, and references to Tiptree Financial mean Tiptree Financial Inc. Tiptree Financial is publicly traded and owns 77% of Tiptree operating company.

Before Tiptree begins its formal remarks, I need to remind everyone that any statements made on today's call, other than historical information, including statements about Tiptree's plans, objectives, expectations and intentions are forward-looking statements under federal securities laws. Forward-looking statements involve risks, uncertainties and contingencies, many of which are beyond Tiptree's control, which could cause actual results, performance or achievements to differ materially from anticipated results, performance or achievements.

Forward-looking statements are not guarantees of future performance, and therefore, undue reliance should not be placed upon them. We refer you to the Risk Factors section of Tiptree's Form 10-K filed with the SEC for a more detailed discussion of the risks that could impact the future operating results and financial condition of Tiptree. In addition, Tiptree disclaims any intentions or obligations to update or revise any forward-looking statements, except to the extent required by applicable law.

Also, today's discussion may include references to certain non-GAAP measures. A reconciliation of these measures to the most comparable GAAP measures can be found in the earnings release.

Hosting the call today are Tiptree's Executive Chairman, Michael Barnes; co-CEOs, Geoffrey Kauffman and Jonathan Ilany; as well as Chief Operating Officer, Julia Wyatt.

I would now like to introduce Geoffrey Kauffman.

Geoffrey N. Kauffman

Former Co-Chief Executive Officer and Director

Thank you, Suzanne. Good morning, and welcome to our First Quarter 2015 Earnings Conference Call.

I'll start by discussing our overall results and activity in the first quarter, and Julia will then take us through our first quarter financial performance.

Overall for the quarter, we reported adjusted EBITDA of \$12.9 million compared to \$10.6 million for the comparable period last year. Tiptree had a GAAP net loss of \$2 million, and Class A common stockholders had a GAAP net loss of \$979,000. Julia will explain these results in greater detail later in this call.

Our board, again, declared a dividend of \$0.025 per share to Class A common stockholders and TFP limited partners on an as exchanged basis with a record date of May 25 and a payment date of June 1.

Our Care subsidiary completed the purchase of 6 senior housing communities for \$54.8 million and entered into a joint venture to acquire, own and operate 5 seniors housing communities for \$30.1 million.

The largest contributor to our overall results was Fortegra, which we acquired in December of 2014. For the first quarter, our first full quarter with Fortegra, they contributed \$4 million to Tiptree's consolidated results. During the quarter, Fortegra acquired the remainder of ProtectCELL, which is now 100% owned. We are pleased with Fortegra's results and remain optimistic about its potential to provide valuable contributions to our results in the future.

Also during the quarter, Tiptree amended its existing credit facility with Fortress to borrow an additional \$25 million on the same terms, but repayable upon completion of Tiptree's sale of Philadelphia Financial Group. The proceeds were used for general corporate purposes to invest in the growth of our businesses.

We continue to expect that both the Philadelphia Financial Group sale and the Reliance First Capital acquisition will close by the end of the third quarter.

In terms of our pipeline, our criteria for acquisitions remains unchanged. We continue to look for additional businesses that have strong and experienced management, have the potential to generate attractive and stable returns on capital with limited downside, complement existing businesses or strategies through clearly identifiable synergies and have sustainable and scalable business models.

With that, I'll turn the call over to Julia, who will review selected financial information.

Julia Helene Wyatt
Chief Operating Officer

Thank you, Geoffrey. I will take you through our consolidated first quarter 2015 results. Net loss available to Class A common stockholder for the quarter ended March 31, 2015, was \$979,000 compared to net income of \$1.6 million for the same period in 2014. This decrease was primarily a result of an increase of \$844,000 in the tax provision benefit, which was offset by a decrease of \$2.6 million in noncontrolling interests.

Tiptree's net loss before noncontrolling interests for the quarter ended March 31, 2015, was \$2 million compared with net income of \$3.6 million for the comparable prior year quarter, a decrease of \$5.6 million. The change in net income from the prior year is the result of a number of factors including: one, a \$4 million contribution by Fortegra, which was not reported in the first quarter of 2014; two, a \$1 million increase in net income from discontinued operations at PFG; three, a \$1.2 million increase in net income in our specialty finance businesses, Siena and Luxury; four, \$3.9 million decrease in net revenues from our CLO business due primarily to negative changes in mark-to-market valuations; five, a \$2.6 million decrease in interest income primarily due to the warehouse activity included in the first quarter of 2014, which was not replicated in the first quarter of 2015; number six, a \$3.4 million decrease in net income at Care due to the acquisitions in the first quarter of 2015, which resulted in higher acquisition costs, depreciation and amortization. We expect these additional properties to provide increased rental revenue in the future periods; and lastly, a \$1.4 million increase in corporate expenses primarily due to increased professional fees.

Please note that the earnings release also contains segment income statement data for the 3 months ended March 31, 2015 and 2014. Adjusted EBITDA for Tiptree was \$12.9 million for the quarter ended March 31, 2015, compared with \$10.6 million for the comparable prior year quarter. A reconciliation of EBITDA and adjusted EBITDA to net income is included in our earnings release.

Tiptree operating company book value per share was \$9.04 as of March 31, 2015, compared to \$9.17 as of December 31, 2014. Class A book value per share was \$8.93 as of March 31, 2015, compared to \$8.94 for December 31, 2014.

The difference between Class A and Tiptree operating company book value is primarily attributable to a net tax liability at Tiptree Financial. Detailed information on book value appears in the earnings release.

As previously disclosed, Tiptree and Executive Chairman, Michael Barnes, have entered into a stock purchase program under which are Tiptree and Mr. Barnes can purchase up to an aggregate of \$5 million of Tiptree's Class A shares on a pro rata basis. In the first quarter, an aggregate of approximately 157,000 shares were purchased and an additional approximately 160,000 shares were purchased from the end of

the quarter through May 11, 2015. Therefore, approximately \$2.7 million of spending capacity remains in the program.

With that, I will turn the call back to Geoffrey.

Geoffrey N. Kauffman

Former Co-Chief Executive Officer and Director

Thanks, Julia. In conclusion, we had a good first quarter with strong performances from Fortegra and our specialty finance arm, and we will continue to focus our efforts on growing our current operating businesses. In addition, we look forward to completing the PFG and Reliance transactions later this year and will continue to pursue strategic acquisitions that we believe will help create material, long-term shareholder value.

Thank you, and we will now open up the call for Q&A.

Question and Answer

Operator

[Operator Instructions] Your first question comes from Steve Emerson with Emerson Investment Group.

Steve Emerson

Let's go to a 10,000 foot level. Can you give us an approximate EBITDA run rate once all transactions are completed at the end of the third quarter and to give us a sense of relative valuation, what the enterprise value or components of that should look like once these pending transactions are completed, and of course, the pending purchases of the senior housing? I, frankly, have been having a great deal of trouble getting my hands around the value you've created, although it appears to be very substantial.

Geoffrey N. Kauffman

Former Co-Chief Executive Officer and Director

Well, thanks for that Steve. It's nice to hear from you again. In terms of attempting to come up with an adjusted EBITDA estimate for all of 2015, albeit from 10,000 feet, we do have a policy of not providing guidance on something of that sort. So unfortunately, I'm not going to be able to help you on that. What I would like to say, however, is we do agree with you that much has been accomplished and that we are heading in the right direction. We are very pleased with our first quarter results of our \$12.9 million of adjusted EBITDA, and we look forward to providing positive results for you going forward.

Steve Emerson

Perhaps you could flesh out that \$12.9 million EBITDA once all transactions are completed. For instance, does that number include EBITDA from the entities set up in -- that are -- have sales pending?

Geoffrey N. Kauffman

Former Co-Chief Executive Officer and Director

As you can see on Page 8 of the earnings release, there is EBITDA coming from our discontinued operations in that \$12.9 million. Now similarly, obviously, there is not a full quarter's EBITDA coming from the new acquisitions in the Care portfolio. So unfortunately, as you have correctly surmised, figuring out precisely what our run rate EBITDA is going forward is really not possible at this time.

Steve Emerson

Okay. Please call me off-line. I do need a complete update and review, so I can fully appreciate the work you've done. Now the pro forma book value or -- is -- can you perhaps give us an idea what a pro forma book value would be, obviously, non-GAAP, including the pending transactions?

Geoffrey N. Kauffman

Former Co-Chief Executive Officer and Director

Again, unfortunately, that would be outside of the rules of what we have to follow in terms of disclosure. Happy as always, Steve, to have a conversation with you on public information off-line, and let's do that soon. Thanks so much for your question.

Operator

[Operator Instructions] There are no further questions at this time. I would like to turn the call back to management for closing remarks.

Geoffrey N. Kauffman

Former Co-Chief Executive Officer and Director

Thank you very much. With that, we'd like to thank everyone for attending today's call and for your interest in Tiptree. We look forward to updating you further on our operations on our next earnings call.

Operator

This concludes today's teleconference. Thank you for your participation. You may disconnect your lines at this time.

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