S&P Capital IQ

CONTENTS



# Tiptree Inc. NasdaqCM:TIPT

## *FQ3 2016 Earnings Call Transcripts*

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## S&P Capital IQ Estimates

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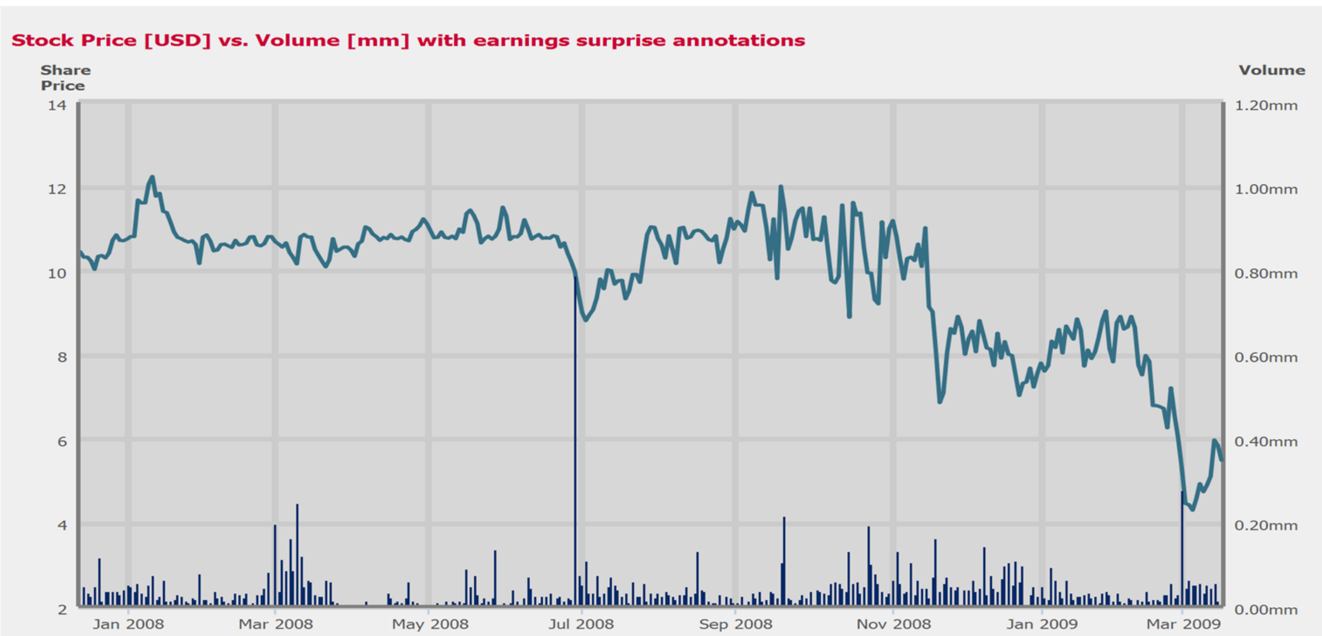

# Call Participants

## EXECUTIVES

**Michael Gene Barnes**
*Executive Chairman*

**Sandra E. Bell**
*Chief Financial Officer*

## ANALYSTS

**Andrew J. Cowen**
*Badge Investment Partners LLC*

# Presentation

**Operator**

Greetings, and welcome to Tiptree Financial Third Quarter 2016 Earnings Conference Call. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to turn the call over to your host, Sandra Bell, Chief Financial Officer. Thank you. You may begin.

**Sandra E. Bell**
*Chief Financial Officer*

Good morning, and welcome to our third quarter 2016 earnings call. I am joined today by our Executive Chairman, Michael Barnes; and CEO, Jonathan Ilany. We have posted the earnings release and presentation on our website at tiptreefinancial.com. Our remarks today are qualified in their entirety by the disclaimers on Page 1 of the presentation. Prior to turning the call over to Michael, I just want to highlight a few of the key disclosures.

This presentation supplements our SEC filings, and is provided solely for information purposes. Throughout the presentation, there are forward-looking statements. Our businesses are subject to risks and uncertainties, which are outlined in our SEC filings, and which could impact our expectations of future results. Except as required by securities law, we undertake no obligation to update any forward-looking statements.

We also use non-GAAP measures, which we believe provide additional information about our business and are useful to investors. As these measures are not GAAP, they should not be used as a substitute for GAAP disclosures. The appendix provides a reconciliation of each of these measures to their GAAP equivalent.

Now let me turn the call over to Michael.

**Michael Gene Barnes**
*Executive Chairman*

Thanks, Sandra. Good morning, everyone, and thank you for joining us today. For the quarter, we continued to see positive trends across our businesses.

On a consolidated basis, total revenues for the quarter grew 11% year-over-year to $134 million, while contributing nearly $8 million of net income and $20 million of adjusted EBITDA from continuing operations. Both of these financial metrics were up significantly versus comparable periods in 2015. As we have mentioned before, our focus in our core businesses is to support growth in repeatable earnings, and we are pleased to see that trend has continued in the third quarter.

On Page 3, we summarize some of our key achievements. Fortegra, our specialty insurance subsidiary, continues to have a strong year. For the 9 months, insurance and warranty written premiums grew to $540 million, up 8% versus the prior year. Net written business was $152 million, which was an increase of 16%, reflecting a modest uptick in the underwriting risk that we are choosing to retain.

At Fortegra, we remain focused on growing underwriting profits through increasing net written premiums, fee earnings and income from investing the excess premium flow.

For the quarter, we also had strong contributions from our real estate, credit and mortgage businesses. Care, our seniors housing business, contributed nearly $16 million of revenues while expanding NOI margins, as actions we have taken to improve property occupancy levels and stabilize costs continue to show positive results.

In August, we closed our third acquisition of the year for a total consideration of $29 million, which brought our total aggregate purchase price of Care's portfolio to nearly $318 million. The senior housing pipeline remains strong, and we anticipate continued growth through new acquisitions and through NOI improvements at existing properties.

Our Telos Asset Management business continues to produce steady cash flow, as we have received nearly $10 million of cash from management fees year-to-date. In the third quarter, we invested an additional $25 million into Telos Credit Opportunities fund and increased its borrowing capacity to $150 million. Our assets under management remain at just under $2 billion, and we are continuing to explore opportunities to raise funds for other vehicles for managed accounts.

In the quarter, we continued to see positive results from our principal investments, which yielded nearly $10 million of revenue, bringing the total to $32 million for the year. These investments, consisting primarily of our CLO subordinated notes, credit investments and nonperforming loans, have been a consistent contributor this year to our growth in profits.

Within our specialty finance segment, the mortgage business continued to perform well, originating $566 million of volume for the quarter, up 31% over the second quarter. A stable housing market and low interest rates were key drivers for the increase, as refinancings and the home selling season supported originations.

At Tiptree, we evaluate our capital deployment opportunities in 3 categories: investing in our existing businesses, acquiring new and adjacent businesses, and creating shareholder value through buybacks and dividends. As we've previously announced, within the quarter, we purchased 1 million of Tiptree shares at a 37% discount to book. For the year, we have repurchased 6.8 million shares or 16% of the total outstanding shares as of 2015 year-end. Share buybacks, combined with $4 million of dividends, brings us to nearly $48 million return to shareholders thus far in 2016.

If you flip to the next page, you can see the progress we have made in driving repeatable growth this year. Book value per share, as exchanged, has grown to $9.93, which represents an 11.6% increase since year-end 2015. Year-over-year improvement in earnings has been the biggest driver of the increase, in addition to the share buybacks at significant discounts to book.

The total number of A and B shares outstanding now stands at 36.4 million, which equates to $361 million of book value and $520 million of total enterprise value.

We are pleased with our earnings and the adjusted EBITDA trend over the past year. Each of our subsidiaries is contributing, and we are optimistic that we will continue to see growth in our core businesses throughout the remainder of this year and into 2017. With that, I will hand it back to Sandra who will discuss the financials in more detail.

**Sandra E. Bell**
*Chief Financial Officer*

Thank you, Michael. Let me quickly cover the highlights before we transition to the detailed performance review.

For the quarter, Tiptree reported net income from continuing operations of $7.8 million, up $14.2 million over the third quarter last year. On a per-share basis, earnings per class A share were $0.19, up $0.32 versus third quarter 2015. Year-over-year improvement was a result of increased earnings in our asset management, real estate and specialty finance segment as well as the increased revenues from principal investments that Michael just mentioned. This was partially offset by declines in Fortegra net revenues due to pressures in the mobile protection product. Year-to-date earnings per share were $0.53, up 83% from 2015.

On Page 6, we've laid out the components of our year-to-date 2016 operating performance. As you look at the chart, each segment has contributed significant top line growth and increases in profitability. In total, revenue has grown $89 million, pretax income from continuing operations was up $39 million and adjusted EBITDA from continuing operations increased by $36 million versus the 9 months in 2015.

The high-level themes are similar to prior quarters. Fortegra's profits have increased, driven by growth in written premiums, investment income and margin expansion stemming from disciplined cost control. Our senior housing performance is up as the NOI margins have improved at existing properties and acquisitions have increased our overall revenues, while depreciation and amortization from acquisitions initially dampens profits as the portfolio grows.

Improvements in volumes and margins in the mortgage business, along with growth in Siena's loan portfolio, drove positive results in specialty finance, and principal investments are up substantially, primarily driven by realized and unrealized gains as well as improved earnings as a result of growth in investments in the credit opportunities fund and NPLs, all of which have helped to offset increased corporate costs.

Turning to Page 8. We highlight several metrics that we used to measure our insurance segment. The as-adjusted net revenue and EBITDA measures are non-GAAP measures because they remove the purchase accounting adjustments from their comparable GAAP metrics. We use these metrics to analyze the relative performance of the business year-over-year.

For the quarter, adjusted EBITDA was $11.6 million, down 12% from prior year results and up slightly over the second quarter 2016. The reduction year-over-year was driven by competitive pressures in the mobile protection product impacting net revenues. As we've mentioned in the past, this was a result of contractual changes in the second and third quarters of 2015. And as of the current quarter, we believe a more normalized run rate is reflected in our results. This decline was partially offset by increases in investment income as well as growth in specialty product earned premiums and fees.

The combined ratio of 92% remains strong relative to property and casualty insurance peers as the team maintains a disciplined approach to expense management.

Year-to-date, Fortegra's performance has improved, with credit protection continuing its stable growth trend and specialty products more than offsetting the decline in mobile protection revenues mentioned earlier.

Net written premiums, a volume metric and leading indicator of future revenues, has increased by 16%, with all 3 product lines contributing to the growth. Adjusted EBITDA of $35 million is up 15% over last year as margins have expanded by approximately 360 basis points.

Fortegra continues to deliver a solid performance year-to-date, despite experiencing 4 cat events that resulted in over 3,400 claims and paid losses exceeding $11 million. Given Fortegra's approach to risk management, where they seed a large proportion of the risk to reinsurers and share profits or losses with the distributors of our products. We have experienced minimal impact to our bottom line as our partners have absorbed the significant amount of the losses.

Going forward, we expect earnings growth to be supported by expansion in product revenues and investment income along with a continued focus on maintaining margins by tightly managing costs.

Turning to real estate on the following page. We continue to see improvement, both as a result of additional acquisitions and improving margins on existing properties. Pretax income improved by 82% in the quarter versus the same period in 2015, and was up 37% year-to-date, despite added depreciation from new acquisitions.

Total accumulated depreciation is $34.6 million as of the end of the quarter, more than 10% of total segment assets. Adjusted EBITDA for the quarter was $2.9 million, up significantly from last year, driven by NOI increases of 32%. The acquisitions over the last 2 years were primarily managed properties, where we partner with existing operators on facilities that are undergoing enhancements to allow them to operate more efficiently. On the bottom left of the page, you can see the improvements to date, as NOI margins on managed properties are up from 24.5% to just over 27%. As the newer facilities ramp up and stabilize, we expect our results to continue to improve.

In addition to growing organically, we are continuing to invest, and we expect to acquire additional properties in the fourth quarter of 2016 and into 2017.

On Page 10, we highlight the contributions from our asset management business and CLO investments. Third quarter 2016 pretax income related to our management fees was up over $1 million, primarily attributable to incentive fees on our older CLOs. Additionally, our CLO equity performance improved by $7.5 million over third quarter 2015, driven by increased distribution and recovery of prior unrealized credit marks on our subordinated notes in Telos 5 and 6.

For the 9 months, earnings from management fees and distributions, net of unrealized losses, is just over $17 million, up $16 million from 2015, impacted by similar factors to those in the quarter.

As Michael mentioned earlier, we are continuing to pursue growth opportunities in our asset management sector. This year, we have launched our seventh CLO and further invested in our credit opportunities strategy. As we go forward, we expect to leverage the historical performance of Telos to continue to grow assets under management.

Now I will pass it back to Michael for a wrap.

**Michael Gene Barnes**
*Executive Chairman*

We are very encouraged by results for the first 3 quarters of 2016. Our performance relative to 2015 is quite favorable, even when taking into consideration the previous year's gain on discontinued operations. We remain focused on growing repeatable earnings in our core businesses. Our insurance sector was ahead of expectations, and we believe that net revenues will continue to grow through increased product originations and returns on the investment pool. Our real estate sector made further acquisitions of senior Care facilities and continues to increase revenue and NOI. Our asset management sector is stable, and in addition to CLOs, we are optimistic that leveraging our performance in the credit opportunities fund will allow us to raise additional capital in other fund vehicles or managed accounts. And importantly, we remain focused on driving additional progress on this year's objectives of exiting noncore, underperforming assets, reallocating that capital to existing core businesses, and further building out our infrastructure.
With that, we would like to open the line for questions.

# Question and Answer

**Operator**

[Operator Instructions] Our first question comes from Andrew Cowen with Badge Investment Partners.

**Andrew J. Cowen**
*Badge Investment Partners LLC*

Great quarter. Really, really impressive. Just 2 quick questions. Going back to the CLO and asset management business, did I hear that right? It's about $17 million of repeatable fees and income year-to-date?

**Michael Gene Barnes**
*Executive Chairman*

Did you have a second question, Andrew, before...

**Andrew J. Cowen**
*Badge Investment Partners LLC*

Yeah, the second question is what's the float up to in the insurance business?

**Sandra E. Bell**
*Chief Financial Officer*

$225 million.

**Michael Gene Barnes**
*Executive Chairman*

So the answer to the second question, Andrew, is $225 million regarding the float of our insurance business that we are now overseeing and investing. With regard to the first question, I'm going to turn that to Sandra to answer the question. And the question, just to repeat, is the repeatable earnings in our asset management business as well as our CLO investments that we see is linked to our asset management business?

**Sandra E. Bell**
*Chief Financial Officer*

Yes, if you turn to Page 10, we break down the pretax income and loss on attributable to the CLO business. And when we talk about the repeatable earnings, it's the management fees and distributions. That's where you get in the range of that $17 million on a regular [indiscernible].

**Andrew J. Cowen**
*Badge Investment Partners LLC*

That's a great number. Do you guys ever release the average yields you're earning on the float or is that something you don't talk about?

**Michael Gene Barnes**
*Executive Chairman*

We generally don't reveal what the average yield is on the float. It gets incorporated as part of Tiptree's overall capital, and it's incorporated into the returns of Tiptree. So you'll see that in the bottom line of Tiptree as we increase return on capital. Sandra, do you have anything to add to that?

**Sandra E. Bell**
*Chief Financial Officer*

I just -- we'll point out that the -- there is a line item in the insurance company segment that's called investment income, and you can see the growth in that year-over-year. So that will give you an idea of the trend and the relative yield.

**Andrew J. Cowen**
*Badge Investment Partners LLC*

Okay. Yes, I see that. That's actually very helpful. And great job on the buybacks, guys, keep them up. It looks like we got, still, plenty of sellers out there at stupid low prices.

**Michael Gene Barnes**
*Executive Chairman*

Thank you, Andrew. And look, I think you're focused on our objectives of creating repeatable income. I think you picked up on that accurately. Share buybacks are -- we'll pursue opportunistically. I think we've been fortunate with some share buybacks that we've done. And with regard to float, that has been a priority coming into this year of Jonathan Ilany and myself is to not only increase float, but to increase the return on float, and we see positive trends in that. So thank you for your comments. Very, very appreciated.

**Operator**

[Operator Instructions] Ladies and gentlemen, we have reached the end of our question-and-answer session. I would now like to turn the call back to Sandra Bell for closing comments.

**Sandra E. Bell**
*Chief Financial Officer*

Thank you, and thanks everyone, for joining us today. If you have any questions, please feel free to reach out to me directly. We look forward to speaking with you again after the fourth quarter results are in. This concludes our conference call.

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