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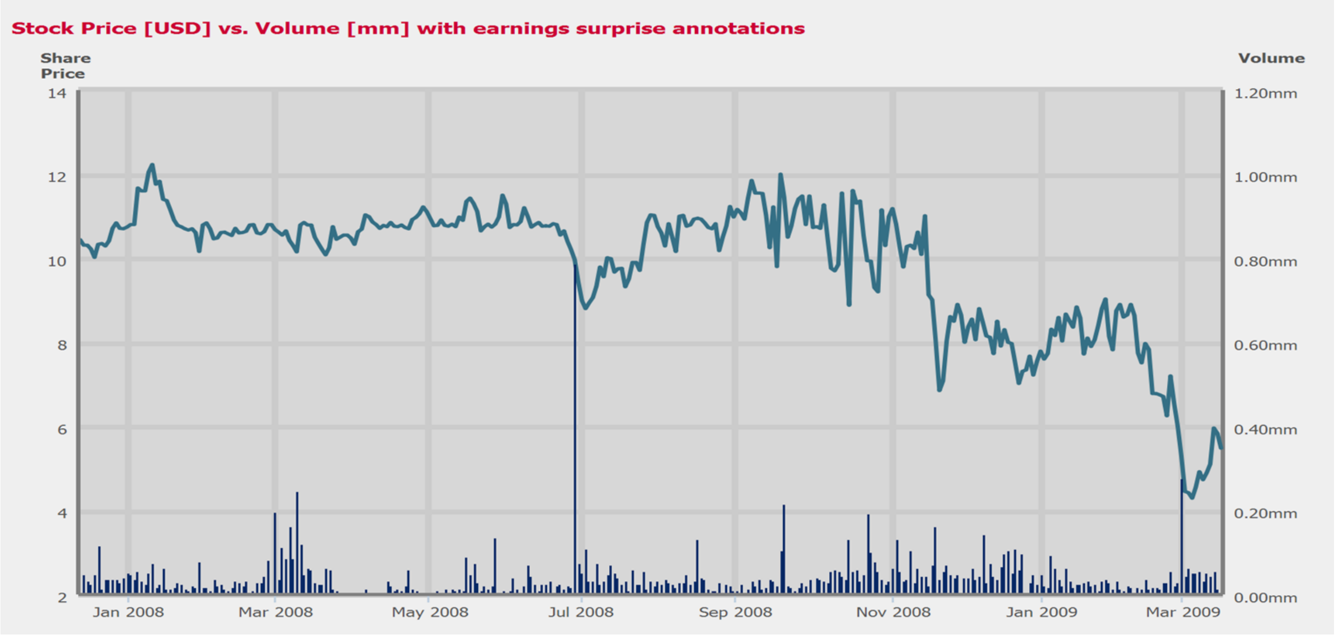

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EXECUTIVES

Michael Gene Barnes
Executive Chairman of the Board

Sandra E. Bell
Chief Financial Officer

ANALYSTS

Andrew J. Cowen
Community Capital Management, Inc.

Presentation

Operator

Greetings, and welcome to the Tiptree's Second Quarter 2018 Earnings Call. [Operator Instructions]

As a reminder, this conference is being recorded. I would now like to turn the conference over to your host, Sandra Bell, Chief Financial Officer. Please go ahead.

Sandra E. Bell
Chief Financial Officer

Good morning, and welcome to our Second Quarter 2018 Earnings Call. We are joined today by our Executive Chairman, Michael Barnes. We have posted the earnings release and presentation on our website at tiptreeinc.com.

Our remarks today are qualified in their entirety by the disclaimers on Page 1 of our presentation. This presentation supplements our SEC filings and is provided solely for information purposes. Throughout the presentation, we make 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 statement. In addition, we use non-GAAP measures, which we believe provide supplemental 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.

With that, we will turn the call over to Michael.

Michael Gene Barnes
Executive Chairman of the Board

Thank you, Sandra, and good morning to everyone. As we are just over halfway through 2018, we thought it would make sense to assess how we are doing against our objectives. We started 2018 with 3 key objectives: grow the insurance business while maintaining our focus on strong underwriting performance, grow and refine the investments within Tiptree Capital and generate enhanced risk-adjusted long-term return.

Beginning with growth and our specialty insurance business. Both gross and net written premiums are up 12%, driven by organic growth in credit and warranty line. Strong consumer demand in the U.S. economy for credit and products ranging from autos to furniture is contributing to the growth. Our combined ratio remained steady in the low 90s, demonstrating an ability to underwrite profitably as we grow written premiums and continue on-board new distribution partners. We believe our expansion into Europe will support organic growth and complement the U.S. business. We continue to look for attractive acquisition opportunities with a focus on businesses that can build on our current offerings or offer adjacent products and technology. We remain disciplined with acquisitions, aiming to find platforms at the right price, where we can continue to underwrite profitably and enhance investment portfolio returns over the long run.

Our second objective is to grow and refine the investments within Tiptree Capital. As we mentioned in the first quarter, the sale of Care to [Invesque] was completed in February, resulting in a $46.2 million pretax gain and a $0.91 per share increase to book value. In May, we refinanced our corporate debt facility, adding to available liquidity as we continue to seek attractive long-term investments in both our insurance portfolio and Tiptree Capital. The net result of all these actions from an operating perspective drove growth in revenues of over 5% and a book value per share of almost 9%, while net income growth was dominated by the Care gain. Our operating EBITDA was stable with growth and insurance substantially offsetting the fact that we have not yet fully redeployed the capital from asset sales in 2017. While we would expect the asset classes and businesses we invest in may change over time, we would expect the percentage of our capital split between Tiptree Capital and our insurance business to remain about the same.

Our third objective is to generate enhanced risk-adjusted returns. As we announced in March, we are executing on a share buyback plan of up to $20 million. As of the second quarter, we have repurchased 1.4 million shares for $11.1 million or nearly 4% of our outstanding shares. We also increased our dividend 16.7% to $3.5 per quarter. The combination of share buybacks and dividend increases reflect our confidence in the underlying businesses. Both actions will continue to be levers for creating long-term shareholder value. Consistent with our goal of simplifying our story and our corporate structure, we eliminated our dual-class structure in April.

With that, I'll pass it to Sandra, who will take you through the financials in more detail.

Sandra E. Bell
Chief Financial Officer

Thank you, Michael. On Page 4, we highlight the company's key metrics for the second quarter and year-to-date 2018. Net income for the second quarter was $0.9 million, an increase of $6.2 million from the prior period. The increase was primarily driven by improvement in income at our specialty insurance subsidiary and lower corporate expenses. Net income for the year-to-date period was $29.9 million, up significantly from 2017, primarily driven by our gain on the sale of Care, in addition to the positive factors impacting the quarter. Within the year-to-date financials, we have taken $11.5 million of unrealized losses, primarily from mark-to-market on our Invesque shares. Operating EBITDA for the quarter was $15.1 million, up modestly, while operating EBITDA for the year-to-date period was $24 million, down 10% from the year-earlier period. While both periods were positively impacted by growth in our insurance operations, in the year-to-date period, positive performance was more than offset by lower distribution from the sale of our credit-related investment.

On the bottom of the page, we show a walk from operating EBITDA to pretax income, highlighting the key drivers of the differences between the 2 metrics. Book value per share increased to $10.74, up $0.87 from the prior year, as the gain on sale of Care, improvement in insurance result and share buybacks overcame any negative factors.

Turning to Page 5. We highlight our capital allocation and respective returns to assist investors in valuing Tiptree. We have detailed our capital between specialty insurance and Tiptree Capital. When considering capital allocation decisions, we look at total capital, which includes corporate debt. We evaluate our return on capital using trailing 12 months operating EBITDA, which for the most recent period was $58.2 million.

Our total return of approximately 8.9%, down from the prior year, was driven by stronger insurance performance and lower corporate cost offset by the loss of distributions from credit investments. These returns were slightly lower than we would expect, as just over $60 million of excess liquidity has not yet been invested. Before turning to more detail on our businesses, I want to spend just a moment on the impact of the recent corporate structure changes. On April 10, we completed a reorganization that eliminates Tiptree's dual-class structure. This did not impact our book value per share or operating EBITDA metrics, as we have historically presented those figures on an as exchanged or total company basis. The biggest change, which is visible this quarter, is a simplified balance sheet and equity statement, providing a simpler financial picture of our company for investors.

Now let's turn to our specialty insurance results. On Page 7, we highlight our insurance underwriting performance and then on the following page, returns from the insurance investment portfolio. We continue to see positive top line growth across our product line. For the first half of 2018, gross written premiums grew $42.3 million year-over-year, up 12%. Retention of written premium was stable at 52%. As we continue to expand product offerings, we expect that retention rate may expand slightly over time. Of our net written premium, 21% was warranty and other specialty program consistent with the prior year. Underwriting margin grew $7.1 million, leading to growth in operating EBITDA of $4.8 million, both driven by strong performance in our credit protection line. The 19% year-over-year growth in unearned premium reserves and deferred revenue on our balance sheet is consistent with past quarters and continues to demonstrate future revenue potential. Our combined ratio for the quarter was 93.1%, a modest improvement from this time last year and continues to demonstrate our ability to profitably grow our insurance business.

Turning to the insurance investment portfolio. Our net investments grew by almost $64 million, up 18.4%, driven by our growth in net written premium. Net investment income was $9.1 million, up 11%, driven by growth in the portfolio and rising interest income on our floating rate assets.

Approximately 25% of the $410 million portfolio is floating rate tied to LIBOR. So as rates increase, we should expect to see increased yields on that portion of the portfolio. Net portfolio income was $4.7 million for the year-to-date period, up approximately $5 million, driven by the same positive factors that drove net investment income plus higher realized gains and lower unrealized losses in interest expense.

On Page 10, we present the results of Tiptree Capital, which consists today of asset management operations, mortgage operations and our ownership of Invesque shares. Our time, we would expect that our investments could shift, as we recognize returns in 1 asset class or business and reinvest in others. Our senior living results, now discontinued operations, are presented here to facilitate period-over-period comparison. As of June 30, 2018, our investment in Invesque represents $125 million, of which $103 million is held in Tiptree Capital, the remainder is in our insurance portfolio. The Invesque shares are subject to transfer restrictions that extend to the middle of 2019. Given those restrictions under GAAP, as of the end of the second quarter, our valuation represents an approximate $10 million discount to the value of Invesque shares, most of which will accrete into our income statement over the remaining period.

For the year-to-date period, the dividend income and any fair value, unrealized gains or losses on the shares is included in other investments. Asset management and credit investment operating EBITDA year-to-date was $1.5 million, down $5.2 million over 2017, driven by the reduced earnings on credit investments mentioned earlier. Mortgage operations were impacted by lower volumes and margins as mortgage interest rates have risen substantially over the past 12 months, providing near-term headwinds for this business. Now we will turn the call back to Michael to conclude our prepared remarks.

Michael Gene Barnes
Executive Chairman of the Board

Thanks, Sandra. To provide a quick summary, throughout the first half, we executed on several strategic objectives to expand our insurance business and simplify our corporate structure. We expect to continue to grow our insurance investment portfolio in line with the business and to leverage Tiptree's investment expertise to increase the total return of the insurance portfolio over the long term. Within Tiptree Capital, we expect to reinvest capital as opportunities arise. In conclusion, we are pleased with our first half results and look forward to building on this momentum in the second half of the year.
Now we'll open up the lines for questions.

Question and Answer

Operator

[Operator Instructions] Your first question comes from Andrew Cowen of Community Capital.

Andrew J. Cowen
Community Capital Management, Inc.

What -- it was a nice uptick in profitability at the insurance -- at Fortegra. What drove that primarily?

Michael Gene Barnes
Executive Chairman of the Board

Sandra, do you want to take that?

Sandra E. Bell
Chief Financial Officer

Sure. For the most part, that's been driven by the organic growth initiatives that we've been undertaking in our insurance business. The primary driver was in credit protection and secondarily, within warranty. As we add new distribution partners and the economy, obviously, is supportive of our business model.

Andrew J. Cowen
Community Capital Management, Inc.

So it's just more people taking out those personal loans?

Sandra E. Bell
Chief Financial Officer

More people buying cars, more people buying furniture, yes.

Michael Gene Barnes
Executive Chairman of the Board

Andrew, I'll just add one quick thing there. I mean, Rick Kahlbaugh is the CEO of Fortegra. He's just done I think a fantastic job of continuing momentum in organic growth in this business. And as we've said publicly, we are also looking to make acquisition when the price is right, when we see things naturally are additive to the overall enterprise value. So -- but for this last quarter, I'd attribute it partly to the overall economic environment, which is robust, and I'd say the efforts that Rick and his team at Fortegra has done a great job.

Andrew J. Cowen
Community Capital Management, Inc.

Great. And can you discuss the opportunity in the -- the opportunity set in Europe? Is it something that you think could be as big as United States? Or what are your thoughts there?

Michael Gene Barnes
Executive Chairman of the Board

Sandra, do you want to start, then I'll add?

Sandra E. Bell
Chief Financial Officer

Sure. On balance, it's a less mature market. I think our focus is primarily on expanding into credit protection there with a less -- to a lesser extent, auto warranty. I don't think we think it's big as the U.S. just because the market is not as big and it will take some time to develop the products there. But we do see it as a strong opportunity to help support the growth we have overall.

Michael Gene Barnes
Executive Chairman of the Board

Yes. And I was just going to say, and we really have just gotten started. I think we do see it as a way of adding to overall growth of the business. We do want to move slowly. We're not going to be jumping into the space. I think we're going to keep it consistent with the lines of business that we have traditionally operated in, in the state. So you should expect to see that grow over time, but we're going to move slowly and carefully, and again, we've really just gotten started.

Andrew J. Cowen
Community Capital Management, Inc.

Okay, great. And along the lines of the investment portfolio, is, sort of, that $10 million to $15 million a quarter? Is that sort of the pace that you're looking to add to float or is there no schedule or budget on that front? It sort of is what it is.

Michael Gene Barnes
Executive Chairman of the Board

We're looking to consistently grow, I think that, that's -- that looking at organic growth, we should expect to see the portfolio continue to grow in that -- at that pace, absent making an acquisition. And as we said, we're out there, always looking to make out on acquisitions in the warranty and specialty insurance base. So with an acquisition, we'd see that grow more quickly, but absent that, you should expect to see it grow at this pace.

Andrew J. Cowen
Community Capital Management, Inc.

Great. Well, I mean it was a nice uptick in -- on the sort of operating profitability. And do you think that -- so it's kind of hard to -- I haven't been able to, sort of, break down what the operating cash profitability was for the quarter. Do you have a breakdown there, anywhere?

Michael Gene Barnes
Executive Chairman of the Board

Andrew, I think the best thing to look at and we added this page, this is a new page in the investor presentation that you can find online. On Page 5, we show the Tiptree Capital allocation and we show operating EBITDA and in terms of earning capacity of the business, earnings potential of business, we think operating EBITDA is sort of a consistent, measured, sort of profitably -- EBITDA generation of the overall businesses. So I'd turn your focus to that. Absent, I'd say, the mark-to-market volatility that we'll experience on Invesque, which is an outside position having combined our Care business with Invesque and having those shares locked up for some time, we're going to experience natural volatility of the overall equity markets and particularly as it relates to healthcare, real estate. But absent the mark-to-market volatility of that particular position, we see our overall earnings as strong.

Andrew J. Cowen
Community Capital Management, Inc.

So that's 58 too. So that's a pretty big uptick then from where you were even in the second quarter.

Michael Gene Barnes
Executive Chairman of the Board

That's trailing 12 months, but we feel pretty good about where we are.

Andrew J. Cowen
Community Capital Management, Inc.

Great. And in regards to the Invesque share lock up. If they do like an organized offering, would your shares still be locked at that point? Or is the transfer just you can't sell in the open market?

Michael Gene Barnes
Executive Chairman of the Board

In organized offering, we can't -- the answer is we can't sell in the open market. I can't say that we're anticipating that there is going to be anything done in the near term that would allow us to move those shares more quickly. But we certainly -- in an organized sale, I believe we would have the ability to participate, but I would not hold that out as an expectation.

Operator

[Operator Instructions] There are no further questions. I'd like to turn the call back to Ms. Sandra Bell for closing comments.

Sandra E. Bell
Chief Financial Officer

Thank you, Darren, and thanks, everyone, for joining us today. As always, if you have any questions, please feel free to reach out to me directly. This concludes our Second Quarter Conference Call.

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