

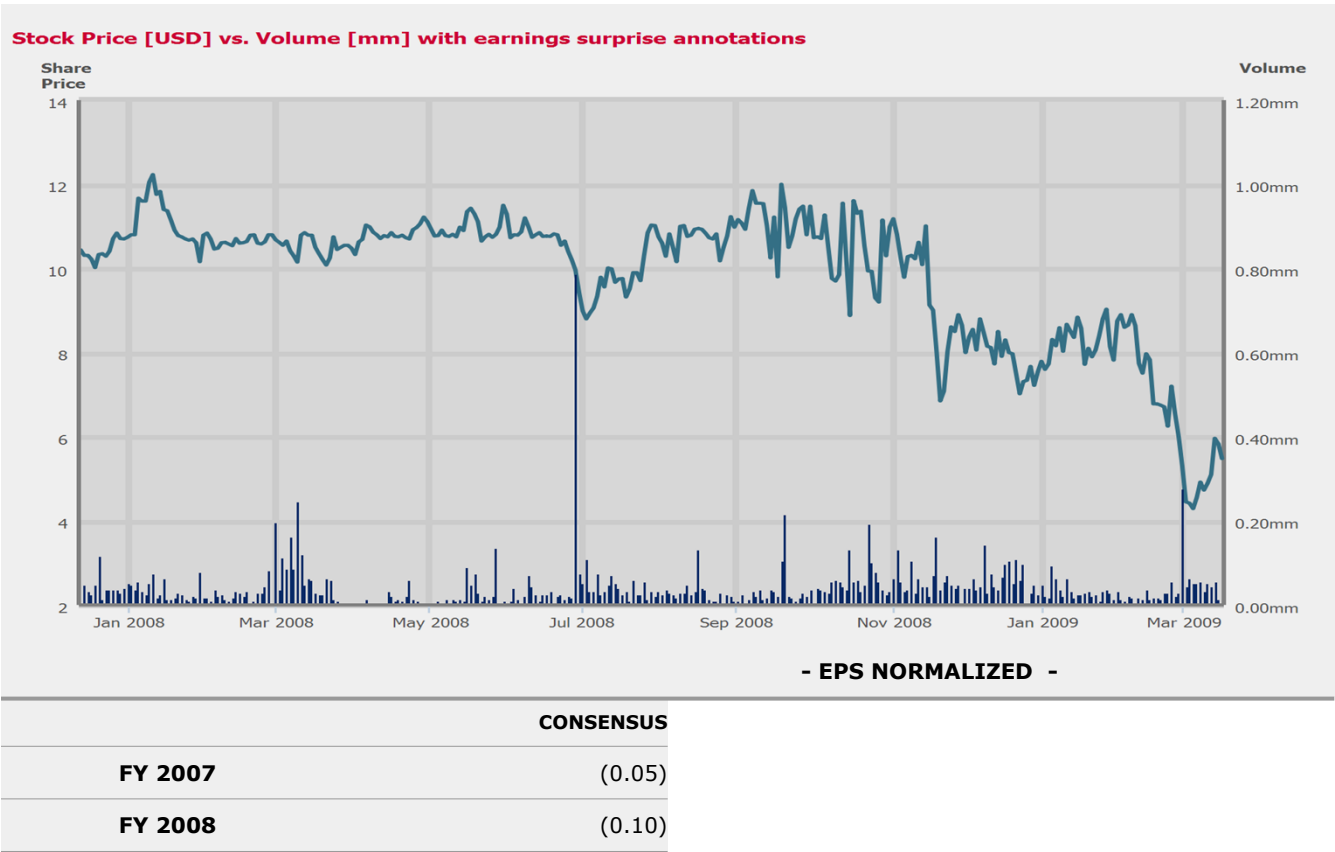
Tiptree Inc. NasdaqCM:TIPT

FY 2014 Earnings Call Transcripts

Wednesday, April 01, 2015 1:00 PM GMT

S&P Capital IQ Estimates

Currency: USD
Consensus as of Nov-17-2008 11:09 AM GMT



Call Participants

EXECUTIVES

Christopher N. Gerosa

*Former Chief Financial Officer,
Principal Accounting Officer and
Treasurer*

Geoffrey N. Kauffman

*Former Co-Chief Executive Officer
and Director*

Julia Helene Wyatt

Chief Operating Officer

Michael Gene Barnes

Executive Chairman

Presentation

Operator

Greetings, and welcome to the Tiptree Financial Inc. 2014 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, Chris Gerosa, representing Tiptree Financial. Thank you. Please go ahead.

Christopher N. Gerosa

Former Chief Financial Officer, Principal Accounting Officer and Treasurer

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 we issued 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 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. References to Tiptree Financial mean Tiptree Financial Inc. Tiptree Financial is publicly traded and owns 77% of Tiptree operating company.

Before we begin our 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 our 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. We disclaim any intentions or obligations to update or revise any forward-looking statements, except to the extent required by applicable law.

Also, our discussion today may include references to certain non-GAAP measures. A reconciliation of these measures to the most comparable GAAP measure 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 like to introduce Michael Barnes. Michael?

Michael Gene Barnes

Executive Chairman

Thank you, Chris. I'd like to welcome everybody to the 2014 earnings conference call. Going forward, we expect to hold these calls following the release of each quarter's results. Today, I will spend a few minutes taking you through our overall company strategy and how we plan to generate long-term value for our shareholders. Geoffrey will then discuss our business in a bit more detail. And Julia will take us through our financial highlights, and then we'll provide answers to some questions.

Before we get to the specifics of operations and the performance of our individual businesses, we thought it might be helpful to provide an overview of Tiptree's business strategy; summarize its competitive advantages; and review the policies and principles which guide our operations.

Tiptree is a diversified holding company that draws upon the extensive experience of its management in the areas of insurance, specialty finance, asset management and real estate to acquire and grow primarily controlling interest of operating businesses. We believe our business ownership mix of specialty insurance, operating companies which principally originate or own tangible assets, and asset management companies which earn fees from third-party investment vehicles, provides business synergies, which should generate a higher overall return on shareholder capital.

When making new acquisitions, we strive to identify businesses that have strong and experienced management, have the potential to generate attractive and stable returns on capital with limited downside and complement existing businesses or strategies through clearly identifiable synergies and have sustainable and scalable business models.

Tiptree's permanent capital base allows us to view our business through a long-term lens, providing competitive advantages relative to alternative capital sources with shorter-term objectives. We will retain a well-performing business for an indefinite period, but we'll consider selling a business when we believe material shareholder value accretion will be achieved. When we acquire a business, we aim to partner with the management and employees by providing assistance when needed, but rely on their unique expertise to run the business day-to-day.

We enhance the value of our businesses by utilizing our experience in capital markets, mergers and acquisitions, capital raising, credit markets, distressed investing, securitization, asset management, corporate governance and government regulatory issues. We also optimize the efficiencies of our business operation by strategically using the resources and talents of our more than 600 employees at our consolidated subsidiaries.

We seek to adopt a prudent approach with regard to our capital structure, the diversification of financial risk and the avoidance of reputational risk. We evaluate our performance primarily by the comparison of our shareholders' long-term total return on capital, change in book value plus dividends paid to alternative investment options and major market indices. As one point of comparison, Tiptree's total return using GAAP book value and dividends paid since inception in June 2007 through year-end 2014 has been 11.4% per annum versus a total return of the S&P 500 of 6.6% per annum over the same period. For purposes of this calculation, total return is calculated based on the price paid by the original investors of Tiptree Financial Partners LP on June 12, 2007 compared to Tiptree Financial GAAP book value as of December 31, 2014, plus total dividend as and when received by Tiptree investors assuming no reinvestment. The S&P total return assumes dividend reinvestment. Our investors are our partners, and we attempt to provide as much information and transparency as we would expect to see when making an investment ourselves. We believe a well-educated and informed investor makes the best partner.

Tiptree had many notable accomplishments in 2014, which Geoffrey will now review. Importantly, we believe the groundwork established this past year will be seen in the bottom line results of Tiptree for many years to come.

With that, I'd like to turn the call over to Geoffrey to discuss our business in detail.

Geoffrey N. Kauffman

Former Co-Chief Executive Officer and Director

Thanks, Michael. 2014 was truly an exceptional year at Tiptree as evidenced by the following accomplishments. We completed the acquisition of Fortegra Financial Corporation for approximately \$218 million in December, our largest acquisition to date. We agreed to sell Philadelphia Financial Group to affiliates of Blackstone for approximately \$165 million and expect to complete that transaction in the third quarter. We completed 2 CLOs at Telos Asset Management, which added more than \$750 million to assets under management, bringing total Tiptree asset management AUM to more than \$2 billion.

Care Investment Trust had realized gains of \$7.9 million in 2014, added \$40 million of senior housing-related investments and added \$85 million of senior housing facilities in the first quarter of this year.

We agreed to purchase Reliance First Capital, LLC, a mortgage origination business, which will further expand Tiptree's operations in the mortgage industry. Completion of the transaction is expected in the third quarter.

Tiptree Financial shares were added to the Russell 2000 Index on June 30. In November, Tiptree Financial completed the public registration of 21.2 million shares for resale by partners who exchanged private partnership units for Tiptree Class A shares.

For the fourth quarter, the board approved 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 April 9 and a payment date of April 23.

We now have 7 operating businesses in the 4 industries of insurance and insurance services, specialty finance, asset management and real estate. Tiptree's insurance operations consist of Fortegra, which is a specialty insurance and insurance services company offering consumer-related protection products, including credit insurance, warranties, service contracts and automotive warranty and roadside assistance. In 2014, Fortegra generated net revenue of \$114.8 million, net income of \$13.3 million and adjusted EBITDA of \$38.9 million, all of which is unadjusted for purchase price accounting. What is included in Tiptree's results for 2014 is only 1 month of Fortegra income and expenses as the transaction closed in December. To help investors understand the potential contribution of Fortegra going forward, we have included Fortegra's unaudited full year 2014 and 2013 consolidated income statement and adjusted EBITDA from continuing operations on Page 10 of the earnings release, which also includes a reconciliation of Fortegra adjusted EBITDA to GAAP net income.

Moving to Specialty Finance. This segment includes Siena Lending Group, a commercial finance company offering asset-based loans; and Luxury Mortgage, a residential mortgage company. Siena, essentially a start-up investment in 2013, reached breakeven during 2014, and we are expecting a profitable 2015 for Siena. Luxury Mortgage originates packages and sells primarily prime jumbo and super jumbo mortgage loans. 2014 was a difficult year in the residential mortgage industry, and Luxury was not immune to the industry challenges. With that said, Luxury has begun 2015 with a solid production, and we are expecting a profitable year for Luxury.

In November, we agreed to acquire Reliance First Capital, a mortgage originator that primarily focuses on agency loans. We expect the transaction to close by the end of the third quarter.

Our asset management business, Tiptree Asset Management Company, which we refer to as TAMCO, is led by our corporate credit investment management business, Telos Asset Management. Telos closed 2 CLOs in 2014, adding \$750 million in AUM and bringing total TAMCO AUM to over \$2 billion. We will be looking to diversify and grow our asset management business through the creation of new CLOs and managed accounts.

In the corporate and other segment, we report Tiptree's principal investments, consisting primarily of the positions in the subordinated notes of CLOs managed by Telos, a portfolio of tax-exempt securities held by MFCA and Tiptree's interest in the Star Asia Entities, which are Tokyo-based real estate holding companies formed to invest in Japanese properties and real estate-related debt instruments. CLOs contributed \$7.8 million of net income in 2014, while Star Asia contributed \$3.4 million.

In summary, we believe we are well positioned for growth in the current year and beyond. 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. First, I would like to discuss the steps we have taken to improve the transparency of our financial reporting, then I will review our full year 2014 results. In the future, you can expect to see our quarterly performance included in our results. Lastly, I will update you on the progress of our share purchase program.

In 2014, we undertook a full review of our financial reporting with the goal of improving transparency and establishing reporting standards comparable to other public companies. One significant change is our voluntary early adoption of new accounting guidance that allows us to report more transparent results of our consolidated CLOs. The format of this quarter's release is how we expect to report our financial information going forward by focusing on GAAP financials and providing adjusted EBITDA. For further information on how we define EBITDA and adjusted EBITDA and a reconciliation to GAAP net income, please see Page 8 of the earnings release.

In the past, we have regularly referred to our economic results, along with the required GAAP financial reporting. The history of this was rooted in management's desire to provide transparency of Tiptree's intrinsic value, something that GAAP reporting often failed to accomplish. A few noteworthy differences between our economic and GAAP financials include: Our TAMCO asset management subsidiary, which has 0 value reflected in our GAAP book value reporting despite producing annual pretax net income north of \$6 million each of the past few years; aggregate depreciation and amortization of \$11.9 million for 2014, of which our real estate business had more than \$7.2 million; and transaction costs incurred in the acquisition of Fortegra of \$6.1 million that are deducted immediately for GAAP reporting and which for economic purposes would likely be amortized over time. As a result of some significant recent changes in GAAP reporting requirements as well as our desire to provide financial information consistent with the practices of other public companies, we have decided it best to report GAAP financial results and no longer report economic net income or economic book value.

For 2014, GAAP net income of Tiptree was \$4.6 million versus \$40.7 million in the prior year. Net income in 2014 was affected by several factors, including \$6.1 million of nonrecurring transaction costs associated with the acquisition of Fortegra; a \$9.9 million increase in depreciation and amortization expense, mainly due to the Fortegra acquisition and Care divisional joint ventures; a \$9.4 million decline in net revenues from our CLO business, due primarily to negative changes in mark-to-market valuations; and \$7.6 million lower realized gains at Care related to dispositions of assets in 2014 compared to 2013. Net loss available to Class A common stockholders for 2014 was \$1.7 million versus net income of \$10.4 million in 2013. Note that the earnings release also contains segment income statement data for 2014 and 2013 on Pages 6 and 7.

For 2014, adjusted EBITDA for Tiptree was \$59 million compared to \$68.6 million for the full year 2013. The \$9.6 million decrease in adjusted EBITDA from the prior year is primarily attributable to the decline in CLO net revenues and a lower net gain on sale at Care from 2013 to 2014. The earnings release Page 8 has a reconciliation of EBITDA and adjusted EBITDA to net income.

Tiptree operating company book value per share was \$9.17 for the year-end 2014 compared to \$8.97 in 2013. Class A book value per share was \$8.94 for the year-end 2014 compared to \$9.38 for year-end 2013. 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 on Page 9.

In December 2014, Tiptree and Michael Barnes announced a stock purchase program, whereby Tiptree and Mr. Barnes would purchase up to an aggregate of \$5 million of Tiptree's Class A shares. Purchases are made pro rata by Tiptree and Mr. Barnes. At the end of 2014, a total of approximately 10,000 shares were purchased at an average price of \$7.56. Since January 1 through March 20, 2015, an additional 123,000 shares were purchased at an average price of \$7.37. As of March 20, there was approximately \$4 million of spending capacity remaining in the current purchase program.

And with that, I will turn the call back to Michael.

Michael Gene Barnes

Executive Chairman

Thanks, Julia. To sum up, 2014 was a transformative year at Tiptree. We will continue to focus our efforts in 2015 on growing our current operating businesses while pursuing strategic acquisitions. In 2015, we anticipate closing the sale of PFG in the third quarter; closing the purchase of Reliance First Capital in a similar time frame; deploying capital in the residential nonperforming loan market; growing Fortegra's business through increased market share, possible bolt-on acquisitions and improving returns on Fortegra's investment portfolio; expanding our asset management business through new CLOs and managed accounts.

Question and Answer

Christopher N. Gerosa

Former Chief Financial Officer, Principal Accounting Officer and Treasurer

Thank you, Michael. We will now answer some questions we have received. The first question. Can you provide more detail on the PFG transaction such as the expected net gain after taxes for Class A shareholders?

Julia Helene Wyatt

Chief Operating Officer

Yes. The sale price for PFG is \$155 million on closing plus approximately \$10 million payable over the next 2 years. We estimate that the GAAP pretax gain over book value will be approximately \$35.2 million for the company. We estimate Tiptree Financial's incremental tax provision at the time of sale to be approximately \$11.1 million. The incremental provision would bring total provisions for PFG-related tax to approximately \$26.5 million, which includes the deferred tax liability of \$15.4 million recorded as of December 31, 2014.

Christopher N. Gerosa

Former Chief Financial Officer, Principal Accounting Officer and Treasurer

Thank you, Julia. The next question. Can you update us on the hiring of a Chief Financial Officer?

Michael Gene Barnes

Executive Chairman

Yes. Hiring a CFO is a high priority for us. We have engaged the assistance of a nationally recognized executive search firm and are in the process of interviewing candidates. We will make an announcement as soon as we have hired a CFO. In the interim, Julia Wyatt, our Chief Operating Officer, will oversee our accounting and finance department until a successor CFO is hired. In addition, Richard Claiden has agreed to continue as a part-time employee of Tiptree as a consulting senior adviser on accounting and financial reporting matters.

Christopher N. Gerosa

Former Chief Financial Officer, Principal Accounting Officer and Treasurer

Thank you, Michael. Next question. Are the sale of PFG and the acquisition of Fortegra linked?

Michael Gene Barnes

Executive Chairman

No, the timing was purely coincidental.

Christopher N. Gerosa

Former Chief Financial Officer, Principal Accounting Officer and Treasurer

Thank you. Next question. Can you break out the income from the CLOs into: one, management fees; two, distributions; and three, the change in the market value?

Julia Helene Wyatt

Chief Operating Officer

Sure. For 2014, management fees were \$11.8 million, distributions were \$15.7 million, and the mark-to-market was negative \$7.9 million. If you look at the comparison of 2014 versus 2013, which is included on Page 31 of the Form 10-K, you will see that the management fees were slightly higher in 2013 due to incentive fees in the older CLOs, and distributions were generally flat. So it is clear that the decline in income from the CLOs is primarily due to the mark-to-market in 2014, which is actually a return to expected levels from a higher-than-expected mark-to-market in 2013.

Christopher N. Gerosa

Former Chief Financial Officer, Principal Accounting Officer and Treasurer

Thank you, Julia. Next question. Can you give more detail on what makes up the adjustments to EBITDA?

Julia Helene Wyatt

Chief Operating Officer

Okay. Adjusted EBITDA is EBITDA adjusted to: one, subtract interest expense on asset-specific debt incurred in the ordinary course of our subsidiary business operations; and two, to add significant nonrecurring costs. The first piece is interest expense of \$7.2 million associated with the asset-specific debt at the subsidiaries in the specialty finance, real estate, corporate and other segments. The second piece consists of transaction costs in the acquisition of Fortegra of \$6.1 million and \$5.4 million of expenses associated with moving PFAS' physical location from New Jersey to Philadelphia. Please see the earnings release Page 8 for reconciliation of EBITDA and adjusted EBITDA to net income.

Christopher N. Gerosa

Former Chief Financial Officer, Principal Accounting Officer and Treasurer

Thank you, Julia. Next question. Why did you borrow another \$25 million from Fortress earlier this year?

Geoffrey N. Kauffman

Former Co-Chief Executive Officer and Director

That was for general corporate purposes to grow our businesses. We are required to use \$25 million of the proceeds of the sale of PFG to repay borrowings under the Fortress credit facility when that closes.

Christopher N. Gerosa

Former Chief Financial Officer, Principal Accounting Officer and Treasurer

Thank you, Geoffrey. Next question. Can you explain the drop in book value of \$9.38 in 2013 to \$8.94 in 2014?

Julia Helene Wyatt

Chief Operating Officer

Yes. The decrease in book value from '13 to 2014 is primarily the result of the tax provision related to the exchange of partnership units of Tiptree Financial Partners for Tiptree Financial Class A common stock. There is a detailed description in the tax footnote to the financial statements in our Form 10-K.

Christopher N. Gerosa

Former Chief Financial Officer, Principal Accounting Officer and Treasurer

Final question. You are issuing shares in connection with the Reliance transaction. Do you intend to do so in future acquisitions?

Geoffrey N. Kauffman

Former Co-Chief Executive Officer and Director

Yes. When it makes sense. We believe the ability to use Tiptree Financial stock as acquisition currency is a competitive advantage.

Christopher N. Gerosa

Former Chief Financial Officer, Principal Accounting Officer and Treasurer

Thank you, Geoffrey. And with that, we 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. Thank you, and have a nice day.

Operator

Thank you, ladies and gentlemen. This concludes today's conference. You may disconnect your lines at this time, and thank you for your participation.

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