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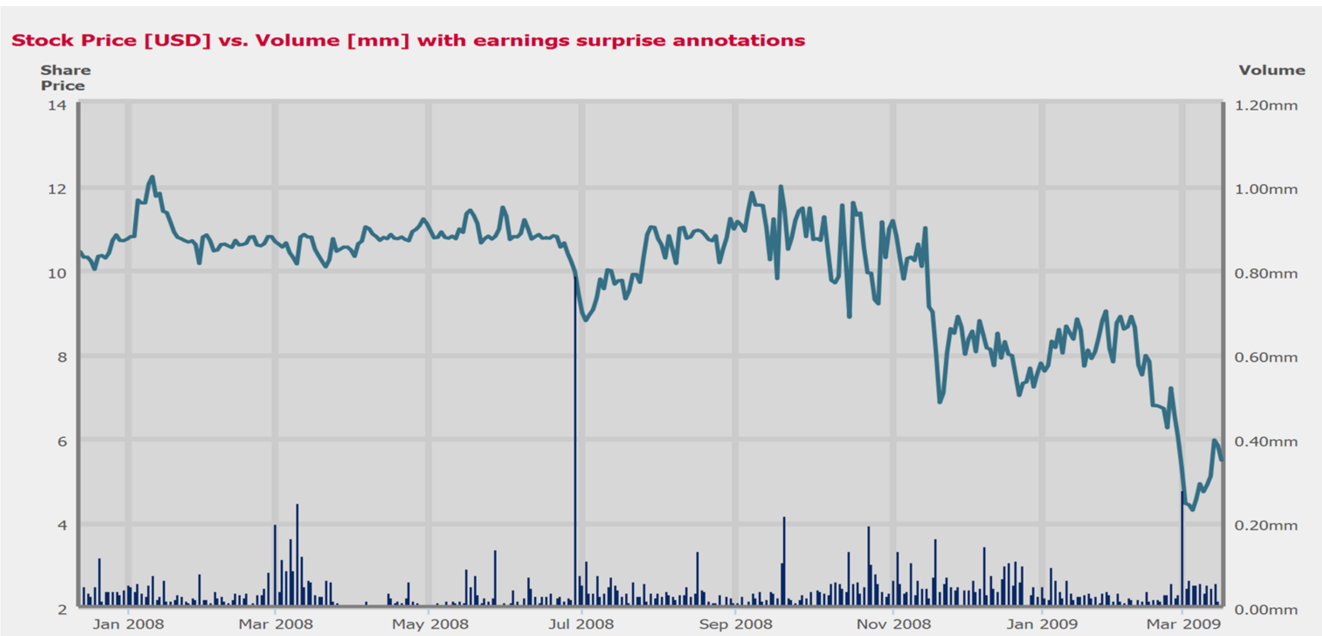

Call Participants

EXECUTIVES

Geoffrey N. Kauffman
Former Co-Chief Executive Officer and Director

Julia Helene Wyatt
Chief Operating Officer

Sandra E. Bell
Chief Financial Officer

Presentation

Operator

Greetings, and welcome to the Tiptree Financial Inc. Second 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, Julia Wyatt, Chief Operating Officer. Thank you. You may begin.

Julia Helene Wyatt
Chief Operating Officer

Good morning, everyone. Welcome to Tiptree Financial's Second Quarter 2015 Earnings Call. My name is Julia Wyatt, and I am Tiptree Financial's Chief Operating Officer and acted as the Principal Accounting Officer for the second quarter. With me today are Geoffrey Kauffman, Tiptree Financial's co-CEO; and Sandra Bell, our new Chief Financial Officer, who joined Tiptree on July 1.

Before I turn it over to Geoffrey, let me take you through a change in format for this quarter's call. In addition to our earnings announcement, which was released prior to this call, we have posted a presentation on our website at www.tiptreefinancial.com to provide supplemental information to our prepared remarks, which we will refer to by page during the call.

References on today's call to Tiptree or The Company mean Tiptree Operating Company, LLC, the entity through which we conduct our operations and its consolidated subsidiaries together with the stand-alone net assets held by Tiptree Financial Inc., the publicly traded entity that owns 77% of Tiptree Operating Company. References to Tiptree Financial mean Tiptree Financial Inc. and exclude the noncontrolling interest of Tiptree Operating Company.

Let me pause for a moment for you to locate and open the presentation. Now that you have the presentation in front of you, please turn to Page 1 of the presentation where I will walk you through our standard disclaimer. Please read these disclosures in detail as my remarks will simply highlight their content. This presentation is qualified in its entirety by the content of the disclaimers on this page.

This presentation is being provided as a supplement to our financial statements, footnotes and other disclosures filed with the SEC and is not an offer to purchase or sell securities. It is being provided solely for informational purposes and is not intended to change or update our disclosure documents.

Throughout the presentation and in our 10-Q filing, there are various forward-looking statements, which provide management's current expectations of what we believe could occur and are not statements of historical fact. 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. Our future expectations can change without notice and are not guarantees of any future performance. Our businesses are subject to risks and uncertainties and other factors, many of which are not in the control of management. These factors may change from our current expectations, sometimes very rapidly and thus could impact our expectations of future results. Except as required by securities laws, we undertake no obligation to update any forward-looking statements.

We have also included in this presentation information from publicly available sources. While we believe these sources to be credible, we have not independently verified the information.

Lastly, we use the non-GAAP measure EBITDA and adjusted EBITDA throughout the presentation. We believe that EBITDA and adjusted EBITDA provide supplemental information useful to investors. As these measures are not GAAP, they should not be used as a substitute for GAAP disclosures, but should be reviewed only in conjunction with our GAAP disclosure documents and GAAP financials. The appendix, beginning on Page 25, provides a reconciliation of EBITDA and adjusted EBITDA to GAAP net income.

With that disclaimer, let me turn the call over to Geoffrey.

Geoffrey N. Kauffman

Former Co-Chief Executive Officer and Director

Thank you, Julia. Good morning, everyone. Before I dive into my prepared remarks, let me take a minute to highlight what we expect to cover on today's call. First, we will highlight the results and the significant events that occurred in the quarter. Second, we will update you on industry and market factors that had impacted our performance year-to-date and that would expect to impact our results throughout the rest of this year and into next. Third, we will take you through our second quarter and first half financials and the key drivers of those results. And lastly, we will open the line to address any questions you may have.

With that introduction, please turn to Page 3 of the presentation where we highlight the significant events of the quarter by segment.

On June 30, we completed our previously announced sale of PFG for a total of $150.1 million in proceeds. We received $142.8 million in cash at the closing and will receive an additional $7.3 million over the next 2 years. We recognized an after-tax gain of $16.3 million, which was recorded as part of our discontinued operations.

For 2015, we have benefited from the full impact of our December acquisition of Fortegra, growing demand from nonbank consumer finance and auto warranty and insurance products supported strong results for Fortegra with first-half pretax income of $10.3 million.

In our Specialty Finance segment, we completed our previously announced acquisition of Reliance First Capital on July 1. Reliance is expected to complement our existing Luxury Mortgage business. Home affordability and an improving economy have driven industry-wide year-over-year increases in mortgage originations as seen in the increase in Luxury's funded volume to $440 million, an improvement in its earnings. While Reliance's results were obviously not included in our first half financials, their mortgage originations of $389 million year-to-date are an indication of the expected trajectory of our mortgage origination business for the rest of the year.

Also in specialty finance, Siena, our asset-based lending business, has benefited from positive trends in small business borrowing with year-over-year improvements in both outstanding loan balances and profitability. Macroeconomic and demographic trends continue to support our optimism regarding our real estate business. In the last year, we have increased investment in our portfolio of properties, driving improvements and rental income and adjusted EBITDA.

In the second quarter, we sold our subordinated note investments in Telos 2 and Telos 4 for $39.7 million in cash proceeds. While the sale generated a realized loss on our investment in the period negatively impacting our results, cumulative distributions over the life of these investments has more than offset cumulative realized and unrealized losses. We will take you through the details of these numbers later in the presentation.

Early in the third quarter, we reinvested $30 million of these proceeds in a new CLO warehouse in anticipation of launching Telos 7 at a later date. As you may remember, last year, we created 2 CLO warehouses and subsequently launched Telos 5 and 6. As was the case with Telos 5 and 6 in 2014, warehouse interest income will be recorded in our corporate and other segment. The new CLO warehouse income will partially offset the distributions that we no longer receive on the subordinated notes that we sold.

We also reinvested a portion of the second quarter sale proceeds into 2 new principal investments, which continue our strategy of leveraging our capital to improvements in the U.S. economy. Specifically, we invested $9.7 million in nonperforming mortgage loans and $25 million to see a Telos managed credit opportunity fund, which we'll invest corporate credits.

On Page 4, we highlight our GAAP results along with adjusted EBITDA. For the 3 months ending 6/30, we reported GAAP net income of $19.8 million for the operating company and $15 million for Tiptree Financial, both representing significant improvements over the prior year period. Adjusted EBITDA at the operating company for the same period was $32.2 million. Year-to-date at the operating company, GAAP net income and adjusted EBITDA were $17.8 million and $45.2 million, respectively. Julia will walk through the key drivers of those results later in the presentation.

Having provided you with the key highlights of the quarter, I would like to introduce Sandra Bell, our new Chief Financial Officer. We're excited to have Sandra join our team. We believe her wealth of financial and public company experience as well as her strategic vision are a perfect fit for Tiptree.

Sandra will now take a moment and look at the economic and industry backdrop, which will give you context for the strategic actions Tiptree has taken this year and expects to take moving forward.

Sandra E. Bell
Chief Financial Officer

Thank you, Geoffrey. On Page 6, let's begin with the dynamics of the U.S. economy, of which I am sure you're all very familiar. The U.S. economy has clearly stabilized and has been showing signs of improving fundamentals. The U.S. consumer appears to be more confident as unemployment metrics continue to improve. The consumer confidence index is up. GDP continues on a positive trend, and businesses are beginning to increase their investment both through acquisitions and organic initiatives.

We highlight the specific key economic factors impacting each of our businesses beginning with our Insurance and Insurance Services segment on Page 8. As Geoffrey mentioned earlier, we sold PFG at the end of the quarter. While Tiptree did not make an explicit decision to trade Fortegra for PFG, the impact of the sale of one and the acquisition of the other has changed the dynamics of our insurance business significantly. We have transformed our business from one, which requires growth capital in excess of Tiptree's capacity to support it, to one where the ability to scale and grow is commensurate with our access to capital.

On Page 9, we highlight the market dynamics, which we believe are providing support to Fortegra's growth trajectory. The growing consumer confidence I mentioned earlier is underpinning expansion of consumer credit, particularly from moderate income earners and in areas such as auto finance, consumer electronics and consumer durables. Fortegra's business model is leveraged to this improving economic picture as the provision of credit life insurance is an important component to supporting access to credit for modern income Americans. There is a growing demand for warranty and other insurance products in conjunction with sales of cars, consumer electronics and big-ticket items such as appliances.

Our Specialty Finance segment has also benefited from macroeconomic factors. On Page 11, we highlight some of those positive trends. Small to midsized businesses are growing more confident in the economic picture for their products and services and as such have begun to invest. Increasing investment is fueling demand for credit, and in the case of small businesses, away from the commercial bank market. Siena has benefited from these trends with year-over-year loan balance growth of 43%.

The mortgage origination business is also benefiting from improving consumer confidence and home affordability relative to renting. In addition, the GSEs and the FHA have added products and improved pricing to encourage first-time homebuyers to look at buying a home. Housing starts are up, and the mortgage market is benefiting, particularly purchase originations. Fannie Mae is forecasting mortgage growth year-over-year for 2015 and 2016, with the momentum concentrated in the purchase market. Luxury's positive revenue and earnings trajectory year-to-date are clearly reflective of those trends. Even with the gradual rate increase on the horizon, with the current base of historically low interest rates, affordability factors are not anticipated to change dramatically in the near future.

The U.S. demographic picture favors growth in senior housing as the baby boomers continue to age. On Page 13, we highlight these trends. The combination of an aging U.S. population and an improving economy continue to support positive investment dynamics for our real estate segment. The growth and demand for business credit that we discussed earlier is also supporting growth in our Asset Management segment.

On Page 15, we've provided statistics which highlights the fact that demand for business credit is generally growing with the U.S. economy. In the first half of 2015, we took the opportunity to redeploy capital into a new loan warehouse from Telos 2 and 4. Additionally, we ceded a Telos managed credit opportunity fund to be able to take advantage of this growing trend.

Over the last year, we've added modestly to our assets under management and expect to continue to grow assets under management through the remainder of 2015 and beyond.

On that note, I will turn the call over to Julia, who will take you through our financial results.

Julia Helene Wyatt
Chief Operating Officer

Thank you, Sandra. I will begin by highlighting the key drivers of our consolidated results and then turn to a view of each of our segments. For my prepared remarks, I will be focusing primarily on Tiptree Operating Company as their results drive those of the public entity.

On Page 17, we highlight our 3-month and 6-month consolidated results for Tiptree Operating Company and Tiptree Financial for the period ended June 30. As mentioned earlier, we reported net income before noncontrolling interest of $19.8 million for the quarter and $17.8 million for the first half of 2015. The $15.8 million increase in that metric in Q2 and $10.2 million for the year-to-date period were both driven by 4 key factors: one, the $16.3 million after-tax gain on the sale of PFG reported in discontinued operations; two, the inclusion of Fortegra's earnings for the full period; three, the expansion of our real estate investments at care; and four, realized losses on the sale of our subordinate notes in Telos 2 and 4.

Growth in first half adjusted EBITDA from continuing operations was primarily driven by Fortegra's positive results and the increase in Care's portfolio of real estate investments.

Just a quick note as we move through an understanding of our financial results in more detail. Much of the benefit from the historical ownership of the subordinate notes that we sold this quarter have actually been recorded in previous periods through distribution income. In addition, the earnings from the reinvested proceeds have yet to be recorded in our current results and will flow through future periods. As a result, the current period results provide us with only a partial picture of the impact of these actions on shareholder value.

Turning to Page 18. Let's walk through the financial results of our Insurance and Insurance Services segment. Just a reminder, that since Fortegra was not a part of Tiptree during the prior year, we have no comparable period in 2014 to address due to the effect of purchase accounting. Our discussion here will focus on growth factors and the underlying trends in the business.

Net income in this segment was $6.3 million in the quarter and $10.3 million for the first half. The key drivers of these results were strong sales of credit life insurance products and auto warranty and insurance products, partially dampened by slowing growth in our cell phone warranty business.

Credit life insurance is often a key component to ensuring access to credit for the average wage earner. Access to credit is also translating into strong consumer sales in auto, auto warranty products, consumer electronics and durable goods warranty products as growing sales of cars, electronics and household appliances support the additional value these associated products bring to the consumer.

Our Specialty Finance segment benefited from strong industry fundamentals in the quarter. On Page 19, we highlight the year-over-year earnings improvement for both the quarter and the year-to-date period. Pretax income grew to $568,000 for the 3 months ended June 30 as compared to a pretax loss of loss $731,000 in the 2014 period. Year-to-date results also turned positive with $1 million in pretax earnings versus a pretax loss of $1.5 million in the previous year.

Revenues in the segment increased by 107% in the quarter and 146% year-to-date due to the volume growth driven by industry fundamentals. Scale also benefited the businesses as expenses increased at a slower pace than the growth in revenues.

Turning to Page 20. Let's break down the results in our real estate segment. As mentioned earlier, we have invested significantly in our real estate portfolio over the last year. The results in the segment reflect revenue growth of 155% in the quarter and 121% year-to-date due to both higher rental income and higher fee growth. The increase in revenue, however, was more than offset by higher depreciation and amortization expenses as a result of the increase value attributable to acquired assets. Similar to senior housing rates, increases in adjusted EBITDA reflect the trends demonstrated by the revenue profile of the business. That metric adds back the increased depreciation and amortization with the result being adjusted EBITDA growth of 160% in the quarter and 69% year-to-date.

On Page 21, we begin our discussion of the Asset Management segment. As a reminder, we split the results of our net income attributable to the CLOs into 2 of our segments. In the Asset Management segment results, we report the management fees paid by the CLOs to the company. The income attributable to our principal investment in the subordinated notes of the CLOs composed of distribution income and realized and unrealized gains and losses on the sub notes we own is reported in our Corporate and Other segment along with our other principal investments. The key driver of our management fees and thus our pretax income in the asset management segment is assets under management. For the 3 months and 6 months ended June 30, the modest decline in asset management fees is a function of declining assets under management as the older CLOs are past their reinvestment period and have begun to amortize, combined with lower overall fees on the more recent CLOs.

We currently manage 6 CLOs under the Telos brand name, the first 2 of which were issued in 2006 and 2007 and are past their reinvestment period. Telos 3 and 4 were issued in 2013, and Telos 5 and 6 were issued in 2014. At the beginning of Q3 2015, we invested in a warehouse in anticipation of launching Telos 7.

With respect to the second component of earnings from the CLO business, the key drivers of earnings on our principal investments in the subordinate notes are distributions over time reflected in both distribution income and the realized and unrealized gain or loss on the fair value of the notes themselves. As a reminder, the fair value of our subordinated notes is equivalent to the net present value of future expected distributions. As distributions are paid accruing into income and we get closer to the maturity of the notes, the fair value will naturally decline.

On Page 22, we see the impact of this natural transition in the components of our corporate and other segment relating to the CLOs. The line item in this segment, net income attributable to the CLO, combines both the distribution income and the realized and unrealized gains and losses of the CLO subordinated notes we own. The pretax loss in the corporate and other segment for the year-to-date period of $17.1 million was primarily driven by unrealized and realized losses of $11.9 million on the CLO subordinated notes that we owned, of which $8 million was attributable to the sale of Telos 2 and 4. The comparisons to last year also included $2.1 million of earnings on a loan warehouse in the prior year, which we held in advance of issuing Telos 5 and 6.

To put the realized losses on this quarter's sub note sale in context, over the time, we have owned the sub notes in Telos 2 and 4, we have earned $94.3 million in distribution income and had a total of $22 million in realized and unrealized losses, inclusive of the $8 million taken in 2015. We received $39.7 million of proceeds from the sale of sub notes of Telos 2 and 4 and generated tax losses of approximately $12.5 million to Tiptree Financial.

The remainder of incremental loss in the period in our corporate and other segment includes increases in expenses at our corporate head office to support the growth and increased complexity of our business.

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

Geoffrey N. Kauffman
Former Co-Chief Executive Officer and Director

Thanks, Julia. On Page 23, we wanted to the highlight the key takeaways from the quarter and things to keep in mind going forward.

As we move into the second half of 2015, we believe Tiptree is well positioned to take advantage of improvements in the U.S. economy. Investments made early in the third quarter have yet to contribute to our results. For example, Reliance closed on July 1. They originated $389 million in the first half of 2015, so Tiptree's mortgage originations in the second half of the year should be materially higher than the first. Similarly, the T7 warehouse is the first CLO warehouse this year, and we anticipate positive contributions to earnings in the second half of 2015, similar to the warehouses in 2014.

In conclusion, we are pleased with the results for the quarter and are confident that our strategic direction in taking advantage of these positive economic trends puts the company in a strong position to drive long-term shareholder value.
Thank you, and we will now open the call for Q&A.

Question and Answer

Operator

[Operator Instructions] At this time, I'd like to turn the conference back over to Geoffrey Kauffman.

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 continued interest in Tiptree. We will look forward to updating you further on our operations on our next earnings call.

Operator
Thank you. Ladies and gentlemen, this concludes today's conference. You may disconnect your lines at this time. Thank you all for your participation.