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J.G. Wentworth Company

Third Quarter 2016 Earnings Conference Call

November 8, 2016

CORPORATE PARTICIPANTS

Erik Hartwell, *Vice President, Investor Relations*

Stewart Stockdale, *Chief Executive Officer*

Roger Gasper, *Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

John Groveman, *Private Investor*

PRESENTATION

Operator:

Ladies and gentlemen, thank you for standing by. Welcome to the J.G. Wentworth Company's Third Quarter 2016 Earnings Call. During the call, all participants will be in a listen-only mode. After the presentation, we will conduct a question-and-answer session. At that time, those with questions should lift their phone receiver and press star, followed by the number one on their telephone keypad. To cancel a question, please press the number sign. If at any time during the conference you need to reach an operator, please press the star, followed by zero. Please note that this call is being recorded today, November 8 at 10:00 AM Eastern Time.

I would now like to turn the meeting over to your host for today's call, Erik Hartwell. Please go ahead.

Erik Hartwell:

Thank you Operator. Good morning everyone and thank you for joining the J.G. Wentworth Company's Third Quarter 2016 Earnings Conference Call. This morning we'll be hearing from Stewart Stockdale, our Chief Executive Officer; and Roger Gasper, our Chief Financial Officer. After their prepared remarks we will open the call for questions.

We have included a brief presentation to accompany our remarks and you will find a link to this webcast included in the earnings press release. The slides for today's presentations have been posted on the Investor Section of jgw.com along with our earnings press release.

Statements in this conference call and in our earnings press release, other than historical facts, are forward-looking statements. Actual results may differ materially from those projected in the forward-looking statements. Factors that might cause the actual results to differ materially are discussed in our earnings press release. The Company disclaims any intent or obligation to publicly update or revise any forward-looking statements, regardless of whether new information becomes available, future developments occur or otherwise.

One of the items we will speak about today is segment adjusted earnings before interest expense, taxes, depreciation and amortization or segment Adjusted EBITDA. Segment Adjusted EBITDA is a measure of

our segments' profitability that our CEO uses to assess segment performance. We define segment Adjusted EBITDA as our net income or loss under US GAAP before non-cash compensation expenses, provision for or benefit from income taxes, amounts related to consolidation of the Structured Settlement Securitization and Permanent Financing Trust we use to finance our business, our senior secured credit facility interest expense, debt issuance and related expenses, depreciation and amortization and certain other expenses. Please refer to our earnings release for the reconciliation of our segment Adjusted EBITDA to our loss before income taxes.

Now I will turn the call over to our Chief Executive Officer, Stewart Stockdale.

Stewart Stockdale:

Thank you, Eric. Good morning everyone and thank you for joining our call today. In the third quarter of 2016 we delivered another quarter of sequential segment Adjusted EBITDA improvements. We remain focused on improving Structured Settlements, growing Home Lending, watching our prepaid card initiatives and improving profitability across the enterprise.

Home Lending achieved $9.4 million of segment Adjusted EBITDA, up $1.4 million from the second quarter. Home Lending delivered another record quarter of operational results aided by strong locked loan volume that was more than double from the same period last year and closed low volume that was also nearly double from the same period last year.

Structured Settlements achieved $4.6 million of segment Adjusted EBITDA, an increase of $1.5 million from the second quarter. Structured Settlements results benefited from the continued focus on profitability and we are seeing signs of stabilization on some of the key business drivers.

On September 2, 2016, the Company entered into a residual asset refinancing transaction in which the Company issued $207.5 million in notes secured by the Company's interests in the residual cash flows associated with its 36 previously executed securitizations, resulting in $65.9 million in cash proceeds. Subsequent to the end of the third quarter, we executed our 2016-1 ABS transaction. After several recent funding transactions completed through private placement asset sales, we were pleased to see strong investor demand and more normalized yields allowing for favorable economics. This transaction generated $16.5 million in cash proceeds at the closing on October 26. This overall increase in our cash position provides expanded financial flexibility to the Company.

Now, let me turn to the highlights for each of our business segments in the quarter.

Home Lending again achieved record levels of operational performance with segment Adjusted EBITDA of $9.4 million. Our stated objective with the acquisition has been to grow share in the large mortgage category. Third quarter lock loan volume was $1.6 billion, up 14% sequentially from the second quarter and closed loan volume reached $1 billion, up 22% from the second quarter. We saw strong volume growth while balancing investment in building out our direct-to-consumer channel, expanding capacity in the back office and growing profits.

On the marketing front, we are building a surround sound marketing plan inclusive of both offline and online targeted marketing channels, allowing us to effectively connect with consumers. On the operations front, we have also made progress through a combination of expanded technology and methodical process improvements. To support the strong growth, we were able to redeploy some existing resources from the structured settlements division and also complement with hiring experienced talent from outside the organization. We believe operational improvements and speed and quality of the end-to-end mortgage loan origination process will benefit both the customer experience and our own efficiency expectations.

Overall, Home Lending's growth is well balanced with high levels of quality in our originating activity. For the quarter, we again saw consistency across the portfolio with FICO scores, average loan size and mix

comparable with previous quarters. In addition, JGW's mortgage servicing portfolio unpaid principal balance, UPB, has grown from $2.8 billion to $3.7 billion, a 32% increase from the same period last year.

As we reported last quarter, we compare our performance relative to other participants based on the Mortgage Bankers Association, MBA's quarterly performance reports. The latest available data is for Q2 where 342 other firms also reported and once again we are seeing strong performance relative to the peer group across several key indicators that include 29% higher origination volumes versus our peers; 10% more units than the MBA average; and 21% lower per loan production expenses.

We have put in place strong strategies to fuel the growth of Home Lending. We expect to continue to invest in initiatives to make it easier for customers to conduct their residential mortgage transactions. We look to be at the forefront of technological innovation that will allow us to unlock additional growth in the vast mortgage category.

Turning to the Structured Settlements business, Structured Settlements contributed $4.6 million segment Adjusted EBITDA in the third quarter. We have made progress to turn around the business. We have dissected the entire operating model from top to bottom. This has provided insights for targeted and predictive marketing tactics, focus on key drivers in the operations and enhancements in the execution of our funding platform that ultimately finances our pool of transactions. We believe we have made progress to stem the decline in volumes in key operational metrics experienced over the last several quarters. We are encouraged to see signs of stability resulting from our focused execution.

Total receivable balances, TRB, was relatively flat at $171.5 million in the third quarter compared to the second quarter. Likewise, we continue to benefit from sustained marketing efficiencies in the third quarter. Even though we spent slightly less in the quarter, we were able to drive a consistent level of customer contacts in the quarter. We continue to invest in and enhance proven marketing channels as well as expand in new ways to reach and engage with our customers at the various stages of their relationships with our brands. We are seeing successful engagement with personalized digital email and direct mail communication platforms.

Overall, the execution in the quarter has translated to improvement in our cost of funds, gain in marketing efficiency, stabilization of key operational metrics and continued savings from profitability initiatives.

Finally, on the prepaid front, we are announcing that we are piloting our Give Some Play Some product with the New Mexico Lottery Authority, just in time for the biggest gifting season of the year. The initial product combines a $20 virtual Visa gift card with a $5 scratch off lottery ticket and carries a $3 fee. This new innovative product is the first time a gift card and an instant state lottery game have been offered to consumers in a single purchase. The Give Some Play Some gift card and scratcher will be available in New Mexico in over 1,000 retail locations for purchase beginning Monday, November 14. We will be monitoring consumer and retailer reaction as we go-to-market and prepare for expansion to other state lotteries.

Separately, we have signed agreements with key relationships to pursue the casino, iGaming, and fantasy sports wagering category with an array of payment solutions. As we announced yesterday, we have expanded our relationship with FIS, a leading processor and innovator in the payments space. J.G. Wentworth is the exclusive program manager for the WinStreak product initiative. WinStreak will serve as a disbursement tool for the gaming industry to allow cash-in/cash-out capabilities and extend the gaming operators brand experience into their customers' everyday lives.

While we still have work to do, I am pleased with the execution against our key priorities in the third quarter. The commitment and passion from our employees across the Company are reflected in our sequential improvements. We remain committed to improving our Structured Settlements business, growing Home Lending and innovating in the prepaid category.

Now, I would like to turn the call over to Roger Gasper to walk through the financial results. Roger?

Roger Gasper:

Thanks Stewart, and good morning. We reported in the third quarter consolidated total GAAP revenues of $68.8 million, a $13.9 million decrease from the $82.7 million we reported in the second quarter of '16. The decrease was due to an $18.7 million decrease in total GAAP revenue generated by the Structured Settlements segment partially offset by a $4.7 million increase in Home Lending's total GAAP revenue. The decrease in Structured Settlements GAAP revenue from the previous quarter was due principally to a $14.9 million increase in the unrealized loss on the residual interest and cash flows related to securitizations stemming primarily from an increase in the assets fair value discount rate.

I think it's important to note that while Structured Settlements total GAAP revenue declined, the segment's $23.4 million in unrealized and realized gains associated with unsecuritized finance receivables and derivatives increased approximately $300,000 from the previous quarter. This was due in large measure to the equivalent level of TRB purchases between quarters that Stewart mentioned earlier.

The $4.7 million increase in Home Lending's Q3 total GAAP revenue was due primarily to an approximately $182 million increase in lock loan volume which rose from $1.4 billion in the second quarter of '16 to $1.6 billion in the third quarter.

Our consolidated GAAP net loss increased $15.3 million from $23.5 million in the second quarter of '16 to $38.8 million in the third quarter, due primarily to the $13.9 million decline in consolidated total GAAP revenue I mentioned earlier coupled with a $2.4 million decrease in our consolidated income tax benefit, both of which were partially offset by a $1 million reduction in consolidated total GAAP expense. The $1 million decrease in total GAAP expense reflects the impact of a number of items including 1) $6.3 million in legal, broker and other fees expensed in Q3 in connection with the residual refinancing transaction; 2) the $5.5 million impairment charge recorded in Q2 without an equivalent charge recorded in Q3; and 3) approximately $1.9 million decrease in lease termination and severance charges from the previous quarter.

Decreased operating expenses resulting from our cost saving initiatives were essentially offset by an increase in operating costs generated by the increase in locked and closed loan volumes.

On a segment Adjusted EBITDA basis, we continued to make progress in improving Structured Settlements profitability despite the competitive environment. Q3's essentially flat TRB purchases with the previous quarter coupled with the benefits of our previously announced cost savings initiatives resulted in Structured Settlements segment Adjusted EBITDA improving $1.6 million over the previous quarter to $4.6 million in Q3 of 2016.

As a result of the growth in Home Lending's locked loan and closed loan volume, the segment delivered another quarter of growth in segment Adjusted EBITDA. Home Lending segment Adjusted EBITDA of $9.4 million in the third quarter represented a 17.5% increase from Q2's segment Adjusted EBITDA.

From a cash management standpoint, at the end of the third quarter we had cash and cash equivalents of $86.7 million, approximately $49.1 million more than the $37.6 million we had at the beginning of the quarter. This was due in part to our having issued in September $207.5 million in notes that were collateralized by the cash flows from residual interests related to 36 of our securitizations. The proceeds were used in part to repay $131.4 million in previously outstanding VIE long-term debt. As a result of this transaction, we received net proceeds of $65.9 million after payment of transaction related expenses and establishment of reserves.

Negatively impacting our September 30 cash balance was our having completed just one direct asset sale transaction in the third quarter compared to two such asset sale transactions in the previous quarter. Subsequent to September 30 however, we successfully completed on October 26 a $117.3 million asset backed securitization. We were pleased with the economics and strong demand from the ABS market as

this was our first ABS transaction in almost a year. If you recall, we completed two direct asset sale transactions earlier this year. Both the ABS and direct asset sale channels demonstrate the diversity and flexibility through which we can access the capital markets.

Thank you. Operator, at this time, we are now ready to open the call to questions.

Operator:

At this time I would like to remind everyone in order to ask a question, press star then the number one on your telephone keypad. We will pause for just a moment to compile the Q&A roster.

Your first question comes from the line of John Groveman (phon) that is a Private Investor. Your line is open.

John Groveman:

Good morning everybody. How are you?

Stewart Stockdale:

Good morning.

John Groveman:

My question is regarding this cash raising activity that you underwent, the $207 million of notes in September to take our the residual value and I think you netted $65 million net, but does that—is that a timing mechanism where you just freed up the residual cash floating around in the various deals? And as a result, is there and offsetting—the note against it, is that just—does that have a maturity of something? So if you get cash up front, what—basically what you've done is—and this is my question—you borrowed money to get money? Is that what it is?

Roger Gasper:

Yes, essentially. The $207.5 million in notes were collateralized by the residual interests in those 36 securitizations, so we effectively encumbered those assets to generate cash.

John Groveman:

Right. Is there a term structure regarding this note?

Roger Gasper:

The notes are essentially repaid over the course of time by those assets.

John Groveman:

Right.

Roger Gasper:

So it goes on into the future for quite a long period of time.

John Groveman:

Okay. Then any progress or anything you can discuss regarding the 2019 term debt and what's going on with that?

Roger Gasper:

Well, we continue to make interest payments on a quarterly basis in accordance with the term loan. Obviously now that we have some cash we're evaluating our options in connection with the Board, in consultation with the Board.

Stewart Stockdale:

Part of the focus that we've been doing is obviously making improvements on the Company from an Adjusted EBITDA perspective on an ongoing basis. We want to be in as strong a position over the course of the next few months and year. We have more financial flexibility with the excess cash we now have and that's a discussion that we're having with the Board on, eventually the capital structure of the Company.

John Groveman:

I think it's great that you were able to realize some of the value in the balance sheet that was just sitting there, so you can have a lot more flexibility, I hope.

Stewart Stockdale:

We agree.

John Groveman:

Okay. That really does it for me. Thank you.

Stewart Stockdale:

Thank you, John. We appreciate the question.

Operator:

There are no further questions in the queue at this time. I turn the call back over to the presenters.

Stewart Stockdale:

I want to thank everybody again for joining the call today, and have a wonderful day. Thank you.

Operator:

This concludes today's conference call. You may now disconnect.