J. G. Wentworth Company

First Quarter 2017 Earnings Conference Call

May 15, 2017

CORPORATE PARTICIPANTS

Erik Hartwell, *Vice President, Investor Relations*

Stewart A. Stockdale, *Chief Executive Officer and Director*

Roger Gasper, *Executive Vice President, Chief Financial Officer*

PRESENTATION

Operator:

Ladies and gentlemen, thank you for standing by. Welcome to the J.G. Wentworth Company First Quarter 2017 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 star, followed by zero. Please note that this call is being recorded today, May 15, 2017 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 First Quarter 2017 Earnings Conference Call. Today we'll be hearing from Stewart Stockdale, our Chief Executive Officer, and Roger Gasper, our Chief Financial Officer. After their prepared remarks, we'll open the call for questions.

We have included a brief presentation to accompany our remarks and you can find a link to this webcast included in the earnings press release. The slides for today's presentation 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 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 U.S. GAAP before non-cash compensation expenses, provision for or benefit from income taxes, amounts related to the 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. Not all companies calculate segment Adjusted EBITDA in the same fashion and therefore these amounts, as presented, may not be comparable to other companies. Additionally, segment Adjusted EBITDA is not indicative of cash flow generation. Please refer to our earnings release for the reconciliation of our segment Adjusted EBITDA to our loss before income taxes.

Now, I'll turn the call over to our Chief Executive Officer, Stewart A. Stockdale.

Stewart A. Stockdale:

Thank you, Erik. Good morning everyone and thank you for joining our call today. The results for the first quarter of 2017 reflect the continued progress against our key business objectives. In addition to the earnings we report, it is important to note that both of our operating segments build assets each quarter which can also lead to future cash and earnings over time. These are the residuals in our Structured Settlement segment and mortgage servicing rights in the Home Lending segment. For the first quarter, Home Lending delivered $4.1 million of Adjusted EBITDA and Structured Settlements achieved $0.9 million of Adjusted EBITDA.

We believe that we successfully navigated a volatile interest rate environment postelection and ongoing fluctuation of rates throughout the first quarter. In general, the interest rates on the 10-year treasury were anywhere between 40 to 50 basis points higher in the first quarter compared to the same period a year ago.

In our Home Lending segment, we maintained our momentum, delivering year-over-year growth in lock-loan and closed loan volumes. Lock-loan volume reached $1.2 billion, an 8% increase compared to the first quarter of 2016. Closed loan volume reached $662 million in the first quarter, a 17% increase on a year-over-year basis. We saw strong growth resulting from our efforts to expand direct-to-consumer in the category. Additionally, we were able to shift our origination mix to a greater percentage of purchase and cash out refinance as a higher interest rate environment resulted in an overall decline for rate and term refinance loans.

In the short term, we see margin pressure as essentially the same number of mortgage operators chase a smaller number of customers. Earnings and growing MSR remain a priority. The combination of our retail, affiliate, and expanded direct-to-consumer channels provides a diverse set of lead resources to acquire customers in search for home loan products, including conventional and government loan types. Historically, the earnings in Home Lending have been front-end focused, but as we grow the MSR it will increasingly become a larger contributor to the potential cash and earnings of the segment.

We also benefit from the growth in the MSR asset as it provides an existing customer base which can be an efficient source of future loan originations. In the first quarter, the Mortgage Servicing portfolio's Unpaid Principal Balance, UPB, grew to $4.3 billion. This represents a 34% increase from the $3.2 billion in the first quarter of 2016. As we continue to grow the MSR asset, we are maintaining the quality of the portfolio as measured by average loan size, delinquency rate, runoff, and age of the portfolio. The MSR portfolio had a fair value of $45.3 million at the end of the quarter compared to $30.2 million for the same period a year ago. We believe our strategy to grow origination volume and target a balance retention of mortgage servicing rights will serve us well.

We continue to be recognized for our innovation and customer service strengths in the Home Lending business. We were named the Costco Mortgage Services Lender of The Year for 2016 and just recently LendingTree named us a top 10 lender with the second-highest customer satisfaction rating in the first quarter of 2017, and Ellie Mae inducted us into their Hall of Fame, receiving both the President's Award for Encompassed Excellence and the Award for Compliance Automation. While we don't make a living winning awards, the recognition helps to distinguish the J. G. Wentworth brand and enhances our reputation in a crowded field of market participants, and we believe helps accelerate our expansion of new channels.

We expect our continued investment and innovation in technology and automation will meet the demands for customer seeking a streamlined digital mortgage experience. The additional innovation and capabilities will allow us to provide a personalized customer-driven loan origination experience. Additionally, we stand to benefit in the overall loan fulfillment cycle and ultimately close loans faster.

In the quarter, we accelerated direct-to-consumer lock-loan volumes through new lead sources, such as consumer affairs, bank rate, and sprout quo (phon) among others. We're on pace to eclipse in just four months the total locked volume for the direct-to-consumer channel in all of 2016. Complementing the strong volume growth, we are pleased with the comparable customer profile and loan economics generated from our expansion of the direct-to-consumer channel. We believe we are gaining share in the overall market and are well-positioned to adapt to changes in consumer demand for purchase or refinance loan purpose as dictated by the prevailing interest rate environment.

In our Structure Settlements business, we reported $0.9 million of Adjusted EBITDA. Last year, Adjusted EBITDA included $3.3 million of earnings related to our residual assets. As a reminder, we completed a residual asset refinancing transaction in the third quarter of 2016 which generated $65.9 million in cash proceeds and, as a result, the earnings associated with the transaction are no longer part of our quarterly results. Structured Settlements did benefit from the decrease in operating expenses and a lower cost of funds compared to the same period a year ago. Structured Settlement's expenses were lower by $7 million compared to the first quarter of last year, driven by the cost savings initiatives executed throughout 2016. Total Receivable Balances purchased, TRB, was $156 million.

On March 22, we executed a $131.8 million fixed rate asset-backed securitization and generated approximately $15 million in cash proceeds. We saw strong demand and were oversubscribed for both Class A and Class B notes. We continue to execute against our strategy to turn around structured settlements as we aim for unit growth while balancing deal economics amidst a highly competitive marketplace. Our efforts on the marketing and operations front continue to yield some positive trends in customer acquisition and pipeline conversion rates. We remain focused on expense management and overall profitability.

On the payment solutions front, the pilot with the New Mexico Lottery Authority and the increased awareness of our combined virtual Visa gift card and scratch off lottery ticket product are beginning to see a pipeline of state lotteries expressing interest and engaging in further discussions. Based on learnings, the plan is to increase the guaranteed gift card amount from $20 to $50 and the price pool from the lottery game is expected to increase from $100 to $500. The objective is to have the product available in the traditional gift card mall racks where traditional gift cards are sold. We believe this expanded distribution and access to consumers will benefit the product as we roll out to retailers later this year. We are excited to bring this product to a new customer base. We are also advancing discussions with various online and land-based gaming operators for the WinStreak product. We expect to announce our first launch later this year.

Let me transition for a moment and comment on the status of the Company's discussions regarding a proactive deleveraging of the Company's balance sheet to ultimately achieve greater operational flexibility. Throughout the first quarter, we held discussions with certain lenders and their advisors regarding the terms of a possible transaction. We have continued discussions around a few key concepts to ultimately affect a significant reduction of the Company's debt. The general terms of the discussions has centered around, one, an exchange of the existing $450 million term loan or cash and equity consideration, and, two, a new revolving credit facility. We are encouraged by the discussions and level of engagement by all parties.

In summary, for the first quarter, amongst a rising rate environment, we continue to scale Home Lending, focused on the turnaround of structured settlements, and we are making progress in payment solutions.

Subsequent to the quarter, we announced that Roger Gasper accepted another position outside the Company. I want to thank Roger for overseeing all aspects of the first quarter filings and for his contributions over the last several years.

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

Roger Gasper:

Thank you, Stewart, and good morning. We are reporting in the first quarter of 2017 consolidated total GAAP revenues of $104.7 million, a $38.1 million increase from the $66.6 million we reported in the first quarter of 2016. The increase was due to a $38.4 million favorable change in net unrealized gains on securitize finance receivables, debt, and derivatives, coupled with a $900,000 increase in our Home Lending segment's revenue that was driven by a $2.7 million increase in change in mortgage servicing rates net.

Our consolidated GAAP loss was $9.7 million compared to a $35.1 million consolidated net loss in the first quarter of 2016. The $25 million favorable change was due to a $37.7 million decline in Structured Settlements pretax loss driven by a $37.3 million increase in the segment's revenue, partially offset by a $1.7 million decline in Home Lending's pretax loss that was largely attributable to a decline in realized and unrealized gains on sales of mortgage loans held for sale that resulted from the higher interest rate environment in the first quarter of 2017 as compared to the prior year. From a cash management standpoint, at the end of the first quarter we had unrestricted cash and cash equivalents of $74.7 million.

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

Operator:

Ladies and gentlemen, if you'd like to ask a question, please press star, then the number one on your telephone keypad. We'll pause for a moment as questions come into queue.

Again, to ask a question, please press star, followed by the number one on your telephone keypad.

Stewart A. Stockdale:

Okay. So, if there're no questions, we want to thank everybody for today's call. Thank you very much. Bye.

Operator:

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