J. G. Wentworth Company

Second Quarter 2017 Earnings Conference Call

August 14, 2017

CORPORATE PARTICIPANTS

Erik Hartwell, *Vice President, Investor Relations*

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

Katerina Cozza, *Interim Chief Financial Officer*

PRESENTATION

Operator:

Good morning, ladies and gentlemen. Thank you for standing by. Welcome to the J.G. Wentworth Company Second 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 your 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, August 14, 2017, at 10:00 AM Eastern Standard 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 Second Quarter 2017 Earnings Conference Call. Today, we'll be hearing from Stewart Stockdale, our Chief Executive Officer, and Katerina Cozza, our Interim 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 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 or 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 segment's 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 benefit from income taxes, amounts related to the consolidation of the Structured Settlements, securitization, and permanent financing trusts 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 our cash flow generation. Please refer to our earnings release for a 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. We continue to execute against our key priorities to grow Home Lending and turnaround Structured Settlements. Our Home Lending business saw growth in both loan originations and the MSR portfolio. Structured Settlements benefited from the cost-savings initiatives implemented last year and we saw improvement in transaction volume trends in the quarter. For the second quarter, Home Lending delivered $3.6 million of Adjusted EBITDA and Structured Settlements achieved $4 million of Adjusted EBITDA.

Home Lending segment earnings were relatively consistent with the first quarter and lower by $4.3 million, compared to last year. Two key factors drive the difference, compared to a year ago. One, increased advertising by $2.6 million, primarily related to increased customer acquisition costs, attributed to a more competitive market for consumer mortgages in the quarter. We also continued to invest in our strategy to grow and expand the direct-to-consumer channel. Two, despite growth in both growth in loan originations and the MSR portfolio, we were not able to completely offset the margin headwinds from increased competition, resulting in lower gain on sale, compared to the same period a year ago.

We are pleased to have delivered growth in lock loan volumes, closed loan volumes and the MSR portfolio, compared to last year. Lock loan volumes were $1.6 billion, up 14%, closed loan volume was $860 million, up 2%, and the MSR portfolio's unpaid principal balance grew to $4.5 billion, a 36% increase versus the same period a year go. The $1.2 billion increase in the MSR portfolio continues to be made up of quality loan origination volumes, while maintaining consistent performance in the portfolio, as measured by key indicators, such as delinquency rate, run-off and age of the portfolio. The MSR portfolio had a fair value of $46.8 million at the end of the quarter, compared to $31 million a year ago, a 50% increase from the same period.

According to Mortgage Bankers Association reports on the mortgage category, in 2017, there has been as much as a 50% decrease in consumer demand for rate and term refinances, offset only slightly by an increase in cash-out refinance and purchase loan volumes. When you couple this trend with lower new home inventories across the housing markets in the United States, the result is an overall decline in mortgage applications, compared to the same period a year ago. Home Lending has historically operated with higher average margins, compared to our peers. In order to continue to grow loan originations and gain share in a declining market, our margins were under pressure.

As we continue to pursue our growth strategy, we believe we are well positioned with our distribution channels across retail, affiliate and direct-to-consumer, along with our access to a variety of marketing channels. We were recently recognized by the Scotsman Guide as a top 50 mortgage lender in 2016, and expect to continue to gain share and improve in the rankings of top mortgage lenders. We are still a relatively small player in the vast mortgage origination category and we remain focused on growing and investing in the Home Lending segment.

We have prioritized our growth and investments against key initiatives where we believe we can further extend our brand reach, leverage our direct marketing expertise, and deliver a better customer experience. Our Home Lending priorities are:

First, to continue to grow the MSR portfolio. We have built out a dedicated Servicing Team to oversee the performance of the portfolio, including oversight of our sub-servicer relationship. We are scaling our front end loan origination activity and have generally retained servicing in the range of 40% to 50%. We

have flexibility in our operating model to adjust our servicing strategy based on market conditions. We expect our MSR portfolio to continue to grow.

The next initiative is a continued expansion of direct-to-consumer. We look to continue to add resources and diversify access to new customer segments. We are scaling our capabilities in the direct-to-consumer channels, which provides us the ability to access customers and offer mortgage loan products through this efficient acquisition channel. This new direct-to-consumer channel already represents approximately 15% of total origination volumes.

On the retail front, we hired an experienced leader with a proven track record in growing a network of retail branches. We look to selectively expand our retail branch network. The production from retail branches yields higher margins for the enterprise, driven by an increased mix of government and purchase volumes. The retail channel was approximately 10% of origination volumes in the quarter.

In our affiliate channel, we benefit from the scale and growth of our established affiliate relationships. For the second quarter, this channel represented approximately 75% of total originations. We continue to evaluate new affiliate relationships and optimize existing to ultimately support the targeted growth strategies for the Home Lending business. Part of this initiative is to increase the number of loan officers, and to that end, in the last year, we have made measureable additions across the Company.

Finally, we aim to make significant strides in the customer experience across the loan origination process. Levering Ellie Mae's Encompass platform, we are developing and integrating with various third parties to address some of the more cumbersome parts of the mortgage process for customers. Whether it is completing the initial application, uploading documents, verifying assets, or simply requesting status, we are implementing solutions to ultimately reduce, simplify and automate across the end-to-end loan origination experience. Our customer-centric approach will include greater self-service for new and existing customers, more digital and automated options for customers and employees, to facilitate speed, accuracy and quality of loan originations and fulfillment activity. We have already been recognized in the marketplace for our innovation, compliance and customer service achievements, and we are just getting started. We remain focused on our growth plans and the capabilities we are building now and for the future to allow us to remain flexible and adjust to changes in the mortgage industry.

In our Structured Settlements business, we reported $4 million of Adjusted EBITDA, compared to $3.1 million for the second quarter of 2016. Structured Settlements results benefited from reduced operating expenses resulting from the significant cost-savings initiatives over the last year. Structured Settlements operating expenses were lower by $2.7 million, compared to the second quarter of last year. Total receivable balances purchases, TRB, was $170 million, essentially flat, compared to the same period a year ago. Despite the continued competition for Structured Settlement payment purchasing, we were able to generate growth in our production metrics, aided by improved performance in both of our marketing and operations activities.

The diversification and execution in the capital markets, and the strength of our sources of Structured Settlement financing, has helped support growth in transaction volumes. In the second quarter, we returned to the wholesale market and selectively bid on deals that were a match for our strict underwriting requirements and profitability objectives. Subsequent to the quarter, we completed our second securitization of the year. We issued $144.2 million in notes and saw continued strong demand from new and existing investors. We are pleased with the execution, demand, size of the deal, and economics of the deal, that resulted in a favorable cost to funds. We believe that our Structured Settlements strategy is yielding positive results. We continue to manage the business for overall profitability, while navigating the competitive landscape and balancing unit growth and unit economics.

Now, let me provide an update on the Company's proactive deleveraging of the balance sheet. As we shared in our April disclosure, and further commented during our May quarterly earnings conference call, we are actively engaged in discussions to ultimately effect a significant reduction of the Company's debt. To date, we have participated in, and completed, customary due diligence with lenders and their advisors,

and have been actively engaged and responsive to questions and inquiries into various aspects of the Company's operations. As expected with a transaction of this nature, timing cannot be certain, but all parties continue to be engaged and working towards a final outcome, with only a handful of outstanding items remaining. We are still optimistic a deal will get done in 2017.

Now, I would like to introduce Katerina Cozza, our Interim Chief Financial Officer. We were fortunate to have Katerina come on board in May. She will now walk through the financial results. Katerina?

Katerina Cozza:

Thank you, Stewart, and good morning, everyone. I'm excited to be here at J.G. Wentworth and working with Stewart and the Management Team. Just to give you a little of my background, prior to joining, I served as the Chief Accounting Officer of Philadelphia Energy Solutions, the largest oil refining complex in the U.S. Eastern Seaboard, with approximately $13 billion in sales. Before that, I spent 15 years as the Corporate Controller at Universal Display Corporation, a start-up technology company and now leader in OLED technology, which is currently found in Samsung cellphones. I started my career in public accounting with Arthur Andersen.

In my short time here, I've seen a tenacious sense of urgency exhibited across the Company, as we work to execute on the key priorities outlined earlier by Stewart. The CFO organization is no exception and I was very pleased to see how well we executed our latest ABS transaction. I look forward to leading the finance, accounting and control functions in support of the Company's growth objectives, as well as preparing to execute a transaction to improve the Company's balance sheet.

Now, let me take you through the numbers.

Our consolidated GAAP net loss in the second quarter of 2017 was $12.1 million, compared to $23.5 million consolidated net loss in the second quarter of 2016. The $11.4 million favorable change was mainly due to a $19.1 million revenue increase in the Structured Settlements segment, partially offset by a $3.9 increase in Home Lending operating expenses, which is in line with the direct-to-consumer growth plan, as well as in response to the competitive environment due to the shift in consumer demand.

Our consolidated total GAAP revenues in the second quarter of 2017 were $101.4 million, an $18.7 million increase from the $82.7 million we reported in the second quarter of 2016. This increase was primarily due to a $17.1 million increase in net realized and unrealized gains on VIE and other finance receivables, long-term debt and derivatives in our Structured Settlements segment.

From a cash standpoint, at the end of the second quarter we had unrestricted cash and cash equivalents of $53.9 million.

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

Operator:

Ladies and gentlemen, if you have a question, please press star, one on your telephone keypad. We'll pause for a moment as questions come into queue.

Again, to ask a question, please press star, one on your telephone keypad.

There are no questions queued up at this time. I turn the call back over to the presenters.

Stewart A. Stockdale:

Thank you, Operator, and I want to thank everybody for joining our call today. Have a good day. Thank you very much.

Operator:

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