



Finance of America Companies
First Quarter 2021 Earnings Conference Call
May 13, 2021

C O R P O R A T E P A R T I C I P A N T S

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C O N F E R E N C E C A L L P A R T I C I P A N T S

Stephen Laws, *Raymond James*

Eric Hagen, *BTIG*

P R E S E N T A T I O N

Operator

Good afternoon, ladies and gentlemen, and welcome to the Finance of America First Quarter 2021 Earnings Conference Call.

As a reminder, this call will be recorded.

I would now like to turn the conference over to Michael Fant, Senior Vice President of Finance at Finance of America.

Please go ahead, Michael.

Michael Fant

Thank you, and good afternoon, everyone, and welcome to Finance of America's first quarter earnings call. With me today are Patti Cook, Chief Executive Officer; Johan Gericke, Chief Financial Officer; and Graham Fleming, President. As a quick reminder, this call is being recorded and you can find the earnings release on our investor relations website at www.financeofamerica.com.

In addition, we will refer to certain non-GAAP financial measures on this call. You can find reconciliations of non-GAAP to GAAP financial measures discussed in today's call in our earnings press release and on the Investor relations page of our website.

Also, I would like to remind everyone that comments on this conference call may be forward-looking statements regarding the Company's expected operating and financial performance for future periods. These statements are based on the Company's current expectations and are subject to the Safe Harbor statement for forward-looking statements that you will find in today's news release.

Actual results for future periods may differ materially from those expressed or implied by these forward-looking statements due to a number of risks or other factors, including those that are described in the risk factors section of Finance of America's Form 8-K originally filed with the SEC on April 7, 2021. We are not undertaking any commitment to update these statements if conditions change. Please note these are interim period financials and are unaudited.

Now I would like to turn the call over to Finance of America's Chief Executive Officer, Patti Cook.

Patti.

Patricia Cook

Thanks, Michael, and good afternoon, everyone.

Before we cover our first quarter results, I want to mention a very important milestone for Finance of America. On April 1, we completed our business combination with Replay Acquisition Corporation and Finance of America officially started trading on the New York Stock Exchange on April 5. We are excited for the next stage of Finance of America's evolution, and I would like to express my gratitude to the entire team, Replay, and all of our clients who made this accomplishment possible.

Besides closing the transaction, the first quarter was a busy time for our Company. We recently launched a new vertical, Finance of America Home Improvement, via the acquisition of Renovate America's industry-leading home improvement financing product. Finance of America Home Improvement's proprietary technology platform that helps consumers improve their homes while giving contractors the tools they need to grow their businesses provides us access to the large and growing home renovation market.

Finance of America Reverse also launched EquityAvail, a groundbreaking new mortgage product designed to provide greater financial flexibility for homeowners at or near retirement. This product will combine elements of a traditional mortgage with a reverse mortgage to improve cash flow and help retirees accomplish their retirement goals. Finance of America Home Improvement and EquityAvail are the latest examples of our proven ability to innovate and create products that meet the evolving needs of our customers. It is the proprietary insights gleaned from our powerful end-to-end platform that enable us to identify gaps in the market, providing us with a sustainable competitive advantage.

Solving problems is what we do best, and we look forward to continuing to introduce new innovations across our platform that serve large addressable markets with strong tailwinds, thereby further diversifying our business model to ensure growth over time. Furthermore, capitalizing on M&A opportunities is part of our DNA. Since the Company's formation in 2013, Finance of America has successfully acquired, integrated, expanded and optimized 16 companies in industries spanning from originations and lender services to capital markets.

We remain proactive in identifying accretive market opportunities that further complement our existing lines of business and will drive profitable growth. As you may have seen, we recently announced an agreement to acquire certain assets of Parkside Lending, a wholesale and retail lender that will strategically increase our third-party origination coverage.

Another key milestone was bringing on Johan Gericke as CFO to further strengthen our Leadership team. Johan is a seasoned executive with extensive finance experience and a proven track record with leadership positions at major publicly-traded financial institutions. I look forward to working with him as we go forward as a public company.

Turning to our results for the first quarter, Finance of America continued to generate strong performance, further reinforcing the strength of our diversified consumer lending platform spanning mortgages, reverse mortgages, and commercial loans offered across distributed retail, third-party brokers and digital direct-to-consumer channels. In addition, our fee-based portfolio management and lender services businesses contributed meaningfully to this quarter.

First quarter highlights included near record volumes and strong growth for our Reverse Originations business, where growth drivers are less correlated with the direction of interest rates. More specifically, baby boomers are increasingly looking to age in place, and our reverse mortgage products provide the opportunity to this demographic to tap the equity accumulated in their homes. Commercial loans to residential real estate investors continued to accelerate in the first quarter. Looking ahead, the aging housing stock and the market's bias for newer construction or remodeled properties bode well for ongoing demand in this segment.

Turning to Mortgage Originations, key performance metrics remained strong on a year-over-year basis, though softened from record levels in the prior quarter. Consistent with the decline in primary/secondary spreads, our mortgage originations margins declined quarter-over-quarter and that trend has continued into the second quarter. In addition, as refinancing activity waned overall industry volumes are expected to decline. On the other hand, our distributed retail channel is ideally positioned to capitalize on we expect to be a strong purchase market.

Aside from our lending segments, our Lender Services segment provides a broad offering of services including title and appraisal management. The increase in business per client and the growth in new clients continues to drive differentiated and uncorrelated fee income as the channel experienced its best quarter ever.

Turning to Portfolio Management, our strong relationship with Investors allows us to respond to opportunities in the market through each cycle. Over time, we expect to continue to invest in assets such as MSR and residuals, as we did in the first quarter, which will provide stable and consistent revenue. Looking ahead, we believe macro tailwinds from growing consumer wealth will fuel expanding consumer credit and will continue to support the long-term growth prospects of our businesses.

One of our key differentiating factors is our diversified model, both within lending and across our platform, that generates sustainable returns across economic cycles and capitalizes on market tailwinds. In fact, we expect contributions from our non-mortgage segments to continue to increase during the remainder of the year, while the mortgage originations segment declines year-over-year. We estimate based on the current market the net effect could be a reduction in Adjusted EBITDA for full year 2021 of roughly 20% year-over-year, which would indicate a continuation of return on pro forma equity north of 20%.

We remain focused on the multitude of opportunities presented to us by maximizing the potential of our existing platform as we look to strategically add the right new products, businesses or distribution channel.

With that, I will now turn the call over to Johan to discuss our financials in more detail.

Johan.

Johan Gericke

Thank you, Patti.

As mentioned earlier, we generated strong results for the first quarter of 2021.

Total funded volume grew 78% to \$9.5 billion compared to \$5.3 billion in the prior-year quarter. On a sequential quarter basis, funded volume declined by just 3%, while net rate lock volume increased by 7% versus the prior quarter.

Total revenues of \$499 million were up 165% year-over-year, and were down 7% versus the fourth quarter of 2020, even as our mortgage originations margin compressed by 21% on a sequential quarter basis, thereby reinforcing our diversified cycle-resistant model.

Following through, we reported pretax net income of \$125 million for the quarter, compared to \$153 million in the fourth quarter and a loss in the prior-year quarter.

Adjusted EBITDA of \$154 million for the first quarter of 2021 was down 11% compared to \$174 million in the fourth quarter, but up more than 4 times \$35 million generated in the prior-year quarter.

Turning to our segments and starting with our Mortgage Originations business, we generated funded volumes of \$8.4 billion, double the \$4.2 billion for the first quarter of 2020, although down 5% on a linked-quarter basis.

Net rate lock volume of \$8.4 billion was up from \$7.9 billion in the prior quarter and increased substantially from \$6.2 billion a year ago.

Total revenue of \$320 million more than doubled year-over-year, but was down from \$367 million in the fourth quarter. The sequential decline was largely a function of lower gain-on-sale margins, as mentioned earlier and consistent with industry trends, partially offset by a 7% increase in net rate lock volume.

First quarter 2021 pretax net income of \$96 million compared to \$129 million in the prior quarter, and is consistent with the drop in revenue mentioned earlier.

Reverse Originations funded volumes were up 17% quarter-over-quarter to \$769 million. This drove segment revenue to \$69 million and pretax income to \$45 million for the first quarter of 2021, up 25% and 36%, respectively, compared to prior quarter levels. Our business continues to benefit from the unique tailwinds present in the sector.

On the Commercial side, funded volumes continued to rebuild and were up 11% on a sequential quarter basis to \$341 million.

Turning now to Portfolio Management, assets under management totaled \$17.3 billion as of March 31, 2021, up 10% year-over-year and 3% for the quarter. Assets under management excluding HMBS and non-recourse obligations totaled \$2.2 billion, up from \$1.8 billion at the end of 2020, with growth coming from loans held for investment not yet securitized of \$370 million and MSR growth of \$87 million. As of March 31, 2021, our MSR totaled \$267 million.

Segment revenue of \$30 million decreased 21% on a linked-quarter basis predominantly related to the impact of fair value adjustments period over period. Accordingly, pretax income was down 25% from prior quarter to \$6 million but rebounded since the COVID-related net loss in the prior year quarter.

Lender Services delivered another record quarter, with total revenue of \$76 million and pretax net income of \$13 million, up considerably compared to prior quarter and year-ago levels. Segment growth drivers include the continued expansion of third party clients as well as increased adoption by FOA companies.

Finally, with regards to our balance sheet, cash and cash equivalents were up 49% on a sequential-quarter basis to \$348 million. We maintain plenty of capacity to continue to invest in the business organically or via strategic M&A opportunities.

With that, we'll open up for questions. Operator, back to you.

Operator

Thank you. Our first question is from Stephen Laws with Raymond James. Please proceed with your question.

Stephen Laws

Hi, good afternoon, and congratulations on your first quarter as a public company and completion of your transaction in early April. Great first step.

Patti, a lot to cover given different business lines. But I guess first to start with the Florida origination business. Margin, can you maybe go in depth in that a little more detail, margins across different channels and maybe how your mix compares to where the industry is seeing the most margin compression and how we should think about that as we move through the year?

Patricia Cook

Sure. I mean, as you can see, the margins in mortgages went from roughly 430 to 340 in the first quarter. What I would say about margin and I think you'll hearing it from all of our competitors, is that margins are tighter across the board, but led by, I'd say correspondent and wholesale. So the percent decline in those margins is greater than we're seeing in retail.

Stephen Laws

Great, and then on the other two sides, the Reverse and the CRE, I think about it maybe a little differently. Correct me if I'm looking at this wrong, but you know, the reverse is really more of a penetration story. It seems like your margins they're probably pretty well protected.

Patricia Cook

Yes.

Stephen Laws

Is this recent growth consistent with what you expect to see going forward? Then, on commercial, certainly much more competitive landscape there. So how do we think about your pipeline of loans there and your ability to protect margins on those production?

Patricia Cook

Okay, so Revert first, you're spot on, in that that is more a segment expansion. I think the growth that we see there is very encouraging, because I think it reflects the tailwinds that we've been expecting, right. You've got house price appreciation, you've got the aging baby boomers, and they are anxious to tap into the equity of their home. So I'd say there it's more about, I'm going to say on average, stable margins but definitely continued growth.

I think when you look at the commercial business, there were two products that are important. One is fix and flip, and the other is the single-family rental. There's probably I don't know, I guess I'd say more margin competitiveness in fix and flip. But we feel good about where that market is and where it will continue to go. I think the real opportunity for us is when you look at the SRL market.

If you couple that with the recent GSE announcement to put a cap on non-owner occupied, we think we're in a great position to grow our market share of that combined segment, and leverage the Investors we've already identified on the back end for SRL. So I think we're unique in SRL. I'd like to say for fix and flip, I think there's going to be great demand there.

Stephen Laws

Fantastic, and one last question, if I may. Lender services, solid margin, very strong margin improvement there. I think the press release cited some cross-sell opportunities. Maybe another thing or two. But can you talk a little bit about the opportunity to not only grow revenue but keep expanding margins in some of these other segments to provide growth to offset finding refis that will happen?

Patricia Cook

Yes, the great thing about the lender services business is the growth is coming from two, well, really three areas. One is obviously increased adoption from Finance of America. But more exciting and more important is the fact that we're adding new customers and we're doing more business with existing customers. So that's particularly true of title. I also love the insurance, title insurance business is growing consistently with that.

I think margins have stayed healthy. I don't see any reason for that to change.

Stephen Laws

Right. Well, I appreciate the comments this afternoon, Patti, and thanks very much for holding the call. Take care.

Patricia Cook

Absolutely.

Operator

Thank you. Our final question comes from Eric Hagen with BTIG. Please proceed with your question.

Eric Hagen

Hi, good afternoon. Hope you guys are well, I got a couple questions.

The home improvement financing you announced earlier this week, can you talk about the, I guess, types and structure of the products you're offering and how you plan to source those loans? Then, how are you guys thinking about the growth of—how are you guys thinking about the growth of the MSR portfolio sales, I mean, in addition to just creating the asset on your—through your own production? How are you guys seeing any opportunities to acquire bulk or mini-bulk MSR there? Thanks.

Patricia Cook

Okay, so on the Home Improvement side, this is also an exciting new vertical for us. The point of sale technology it brings us not only puts us into the home improvement business but gives us a great opportunity to expand. I think right off the bat, they're already set up. We're doing business as we speak. They are sort of traditional products, which is contractors with homeowners that are doing home improvement. But I think what you'll see there and we can leverage through our distribution volume and I think we can also improve the backend execution. So that by itself will provide growth to that vertical.

But then, excitingly, we can put new products on that platform. We're looking at solar is one example. So I think the products will expand and we can also expand the growth as we plug it in to our distribution channel. On the MSR side, we'll continue to retain our retail MSR within Finance for America, and we will continue to sell our TPO MSRs to the funds. The fund could be looking at bulk, less important to Finance of America, to be looking at bulk acquisition.

Eric Hagen

Was helpful detail. Thank you very much.

Patricia Cook

You're welcome.

Operator

Thank you. Ladies and gentlemen, we have reached the end of the question-and-answer session. I will now turn the call over to Patti Cook for closing remarks.

Patricia Cook

Wow, that was quick. I didn't expect that to be the answer. So thank you for all of you that are on the call. As mentioned earlier, we believe our results this quarter reinforced two key differentiating factors. First, our diversified platform with market leading businesses that are less correlated to refinance volumes or interest rates continues to drive more sustainable origination volume, margins revenue and earnings. Second, we remain proactive in increasingly leveraging our strong balance sheet to further develop our footprint via strategically complementary and financially accretive acquisitions. As a public company we remain focused on continuing to build Shareholder value, and we look forward to discussing our progress on future calls.

Thank you all and have a great evening.

Operator

This concludes today's conference and you may disconnect your lines at this time. Thank you for your participation. Have a great day.