

# First Quarter 2019

Financial Results

## FINANCIAL INDUSTRY SOLUTIONS

**\$32B**

Managed &  
Advised Credit  
Portfolios

**90+**

US Bank  
Partners

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# Disclaimer

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# Call Agenda

## BUSINESS OVERVIEW

## OPERATING HIGHLIGHTS

### Business Services

- Service Finance
- The Kessler Group
- Triad Financial Services

## CONSOLIDATED FINANCIAL SUMMARY

## CLOSING SUMMARY

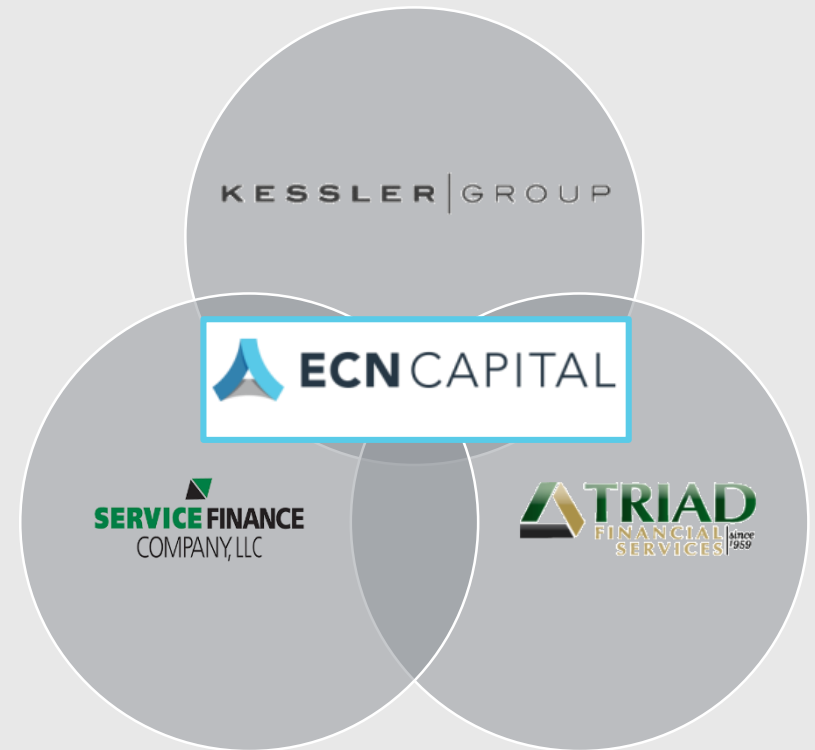
## QUESTIONS

# BUSINESS OVERVIEW



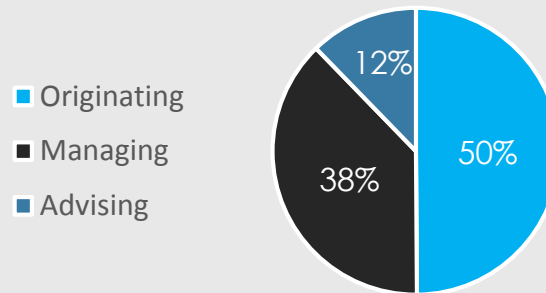
# Business Description

- Following its inception in 2016, ECN Capital transitioned from a balance sheet lender to a manager of balance sheet light lending services
- Over the last 2+ years, ECN has divested or wound down its legacy lending assets and acquired three asset light services companies
- **Today, ECN is an asset manager that owns business services providers operating fee-based, asset-light models through which it originates, manages and advises on prime credit portfolios for its bank customers**

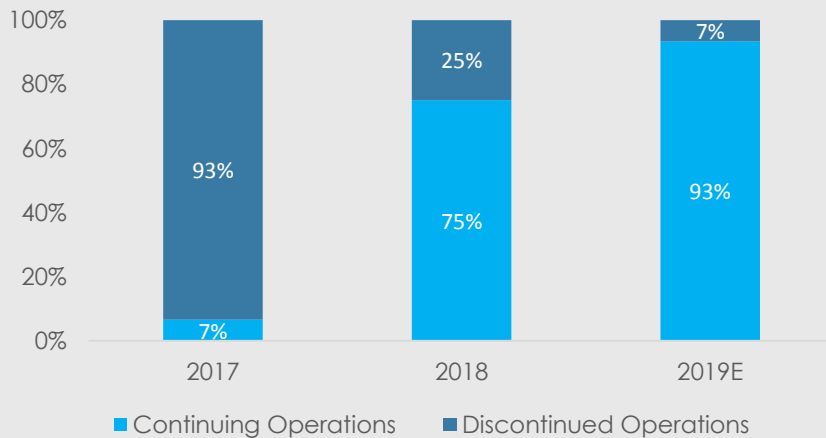


# Asset Light & Fee-Based Businesses

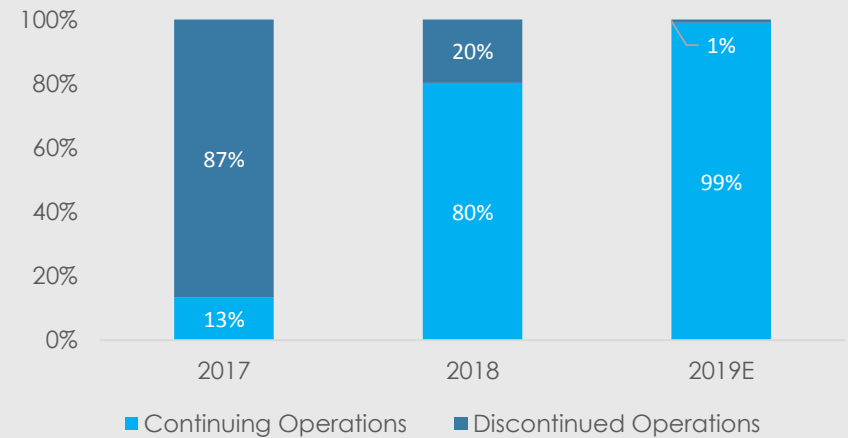
## Revenue Composition 2019E<sup>1</sup>



## Revenue<sup>2</sup>



## Operating Income before Tax<sup>2</sup>



1. Excludes discontinued operations

2. Includes revenue and operating income from legacy businesses, which will be reported as discontinued operations in 2019

# Management & Office Update

## ECN Senior Management & Office Transition Complete

- A streamlined management team at ECN corporate and a single main office reduces complexity and lowers expenses
  - Steven Hudson, CEO, has agreed to extend his employment contract through 2023
  - Senior management and staff now located in ECN's South Florida office
- Jim Nikopoulos has elected not to move to Florida and will retire from the company effective May 8, 2019
  - Jim has been instrumental in the transition of ECN, leading the successful exit of ECN's legacy businesses and contributing significantly to the development of ECN
- ECN does not anticipate additional restructuring charges related to these matters
- ECN now expects corporate operating expense of \$19-\$20 million in 2019, down from previous guidance of \$20-21 million



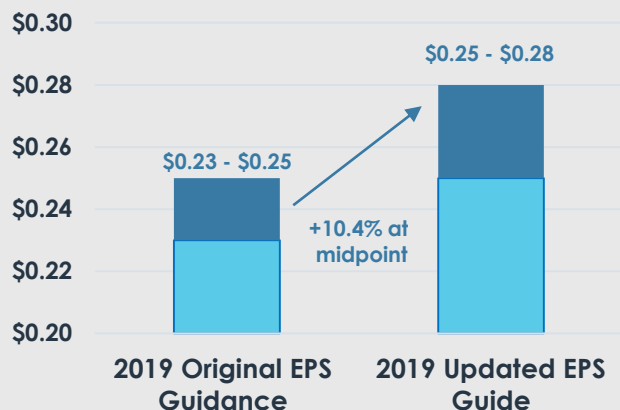
# Kessler Group Update

## Business Transitioned from Legacy Entrepreneurial to Disciplined Corporate Culture

- Scott Shaw successfully transitioned to CEO of the Kessler Group
  - 27+ years with KG; 30+ years industry experience
- As previously discussed, ECN has acquired the 20% non-controlling interest held by Howard Kessler and retired his employment contract
- Mr. Kessler is now Chairman Emeritus and founder and will continue to help manage key client relationships
- Mr. Shaw as the new CEO, undertook a detailed operations review, which resulted in the elimination of eight positions and the reduction of annual compensation costs by ~\$5 million
- KG 2019 adjusted operating income before tax to \$44 million to \$48 million from original guidance of \$42 million to \$45 million (100% basis)
  - ECN's share (96%) to be in the range of \$42 million to \$46 million compared to \$32 million to \$34 million (76%) previously

# Updated Guidance Summary

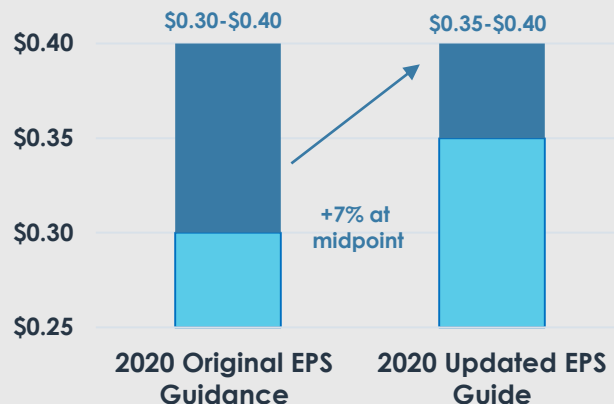
## 2019 EPS Guidance Update



### 2019 Guidance Update

- Now \$0.25-\$0.28 (+10.4% at the midpoint)
- SFC/Triad guidance reiterated; solid Q1
- Kessler guidance increased for minority interest acquisition, cost savings and better operating results
- Corp opex declines from cost savings initiatives

## 2020 EPS Range Update



### 2020 Range Update

- Now \$0.35-\$0.40 (+7.1% at the midpoint)
- As a result of improved 2019 guidance, ECN is updating our range for 2020 EPS initially given at the 2019 Investor Day

## OPERATING HIGHLIGHTS

- Service Finance
- The Kessler Group
- Triad Financial Services





# Highlights

- Q1 results in line with internal budget expectations; reiterating 2019 forecast
- Robust dealer growth continues
- Total originations of \$302 million in Q1, in line with budget; ~\$290 million originations excluding PACE
- 24.7% Q1 Y/Y growth in originations
- 30.5% Q1 Y/Y growth in originations excluding PACE
- 52.9% Q1 Y/Y growth in managed portfolios
- 39.5% Q1 Y/Y growth in EBITDA

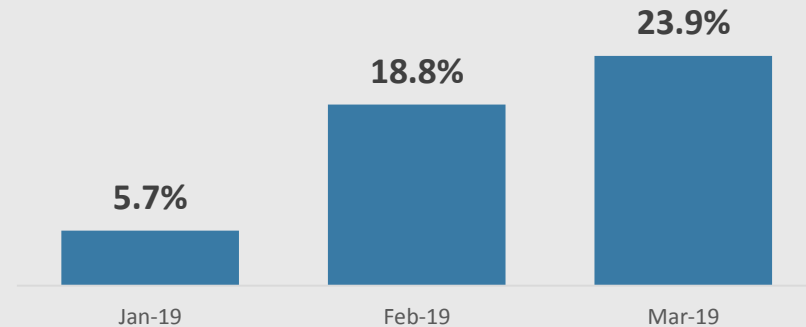
Select Metrics (US\$, millions)	Q1 2018	Q1 2019
Originations	241.7	301.5
Originations – excluding PACE	222.4	290.1
Period end managed portfolios	1,217.8	1,862.0
Revenue	14.8	19.8
EBITDA	8.8	12.3
Adjusted operating income before tax	8.4	10.5



# Program Updates

- Q1 continued to be affected by the Lennox recovery but monthly volume growth accelerated each month in the quarter; expect full recovery for the heavy selling season in Q2 & Q3
- As expected SFC signed its first Life Insurance partner in Q1 and the first funding occurred in April
- While there has been no deterioration in partners credit metrics, we expect that portfolio credit performance will improve going forward as a result of:
  - Prudently raised FICO scores on solar originations
  - Origination mix skewing to HVAC as Lennox growth resumes
  - Minimal originations from an origination partner that declared bankruptcy last year

Lennox Origination Volumes  
Y/Y Growth

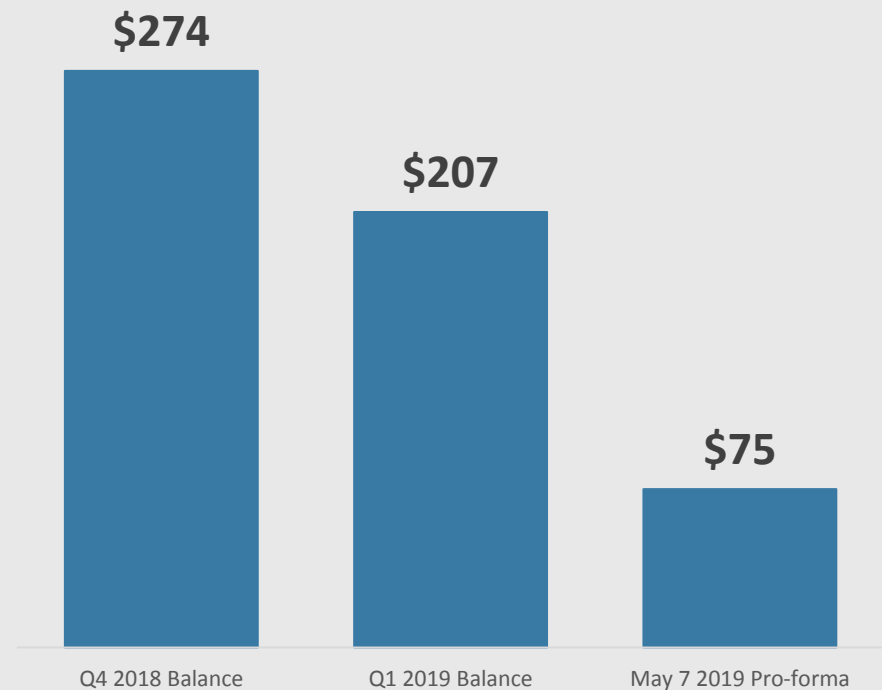




# Held for Trading Asset Update

- Held-for trading (“HFT”) assets declined from ~\$274 million last quarter to ~\$207 million at Q1 2019
- Originated ~\$65 million HFT assets in Q1 prior to flow program launch throughout March/April
- Subsequent to quarter end, additional completed and pending sales have reduced HFT assets to ~\$75 million
- Remaining HFT assets to be sold in due course

Held-for-Trading Financial Assets  
(\$millions)





# Originations

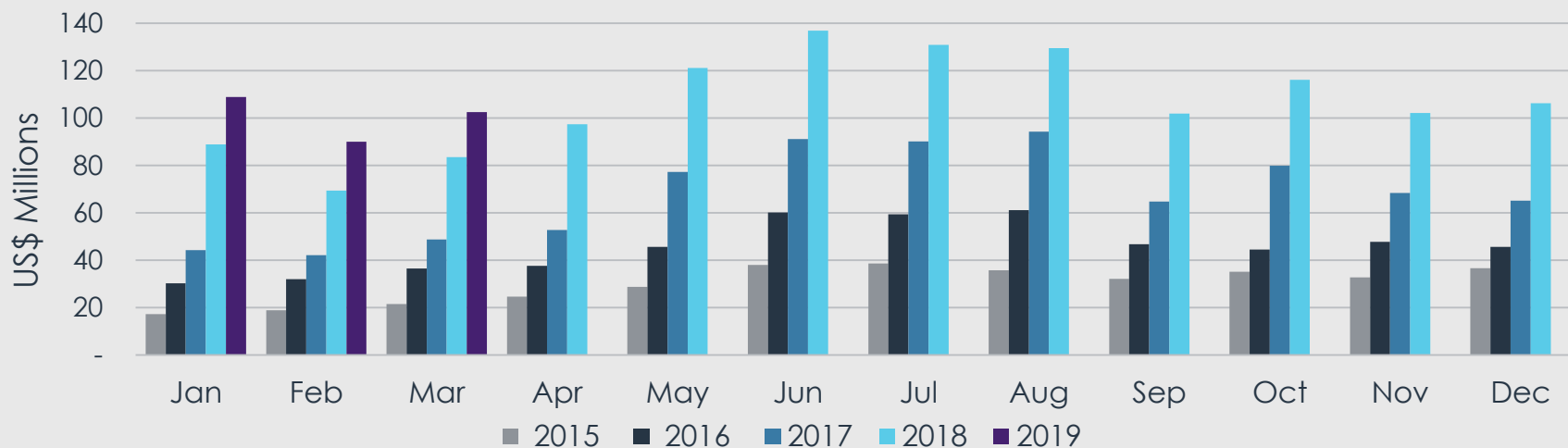
**ORIGINATIONS<sup>1</sup>** (US\$ million's)

	1Q	2Q	3Q	4Q	YTD
2015	58	91	106	105	360
2016	99	143	167	138	547
2017	135	221	249	208	814
2018	222	336	346	307	1,211
2019	290				290

**YOY ORIENTATION GROWTH<sup>1</sup>**

	1Q	2Q	3Q	4Q	YTD
2015	104.1%	120.3%	126.5%	116.8%	113.8%
2016	71.4%	56.9%	57.2%	31.7%	52.0%
2017	36.8%	54.2%	49.1%	51.7%	48.9%
2018	64.7%	52.0%	38.8%	46.9%	48.8%
2019	30.5%				30.5%

**ORIGINATIONS<sup>1</sup>**



1. Excludes PACE originations

- Q1 results significantly ahead of expectations
- Strong pipeline for the remainder of 2019
- Raising 2019 adjusted operating income forecast to \$42-\$46 million from \$32-\$34 million as a result of ownership increase to 96% from 76%, cost-savings from the Q1 operations review and better operating performance
- EBITDA margin increased to 58.5% in Q1 from 50.6% in Q4; realized operating efficiencies and better revenue performance
- Credit card asset management opportunity continues to develop
- Expanded client relationship discussed in Q4 has resulted in several mandates and is ahead of internal expectations
- KG succession planning is complete

Select Metrics (US\$, millions)	Q4 2018	Q1 2019
Revenue	23.1	24.6
EBITDA	11.7	14.4
Adjusted operating income before tax	11.1	13.9
Adjusted operating income before tax (ECN Capital share) <sup>1</sup>	8.5	13.4

1. Represents ECN equity ownership of 76% in Q4 2018 and 96% in Q1 2019





# Highlights

- Q1 results ahead of internal budget expectations; reiterating 2019 forecast
- 50+ funding partners
- 25.2% Q1 Y/Y growth in originations
- 11.5% Q1 Y/Y growth in managed portfolios
- 94.1% Q1 Y/Y growth in EBITDA
- Floorplan (FP) outstanding of \$84.6 million at quarter end

Select Metrics (US\$, millions)	Q1 2018	Q1 2019
Originations	94.0	117.7
Period end managed portfolios	2,003.8	2,233.2
Revenue	8.5	11.6
EBITDA	2.5	4.9
Adjusted operating income before tax	2.4	4.1



# Originations

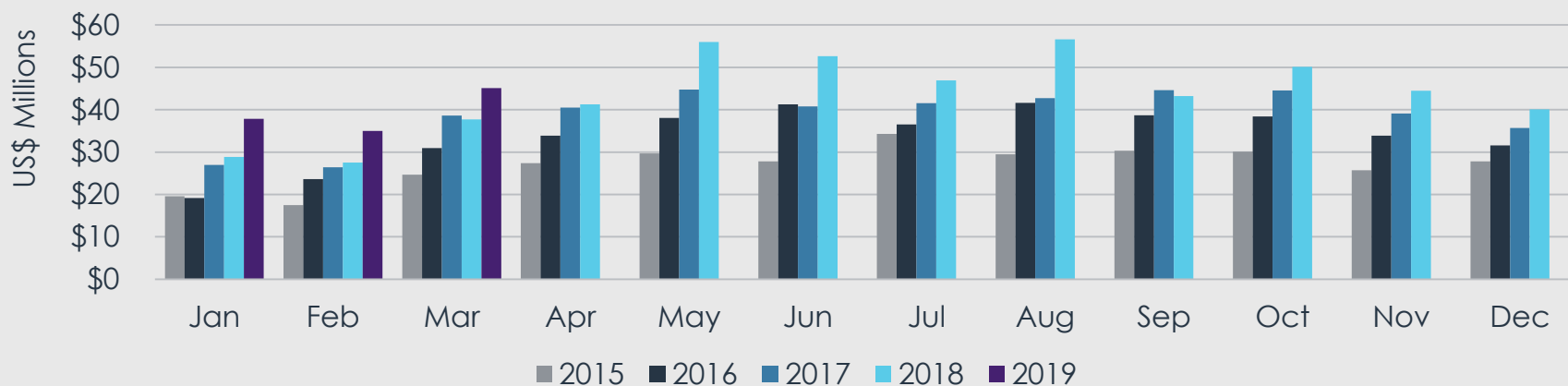
**ORIGINATIONS (US\$ million's)**

	1Q	2Q	3Q	4Q	YTD
2015	59	84	93	87	323
2016	74	113	117	104	408
2017	92	126	129	119	466
2018	94	150	147	135	525
2019	118				118

**YOY ORIENTATION GROWTH**

	1Q	2Q	3Q	4Q	YTD
2015	54.0%	34.1%	31.1%	13.6%	30.4%
2016	19.4%	33.5%	24.2%	24.2%	25.7%
2017	24.7%	11.3%	10.3%	15.0%	14.4%
2018	2.2%	19.0%	14.0%	13.4%	12.7%
2019	25.2%				25.2%

**ORIGINATIONS**



# Consolidated Financial Summary



# Q1 Consolidated Operating Highlights

From Continuing Operations

## SUMMARY

- Total Originations were \$419.2 million for the quarter compared to \$335.7 million in originations in Q1 '2018
- Q1 adjusted EBITDA of \$26.7 million compared to \$6.5 million for Q1 '2018
- After-tax adjusted EPS applicable to common shareholders of \$0.05
- Tangible leverage of 2.84:1, up from 0.78:1 at year-end
- Book value per share of \$3.07 (C\$4.10), compared to \$3.14 (C\$4.28) at year-end

# Balance Sheet

## KEY HIGHLIGHTS

- Total assets decreased by \$12.4 million from Q4.
- Total finance assets decreased by \$57.0 million from Q4 due primarily sales of held for trading assets at Service Finance.
- Earning assets - managed and advised at the end of Q1 reflects servicing assets of \$1.9 billion in Service Finance, \$2.2 billion in managed loans in Triad and \$27.8 billion in managed and advisory assets in Kessler.
- Debt of \$585.9 million increased by ~\$250 million compared to Q4, reflecting the draw on the senior credit facility to fund the SIB in January and the purchase of 20% non-controlling interest in The Kessler Group in March.

Balance Sheet (\$,MM)	Q1 2018	Q4 2018	Q1 2019
Total assets	2,095.5	1,749.4	1,737.0
Total finance assets	1,259.5	402.4	345.4
Earning assets- managed and advisory <sup>(1)</sup>	3,221.5	31,118.7	31,861.3
Debt	543.7	335.4	585.9
Shareholders' equity	1,441.6	1,107.0	880.0
Tangible book equity (excluding preferred shares)	877.8	284.3	61.1
Tangible leverage ratio	0.53:1	0.78:1	2.84:1

1. Reflects off-balance sheet portfolios of Service Finance, Triad and Kessler.

# Consolidated Income Statement

From Continuing Operations

## KEY HIGHLIGHTS

- The increase in adjusted operating income before tax and EBITDA compared to the first quarter of 2018 primarily reflects the growth of our Service Finance and Triad Financial Services businesses and the inclusion of Kessler Group.
- Operating expenses increased compared to the first quarter of 2018 primarily due to the inclusion of Kessler Group partially offset by corporate cost reduction initiatives that were executed in the first quarter of 2019.

Income Statement (US\$,000)	Q1 2018	Q4 2018	Q1 2019
Portfolio origination services	13,432	22,261	18,140
Portfolio management services	8,580	27,610	19,088
Portfolio advisory services	-	4,255	11,956
Interest income	1,480	7,023	6,449
Other revenue	1,899	6,226	985
Operating expenses	18,897	33,313	29,882
Provision for credit losses	-	-	-
<b>EBITDA</b>	<b>6,494</b>	<b>34,062</b>	<b>26,736</b>
Depreciation & amortization	504	729	610
Interest expense	5,379	8,748	6,298
Non-controlling interest in Kessler	-	2,566	546
<b>Adjusted operating income before tax (1)</b>	<b>611</b>	<b>22,019</b>	<b>19,282</b>

1. Excludes share-based compensation

# Operating Expenses

## KEY HIGHLIGHTS

- The increase in operating expenses compared to the first quarter of 2018 is primarily related to the inclusion of Kessler Group partially offset by corporate cost reduction initiatives that were executed in the first quarter of 2019.
- As a result of the completion of the transition of the senior leadership team to South Florida, we now expect total corporate operating expenses to be in the range of \$19 million to \$20 million on an annualized basis.

Operating Expenses (\$, 000)	Q1 2018	Q4 2018	Q1 2019
Service Finance	5,952	7,388	7,477
Kessler	-	11,396	10,128
Triad	5,941	7,485	6,755
Corporate	7,004	7,044	5,522
Total operating expenses	18,897	33,313	29,882

# Discontinued Operations Highlights

## RAIL

- Rail assets of \$35 million at Q1
- Remaining rail assets are classified as held-for-sale and will be disposed of following the completion of scheduled retrofits (lessee responsible)

## AVIATION

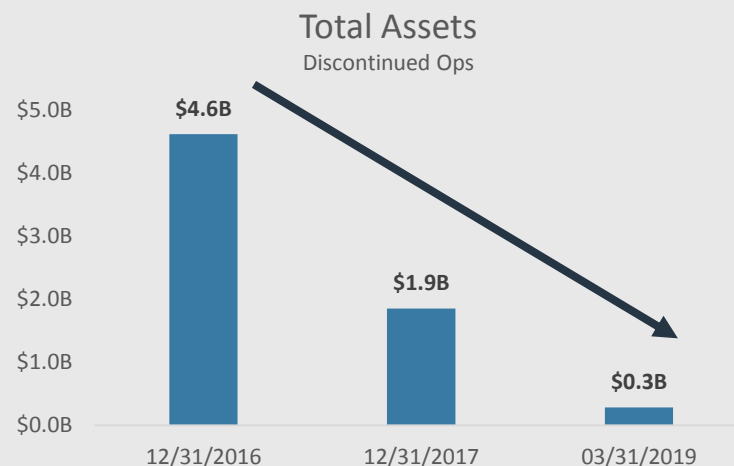
- Total aviation assets declined from \$249 million at Q4 2018 to \$221 million at Q1 2019 reflecting continued asset sales and early customer payouts; Since quarter end assets have been further reduced to \$206 million
- Aviation assets are classified as held-for-sale and the orderly elimination of substantially all of these assets in 2019 remains on track

## OTHER

- C&V balances were \$21.7 million at end of Q1 and meaningful pay-downs are expected to occur during Q2
- C&V assets are classified as held-for-sale and will be disposed of in due course

Rail (US\$,millions)	Q4 2018	Q1 2019
Adjusted operating income before tax	0.8	-1.6

Aviation (US\$,millions)	Q4 2018	Q1 2019
Adjusted operating income before tax	0.6	-1.2





# Closing Summary



# Closing Summary

## Successful Operating Results

- Q1 2019 EPS of \$0.05 exceeded previous guidance of \$0.02-\$0.03
- 2019 EPS guidance raised to US\$0.25-US\$0.28 from US\$0.23-US\$0.25 provided at Investor Day
- 2020 EPS guidance range raised to US\$0.35-US\$0.40 from US\$0.30-US\$0.40
- Steve Hudson extended employment agreement until 2023
- ECN Senior Management in place and in new Florida headquarters
- KG transition complete; Scott Shaw named CEO; cost savings realized; guidance raised
- SFC Solid Q1; Lennox recovery continues; Asset sales on track
- Triad ahead of plan; 25% origination growth in Q1

## Active Capital Management

- C\$265 million SIB completed in January at \$3.75 repurchasing 71 million shares or ~ 23% of outstanding shares; Total share repurchases have reduced shares outstanding by ~40%
- Dividend increase announced on Q4 EPS; ongoing review of dividend policy
- Acquisition of KG minority interest immediately accretive low risk capital deployment

# Questions



# Appendix





# 2019 Guidance

## KEY HIGHLIGHTS

- Reiterate guidance from 2019 Investor Day
- Forecast 2019 total originations to increase ~32% at the midpoint
  - 2019 addressable home improvement market of more than \$130B
  - 2019 expected originations of \$1.7B at the midpoint represents 1.3% of the addressable market
  - Top 5 originators, including SFC represent just ~8% of the addressable market; enormous market opportunity
- 2019 adjusted operating earnings before tax forecast increase by ~25% at the midpoint

Select Metrics (US\$ millions)	2018	2019 Forecast Range	
Originations	1,288	1,600	1,800
Managed & advised portfolio (period end)	1,768	2,500	2,700
Income Statement (US\$ millions)	2018	2019 Forecast Range	
Revenues	82.0	96	101
EBITDA	56.1	66	70
Adjusted operating income before tax	51.3	62	66
EBITDA margin	68%	~69%	~69%

## 2019 Guidance

## KEY HIGHLIGHTS

- Guidance raised reflecting Q1 operations review and improved operating results
- Expanded strategic partnership agreement with significant long-term client performing ahead of expectations
- Expect Strategic Partnership vertical to continue to add new relationships and long-term contracts given current pipeline
  - KG ongoing total contracted annuity income ~\$200 million
- Portfolio advisory off to a great start in 2019 with a strong pipeline for the remainder of the year
- Risk-based marketing funding expected to generate net revenue of ~\$15 million in 2019

Income Statement (US\$ millions)	2018 <sup>1</sup>	2019 Forecast Range	
Revenue	62.2	86	90
EBITDA	35.7	46	49
Adjusted operating income before tax (100%)	34.3	44	48
Adjusted operating income before tax (ECN share)	26.4	42	46
EBITDA margin	~57%	~53%	~54%

1. 2018 results May 31 through Dec 31



# 2019 Guidance

## KEY HIGHLIGHTS

- Reiterate guidance from 2019 Investor Day
- Originations projected to grow ~16% in 2019 at the midpoint
- Floorplan initiatives showing progress on increased core MH market share
- Manufactured Housing Industry positioned for increasing shipment rates as an affordable housing solution
- Servicing penetration continues to rise leading to increased ongoing revenue streams
- Adjusted operating income growth of ~18% in 2019 at the midpoint
- Positioned to scale – margins continue to expand
- Financial partner demand continues to increase

Select Metrics (US\$ millions)	2018	2019 Forecast	
Total originations	525	600	620
Floorplan line utilized	78	100	110
Managed & advised portfolio (period end)	2,166	2,500	2,600
Income Statement (US\$ millions)	2018	2019 Forecast	
Revenue	49.6	55	60
EBITDA	21.9	26	30
Adjusted operating income before tax	19.9	22	25
EBITDA margin	44%	~47%	~50%

# Updated Consolidated 2019 Financial Forecast

## KEY HIGHLIGHTS

- Updated 2019 EPS range to \$0.25-\$0.28; +10% at the midpoint
- Service Finance and Triad guidance reiterated
- KG ownership to 96%; raising guidance to \$42-\$46 million reflecting cost savings from Q1 operations review and better operating performance
- ECN management streamlining and operating efficiencies drive reduced corporate opex
- Corporate interest increases due to line usage primarily to acquire the minority interest in KG
- Expected annual tax rate of 22% in 2019; No cash taxes paid in 2019
- After further tax planning, ECN did not owe the Part VI tax in Q1. If Part VI tax eliminated for full year it would add ~\$0.01 to 2019 guidance

Adjusted Net Income (US\$ millions)	2019	
Service Finance	\$62	\$66
Kessler Group (96%)	\$42	\$46
Triad Financial Services	\$22	\$25
Continuing Ops Adj Op Income before Tax	\$126	\$137
Corporate operating expenses	(\$19)	(\$20)
Corporate depreciation	(\$2)	(\$2)
Corporate interest	(\$11)	(\$13)
<b>Total ECN adjusted operating income before tax</b>	<b>\$94</b>	<b>\$102</b>
Tax – Non-Cash	(\$21)	(\$23)
<b>Total ECN adjusted net income</b>	<b>\$74</b>	<b>\$80</b>
<b>Preferred Dividends</b>	<b>(\$13)</b>	<b>(\$13)</b>
<b>Adjusted net income (after pfds)</b>	<b>\$61</b>	<b>\$67</b>
<b>EPS US\$</b>	<b>\$0.25</b>	<b>\$0.28</b>





# Business Model Recap

- Non-recourse origination fees are earned with no risk of adjustments for loan performance, interest rate changes, prepayment, etc.
- Recurring, high margin servicing revenue
- Efficient and scalable business models drive high margins
- SFC directly licensed in all 50 states – not using bank pre-emption
- Triad operates and is directly licensed in 44 states
- Model is suitable and growing originations for all project types and durations including HVAC, solar, windows, doors, roofing, etc.

	ECN Business Services Companies
<b>Clawback on Origination Fee/Transaction Fee</b>	None
<b>Servicing Fee Contribution</b>	Significant & Growing
<b>Recourse:</b>	
- Interest Rates	None
- Prepayment	None
- Loan Losses	None
<b>Dealer Processing Fees</b>	None
<b>Loan Types</b>	Variety of rate, payment, and duration options
<b>Project Types</b>	All
<b>Licensing</b>	Nationally licensed