MMA Capital Management, LLC [MMAC]
Asset Sale and Business Update Conference Call
Tuesday, January 9, 2018, 8:30 AM ET

Company Participants:
Michael Falcone, President and CEO
Dave Bjarnason, CFO

Analysts:
Gary Ribe; Macro Consulting

Presentation

Operator: Good morning, ladies and gentlemen, and welcome to the MMA Capital Management, LLC, asset sale and business update conference call. My name is Keith, and I will be your conference coordinator for today. At this time all participants are in a listen-only mode. We will facilitate a question-and-answer session at the end of this conference call and today's conference is being recorded.

Some comments today will include forward-looking statements regarding future events and projections of financial performance of MMA Capital Management, which are based on current expectations. The comments are subject to significant risks and uncertainties, which include those identified in the Company's filings with the Securities and Exchange Commission that could cause actual results to differ materially from those expressed in those forward-looking statements. The Company undertakes no obligation to update any of the information contained in the forward-looking statements.

I would now like to turn the conference over to Michael Falcone, CEO of MMA Capital Management, LLC.

Michael Falcone: Thank you, Keith. Good morning, everyone, and welcome. Before we get started I want to apologize for my voice. I've got a bit of a cold. And I'm also, because of the ice storm that we had here at (inaudible), I'm doing this call from my cell phone. My street is blocked with cars that didn't make it up the hill. So I apologize if there is a sound quality issue this morning. Part of it's my voice and part of it's my cell phone, I think.

With me on the call today are Dave Bjarnason, our Chief Financial Officer; Executive Vice President Gary Mentesana; and Senior Vice President, Megan Sophocles. Dave and I will deliver our prepared remarks, after which we'll be able to take questions.

The purpose of our call today is to review the transaction we announced yesterday between the Company and Hunt. Hunt is a sophisticated national enterprise with a variety of expertise in real estate and infrastructure industries, including investment management, mortgage banking, loan servicing and asset management, and we're very pleased to work with such an outstanding organization going forward.

For purposes of our discussion, we will briefly touch on key points that are further discussed in the Form 8-K filed with respect to the transaction, but we'll try to keep our prepared remarks relatively brief to allow as much time as possible to answer questions.

Paradoxically, this is a relatively complicated transaction that will ultimately have the effect of simplifying our business and balance sheet over time so we can grow and prosper.

Turning now to the specifics, we've entered into a series of agreements through which we've sold a collection of businesses, including our low-income housing tax credit management business, the international asset and investment management business and the renewable energy underwriting platform, plus other assets, for a total of $57 million, while Hunt assumes certain liabilities of the Company.

Additionally, as I'll further explain, we may receive additional consideration in the future that is contingent upon the future performance of the transferred LIHTC management business. Our existing option to purchase the LIHTC business of Morrison Grove Management, or MGM, was also converted to a purchase agreement as part of the transaction, and we are required to sell this agreement if certain conditions precedent are satisfied.

Additionally, the Company executed an agreement to acquire from an affiliate of MGM certain assets pertaining to a specific LIHTC property. However, both of these purchase agreements may be assigned to Hunt should Hunt elect to exercise their rights under the agreements [in our place].

To complete this sale transaction we took back a 7-year fully amortizing note from a wholly owned subsidiary of Hunt that acquired the transferred interest. This $57 million note bears a stated rate of 5%, is payable quarterly, and is secured by the Hunt ownership in a Hunt subsidiary. During the first two years of the note only interest is payable. And, beginning on March 31 of 2020, the note will begin to amortize in 20 equal quarterly payments of $2.85 million, with a partial or full prepayment of the note permissible at any time.

The maker of the note provided a number of financial covenants to MMA including, but not limited to, its commitment to maintain tangible net worth, debt service coverage and interest coverage ratios. In consideration of these provisions and other factors, the Company believes that the note is well secured and that its interests are appropriately protected in the unlikely event that Hunt does not meet its payment obligations under the note.

In addition to the note, we may also receive additional purchase consideration from this transaction to the extent that Hunt receives any discounted cash flows from transferred LIHTC-related investments in excess of 158% of the aggregate Hunt and MGM purchase prices. If this threshold is met, the Company would receive 30% of any excess cash flows from such LIHTC investments. Given the cumulative nature of this calculation, it will be quite some time before we know if we will receive any payments.

The Company also engaged Hunt Investment Management, LLC, which is an affiliate of Hunt, to perform the day-to-day operations of the Company, including investment management and financial reporting services. Hunt hired all the Company's employees, and in this regard assumed the remaining term of the Company's employment agreements. As a result, Gary, Dave and I will continue to execute our current responsibilities on behalf of MMA as employees of Hunt.

Hunt will receive a quarterly management fee, an amount equal to 0.5% of the Company's first $500 million of GAAP common shareholders' equity allocable to common shareholders, subject to certain adjustments, and 0.25% of the Company's GAAP common shareholders' equity in excess of $500 million, as adjusted. In addition, Hunt will receive expense reimbursements from MMA for costs allocable to the operating and reporting aspects of the business.

In order to assure alignment of interests between the Company and Hunt as our manager, Hunt will purchase from the Company in a private placement 250,000 common shares over the next six months at an average price of $33.50 and, upon completion of that investment Hunt will be able to nominate someone to our Board of Directors. We anticipate that Hunt will nominate Chris Hunt, the current Chief Executive Officer of Hunt Companies, to fill this newly created board seat, and the Board has voted to allow Mr. Hunt as a nonvoting observer at our board meetings until Hunt's purchase obligation is completed.

Additionally, Hunt maintains the right to nominate a second member of the board if it acquires greater than 20% ownership in the Company.

Dave will further discuss the financial statement implications to MMA of completing this transaction. But, in short, we will recognize in the first quarter an estimated increase to common shareholders' equity of $32 million at the close of this sale transaction, as well as recognizing on January 1 an additional $9 million increase in common shareholders' equity in connection with transitioning the Company's accounting for LIHTC-related contracts which MMA transferred to Hunt pursuant to new revenue recognition rules that were adopted at the beginning of the year.

Additionally, should Hunt elect to take an assignment of the MGM agreement, the Company estimates that it would recognize an incremental increase in common shareholders' equity of approximately $14 million. Therefore, if this were to occur we would recognize in total an estimated $55 million increase to common shareholders' equity in connection with interests transferred to Hunt.

These financial impacts notwithstanding, we believe that completing this transaction will achieve four important strategic objectives.

First, the transaction will strategically reposition MMAC, as it will simplify our balance sheet, which will ultimately be advanced through our eventual disposition of certain equity investments in our land development deals in Alabama and Virginia, and our eventual disposition of the retained investment in the first South African housing fund, all as soon as economically practical. As a result and going forward, MMA should be able to tell a clear, more understandable story to its investors about its financial performance.

Second, the sale of the tax credit and IHS business has monetized the intrinsic value of those business and enabled MMAC to reduce risk. In this regard, we replaced very uneven income recognition associated with our asset management businesses with steady and predictable income associated with the note receivable from Hunt. And, importantly, we believe this monetization provides for closer convergence of what we see as the economic value of MMA with our reported GAAP equity.

Thirdly, we expect that the externalization of management may lower MMA's overhead costs and improve access to potential future investment opportunities within the broad real estate and extensive financing origination network that Hunt brings to the table.

Lastly, this transaction will preserve and provide for more efficient utilization of our NOLs. This will be driven in two ways -- first, the consistent income being generated by the retained portfolio and, second, the potential to retain and even raise capital through the capital markets, thereby enabling us to grow MMA's balance sheet, benefit from our inexpensive retained subordinate debt and increase our earnings capabilities.

As we evaluated the merits of this transaction it was certainly important to retain our consistent cash flow assets and position the Company for the kind of sustained growth that would maximize value from the net operating loss carryforwards.

Our board has spent considerable time over many months considering the strategic objectives I have outlined and the best way to achieve them. They believe the Hunt transaction presents an exciting and beneficial step forward for the Company in achieving our strategic goals. The Board reached this conclusion after lengthy evaluation, with input from management, outside investment advisors and counsel, and they are very pleased with our path forward.

Over the long term, we plan to continue to execute on our strategy to invest both new and recycled capital, primarily in the debt of real assets, to generate attractive risk-adjusted returns. We expect to employ modest leverage, will target total returns of approximately 8% to 12%, and will also focus on real assets with positive social and environmental impacts. From time to time we also expect that we may invest in the equity of real assets.

With that, I'll turn the call over to Dave, who will discuss in more detail the financial implications of this transaction. Dave?

Dave Bjarnason: Thank you, Mike. Good morning, everyone. With respect to the reporting implications of the transaction there are several points that Mike mentioned earlier that we thought important to briefly elaborate upon.

First, as Mike mentioned, the interests and obligations that we transferred to the Hunt group will be recognized by the Company at the closing date of the sale. Derecognition in this case included all of the funds and ventures that were historically consolidated by the Company for reporting purposes, including 11 guaranteed LIHTC funds. As a result, the sales transaction will not only profit the recognition of an estimated $32 million increase to common shareholders' equity, but

also significantly simplify the Company's balance sheet through deconsolidation of funds and ventures in which the Company maintained an inconsequential interest.

Secondly, as Mike also mentioned, the Company received $57 million in upfront consideration from the Hunt Group through the note MMA took back at closing, where the net carrying value of interest that we derecognized was approximately $12 million, the difference of which represents a $45 million gain.

However, approximately $13 million of this gain relates to the Company's interest in MGM. I mention this because, since the Company may retain its interest in MGM -- that is, if Hunt does not elect to take an assignment of the MGM agreement -- the Company deferred $13 million of the total gain at closing.

However, as Mike indicated, if Hunt elects to take assignment of and settle the MGM agreement such that MMA would no longer have an interest in MGM, MMA would recognize an additional $14 million increase in common shareholders' equity, which would be driven by the release of $13 million of revenue that we deferred at closing plus the release of approximately $1 million of other deferred revenue, leaving us with investments in bonds; certain loan receivables, including the loan from Hunt; derivative financial instruments that it used to hedge interest rate and foreign currency exchange risks; various equity investments, including renewable energy joint ventures and entities (inaudible); real estate properties that are at Spanish Fort and Russell 150; and the South Africa Workforce Housing Fund which, as Mike said, we're looking to dispose of as soon as economically practical, though we cannot put the timeframe on that plan, as well as includes other miscellaneous assets and liabilities.

With respect to additional [purchase] consideration of the Company in the future, which is dependent upon the performance of the transferred LIHTC business, such considerations would not get financial statement recognition until realization of amounts due are assured beyond a reasonable doubt.

The last point I wanted to briefly mention concerns our deferred tax assets, or DTAs, which have been fully reserved since 2008. While our transaction with Hunt is significant in many respects, the Company believes that, even after considering the effects of such transaction, there is insufficient positive evidence that is objectively verifiable and that would otherwise be needed in order for the Company to assert that it is more likely than not that all or a portion of its DTAs would be realized. As a result, our DTAs remain fully reserved at this point. However, this assessment is dynamic and we will continue to evaluate the realizability of our DTAs on an ongoing basis.

Our Form 8-K provides more information about the transaction with Hunt and its impacts, including pro forma financial statements which we attach to the filings and that I would encourage you to review.

And, with that, I will turn the call back over to Mike.

Michael Falcone: Thanks, Dave.

For some time we have heard from shareholders that our business is too small and too complicated to understand. With this transaction we've started a process to change that. When all elements of this transaction are complete, we will have achieved significant value realization from our tax credit and international businesses, simplified our balance sheet, reduced our overhead and increased transparency, while preserving our net operating losses and our attractively priced long-term subordinate debt. Going forward, we will continue to invest primarily in debt related to affordable housing and clean energy.

Before we take questions from callers, I just wanted to reiterate that we remain focused on improving the per-share value of the Company and maximizing returns for shareholders. We believe that this transaction helps us toward those goals.

In addition, it's important to note that our current management team will continue to serve the Company and will now have the added resources and expertise of the Hunt team to draw upon as we move forward. We are excited about the future, remain committed to our shareholders, and we thank you for your support.

With that, we'll now open the call for questions. Operator?

Questions & Answers

Operator: Yes, thank you. (Operator Instructions) Gary Ribe, Macro Consulting.

Gary Ribe: Congratulations on a transformative deal.

I guess my question -- you'd mentioned the NOL at closing of the remarks and being able to put that on the balance sheet. Do you, since you're essentially going to be in the -- I mean, collecting spread income essentially on your portfolio now, that's got to be a lot more predictable. So at what point do you have an idea of when you would start to pull that on? Is it a year from now, two years from now? The income from M&A should start to look pretty consistent at a certain point.

Michael Falcone: Yes, we would agree with that. I'll let Dave speak to the exact accounting standard in a second. The sort of standard uses the word "objectively verifiable," which requires a track record to be interpreted by the various accounting firms. And we currently don't have that track record, so that even though we project that this transaction will increase the value of the NOLs, we can't project out to the standards that would pass a GAAP audit.

So we're a few years -- don't if Dave can give you an exact answer -- away from being in a position where we can probably more strongly argue that the sort of spread income which we expect is, in fact, objectively verifiable.

So, Dave, I don't know if you can put a finer point on that or not.

Dave Bjarnason: No, I think you hit on the key points, Mike, which is that the reporting hurdle that we have to overcome is pretty stringent, which is to say if you look at our forecast or projection, the rules are pretty rigid with respect to having objectively verifiable projections that we'd be hanging our hat on to support a release of the allowance. And given, to your point, the absence of a track record, I think that with the passage of time and as we establish that track record sort of in the new constructs we'll be in a better position to support a potential partial or full release down the road. I don't think I can put a timeframe around that other than to say that I think, again, with the passage of time, once we establish that track record we will certainly reevaluate it going forward. So that's probably as much as I could probably add at this time. Not sure if that's helpful, Gary.

Michael Falcone: So, Gary, just one more piece of color there. The way that we sort of run the numbers under the objectively verifiable standards means that every dollar of cash that we have in the future gets reinvested in Treasuries.

Gary Ribe: Perfect.

Michael Falcone: Which -- but we also keep the overhead around, assuming that that's all we know how to do. So until we've sort of done what we've said we're going to do for some significant period of time, we can't switch out of that Treasury reinvestment rate. Now, obviously when the Board thought about the transaction, they thought about it in what I would describe as more realistic economic terms and assumptions. But GAAP, as it relates to this, is pretty prescriptive and we concluded pretty readily I think that we're not ready for the objectively verifiable standard just yet.

And my guess is, in ongoing disclosures we will be talking about our progress towards [objectible] -- verifiable objectivity, objective verifiability, whatever the hell the combination of the combination of those words would be.

Gary Ribe: Got it. Got it. That makes sense. Because, yes, that's another, like, $82 million of tax assets potentially. So on a per-share basis that's very significant.

I guess my other question really is the subordinated debt. Would you guys, since there's significant value there, too, and you'd mentioned that as well, at any point be considering a fair value election for that?

Dave Bjarnason: Gary, this is Dave. You know, through the rules around exercising of fair value option for any financial instrument, whether it be a bond [remediation] that we own or financing that would actually have to be made at the point that you want to void that instrument from a reporting perspective -- so in other words, we're not in a situation where we can elect a fair value option and therefore mark that debt to market, if that's what you're asking. (Multiple speakers) --

Gary Ribe: Got it. I mean, the reason I threw out the question is it's potentially between that and the tax asset almost $20 a share in value that's -- you know, that nobody can see unless they actually dig through the financials still.

Dave Bjarnason: Gary, I'm sorry to interrupt you. I was going to say, maybe just as an add-on to what I said, from a footnote perspective I think you may know that we do provide fair value disclosures of various instruments that we have, including on the financing on the right-hand side of the balance sheet, including subordinated debt. But as it relates to what would, from a balance sheet and a P&L perspective, yes, again, that's not something that we can do at this time.

Gary Ribe: Got it. And then I guess my other, my third question, it just relates to the repurchase plan. And you guys have agreed to, I think, put your bonus compensation for '17 into the stock for '18. So I'm guessing we'll see a bunch of Form 4s coming. But as far as the Company is concerned, since GAAP book value and economic book value are still kind of significantly apart, are you going to be looking to re-up the repurchase plan for the Company for '18?

Michael Falcone: Yes, I'm not sure I know the answer to that question sitting here today, Gary. It much depends on how the share price responds over the coming weeks. We have not put in place -- we didn't have to consider that over the last month or so because we had this material nonpublic transaction in the works and couldn't put in place a new 10-b5 share buyback plan. So the first time we will consider it as a board will be at a board meeting in late January, early February.

And even then, we probably can't implement it because of the fact that we're in a blackout period until we release first-quarter numbers. So the odds are --

Gary Ribe: (Inaudible) and how material it is and everything?

Michael Falcone: Well, now the transaction blocks us basically until closing, over the last many -- several months. And then, because we've closed the books on the first quarter until March when we report, we're in another blackout period.

So basically in the first quarter we have a two- or three-week window when we can implement a 10-b5 plan. In the second, third and fourth quarter it's about a 45-day window, basically the second half of each quarter. So you won't see Form 4s from us or a 10-b5 decision from the Company until mid-March.

I can tell you in the case of Dave, Gary and Mike, we are required under our employment agreements to buy shares and we'll do so happily, but we'll not be able to do that until March.

Gary Ribe: Got it.

Michael Falcone: So it will take till then before that question is [through].

Gary Ribe: Okay. That's it for me. Thanks, guys. Congratulations on what looks like a great deal.

Operator: Thank you. (Operator Instructions) All right. As there is nothing else at the present time, I would like to return the call over to Michael Falcone for any closing comments.

Michael Falcone: Great. I want to thank everybody for their time this morning. It's good to know that this transaction was so simple and easy to understand that there's only one question. I suspect more likely folks are still digesting the news. We are, as always, happy to answer questions folks might have. When I look at the roster of folks on the call, we certainly see a lot of familiar names and know that we'll be in touch with folks over the coming days and weeks.

But I also see the names of lots of people who took a chance on us a long time ago and have been good, strong supporters of the Company. And I want to thank you all for your commitment to us over time and let you know that we intend to continue to fight to get the value, to grow the value of the shares over time.

So thank you all very much and everybody have a great day.

Operator: Thank you. The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.