NEWS RELEASE

Atlanticus Reports Full Year 2020 Financial Results

2021-03-31

Year End 2020 Net Income Attributable to Common Shareholders Grows 204.7% to $77.1 Million

ATLANTA, March 31, 2021 (GLOBE NEWSWIRE) -- Atlanticus Holdings Corporation (NASDAQ: ATLC) (“Atlanticus,” “the Company,” “we,” “our” or “us”), a technology-enabled financial services company that assists financial institutions in offering credit to millions of everyday Americans, today announced its financial results for the year ended December 31, 2020. The Company also announced the filing of its Annual Report on Form 10-K with the Securities and Exchange Commission.

Financial and Operating Highlights (all comparisons to the prior period unless otherwise specified)

2020 Highlights

- Net income attributable to common shareholders increased 204.7% to $77.1 million, or $5.32 per basic common share
- Total operating revenue increased $216.4 million, or 63.0%, to $560.0 million
- Managed receivables(1) associated with our Credit and Other Investments Segment increased 19.2% to $1.1 billion as of December 31, 2020
- Combined net charge-off ratio, annualized(1) for our retail point-of-sale and direct-to-consumer business lines, included as a component of our Credit and Other Investments Segment, improved to 13.4% for the three months ended December 31, 2020 from 22.5% for the three months ended December 31, 2019
- The number of customers we serve increased 32.1% to 1.8 million(2)

(1) Managed receivables and combined net charge-off ratio, annualized are non-GAAP financial measures. See “Non-GAAP Financial Measures” for important additional information.

(2) In our calculation of total customers, we include all customers with account activity or customers who have open

lines of credit at the end of period.

Management Commentary

Jeffrey A. Howard, President and Chief Executive Officer, stated, "This was an exceptional year for Atlanticus. Although we faced significant economic uncertainty early in the year, we drew on 25 years of experience to allow our bank partner to continue offering financial products to everyday Americans. During the year, we helped add more than 427,000 net new customers. Because of our diversified origination platform we were able to grow receivables despite significant reductions in consumer spending in the broader economy. We experienced significant growth in our Point-of-Sale assets as a result of new merchant partnerships, growth from existing partners, and increased spending across a broad array of industries that benefited from shifts in consumer spending behavior during the pandemic. Credit quality improved throughout the year as our customers prudently managed their credit, as they have done in previous economic downturns.

I am incredibly proud of our extraordinary team. Their efforts are highlighted by our response to the pandemic, including $1.4 billion in purchases funded for consumers in their greatest time of need, assisting over 67,000 customers with pandemic related hardships, and shifting our servicing infrastructure to a remote workforce without missing a single day of our exceptional service level standards.

Given our investment in technology, diversified product offerings supported through our platform, unique consumer value proposition, and our belief that normal spending patterns will return as the economy recovers, we are well positioned for sustained growth in managed receivables and profitability. While we are pleased with our performance in 2020, we recognize that there is substantial opportunity ahead of us as we work to empower better financial outcomes for everyday Americans.”

Annual Highlights

(In Thousands)	For the Year Ended December 31, 2020	2019	Income Increases (Decreases) from 2019 to 2020
Total operating revenue	$ 560,007	$ 343,611	216,396
Other non-operating revenue	3,403	111,589	(108,186)
Total revenue	563,410	455,200	108,210
Interest expense	(51,548)	(50,730)	(818)
Provision for losses on loans, interest and fees receivable recorded at net realizable value	(142,719)	(248,383)	105,664
Changes in fair value of loans, interest and fees receivable and notes payable associated with structured financings recorded at fair value	(108,548)	2,085	(110,633)
Net margin	$ 260,595	$ 158,172	102,423
Total operating expense	$ 146,204	$ 126,409	(19,795)
Net income	$ 93,917	$ 26,210	67,707
Net income attributable to controlling interests	$ 94,120	$ 26,443	67,677
Preferred dividends and discount accretion	$ (17,070)	$ (1,153)	(15,917)
Net income attributable to common shareholders	$ 77,050	$ 25,290	51,760

2020 Year End Financial Results (all comparisons to the year earlier period)

Total operating revenue

During the year ended December 31, 2020, total operating revenue increased 63.0% to $560.0 million, compared to $343.6 million in the prior year. Total operating revenue consists of: 1) interest income, finance charges and late fees on consumer loans, 2) other fees on credit products including annual and merchant fees and 3) ancillary, interchange and servicing income on loan portfolios.

Period-over-period results primarily relate to growth in point-of-sale finance and direct-to-consumer new accounts and receivables. For the year, managed receivables increased from $908.4 million as of December 31, 2019 to $1,085.9 million as of December 31, 2020 as total accounts serviced increased from 1.3 million to 1.8 million.

We are currently experiencing continued period-over-period growth in point-of-sale and direct-to-consumer receivables, which we expect to result in net period-over-period growth in our total interest income and related fees and charges for these operations throughout 2021. Future periods' growth is dependent on the addition of new retail partners to expand the reach of point-of-sale operations, expansion within existing partnerships, continued marketing within the direct-to-consumer receivables and the impact of federal stimulus on consumer spending and payment behavior.

Interest expense

Interest expense was $51.5 million for the year ended December 31, 2020, compared to $50.7 million in the prior year. Outstanding notes payable, net, associated with our point-of-sale and direct-to-consumer operations increased from $691.5 million as of December 31, 2019 to $827.1 million as of December 31, 2020. We anticipate additional debt financing over the next few quarters as we continue to grow, and as such, we expect our quarterly interest expense to be above that experienced in the prior periods for these operations.

Provision for losses on loans, interest and fees receivable recorded at net realizable value

Provision for losses on loans, interest and fees receivable recorded at net realizable value decreased to $142.7 million for the year ended December 31, 2020, compared to $248.4 million in the prior year. We have experienced a period-over-period decrease in this category primarily reflecting: 1) the effects of our adoption of the fair value option to account for certain loans receivable that are acquired on or after January 1, 2020 which has resulted in a decline in the outstanding receivables subject to this provision and 2) the overall reduction in delinquencies associated with these receivables in part due to recent government stimulus programs, which have served to increase payments on outstanding receivables. This reduction in provision has been offset somewhat due to additional reserves associated with accounts that have been impacted due to COVID-19.

Total operating expense

Total operating expense increased 15.7% to $146.2 million compared to $126.4 million in the prior year. Total operating expenses declined as a percentage of total operating revenue to 26.1% for the year ended December 31, 2020, from 36.8% in the prior year. Certain operating costs are variable based on the levels of accounts and receivables we service and the pace and breadth of our growth in receivables. Increases in operating expenses were largely due to increases in card and loan servicing expenses due to volume, offset by slight decreases in marketing costs.

Net Income Attributable to Common Shareholders

Net income attributable to common shareholders increased 204.7% to $77.1 million for the year ended December 31, 2020, compared to $25.3 million in the prior year. On a per share basis, net income attributable to common shareholders per common share increased to $5.32 based on weighted average common shares outstanding of 14,485,791, compared to $1.74 based on weighted average common shares outstanding of 14,498,524. Similarly, net income attributable to common shareholders per common share diluted increased to $3.95 based on weighted average common shares outstanding – diluted of 20,102,386, compared to $1.66 based on weighted average common shares outstanding – diluted of 15,272,554.

Balance Sheet and Cash Flow Information

At December 31, 2020, we had $178.1 million in unrestricted cash and cash equivalents held by our various business subsidiaries. We have financed our business through cash flows from operations, asset-backed structured financings and the issuance of debt and equity.

During the year ended December 31, 2020, we generated $212.7 million of cash flows from operations compared to our generation of $100.0 million of cash flows from operations during the year ended December 31, 2019. The increase in cash provided by operating activities was principally related to an increase in finance collections associated with growing point-of-sale and direct-to-consumer receivables.

About Atlanticus Holdings Corporation

Empowering Better Financial Outcomes for Everyday Americans

Founded in 1996, our business utilizes proprietary analytics and a flexible technology platform to enable financial institutions to provide various credit and related financial services and products to everyday Americans. We apply the experience gained and infrastructure built from servicing over 17 million customers and $26 billion in consumer loans over our 24-year operating history to support lenders that originate a range of consumer loan products. These products include retail credit and general-purpose credit cards marketed through our omnichannel platform, including retail point-of-sale, direct mail solicitation, Internet-based marketing, and partnerships with third parties. Additionally, through its CAR subsidiary, Atlanticus serves the individual needs of automotive dealers and automotive non-prime financial organizations with multiple financing and service programs.

Forward-Looking Statements

This press release contains forward-looking statements that reflect the Company's current views with respect to, among other things, its business, operations, financial performance, debt financing and consumer spending patterns. You generally can identify these statements by the use of words such as “outlook,” “potential,” “continue,” “may,” “seek,” “approximately,” “predict,” “believe,” “expect,” “plan,” “intend,” “estimate” or “anticipate” and similar expressions or the negative versions of these words or comparable words, as well as future or conditional verbs such as “will,” “should,” “would,” “likely” and “could.” These statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those included in the forward-looking statements. These risks and uncertainties include those risks described in the Company's filings with the Securities and Exchange Commission and include, but are not limited to, risks related to the extent and duration of the COVID-19 pandemic and its impact on the Company, bank partners, merchants, consumers, loan demand, the capital markets and the economy in general; the Company's ability to retain existing, and attract new, merchants and funding sources;

changes in market interest rates; increases in loan delinquencies; its ability to operate successfully in a highly regulated industry; the outcome of litigation and regulatory matters; the effect of management changes; cyberattacks and security vulnerabilities in its products and services; and the Company's ability to compete successfully in highly competitive markets. The forward-looking statements speak only as of the date on which they are made, and, except to the extent required by federal securities laws, the Company disclaims any obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events. In light of these risks and uncertainties, there is no assurance that the events or results suggested by the forward-looking statements will in fact occur, and you should not place undue reliance on these forward-looking statements.

Non-GAAP Financial Measures

This press release presents information about managed receivables and combined net charge-off ratio, annualized, which are non-GAAP financial measures provided as supplements to the results provided in accordance with accounting principles generally accepted in the United States of America (“GAAP”). These non-GAAP financial measures aid in the evaluation of the performance of our credit portfolios, including our risk management, servicing and collection activities and our valuation of purchased receivables. The credit performance of our managed receivables provides information concerning the quality of loan origination and the related credit risks inherent with the portfolios. Management relies heavily upon financial data and results prepared on the “managed basis” in order to manage our business, make planning decisions, evaluate our performance and allocate resources.

These non-GAAP financial measures are presented for supplemental informational purposes only. These non-GAAP financial measures have limitations as analytical tools and should not be considered in isolation from, or as a substitute for, GAAP financial measures. These non-GAAP financial measures may differ from the non-GAAP financial measures used by other companies. A reconciliation of each of these non-GAAP financial measures to the most directly comparable GAAP financial measure is provided below for each of the fiscal periods indicated.

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Consolidated Statements of Operations

(Dollars in thousands, except per share data)

	For the Year Ended	
	2020	2019
Revenue:		
Consumer loans, including past due fees	$ 410,616	$ 261,218
Fees and related income on earning assets	133,960	68,639
Other revenue	15,431	13,754
Total operating revenue	560,007	343,611
Other non-operating revenue	3,403	111,589
Total revenue	563,410	455,200
Interest expense	(51,548)	(50,730)
Provision for losses on loans, interest and fees receivable recorded at net realizable value	(142,719)	(248,383)
Changes in fair value of loans, interest and fees receivable and notes payable associated with structured financings recorded at fair value	(108,548)	2,085
Net Margin	260,595	158,172
Other operating expense:		
Salaries and benefits	29,079	26,229
Card and loan servicing	63,047	49,459
Marketing and solicitation	35,012	36,388
Depreciation	1,247	1,137
Other	17,819	13,196
Total other operating expense	146,204	126,409
Income before income taxes	114,391	31,763
Income tax expense	(20,474)	(5,553)
Net income	93,917	26,210
Net loss attributable to noncontrolling interests	203	233
Net income attributable to controlling interests	$ 94,120	$ 26,443
Preferred dividends	$ (17,070)	$ (1,153)
Net income attributable to common shareholders	$ 77,050	$ 25,290
Net income attributable to common shareholders per common share—basic	$ 5.32	$ 1.74
Net income attributable to common shareholders per common share—diluted	$ 3.95	$ 1.66

Atlanticus Holdings Corporation and Subsidiaries

Consolidated Balance Sheets

(Dollars in thousands)

	December 31, 2020	December 31, 2019
Assets		
Unrestricted cash and cash equivalents (including $96.6 million and $78.7 million associated with variable interest entities at December 31, 2020 and December 31, 2019, respectively)	$ 178,102	$ 135,379
Restricted cash and cash equivalents (including $70.2 million and $25.9 million associated with variable interest entities at December 31, 2020 and December 31, 2019, respectively)	80,859	41,015
Loans, interest and fees receivable:		
Loans, interest and fees receivable, at fair value (including $374.2 million and $3.9 million associated with variable interest entities at December 31, 2020 and December 31, 2019, respectively)	417,098	4,386
Loans, interest and fees receivable, gross (including $560.2 million and $857.2 million associated with variable interest entities at December 31, 2020 and December 31, 2019, respectively)	667,556	998,209
Allowances for uncollectible loans, interest and fees receivable (including $120.9 million and $168.8 million associated with variable interest entities at December 31, 2020 and December 31, 2019, respectively)	(124,961)	(186,329)
Deferred revenue (including $10.3 million and $40.7 million associated with variable interest entities at December 31, 2020 and December 31, 2019, respectively)	(39,456)	(90,307)
Net loans, interest and fees receivable	920,237	725,959
Property at cost, net of depreciation	2,240	2,738
Investments in equity-method investee	1,415	1,957
Operating lease right-of-use assets	9,181	14,091
Prepaid expenses and other assets	15,180	15,127
Total assets	$ 1,207,214	$ 936,266
Liabilities		
Accounts payable and accrued expenses	$ 41,731	$ 41,617
Operating lease liabilities	13,776	22,259
Notes payable, net (including $827.1 million and $691.5 million associated with variable interest entities at December 31, 2020 and December 31, 2019, respectively)	882,610	749,209
Notes payable associated with structured financings, at fair value (associated with variable interest entities)	2,919	3,920
Convertible senior notes	24,386	24,091
Income tax liability	25,932	5,785
Total liabilities	991,354	846,881
Commitments and contingencies		
Preferred stock, no par value, 10,000,000 shares authorized:		
Series A preferred stock, 400,000 shares issued and outstanding at December 31, 2020 (liquidation preference - $40.0 million); 400,000 shares issued and outstanding at December 31, 2019	40,000	40,000
Class B preferred units issued to noncontrolling interests	99,350	49,050
Shareholders' Equity		
Common stock, no par value, 150,000,000 shares authorized: 16,115,353 shares issued and outstanding (including 1,459,233 loaned shares to be returned) at December 31, 2020; and 15,885,314 shares issued and outstanding (including 1,459,233 loaned shares to be returned) at December 31, 2019	—	—
Paid-in capital	194,950	212,692
Accumulated other comprehensive income	—	—
Retained deficit	(117,666)	(211,786)
Total shareholders’ equity	77,284	906
Noncontrolling interests	(774)	(571)
Total equity	76,510	335
Total liabilities, preferred stock and shareholders' equity	$ 1,207,214	$ 936,266

Reconciliations of non-GAAP financial measures

Below are (i) the reconciliation of Loans, interest and fees receivable, at fair value to Loans, interest and fees receivable, at face value and (ii) the calculation of managed receivables (in millions):

	As of	
	Dec. 31 2020	Dec. 31 2019
Loans, interest and fees receivable, at fair value	$ 417.1	$ 4.4
Fair value mark against receivable (1)	99.0	2.0
Loans, interest and fees receivable, at face value	$ 516.1	$ 6.4

(1) The fair value mark against receivables reflects the difference between the face value of a receivable and the net present value of the expected cash flows associated with that receivable.

	As of	
	Dec. 31 2020	Dec. 31 2019
Loans, interest and fees receivable, gross	$ 574.3	$ 908.4
Loans, interest and fees receivable, gross from fair value reconciliation above	516.1	6.4
Total managed receivables	$ 1,090.4	$ 914.8

The calculation of Combined net charge-offs used in our Combined net charge-off ratio, annualized is as follows (in millions):

	For the Three Months Ended	
	Dec. 31 2020	Dec. 31 2019
Net losses on impairment of loans, interest and fees receivable recorded at fair value	$ 8.6	$ 0.2
Gross charge-offs on non fair value accounts	30.6	49.9
Recoveries on non fair value accounts	(4.3)	(2.6)
Combined net charge-offs	$ 34.9	$ 47.5

The Combined net charge-off ratio, annualized is calculated using the annualized combined net charge offs as the numerator and period-end average managed receivables as the denominator.

Source: Atlanticus Holdings Corp