NEWS RELEASE

Atlanticus Reports Second Quarter 2021 Financial Results

2021-08-13

Net Income Attributable to Common Shareholders Increases 74.4% to $32.1 Million, or $2.12 Per Share

ATLANTA, Aug. 13, 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 its second quarter ended June 30, 2021.

Financial and Operating Highlights

2021 Second Quarter compared to 2020 Second Quarter

- Net income attributable to common shareholders increased 74.4% to $32.1 million compared to $18.4 million for the second quarter of 2020. This reflects:
  - $2.12 per basic common share, compared to $1.28 per basic common share, an increase of 65.6%; and
  - $1.56 per diluted common share compared to $0.93 per diluted common share, an increase of 67.7%.
- On a trailing twelve months basis, net income attributable to common shareholders increased to $8.60 per basic common share from $2.44 per basic common share, representing an increase of 252.5% and $6.32 per diluted common share from $2.02 per diluted common share, representing an increase of 212.9%.
- Managed receivables(1), associated with our Credit and Other Investments Segment, increased 38.6% to $1.2 billion, and 14.2% over first quarter 2021.
- Total operating revenue increased 32.6% to $179.5 million from $135.4 million.
- Combined net charge-off ratio, annualized(1) associated with our Credit and Other Investments Segment,

improved to 15.2% from 26.9%.

- The number of total customers we serve increased 48.3% to 2.2 million(2). Since the start of the second quarter 2021, customers served increased by 339,704, or 18.3%.
- Further diversified capital structure and enhanced liquidity with the addition of $70.0 million in proceeds through the issuance of 2.8 million shares of 7.625% Series B preferred stock before deducting underwriting discounts, the structuring fee and other offering expenses. Subsequent to period end, we issued an additional 388,533 shares pursuant to the exercise of the underwriters' overallotment option.

(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 the referenced period.

Management Commentary

Jeff Howard, President and Chief Executive Officer, stated, "This was an exceptional quarter, with Atlanticus reporting strong growth in customers served, managed assets, revenue and profitability. Our investment in technology, expanding marketing channels, and focus on assisting financial institutions to empower everyday Americans during their greatest time of need continues to generate solid results. Despite higher than usual payment rates, we have continued to report strong growth across our two main operating lines, general purpose credit cards and point-of-sale financing, through which we increased receivables by 38.6% year-over-year and 14.2% quarter-over-quarter. We also further grew our capital base at a lower cost through the issuance of Series B preferred stock that provided an incremental $70.0 million of liquidity. This capital enhances our overall liquidity and positions us well for the growth we see ahead."

Quarterly Highlights

(In Thousands)	For the Quarter Ended June 30, 2021	2020	Income Increases (Decreases) From 2020 to 2021	Percentage Increases (Decreases) From 2020 to 2021
Total operating revenue	$ 179,519	$ 135,421	44,098	32.6%
Other non-operating revenue	2,586	325	2,261	695.7%
Total revenue	182,105	135,746	46,359	34.2%
Interest expense	(13,790)	(12,252)	(1,538)	12.6%
Provision for losses on loans, interest and fees receivable recorded at net realizable value	(11,096)	(32,530)	21,434	(65.9%)
Changes in fair value of loans, interest and fees receivable and notes payable associated with structured financings recorded at fair value	(58,763)	(25,667)	(33,096)	128.9%
Net margin	$ 98,456	$ 65,297	33,159	50.8%
Total operating expense	$ 46,065	$ 37,205	(8,860)	23.8%
Loss on repurchase of convertible senior notes	$ (5,448)	$ -	(5,448)	N/A
Net income	$ 36,826	$ 23,117	13,709	59.3%
Net income attributable to controlling interests	$ 36,876	23,165	13,711	59.2%
Preferred dividends and discount accretion	$ (4,738)	$ (4,736)	(2)	0.0%
Net income attributable to common shareholders	$ 32,138	$ 18,429	13,709	74.4%
Net income attributable to common shareholders per common share—basic	$ 2.12	$ 1.28	0.84	65.6%
Net income attributable to common shareholders per common share—diluted	$ 1.56	$ 0.93	0.63	67.7%

2021 Second Quarter Financial Results

Managed receivables

Managed receivables increased to $1.2 billion as of June 30, 2021, from $900.2 million as of June 30, 2020 as total customers increased from 1.5 million to 2.2 million. Managed receivables also increased sequentially from $1.1 billion as of March 31, 2021. We have noted continued recovery in consumer spending behavior and increased demand for general-purpose credit products, as well as a broadening of the recovery through our diverse retail partnerships. This growth helped to increase the overall combined managed receivables levels, and we expect this trend to continue through the remainder of the year.

Total revenue

Period-over-period increases in operating revenue primarily relate to growth in point-of-sale finance and direct-to-consumer accounts and receivables.

During the quarter ended June 30, 2021, total operating revenue increased 32.6% to $179.5 million from $135.4

million at June 30, 2020. Total operating revenue increased 24.7% sequentially from $143.9 million at March 31, 2021. 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.

Given our expectation for continued period-over-period growth in point-of-sale and direct-to-consumer receivables, we expect continued net period-over-period growth in our total interest income and related fees and charges for these operations throughout 2021.

Interest expense

Interest expense was $13.8 million for the quarter ended June 30, 2021, compared with $12.3 million in the prior year period. Outstanding notes payable, net, associated with our point-of-sale and direct-to-consumer operations increased to $911.9 million as of June 30, 2021 from $643.2 million as of June 30, 2020. Despite this increase, an overall decrease in the weighted average cost of funds, resulted in a year over year decline in interest expense as a percentage of managed receivables. 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 $11.1 million for the quarter ended June 30, 2021, compared to $32.5 million in the prior year period. 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 (and related charge-offs) 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 by additional reserves associated with accounts that have been impacted due to COVID-19. Based on delinquencies levels we are currently experiencing and the ongoing anticipated impacts of government stimulus payments, we expect to see continued period-over-period reductions in our provision for loan losses for the coming quarters.

Total operating expense

Total operating expense increased 23.8% to $46.1 million, compared to $37.2 million in the prior year period. Total annualized operating expense as a percentage of total assets decreased to 13.0% from 15.8% in the prior year

period (compared to total assets at June 30, 2020). 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 receivables acquisition volume as well as increased marketing expenses that often precede the revenues generated from the subsequently acquired assets.

Net Income Attributable to Common Shareholders

Net income attributable to common shareholders increased 74.4% to $32.1 million for the quarter ended June 30, 2021, compared to $18.4 million in the prior year period. Negatively impacting current period results were $5.4 million of losses on repurchases of convertible senior notes.

Net Income Attributable to Common Shareholders – basic and diluted

Net income attributable to common shareholders per basic common share increased to $2.12 for the period ended June 30, 2021, compared to $1.28 for the same period in 2020. Net income attributable to common shareholders per common share diluted increased to $1.56 for the period ended June 30, 2021, compared to $0.93 for the same period in 2020.

On a trailing twelve-month basis, net income attributable to common shareholders increased to $8.60 per basic common share from $2.44 per basic common share. On a trailing twelve month basis, net income attributable to common shareholders increased to $6.32 per diluted common share from $2.02 per diluted common share, representing an increase of 212.9%.

Balance Sheet and Cash Flow Information

At June 30, 2021, we had $265.9 million in unrestricted cash and cash equivalents.

During the six months ended June 30, 2021, we generated $74.8 million of cash flows compared to our generating $1.6 million of cash flows during the six months ended June 30, 2020. The increase in cash was principally related to increases in finance and fee collections associated with growing point-of-sale and direct-to-consumer receivables, our issuance of Series B preferred stock and overall increases in availability under new and existing financing structures. Offsetting these increases was growth in acquisitions of consumer receivables and repurchases of our outstanding convertible senior notes.

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 18 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 and healthcare credit and general-purpose credit cards marketed through our omnichannel platform, including retail point-of-sale, healthcare-point of-care, direct mail solicitation, internet-based marketing, and partnerships with third parties. Additionally, through our 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, managed receivables, total interest income and related fees, loan losses, debt financing and interest expense. 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. The calculation of each of these non-GAAP financial measures is provided below for each of the fiscal periods indicated.

Contact:
Investor Relations
Adam Prior
Senior Vice President
The Equity Group Inc.
(212) 836-9606
aprior@equityny.com

Atlanticus Holdings Corporation and Subsidiaries
Consolidated Statements of Operations (Unaudited)
(Dollars in thousands, except per share data)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2021	2020	2021	2020
Revenue:				
Consumer loans, including past due fees	$ 122,654	$ 100,112	$ 224,950	$ 203,259
Fees and related income on earning assets	49,553	32,399	86,573	67,044
Other revenue	7,312	2,910	11,891	5,636
Total operating revenue	179,519	135,421	323,414	275,939
Other non-operating revenue	2,586	325	3,426	315
Total revenue	182,105	135,746	326,840	276,254
Interest expense	(13,790)	(12,252)	(26,088)	(25,836)
Provision for losses on loans, interest and fees receivable recorded at net realizable value	(11,096)	(32,530)	(15,231)	(99,866)
Changes in fair value of loans, interest and fees receivable and notes payable associated with structured financings recorded at fair value	(58,763)	(25,667)	(86,254)	(40,858)
Net margin	98,456	65,297	199,267	109,694
Operating expense:				
Salaries and benefits	7,883	6,508	16,122	14,018
Card and loan servicing	18,212	15,601	35,599	31,438
Marketing and solicitation	13,678	10,190	23,979	19,507
Depreciation	320	320	632	605
Other	5,972	4,586	10,940	9,387
Total operating expense	46,065	37,205	87,272	74,955
Loss on repurchase of convertible senior notes	5,448	—	13,255	—
Income before income taxes	46,943	28,092	98,740	34,739
Income tax expense	(10,117)	(4,975)	(17,887)	(6,260)
Net income	36,826	23,117	80,853	28,479
Net loss attributable to noncontrolling interests	50	48	98	111
Net income attributable to controlling interests	36,876	23,165	80,951	28,590
Preferred dividends and discount accretion	(4,738)	(4,736)	(9,425)	(7,495)
Net income attributable to common shareholders	$ 32,138	$ 18,429	$ 71,526	$ 21,095
Net income attributable to common shareholders per common share—basic	$ 2.12	$ 1.28	$ 4.74	$ 1.46
Net income attributable to common shareholders per common share—diluted	$ 1.56	$ 0.93	$ 3.47	$ 1.12

Atlanticus Holdings Corporation and Subsidiaries

Consolidated Balance Sheets (Unaudited)

(Dollars in thousands)

	June 30, 2021	December 31, 2020
Assets		
Unrestricted cash and cash equivalents (including $156.9 million and $96.6 million associated with variable interest entities at June 30, 2021 and December 31, 2020, respectively)	$ 265,869	$ 178,102
Restricted cash and cash equivalents (including $49.8 million and $70.2 million associated with variable interest entities at June 30, 2021 and December 31, 2020, respectively)	67,884	80,859
Loans, interest and fees receivable:		
Loans, interest and fees receivable, at fair value (including $587.6 million and $374.2 million associated with variable interest entities at June 30, 2021 and December 31, 2020, respectively)	644,739	417,098
Loans, interest and fees receivable, gross (including $445.5 million and $560.2 million associated with variable interest entities at June 30, 2021 and December 31, 2020, respectively)	547,355	667,556
Allowances for uncollectible loans, interest and fees receivable (including $92.2 million and $120.9 million associated with variable interest entities at June 30, 2021 and December 31, 2020, respectively)	(95,183)	(124,961)
Deferred revenue (including $6.7 million and $10.3 million associated with variable interest entities at June 30, 2021 and December 31, 2020, respectively)	(31,344)	(39,456)
Net loans, interest and fees receivable	1,065,567	920,237
Property at cost, net of depreciation	1,704	2,240
Investments in equity-method investee	1,033	1,415
Operating lease right-of-use assets	6,970	9,181
Prepaid expenses and other assets	10,824	15,180
Total assets	$ 1,419,851	$ 1,207,214
Liabilities		
Accounts payable and accrued expenses	$ 38,656	$ 41,731
Operating lease liabilities	9,712	13,776
Notes payable, net (including $911.8 million and $827.1 million associated with variable interest entities at June 30, 2021 and December 31, 2020, respectively)	966,566	882,610
Notes payable associated with structured financings, at fair value (associated with variable interest entities)	2,562	2,919
Convertible senior notes	9,226	24,386
Income tax liability	37,211	25,932
Total liabilities	1,063,933	991,354
Commitments and contingencies		
Preferred stock, no par value, 10,000,000 shares authorized:		
Series A preferred stock, 400,000 shares issued and outstanding at June 30, 2021 (liquidation preference - $40.0 million); 400,000 shares issued and outstanding at December 31, 2020 (1)	40,000	40,000
Class B preferred units issued to noncontrolling interests	99,500	99,350
Shareholders' Equity		
Series B preferred stock, no par value, 2,800,000 shares issued and outstanding at June 30, 2021 and 0 shares issued and outstanding at December 31, 2020 (liquidation preference - $70.0 million) (1)	—	—
Common stock, no par value, 150,000,000 shares authorized: 16,638,161 shares issued and outstanding (including 1,459,233 loaned shares to be returned) at June 30, 2021; and 16,115,353 shares issued and outstanding (including 1,459,233 loaned shares to be returned) at December 31, 2020	—	—
Paid-in capital	254,001	194,950
Retained deficit	(36,715)	(117,666)
Total shareholders’ equity	217,286	77,284
Noncontrolling interests	(868)	(774)
Total equity	216,418	76,510
Total liabilities, preferred stock and shareholders' equity	$ 1,419,851	$ 1,207,214

(1) Both the Series A preferred stock and the Series B preferred stock have no par value and are part of the same aggregate 10,000,000 shares authorized.

Calculation of non-GAAP financial measures

Loans, interest and fees receivable, at face value

	At or for the Three Months Ended							
	2021		2020				2019	
(in Millions)	Jun. 30 (1)	Mar. 31 (1)	Dec. 31 (1)	Sept. 30 (1)	Jun. 30 (1)	Mar. 31 (1)	Dec. 31	Sept. 30
Loans, interest and fees receivable, at fair value	$ 644.7	$ 481.4	$ 417.1	$ 310.8	$ 177.9	$ 89.4	$ 4.4	$ 4.5
Fair value mark against receivable (2)	$ 148.6	$ 112.3	$ 99.0	$ 71.8	$ 42.7	$ 17.5	$ 2.0	$ 2.6
Loans, interest and fees receivable, at face value	$ 793.3	$ 593.7	$ 516.1	$ 382.6	$ 220.6	$ 106.9	$ 6.4	$ 7.1

(1) We elected the fair value option to account for certain loans receivable associated with our point-of-sale and direct-to-consumer platform that are acquired on or after January 1, 2020.

(2) 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.

Managed receivables

Below is the calculation of managed receivables (in millions):

	At or for the Three Months Ended							
	2021		2020				2019	
(in Millions)	Jun. 30	Mar. 31	Dec. 31	Sept. 30	Jun. 30	Mar. 31	Dec. 31	Sept. 30
Loans, interest and fees receivable, gross	$ 454.2	$ 498.8	$ 574.3	$ 604.8	$ 679.6	$ 810.6	$ 908.4	$ 769.0
Loans, interest and fees receivable, gross from fair value reconciliation above	793.3	593.7	516.1	382.6	220.6	106.9	6.4	7.1
Total managed receivables	$ 1,247.5	$ 1,092.5	$ 1,090.4	$ 987.4	$ 900.2	$ 917.5	$ 914.8	$ 776.1

Combined net charge-off ratio, annualized

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

	At or for the Three Months Ended							
	2021		2020				2019	
(in Millions)	Jun. 30	Mar. 31	Dec. 31	Sept. 30	Jun. 30	Mar. 31	Dec. 31	Sept. 30
Net losses on impairment of loans, interest and fees receivable recorded at fair value	$ 22.7	$ 14.3	$ 8.6	$ 3.3	$ 0.4	$ 0.3	$ 0.2	$ 0.2
Gross charge offs on non fair value accounts	27.6	26.3	30.6	54.3	71.8	70.5	49.9	34.8
Recoveries on non fair value accounts	(5.7)	(3.4)	(4.3)	(5.4)	(11.0)	(4.4)	(2.6)	(4.3)
Combined net charge-offs	$ 44.6	$ 37.2	$ 34.9	$ 52.2	$ 61.2	$ 66.4	$ 47.5	$ 30.7

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