On Deck Capital, Inc.

Fourth Quarter Earnings Call

February 12, 2019

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James Faucette, *Morgan Stanley*

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PRESENTATION

Operator:

Good morning. My name is Leandra and I will be your conference operator today. At this time, I would like to welcome everyone to the OnDeck Fourth Quarter Earnings Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. If you would like to ask a question during this time, simply press star, then the number one on your telephone keypad. If you would like to withdraw your question, press the pound key. Thank you.

Mr. Steve Klimas, Head of Investor Relations, you may begin your conference.

Steve Klimas:

Thank you, Leandra. Good morning everyone and welcome to OnDeck's fourth quarter earnings call. I'm here this morning with Noah Breslow, our Chief Executive Officer, and Ken Brause, our Chief Financial Officer. Our earnings release was issued earlier this morning and is available with our earnings presentation and financial supplement in the Investor Relations section of our website.

Certain statements, including those related to our 2019 financial guidance, are forward-looking statements. They are not facts and are subject to material risks and uncertainties described in our SEC filings. These statements are based on currently available information and we undertake no duty to update them except as required by law. Today's discussion is also subject to the forward-looking statement limitations in the earnings release and our actual results could differ materially and adversely from those anticipated.

During this call, we will use terms defined in the earnings release and refer to non-GAAP financial measures. For definitions and reconciliations to GAAP, please refer to the earnings release and the appendix of the earnings presentation posted on our website.

Finally, to better align our performance measures with industry standards, we changed some of our reporting metrics this quarter. The changes and impacts are summarized on Slide 17 of the earnings presentation. All prior period data has been conformed to the current period presentation in all earnings-related materials published today.

With that, I'll turn the call over to Noah.

Noah Breslow:

Thank you, Steve, and thank you all for joining us today. We had a very successful year and have a lot to talk about this morning. I will cover highlights from the fourth quarter and full year of 2018, and then I will discuss our strategic priorities for 2019. Then, Ken will provide more detail on the numbers, give an update on funding, and review our 2019 guidance. Finally, we will take your questions.

2018 was a pivotal year for OnDeck and we finished strong. We began the year with an ambitious agenda and we accomplished the objectives we laid out.

We grew the core lending franchise. We had record originations of nearly $2.5 billion, a 17% increase from 2017. We grew the portfolio over 22%, significantly exceeding the 10% to 15% target we set for the year, and we solidified our position as the top online lender to small businesses with approximately $11 billion of loans made since our inception.

We strengthened our risk management function. We tightened underwriting in 2017 and our net charge-offs improved considerably. We in-sourced collections on late stage delinquent accounts to improve outcomes for us and our customers and we instilled a risk-based framework that enabled us to rapidly adapt to changing market conditions as we responsibly grow the business.

We improved efficiency. We consolidated loan operations in Denver, reduced our lease space in New York, and increased the productivity of our marketing spend. These actions, along with many others, resulted in an improved efficiency ratio for the year, particularly in U.S. lending where we continue to invest in our growth initiatives.

We strengthened our funding profile. We executed about $700 million of financings in 2018 and significantly lowered our borrowing costs, even as market interest rates were rising. Our cost of funds rate improved nearly a point from the prior year to 5.6% in the fourth quarter. Additionally, we improved the terms and structures of our credit facility and increased the number and quality of our funding providers, adding new banks and life insurance companies.

We also made significant progress on our three strategic growth initiatives.

First, we launched ODX to focus on providing banks platform and support services with the digitization of their small business lending programs. We announced PNC as our second major ODX banking relationship. We recently went live with the pilot program and are on track for a full rollout later this year. Recall, we are initially powering PNC's line of credit offering and hope to expand with them over time.

Additionally, Chase program volume bounced back after a dip in the second and third quarter of 2018. Finally, the pipeline of new banks remains strong.

Second, we're growing our international operations which further diversifies our risk profile and revenue streams. Australia organically grew its portfolio over 80% in 2018 and credit quality remained solid. In December, we announced that we are combining our Canadian operations with Evolocity Financial Group in a transaction that significantly increases the breadth and depth of our operations in Canada. Upon closing, the new OnDeck Canada will be the second-largest online small business lender in Canada with plans for continued growth.

Third, we are expanding our product offerings. We added new features to existing loan offerings, including instant funding, which saw encouraging adoption results. We also announced equipment finance as our next loan offering. The equipment finance market opportunity is significant, with a recent ELFA survey stating over $35 billion of equipment finance loans and leases of less than $250,000 were originated in 2017. The sector is ripe for disruption as existing lender processes are cumbersome. We are initially targeting loans of $5,000 to $100,000 with terms of two to five years secured by essential use equipment. That added duration means less portfolio churn and a longer earnings period than our current term loan offering. Finally, having an equipment finance offering increases our relevance to our clients which should lead to us capturing a greater share of their financing wallet. As with past new products and market launches, we will enter the equipment finance market slowly, so it will not materially impact 2019 but it has the potential to be a meaningful part of our business over time.

Finally, we delivered record profitability as we executed our strategy. For the full year, we generated $28 million of net income and $45 million of adjusted net income. In terms of earnings per share, that is $0.35 and $0.58 respectively. In the fourth quarter, we generated $109 million of gross revenue, $14 million of net income, and $16 million of adjusted net income, all of which compare very favorably to the prior periods.

Ken will walk you through the quarter's financial results in detail, but I do want to highlight the strong growth trends in our business. We had record originations $658 million in the fourth quarter, driven by both the U.S. and the international operations. Volume was up 2% sequentially and 21% from a year ago and it was driven by increased unit as the average term loan size fell slightly in the quarter. Higher units are good because there is more potential cross-sell and repeat business opportunities in the future. From a channel perspective, production from the direct and strategic partner channels increased while funding advisor originations were down slightly sequentially. The record originations drove strong loan growth of 5% in the fourth quarter and brought full year loan growth to 23%.

Turning to credit, our 2018 portfolio performance was exceptional. However, we did see an uptick in delinquency and charge-offs in the fourth quarter, so let me spend a minute there.

First, as we've discussed previously, we are holding and collecting on delinquent loans over time as opposed to selling at a discount. We used to sell these loans for less than 10 cents on the dollar, but by working them out over time, we expect to improve on the economics, while in many cases providing better alternatives for our customers. As a result, the percentage of 90-plus delinquent loans in our portfolio increased about 100 basis points year-over-year. The expected loss of these loans has already been reflected in our P&L, as on average we hold approximately 85% loss reserves on loans that are over 90 days delinquent.

Second, we're constantly working to optimize our underwriting decision metrics. Recall that we significantly tightened our credit policy in 2017 in response to elevated losses in 2016. The results are evident in the significant reduction in credit losses for that 2017 vintage, which has been running below our target range. That means we have been turning away some loans we should be making. In 2018, we did some selective testing to optimize our funnel and our unit economics. Most tests performed well and those underwriting doors will remain open, but a few did not perform as well as expect, and while we expect those loans to be profitable, we're closing those tests. Testing and learning are normal parts of our process and the short duration of our portfolio allows us to take action quickly.

Overall, our 2018 credit performance was very strong due to both our internal actions and a favorable external environment, and we expect our credit metrics to normalize over the next year.

Now let me spend some time on our 2019 priorities as we advance our mission of helping small businesses succeed through innovative lending experiences and financial products.

First, we are going to build upon our success by continuing to grow our U.S lending platform. Objectives for the year include growing each of our distribution channels, improving our customer experience, and enhancing our originations and servicing platforms.

Second, we're going to continue to invest in adjacencies that offer high growth and return potential. On the international front, we're going to scale our international operations to position them for profitability in 2020. We expect continued strong organic growth in Australia, and in Canada the Evolocity transaction is on track to close by midyear. While not expected to be material to our earnings this year, the combination significantly increases our scale in Canada and improves time to profitability for that market.

Next, we are accelerating investments in ODX. Most large banks now realize they must digitize their lending processes to remain competitive. Some will build, some may buy, and others will partner in that transformational process, and we want to be the partner of choice for those banks. Accordingly, we are going to invest in building ODX capabilities this year to support its growth.

We will gradually roll out equipment finance loans through our distribution channels over the course of the year; again, not a material driver of 2019 results but the targeted addressable market is huge and the opportunity to innovate here is exciting.

Finally, we will continue to fortify the foundation that supports our competitive advantage and the success of our long-term model. On the funding side, we will work to further diversify and deepen our funding sources while maintaining appropriate liquidity. With respect to risk management, we will continue to optimize our decisioning model, enhance our portfolio monitoring capabilities, and improve collections practices. On the technology side we will advance our technology stack which will enable us to deliver a better customer experience and drive efficiencies across products.

Finally, a few words on the macro environment. The economy continues to grow, and small businesses continue to see capital. However, small business optimism has come off its peak and economists are calling for slightly slower growth in 2019. On the competitive side, small business lending continues to attract capital. Industry marketing spend is high, but pricing remains rational and risk-adjusted margins are attractive. In terms of the regulatory environment, we're seeing increased interest in enacting stronger privacy legislation, and there are calls for additional disclosure and the elimination of confessions-of-judgment, all of which we support. Additionally, regulators are receptive to innovative solutions for fintech companies and we continue to evaluate licensing and chartering options that might unify the regulatory environment in which we operate.

Ultimately, 2018 was a banner year for OnDeck and we're excited about 2019.

With that, I'll turn it over to Ken to walk through the financials.

Ken Brause:

Thank you, Noah, and good morning, everyone. As Noah said, we delivered record fourth quarter and full-year earnings with a continuation in many of the positive trends we've seen all year, including strong asset growth, stable to improving yields, lower funding costs, credit costs at the low end in our guidance, and investments for the future.

Fourth quarter net income was $14 million or $0.18 per diluted share, improved from $10 million last quarter and $5 million a year ago. Our adjusted net income, which excludes stock-based compensation and a $1 million sales tax refund benefit in operating expenses this quarter, rose to $16 million or $0.20 per diluted share, a $3 million sequential increase, as portfolio growth and improved margin more than offset slight increases in provision for credit losses and operating expense. Of note, this quarter's adjusted net income was double that of a year ago.

For the full-year 2018, net income was $28 million which compares to a $12 million net loss in 2017. 2018 adjusted net income of $45 million increased from $4 million a year ago with improvements in nearly all key performance indicators.

Focusing on the fourth quarter results and trends, as the current period is most relevant to the go-forward business; gross revenue was $109 million, up $6 million sequentially, driven by higher interest income, reflecting loan growth and a slight increase in other revenue.

Loans grew 5% sequentially to $1.2 billion, driven by record originations of $658 million. Our loan yield increased 10 basis points sequentially to 36.6%, reflecting the mix of new originations, offset by the impact of higher delinquency.

Other revenue increased roughly $600,000 to $4.1 million, primarily due to increased ODX volume and servicing revenue.

Funding costs continued to improve. Interest expense was down slightly to $11.2 million despite a higher average debt balance and higher market interest rates, as we continue to benefit from refinancing debt at higher spreads. Our cost of funds rate was 5.6%, an improvement of 50 basis points sequentially and 90 basis points from a year ago.

We continue to improve our funding profile. In December, we extended a $120 million asset-backed facility, tightening the average pricing on it approximately 100 basis points to LIBOR plus 2.45%. Last week, we announced a new $85 million syndicated corporate credit facility with several banks which replaces the expiring $30 million facility. The facility can be used for general corporate purposes and is priced at LIBOR plus 300 basis points, which is roughly a 125 basis points net savings from the prior one. We recently upsized our 20 Gates facility from $100 million to $150 million and reduced the borrowing spread on this by approximately 25 basis points.

We also made significant progress reducing our funding-related exposures last year. We established local currency facilities in Canada and Australia that reduced our exposure to fluctuations in foreign exchange rates. In December, we implemented hedging strategies that reduced our exposure to rising interest rates. Approximately one-third of our outstanding debt is now sensitive to further increases in interest rates, which is down from roughly 75% last quarter. Given the improvements in our loan yield and cost of funds, our net interest margin increased to 30%, a 70 basis point sequential increase and a 280 basis point increase from a year ago.

Moving on to credit, provision expense was $40 million, up $1 million sequentially, reflecting higher origination volume and portfolio quality trends. The provision rate was stable at 6%. As Noah discussed, our net charge-off and delinquency rates did tick up but remain below historic averages and the levels assumed in our pricing models.

We increased our allowance for loan losses to $140 million, an increase generally consistent with the quarter's loan growth rate, and our reserve ratio was unchanged at 12.2%. Compared to a year ago, we increased our reserve roughly 28% relative to 23% loan growth, and the reserve rate increased 60 basis points. The annual increase in our reserve rate largely reflects the reserves held for 90-plus days delinquent loans stemming from the change in our collection strategy.

Total operating expenses of $45 million included a $1 million sales tax refund and rose from the prior quarter, which we noted on our last call was below run rate. Our adjusted efficiency ratio, which is operating expense as a percent of gross revenue, excluding the impact of stock-based compensation and noteworthy items, was 39.4%, up slightly from the prior quarter. We expect the ratio will rise slightly in 2019 given our planned incremental investment in ODX and other initiatives.

Turning to the balance sheet, liquidity remains strong as we had approximately $250 million of available borrowing capacity within our committed debt facilities and $60 million of cash and equivalents at year-end. Those figures exclude the recent $100 million of new borrowing capacity I mentioned. We made considerable progress improving the terms and costs of our funding facilities.

OnDeck shareholders' equity increased 5% sequentially to $300 million and book value per diluted share grew to $3.77.

Looking forward to 2019, we expect many of the positive trends to continue as we execute on the strategic priorities that Noah discussed earlier.

However, given the increased profitability last year, we expect to utilize our remaining U.S net operating loss carryforwards this year, and that means we'll become a taxpayer. Given we will use the remaining NOL in 2019, we believe our effective tax rate this year will be approximately 20% and that rate will increase to around 25% in 2020. From a balance sheet perspective, we still have full valuation allowance against our net deferred tax asset of roughly $40 million at year-end 2018. We will evaluate the potential release of that valuation allowance, but we don't anticipate any release until at least the second half of 2019. Any release would be recorded by the discrete tax benefit and which would increase equity and book value per share at that time.

In terms of the specific guidance for 2019, for the full year, we expect gross revenue between $445 million and $465 million, net income attributable to OnDeck between $20 million and $30 million, and adjusted net income between $30 million and $40 million. That guidance assumes the following performance trends relative to 2018: low double-digit loan growth; a slight increase in net interest margin driven by lower funding costs; a slight increase in our adjusted efficiency ratio, reflecting the incremental $15 million investment we discussed; a provision rate near the midpoint of our 6% to 7% target range; and an effective tax rate of approximately 20%.

For the first quarter, as we begin to accrue taxes, credit costs normalize, and operating expenses reflect our incremental investments, we expect gross revenue between $108 million and $112 million, net income attributable to OnDeck between $2 million and $6 million, and adjusted net income between $5 million and $9 million. All of our guidance excludes any impact from a potential valuation allowance release and our planned business combination with Evolocity, which would add to the balance sheet, but is not expected to be material to earnings in 2019.

With that, let me turn the call over to Leandra for your questions.

Operator:

At this time, if you'd like to ask a question, you can press star, and the number one on your telephone keypad. We'll pause for just a moment to compile the Q&A roster.

Your first question comes from the line of Eric Wasserstrom with UBS. Your line is open.

Eric Wasserstrom:

Great. Thanks and good morning. Ken, one quick question on the guidance on Slide14. With respect to the loan growth rate, what is the underlying expectation around asset origination?

Ken Brause:

Well - good morning, Eric - given the duration of our loans, we would expect origination growth to be a little bit faster than the loan growth.

Eric Wasserstrom:

Okay. At what stage does some of the new product initiatives start to influence the origination and loan growth figures, is that a 2019 event?

Ken Brause:

Not material in 2019, so I would think about it more in the 2020 timeframe.

Eric Wasserstrom:

Got it. And then just lastly, on cost of funding, is there anything incremental that you view as actionable for 2019, or at this point is it largely about securing incremental funding as the balance sheet and the operations continue to expand?

Ken Brause:

Sure. We do have two remaining facilities that mature in 2019 and we are actively progressing on the refinancing of those, so can't comment on the specifics now, but we would once again, hope to be able to report improved terms. And then from there it would be continuing to look to refine and expand capability as needed, capacity as needed, rather.

Eric Wasserstrom:

On those two facilities, Ken, what's the aggregate size of them?

Ken Brause:

I think it's a little over $300 million, $340 million in total.

Eric Wasserstrom:

Great. Excellent. All right. Thanks very much.

Ken Brause:

Okay. Thanks, Eric.

Operator:

Your next question comes from the line of Steven Kwok with KBW. Your line is open.

Steven Kwok:

Hi. Good quarter and thanks for taking my questions. Just a first on around the—you mentioned the pipeline of banks for the ODX. Can you just comment a little bit more around the size of the banks and what stages you are in around signing some of those banks up?

Noah Breslow:

Sure. Happy to Steven, this is Noah. As we mentioned, ODX, it was a launch year for us in 2018. We did announce PNC towards the end of the year as our second major bank partner and have now launched a pilot program with them on schedule. We can't comment too much on the pipeline behind that, but it remains strong. In fact, I think you could argue it's strengthened since the last earnings call. So, we are seeing a mix of I would say, large or mega-scale banks, and actually are seeing some slightly smaller, but still sizeable banks enter the pipeline as well.

I think we're seeing some improved diversification in the pipeline maybe versus where we were 6 months or 12 months ago. Overall, again, we want to focus on the pipeline there and only announce when we are well into implementing or launching a new bank partner.

Steven Kwok:

Got it. Then just around that $15 million of incremental investments, how should we think about, like, the payback period? Number one, can you provide a mix of what the investment spend is on between ODX and technology, and then what the payback period is? Thanks.

Ken Brause:

Sure, Steven. As we mentioned before, without getting too specific, of that $15 million we said about two-thirds relates to ODX, both in terms of the buildout of the current programs, as well as building infrastructure for future programs to come in making the offering more attractive to a wider range of potential banks. Then the remaining third relates to investments we're making in the core infrastructure of OnDeck broadly in order to, again, enable us to do more product launches and more efficiently add features to the existing portfolio of offerings. We don't have a specific payback period, but I think we can think about something in a few years' timeframe that we expect to see with the results coming in.

Steven Kwok:

Got it. Thanks for taking my questions.

Ken Brause:

Okay. Thanks, Steven.

Operator:

Your next question comes from the line of John Hecht with Jefferies. Your line is open.

Mike:

Hi. This is actually Mike on for John. Quick question around the assumption in the '19 guide around the provision rate; could you maybe just talk to some of the levers that are in there as it relates to either kind of your outlook for originations or the macro outlook? I mean, your credit has generally trended pretty stable over the last several quarters.

Noah Breslow:

Yes. Happy to take this. This is Noah. So, our outlook really is that 2018 was strong, exceptionally so, and when we started the year in 2018, we talked about an operating range for the business on provision rate between 6% and 7% and we came in very consistently at the low end of that range. I think what's implied in the guidance going forward, it's kind of just the normalization of credit metrics because we don't want to take anything for granted. I think we'll all agree that with the start to 2019 having some anomalous events—Government shutdown, Polar Vortex, etc.—we just thought that it was a little bit safer to think about a midpoint of our provision rate range rather than the low end of a range, at least to start the year. That's kind of what's driving that.

Originations is really unchanged, strong demand and really seeing that we had record originations in the fourth quarter after record originations in the third quarter, and really the demands function, we feel like, is very stable and consistent from small business owners, but again, just reflecting a little bit more conservatism on those credit assumptions for this year.

Mike:

Okay. Then I guess as a quick follow-up, you cited some anomalous activity in the first quarter; is that flowing through to credits that you've seen so far or how have things trended, I guess, in the first few weeks here?

Noah Breslow:

Yes. So, we are limited from commenting too much on obviously first quarter data, but there's sort of both opportunities and risks with some of the events of January, let's say. The opportunity is obviously with certain funding channels available to small businesses shut down by the Government, the volume could flow to nongovernment-related funding sources, and so I think that's one dynamic that certainly, I think, happened. Then secondly, of course, I mean, there's some impact of a Government shutdown, but our guidance reflects our latest thinking on that and so we feel the guidance adequately reflects any shock to the system that happened in January.

Mike:

Great. Thanks again.

Operator:

As a reminder, if you have a follow-up question, please press star, and the number one to rejoin the queue. Your next question comes from the line of James Faucette with Morgan Stanley. Your line is open.

James Faucette:

Great. Thank you very much. Thanks for taking my question. Just a couple of questions. You mentioned what we've all seen in terms of the level of competition and what seems to be an increasing level of people looking at serving that space. I'm wondering if you're seeing any impact or evidence of that in your operations, whether it be things like response rates or close rates to your promotions, etc.

Noah Breslow:

I think one of the strengths of our model—James, this is Noah—is really that we have three scaled up distribution channels. We have a small partner channel, a strategic partner channel, and obviously our direct channel. We do feel like market conditions in the direct side, they're competitive. There's some competition in online marketing, competition in direct mail, but they were stable in the fourth quarter and we still delivered record originations. Sales and marketing as a percent of our originations ticked down, so I think that's another indicator of our efficiency in that area. And we were able to lean on the partner channels a little bit more for growth as we did in the fourth quarter, in particular our strategic partner channels grew very nicely in the fourth quarter. So, I think we certainly see competition out there and don't want to discount that, but we do feel like this is an environment we can grow comfortably and write the right types of loans.

James Faucette:

Got it. When you look at that mix of origination sources and channels, how should we think about where the focus is? Are you feeling like you have the right mix right now, or do you think that there's room to move that around and focus more on one area or another?

Noah Breslow:

We're pretty comfortable with the mix we have now. You might see it move a couple of percentage points between the channels over the course of the year, but really we're optimistic about all three channels this year. We are seeing growth trends - when you look kind of year-over-year at the fourth quarter results, all of those channels really grew on a year-over-year basis, and some substantially so. I think it really just gets down to a little bit to relative growth rates, but we try to design these channels so the economics are profitable in our first loan, and then obviously we have that repeat customer dynamic that's a strong driver of our long-term profitability.

James Faucette:

Great. Then last question for me, just you mentioned and highlighted a couple of things that you've done to start to deliver internationally. How should we think about the contribution from international and what would you like to see that become as a proportion of your total loan book and revenue, and over what timeframe?

Noah Breslow:

That's a great question. We haven't released specific guidance on the long-term targets for international, but I think here are a couple of facts that I think are worth thinking about. One is the growth rates are obviously much higher than the overall business on a lower base, but we did announce the Evolocity transaction which will increase our growth rates even further once that closes, so the growth is there. The market dynamic there is strong. You have a less competitive environment than the U.S; you have the same pain point with small businesses; and you have a much more concentrated banking system, so actually small businesses have fewer options in those markets. Finally, the credit performance in both of those markets has been better than the U.S with a similar pricing dynamic, so the net interest margins, or the spreads, if you will, after losses are superior in those markets. Today it's a small part of our business, single-digit components of the revenue in the loan book, but as we mentioned in our prepared remarks, we do expect these businesses to be profitable actually in both markets in 2020 and it wouldn't surprise me if over time we build this up into, I don't know, 15%, 20% of our business, but that will take a number of years to get there, especially if the core business continues to grow off that bigger base.

James Faucette:

Great. Thank you so much.

Operator:

Your next question comes from the line of Scott Buck with B. Riley FBR. Your line is open.

Scott Buck:

Hey, guys. In terms of loan demand, any outsized areas of demand either by industry or geography, or have things remained pretty consistent with previous quarters?

Ken Brause:

It's Ken. I think it's been pretty consistent and pretty broad-based across all industries and geographies, as I think we mentioned in the prepared remarks. So, no one area that is notable.

Scott Buck:

Okay. Then in terms of investment for building out the new equipment finance business, I mean, what are you looking to add in terms of heads, sales and marketing expense over the course of '19?

Ken Brause:

We've not given the specific numbers on that. That investment would be included in the one-third of the $15 million that's not related to ODX, but I'd say we're looking at it as a very slow and gradual build, so it's within the number that we've given you for our guidance for '19.

Scott Buck:

Okay. Perfect. Thank you.

Operator:

Your last question comes from the line of Melissa Wedel with JP Morgan. Your line is open.

Melissa Wedel:

Thank you. Good morning, guys.

Noah Breslow:

Good morning Melissa.

Melissa Wedel:

Thanks. I'm wondering if you can elaborate a bit more on the performance of the in-house collections effort. Is that performing as you guys had expected?

Noah Breslow:

Yes, it is. We've been testing our way into the strategy for a couple of years now, but really fully converted over to it in 2018. So, again, the original math here was at the point of 90 days past due and charge-offs we would sell loans to a third-party agency and we would receive kind of high single-digit cents on the dollar for that collateral. By working the loans in-house and coming up with better sort of payment plans for our customers, we believe that we can recover that amount within a year, and then over the course of two to three years we can recover two to three times that amount. Instead of trading dollars tomorrow versus dollars today, but even when you discount that for the time value of money, we think it's the right financial decision to make. So overall, we're happy with that and will continue to drive that. Maybe it won't be exclusively our strategy but I'll be a major part of it for sure.

Melissa Wedel:

Okay. Then point taken about international operations being relatively small component of the income statement right now, but would you employ similar strategy on the collection side internationally?

Noah Breslow:

It's tough to say. Those markets are a little bit earlier stage, so collections is not—it is handled in-house today actually, but again, it's not a huge driver of the results. But, I think the main point on international is it's got a growth rate that outstrips the rate of the U.S lending business. We've just announced the transaction that's going to substantially increase our international footprint and volumes, and we expect it to be profitable in 2020, and instead of being a drag on our earnings as it has been over the last few years, it'll start actually start being a bit of an afterburner or an increased element of our earnings going forward.

Melissa Wedel:

Okay. Got it. Thanks.

Operator:

We have no further questions at this time. This will conclude today's conference call. You may now disconnect.