Callidus Capital Corp (TSX)Cbl Corp Fpo Nzx(ASX)Cbl & Associates Properties, Inc.(NYSE)

tal Reports Results for Third Quarter 2016

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2.95 -0.05 (-1.67%) @ 9:47AM

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Callidus Capital Reports Results for Third Quarter 2016

Callidus Capital Corporation (TSX:CBL)
Historical Stock Chart

2 Years : From Jul 2016 to Jul 2018

All amounts in Canadian dollars unless otherwise indicated.

TORONTO, Nov. 3, 2016 /CNW/ - Callidus Capital Corporation (TSX:CBL), ("Callidus" or the "Company"), today announced its unaudited financial and operating results for the third quarter ended September 30, 2016.

"Over the course of the last year Callidus has unlocked and created substantial value for its shareholders, as reflected in a share price that is up approximately 100% year-to-date and a dividend that has increased 70% since May. While the company could have initiated a privatization process when the shares were severely depressed, it was our firm belief that a transfer of value from public shareholders to a third party would have been unconscionable as a fiduciary for the public shareholders. As such, we created a plan to restore value for all continuing shareholders that was in keeping with our philosophy of incrementalism, as evidenced by the NCIB, then the introduction and increase to dividends, and then by the increasing SIB which allowed tendering shareholders to access liquidity while participating in the price increases, and simultaneously rewarding those shareholders who remained our partners."

"We simultaneously took steps to strengthen the underlying business, expand our reporting, and create debt facilities that would support substantial growth with reduced risk and a lower cost of capital," commented Newton Glassman, Executive Chairman and CEO of Callidus. "Callidus has met, and intends to meet, every commitment laid out in our original four-step capital markets plan while delivering good operational performance. However, we continue to believe that the shares are significantly undervalued. Therefore, we have hired Goldman Sachs as financial advisor to run a privatization process, that hopefully ensures all stakeholders receive full and fair value for their shares, including taking into consideration the Company's operating performance, growth prospects and the increasing momentum within the business. As we clearly stated when we initiated our capital markets plan, we will take every step necessary to ensure that all the Company's shareholders have the opportunity to realize maximum value for their investment."

David Reese, President and COO added, "We are pleased with the progress and performance of the company over the quarter. From a high level, we restarted growth in the loan portfolio, highlighted by a $1.1 billion pipeline and over $340 million in signed-back term sheets and balance of funding for the largest loan in our portfolio. We also added $23.1 million in yield enhancements which will contribute to future earnings, an increase of 40% in one quarter. Failing to recognize yield enhancements booked, runs the risk of transferring value from current to future shareholders, due to technical and timing issues. This quarter's recognition of yield enhancements demonstrates it is a fundamental part of the business, just like provisions are, they are basically the opposite sides of the same restructuring coin, but can result in significant mismatching of timing in income recognition. The major developments in our capital markets program were underpinned by the steady performance in our underlying business, with a consistently strong gross yield (19%) and ROE of 17.1% before provisions and yield enhancements. We speak in terms of performance in pre-provisions and yield enhancements terms, since over the medium to longer term, provisions and yield enhancements operate as countervailing forces on our results. In the short-term, the temporary differences that result from provisions generally occurring at the beginning of a reorganization process, and the yield enhancements occurring at the conclusion of the process, can have an exaggerated impact on our results and can differ in timing. This quarter, we saw the application of strict technical IFRS rules result in the non-cash, accounting impact of a provision related to "yellow metal" on our steady operating results. We expect such to be volatile, as the federal government plans with respect to infrastructure spending get implemented and demand for "yellow metal" rises, technical IFRS requirements may well result in this provision being re-evaluated. Over time, we would expect to recover deviations from the 1.5% to 2.0% provisioning target through either future adjustments such as observed here, or ultimate yield enhancements."

- Goldman, Sachs & Co. ("Goldman Sachs") announced as financial advisor and is to lead the privatization process of the Company, which is expected to be completed before the end of the second quarter of 2017.
- Yield enhancement valuations increased 40% to $80.6 million, with $2.8 million taken into income in third quarter 2016.
- Loan pipeline increased 17% from last quarter to $1.1 billion, including over $340 million of signed-back term sheets and additional funding under current facilities.
- Dividend increased for the second time in 2016, to $1.20 per share per year – a 70% increase since May 2016.
- Substantial Issuer Bid extended and purchase price increased to $16.50 per share in August in response to upward movement in trading range of the stock price. On October 31, 2016 the total number of shares eligible under the Offer was increased by 1.5 million to 5.1 million shares. For remaining shareholders, this results in extraordinary value creation, as the National Bank valuation (completed at the time the SIB was initiated in April 2016) was developed before several value accretive events occurred – particularly the recognition of the size and ongoing nature of the yield enhancements. Therefore, the NBF valuation likely serves as a floor for future valuations.
- Revenue of $44.2 million, decreased 4% ($1.8 million) from second quarter 2016 and decreased 9% ($4.3 million) from third quarter 2015.
- ROE was 17.1% before provisions and yield enhancements (4.1% after), a decrease from 17.7% in the prior quarter and 20.5% in third quarter 2015. The ROE of 17.1% would be 28.2% if the unrealized yield enhancements were taken into income.
- Net income was $22.1 million before provisions and yield enhancements ($5.2 million after), a decrease of 2% ($0.4 million) from the prior quarter and 15% ($3.4 million) from the prior year period. The net income of $22.1 million would be $37.0 million if the unrealized yield enhancements were taken into income.
- Earnings per share (diluted) of $0.43 per share before provisions and yield enhancements ($0.10after), a decrease of 2% ($0.01 per share) from last quarter and 28% ($0.12 per share)

from the third quarter of 2015. The earnings per share (diluted) of $0.43 per share would be $0.73 per share if the unrealized yield enhancements were taken into income.

Corporate Initiatives Update

Privatization Process to be led by Goldman Sachs – On October 31, 2016, the Company announced Goldman Sachs has been engaged to act as financial advisor and is to lead the previously announced privatization process. The formal process is now underway and is expected to be completed before the end of the second quarter of 2017.

Substantial Issuer Bid Extended and Expanded in Size – During the third quarter, the Company increased the purchase price under its outstanding Substantial Issuer Bid ("the Offer") for the second time to $16.50per share, from an initial price of $14.00 per share, reflecting the significant increase in the trading price range for Callidus shares since the initiation of the program. On October 31, 2016, the Company announced that it was increasing the number of shares eligible under the current Offer by an additional 1.5 million shares, to purchase up to 5,071,428 common shares for cancellation. As at October 31, 2016, the Company had taken up and paid for 2,840,944 shares, or approximately 56% of the total eligible under the Offer.

Securitization Facility Expected to Close in Mid-November – As previously announced, the Company has received provisional investment grade ratings for loans to be issued through a new securitization program. The securitization, with four investment grade debt tranches ranging from AAA (sf) to BBB (sf) that represent approximately two-thirds of the structure, will be initiated at $165 million and is expected to close on or about November 15, 2016. It will allow the Company to lever the current loan portfolio by an incremental $25 million, and is expected to further reduce Callidus' cost of funds going forward. Given both the pipeline and signed back term sheets, this facility will likely be expanded once fully utilized to help fund future growth while continuing to drive the cost of capital down. The Company remains committed to doubling the loan portfolio over the next two to three years.

Operations Update

Loan Portfolio - During the quarter, one borrower fully repaid its loan ($10.4 million in commitments), bringing the year-to-date full repayments to $171.8 million from seven loans, while we have kept gross loans receivable fairly constant at approximately $1.2 billion. Subsequent to the end of the third quarter, there were two additional full repayments totaling $23.1 million. Furthermore, during the quarter, the number of loans on the watch-list was reduced from 13 to 10 loans while the average loan portfolio outstanding grew by 6% ($71 million) to $1.2 billion compared to Q2 2016, as the funding of loans more than offset repayments and write-offs. Callidus wrote-off $9 million in gross loans receivable in the third quarter relating to four watch-list loans, and recovered $9 million related to these loans from the Catalyst guarantee. At September 30, 2016, there were 28 loans in the portfolio.

Yield Enhancements Continue to Grow - Over half of the loans in the portfolio are generating yield enhancements, clearly demonstrating such is a fundamental part of the business. Total yield enhancements are internally valued at $80.6 million, an increase of 40% ($23.1 million) from second quarter 2016. Recognition of yield enhancement to income is strictly dictated by IFRS rules and can therefore result in timing issues. We are concerned this accounting issue may result in a value transfer from current to future shareholders. For example, during the quarter, only $2.8 million of that total value was brought into income, increasing the year-to-date total recognized in income to $38.1 million. Yield enhancements are a fundamental part of the business model, have exceeded all market expectations in just two quarters, and will continue to grow.

Financial Highlights

	Three Months Ended			**Nine Months Ended**	
($ 000s unless otherwise indicated)	**Sept 30, 2016**	Jun 30, 2016	Sept 30, 2015	**Sept 30, 2016**	Sept 30, 2015
Average loan portfolio outstanding (1)	**$ 1,217,965**	$ 1,147,323	$ 1,101,675	**$ 1,197,390**	$ 964,724
Total revenue (after derecognition)	**44,169**	45,931	48,419	**139,640**	122,839
Gross yield (%) (1)	**19.0%**	20.0%	19.7%	**19.6%**	18.7%
Net interest margin (%) (1)	**11.0%**	12.5%	13.6%	**11.9%**	13.3%
Net income before provisions and yield enhancements(2)	**22,053**	22,433	25,406	**66,960**	61,843
Earnings per share before provisions and yield enhancements (diluted)(2)	**$0.43**	$0.44	$0.55	**$1.32**	$1.22
ROE before provisions and yield enhancements (%)(2)	**17.1%**	17.7%	20.5%	**17.5%**	17.1%
Leverage ratio (%)(1)	**40.3%**	38.5%	52.8%	**40.3%**	52.8%

(1) Refer to "Description of Non-IFRS Measures" in the MD&A. These financial measures are not recognized measures under IFRS and do not have a standardized meaning prescribed by IFRS. Therefore, they may not be comparable to similar measures used by other issuers.

(2) Reported net income for Q3-2016 was $5.2 million and for YTD-2016 was $59.7 million. Reported earnings per share (diluted) for Q3-2016 was

$0.10 and for YTD-2016 was $1.18. Reported ROE for Q3-2016 was 4.1% and for YTD 2016 was 15.7%.

- Our Third Quarter 2016 MD&A, Unaudited Financial Statements and Issuer Bid Circular are available on our website (www.calliduscapital.ca) or on SEDAR (www.sedar.com).
- Average loan portfolio outstanding was $1,218 million, an increase of 6% ($71 million) from the prior quarter, and an increase of 11% ($116 million) from the same quarter last year.
- Revenue of $44.2 million, decreased 4% ($1.8 million) from second quarter 2016 and decreased 9% ($4.3 million) from third quarter 2015.
- Gross yield for the quarter was 19.0%, a decrease from 20.0% in the prior quarter, and from 19.7% in the same quarter last year. As noted previously, gross yields can be "lumpy" quarter to quarter.
- ROE was 17.1% before provisions and yield enhancements (4.1% after), a decrease from 17.7% in the prior quarter and 20.5% in third quarter 2015. The ROE of 17.1% would be 28.2% if the unrealized yield enhancements were taken into income.
- Net income $22.1 million before provisions and yield enhancements ($5.2 million after), a decrease of 2% ($0.4 million) from the prior quarter and 15% ($3.4 million) from the prior year period. The net income of $22.1 million would be $37.0 million if the unrealized yield enhancements were taken into income.
- Earnings per share (diluted) of $0.43 per share before provisions and yield enhancements ($0.10after), a decrease of 2% ($0.01 per share) from last quarter and 28% ($0.12 per share) from the third quarter of 2015. The earnings per share (diluted) of $0.43 per share would be $0.73 per share if the unrealized yield enhancements were taken into income.
- Leverage ratio of 40.3% at the end of the current quarter, which was relatively consistent with the prior quarter. Leverage was lower than is normally targeted, as cash was held to support the outstanding Substantial Issuer Bid. This had a negative impact on both the ROE and net income.
- As at September 30, 2016, the estimated collateral value across aggregate net loans receivable was approximately 151%. It should be noted that there is no cross-collateralization of the asset coverage as between borrowers.
- Provision for loan losses for the third quarter was $25.8 million. The majority of this provision related to a decrease in appraised values within a specific industry (coal) for an appraisal change on "yellow metal".

About Callidus Capital Corporation

Established in 2003, Callidus Capital Corporation is a Canadian company that specializes in innovative and creative financing solutions for companies that are unable to obtain adequate financing from conventional lending institutions. Unlike conventional lending institutions who demand a long list of covenants and make credit decisions based on cash flow and projections, Callidus credit facilities have few, if any, covenants and are based on the value of the borrower's assets, its enterprise value and borrowing needs. Callidus employs a proprietary system of monitoring collateral and exercising control over the cash inflows and outflows of each borrower, enabling Callidus to very effectively manage risk of loss. Further information is available on our website, www.calliduscapital.ca.

Forward-Looking Statements

Certain statements made herein contain forward-looking information. Although Callidus believes these statements to be reasonable, the assumptions upon which they are based may prove to be incorrect. Furthermore, the forward-looking statements contained in this press release are made as at the date of this press release and Callidus does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

Conference call

Callidus will host a conference call to discuss Q3 2016 results on Friday, November 4, 2016 at 8:00 a.m. Eastern Time. The dial in number for the call is (647) 427-7450 or (888) 231-8191 (reference number: 93992304). A taped replay of the call will be available until November 11, 2016 at (416) 849-0833 or (855) 859-2056 (reference number: 93992304).

SOURCE Callidus Capital Corporation