

# Live Oak Bancshares

Second Quarter 2018



LIVE OAK  
BANCSHARES

Information in this presentation may contain “forward-looking statements” within the Private Securities Litigation Reform Act of 1995. These statements generally relate to our financial condition, results of operations, plans, objectives, future performance or business and usually can be identified by the use of forward-looking terminology such as “may,” “will,” “would,” “should,” “could,” “expect,” “anticipate,” “estimate,” “believe,” “plan,” “intend,” “project,” “goals,” “outlook,” or “continue,” or the negative thereof or other variations thereof or comparable terminology. These statements represent our judgment concerning the future and are subject to business, economic and other risks and uncertainties, both known and unknown. These statements are based on current expectations, estimates and projections about our business, management’s beliefs and assumptions made by management. These statements are not guarantees of our future performance and involve certain risks and uncertainties, which are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in the forward-looking statements. These risks, uncertainties and assumptions include, without limitation:

- deterioration in the financial condition of borrowers resulting in significant increases in our loan and lease losses and provisions for those losses and other adverse impacts to results of operations and financial condition;
- changes in SBA rules, regulations and loan products, including specifically the Section 7(a) program, changes in SBA standard operating procedures or changes to Live Oak Banking Company’s status as an SBA Preferred Lender;
- changes in rules, regulations or procedures for other government loan programs, including those of the United States Department of Agriculture;
- changes in interest rates that affect the level and composition of deposits, loan demand and the values of loan collateral, securities, and interest sensitive assets and liabilities;
- the failure of assumptions underlying the establishment of reserves for possible loan and lease losses;
- changes in loan underwriting, credit review or loss reserve policies associated with economic conditions, examination conclusions, or regulatory developments;
- a reduction in or the termination of our ability to use the technology-based platform that is critical to the success of our business model, including a failure in or a breach of our operational or security systems or those of its third party service providers;
- changes in financial market conditions, either internationally, nationally or locally in areas in which we conduct operations, including reductions in rates of business formation and growth, demand for our products and services, commercial and residential real estate development and prices, premiums paid in the secondary market for the sale of loans, and valuation of servicing rights;
- changes in accounting principles, policies, and guidelines applicable to bank holding companies and banking;
- fluctuations in markets for equity, fixed-income, commercial paper and other securities, which could affect availability, market liquidity levels, and pricing;
- the effects of competition from other commercial banks, non-bank lenders, consumer finance companies, credit unions, securities brokerage firms, insurance companies, money market and mutual funds, and other financial institutions operating in our market area and elsewhere, including institutions operating regionally, nationally and internationally, together with such competitors offering banking products and services by mail, telephone and the Internet;
- our ability to attract and retain key personnel;
- changes in governmental monetary and fiscal policies as well as other legislative and regulatory changes, including with respect to SBA lending programs and investment tax credits;
- changes in political and economic conditions;
- the impact of heightened regulatory scrutiny of financial products and services, primarily led by the Consumer Financial Protection Bureau;
- our ability to comply with any requirements imposed on us by our regulators, and the potential negative consequences that may result;
- operational, compliance and other factors, including conditions in local areas in which we conduct business such as inclement weather or a reduction in the availability of services or products for which loan proceeds will be used, that could prevent or delay closing and funding loans before they can be sold in the secondary market;
- the effect of any mergers, acquisitions or other transactions, to which we may from time to time be a party, including management’s ability to successfully integrate any businesses that we acquire;
- other risk factors listed from time to time in reports that we file with the SEC, including in our Annual Report on Form 10-K; and
- our success at managing the risks involved in the foregoing.

Given these risks, uncertainties and other factors, you should not place undue reliance on these forward-looking statements. Moreover, these forward-looking statements speak only as of the date they are made and based only on information actually known to us at the time. We undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise. Except as otherwise disclosed, forward-looking statements do not reflect: (i) the effect of any acquisitions, divestitures or similar transactions that have not been previously disclosed; (ii) any changes in laws, regulations or regulatory interpretations; or (iii) any change in current dividend or repurchase strategies, in each case after the date as of which such statements are made.

# Second Quarter 2018 | Highlights

**45%↑**

increase versus Q2 2017

Income before Taxes

**\$14.7 million**

**38%↑**

increase versus Q2 2017

Net Interest Income &  
Loan Servicing Revenue

**\$34 million**

**35%↑**

increase versus Q2 2017

Total Loans & Leases

**\$2.3 billion**

**45%↑**

increase versus Q2 2017

Guaranteed Loans Sold

**\$295 million**

**7%↑**

increase versus Q2 2017

Guaranteed Portion of HFS Loans  
(Note Amount)

**\$1.1 billion**

**244 bps↓**

improved diversification versus Q2 2017

% of SBA Loans to Total Originations

**63%**

# Retention & Performance Stock Awards

## Potential Impact of Vesting

**\$32.95**

**per share**

LOB reached a record trading price in Q3


**2.10**

**million**

Number of shares to vest at target stock price of \$34 not reflected in diluted share count

**2x IPO**

Shares vest when LOB's share price reaches \$34 for 20 consecutive trading days

**\$9.96** 

**million**

Remaining expense to be recognized as of June 30, 2018

**\$5.41** 

**million**

Increase in net income due to shares vesting at \$34

**EPS**

Nominal quarterly impact after the accelerated expense and incremental shares

# The Theory of Verticality

(Originations, \$ in millions)

YTD 17   YTD 18

**Live Oak 1.0**  
(2008-2014)



Veterinary



Death Care



Chickens



Healthcare



Investment Advisory



Pharmacies



Family Entertainment

**\$530 \$392**

**Live Oak 2.0**  
(2015-2016)



Wine & Craft Beverages



Independent Insurance



Renewable Energy



Self-Storage



Hotels



Government Contractors

**\$471 \$368**

**Live Oak 3.0**  
(2017)



Solar Panel Leasing



Early Education Services



Professional Services (CPA)



Equipment Leasing



Senior Care



Automotive After-Market

**\$54 \$101**

**Live Oak 4.0**  
(2018)



Quick Service Restaurants



Conventional Real Estate



Fitness Centers

**\$0 \$2**

**Live Oak 5.0**



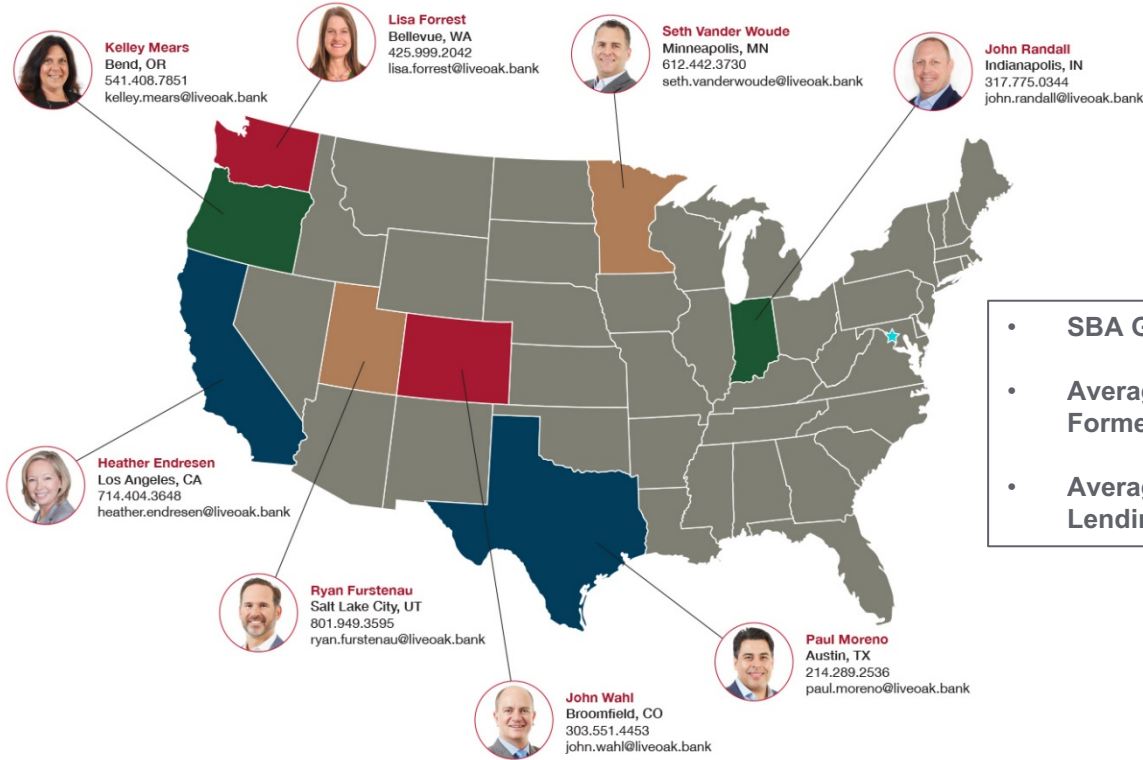
SBA General Lending

**\$0 \$26**

**\$1,055 \$889**

# Live Oak Bank General SBA Loan Solutions

## Home Office Locations



- **SBA General Lenders: 8**
- **Average Production in 2017 at Former Employer: \$22,000,000**
- **Average Years Working in SBA Lending: 17**

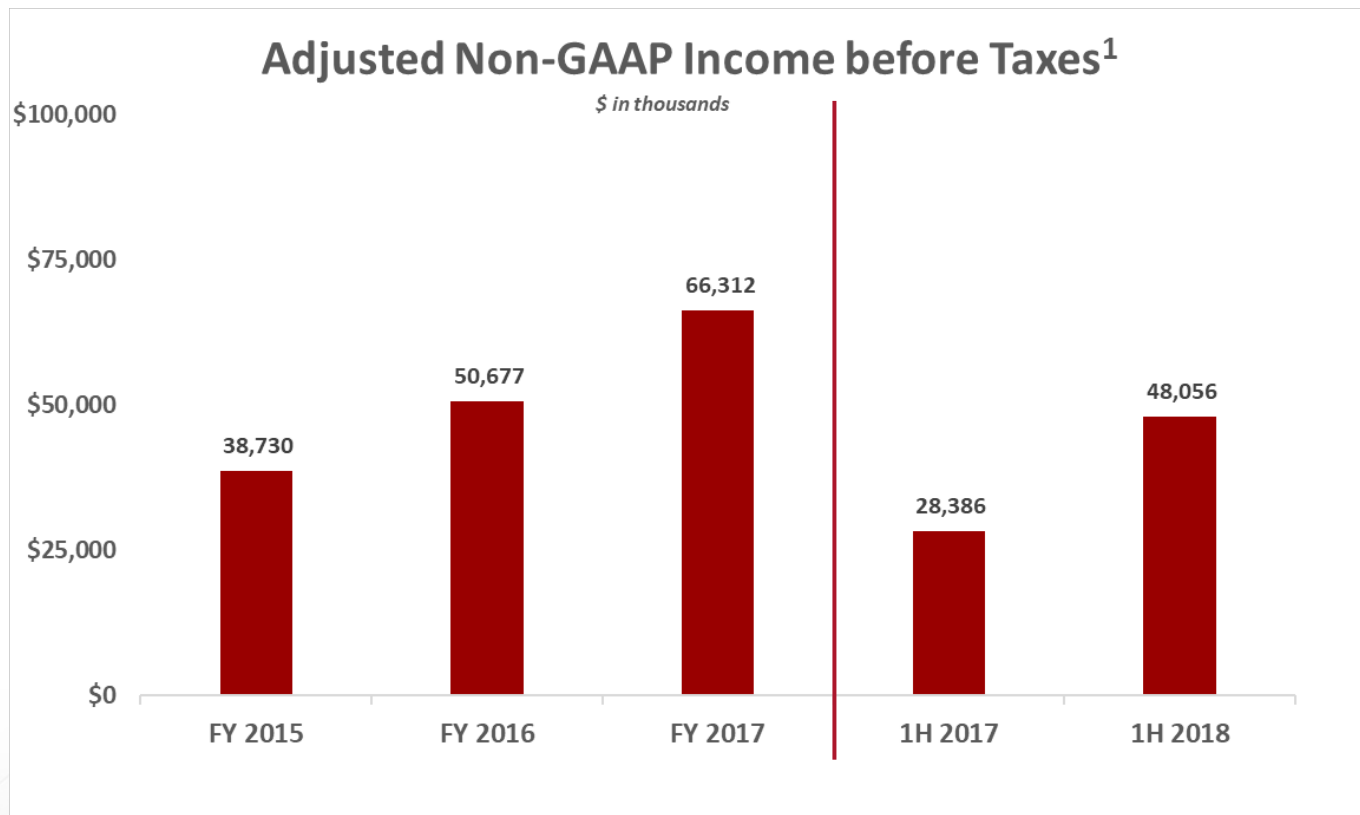
# Credit Stats: Justify a Pre-Provision Look

- Loans from inception: \$8.2 billion originated (Unguaranteed: \$2 billion)
- Net Charge offs since inception: \$15.2 million (75 bps cumulative)
- Average DSCR: 1.97
- Average FICO: 754
- TTM Charge Offs: 25 bps (as a percent of unguaranteed)
- Classified Assets: 1.36% of Unguaranteed Loans  
5.33% of Total Bank Capital<sup>1</sup>
- Allowance for loan & lease losses to loans & lease HFI: 1.91%
  - Nonaccruals Loans \$11.5 million
  - Allowance for Loan & Lease Losses \$29.3 million
- Texas Ratio<sup>2</sup>: 2.98%

1. Total Bank Capital of \$362.4 million as of 6/30/18

2. Nonperforming loans and foreclosures, not guaranteed by the SBA, to allowance for loan and lease losses and total bank capital

# Adjusted Non-GAAP Income



1. Adjusted Non-GAAP Income before taxes excludes expenses arising from the provision for loan and lease losses, stock-based compensation expenses, depreciation expenses, and the operating performance of Reltco, Inc. Reference calculation at the end of this presentation in the appendix.

# Stock Awards

**4.6%**

## **Live Oak**

Annual stock awarded as a  
% of common stock  
(5-year Average)

**3.3%**

## **SaaS Companies<sup>1</sup>**

Stock awarded as a % of  
common stock  
(most recent fiscal year)

**0.3%**

## **Bank Group<sup>2</sup>**

Stock awarded as a % of  
common stock  
(2017)

**9.8%**

## **Live Oak**

Average stock awards outstanding  
as a % of common stock  
(5-year Average)

**9.9%**

## **SaaS Companies<sup>1</sup>**

Stock awards outstanding as a %  
of common stock  
(most recent fiscal year)

**1.3%**

## **Bank Group<sup>2</sup>**

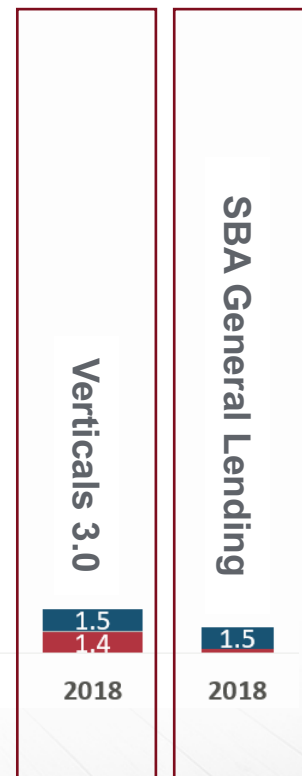
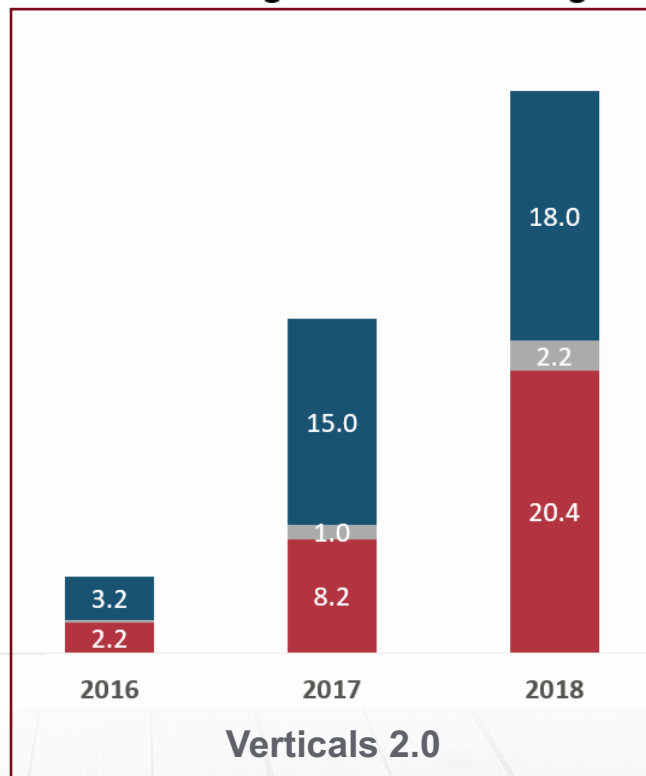
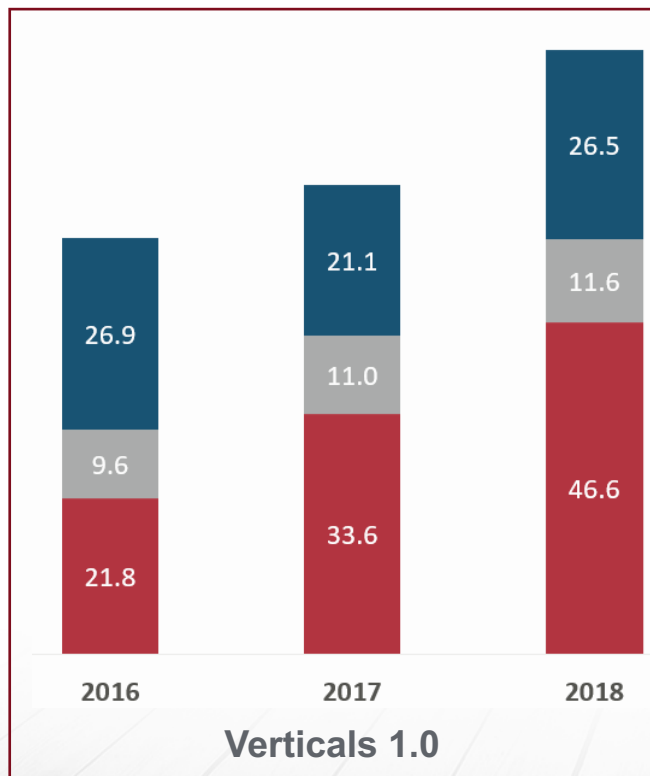
Stock awards outstanding as a %  
of common stock  
(2017)

# Operating Leverage

■ Interest and fees on loans

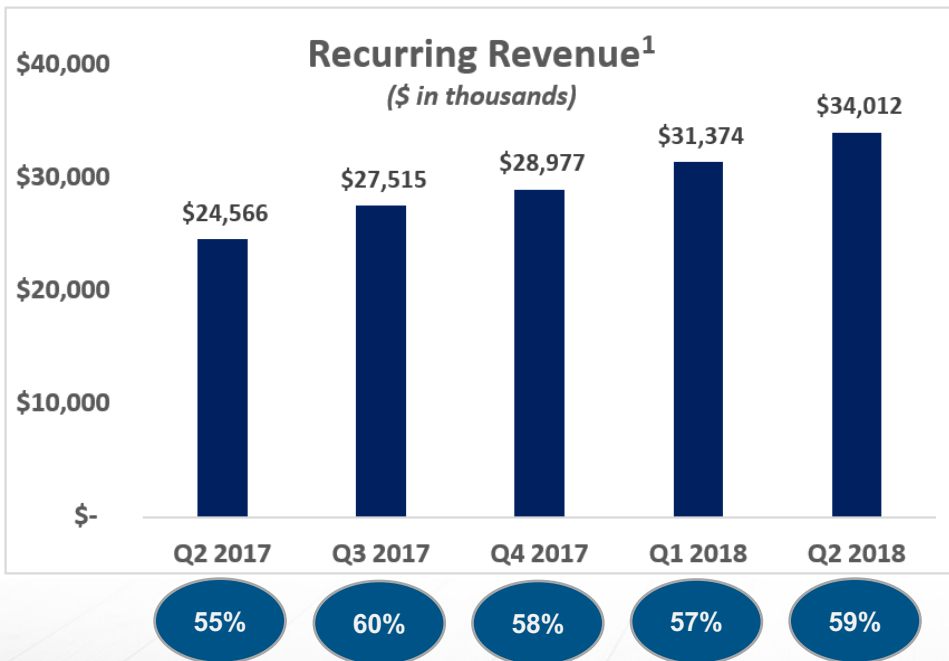
■ Loan servicing revenue

■ Net gains on sales of loans



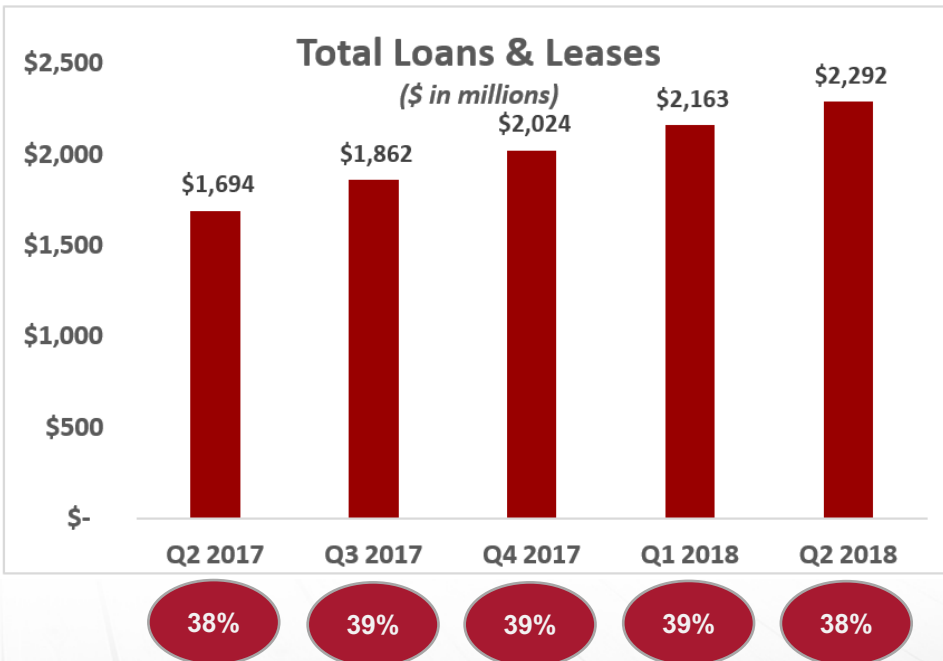
# Growing Recurring Revenue Quarterly

Year-Over-Year  
**38%**  
Recurring Revenue<sup>1</sup> Growth



Recurring Revenue as a percent of Total Revenue<sup>2</sup>

Year-Over-Year  
**35%**  
Portfolio Growth



Guaranteed Loans as a percent of Total Loans & Leases

# The Power of the Deposit Platform

YTD 2018 New Online Savings/CD  
Originations

**\$796 million**

14,524 new accounts

YTD 2018 Maturing  
CD Retention

**\$344 million**

77% Renewal Rate

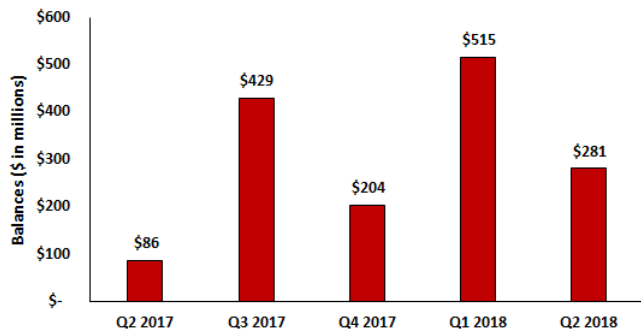
YTD 2018 Consumer Savings  
Retention

**94.5%**

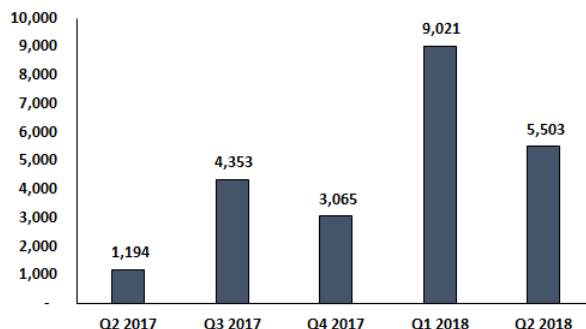
Compared to active accounts at  
December 31, 2017  
Balance retention over the same time  
period was 88%

**19,052 (164%) net account growth since Q2 2017 yet only 4 new FTEs**

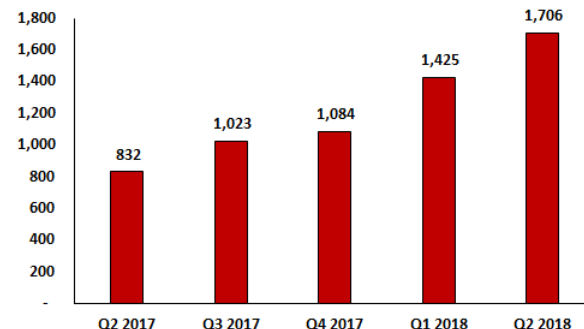
QoQ New Retail Deposits (Savings & CDs)



QoQ New Retail Accounts (Savings & CDs)



Total Open Accounts per Deposits FTE



# The Digital Bank

- **nCino – Loans & Workflow**

- Platform: Force.com
- Status: Installed

- **Apiture – Online Banking**

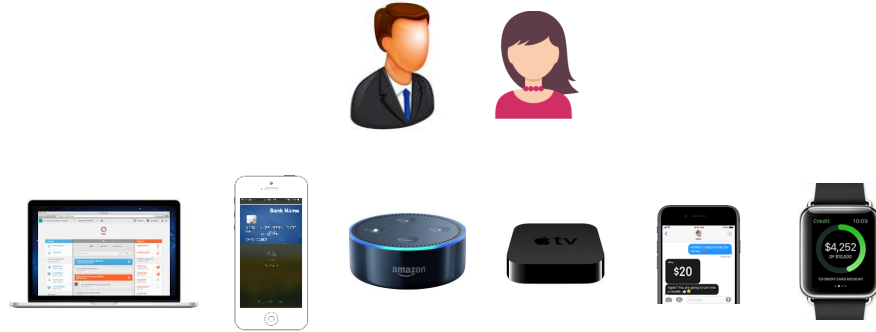
- Platform: AWS
- Status: Installed

- **Payrailz – Payments Platform**

- Platform: AWS
- Status: Q4 Go-Live

- **Finxact – Core Banking**

- Platform: AWS
- Status: Q4 Go-Live





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# APPENDIX

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# Adjusted Non-GAAP Income

	FY 2015	FY 2016	FY 2017	1H 2017	1H 2018
Net income attributable to Live Oak Bancshares, Inc.	\$ 20,625	\$ 13,773	\$ 100,499	\$ 15,907	\$ 26,706
Income tax expense (benefit)	13,795	3,443	(2,245)	1,206	806
Net income attributable to Live Oak Bancshares, Inc., before tax	34,420	17,216	98,254	17,113	27,512
Gain on sale of investment in non-consolidated affiliate	(3,782)	-	-	-	-
Provision for loans reclassified as held for investment	-	4,023	-	-	-
Gain on contribution to equity method investment	-	-	(68,000)	-	-
Renewable energy tax credit investment income	-	-	-	(20)	-
Stock based compensation expense for RSU awards effective on May 24, 2016	-	8,973	1,370	724	709
Merger costs associated with Reltco and Apiture investment	-	-	2,874	766	-
Trade-in loss on aircraft	-	-	206	206	-
Impairment charge taken on aircraft held for sale	-	1,422	-	-	-
Impairment expense on goodwill and other intangibles	-	-	3,648	-	-
Contract modification of Reltco	-	-	1,600	-	-
Renewable energy tax credit investment income, impairment and loss	-	3,239	690	58	-
Non-GAAP Pre-tax Income	30,638	34,873	40,642	18,847	28,221
Stock Options/RSU Expense	1,425	3,100	6,133	2,968	3,855
Depreciation Expense	2,861	4,191	9,559	3,708	7,539
Provision Expense	3,806	8,513	9,536	3,055	6,479
Reltco Pre-tax Income	-	-	(442)	192	(1,962)
Adjusted Non-GAAP Income before Taxes	<u>\$ 38,730</u>	<u>\$ 50,677</u>	<u>\$ 66,312</u>	<u>\$ 28,386</u>	<u>\$ 48,056</u>