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PRESENTATION

Operator

Greetings, and welcome to the Elevate Credit Second Quarter 2019 Earnings Call. (Operator Instructions)

As a reminder, this conference is being recorded.

I would now like to turn the conference over to our host, Daniel Rhea, Manager of Communications for Elevate Credit. Thank you. You may begin.

Daniel Rhea - *Elevate Credit, Inc. - Senior Communications Manager*

Good afternoon, and thanks for joining us on Elevate's Second Quarter 2019 Earnings Conference Call. Earlier today, we issued a press release with our second quarter results. A copy of the release is available on our website at elevate.com/investors. Today's call is being webcast and is accompanied by a slide presentation, which is also available on our website. Please refer now to Slide 2 of that presentation.

Our remarks and answers will include forward-looking statements within the meaning of the Private Securities Litigation Reform Act. These forward-looking statements are subject to risks that could cause actual results to be materially different from those expressed or implied by such forward-looking statements. These risks include, among others, matters that we have described in our press release issued today, our most recent quarterly report on Form 10-Q and other filings we make with the SEC. Please note that all forward-looking statements speak only to the date of this call, and we disclaim any obligation to update these forward-looking statements.

During our call today, we'll make reference to non-GAAP financial measures. For a complete reconciliation of historical non-GAAP to GAAP financial measures, please refer to our press release issued today and our slide presentation, both of which have been furnished to the SEC and are available on our website at elevate.com/investors. We do not provide a reconciliation of forward-looking non-GAAP financial measures due to our inability to project special charges and certain expenses.

Joining me on the call today are outgoing CEO, Ken Rees; Interim CEO, Jason Harvison; and CFO, Chris Lutes. I will now turn the call over to Ken.

Kenneth Earl Rees - *Elevate Credit, Inc. - Director*

Good afternoon, and thanks for listening in to our second quarter conference call. I'm very pleased to report another strong quarter of earnings growth. Thus far in 2019, we've already delivered over $19 million in net income or $0.43 per fully diluted share, and we are reaffirming our full year guidance for $25 million to $30 million in net income. This will be more than double the net income we delivered in 2018.

Elevate's bottom line performance was driven by excellent credit quality and very low rates of fraud across all of our products. Additionally, our customer acquisition costs have remained better than target level. In short, the business is performing extremely well. This is why I believe now is a good time for me to step down as CEO. I'm very proud of our financial accomplishments since our launch in 2014. But I'm even proud of the leadership team here at Elevate. They're all seasoned and dedicated professionals that have been instrumental in the rapid growth of the company and in generating solid profitability over the past 2 years.

In particular, Jason Harvison, who's been named Interim CEO, has proven that he can lead the company and deliver excellent performance. I'm fortunate to have worked with Jason for 15 years now and hold him in the highest regard, intellectually, professionally and personally. He's been the catalyst for our 2019 earnings growth and brings the highest levels of integrity and commitment to both customers and employees.

I will continue to serve on Elevate's Board of Directors and look forward to ongoing involvement as Elevate continues to grow and drive shareholder value as a public company.

With that, let me thank all of the employees and customers of Elevate for these very rewarding years, and I'll turn the call over to Jason and Chris.

Jason Harvison - *Elevate Credit, Inc. - COO, Treasurer, Company Secretary & Interim CEO*

Thank you, Ken, and on behalf of Elevate, thank you for all that you have done, and we wish you the best in your new endeavors. I look forward to continuing our many years of work together and your continued role on the Board.

For those of you who don't know me, I've been with Elevate and its predecessor company since 2003 and was appointed Chief Operating Officer back in 2014. As COO, I've been deeply involved with the development of our strategic priorities and also with the implementation of those strategies at the operating level. Additionally, it shouldn't surprise you that a significant amount of my time has been dedicated this year to the deployment of our new credit models, which we are proud to say have been completed as of the halfway mark of 2019.

I'll give my perspective on Elevate's approach to credit and what it means for the company in a second. But before I do, let me first provide a summary of our second quarter results, which Chris will expand on.

If you'll turn to Slide 4, you can see the summary of our second quarter results, which similar to our first quarter, were highlighted by the outsized growth we had in profitability despite a slower pace of originations and revenue growth, which we'll speak to in a minute. Specifically, our results for the quarter include 87% growth in net income over last year to $5.8 million or $0.13 per fully diluted share compared to $0.07 a year ago. Again, this performance was driven by excellent credit quality. To be clear, we are still in the early stages of our new credit models, but we've been very encouraged with the results so far.

For the quarter, our loan loss reserve as a percent of receivables stood at 12.3%, which is down from 12.9% a year ago. Also, similar to the first quarter, our customer acquisition costs of $229 remained below our targeted range of $250 to $300. Recall last quarter we had noted that we would likely realize a range for CAC closer to $225 to $250 in 2019 given our expansion with FinWise.

With the improvements in credit quality and CAC, we drove another quarter of strong adjusted EBITDA growth and margin expansion. Adjusted EBITDA for the second quarter of 2019 grew 18% year-over-year to $33.9 million, and we achieved a record high margin of 19% compared to 15.6% a year ago. Clearly, the missing piece here is that revenue declined 3.6% as part of our purposely slower origination pace tied to the rollout of our enhanced credit models. As we mentioned in the release, lower APRs in certain of our faster-growing products, namely RISE, originations done through FinWise, drove some of this headwind.

With that said, let's turn to Slide 6 to discuss how we're thinking about revenue growth, both for the remainder of 2019 and more importantly, from a strategic operating perspective. First, as you can see here and saw in our press release, we are reducing our revenue expectation for fiscal year '19 to $750 million to $770 million, which implied a 3% to 4% decline versus a year ago. Because of the credit and marketing efficiencies I noted, we maintained our adjusted EBITDA and net income guidance for the year. Clearly, we believe this is a business that has significant addressable opportunity and one that we strongly believe will generate revenue growth in the future. With the introduction of these new credit models, we believe a more measured approach is the best path forward for Elevate and its shareholders.

In the past, as many growth companies do, we put a heavy focus on volume. Moving forward, our approach will be more disciplined and will be informed by confirmational feedback from models before pushing for further growth. That is particularly the case this year as we look to expand our models and turn up the dial slowly.

Before I turn the call to Chris for details on our financials, I want to emphasize 2 things. First, I couldn't be more excited about Elevate's future and believe the company is very well positioned to capitalize on the strategic initiatives put in place over the past year. Secondly, I firmly believe that Elevate is uniquely well positioned in the market, with strong credit quality, improving margins and a measured approach to growth, we are on track for steady profitability in 2019 and beyond.

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

Christopher T. Lutes - *Elevate Credit, Inc. - CFO*

Thanks, Jason, and good afternoon, everybody. Looking at the top half of Slide 6, on a year-over-year basis, combined loans receivable principal were up $11.7 million or 2%. As we discussed during the prior quarter conference call, we were expecting relatively flat loan growth during the first half of 2019 as we rolled out the new credit models for our U.S. products and await more regulatory clarity in the U.K. regarding affordability complaints. Thus, our marketing to new U.S. customers was fairly limited during the first half of 2019 as we primarily focused marketing efforts on RISE, FinWise Bank customers. As a result, we did see the FinWise loan portfolio increase from approximately $28 million at the end of 2018 to $82 million at the end of June 2019, very strong loan growth during the first half of this year.

For the other U.S. products, the state-licensed RISE portfolio and the Elastic product, we rolled out the new credit models during the second quarter of 2019. In the past, we would have really opened up the new customer marketing when rolling out a new model and then dial it back to get losses in line with what we want. This time around, we have taken a more measured approach, limiting the initial new customer marketing and gradually expanding the marketing each month. While this approach impacts top line revenue growth, it has resulted in improved gross profit and margins. We will continue with this approach as we move forward.

Additionally, Sunny U.K. loan balances were kept relatively flat during the first half of 2019 due to continued lack of clarity on the regulatory front with affordability complaints. While we were hopeful we might have clarity by this summer, for now, our assumption is that we will continue to hold loan balances flat for the rest of this year.

Staying on this slide, our Q2 2019 revenue totaled $177.8 million, down 3.6% from the second quarter of 2018. This decrease was a combination of 2 factors. First, the overall APR for our RISE product declined from 137% in the second quarter of 2018 to 126% in the second quarter of 2019. The average APR of a new RISE FinWise customer is approximately 130%, which is lower than our typical state-licensed RISE customer but with a better credit profile. While we are losing some top line revenue growth due to a lower APR for the RISE FinWise customer, we are generating just as much, if not more gross profit because losses are lower on these customers, and they also have a lower CAC. While RISE revenue was down $4.4 million on a year-over-year basis in the second quarter of 2019, RISE revenue less net charge-offs were actually up $4.1 million on a year-over-year basis, an increase of roughly 9%.

Second, our U.K. product, Sunny, also experienced a $2.1 million decline in revenue during the second quarter of 2019 as compared to a year ago. Almost half of this decline was due to a drop in the FX rate and the remainder due to a slight decline in average loan balances resulting from continued concern with affordability complaints. On a consolidated basis, net revenue, revenue less net charge-offs increased $5.5 million or approximately 6% during the second quarter of 2019 versus a year ago. As a result of all of this, we are revising our fiscal year 2019 revenue guidance down while leaving our net income, diluted earnings per share and adjusted EBITDA guidance unchanged.

Looking ahead to the remainder of fiscal year 2019, we continue to expect declining year-over-year top line revenue growth during the second half of 2019. Our updated revenue guidance for fiscal year 2019 is now $750 million to $770 million. However, we expect 5% to 10% net revenue growth, again, that's revenue less net charge-offs during the second half of 2019, consistent with what we experienced during the second quarter of 2019.

Looking at the bottom half of Slide 6, we are very pleased with the year-over-year growth in our profitability. Adjusted EBITDA for the second quarter of 2019 totaled $33.9 million, an increase of 18% from the prior year second quarter. For the first half of 2019, adjusted EBITDA totaled $78.5 million, up 19% from $65.7 million in the first half of 2018. Bottom line net income for the second quarter of 2019 was $5.8 million or $0.13 per fully diluted share, up from $3.1 million or $0.07 per fully diluted share in the second quarter of 2018. Net income for the first 6 months of 2019 totaled $19.1 million, an increase of $6.4 million or 50% from $12.7 million in the first half of 2018. As I previously mentioned, we are leaving full year net income guidance of $25 million to $30 million unchanged.

Turning to Slide 7, our cumulative loss rates as a percentage of loan originations for our 2018 vintage remains relatively flat with our 2017 vintage, and the early read on the 2019 vintage is that it is performing better than both 2017 and 2018. That said, we are continuing to ramp our new generation of credit scores and strategies and are hopeful that we can drive loss rates lower in coming years.

On this slide, we also show our customer acquisition cost. For the second quarter of 2019, our CAC was $229, down from $260 in the second quarter of 2018. We believe our fiscal year 2019 CAC will continue to stay in the $225 to $250 range, down from the prior historical range of $250 to $300, primarily benefiting from the expanded state coverage of RISE originated by FinWise Bank and continued efficiency and diminished competition in the U.K., although we may see some quarterly volatility in the CAC.

Slide 8 shows our adjusted EBITDA margin, which was 19% for the second quarter of 2019, up from 16% for Q2 2018. The adjusted EBITDA margin for the first half of 2019 was 21%, up from 17% a year ago. All this expansion happened within our gross margin, which increased due to lower loan loss provisioning and marketing spend. Additionally, the decrease in our cost of funds for our RISE and Sunny debt facilities has also resulted in an expanded net income margin so far in 2019, and the Elastic debt facility reprices down to approximately 10%, effective July 1, 2019.

Lastly, I would like to briefly discuss the $10 million common stock buyback plan authorized by our Board of Directors. We believe this buyback will help minimize dilution from ongoing employee stock grants while being small enough to not impact daily liquidity in our common stock. Based on current trading volumes, our daily buyback limitation would be approximately 25,000 shares. We believe this use of capital at the current stock valuation is compelling from a return on capital perspective.

Before turning the call back over to Jason, I would like to take a minute to say how much I've enjoyed working with Ken over these past 13 years. It's not often a CEO and CFO can last that long together. In fact, I think only my wife has put up with me for a longer period of time. I've appreciated the time we have spent, along with Jason, building this company. I wish them the best, and glad he's staying on our Board. I'm also very pleased with Jason being named the Interim CEO and hope it becomes a permanent title.

With that, let me turn the call back over to Jason.

Jason Harvison - *Elevate Credit, Inc. - COO, Treasurer, Company Secretary & Interim CEO*

Thanks, Chris. And before we get to your questions, let me wrap up our remarks on 2 topics.

First, on Slide 9, I'd like to give the quick backdrop of where we stand today in 2019 relative to our strategic priorities. As you know, we amended our credit facility with VPC earlier this year to improve our funding costs and drive additional profit to the bottom line. Next, as we've noted, we have fully deployed our enhanced credit models, but also, as we mentioned, plan to pace originations and continue to prioritize credit quality.

Looking ahead to the second half of 2019 and into 2020, we believe that our new credit platform will scale and benefit more broadly from further penetration across marketing channels.

Lastly, in the U.K., as Chris mentioned, we continue to monitor the regulatory situation and expect our balances to remain relatively flat there until we know more.

With that as a segue, let me turn to Slide 10 to discuss some incremental regulatory news, which I'm sure you've all seen. As you know, in California, a piece of legislation named AB 539 continues to move ahead. In summary, the proposal would limit the amount of interest that can be charged on loans from $2,500 to $10,000. So what does this mean for Elevate? As you know, we believe our product diversity serves as a competitive advantage, and similar to our recent experience in Ohio, we expect to be able to continue to serve California consumers via our bank sponsors that are not subject to the same proposed state level rate limitations. We'll stay tuned here clearly, but believe we are well positioned.

With that, I would like to again reiterate my excitement for Elevate moving forward. The combination of strong credit, margin improvements and measured growth will allow us to show tremendous value to shareholders now and in the future.

With that, I'll turn the call over for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from John Hecht with Jefferies.

John Hecht - *Jefferies LLC, Research Division - Equity Analyst*

Welcome, Jason. The -- I think just in terms of modeling, how should we think about originations by product? Clearly, there was a pretty big step down. Or I guess of the Elastic, I'm wondering how we think about that on a quarterly basis for the next few quarters.

Christopher T. Lutes - *Elevate Credit, Inc. - CFO*

John, it's Chris. Elastic was the last model that we rolled out here during the second quarter, and we're partnering with Republic Bank on it. Candidly, last year, we grew the product a little bit too fast and had higher-than-expected losses in Q4, Q1 of this year. Right now, as we roll out the new credit models, we, along with our bank partners have decided to more gradually market the product in Q2 and Q3 until we're sure that we're happy with the actual performance, and that it's meeting our expectations. I do, at least in my model, think that by the end of Q4 on a year-over-year basis, Elastic new customer volumes are going to be significantly higher than what they were in the prior year.

So from an Elastic perspective, that's what I think. I think Q3, you'll see more moderate growth. We were still growing it pretty heavily last year. So it will probably be down in Q3 versus a year ago in terms of new customer growth, but Q4, we should see a material growth in new customers year-over-year.

John Hecht - *Jefferies LLC, Research Division - Equity Analyst*

Okay, that's helpful. The U.K., when -- is there a point in time where you'll give up and just jettison it, like we've seen others in the market do? Or how do we think about your decision-making there?

Jason Harvison - *Elevate Credit, Inc. - COO, Treasurer, Company Secretary & Interim CEO*

Yes, John, as we stand today, the U.K., from the core business actually is operating relatively well. So CACs are at all-time lows, our losses are very stable and actually Sunny just won an award for Best Lender, under GBP 2,500, voted on by consumers. But obviously, the big topic over there is the complaints and how the FOS and FCA are working to resolve some of that.

From where we sit today, we actually see complaint volumes for the last quarter were slightly down. The U.K. business, for the first half of the year, has been right at a breakeven. It's forecasted to show profitability for the second half of the year, even at the current volumes that we're at right now from a complaint standpoint. But it's really going to come down to an economics decision. I mean luckily, the portfolio is generating good cash flow, but we can't sit out there forever without having the clarity. So we think over the next 3 to 6 months, we'll get more clarity to make a decision on is the common ground a viable business solution to make that work for us.

John Hecht - *Jefferies LLC, Research Division - Equity Analyst*

Okay. And then real quickly in California, if you shifted to 100% of the volume through bank partner there, would it have an effect on yields or anything? Or is it really just a change of the distribution mechanism?

Jason Harvison - *Elevate Credit, Inc. - COO, Treasurer, Company Secretary & Interim CEO*

Yes. Yes, John, for Elastic, we don't have any exposure there, that's already originated by Republic Bank for RISE. That's all gone through a state license approach. But because we have multiple bank partners, we're confident that we can make that transition. We did this in Ohio last year, and it was very seamless. And the actual yield, the effective yield that we're looking at on the product would be very similar to what we have on the market today. So we think the impact would be minimal and the transition would be pretty seamless.

Operator

Your next question comes from David Scharf with JMP Securities.

David Michael Scharf - *JMP Securities LLC, Research Division - MD and Senior Research Analyst*

Welcome aboard, Jason. Maybe 2 topics. The first, it looks like the rollout with FinWise the first half of the year has been performing very well and possibly exceeding your expectations. Can you give us -- just so we get a better understanding for the reliance on that kind of channel partner, it's up to $82 million of balances now. Do you have sort of a road map for how you're thinking about what percentage of Wise, RISE originations or balances may be coming from that partner going out 12 and 24 months?

Jason Harvison - *Elevate Credit, Inc. - COO, Treasurer, Company Secretary & Interim CEO*

Yes, obviously, we had some great success over the last 10 months with that partner and the states that we operate in. I think as we rolled out the new models, we'll see some additional growth in the core RISE states as well. We don't have a specific target mix, but we do like a diversified approach to continue to operate under. And we're always looking at other bank partners that are out there. Today, we're fortunate to have 3 bank partners originate through our platform, and we're always in talks for other partners as well to have a diversified approach.

Christopher T. Lutes - *Elevate Credit, Inc. - CFO*

Yes. And this is Chris. Realistically, we'll probably use a new bank to originate as we transition into California for RISE. It will be a bank probably different than FinWise. So that will add to the diversification.

David Michael Scharf - *JMP Securities LLC, Research Division - MD and Senior Research Analyst*

Got it. And to the extent that risk-adjusted yields through FinWise have been outpacing kind of other avenues for RISE, would you anticipate similar economics and pricing with new bank partners?

Jason Harvison - *Elevate Credit, Inc. - COO, Treasurer, Company Secretary & Interim CEO*

Yes. I mean, as we move forward, we think that the structure we have with FinWise is a solid structure. No need to change what we have there. So as we think about California, it should be a similar structure to what we have with FinWise to move forward.

David Michael Scharf - *JMP Securities LLC, Research Division - MD and Senior Research Analyst*

Got it. And then just one last one on the expense side. Obviously, CAC has been running below the mid, long-term model you've communicated, and you've mentioned this year it's going to be more that $225 to $250. This isn't the first quarter, obviously, where it's been well below that $250, $300 range. I mean notwithstanding the lower guidance for 2019, can you possibly give us a sense for whether or not 2019 is an aberration? Or if $225 to $250 is how we should start thinking about the CAC model going forward longer term?

Christopher T. Lutes - *Elevate Credit, Inc. - CFO*

David, it's Chris. I'm going to bifurcate it into 2 parts. One is, if you look at it at a consolidated level, clearly, one of the -- there's 2 drivers for why it's come down this year. One is with FinWise, anytime we typically launch with a new bank partner in new states, you tend to see customer acquisition costs lower than what you realize is the -- as the state penetration becomes a little bit more mature. And then the second was, I think the U.K. has had a significant impact to their CAC has gone down a lot on a year-over-year basis, primarily due to the decreased competition.

So I think for the rest of this year and probably into early next year, as long as we're continuing to originate the same amount of loans in the U.K. and we continue to see the good performance with FinWise, I'm pretty comfortable with that range. I think longer term, it's when we start getting into potential new products or partner channels that there's opportunity for potentially continued improvement. And before I -- and I'll let Jason comment on that.

But one other thing that I'll point out is, I think, a big piece of our overall margin expansion isn't necessarily that the CAC needs to drop on a go-forward basis. Keep in mind, we allocate all of our marketing dollars every quarter to just new customers. And to the extent that we continue to grow our book and as the loan portfolio matures and you have more customers coming back on their second or their third loan, they're generating revenue for us, and there's no marketing expense associated with those customers at all. So while the CAC technically could remain flat or even go up a little bit, our marketing expense, as a percentage of revenue, is going to continue to decline, I think, pretty significantly over the next 2 to 3 years as we really build up that maturing loan book with customers, where they just continue to return to us.

Jason Harvison - *Elevate Credit, Inc. - COO, Treasurer, Company Secretary & Interim CEO*

Yes. And maybe the only thing I'd add to that is the unit economics support a $250-ish CAC and slightly higher. As we've had very measured growth as we roll out these models and then deliver about slowing originations, and we're really starting to be very disciplined about how we ramp the volume up. We had those CACs come in low, as we start to really expand and accelerate that growth. We probably see it will climb back up next year. But I think the rest of this year, we'll see it come in on the low end of the range.

Operator

Our next question comes from Moshe Orenbuch with Credit Suisse.

Moshe Ari Orenbuch - *Crédit Suisse AG, Research Division - MD and Equity Research Analyst*

Chris, I think you had mentioned that you expect already, actually, even in Q2, you've got positive growth, kind of a net revenue net of credit losses. But as we kind of think about it, you're still expecting it to decline in the second half of the year. You did say that you thought you could have the RISE balances kind of up by the end of the year. Will revenue growth in early '20 be positive? Or will it take kind of the full year to get to that point? Like how do you think about it? I mean, obviously, embedded in that is kind of the pace of kind of new customer additions and the like.

Christopher T. Lutes - *Elevate Credit, Inc. - CFO*

Yes, good question. As I kind of, again, look at the products individually, I think that by Q4, from a RISE perspective, we should see year-over-year revenue growth, especially as we see the continued performance of FinWise, in particular. And I think as we get into next year and if we're able to launch, as we expect a new bank that would be focused on RISE, California, I think that will be a very strong impetus for growth in 2020 from a RISE perspective.

Elastic, I do believe that there's going to be a little bit of a lag. I think new customer volumes will be up by Q4, but because we grew it so strong last year, albeit, I would argue, with weaker credit quality, the top line revenue will be down, whereas the first half of this year, I think we're actually up Elastic on top line revenue 6 months versus a year ago. It's going to lag the second half of the year, but by next year, we should be in growth mode for Elastic as well.

So I feel confident that we'll have top line revenue growth on a year-over-year basis next year. I'm not going to quote an exact percentage yet. And as we get into the next quarters, we'll start to provide some guidance. But hopefully, that gives you kind of what I'm seeing and thinking over the course of the next 6 to 9 months.

Moshe Ari Orenbuch - *Crédit Suisse AG, Research Division - MD and Equity Research Analyst*

Great. That is actually helpful. And just wanted to turn to Jason for a second. I know you've been involved for many, many years and kind of maybe even driving the strategy but is there anything that you think that we're going to see more of or less of kind of in the next few quarters?

Jason Harvison - *Elevate Credit, Inc. - COO, Treasurer, Company Secretary & Interim CEO*

Yes. Coming into 2019, we realized we need to change the strategy we had in place previously. And that strategy has really been about a key focus on strong credit quality, and we've been driving that through the improved model that we have out there, the improved product tools and tighter performance targets we have in the portfolio. So I think you're going to see that continue to go forward.

The second thing is, we want to make sure we focus on margin improvement. We've been delivering that through the credit quality, the lower cost of capital we have out there and the more efficient marketing that we have.

And then lastly, from a growth standpoint, it's just going to be more measured and deliberate. We'll take opportunities as we see them, but we're not going to fight for growth. I think we have a massive opportunity. The market is still as big as ever. We think we're positioned very well to take advantage of that, but we're going to be very deliberate about how we go about it.

Operator

(Operator Instructions) Our next question comes from Bob Napoli with William Blair.

Robert Paul Napoli - *William Blair & Company L.L.C., Research Division - Partner and Co-Group Head of Financial Services & Technology*

I guess, Ken, why now? I mean why is now the right time? And why with Jason is there the interim label?

Kenneth Earl Rees - *Elevate Credit, Inc. - Director*

Well, for me, Bob, as you know, I've been running this company for 15 years now. That's a long time. And I'm really excited about what the current new generation of leadership has been doing over the past couple of years. Jason has really been driving the improvements that we're seeing in the business over the last 6 months. And talking to the Board, we felt it was the perfect time to transition while there's such good momentum on the company, and as Jason and Chris and the rest of the team have really proven themselves leaders.

Christopher T. Lutes - *Elevate Credit, Inc. - CFO*

And then, Bob, this is Chris. I think internally, we all view Jason as the CEO and are hopeful he's going to be named the permanent CEO. But given that we're a public company, the Board felt obligated to begin to conduct a search to see if there is a better candidate, and that search will begin shortly. But again internally, for now, we all view Jason as the CEO, and we believe and are hopeful that he'll be named the permanent CEO. This is a search that hopefully won't drag on too long and it certainly won't be a distraction.

Robert Paul Napoli - *William Blair & Company L.L.C., Research Division - Partner and Co-Group Head of Financial Services & Technology*

Great. Are you -- can you -- maybe a comment on the competitive environment. Are you seeing any change, a reduction in competition within California based on some of the concerns on the regulation front or increased competition anywhere? And just any thoughts broadly on the competitive environment would be helpful. Obviously, the U.K., I guess is less competitive for now.

Jason Harvison - *Elevate Credit, Inc. - COO, Treasurer, Company Secretary & Interim CEO*

Yes, obviously in the U.K., you've seen a lot of volume be pulled back on this as lenders are looking to see some clarity there. Here in the states, in California, we haven't quite seen the pullback just yet. I do think that will create some opportunity going into 2020 when that bill passes, as some lenders won't be able to adapt. I think we're very well positioned from our bank relationships and the platform that we have to be able to continue lending there, as we spoke about earlier. I think that does create some opportunity for us.

Outside of that, you're seeing a little bit of interest like a U.S. bank product coming into that 60% to 70% range. That makes -- shows there's an opportunity out there in the marketplace. But from a growth standpoint, we haven't really seen any pressure or limitations for what we're trying to do and accomplish.

Robert Paul Napoli - *William Blair & Company L.L.C., Research Division - Partner and Co-Group Head of Financial Services & Technology*

Okay. And then just on the product front, any update on the credit card product? Or are there any thoughts, Jason, Chris, any products that Elevate hasn't had out there to date? Or did -- you're interested in providing?

Jason Harvison - *Elevate Credit, Inc. - COO, Treasurer, Company Secretary & Interim CEO*

Sure. On the to date front, we took that to market at the end of 2018. The nice thing on that, we've seen tremendous consumer response, the campaign that we've done have been relatively small. We're being very measured about it, but the consumer response rates have been some of the highest we've seen in some of our campaigns. And when we look at it from an NPS score or CSAT score, they're as high as any other product we've had in market. So we feel like the product that we designed and took to market fit that prime consumer experience, that non-prime consumer that we wanted to hit on. But as we talked about earlier, kind of our strategy, we're being very deliberate about how we take that to market and

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expand it. So the portfolio will be relatively small going through 2019. It's really a test and learn approach, and we'll continue that in 2020. We start to accelerate the growth in 2020, but it will be very measured as we see the portfolio returns from that.

Robert Paul Napoli - *William Blair & Company L.L.C., Research Division - Partner and Co-Group Head of Financial Services & Technology*

And on a new product front? (inaudible) that?

Jason Harvison - *Elevate Credit, Inc. - COO, Treasurer, Company Secretary & Interim CEO*

Yes, there's -- at this point, there's some other ideas we're -- just kind of on the whiteboard, but we're not ready to talk about them just yet.

Operator

Your next question comes from Giuliano Bologna with BTIG.

Giuliano Jude Anderes-Bologna - *BTIG, LLC, Research Division - Director & Financials Analyst*

I guess, one of the questions I had was kind of thinking about capital return and your capital levels. You're obviously announcing a buyback and returning a little bit of capital. How should we kind of think about how you're looking at capital and leverage for the business? And where you'd like to run the business going forward?

Christopher T. Lutes - *Elevate Credit, Inc. - CFO*

Yes, great question. We're certainly generating free cash flow. And given that, in particular, this year, we're growing a little bit slower and focused more on net revenue growth as opposed to pure top line revenue growth, we are taking a balanced approach on how we're kind of deploying that additional free cash flow. We're -- we announced, I think a modest share buyback that allows us to minimize the dilution without disrupting liquidity in the stock price. I think there would be a concern if we did a big buyback, as compelling as the economics are, that it could have an impact on the liquidity. We're certainly taking the opportunity to pay down debt. And as the CFO, I love focusing on that. We did pay down half of our subordinated debt this past quarter, and we expect to pay down the remaining half, sometime within the next year, and that is at a much higher cost of funds than the 10%. That was the one remaining piece of the original VPC facility that we did not amend but we'll have that paid off within the next year.

And then I think the other thing with the free cash flow, it's not so much necessarily paying down the debt, but is just it allows us to kind of redeploy that capital and self-funding our loan growth rather than having to borrow under our VPC facility. So I think you'll see us on a going-forward basis, utilize the free cash flow that we generate in kind of a balanced approach across all 3 aspects, looking at potential share repurchases, but primarily focused more on debt repayment. And then just kind of self-funding, opportunistic loan growth on a go-forward basis.

Giuliano Jude Anderes-Bologna - *BTIG, LLC, Research Division - Director & Financials Analyst*

That makes sense. And then thinking about the California side, granted it's still quite early, but are there opportunities to kind of expand that business and even potentially go below $2,500 with a bank partner?

Jason Harvison - *Elevate Credit, Inc. - COO, Treasurer, Company Secretary & Interim CEO*

Yes. I mean that's one of the nice things, banks don't have the same limitations that a state licensed lender would. So whereas the minimum loan size in California today is $2,600, a bank would have the ability to offer a loan down to $500, and hopefully, have a wider range of consumers that they can serve.

Operator

There are no further questions at this time. I'll now turn the conference back to Jason Harvison for closing remarks.

Jason Harvison - *Elevate Credit, Inc. - COO, Treasurer, Company Secretary & Interim CEO*

Thanks. On behalf of Elevate and the team, I'd like to thank Ken for his contributions and leadership over the last 15 years. And personally, I'd like to thank Ken for his mentorship and friendship. I look forward to continue to work with Ken in his role in the Board.

Also, I'm very excited about the opportunities and the performance of the organization in the first half of the year, and I look forward to leading the team and building on that success. And with that, thank you, everyone, for your time, and we'll talk to you next quarter.

Operator

Thank you. This concludes today's conference. All parties may disconnect. Have a great day.
