

Great Ajax Corp.
Form 10-Q
November 07, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

001-36844

(Commission file number)

GREAT AJAX CORP.

(Exact name of registrant as specified in its charter)

Maryland 47-1271842
State or other jurisdiction (I.R.S. Employer
of incorporation or organization Identification No.)

9400 SW Beaverton-Hillsdale Hwy,
Suite 131 97005
Beaverton, OR 97005 (Zip Code)

(Address of principal executive offices)

503-505-5670

Registrant's telephone number, including area code

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the Registrant was required to submit such files). Yes No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (check one):

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes
 No

As of November 6, 2018, 18,856,601 shares of the registrant's common stock, par value \$0.01 per share, were outstanding, which includes 624,106 operating partnership units that are exchangeable on a one-for-one basis into shares of the registrant's common stock.

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PART I. FINANCIAL INFORMATION

Item 1. Consolidated Interim Financial Statements

GREAT AJAX CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(\$ in thousands except per share data)	September 30, 2018	December 31, 2017
ASSETS	(Unaudited)	
Cash and cash equivalents	\$59,758	\$53,721
Cash held in trust	45,527	27,041
Mortgage loans, net ^(1,4)	1,272,644	1,253,541
Property held-for-sale, net ⁽²⁾	20,463	24,947
Rental property, net	8,080	1,284
Investments at fair value	51,751	6,285
Receivable from servicer	13,106	17,005
Investments in affiliates	8,737	7,020
Prepaid expenses and other assets	12,410	4,894
Total assets	\$1,492,476	\$1,395,738
LIABILITIES AND EQUITY		
Liabilities:		
Secured borrowings, net ^(1,3,4)	\$631,207	\$694,040
Borrowings under repurchase transactions	420,461	276,385
Convertible senior notes, net ⁽³⁾	103,162	102,571
Management fee payable	777	750
Accrued expenses and other liabilities	4,704	4,554
Total liabilities	1,160,311	1,078,300
Commitments and contingencies – see Note 7		
Equity:		
Preferred stock \$0.01 par value; 25,000,000 shares authorized, none issued or outstanding	—	—
Common stock \$0.01 par value; 125,000,000 shares authorized, 18,856,601 shares at September 30, 2018 and 18,588,228 shares at December 31, 2017 issued and outstanding	189	186
Additional paid-in capital	258,854	254,847
Treasury stock	(232))
Retained earnings	40,518	35,556
Accumulated other comprehensive income/(loss)	(203)) (233)
Equity attributable to stockholders	299,126	290,356
Non-controlling interests ⁽⁵⁾	33,039	27,082
Total equity	332,165	317,438
Total liabilities and equity	\$1,492,476	\$1,395,738

Mortgage loans, net include \$914.2 million and \$996.2 million of loans at September 30, 2018 and December 31, 2017, respectively, transferred to securitization trusts that are variable interest entities (“VIEs”); these loans can only be used to settle obligations of the VIEs. Secured borrowings consist of notes issued by VIEs that can only be settled with the assets and cash flows of the VIEs. The creditors do not have recourse to the primary beneficiary (Great Ajax Corp.). See Note 8 — Debt. Mortgage loans, net include \$0.4 million and \$0 of allowance for loan losses at September 30, 2018 and December 31, 2017, respectively.

(2) Property held-for-sale, net, includes valuation allowances of \$2.0 million and \$1.8 million at September 30, 2018 and December 31, 2017, respectively.

(3) Secured borrowings and Convertible senior notes are presented net of deferred issuance costs.

As of September 30, 2018, balances for Mortgage loans, net includes \$338.7 million and Secured borrowings, net of deferred costs includes \$237.0 million from the 50% and 63% owned joint ventures, respectively. As of (4) December 31, 2017, balances for Mortgage loans, net include \$177.1 million and Secured borrowings, net of deferred costs includes \$88.4 million from a 50% owned joint venture, all of which the Company consolidates under U.S. GAAP.

Non-controlling interests includes \$19.9 million at September 30, 2018, from 50% and 63% owned joint ventures. (5) Non-controlling interests includes \$14.0 million at December 31, 2017, from a 50% owned joint venture, which the Company consolidates under U.S. GAAP.

The accompanying notes are an integral part of the consolidated interim financial statements.

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GREAT AJAX CORP. AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(\$ in thousands except per share data)	Three months ended		Nine months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
INCOME				
Interest income	\$27,416	\$ 24,529	\$79,697	\$ 67,057
Provision for loan losses	(365)	—	(365)	—
Interest expense	(12,997)	(10,775)	(38,290)	(27,719)
Net interest income	14,054	13,754	41,042	39,338
Income from investments in affiliates	239	158	628	543
Other income	457	314	2,600	1,117
Total income	14,750	14,226	44,270	40,998
EXPENSE				
Related party expense – loan servicing fees	2,457	2,187	7,598	6,003
Related party expense – management fee	1,456	1,428	4,428	3,830
Loan transaction expense	(25)	290	365	1,257
Professional fees	482	497	1,597	1,484
Real estate operating expenses	1,001	1,151	2,394	2,112