Kelsey Montz

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Operator: Good day and welcome to Walker & Dunlop's Fourth Quarter and Full Year 2017 Earnings Conference Call and Webcast. Hosting the call today from Walker & Dunlop is Willy Walker, Chairman and CEO. He is joined by Steve Theobald, Chief Financial Officer, and Kelsey Montz, Assistant Vice President of Investor Relations.

The archive call is also available via webcast on the Company's website. At this time, all participants have been placed in a listen-only mode, and the floor will be open for your questions following the presentation.

If you'd like to ask a question at that time, please press star and 1 on your touchtone phone. If, at any point, your question has been answered, you may remove yourself from the queue by pressing the pound key. We do ask that you please pick up your handset to allow optimal sound quality. Lastly, if you should require operator assistance, please press star zero.

It is now my pleasure to turn the floor over to Kelsey Montz. Please go ahead.

Kelsey Montz: Thank you, Keith. Good morning, everyone. Thank you for joining the Walker & Dunlop's Fourth Quarter and Full Year 2017 Earnings Call. I have with me this morning, our Chairman and CEO, Willy Walker, and our CFO, Steve Theobald. The call is being webcast live on our website, and a recording will be available later this morning. Our earnings, press release and website provide details accessing the archived webcast.

This morning, we posted our earnings release and presentation to the Investor Relations section of our website, www.walkeranddunlop.com. These slides serve as a reference point for some of what Willy and Steve will touch on this morning.

Please also note that we will reference the non-GAAP financial metrics, adjusted EBITDA during this portion of this call. Please refer to the earnings release posted on our website for a reconciliation of this non-GAAP financial metric. Investors are urged to carefully read the forward-looking statement's language in our earnings release. Statements made on this call which are non-historical facts may be deemed forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements describe our current expectations, and actual results may differ materially. Walker & Dunlop is under no obligation to update or alter our forward-looking statements whether as a result of new information, future events or otherwise. We expressly disclaim any obligation to do so. More detailed information about risk factors can be found in our annual and quarterly reports filed with the SEC.

With that, I will turn the call over to Willy.

Willy Walker: Thank you, Kelsey, and welcome, everyone. Thank you for joining us today. As investors saw on the earnings release we put out this morning, Walker & Dunlop had a fantastic fourth quarter and 2017 likely started it; explosive growth, continued execution of our strategic initiatives, and strong profitability. We expanded our footprint and client base, we grew our banking in brokered volumes across all capital sources, and we generated record total transaction volume to produce the most profitable year in the Company's history -- $211 million in net income up 85% over $114 million last year.

The team we have assembled, the brand we have established and the highly profitable business model we have built has allowed us to consistently outperform across all financial and operational metrics.

As you can see on slide 3, total revenues of $712 million were up 24% over 2016 and put us well on our way to reaching our goal of generating $1 billion in annual revenues by 2020. Four years ago on this same earnings call we began telling investors that W&D would grow earnings per share by double digits on an annual basis. Since that time, we have grown EPS year-over-year at 31%, 68%, 38%, and 80%. That's a 442% increase over the past four years.

The 80% EPS growth this year is inclusive of a $1.80 reimbursement of our deferred tax liability due to the tax cut and Jobs Act. Removing this one-time tax benefit, we grew EPS by 30% between 2016 and 2017, the fourth straight year of 30% or better EPS growth.

Our commercial mortgage servicing portfolio surpassed $75 billion in January putting us well on pace to our goal of building a $100 billion servicing portfolio by 2020. As our servicing portfolio has grown, so have the contractually obligated servicing revenues to a record of $176 million, up 25% over last year.

The growth in cash origination fees coupled with record servicing income first adjusted EBITDA to over $200 million on the year, a 55% increase from 2016. We looked back to see what W&D's EBITDA was when we went public in 2010 and realized that in seven years we have grown EBITDA 10 times from $21 million to over $200 million. The strong profit in cash-generating capabilities of our business model should continue to drive growth in EBITDA over the coming years.

2017 total transaction volume of $28 billion was a record by a wide margin. This all-time high is in nearly every execution. As you can see on slide 4, we have doubled the number of bankers and brokers at W&D since 2012 and during that period of time we have quadrupled our annual transaction volume.

We originated close to $16 billion of financing with Fannie Mae and Freddie Mac growing our total GSE originations by 41% year-over-year -- far faster than our largest competitors in this space.

Our HUD loan originations were up 54% year-over-year, topping $1 billion for the first time since 2013, a significant accomplishment.

Our position at the top-of-the-league tables with Fannie, Freddie, and HUD, and the reputation is one of the very best multi-family finance firms in the country has broadened our client's base, increased our access to deal flow, and driven our financial results. Capital markets originations of $7.3 billion were up 75% from last year, beating the previous annual record by over $3 billion.

The acquisitions of Elkins Mortgage at the end of 2016 and Deerwood Capital at the beginning of 2017 were homerun transactions where we acquired absolutely fantastic bankers and brokers that fit seamlessly into W&D and generated financial returns well above pro forma expectations.

Beyond the great success of our capital markets team and originating $7.3 billion in brokered loans, the same group originated $2.2 billion of financing for our Fannie, Freddie, and HUD executions. To have explosive growth in our debt brokerage business coupled with over $2 billion of incremental higher-margin agency business is exactly what we expected would happen when we began investing in our capital markets platform a few years ago.

Finally, we acquired Engler Financial in 2015 to enter the multifamily investment sales (audio break). We have been actively adding investment sales professionals to our platform, and then in 2017 a record $3 billion in total sales volume, an 18% increase over 2016.

We finished the year at the top of the GSE league tables as number 3 with Freddie Mac and number 1 with Fannie Mae. This is the fourth time in six years that we have been Fannie Mae's largest multi-family lending partner, leading one banker to comment, "Walker & Dunlop have become the Alabama of (inaudible) lending."

If you look at slide 5, which shows the 2017 league tables, you can see that many of our closest competitors are firms with large investment sales businesses that seed financing opportunities to their bankers.

We are thrilled to have done $3 billion of investment sales last year but we are still a small player in this space relative to our peers. This shows that our consistent position at the top of the agency league tables is soon to being known as the very best multi-family finance company in the country and not because we enjoy the benefits of generating significant volumes from investment sales or other feeder businesses.

This also presents us with a great opportunity to continue building our investment sales business and driving incremental deal flows to our financing business.

Of our $25 billion of loan origination volume in 2017, 81%, or $20 billion, is on multi-family property. The average of the Mortgage Bankers Association and Freddie Mac estimates for the size of the multi-family financing market last year is $281 billion. As shown on slide 6, using that average as the market size, with Walker & Dunlop's market share of total multi-family lending in the United States at 7.2%, up dramatically from 5.2% in 2016. It is a testament to our bankers, brand, and people that we are rapidly headed towards 10% market share and total multi-family lending in the United States.

Outside of Fannie and Freddie, we did $4.3 billion of multi-family financing with life insurance companies, banks, HUD, and on our own balance sheet. It is clear that even as we have established the dominant position with the GSEs, that the borrowing community to use Walker & Dunlop as the expert in multi-family financing regardless of the capital source.

Excluding multi-family, the Mortgage Bankers Association expects total financing volume for all other commercial real estate property types to have been $246 billion in 2017. We did $4.7 billion of non-multi-family financing in the year, or just under 2% market share. Clearly, as we continue to scale our multi-family business, we have almost unlimited opportunity to grow our commercial real estate banking and brokerage businesses as well.

As we announced in our earnings release this morning, Walker & Dunlop's Board of Directors has initiated a quarterly dividend payment of $0.25 per share. Since our IPO in 2010, we have grown our company at a torrid pace, funding billions of dollars on commercial real estate while creating a wildly valuable servicing portfolio.

We have strategically reinvested the cash flows generated by the servicing portfolio back into our loan origination business, which has further accelerated the growth of the portfolio and generated more and more cash. But the servicing portfolio at $75 billion today and close to $200 million of cash servicing revenues on an annual basis, we have the consistent cash flow to support a quarterly dividend payment and maintain our growth trajectory. It is our expectation that we will increase the dividend over time while continuing to invest in growing the business as our entrepreneurial spirit and focus on growth remains the defining characteristics of Walker & Dunlop.

I'd like to now turn the call over to Steve to discuss our financial results in more detail.

Steve Theobald: Thank you, Willy, and good morning, everyone. Fourth quarter was a strong finish to an exceptional year for Walker & Dunlop. As you can see on slide 7, (inaudible) $3.50 (electronic noise). (inaudible) impact of the tax cuts and Jobs Act, which I will explain in detail in a moment, we earned $1.26 per share up from $1.16 in the fourth quarter of last year.

Q4 total transaction volume was $8.3 billion and was a record quarter for our HUD, capital markets, and investment sales team as we continued to see benefits from our investments outside of the core GSE business. We generated a record $55 million in adjusted EBITDA during the quarter, up 58% from Q416 and surpassing our previous quarterly record of $51 million.

As shown on slide 8, since 2010, we have increased adjusted EBITDA 10x from $21 million to $201 million. Over that seven-year period we acquired five companies with the goal of expanding our origination platform and, in turn, increasing our servicing portfolio, adjusted EBITDA, and cash flow. This cycle of reinvesting our cash to grow the business, which then generates more cash has allowed us to think somewhat uniquely and significantly scale our platform and increase adjusted EBITDA without relying on large amounts of cash.

It has been widely reported today, the enactment of a tax cut and Jobs Act in December, the (inaudible) companies revalued their deferred tax assets and liabilities at the new federal tax rate of 21%. During the quarter, Walker & Dunlop reported a $58 million benefit to income tax expense related to the revaluation of our net deferred tax liability. This benefit resulted in an additional $1.80 of diluted earnings per share in the quarter.

Beginning in the first quarter of 2018, we will also see an ongoing benefit to net income and cash flow from the reduction in the federal corporate tax law. We are currently estimating that our effective cash rate will be reduced from its historical level of over 38% but somewhere in the range of 25% to 28% in 2018.

The overall decrease in effective tax rate will drive meaningful earnings appreciation and increases in free cash flow from 2017 levels. Slide 9 helps to put this in perspective. If you were to apply a 26% effective tax rate to our 2017 operating income, it would result in $0.59 of additional earnings per share and a reduction in our cash income tax expense of $18 million.

While we were pleased with the ongoing benefit of a reduced tax rate, positive impact to tax reform should not overshadow the strong earnings cash generation capabilities and operational efficiency of our business model, which are all (inaudible) from our 2017 financial performance. We posted strong team metrics for the year without ready margin of 32%, payment sale margin of 177 basis points and return on equity of 31%. Let me spend a bit more time on each (electronic noise).

In terms of operating margins, we achieved a 32% margin in the fourth quarter and 33% for the year, which compares favorably in the 32% operating margin achieved in 2016. Our margin benefits (inaudible) of our platform and the efficiency of having more than $1 million in revenues for employees.

Gain on sale margin was 189 basis points in the quarter near the top of our expected range based upon the strong Fannie Mae and HUD volumes achieved during the quarter. For the year, the gain on sale margin was 177 basis points. We have long stated the gain on sale margin will be variable to carry the period, but our overall profitability will continue to improve as we grow.

As you can see on slide 10, the chart on gain on sale margins compared to operating margins from 2013 to 2017. If you look at 2013, we reported our highest gain on sale margin as 243 basis points. At 2013 also represented our lowest operating margins at 21%. In fact, operating margin has marched steadily ahead each year since 2013, moving from 21% all the way to 33% in 2017. While the gain on sale margin has varied from a high of 243 basis points to a low of 177 basis points over this same time period.

While you can see that gain on sale margin is variable, the constant is in growth and revenues and effective cost management, which has powered our operating margin upward since 2013.

Return on equity was 31% for the year, 23% excluding the tax benefits, compared to 21% last year. Our growth has allowed us to consistently increase our returns at levels above our long-term targets of mid to high teens while retaining substantially all of our capital during that period of time.

The end of 2017 was over $800 million last year and close to $200 million of cash on the balance sheet. As Willy mentioned, we have now initiated a quarterly dividend of $0.25 per share. At this rate, an annual dividend of $1.00 per share represents a yield of 2.2% based on yesterday's closing stock price and a payout ratio of (inaudible) to 16% of 2017's net income. We believe this level of dividend represents prudent amounts that can be sustained for the foreseeable future with plenty of room to throw it over time as we continue to increase earnings. Importantly, it still allows us to retain ample cash to continue to invest in the business to foster future growth.

We have also been buying back our stocks requiring another 111,000 shares during the fourth quarter bringing our total share repurchases for 2017 to 339,000 shares at a weighted average price of $47.10. We continue repurchasing during 2018, buying another 233,000 shares at an average price of $46.75. Our total repurchases under last year's Board authorization were $26.8 million. Yesterday, our Board authorized the new share buyback program giving us $50 million of new repurchase capacity over the next 12 months.

We have historically bought back our stocks when we thought it was cheap and have created significant shareholder value through $119 million of strategic buyback since the beginning of 2014 at a weighted average share price of $18.41.

We feel well positioned to continue our growth trajectory and have set a goal for 2018 to deliver double-digit growth in both free tax income and adjusted EBITDA. We remain focused on bringing top anchors and brokers to Walker & Dunlop and aim to increase our salesforce by 10% to 15% 2018 from the year-end 2017 headcount of 145.

Based on our anticipated mix of future business, we are maintaining an expected gain on sale margin range of 160 to 190 basis points. As I mentioned, gain on sale margin can be highly variable and not at all predictive of our overall results. We remain focused on managing the business to our target operating margin goal and have been very successful in doing just that.

Based on the scale we have achieved to date, we are raising our target operating margin range to 30% to 35% for 2018 as we believe that level is sustainable with our current size business model.

Despite increasing our stockholders' equity by 33% from year-end 2016 to year-end 2017, we have consistently outperformed our mid to high teens return on equity target range. It's rare for a lending business to consistently deliver an ROE at this level and is reflective of our unique business model that we are able to do so.

The dynamics of reduced tax expense, dividend payments, and share repurchases did result in sustainable returns above our historical target, so we are increasing our ROE target to a range of 20% to 25%.

Our financial goals represent our objectives for the whole of 2018. It's important to remember that the commercial real estate business can be variable over the course of a year with the first quarter being the lightest from an overall volume perspective. That was not the case in 2017 where we started the year with incredibly strong volumes driven by a $650 million portfolio financing (inaudible) with $0.27 tax benefits associated with the vesting of stock compensation awards, in particular, the backing of our 2014 performance share plan.

We would expect that volumes in the first quarter of 2018 will look like a more typical Q1, and the tax benefits from investing in the stock compensation will be much lower than last year since we do not have a performance share plan investing this year. Overall, we believe in a fundamentally strong multi-family housing market, reduced corporate taxes, and a growing US economy bodes well for us in 2018 and beyond.

With that, I will now turn the call back over to Willy.

Willy Walker: Thank you, Steve. The 2018 target that Steve just went through (inaudible) continuation of our pattern of dramatic growth and profitability. We expect the multi-family financing market to remain very active going forward. This presents a tremendous opportunity for W&D and our strong market position, exceptional (inaudible) and growing client base.

As you can see on slide 12, we have benefited from a growing commercial real estate financing market we have not been dependent on it. Based on estimates from the Mortgage Bankers Association, the overall commercial real estate financing market grew by 5% last year while Walker & Dunlop's loan originations grew by 49%.

The multi-family financing market increased by 4% last year, while W&D increased our multi-family originations by 43%. Those market estimates for market growth in 2018 range from flat to slightly up, but as our track record has shown, we have the team, expertise, and client base to grow meaningfully faster than the market.

We have a strong dependable market position when it comes to multi-family finance, but our mission remains to become the premier commercial real estate finance firm in the United States and has been the driving force behind our strategy of building out a loan origination platform across the country to grow our client base and access deal flow. We have continuously set ambitious objectives and achieved them all while remaining disciplined in our growth and true to our stated mission. We will continue laying out our plans for growth and delivering on them, building on our track record of financial outperformance and execution.

To execute on our strategy, we will continue building our national brokerage footprint to broaden our client reach and gain further access to deal flow. As I have already discussed, we have successfully acquired companies, recruited talented professionals, and promoted internal talent over the last several years in pursuit of this goal.

We have grown our capital markets team from 24 bankers at the end of 2013 to 82 at the end of 2017. Despite rapidly expanding our capital market's footprint in the last four years, there are still many regions across the United States where we are lacking feet on the street.

While we have a national platform with a great brand, we still have a huge opportunity for continued growth, and we will continue to pursue our goal of expanding our reach and deal flow by targeting those regions where we feel we are lacking a presence.

Outside of strategic geographic hiring, we are also focused on expanding our client base and the types of loans we are originating. We are still seeing large flows of foreign capital coming into the United States commercial real estate industry, and a majority of that equity is being controlled by institutional sponsor groups who have recently become part of Walker & Dunlop's client base.

We started to target these firms last year and have been very successful in those efforts, having closed loans for the first time with Blackstone and Carlyle this year as well as the largest deal in the Company's history for Greystar. Breaking into these large borrowers isn't easy, but our consistent execution and reputation as one of the top multi-family lenders in the country continues to build on itself and open the door to bigger and bigger opportunities.

We will also continue to strengthen our dominant brand in multi-family finance. We will do this in two ways. First, we will continue building out our investment sales platform.

Since acquiring Engler Financial Group in 2015, we've expanded the team in the Southeast and Mid-Atlantic, but we need to grow our presence across the country to take advantage of the synergies between property sales and financing.

In 2017, we arranged the debt placement to the buyers on 38% of our investment sales transactions, many of whom were first-time W&D borrowers. This is an incredibly valuable source of deal flow that also broadens and deepens our client relationships. Our goal is to grow this platform to $8 billion to $10 billion from annual investment sales volume. And as we get there, it will become an increasingly important and strategic part of our business.

Second, we will continue to add bankers to our multi-family finance business. We are frequently asked by investors how we can keep growing so rapidly. From 2016 to 2017, we moved up in the league tables of both Fannie and Freddie and increased our multi-family finance volumes by 43%. This is fantastic growth, but we are still not a dominant player in every market across the country.

To keep growing, we have looked at every MSA in the country and identified specific cities and regions where we don't have our commensurate market share of multi-family financing. Our plan is to focus our origination effort on increasing our coverage of these geographies, which may involve reallocating internal resources or hiring teams of originators to grow our client base and deal flow in these markets.

If we are able to execute on these strategic growth initiatives, we will continue to grow our financing volumes at a rapid pace, allowing us to make additional progress towards achieving the ambitious 2020 goal we set out last year.

As shown on slide 13, our 2020 vision includes generating $1 billion in annual revenues and to do that we need to grow our annual loan origination volumes $30 billion to $35 billion, and our annual investment sales volumes to $8 billion to $10 billion. And as we increase our transaction volumes, our servicing portfolio will grow from $75 billion today to over $100 billion by the end of 2020.

A final component of our 2020 vision involves building an asset management business to expand our access to capital designed to meet our borrowers' wide range of financial needs. To that end, we took our first step into that space in 2017 by establishing our joint venture with Blackstone Mortgage Trust to lend on transitional multi-family assets. And we remain very focused on building that portfolio to $1 billion in outstanding loans.

But to meet the needs of all of our customers, we must broaden our access to capital beyond multi-family first-lien debt. We have been actively pursuing a variety of sources and strategies that will meet those needs with the ultimate goal of building an $8 billion to $10 billion asset management business by 2020.

Once established, our asset management platform should generate a stable revenue stream similar to our largely prepayment protective servicing revenue that will be used to continue fueling our growth and delivering superior returns to our investors.

At Walker & Dunlop we have cultivated a culture of outperformance that drives us to continuously raise the bar and achieve, as exemplified by our number 17 ranking on Fortune Magazine's list of Fastest Growing Companies in 2017. Our mission to become the premier commercial real estate finance firm in the United States pushes our team to be better, faster, and more innovative in everything we do.

Our unique workplace culture has also allowed us to attract and retain the very best commercial real estate professionals in the industry and be named a great place to work for five out of the last six years by Fortune Magazine.

I'd like to thank everyone at Walker & Dunlop for bringing the W&D culture to light every day in your interactions with one another and our clients. Many congratulations to all of you on another wildly successful year.

And, finally, I'd like to thank our shareholders for their continued confidence in our team and for their investment in W&D.

With that, I'd like to ask the operator to open the line for any questions.

Operator: And at this time, if you have a question or a comment, please press star and 1 on your touchtone phone. If, at any point, your question is answered, you may remove yourself from the queue by pressing the pound key. Again, we do ask that while you pose your question you pick up your handset for optimal sound quality. Thank you.

We'll take our first question from Jade Rahmani with KBW. Please go ahead.

Jade Rahmani: Thanks very much. In the spirit of no good deed goes unpunished, I was wondering if you expect W&D's 2018 transaction volumes to grow at a similar rate as your double-digit growth expectations for operating income and adjusted EBITDA?

Willy Walker: I'm not exactly sure the context of that question, Jade, in the sense of no good deed goes unpunished. If you're asking whether we plan to continue W&D at the same rate that we have in the past, I'd say yes. There is nothing from our past performance that would lead me to believe that future performance doesn't follow. You've got the same team. We continue to add exceptional bankers and brokers to the platform, and the underlying fundamentals of the market look, to us, to be extremely positive for 2018. And to be perfectly honest with you, can't really see 2019 yet. But the general sentiment in the market right now, Jade, is that there is more equity capital and more debt capital than there are deals, which I think will continue to drive cap rates down and continue to drive significant amounts of deal volume, which presents a great opportunity for Walker & Dunlop to continue growing.

Jade Rahmani: And to give investors a sense of current market conditions, you did mention you expect a more normal seasonal first quarter. But could you provide any data points either in terms of closings, deals in progress for the pipeline so far this year? We did see the $700 million student housing deal, which is a positive. It seems like your large deals, initiatives, are working out. But any color you could provide on how things are tracking, so far, this year?

Steve Theobald: Jade, just one thing I want to point out -- that $700 million deal you referenced was actually a Q4 (inaudible). So that's in the Q4 numbers, not -- it won't be in Q1.

Willy Walker: So with that clarification by Steve, I would say that -- I would reiterate what I just said, Jade. It's just that if you back up two years at the National Multi-Family Housing Conference two years ago in Orlando, most multi-family owner/operators, acquirers, developers, were willing sellers and reluctant buyers. They were looking forward to the election and wondering where the economy was going to go, and I would say to you saw a flat to declining NOI growth. And it was, generally speaking, a wait-and-see attitude.

A year ago at that same conference, the election had just happened. Everyone was scratching their head to sort of figure out what a Trump presidency was going to mean, but the general sentiment was positive. But, as you may recall, interest rates spiked for a period of time before waiting to see how cap rates would adjust. And people were kind of adjusting their attitude from a "I'm a willing seller and a reluctant buyer," to, "Hey, I actually might get back into this market."

A year later, this -- two weeks ago down in Florida, there was not a single borrower, buyer, owner or department that I met with who did not say that they are looking for a product; that they are net buyers and that the fundamentals of the market look extremely positive to them -- not one. And I did 17 meetings on Tuesday and 21 meetings on Wednesday.

So the overall attitude of the market to, typically, your question, is extremely positive right now. That could cause some people to be concerned that there is a certain euphoria that the market is so great, a lot of capital chasing deals. I would point out that with that type of dynamic in the market, what is unique right now is that lending standards have not changed.

As we have talked about previously, last year we were around a 68%, 67%, 68% LTD and over a 1.40 debt service cover on all of our agency lending. That moved a little bit quarter-to-quarter, but that's an average across of last year.

So typically at this point in a cycle, you would see lenders reaching because borrowers are reaching to make deals pencil out. But as we've talked about previously, because of the amount of equity capital chasing deals, what has ended up happening is equity return expectations have gone down. And the other piece that you can't forget it's because Fannie and Freddie are close to 50% market share, they have established lending standards that are extremely conservative, and they have stuck with them.

Without getting a very significant waiver, which don't come along very often, you cannot lend below a 1.25 debt service cover with Fannie or Freddie, which means that, like a deal that we're working on right now out in California, which is a sub-four cap rate, the 3.7 cap rate, but at a 1.25 debt service cover, we're lending 53%. So a 47% equity in front of our 53% debt, we feel extremely good about lending on that property.

So while there is a tremendous amount of activity in the marketplace, what it hasn't done is change lending standards, which makes (inaudible) look extremely good about the outlook for our business going forward.

Steve Theobald: And, Jade, if I might add maybe a little more context here for Willy's comments as well, so if you go back to 2016, you'll remember we had, at that time, a really slow Q1. I think all the volatility that was in the market and some of the trepidation that Willy referenced from the NMAC (ph) cap two years ago impacted that, and then, you know, obviously, volumes took off after Q1 of 2016.

Last year's Q1, we did have a large, as I mentioned in my remarks at the $150 million student portfolio that we locked and closed in the first quarter of last year. (inaudible) last year, in combination with the excess tax benefit we reported a pretty robust, you know, I'd say out-of-the-norm robust Q1.

Jade Rahmani: Makes sense. In terms of competitive environment, the press release noted your defensible (ph) market position and your commentary talked about specific plans to grow market share on the underserved markets. Can you elaborate on those two points? Which MSAs or reasons of country (ph) do you feel that your presence could expand in?

Steve Theobald: So, Jade, we talked about this previously as it relates to competitive environment. It couldn't be more competitive, it couldn't be more active. As you well know, we go up against all the big banks and all the big commercial real estate services firms on a daily basis and, fortunately, we've been able to continue to scale and grow and win.

I think it is interesting, if you look at the league tables that were put out last week in a commercial mortgage alert as it relates to Fannie and Freddie volumes in 2017 an overall market share that, as I noted in my comments, not only did W&D grow faster than any of the other large agency lenders, but there really is, sort of, a group of three of us sitting at the very top of the league tables -- CBRE, Berkadia, and Walker Dunlop -- and then there's a pretty significant gap for the next level, which is Wells Fargo and Berkeley Point, and then it kind of falls off from there.

So the commercial mortgage that I talked about, a big five but there's really a big three in this space right now, and we will continue focusing on trying to be at top of league tables with both but, you know, extremely good from the competitive positioning standpoint that we're right there at the very top.

As it relates to your other point beyond competitive positioning was --

Jade Rahmani: On markets.

Willy Walker: Oh, yes, markets. Yes, and so without putting a playbook in front of all of our competitors, what we have done is gone and looked at major MSAs across the country where W&D is, if you will, under-punching our weight in the sense that we are one of the dominant players in this space, and there are certain geographies where we just don't have feet on the street, and we don't have the coverage of the client base in those markets, but we ought to. And so we've gone through and looked across those markets, and we're very focused on expanding market share in those markets.

So I'll give you one example -- we don't have an office in Houston, Texas, and we've been very focused on getting into Houston. It's a wildly competitive market, it's been a market that's been recovering quite nicely since the hurricane, unfortunately, hit that region. But we don't have an office in Houston. So what are we going to do to get into Houston? Are we going to hire people? Are we going to reallocate people? We've got a Dallas office with focus on Houston.

So without going through city-by-city where we plan to invest time and resources, there is a tremendous amount of growth that we can achieve by expanding our geographic footprint and by focusing on clients in those markets. As we've discussed before, and as we noted in our earnings call, we only have 145 bankers and brokers at Walker & Dunlop. There are competitors of ours who have that many bankers and brokers in one office in one city.

So as much as we've gotten to be a very significant player in this space, we've done it with a reasonably small team and, as Steve mentioned, we still are well over $1 million of revenue per employee, which comps incredibly well versus our big competitors who all are generating anywhere between $100,000 and $200,000 of revenue per employee.

So lots of people sit there and say, "How can W&D keep growing?" It's not that hard. We continue to add great people to the platform, continue to expand our client base, and continue to grow.

Jade Rahmani: Great. Well, a solid quarter and thanks very much for taking the questions.

Willy Walker: Thanks, Jade.

Steve Theobald: Thank you, Jade.

Operator: We'll take our next question from Jason Weaver with Wedbush Securities.

Jason Weaver: Good morning, thanks for taking my questions. First, you might have alluded to this a little in the last second there, Willy, but with depositories as we saw in the senior loan officer survey in the last few months, carrying back in their CRE and multi-family lending, there was obviously a positive for companies like yours. But to take advantage of that hole, are you more aggressive with trying to recruit originators away from the banking sector? Or can you make that a greater share -- can you take advantage of that greater share if you turn it different (ph)?

Steve Theobald: You know, Jason, I'm sure that I will offend somebody at Walker & Dunlop by saying this, but we haven't been that successful at recruiting people away from commercial banks. There is just a distinct approach to the market between people who have been in large commercial banks and people who have been successful at firms like Walker & Dunlop. Many people at large commercial banks, if you will, use client relationships in the deposit to sell the type of financing that we do. Whereas, we don't have the benefit of that, kind of, backing up one of the things I said previously.

We don't have a lot of feeder businesses in the W&D like banks and commercial real estate services firms do. And so as a result the people who are here really have to go out and sell their capabilities to finance the deal.

And so I think, at the end of the day, the fact that some of the commercial banks are carrying back or pulling back on the exposure to CRE is, as you said, a good thing. But as it relates, well, how do you go and sell into their client base, it's really taking people who know how to sell W&D's products and services and getting in front of those clients.

Jason Weaver: Okay, thank you. And, Steve, I think you mentioned the $58 million tax benefit for the DP (ph). But where does the DP actually stand at 12/31?

Steve Theobald: Jason, I don't think it's in our financials yet. Our whole tax footnote will include all that detail when we file our 10K in a couple of weeks.

Jason Weaver: Okay, fair enough.

Steve Theobald: It sounds like it's right around somewhere between $100 million and $120 million.

Jason Weaver: And I couldn't hear clearly, but I just wanted to confirm your 2018 tax rate expectation is 25 to what?

Steve Theobald: 25% to 28%.

Jason Weaver: 25% to 28%, okay. Well, congrats on the quarter, guys, and thanks for taking my questions.

Steve Theobald: Thanks, Jason.

Operator: We'll take our next question from Steve DeLaney with JMP Securities. Please go ahead.

Steve DeLaney: Thanks. Well, congratulations, guys, on a great quarter and year. $1 billion in revenue is looking a little more realistic after we see where you just put up. Totally, I guess you were down, I guess, in Florida at the Multi-Family Housing Conference. I'm just curious -- it sounded like there was a lot of optimism and people pretty positive on the market. Was anybody talking about the fact that long-term rates are, depending on where you want to measure, somewhere between 40 and 50 basis points above where they were, sort of, want to average in 2017. I'm just curious what you're hearing from clients and also from your own bankers about the current rate environment?

Willy Walker: Steve, the -- first of all, good morning.

Steve DeLaney: Good morning.

Willy Walker: First of all, the, you know, rates are up about 30 basis points from the beginning of the year.

Steve DeLaney: Right.

Willy Walker: Like that 270. That's a lot of people, so we say in violation of (inaudible) relatively speaking that's still very cheap on a long-term historic basis.

Steve DeLaney: Sure.

Willy Walker: Will it cause some issues for a specific deal where someone bought it at the margin and doing their return calculations as rates move up, and they're trying to get to a rate lock? Sure. Our bankers and our desk (ph) are having to work extremely hard to manage client expectations in the rising rate environment. And, at the same time, you're still going to have the sponsor groups borrowing with floating-rate debt because they want the flexibility, and that group has just an unbelievable amount of dry powder.

Starwood's just raised an $8 billion fund. Blackstone has got a private REIT that's generating over $200 million of equity capital a month. And you go down the list, and you look at the way that Greystar went and raised their growth an income fund to be able to take Monogram private. There's just a huge amount of equity capital that wants to get into this space. And so the things that I think is most important, Steve, is the general sentiment is that although rates have moved 30 basis points in the month of January, or year-to-date. Generally speaking, rates are going to be in sort of a band. Whether that band is 2% to 3% or 2.5% to 3.25%, there are very few people that I've spoken to both in the industry and outside of the industry who believe that rates are headed towards 4%.

And so as a result of that, I think that a lot of people who are disciplined are looking at deals, getting the proper financing in place for their fixed rate or floating rate and moving forward with the deal and not really sitting there day-to-day watching the fix on the 10-year.

And with that said, I would reiterate -- make certain deals with certain borrowers is very challenging because they're very rate-sensitive and, as a result, our bankers and our desk (ph) have to work hard.

Steve DeLaney: Got it. That's helpful, Willy. And thinking about the MBA or Freddie Mac's forecast for 2018, I think you indicated the expectation is flat to slightly higher. And I'm curious, have you ever seen them as a result of any disruption like we had in the first quarter of 2016 with credit spreads, have they ever come out and revised, say, three, four months into the year and changed their full-year forecast?

Willy Walker: They are constantly looking -- they are constantly forecasting. I can't remember, Steve, whether they've ever gone and publicly done it, but they go into FHFA every quarter and re-forecast what they think volumes are going to be for the rest of the year. And FHFA, as you may recall, very clearly stated when they put out the score card for 2018, that they will look at quarterly volumes and adjust accordingly.

And so if the FHFA sees any change in the market dynamic where either other capital sources are backing away, where the market has lost liquidity, they will allow the agencies to expand out. And they will not, as they've been very clear in saying, restrict the agencies if the markets expand.

So I think that if -- you know, I think they have been very clear in saying on a quarterly basis they will check your overall market size, and they will, if needed, adjust Fannie and Freddie's caps if they need to.

Steve Theobald: The MBA, Steve, typically updates their forecast once or twice a year from what they see happen.

Steve DeLaney: That's helpful, Steve, okay.

Willy Walker: Steve, I'd just quickly just go back and we put it in the script. The overall commercial real estate market was supposed to grow 5% last year, and we grew at, what was it, 46%. And the multi-family market grew at 5%, and we grew at 40%. I mean, I think one of the things that I find would be really interesting here is everyone sort of says, "Oh, W&D is just a play on the overall market."

We're not a play on the market. Our past history has been nothing but show that we grow faster than the market and faster than our competitors.

Steve DeLaney: Yes, and I think that's the point, has been us to sit down and look at 2018. I mean, we have had a tailwind, and it looks like we've added a $200 million annual market, and 2014 has grown to $280 million. So I'm thinking what you're saying is you're at 7%. Your goal is to move into the 8% to 10% range, and going forward over the next couple of years, it sounds like it's more of a market share story and game for W&D to play rather than just an absolute market growth situation. Would you agree that's probably what we're looking at?

Willy Walker: It's that. It's continued to expand into other business lines. I mean, (multiple speakers).

Steve DeLaney: Good point.

Willy Walker: We did over $4 billion in multi-family lending outside of the agencies. So people are looking to W&D. I've got a multi-family property, I need it financed. Where do I go? Call Walker & Dunlop and then we find the appropriate capital to meet that opportunity.

So I do believe a number of people have sort of said, "Well, W&D's growth is restricted on both scorecards. The agency is lending volumes, and that's sort of the end of the story on W&D." And what we are showing is as we have built this brand and become one of the very best multi-family lenders in the country, it provides the opportunity to grow our investment sales business, it provides the opportunity to grow our brokerage business on non-multi-family commercial real estate, and it also allows us to grow a multi-family lending business on non-GSE capital sources.

Steve DeLaney: I hear you loud and clear on that, especially the clarity you gave us on investment sales earlier in the call, is very helpful.

Just one final thing on the dividend. Very good news to see. I think it's going to be well received and maybe open some new doors. You indicated, you know, obviously, you'll be looking to possibly increase it over time. Should we think about the dividend and relate it to the buyback -- should we look at that as an annual type of decision that you and the Board will be making?

Willy Walker: Yes, Steve, look. I think we've spent a lot of time talking about this internally as you would imagine, and I think the dividend is meant to be quarterly, ongoing, sustainable for the foreseeable future and, again, it's an expression of our confidence in the continued growth in cash flow generation of our business. So it's really not -- we're not really calling it an annual, and we'll reevaluate the propensity ongoing and sustainable. (inaudible) refers you it is not an annual discussion we have with the Board about having the capability to go into the market when we perceived a value to be misaligned with our view. Again, based on what we're seeing and where we think things are heading, and we have to apply our stock up.

Steve DeLaney: Right, but it sounds like that's -- I mean, you got up to 50 but it's not a direction to go out and buy 50 regardless of where it's trading. You're going to be tactical, I assume, in terms of when and how you use that.

Willy Walker: That's right. Last year's authorization was 75 and we used 25 of that.

Steve DeLaney: Okay. All right, very good. Appreciate the color, thank you.

Willy Walker: Thanks, Steve.

Operator: Once again, to ask a question or make a comment, star 1 on your phone. We'll go next to Fred Small with Compass Point. Please go ahead.

Fred Small: Hey, good morning, thanks for taking my question. In terms of a margin range in the guidance, what sort of overall volume growth would you expect in the high-end scenario?

Steve Theobald: Yes, Fred, it's Steve, good morning. I think the margin is not really a growth-driven metric, it's a mixed issue. And, again, I think, as you can see, we've grown our capital market brokerage business pretty significantly while continuing to also -- you'll see those gross numbers on the agency side. And that mix actually came out to 177 basis points this past year, right in the middle of the range. So our view is the range is still good relative to what we're looking at or expecting from an overall business mix perspective for the year. It's not really driven by growth percentage as much as it is (inaudible).

Willy Walker: Fred, Steve's not giving a direct answer to your question because, as you know, we're not giving guidance on what we're doing from a volume standpoint. And so as I said in response to Jade's question, I think our track record, hopefully, speaks for itself as it relates to outgrowing the industry significantly, and we view the dynamics of the industry are fantastic for 2018 given the amount of capital out there and the generally positive outlook for multi-family financing.

I'd this as a quick opportunity just to talk about one other thing (inaudible). You know, GDP growth, between 2% and 4% is really, really good for the multi-family industry. Below 2% GDP growth, you're not getting occupancies where you need them. You're not getting the wage growth in the overall economy to make it so you can push rents. And then you get yourself over 4%, and most people in America think that they're rich, and they can afford whatever single-family mortgage they can get, and the single-family industry really starts to really get on pace.

So right now we're sort of in the sweet spot for multi-family, sitting at about 3% GDP growth. You get over 4%, as well, and commercial real estate developers start building buildings where they really aren't needed, and that's good in the short term but not too good in the long term. And so fortunately, right now, we haven't either of those ends of the spectrum, if you will. People doubt from sort of 2% GDP growth where you are going to be able to continue to push rent, but you're not over the 4% GDP growth on a sustained basis, which makes it so that the single family industry starts to really zoom.

And so multi-family owner/operators are feeling quite good right now from the general macroeconomic standpoint.

Steve Theobald: And the last thing I'd add to part of your question is as I highlighted in my remarks, our focus is really on operating margins not on gain on sale margins, and we've been steadily growing that operating margin in our overall efficiency and profitability each year.

Fred Small: That's great, thanks. I thought I would try to get another one on the kind of volume (inaudible). So just following up on what you said there, as I look at the slide where you tracked our operating margins, sort of, gaining over time. How much of that do you attribute to the growth of the servicing business? I know you don't break out the segment, but can you, sort of, give me a rough estimate?

Willy Walker: Yes, I mean, I can't really give you an estimate, Fred. I think it's fair to say that the growth in our servicing business has had a very positive impact at both adjusted EBITDA and operating margin. It is a scale business from a financial standpoint, so as it gets larger, the efficiency of how we run it gets better, and so the operating margin improves there.

The other thing I would point you to is we've had a pretty sizable increase in interest income over the course of the year, and that's a direct bottom line benefit to us because there's no compensation or whatnot going on relative to that revenue stream. So the faster that grows the better the operating margin.

Fred Small: Okay, thanks. The one last one on the 2020 goal, the $30 billion to $35 billion of annual originations. How much market share gain do you think is embedded in that? I think this is sort of following up on what Steve was asking.

Willy Walker: Well, I don't know, because you've got to make some assumptions there, Fred, as it relates to overall market growth between here and there. So we haven't really looked at it. The bottom line is, I mean, you look at -- I think we've gone from $8 billion to $11 billion to $18 billion to $28 billion. And we have said pretty consistently over the last four years -- as we keep adding people and growing the servicing portfolio and create the brand, we're going to hit a certain tipping point where things kind of grow exponentially. And some people have listened to that, other people have not. But I think some of the really exciting things from my standpoint is that we now have the brand. We now have the market positioning. And so adding people to the platform and allowing them to benefit from being on the platform is, sort of, greater and greater.

So I don't know what that will back into, but I will say this -- moving from 20 -- what was it -- $25 billion of financing volume last year to $30 billion to $35 billion over the next three years, we have a management team, we have a reputation of acquiring great companies and integrating them pretty seamlessly. And so, you know, it's a lot of work, but I'm confident we'll get there.

Fred Small: Okay, great, and just a follow-up on that -- in a flat environment, I mean assuming it's flat for the next three years, you know, not maybe in the scenario you've laid out before, but if that happens, do you think it still hits the low end of the 2020 target?

Willy Walker: The 2020 targets don't really have a low end. They've got $1 billion in revenues. So, yes, so you're saying $30 billion --

(Multiple speakers)

Willy Walker: So it's $30 billion of financing activity, I feel very confident in, I will tell you. The $8 billion on the low end of investment sales, we've got a lot of work to do there. We've got a lot of work to continue to build our investment sales platform and create a real brand. The $8 billion asset management business, as we've talked about before, we will need to do at least, a, it's not a couple of acquisitions there to be able to scale that business and get to that goal. And then the $100 billion servicing portfolio -- if you do get your financing volumes to $30 billion by 2020, and with the little amount of runoff we have in the portfolio today, the $100 billion servicing portfolio is just an output of that continued origination volume feeding into the servicing portfolio.

So -- I can see Steve kind of squirming in his seat as I talk about $30 billion of financing in 2020 being something that I feel quite confident at, but there's nothing from our past growth that without some wipeout scenario -- and the one other thing I'd talk about on the wipeout scenario -- people forget Walker & Dunlop is a top-of-the-league (inaudible) of Fannie, Freddie, and HUD, which are all counter-cyclical sources of capital. And that doesn't mean that volumes don't come down, but it does mean that as borrowers need capital, one of the first places they look is to Walker & Dunlop will have to take strong positioning with Fannie and Freddie and HUD who do not lead the market when other sources of capital do.

Steve Theobald: I guess just to maybe put a fine point on this, and I'm not really squirming -- and not to be cheeky, Fred, but you don't really care what's (inaudible) to a point, right? If there's a wipeout, obviously, that's one scenario. Frankly, if the market grows, you know, 20% a year, then we're undershooting based on our relative performance to the market over the last few years. So our 30 to 35 was done an established based on what we think we can do as a company, whether the market's up, down, flat.

Fred Small: Okay, great, thanks a lot.

Steve Theobald: Thank you.

Operator: And next we'll go to Jade Rahmani with a follow-up. Please go ahead.

Jade Rahmani: Thanks very much. On the dividend, to what extent is this an employee retention and recruitment strategy? Some of your competitors do face dividends, including HF's special dividend and Newmark has anticipated today a dividend.

Willy Walker: I would just say that has not been a consideration at all, Jade. As we sat around in our Board meeting yesterday talking about the dividend, I can just tell you, that was not a consideration at all.

Steve Theobald: Then I think you have to keep focused on -- we've been named a great place to work five of the last six years; we have grown salaries and Walker & Dunlop, we haven't disclosed what it is, but at a phenomenal pace. Our employees, I believe, feel that they work for a fantastic company with a great culture, and that they get paid extremely well. We're not looking for ways right now to, if you will, we're always looking, I should say, we're not looking for a dividend to try and add to kind of hold onto people. We are constantly looking at ways to attract and retain the very best people, and we feel blessed for the team we have today. The dividend was no factor in all of that.

Jade Rahmani: Okay. In terms of the recent market volatility, has that had any impact? Is there, like, a direct relationship between the stock market volatility and, sort of, the tone reflected from clients?

Willy Walker: I mean, I just this week, have had three clients say to me, have you seen deals falling out? You know, has the race movement sort of impacted the overall market? And what I got back, generally speaking, from our investment salespeople was "No." The people were on deals that are under contract, they're moving forward with them. But as I said to Steve previously, Jade, the market rate volatility and rates moving up does make certain deals challenging with borrowers who are very rate sensitive on how they're buying and what they're buying. And as a result of that, our bankers have to work very hard to come up with creative solutions, either do early rate locks, to be able to walk them through why they need to keep their head down and get the deal done, and then in some instances the deal breaks, and they say, you know, it doesn't work for me anymore.

But we have not seen anything that I would call a trend or a pattern, so far, so far, with the movement in rates.

Jade Rahmani: And any changes in mix shift based on the anticipated rate hikes toward fix or on the other hand that service covered ratio targets and move toward more floating in the last quarter?

Willy Walker: It really depends on how successful we are, continue to penetrate (inaudible). If we continue to do large transactions for the big sponsors, floating rate will hold its place as far as our overall (inaudible). If we end up doing more lending to smaller borrowers who are typically fixed-rate borrowers, they're going to hold it, and they're not as concerned about the flexibility that floating rate financing gives you. You'll see fixed move up because people do want to lock in rates at this time. If we end up doing a mega transaction like we have been shown to do in past years with a big sponsor group, that will drive the floating rate number right back up.

Jade Rahmani: And just in terms of cross-selling potential with Engler, right now what percentage of Engler deal is W&D doing at that priced amount?

Willy Walker: We stated that in the script. It's 36%, 37%.

Jade Rahmani: Okay. Thanks very much for taking the questions.

Willy Walker: Thank you, Jade.

Operator: It appears we have no further questions. I'll return the floor to Willy Walker for any additional or closing remarks.

Willy Walker: Great, thank you, Operator. I would just thank everyone again for joining us this morning and thank the W&D team for a fantastic 2017 and onward we go to 2018. Thank you, everyone.

Operator: And this will conclude today's program. Thanks for your participation, you may now disconnect. Have a great day.