Company Name: Walker & Dunlop, Inc. (WD)
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<<Steven C. DeLaney, Analyst, JMP Securities LLC>>

Good afternoon, everyone. My name is Steve Delaney. I'm the Senior Mortgage Finance Analyst at JMP Securities, and along with my associate, Ben Zucker, here in the front row, it's our pleasure to introduce Walker & Dunlop, Inc. Walker & Dunlop is a leading U.S. commercial real estate finance company, one of the top government multifamily lenders in the country. Based in Bethesda, Maryland the Company completed its IPO in 2009, after which it acquired competitors Column Financial from Credit Suisse and CWCapital from Fortress.

More recently, the Company has made acquisitions designed to help diversify the Company's business model into loan brokerage and investment sales. The stock trades on the ticker WD. On Friday, it closed at $24.30. Understand it's up nicely today. Market cap just over $700 million and the stock trades at a PE of about 9.7 times our 2016 estimate of $2.50. We rate the shares market outperform with a $30 target. That's 12 times their 2016 estimate indicating upside of about 23%.

Very pleased that we have with us today Willy Walker, to my left, the Chairman and CEO; in the front row over here to the far right, Executive Vice President and CFO, Steve Theobald; and Vice President, Investor Relations, Claire Harvey. What I thought we would do, Willy and I are going to have a dialogue, kind of big-picture strategic, probably chat back and forth for 10 minutes or so to give you an opportunity to maybe jot down some questions and follow-up. And we will open it up for broad questions from the audience here in just a little bit.

So with that, Willy, good to be with you today.

<<William M. Walker, Chairman & Chief Executive Officer>>

Nice to be here, Steve – there it goes, great.

<<Steven C. DeLaney, Analyst, JMP Securities LLC>>

Great. Well, thank you for being here again this year. I think this is your third year here with us at the JMP conference, at least with myself as your coverage analyst. So I guess where I would like to start, you've been involved in the business a long time, but when you look back over the past six years since your IPO, what had to happen right for Walker & Dunlop to become a top three multifamily lender with both Fannie and Freddie. I am asking that because if I was sitting beside the CEO of Wells Fargo and I was to ask him how did you get to be a top multifamily lender, it's…

<<William M. Walker, Chairman & Chief Executive Officer>>

They were.

<<Steven C. DeLaney, Analyst, JMP Securities LLC>>

They were, yes, they were...

<<William M. Walker, Chairman & Chief Executive Officer>>

Still are, still are.

<<Steven C. DeLaney, Analyst, JMP Securities LLC>>

And it wouldn’t be a mystery to anybody how you get there. So my question is Walker & Dunlop down in Bethesda, good location to deal with the GSEs, but when you think back, what were the right decisions, what were the challenges, how did you get here?

<<William M. Walker, Chairman & Chief Executive Officer>>

So first of all, nice to be here. Second of all, we went public in December 2010, not 2009.

<<Steven C. DeLaney, Analyst, JMP Securities LLC>>

Apologies…

<<William M. Walker, Chairman & Chief Executive Officer>>

We’ve been public for less than five years.

<<Steven C. DeLaney, Analyst, JMP Securities LLC>>

Yeah.

<<William M. Walker, Chairman & Chief Executive Officer>>

And we went public with a market cap of $220 million and we clearly were a – I don't think the world needed another micro cap publicly traded company in 2010 to be perfectly honest, particularly when it was in the mortgage space where, at that time, mortgage was more of a four-letter word than an eight-letter word.

And at the same time, we needed capital to grow. We were a small private company. We had just acquired Column Guaranteed from Credit Suisse and saw the opportunity to grow when many other real estate lenders were shrinking. And we knew that without additional capital, there was no ability for us to really grow aggressively. And obviously grow we have. I would say the second thing is that we have brought in a fantastic team

and we are in a people business and I know many, many CEOs who sit around and talk about how great their team is and it's all about the people and in many instances, it is and in others, it might not be so much, but they like to talk about that.

We are in a people business and I think one of the biggest issues for us has been attracting top origination talent. Those bankers are hard to come by; they are very hard to attract and in some instances, they are hard to retain. We have been very fortunate through acquisition more than one-off hires in bringing on a huge number of people who have loved being on the Walker & Dunlop platform and have allowed us to scale our business very effectively. I think our focus in this space has driven huge returns.

It is very easy for me to sell against Wells Fargo. Wells Fargo is much bigger than Walker & Dunlop is. Wells Fargo has got a private bank that provides people with private banking services. They've got a balance sheet that's infinity larger than our balance sheet. They've got a brand that's known around the globe, but when you sit down with someone who is thinking about making a decision on who to use on a $22 million Fannie Mae DUS loan, I can sit there with them and say I'm in your office. Your loan means something to Walker & Dunlop and we would like to work with you.

And I can, in that exact same sentence, say the day that John Stumpf comes in and tells you that you are $22 million loan is important to him, call me up and say go home, I am never going to talk to you again. But John Stumpf isn't showing up in your office and telling you this is an important loan. And so, in our space, and they get to talk to the CEO of a company that's really focused on it and knows a lot about the regulatory backdrop to the GSEs and all of that. And if there is some problem with their loan, which there very rarely is, they can pick up the phone and call me and I can get the right person on the phone. That differentiates us in what many people perceive to be a highly commoditized market.

The only way I saw to differentiate in a commoditized market was to be number one. You can say I'm the number 8, I'm the number 15, we compete really well, but until you – there's only one number one. And so we worked really hard to become number one with Fannie Mae and we finished last year for the third consecutive year as Fannie's largest DUS lender. And through the first half of the year, we were Freddie Mac's largest partner. I don't know we will end the year being Freddie Mac's largest partner or whether we will be one, two or three, but the bottom line is we've gained tremendous scale with both Fannie and Freddie.

<<Steven C. DeLaney, Analyst, JMP Securities LLC>>

I noticed when you put out announcements of new closings, you often cite the time period in which the loan was closed from the time the application came in to turn – so is part of your angle, speed of execution, speed and certainty of execution and less bureaucracy than some of the big banks and other lenders?

<<William M. Walker, Chairman & Chief Executive Officer>>

So this business has been built up with a lot of small independent firms that somehow get acquired by these large firms and then they become certain part of the big cog, if you will. And there's one competitor of ours, who was clearly a head-to-head competitor of Walker & Dunlop, was acquired by a large bank a couple years ago. And they as a competitor have become far less competitive because they are now covered with the big bank policies, procedures, credit committee and everything else.

And so, yes, speed of execution and certainty of execution is very important. And so, you don't become Fannie Mae's largest partner if you don't do a ton of business and do a ton of business without having problems. And so, when we're competing against anyone other than our very largest competitors, it's not hard to also convince people that volume is due to execution, execution is due to pricing and all of that will come in the deal that we do with them.

<<Steven C. DeLaney, Analyst, JMP Securities LLC>>

Okay. Now that you are at the top of the heap with both agencies, I hear sometimes when I'm talking to investors about the story. They say, well, market share, they've done a great job, but how do you grow market share when you're number one, two or three with those guys? And what I hear is, aren't they going to be simply a proxy for the growth of the larger multifamily market?

So could you kind of – how do you view the opportunity? Well, let's say you're number one with both, right. How do you view the fact that WD, Walker & Dunlop, is still a growth story when you are number on – if you were to be number one with both? What are the dynamics in the multifamily market over the next five years that are going to give you a growth path?

<<William M. Walker, Chairman & Chief Executive Officer>>

So we were 12% of Fannie Mae's originations in 2014. We were 10% of Freddie Mac's. Through the first half of the year, we've done just over 14% of Freddie Mac's total originations and just over 10% of Fannie Mae's. Freddie Mac has had CBRE over a 22% share of their total originations. I believe two years ago CBRE had 22 point something market share. So we've clearly seen historic precedent that says that somebody can be a 20% partner to one of the agencies.

Do they want to see Walker & Dunlop have 20% market share of Fannie and 20% market share of Freddie? I don't know. No one has explicitly said that they don't, but we have been very focused on continued growth of market share. If you look at the graphs that we show investors, we have been taking share every single year and continue to kind of march forward. And I think that the concept that – the caps with the GSEs sort of limits W&D's growth. It certainly hasn't up until now, let's put it that way. And the bigger issue I would put forth is that, as we have grown our overall lending platform, we've grown our brokerage business dramatically on the backs of a very strong agency business.

We have grown our balance sheet lending operation on the backs of a really strong agency lending business. We've entered the investment sales business on the backs of a really strong agency lending business. So to grow our investment sales platform, for instance, in the multifamily space, given our strength with the agencies, great opportunity to recruit talent to the number one Fannie Mae DUS lender and the number three Freddie Mac seller servicer, given that Fannie and Freddie are lending on pretty much every other multifamily loan out there.

They will have 40% market share this year. So every 1.2 – whatever, 1.2 loans are going – every other one is going to Fannie Mae or Freddie Mac. So, if you are ann investment sales professional at one of the big national platforms that does not have that kind of scale at the agencies, being at W&D is a real competitive advantage to you.

<<Steven C. DeLaney, Analyst, JMP Securities LLC>>

Got it. The GSEs now, unlike a couple years ago, seem to have a regulator that's very supportive of their role in the multifamily market, especially affordable units. Looking out to next year, maybe, first, we comment if you would on the expansion of the regulatory caps in 2015. But then looking out to next year, what are your thoughts about the regular – the scorecard, if you will? Is there a chance that the base caps are increased and/or do you see any possibility for further expansion of affordability or other exclusions from the caps?

<<William M. Walker, Chairman & Chief Executive Officer>>

So first of all, at this point, everything is nothing, but conjecture and guesses because they haven't come out with anything and they have not published anything to tell us where they are going to be. I have – I was invited in to meet with FHFA last week with a group of – group put together by the Mortgage Bankers Association and we had a very good interactive dialogue with the regulator on what the 2016 scorecard will look like.

My personal take from that discussion and that is based on an interactive discussion, not what they have told us they were going to do, would be that there will be limited changes between 2015 and 2016 as far as the overall scorecard is concerned. So I would then caveat Willy Walker's take on it, not what they have told us, is that I would be surprised if there's any change to the overall cap at $30 billion for both Fannie and Freddie. It appears to me that they are looking at the excluded categories and trying to see if they might expand those somewhat, broadening definitions, allowing for the agencies to do more in the areas that they really would like to incent them to do more lending.

And then the only other material change would be on the affordability side. FHFA is accepting of the fact that very few people in major cities in the United States spend 30% of their income on rent, that that has actually moved up…

<<Steven C. DeLaney, Analyst, JMP Securities LLC>>

Sure…

<<William M. Walker, Chairman & Chief Executive Officer>>

Closer to 40%. But that 30% calculus is set in the 1992 code that drives all affordable housing in the United States in HUD and everywhere else, so that's not going to get changed. So the point I made to FHFA was, if you agree that 30% is not the number and you can't play with the denominator, if you will, play with the numerator. So potentially move it from 60% of AMI to 80% of AMI so that the affordable calculation is more reasonable to what is affordable housing in America. And they were – they thought that was a fair point. Now whether they take that and put it into the scorecard, whether they change it around, anybody's guess. But I think that it's probably pretty close to a repeat of 2015, which for those of us who are in the market is a very positive scorecard.

<<Steven C. DeLaney, Analyst, JMP Securities LLC>>

And just to recap 2015, what is your expectation on the combined volume?

<<William M. Walker, Chairman & Chief Executive Officer>>

So 2015 expectation would be $30 billion and $30 billion on the caps.

<<Steven C. DeLaney, Analyst, JMP Securities LLC>>

Right.

<<William M. Walker, Chairman & Chief Executive Officer>>

And I would put forth to you that Fannie and Freddie will likely land their numbers right at $30 billion.

<<Steven C. DeLaney, Analyst, JMP Securities LLC>>

Okay.

<<William M. Walker, Chairman & Chief Executive Officer>>

So they are both managing their numbers very closely to make sure they do not go $1 over, nor $1 under and then there is general consensus that they will be somewhere between $10 billion and $15 billion each of non-cap business, so excluding business. So I think that it's fair to think that both of them combined are doing somewhere between $80 billion and $90 billion.

<<Steven C. DeLaney, Analyst, JMP Securities LLC>>

Excellent. Okay, thank you. Very helpful. So far we focused on multifamily. You alluded to the fact that a couple of acquisitions that you've made, Johnson Mortgage, I believe it was…

<<William M. Walker, Chairman & Chief Executive Officer>>

Johnson Capital.

<<Steven C. DeLaney, Analyst, JMP Securities LLC>>

Johnson Capital and then more recently Engler Financial. Talk a little about the opportunity for expansion there. What did you buy? How can you grow those businesses? And then beyond that, is there anything else as you broaden your products set or your business lines, is there anything beyond the loan brokerage and investment sales that you might consider?

<<William M. Walker, Chairman & Chief Executive Officer>>

So the strategy on the brokerage business as far as debt brokerage is concerned has always been acquire brokerage firms to get access to deal flow and feet on the street, broker a bunch of that business off, but as you have what we call proprietary executions, try and drive as much originations through those executions as you can. So when we started this, it was really just Fannie, Freddie and HUD. Then we added to that our balance sheet lending and then we added to that our conduit.

So as we have gone and built up our balance sheet lending, we've created a fantastic balance sheet business for bridge loans that supplied I think about $8 million of interest income in 2014. That's not insignificant for a company that made $52 million last year. That business was started in the beginning of 2013. So to be able to go and create that kind of a business in two years basically, it's pretty great. Our conduit, as you know, we started a year ago.

And so as the brokerage business grows, one of the things that we're focused on is, yes, it's great to have feet on the street and broker those loans off to CMBS, to broker them off to life insurance companies, to broker them off to banks, but the more proprietary capital solutions we can create, we can get, if you will, more bites at the apple. So the investment sales business – so the acquisition of Johnson Capital has been great. We brought over all the originators.

They are all doing very well. The numbers that you saw in our Q2 capital markets growth is fantastic. We've already put out that we will hit our $3 billion to $5 billion goal as far as annual originations in the capital market space. And what is most rewarding to see is the fact that that group of people is doing a lot with the agencies, HUD, balance sheet, as well as conduit. And then on the investment sales side, you saw the numbers on Engler in Q2, which beat even our expectations. It is a very robust investment sales market right now.

And so the core business is going very well. And then we are very focused on the recruiting side of things. The issue on recruiting is that now is a very difficult time for people to jump from one place to the next given splits and the way that the people are paid out through the course of the year. So a lot of what we’re doing now is laying the groundwork to people who may not want to leave before the end of the year, but they would jump at the beginning of 2016 to join our platform. So we may have some hires that come over before then, but a lot of it right now is working with people to say [indiscernible] (0:17:46) once you are done, we'd like to see you come across.

<<Steven C. DeLaney, Analyst, JMP Securities LLC>>

Well, look, the stock has had a great year, up 38% even after a selloff here recently. Obviously, the market has had a lot of volatility, but 38% year-to-date, there are not many people that can take that. While the Company is executing at a really high level these days, investors do seem to struggle a bit with the question of how to value WD. Just curious if you could share your thoughts about the valuation aspects of the stock, I know that’s my job…

<<William M. Walker, Chairman & Chief Executive Officer>>

I was just going to say that…

<<Steven C. DeLaney, Analyst, JMP Securities LLC>>

That’s really my job.

<<William M. Walker, Chairman & Chief Executive Officer>>

A lot of people sit there and say, well, do we look at you on a PE basis; do we look you on an EBITDA basis; do we look at you on a free cash flow basis, et cetera, et cetera. We were sitting with some investment bankers about two weeks ago and Steve told them what we’re generating in free cash flow on a monthly basis right now and the banker did his calculation on free cash flow and what our – and then he goes, what’s your market cap. He said, well, I don’t know, about $720 million. He goes you are generating that much free cash flow and your market cap is $720 million and he looked right across the table at me and he goes that must drive you, pardon my language, [indiscernible] (0:18:59) nuts.

At the end of the day, we were, as I said, when we went public, a micro cap company that had a lot of political exposure to it and those investors who invested have done exceedingly well because we have a fantastic management team. We are very focused on our customers and we have defined a niche space that is very profitable lending and we have a great track record of taking good credit risk and staying very focused on growth.

We are right now at a point where we are generating a lot of free cash and that gives us a lot of options. It gives us the options to continue to invest in great companies. It gives us the option to continue to attract new origination talent and keep growing organically and it also allows us to do what we've done twice over the last two years, which is buy back stock.

And if the market continues to sit there and say a company that's growing as fast as Walker & Dunlop is growing and producing the types of earnings we're producing, if the market doesn't want to give us credit for that, Steve and I and others will sit around and our Board will say, great, if they don't think that's worth it, we'll just buy it back and we'll just make it that much more valuable to ourselves.

So as you know, I'm a very significant shareholder. And this is a – I do run marathons and this is a marathon, it's not a sprint. So the market right now I think where we are trading, I've had plenty of people say, oh, what CEO doesn't complain about the valuation of their stock. I got it. I think the numbers that you just put up there given the growth rate we've been able to put up continuously. I mean we are going to print a five year number that's a really strong number. That's through cycles and through regulatory reform and all sorts of stuff.

<<Steven C. DeLaney, Analyst, JMP Securities LLC>>

In terms of your capital earnings growth on [indiscernible] (0:20:47)

<<William M. Walker, Chairman & Chief Executive Officer>>

Exactly. And I think that people will sit there and say, wow, this isn't just a year-to-year, quarter-to-quarter. This is a long-term play with a great, great management team, a company that's got a fantastic culture and a definable, competitive advantage in the marketplace that we work in.

<<Steven C. DeLaney, Analyst, JMP Securities LLC>>

Great. Well said. We've got about five minutes left. I'd love to open it up to any questions that anyone else in the audience might have for Willy.

Q&A

<Q>: Well, it seems like the interim healthcare investment balance sheet loans that you guys are originating are kind of just a natural feeder pipeline for the fixed-rate permanent capital GSE loans. So I was just wondering if we might ever see you guys trying to readjust your facilities so that you can start to grow that [indiscernible] (0:21:35) laying the groundwork for the pipeline for more GSE originations.

<A – William M. Walker>: So we're converting right now in the high 90s as it relates to the loans that are on our balance sheet into permanent, so it's done exactly what we

wanted it to do. And the quick answer to your question is access to warehouse lines is not something that we are challenged with. As anyone who watches are filings can see, we've got lots of warehouse capacity. The bigger question is, A) how much of our capital do we want in that. We've been doing low teens returns in that business and many of our acquisitions have exceeded that, if you will, hurdle rate.

And then the second thing is just how much credit exposure do we want to those bridge loans on our balance sheet where we're taking 100% of the credit risk. So we think we've got a great business there. We think we know how to underwrite the risk. And at the same time, we are very focused on do we want to do it on our balance sheet; do we want to do it off our balance sheet in an externally managed mortgage REIT? Do we want to raise funds from third parties that we're co-investors in so that we're not taking 100% of the credit risk; do we want to do a CLO? There are a lot of different ways to, if you will, get us to expanding that business. But at the end of the day, we have a lot of access to deal flow and we turn down a lot more opportunities than we actually lend on.

<Q – Steven C. DeLaney>: Anything else?

<Q>: [Question Inaudible]

<A – William M. Walker>: So the question is, with the announcement we made today, is it loans we will close in the fourth quarter, or is it the backlog. So when we talk about origination volumes, we recognize revenue on our agency loans when we rate lock the deal and that is when we recognize the income. We then – from the rate lock until the time we close the deal is about – well, it depends on the loan, but generally speaking it's sometime around two weeks to a month.

And then from there, the loan sits on our warehouse lines for about a month when we deliver it to the agencies. Okay. So if you watch what we announce as far as our volumes, that's on rate lock, if you watch what the agencies are announcing, that's deliveries. So for instance, to try and match these two things up, Fannie's number for August was $1.6 billion of deliveries. Those are loans that they got. Those loans that were delivered to them in August were rate locked back in May and June.

And so one of the things that I think is kind of interesting in that the market, to some degree, sort of missed is that when Fannie came out with $1.6 billion rate locks in August that showed that they actually had capacity left under the cap. Freddie did a $3.6 billion number in August. That meant that May and June they didn't really slow down and so they got a huge – they got an extra $2 billion of loans that came into them in August. So Fannie had dry powder in August to allow for us to be out and rate locking with Fannie in August and into September. Does that make sense from a timing standpoint?

<Q – Steven C. DeLaney>: Yes. And just to clarify, the press release that Tony alluded to this morning, the Company had indicated on its second quarter earnings call that combined Freddie and Fannie business, the range at a midpoint would have been $1.8 billion and today's press release indicated a total of approximately $2.4 billion. So it

looks like numbers – origination volume about 30% higher than the prior midpoint with most of that increase in the Fannie Mae bucket.

<<Steven C. DeLaney, Analyst, JMP Securities LLC>>

Okay, well, we're about out of time. Willy, thank you. Steve [indiscernible] for being here. Keep up the good work.

<<William M. Walker, Chairman & Chief Executive Officer>>

Thank you, Steve, very much.