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Mike Grondahl *Northland Capital Markets*

Raj Sharma *B. Riley FBR, Inc.*

PRESENTATION

Operator

Good morning, and welcome to the Altisource Second Quarter 2020 Earnings Conference Call. My name is Brandon, and I'll be your operator for today. (Operator Instructions) Please note, this conference is being recorded.

I will now turn it over to Michelle Esterman, Chief Financial Officer.

Michelle D. Esterman - *Altisource Portfolio Solutions S.A. - Chief Financial Officer*

Thank you, operator. We first want to remind you that the Earnings Release, Form 10-Q and quarterly slides are available on our website at www.altisource.com. These provide additional information investors may find useful. Our remarks today include forward-looking statements, which involve a number of risks and uncertainties that could cause actual results to differ. In addition to the usual uncertainty associated with forward-looking statements, the current COVID-19 pandemic makes it extremely difficult to predict the future state of the economy and its potential impact on Altisource. The inherent uncertainty of the impact of future events on Altisource is also impacted by Ocwen's recent communication to us that it has been directed by an MSR investor to move Field Services and other service referrals from Altisource to another service provider. Please review the forward-looking statements sections in the Company's Earnings Release, quarterly slides and Form 10-Q, as well as the risk factors contained in our 2019 Form 10-K and first quarter Form 10-Q, which describe factors that may lead to different results. We undertake no obligation to update these statements as a result of new information or future events.

During this call, we will present both GAAP and non-GAAP financial measures. In our Earnings Release and quarterly slides, you will find additional disclosures regarding the non-GAAP measures. A reconciliation of GAAP to non-GAAP measures is included in the Appendix to the quarterly slides.

Joining me for today's call is Bill Shepro, our Chairman and Chief Executive Officer. I would now like to turn the call over to Bill.

William B. Shepro - *Altisource Portfolio Solutions S.A. - Chairman and Chief Executive Officer*

Thanks, Michelle. Good morning and thank you for joining today's call. This morning, I will provide a brief summary of our second quarter financial performance and discuss the operational and financial impact on Altisource from COVID-19 and Ocwen's communication to us that an MSR investor is directing it to move certain service referrals historically provided to Altisource to another vendor. I will also cover our objectives for the balance of the year including our preparation to capture the countercyclical opportunity from higher delinquencies and our plans to reduce internal costs and grow earnings.

As a result of the pandemic, Altisource is facing an unprecedented and challenging business environment with industrywide second quarter foreclosure initiations down by approximately 85% and lender completed foreclosures down by 75% compared to the second quarter of 2019 despite the 306% increase in seriously delinquent loans over the same period. Turning to Slide 5 -- as anticipated, our second quarter revenue of

$91 million, adjusted pre-tax loss of $10 million and adjusted EBITDA loss of $2 million reflect the full quarter impact from COVID-19, which was partially offset by our cost reduction efforts.

Since the National Emergency was declared in March, Federal and various State governments have taken measures to provide financial support to residential mortgage borrowers, including mortgage forbearance programs and foreclosure and eviction moratoriums. For varying lengths of time during the quarter, most states enacted stay-at-home orders and restricted services to only those deemed essential. These measures significantly reduced our default related referrals and revenue for the quarter. Strong growth across our origination related businesses from a historically low interest rate environment, success from our business development efforts and a rebound in June home sales partially offset these declines.

As you can see on Slide 6, second quarter revenue from customers other than Ocwen, NRZ and RESI in our core lines of business was 5% higher than the second quarter of 2019 driven by strong growth in our origination related businesses, partially offset by a decline in some of our default related businesses primarily from governmental actions related to the pandemic.

In this difficult environment, we acted quickly to reduce costs, worked to mitigate the impact to our customers and supported the safety of our employees. As a result, the vast majority of our staff are working from home and we were able to preserve cash, ending the quarter with $68 million in cash and cash equivalents. Keep in mind that this excludes our marketable securities.

For a more detailed description of our second quarter financial performance compared to prior periods, please refer to today's press release and Form 10-Q.

We anticipate this short to medium term pressure on our default related businesses to continue. Governmental forbearance programs and moratoriums temporarily prevent servicers from pursuing foreclosure of delinquent loans. More recently, as set forth on Slide 7, Ocwen advised us that an MSR investor instructed it to move certain referrals for field services to another service provider beginning in July with the balance anticipated to be moved over the next couple of months. Ocwen also advised us that this same investor intends to instruct Ocwen to utilize a different provider for certain other services at unspecified future dates. We believe the MSR investor providing this direction is NRZ and that the referrals are being moved to service businesses that NRZ either owns or in which it has invested. We believe that these actions violate our agreements with Ocwen, and we are currently in discussions with Ocwen to address this matter, and have reserved all rights.

We estimate that revenue from the NRZ portfolios, excluding revenue we earn from our Cooperative Brokerage Agreement with NRZ, represented approximately 39%, or $79 million, of our first half 2020 service revenue, the majority of which is in the lower margin Field Services business. We estimate that the field services portion of this service revenue was $58 million. Because it is difficult to predict the timing of the potential change of Altisource as the service provider, our 2021 forecast conservatively assumes that we don't generate any revenue from these portfolios. The investor's decision to change service providers does not impact the Cooperative Brokerage Agreement where we provide REO brokerage and auction services to NRZ.

To address lower than previously anticipated revenue from Ocwen and the extension of foreclosure and eviction moratoriums, we are developing a plan to implement additional cost reduction measures. As you can see on Slide 8, based upon our current planning we are forecasting Altisource to generate 2021 service revenue of $250 million to $270 million, adjusted EBITDA of $35 million to $43 million and adjusted EBITDA margins of 14% to 16%. This forecast includes the anticipated impact from the pandemic, the loss of service referrals from the Ocwen MSR investor that I just discussed and our anticipated cost reduction measures. We believe there is substantial opportunity for revenue growth and margin improvement from these amounts in 2022 and beyond. Given the very volatile environment associated with the pandemic and the recent Ocwen news, there is greater uncertainty that could cause our actual results to differ materially from our forecast.

We believe that, despite these near term headwinds, we have a strong set of mature and comprehensive real estate and mortgage businesses that are well positioned and ready to capture the opportunity from the higher delinquency environment once the temporary governmental programs are lifted. Keep in mind that the default business for Altisource is not lost, rather it has been pushed off as a result of these programs. In a normal market, we estimate that for every 1% increase in delinquency rates, the addressable market for our default related services increases by approximately $700 million. Based on the increase in 30+ day delinquencies since the beginning of the year, we estimate that the addressable market for our services has grown by over $2.7 billion. With our attractive and growing customer base, we should begin to benefit from the growing addressable market as the temporary governmental relief expires.

Turning to Slide 9 and our business objectives. As we look to the balance of the year, we have three primary objectives: first, preserve cash; second, position the default related businesses for tremendous medium to longer term upside; and third, continue to grow our origination services businesses.

Beginning with our objective to preserve cash. Our top priority is to preserve liquidity given our current environment. Altisource has a capital light business model with a highly variable cost structure. As I discussed earlier, we are developing a cost reduction program to achieve our 2021 financial objectives. This should leave Altisource in a good position when demand for our default related services returns and grows.

This brings me to our second objective. Turning to Slide 10, and our default related businesses, we are optimistic about our long-term potential for these businesses despite the short-term challenges. As shown on slide 11, delinquency and unemployment rates are rising at a historically fast pace. According to Black Knight, the national 30+ day mortgage delinquency rate in June was 7.6% compared to 3.2% in January and the number of seriously delinquent mortgages increased from 400,000 to 1.9 million, the highest level since early 2011. The unemployment rate remains high at 11%.

As we look ahead, we believe the unprecedented level of foreclosure and eviction relief will subside and, if unemployment rates are elevated, delinquency levels are likely to remain substantially higher than they were before the pandemic began. This should drive a strong rebound in our default related businesses toward the middle to end of next year and is very much in line with the feedback we are receiving from our clients. In the meantime, we are enhancing our technology to improve the efficiency of our field services business and extend the reach of our Hubzu marketplace.

Turning to our third objective and growing our origination businesses. As you can see on Slide 12, we have a robust suite of origination solutions that benefited from a low interest rate environment and strong business development activity. In addition to market tailwinds, we have a large opportunity to grow our origination related businesses by capturing greater wallet share from the Lenders One mortgage cooperative members and converting our sales pipeline. Slide 13 provides you with an update on select sales wins.

We are confident in Altisource's long-term potential. We believe that as the default related market returns, and as we continue to grow our originations related businesses, we will be a stronger, diversified company that is better positioned to withstand varying economic cycles. We have an efficient and scalable business model that can adjust to the current environment and should benefit tremendously once delinquent loans begin to move through the normal default lifecycle.

I'll now open up the call for questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) From B. Riley, we have Raj Sharma. Please go ahead.

Raj Sharma - *B. Riley FBR, Inc.*

Hi, good morning. The loss in the MSR, which is NRZ related, you had already alluded to that in the first quarter. Any sort of change -- any more color on that and the timing of when NRZ business is entirely phased out? And also, is it the impact across -- I know you mentioned that it's across default services and marketplace. So anything different from what you had alluded to in the first quarter?

William B. Shepro - *Altisource Portfolio Solutions S.A. - Chairman and Chief Executive Officer*

Yes, Raj, good morning. If you recall, yes, earlier in the year, we mentioned that we estimated that the NRZ business excluding the Cooperative Brokerage Agreement, which is not impacted by this, was about 40%, I think, for the first half, of our revenue, service revenue. For the first half of the year, it represented about 39%, so slightly below what we said earlier in the year. From a timing perspective, in July, Ocwen started to move some of the inspection work from Altisource to Guardian, which is an NRZ owned company and we believe that activity, so inspections moved in July and we believe the REO related work we do in field services will move over the next couple of months.

And then as to the other services, we're not aware of timing. We're aware that Ocwen is having conversations with NRZ about redirecting those services. We're not aware of the timing but in the forecast we talked about in my prepared remarks, we just make the assumption, which we think is very conservative that it's all moved before the beginning of next year. And again, none of this impacts the marketplace business.

Raj Sharma - *B. Riley FBR, Inc.*

Right. And then on the moratorium, when do you think the moratoriums end? Any sort of color on that and the timeline of the serious delinquencies are rising at an incredible pace. Once the moratoriums are lifted, when do you think they're lifted? And then when do you think they flow through your income statement.

William B. Shepro - *Altisource Portfolio Solutions S.A. - Chairman and Chief Executive Officer*

The forbearance program was put in place, the governmental forbearance program, I think, it was in late March. And today, you have close to 4 million borrowers under some form of forbearance and those plans can extend for up to a year, where the borrowers don't necessarily have to be making any payment. On top of that, you have the moratoriums that were originally supposed to expire at the end of June that were extended to the end of August, both the foreclosure and eviction. So that basically has put an absolute halt. So if you think about our about -- even in a historically low environment like last year, historically low delinquency environment, you probably had something like 120,000 foreclosure starts a quarter and you probably had, and this is just an internal estimate, a rough estimate of 30,000 completions or so each quarter, and in the second quarter of this year, there were 18,000 foreclosure starts and I think under 10,000 might even been substantially less than that foreclosure completions. And so it's dropped like a rock. But what's the good news -- that's the bad news for us. The good news is the revenue is not lost. When you think about our business, if you contrast it with the origination space, Raj, so in originations you have interest rates at historically low levels, and you're pulling through to today all these future refinancing activities and you hear servicers talking about refinancing a certain percentage of their book that's refinanceable. In our case, we actually have a very large amount of business that's building, but not here today. So the normal business that we would be working on, we're not receiving because of the moratoriums. And then on top of that, what's happening is you're seeing this massive three times increase in delinquency rates, and we're not yet benefiting from that. So we believe that's building a tremendous pipeline of future business for Altisource.

And then to answer your question as to when, the moratoriums at least as of right now, are extending to the end of August. We're hearing it's possible they could be extended further, although nothing has been decided by the government. And then the forbearance plans, those will roll off if they go a year, sometime between late March next year, and next summer. And then that will start the loss mitigation process and we think our clients are telling us anywhere from 25% to 50% of those loans and forbearance may go through some form of loss mitigation, which will generate very meaningful revenue for Altisource.

Raj Sharma - *B. Riley FBR, Inc.*

Got it, thank you.

Operator

From Northland Securities, we have Mike Grondahl.

Mike Grondahl - *Northland Capital Markets*

Hi Bill, any estimate on the second quarter missed revenue due to the forbearance situation?

William B. Shepro - *Altisource Portfolio Solutions S.A. - Chairman and Chief Executive Officer*

Yes. Hi Mike. So in the second quarter, we actually performed a little bit better than our planning related to COVID-19. The marketplace business got hit really hard in the second half of March, April and May. And then because we still have a decent sized inventory of REO, as the market came back, we're not getting a lot of new inflow, but we have an inventory, so as the home sale market really got strong starting in June, that came back. But Mike, I would say we are probably off by at least 25%, if not more, in terms of total revenue in the second quarter compared to what we would be in a more normal environment. Michelle, I don't know if you have anything to add to that.

Michelle D. Esterman - *Altisource Portfolio Solutions S.A. - Chief Financial Officer*

I think that's fine, Bill.

Mike Grondahl - *Northland Capital Markets*

Yes. Got it. And then on the expense side, is it possible to kind of -- a few of the areas you're targeting in sort of the total dollars -- do you have a range of dollars you think you can pull out?

William B. Shepro - *Altisource Portfolio Solutions S.A. - Chairman and Chief Executive Officer*

Yes. So if you remember, we initially had worked on a plan that was going to take our run rate down. Michelle, correct me if I'm wrong, from the end of last year -- was it $45 million to $50 million?

Michelle D. Esterman - *Altisource Portfolio Solutions S.A. - Chief Financial Officer*

Yes. That's right.

William B. Shepro - *Altisource Portfolio Solutions S.A. - Chairman and Chief Executive Officer*

And so Mike, that was some planning that we had already started related to what's going on in our environment. And then when the moratoriums got extended, and the news from Ocwen sort of crystallized that risk that we've been talking about for some time, we've started developing additional plans. And I think, Mike, without going into all the specifics, we're very, very actively working on plans that will get us to that 14% to 16% EBITDA margins for next year. But think about like in Field Services, Mike, which is one of our lower margin businesses, probably a 10% to 15% margin business, most of the costs in that business are variable. If we don't receive a referral, we don't incur an expense and the same applies to a lot of our other services. So our outside goods and services automatically go down with a decline in referrals. And then beyond that, we're working -- we're looking at basically everything at the company in terms of discretionary spending, unrelated to what we need to support the growth that we anticipate coming. Corporate costs, business unit costs, we're looking at all of it and developing plans.

Mike Grondahl - *Northland Capital Markets*

Got it. So we sort of should expect 3Q and 4Q, is when the forbearance stuff is really going to have the most effect because you were selling the inventory you had in 2Q, but you don't get much inflow. So that's where you're going to get hit the hardest. Is that fair?

William B. Shepro - *Altisource Portfolio Solutions S.A. - Chairman and Chief Executive Officer*

Yes. So we're working hard -- so we think in the second half of the year, Mike, and again, there's a lot of uncertainty because we don't know if these moratoriums are going to get extended, we're not sure exactly what's going to happen when the moratoriums extended because some of those borrowers presumably that would have been impacted or benefit from the moratorium also have forbearance plans in place. So there's a lot of uncertainties right now that makes it very, very hard to predict the second half of this year. So with that caveat, based on our internal planning and the cost savings we're working on, we're trying to basically keep the cash burn as low as possible for the second half of the year. And I don't know that we'll break even from an EBITDA perspective, but we're working hard to get to close to breakeven. And again, a lot of caveats around what's going on both with Ocwen and the timing of the move to other vendors on NRZ's behalf as well as what's happening with the moratoriums.

Mike Grondahl - *Northland Capital Markets*

Sure. And then just last question. What are your legal rights? What are you kind of pursuing with Ocwen? You said you were discussing, talking with them. What are you hoping to gain?

William B. Shepro - *Altisource Portfolio Solutions S.A. - Chairman and Chief Executive Officer*

Yes, sure. So let me start by saying we have a very good working relationship with Ocwen and we're having a very constructive dialogue with Ocwen right now regarding this move by NRZ or this direction by NRZ to Ocwen. I don't want to get into the details, Mike, but as there's more to report, we will. But we maintain a very strong relationship, working relationship with Ocwen. We're having a very robust and constructive dialogue with Ocwen around resolving these issues and hopefully, there'll be more to report soon.

Mike Grondahl - *Northland Capital Markets*

Got it, ok. Thank you.

Operator

(Operator Instructions) We have a follow-up from Raj Sharma.

Raj Sharma - *B. Riley FBR, Inc.*

Hi Bill, Hi Michelle. Just one follow-up -- can you comment on your liquidity and how -- I know you just said you're trying your best to be breakeven -- so there's no change in -- can you comment on any debt obligations coming up and your cash levels and your ability to be able to withstand this decline in volumes of business to next year?

William B. Shepro - *Altisource Portfolio Solutions S.A. - Chairman and Chief Executive Officer*

Yes. So Raj, we feel, based on the planning we've done in our current forecast, we feel good about our liquidity, and I think we ended the quarter with $68 million. I looked at our cash position a couple of days ago. It was over $70 million. So cash continues to be strong. And as you know, we're a capital light business. We spend very, very little on capital. If we spend another $1 million to $1.5 million the rest of the year, I think that's probably a reasonable estimate. So we feel very good about our liquidity. And then when you look at our planning for next year, and those EBITDA levels we're talking about, plenty of liquidity to cover our debt service. We believe we have plenty of liquidity to cover our debt service and generate some excess cash flow next year.

And the last point, Raj, on the loan. It's a covenant light loan. There's an excess cash clause. So if net debt-to-EBITDA gets above a certain level, a certain percentage of our 25% and then 50% of excess cash flow that we generate during that period is used to reduce the debt, but there's no financial covenant and the loan doesn't mature until April 2024.

Raj Sharma - *B. Riley FBR, Inc.*

No amortizations?

William B. Shepro - *Altisource Portfolio Solutions S.A. - Chairman and Chief Executive Officer*

There's a minor amount of amortization. I think contractual amortization is about $13 million between now and maturity.

Michelle D. Esterman - *Altisource Portfolio Solutions S.A. - Chief Financial Officer*

Our next amortization event doesn't occur until March of 2023.

William B. Shepro - *Altisource Portfolio Solutions S.A. - Chairman and Chief Executive Officer*

Yes. So we feel very good about our liquidity. And we've got a very good plan that we're developing that we think positions Altisource as a stronger, more diversified, fast growing company that can take advantage of the growing delinquency rates, which we believe this revenue has not been lost but deferred.

Raj Sharma - *B. Riley FBR, Inc.*

And also, just one last question on the servicers. The new servicers, you added some new business this quarter, any new wins?

William B. Shepro - *Altisource Portfolio Solutions S.A. - Chairman and Chief Executive Officer*

Yes. We continue to win deals and grow the pipeline. There's some business we're doing for a top 5 bank that we're going to launch in September to support them with their forbearance programs that's going to launch in a month or so. We're very close to signing agreements with several banks and non-banks related to our marketplace business. So when volumes return, we'll have additional customers, and so we should benefit from that. So we're very pleased with the pipeline, and it continues to grow and make progress.

Raj Sharma - *B. Riley FBR, Inc.*

Thank you so much.

Operator

(Operator Instructions) Showing no further questions at this point. We'll now turn it back to Bill Shepro for closing remarks.

William B. Shepro - *Altisource Portfolio Solutions S.A. - Chairman and Chief Executive Officer*

Thanks, operator. Thanks for joining today's call, and we look forward to talking to you as the quarter progresses. Take care.

Operator

Thank you. Ladies and gentlemen, this concludes today's conference. Thank you for joining. You may now disconnect.
