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ASPS - Q4 and Full Year 2019 Altisource Portfolio Solutions SA
Earnings Conference Call

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CORPORATE PARTICIPANTS

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

CONFERENCE CALL PARTICIPANTS

Mike Grondahl *Northland Capital Markets*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Altisource Fourth Quarter and Full Year 2019 Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. (Operator Instructions)

I would now like to hand the conference over to your speaker today, Ms. 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-K 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. Please review the forward-looking statements sections in the Company's Earnings Release, as well as the risk factors contained in our 2019 Form 10-K, 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*

Good afternoon and thank you for joining today's call. Today, I will summarize our 2019 business and financial performance and discuss our current business environment and 2020 objectives. Altisource is continuing on its multi-year strategic plan to address ongoing revenue concentration risks with Ocwen and NRZ while driving commercial acceleration of our core largely countercyclical businesses.

There is some uncertainty surrounding the downstream services we provide to Ocwen on the NRZ portfolios based on certain statements they've made publicly. We estimate that these portfolios represent approximately 40% of our 2020 revenue. Although we don't know what Ocwen or NRZ will do, or when, for now, this is a cash cow. 60% of our estimated 2020 revenue is from Ocwen, NRZ and other customers. We have a long-term Cooperative Brokerage Agreement with NRZ to provide REO brokerage and auction services and long-term agreements with Ocwen where we provide services unrelated to NRZ's portfolios. Both of these agreements extend through August 2025 and generate significant revenue at attractive margins. With respect to our other customers, we anticipate growing revenue by 25% to 35% this year, generating \$105 million to \$115 million of revenue. We believe we can accomplish this growth despite the very challenging environment where industry wide delinquencies are at their lowest level on record and more than 14% lower than a year ago. This growth should accelerate further in a rising delinquency rate environment from our existing customer base, expanding market share and industry consolidation.

We view Altisource as a countercyclical growth company with a legacy cash business. There are only three to four vendors in each of our business lines competing with the breadth of services and scale that we provide on a nationwide basis. Given the positioning of our core businesses, the



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strength of our leadership team, our marquee customer base and our robust sales pipeline, we believe Altisource will address our revenue concentration issues and emerge as a more diversified and growing company.

Turning to slide 3, during 2019, we continued to reposition Altisource. We sold and closed certain non-core businesses, consolidated our sales and marketing resources under a seasoned leader, established an innovative product organization and further developed our core Field Services, Marketplace and Mortgage and Real Estate Solutions businesses. Altisource is a leading provider in each of our core businesses and operates at a breadth and scale that we believe few of our competitors can match.

As you can see on slide 4, across our three core businesses, fourth quarter 2019 service revenue from customers other than Ocwen, NRZ and RESI grew by 19% compared to the fourth quarter of 2018. If we were to look back over the last four years, excluding Equator, 2019 revenue in our core businesses from other customers grew by 71% while delinquency rates declined by approximately 40% over the same period. We exclude Equator because of our strategy to leverage it as a tool to win higher margin Hubzu business. This growth included some of the largest financial institutions in the United States. Today, Altisource is doing business with all the top 5 Servicers and five of the top 10 Originators. Slide 5 highlights some of our more notable wins and slide 6 through 9 provide you with a more detailed overview of each of our three businesses.

Slide 6 provides an overview and key highlights of the Field Services business. During 2019, we grew revenue in this business from customers other than Ocwen, NRZ and RESI by 55% compared to 2018, and by an impressive 229% in the fourth quarter of 2019 compared to the fourth quarter of 2018. This growth was largely driven by the addition of several leading loan servicers to the field services platform. We anticipate that the 2019 client on-boardings as well as scheduled Q1 and Q2 2020 on-boardings should help position Field Services to achieve greater than 70% growth in 2020 from customers other than Ocwen, NRZ and RESI.

Slide 7 provides an overview and key highlights of the Marketplace business. During 2019, we grew Hubzu revenue from customers other than Ocwen, NRZ and RESI by 9% compared to 2018, and by 41% in the fourth quarter of 2019 compared to the fourth quarter of 2018. This growth was more than offset by lower Equator revenue from our Equator strategy I just discussed.

As shown on slide 8, Hubzu's year-end foreclosure and REO auction inventory from customers other than Ocwen and NRZ was 50% higher than year-end 2018, and represented 35% of our total inventory. Given our inventory levels and anticipated market share gains with existing customers, timing of on-boarding new customers and the sales pipeline, we anticipate Hubzu's revenue growth from customers other than Ocwen and NRZ to accelerate in 2020. As of the end of February, Hubzu inventory from other customers was 8% higher than year-end.

Slide 9 provides an overview and key highlights of the Mortgage and Real Estate Solutions business. During 2019, we grew revenue from customers other than Ocwen, NRZ and RESI by 6% compared to 2018, and by 25% in the same quarter of 2019 compared to the fourth quarter in 2018. The stronger fourth quarter performance was primarily from loan originations growth in the second half of 2019, a strengthening construction market and the addition of a number of new customers across our offerings. We continue to develop our origination related capabilities and believe we are well positioned to capture more revenue in this low interest rate environment while also benefiting from 2019 client on-boardings and an attractive sales pipeline. Our Mortgage and Real Estate Solutions business is off to a very strong start in 2020, with January and February revenue from customers other than Ocwen and NRZ up approximately 38% compared to the same two months in 2019.

As we highlight on slide 10, we also made progress exiting non-core businesses. We sold our Financial Services Business and rental home portfolio, shut down the Owners.com business, and created a separate Pointillist entity. We also supported Ocwen's migration from REALServicing to a new servicing system and began selling RESI shares. On February 18th, RESI announced that Amherst Residential is acquiring RESI for \$12.50 per share in cash and that the transaction is targeted to close in the second quarter of 2020. Upon closing, we expect to receive approximately \$43.2 million in merger proceeds, and the remaining \$3 million of proceeds due from RESI's 2018 acquisition of our Rental Property Management business. Our divestitures are helping drive greater focus on our core businesses, monetizing non-core assets and reducing cash burn from earlier stage businesses.

We used proceeds from the sale of businesses and RESI shares to continue to reduce our debt. As you can see on slide 11, in 2019 we reduced the principal balance of our term loan by \$45 million to \$294 million. We ended 2019 with \$168.5 million of net debt less marketable securities, a 31% reduction for the year. During 2019, we spent a modest \$2 million on capital expenditures. Our capital requirements are low, and we anticipate that they will remain so in 2020.



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For a more detailed description of our fourth quarter and full year financial performance compared to prior periods, please refer to today's press release and 10-K. In reviewing these materials, you will note that we recognized \$311 million of non-cash tax expense, the majority of which relates to placing a full valuation allowance on our Luxembourg deferred tax assets. As a result of three years of cumulative losses in Luxembourg, GAAP requires us to fully reserve these assets. The Company currently has approximately \$1.3 billion of Luxembourg NOLs that are available to offset future Luxembourg income.

Turning to our 2020 business environment and objectives - we continue to focus on accelerating the growth of our core businesses from customers other than Ocwen and NRZ, reducing costs, maintaining strong liquidity and, based upon business and market conditions, reducing debt. While we don't know what Ocwen or NRZ will do, or when, we are preparing for this uncertainty including exploring our legal options. We are also working with potential strategic clients to accelerate our growth from customers other than Ocwen and NRZ. Keep in mind that moving servicing and changing downstream service providers typically takes time and requires diligent planning otherwise it can be very disruptive to homeowners and investors.

Today, Altisource is a more streamlined company focused on larger opportunities, with a strong cash position, lower debt and expanding business from customers other than Ocwen and NRZ. We are demonstrating our ability to add new strategic clients while delinquency rates decline and believe we are in a very strong position to benefit from growing loan originations and a softening economy.

I'd like to conclude by thanking and recognizing Altisource's leadership team and employees who remain incredibly focused on diversifying our customer base and providing high quality services to all of our customers.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Mike Grondahl with Northland Securities.

Mike Grondahl - Northland Capital Markets

Bill, could you just kind of repeat what you said about the 40% of 2020 revenues, I think, related to NRZ and the uncertainty there and legal options? You were talking really fast. I just want to make sure I caught that.

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

Sorry about that, Mike. Yes. So if you look at our total revenue and what we estimate it's going to be for 2020, we believe 40% of that revenue is coming from Ocwen but related to MSR's or portfolios owned by NRZ. The other 60%, some of that is coming from Ocwen on portfolios it owns, some of it coming from NRZ under a separate Cooperative Brokerage Agreement. And by the way, the Ocwen agreement and the NRZ agreement extend through August of 2025. And then the last piece of that is what we have, is very fast growing, we believe is going to grow very quickly in 2020 business from other customers. And I think we said we estimate that could be as much, Michelle, would I say, \$105 million to \$115 million.

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

That's correct.



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

And so, given the public statements that Ocwen and NRZ have recently made, we thought it made sense to carve-out, let you know roughly what percentage of our revenue comes from Ocwen under our long-term services agreement but is related to NRZ's portfolios and that's the 40% in 2020.

Mike Grondahl - *Northland Capital Markets*

Got it. They haven't communicated anything to you, but there's a little bit of nervousness out there. How long -- or are they going to take some of that business from you? Is that the thought?

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

Yes, Mike. What we're reacting to is the public statements that both Ocwen and NRZ have recently made and what that impact could potentially have on our business. We really are focused, Mike. Clearly, we're going to evaluate what legal options we have, should that take place, because we have long -- we believe, long-term services agreements that cover that revenue. But given there is some uncertainty there, we thought it made sense to call it out.

Mike Grondahl - *Northland Capital Markets*

No, that's fair, thank you. Kind of looking at Hubzu, quick, is the revenue per home and margin, would you say, it's pretty similar for sort of Ocwen/NRZ business versus non-Ocwen/NRZ business? Kind of, the newer stuff you're doing?

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

Yes. The answer is, it depends. For some clients, we have one very large bank client, for example, where we're providing REO auction, REO brokerage, field services work on the REO as well as title and the fees earned from that client, and it's a top 5 or top 10 bank, are the same or better than the fees that we're earning on the Ocwen and NRZ portfolio. And some of our growth is coming from providing foreclosure auction or marketing the foreclosure auction for certain clients, one is a GSE. And then we're doing work for several other customers to manage both the first and the second chance FHA auctions. And there, the fees are typically as high as 5%, depending on the client, they could be anywhere from, let's say, 2% to 5%.

Mike Grondahl - *Northland Capital Markets*

Got it.

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

And then, Mike, we're providing fewer services when we're just marketing the auction, the foreclosure auction, you're not doing as much work as you're doing to market a foreclosure or an REO, to market an REO asset. And so yes, in some cases, the fees may be lower, but you are doing less work.

Mike Grondahl - *Northland Capital Markets*

Got it. And on the growth of the non-Ocwen stuff, the \$105 million to \$115 million. How should we think about the margins on that business kind of versus the legacy business?

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

Sure. We have three businesses right, you have the Marketplace business, and again, it depends on the mix of revenue, how much is tied to foreclosure, and how much is tied to REO asset management, but that's generally a very high-margin business. When you think about the Field Services growth, in some cases, there, we have obligations to provide those services in the U.S. and where we have less scale. So initially, that's lower margin, but we believe, over time, that we'll get to similar margins that we provide on the other portfolios where we can do work from around the world. And then in our Mortgage and Real Estate Solutions business, that includes title, trustee, valuations, Granite, businesses like that, we anticipate they're in the 20% to 30% range, again, depending on the service.

Mike Grondahl - *Northland Capital Markets*

Got it. And two more, overall, for '19, I know you've shut down Owners.com, you still have Pointillist, what were the losses from those two in '19? And roughly, what do you think they're going to be in '20?

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

Mike, I think it was around \$20 million, a little over \$20 million in 2019 related to Pointillist and Owners. If you remember with Pointillist, we funded that and don't anticipate providing additional funding to Pointillist, so we anticipate some point this year, before the end of the year, that they'll go out and raise equity and/or debt to fund their operations. So we don't anticipate funding Pointillist any further, but we maintain a large ownership stake in that company. And with respect to Owners, I think we're largely done. We don't anticipate any expenses in 2020.

Mike Grondahl - *Northland Capital Markets*

Got it. In 2020, will Owners have any losses that you have to assume because of your over 50% ownership stake? Or is that getting closer to breakeven. I mean, I'm trying to understand 2020.

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

Yes. So I think you meant Pointillist, not Owners. In Pointillist, it does run through our income statement, but we're not planning on funding it any further. And we do plan on adding it back when we show our earnings.

Mike Grondahl - *Northland Capital Markets*

Got it.

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

We're having some success -- Pointillist is having some success attracting very household names as customers that are very excited about the product. It's demonstrating, it has very low churn of existing customers, and it has a very aggressive growth plan for this year. So we're very optimistic in the long-term that Pointillist could be a very valuable asset for the Company. But in the meantime, we don't have any plans to fund it any further.



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Mike Grondahl - *Northland Capital Markets*

Got it. And last one for me. Back in 2017, you had about \$60 million of investments, 2018 number, that was like \$44 million. What was the rough total for 2019? And what's kind of the outlook for 2020 that investments you're still making? I think it's getting pretty low I just kind of wanted to get an update.

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

Yes, that's roughly that \$20 million we just talked about, Mike, and we don't anticipate, outside of a couple of million dollars of capital we're spending this coming year, as you know, we expense the vast majority of our technology development. So we don't anticipate any real investment in these other businesses after adding back Pointillist.

Mike Grondahl - *Northland Capital Markets*

Ok. Thanks a lot.

Operator

(Operator Instructions) And speakers, I'm showing no further questions in the queue at this time. I'd like to turn the call back to Bill Shepro for any closing remarks.

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

Thank you, operator, and thank you for attending today's call. We look forward to talking to you soon. Take care.

Operator

Ladies and gentlemen, thank you for your participation on today's conference. This does conclude your program, and you may all disconnect.

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