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ASPS - Q1 2019 Altisource Portfolio Solutions SA Earnings Call

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APRIL 25, 2019 / 12:30PM, ASPS - Q1 2019 Altisource Portfolio Solutions SA Earnings Call

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CONFERENCE CALL PARTICIPANTS

Leon Cooperman *Omega Advisors, Inc. - President, CEO & Chairman*

Mike Grondahl *Northland Capital Markets*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Altisource First Quarter 2019 Earnings Conference Call. (Operator Instructions)

I would now like to introduce your host for today's conference, 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. Please review the forward-looking statements section in the Company's earnings release, quarterly slides and Form 10-Q as well as the risk factors contained in our 2018 Form 10-K and 2019 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 Chief Executive Officer. I would now like to turn the call over to Bill.

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

Good morning and thank you for joining today's call. We had a solid first quarter. We are doing well financially and operationally, and we continue to streamline Altisource to focus on our larger opportunities. This year, we anticipate that we will substantially reduce our debt balance and generate \$60 to \$70 million of adjusted operating cash flow even after incurring anticipated losses in our earlier stage businesses that we plan to separate and Project Catalyst restructuring costs totaling approximately \$50 million. As I'll discuss in greater detail, we believe that the sum of the parts of Altisource may be worth much more than our current share price reflects, and we are taking steps that we believe could unlock this potential shareholder value. This morning, I will provide an update on these items.

As you can see on slides 4 and 5, we generated \$0.48 of adjusted diluted earnings per share, \$18.1 million of adjusted operating income and \$11.3 million of adjusted pre-tax income on \$165 million of service revenue. Adjusted earnings per share and adjusted net income both represent approximately 22% of the mid-point of our full year scenarios. As the first quarter is typically a lower earnings quarter, we believe we are well positioned for the rest of 2019. Notably, first quarter adjusted operating income was 10% higher than the first quarter of 2018 and our adjusted operating margins improved from 8.7% to 11.0%. The first quarter marks our third straight quarter of adjusted operating income growth compared to the same quarters in the prior year. Our earnings release and 10-Q provide a detailed discussion of our first quarter operating results compared to the same period last year.



APRIL 25, 2019 / 12:30PM, ASPS - Q1 2019 Altisource Portfolio Solutions SA Earnings Call

From a cash flow perspective, we generated approximately \$600 thousand of adjusted cash from operations. Keep in mind that our first quarter is typically our lowest cash generation quarter because of annual bonus payments and as I just mentioned, we anticipate \$60 to \$70 million of adjusted operating cash for the full year. During the quarter, we used less than \$2 million for investing and financing activities. With respect to investing activities, our capital requirements have continued to decline as we simplify the organization and reduce our footprint. With respect to financing activities, we didn't repurchase our stock during the quarter because we were in possession of material non-public information relating to the recently announced agreement to sell our Financial Services business. Shortly after this announcement, we put a plan in place to begin repurchasing shares because we believe the market price of our shares doesn't fully reflect the value of the Company. We ended the quarter with \$249 million of net debt less marketable securities and \$209 million after further reducing for the book value of BRS homes which we plan to sell in 2019. With respect to marketable securities, we plan to sell our shares in RESI stock over time and use the proceeds to repay debt, as owning the stock is not part of our longer-term plan.

On the business front, I'd like to highlight the considerable progress we are making on our Hubzu and Field Services businesses. Beginning with Hubzu, which includes our asset management, real estate brokerage and online transaction marketplace for residential real estate auctions and sales. We are winning new business and diversifying our customer base as is demonstrated by our growing inventory of foreclosure auctions and homes for sale from customers other than Ocwen, NRZ and RESI. As you can see on slide 6, Hubzu inventory from these customers represents 26% of total Hubzu inventory compared to 10% a year ago and has grown by 116% in the last twelve months and 24% in the first quarter. Our success demonstrates Hubzu's continued leadership position and strong performance for our customers. We are optimistic that we will continue to grow as we expand market share with existing customers, receive referrals from recent wins and convert pipeline opportunities to wins, in an environment where the industry is expanding its use of online auction as a disposition strategy. Further, as this is a counter-cyclical business, rising delinquencies would also enhance our growth opportunities.

Turning to our Field Services business, we are also making excellent progress. We are now doing business with 7 customers other than Ocwen. These customers include four of the top fifteen servicers, two of which recently notified us that they intend to give us more market share. In addition, we are completing the on-boarding process with another top-5 servicer and anticipate receiving referrals in the third quarter. We believe we are winning new business and expanding with existing customers because of our strong control and quality environment, scale and relationship management.

Operationally, we have streamlined Altisource's organization, are focusing on our larger opportunities, and seeing the results through our financial performance. During the first quarter, compensation and benefits was \$15.7 million, or 23% lower than the first quarter of 2018. While we've completed a lot of the Catalyst work, there are other activities that will continue throughout 2019 and into 2020, including migrating our data centers to the cloud and certain automation initiatives.

You may notice another impact of Catalyst when you review our 10-Q. In connection with our internal re-organization, we consolidated the product and operations of our businesses under a single leader. We believe our new operating structure positions Altisource as a strong competitor in the market by more effectively leveraging our end-to-end product and service portfolio and provides opportunities for further operating efficiencies. As a result of these changes, we now have a single segment and are no longer providing segment reporting.

As we have worked to reorganize the company and focus on our larger opportunities, last year we sold the property management business and announced that we are exiting the BRS business, and recently we began positioning our earlier stage businesses to separate and raise venture capital. In March, we entered into an agreement to sell our Financial Services business for \$44 million, \$40 million of which will be received at closing and the balance on the one-year anniversary of closing. Financial Services consists of the asset recovery management, customer relationship management and mortgage charge-off businesses. 2018 service revenue from these businesses was \$64 million and adjusted pre-tax income was approximately \$5.5 million. We anticipate closing in the third quarter of 2019 and will adjust our financial scenarios to reflect the sale after the closing has occurred.

Turning to our earlier stage businesses, Owners.com and Pointillist - we continue to make good progress growing revenue and bookings, and attracting new customers. Given our progress, we are beginning the work to prepare these businesses to run on a stand-alone basis. This should make it easier for us to separate these businesses and raise venture capital to fund them, with the objective of eliminating Altisource's cash burn, while continuing to benefit from potential up-side.



APRIL 25, 2019 / 12:30PM, ASPS - Q1 2019 Altisource Portfolio Solutions SA Earnings Call

We believe that Altisource has a collection of very valuable businesses that are not fully reflected in our share price. The monetization of the non-core rental property management and Financial Services businesses illustrate the value of certain assets of Altisource. For other assets, like our earlier stage businesses that are growing but losing money, we don't believe the market is assigning appropriate value. We believe raising venture capital for our earlier stage businesses will establish an external valuation, demonstrate the upside and eliminate cash burn for these businesses. Finally, we believe the transaction multiples paid for certain Altisource competitors highlight the potential value creation for shareholders inherent in some of our more mature businesses.

In conclusion, our first quarter performance was in line with our expectations. With on-going progress with new and existing customers and a strong pipeline, we believe we are positioning Altisource for a solid 2019 and an even better 2020. We are winning business from strategic customers, rationalizing and monetizing non-core businesses and streamlining the organization to focus on larger opportunities.

I'd now like to open the call for questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Lee Cooperman with Omega Advisors.

Leon Cooperman - *Omega Advisors, Inc. - President, CEO & Chairman*

Seems like you have religion all of a sudden. Let's see what happens. Just explain to me the status of the buyback. What do you have in the way of an authorization? And what is your financial capacity given your current plans and what you've announced?

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

Lee, there's 3.4 million shares under the authorization.

Leon Cooperman - *Omega Advisors, Inc. - President, CEO & Chairman*

And at the end of the quarter, we had, what, outstanding? 18-something?

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

No, we're down to, I think it's non-diluted shares of 16.3 million shares.

Leon Cooperman - *Omega Advisors, Inc. - President, CEO & Chairman*

Okay. And you have 3.4 million authorized in the buyback. What's your financial capacity and the attitude towards buying them, assuming they were available.

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

We're in the market now and we believe it does make sense to buy. We're not disclosing what our program is, Lee, but we have capacity to buy a meaningful amount of shares back.



APRIL 25, 2019 / 12:30PM, ASPS - Q1 2019 Altisource Portfolio Solutions SA Earnings Call

Leon Cooperman - *Omega Advisors, Inc. - President, CEO & Chairman*

Well, if somebody offered you 3.4 million shares tomorrow in the confines of the market, would you buy it?

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

We're not going to buy back as much as 3.4 million. We're still taking a balanced approach around reducing the debt, Lee, and buying shares back.

Leon Cooperman - *Omega Advisors, Inc. - President, CEO & Chairman*

So that's my question. What is your appetite? I'm not interested in selling to you. I'm just interested in what your appetite is given your financial situation and your projected cash flow.

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

Sure. We're not disclosing how much we're going to buy back, but, Lee, I think last year, we spent about \$40 million. I don't anticipate we'll spend that much this year, Lee. I think our authorization is probably around \$20 million or \$25 million for the year.

Leon Cooperman - *Omega Advisors, Inc. - President, CEO & Chairman*

So you might buy 1 million shares back or something like that.

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

Yes. We could buy 1 million or more back, yes.

Leon Cooperman - *Omega Advisors, Inc. - President, CEO & Chairman*

Right. Why are you buying it back? I mean, your buyback has been totally flawed. You started with \$200 million at over \$100 a share. I can't remember how many years ago. Time flies when you're having fun. I would say at least 5, 6, 7 years ago.

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

Yes. So Lee, in hindsight, it makes a lot of sense what you're saying. At the time, given our growth expectations, we believed that made sense. And right now, we believe, given our view of the value of Altisource, that it's trading at a substantial discount. And the risk profile of the Company, we believe it makes sense to continue to buy back shares and also to continue to reduce our debt.

Leon Cooperman - *Omega Advisors, Inc. - President, CEO & Chairman*

Is 2019 a year where you think you could deliver to your shareholders what you've been talking about for the last 5 years? Or is this going to take a longer process to deliver the value to the shareholders?



APRIL 25, 2019 / 12:30PM, ASPS - Q1 2019 Altisource Portfolio Solutions SA Earnings Call

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

No. We think compared to where our scenarios were set last year, Lee, we have a plan to grow earnings compared to last year's scenarios. And I think if you look at slide 6 in our deck, Lee, I find it to be really interesting.

We're receiving today close to 600 referrals of REO from customers other than Ocwen, NRZ and RESI. Close to 600. I think it was 595 a month. We sold on average, don't hold me to this number, I think it was about 145 a month in the first quarter. And I think our average sales price on Hubzu sales, if you do the math on that slide 6, is about \$8,000 per home.

We're substantially growing our inventory from customers other than Ocwen. And because it's been growing so quickly over the last year, you're not seeing it in the sales results yet or in the revenue from this non-Ocwen, non-RESI/NRZ customers, but that is going to start to flow through earnings and that's a pretty exciting business.

Leon Cooperman - *Omega Advisors, Inc. - President, CEO & Chairman*

Yes. What I was really referring to, you made a lot of references to structural changes at the company where you might bring in venture capital, sell off businesses that don't fit the longer-term picture, that you have businesses that are worth substantially more than the market is paying for them within the company. Do you think that these moves you're contemplating will create value in 2019 for the shareholders? Because the shareholders have been like in a desert. They've waited for a long time for positive results and the earnings are going in the wrong direction. You say that the stock does not reflect the sum of the parts. Do you think that the moves you're contemplating making are a 2019 event or a 2020 event or whatever? That's the question. And you probably should be as open as humanly possible because if you're buying back stock, you're really trading against your shareholders. You're telling the shareholders, we're going to buy back stock because we think it's undervalued. You ought to give them all the information you have that leads you to believe that it's undervalued, so you're not trading against your shareholders.

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

Lee, I think we're pretty transparent about what we're doing at Altisource. I think we've hit the numbers we've said we would for the last couple of years in our scenarios. And I think the moves we're making today will increase shareholder value. Absolutely.

Leon Cooperman - *Omega Advisors, Inc. - President, CEO & Chairman*

We'll wait and see. We'll wait and see here.

Operator

Our next question comes from Mike Grondahl with Northland Securities.

Mike Grondahl - *Northland Capital Markets*

Bill and Michelle, couple of questions. First off, you've sold the property management business, about \$18 million. You're winding down BRS, around \$40 million. Now you've sold the Financial Services business, roughly \$44 million. What else is non-strategic? What else are you thinking about sort of selling or streamlining? Is there much left?

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

Mike, you still have the RESI stock which, at \$10 a share, is worth about \$41 million -- \$44 million. So you have the RESI stock, which we plan on selling. You've got the book value of the homes we own, which is about \$40 million, the BRS Homes. The sale of Financial Services in total will be



APRIL 25, 2019 / 12:30PM, ASPS - Q1 2019 Altisource Portfolio Solutions SA Earnings Call

\$44 million. And then you've got those 2 earlier stage businesses, which we plan to essentially separate from Altisource and raise venture capital, which we hope will stop the cash burn at Altisource while maintaining an option on those businesses which are growing at an attractive pace.

Mike Grondahl - *Northland Capital Markets*

Anything in the mortgage origination area or Lenders One or Vendorly or REALSynergy? Any other pieces of the business that are noncore that you could think about selling?

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

So we have some smaller businesses, Mike, which we could evaluate. But what's left really, Lenders One is left, of course. Hubzu, where we're making very, very good progress. We have our Field Services business. Those are the largest businesses, really, Hubzu and Field Services. Then, of course, we've got title, valuation, trustee, some of those other businesses. And so we're regularly evaluating what makes the most sense to keep and what makes the most sense to sell, and frankly, to optimize shareholder value. As Lee discussed, the share price has been relatively flat for the last couple of years and we're as anxious as Lee and our other shareholders are to create value of the Company and we're hoping some of the moves we're making will demonstrate that these parts are worth a lot of money.

Mike Grondahl - *Northland Capital Markets*

Got it. And then just on Owners and Pointillist. Last quarter, you gave kind of an update on some of the trends and metrics. Can you provide some color this quarter on Owners and Pointillist? Just in terms of customer wins or units and kind of what transitioned there the last 90 days.

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

Sure. So at Owners, I think, don't hold me to the exact numbers, but revenue was up roughly 20% or 25%. I think it's 25% from last year. And we purposefully, based on learnings from last year, dialed back some of our marketing to focus more on the seasonally strong spring and summer months.

And the leading indicators already in April for that business are number of homes under contract, I think, are already up 50% in April compared to April of last year. And we still believe we're going to close to double the revenue in that business this year.

In terms of Pointillist, we're making very good progress with both bookings, new customers, and our sales pipeline, and we're getting a lot of interest from our channel partners. So we're working with some leading consulting companies that are working with their clients and bringing Pointillist as a solution to them.

Those customers appear to be very, very interested. We're signing up pilots with household names in the financial services industry, the cable industry and the telecommunications industry. So we're pretty excited about the momentum we're getting in Pointillist as well and think it's going to have a very good year. And again, that's the reason why we're focused on really establishing these businesses as separate operations so that we can raise venture money in both of them.

Mike Grondahl - *Northland Capital Markets*

And do you think that venture money is a 2019 event or a 2020 event?



APRIL 25, 2019 / 12:30PM, ASPS - Q1 2019 Altisource Portfolio Solutions SA Earnings Call

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

So on Pointillist, we're working hard for it to be either late 2019 or into 2020. And on Owners, we're a little bit further behind in starting the process, but we're trying to get moving quickly. So I hope it would be early 2020, if not sooner.

Mike Grondahl - *Northland Capital Markets*

Got it. And then the non-Ocwen revenue in the quarter was \$38 million or about 17%. What was it in the year-ago quarter? I'm just trying to understand the overall trend there with non-Ocwen revenues.

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

So I think what you're seeing, Mike, is, keep in mind we sold the property management business, the revenue from the BRS business is down. Originations was down somewhat from the significantly slower originations this year. And I think the servicer, what we typically call the Servicer Solutions business, was relatively flat, is my recollection, but with good opportunities for that to grow as the year progresses.

Mike Grondahl - *Northland Capital Markets*

Got it. And then maybe just quickly on Page 7. What one or two really stick out for you there? Is it basically just the very large opportunities that we should be tracking pretty closely just as they're over \$25 million? I think that top 5 servicer slid another quarter to 3Q from 2Q. But anything else to really call out there?

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

So on the top 5 servicer, this is a household name, one of the largest servicers in the country. We're going to be one of three vendors that provide field services to them. So that definitely stands out. In the middle of the page, one of the largest institutional real estate mortgage investors in the U.S., that has a tremendous opportunity. They're directing the servicers in four states to send us all their foreclosure auctions. And we're one of three vendors providing REO sales. And we're one of two vendors doing short sales. And that's just starting to ramp up and continues to grow.

And then we just boarded in March, don't hold me to that, but I think it was March, another household name, a major bank in the United States. They moved something like probably close to 600 or maybe more than 600 REO homes to us. By the way, what was interesting with this bank was we originally were going to be one of two vendors and they ultimately decided to move the whole portfolio over to us. So now we're the sole vendor doing Hubzu auctions, real estate brokerage and asset management for them as well as title and field services.

And we have a second more middle mid-tier bank that we on-boarded in April and I think we've boarded 160, 170 assets. That's another client that was going to go to two vendors and ultimately decided to go to just us. So we're getting very good reception. We have a couple other wins that are going to start boarding REO, probably late in the second quarter into the third quarter, more into the third quarter.

So we're making very good progress with our Hubzu and auction and asset management as well.

Mike Grondahl - *Northland Capital Markets*

Well, it'll be interesting to see some of that flow through this summer and fall for Hubzu.

Operator

And I'm not showing any further questions at this time. I would now like to turn the call back to Mr. Shepro for any closing remarks.

APRIL 25, 2019 / 12:30PM, ASPS - Q1 2019 Altisource Portfolio Solutions SA Earnings Call

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

Thanks for joining the call, and have a great day.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude today's program, and you may all disconnect. Everyone, have a wonderful day.

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