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

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

CONFERENCE CALL PARTICIPANTS

Mike Grondahl *Northland Capital Markets*

Raj Sharma *B. Riley Securities, Inc.*

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Altisource Third Quarter 2020 Earnings Conference Call.

(Operator Instructions)

As a reminder, this conference is being recorded.

I would now like to turn the call over to your host, 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-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 the timing and extent of Ocwen or NRZ directing referrals of services to providers other than Altisource. 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 third quarter financial performance, an update on our progress to improve our adjusted EBITDA margins and cash flow, and an overview of our operating and sales strategy to address the current environment.

Beginning with Slide 3, we are pleased with the progress we are making in a very difficult operating environment. We increased adjusted EBITDA by $8.5 million in the third quarter compared to the second. We are implementing our 2021 operating plan that targets $250 million to $270 million of service revenue and $35 million to $43 million of adjusted EBITDA. Our operating plan assumes continued COVID-19 related headwinds in our default businesses throughout most of the year. We also continue to develop and grow our customer base, increasing the tremendous backlog of business, which we anticipate will be available to us in late 2021 and into 2022 when we forecast that the default market returns to a more normal operating environment.

Turning to Slide 4, and our third quarter financial performance. For the quarter, we generated $85.4 million in service revenue, a $(1.4) million adjusted pretax loss and $6.4 million of adjusted EBITDA. Despite the ongoing pressure on our business from the pandemic and Ocwen's transition of Field Services referrals on the NRZ MSRs to another service provider, adjusted pretax improved by $8.6 million and adjusted EBITDA improved by $8.5 million compared to the second quarter. The improvement in adjusted pretax and adjusted EBITDA was primarily driven by cost reduction measures taken in the second and third quarters and revenue mix changes with revenue growth in the higher margin Marketplace business and a decline in revenue in the lower margin Field Services business. Our Marketplace revenue grew by 40% as homebuyers returned to the market and our average home sale prices increased by approximately 30%.

Turning to Slide 5, as of September 30th, we had $67.0 million of unrestricted cash and cash equivalents. Excluding cash flow changes from the Pointillist business, which we separated but still consolidate, Altisource's unrestricted cash increased by approximately $400,000 from the end of June. We ended the quarter with net debt less marketable securities of $196.6 million. As of September 30th, we had marketable securities of $30.2 million representing our investment in Front Yard Residential. Based upon Front Yard's recently announced sale for $13.50 per share, net debt less marketable securities, as of September 30th, would have been $180.2 million, a decrease of $16.4 million. Since the end of the quarter, we sold approximately 1.6 million shares of Front Yard for net consideration of $21.1 million. We will use these net proceeds to reduce our debt.

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

As we discussed with you last quarter, and as shown on Slide 6, we estimate that our 2021 service revenue will be between $250 million and $270 million with adjusted EBITDA of $35 million to $43 million at 14% to 16% adjusted EBITDA margins. To achieve these results, we developed an operating plan that contemplates reducing the size of our workforce and facilities footprint, professional services fees, technology costs and other expenses and implementing operating efficiency initiatives. We have begun the work to achieve our savings, and believe we are on track to deliver on our plan.

Keep in mind that our 2021 plan assumes that we are under continued pressure on our default-related businesses with referrals remaining depressed throughout most of the year. To give you a sense of the impact the pandemic has had on our business, data from a recent Black Knight report shows that foreclosure initiations were 83% lower for April through August of 2020 compared to the same period in 2019 despite the 87% growth in the number of noncurrent mortgages in August of 2020 compared to August of 2019.

Turning to Slide 7, based upon the current timing for the expiration of the Federal government's eviction moratoriums and forbearance plans, we are forecasting that the default market will return to more normal operating conditions in late 2021 and into 2022. 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 upon the increase in delinquencies since the beginning of the year, we estimate that the addressable market for our services has grown by over $2.5 billion to $6.3 billion. However, because of the foreclosure and eviction moratoriums and forbearance programs, there is a very large backlog of business. With our attractive and growing customer base, this should provide Altisource with significant revenue tailwinds beginning in late 2021 and into 2022 when we anticipate that the default market is likely to return to a more normal operating environment. In addition to anticipated revenue growth, with the structural improvements that we are making to our cost base, we believe we also can achieve significant margin expansion.

Altisource is one of a few companies with scale that offers a full suite of default and origination related services. Over the last several years, we have developed a strong customer base that includes many of the largest servicers in the industry. Our pipeline of opportunities is also one of the strongest it's been, with servicers anticipating higher referral volumes as the moratoriums and forbearance plans come to an end.

Turning to Slide 8 and the progress we are making with customers other than Ocwen, NRZ and RESI. In a very difficult default environment, we grew revenue from these customers by 11% during the first nine months of 2020 compared to the same period in 2019.

Slide 9 provides an update on select customer wins. During the quarter, we began providing loss mitigation services for a Top 10 bank, finalized the work to begin receiving Field Services referrals on a government contract, executed a Statement of Work to expand our auction services for a Top 25 servicer to include foreclosure auctions, and were notified by a Top 25 non-bank servicer that they were expanding its use of Altisource's Field Services on its FHA portfolio to an additional 29 states over the next couple of quarters.

We are also focused on developing and growing our origination related businesses which are benefiting from customer growth and the low interest rate environment. We are doing so by leveraging our role as the manager of the Lenders One cooperative to drive additional business to Altisource, while helping to improve the cooperative member's profitability. The Lenders One members collectively represent approximately 15% of the residential loan originations market and provide a tremendous growth opportunity for the firm.

To sum up our strategy going into 2021, our focus is on improving our margins and protecting our liquidity, performing well for our customers, growing our sales pipeline, capturing a greater share of originations related business, and supporting the health and welfare of our employees. We are also making sure that we are well positioned for strong growth when demand for our default related services returns in late 2021 and into 2022. This growing demand, combined with the structural changes we continue to make to our operations, should help drive revenue and profitability growth and higher margins in 2022. We are demonstrating that 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) Our first question comes from Mike Grondahl of Northland Securities.

Mike Grondahl - *Northland Capital Markets*

Good morning. Two things. Could you first maybe talk about the progress you're making on the origination side, if there's anything to call out there. And then maybe, secondly, any third party wins or -- how is that going and anything ramping up in kind of the first part of 2021?

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

Good morning Mike. On originations, it's an incredibly strong origination market this year. Some are forecasting, they'll be up to $4 trillion of origination volume this year. That business is relatively small today, but we are making good progress. I think we grew the originations businesses by about 30%. Michelle, correct me if I'm wrong, from the second to the third quarter?

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

That's right.

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

And so we are making progress. We have this incredible asset in Lenders One, where those members collectively represent about 15% of the U.S. originations market. And we have not done as good a job as we should have over the years leveraging that Cooperative to provide our products and services to those members and also to continue to help those members improve their margins. So we continue to believe there's a very large opportunity and are very focused on that. And we believe that will contribute to our growth going into next year. So we're pleased with the progress. We're continuing to add additional origination related services and then rolling those out to the members of Lenders One. And at least in our operating plan for 2021, we expect some significant growth coming from those activities.

On the sales pipeline, I highlighted a few, Mike, of our sales wins. We have this government contract that we believe is going to onboard in a month or two that was under protest for the last couple of quarters. The protest finally came to a conclusion and we should start seeing referrals. That has the potential to be pretty meaningful. On Hubzu, we continue to have a pretty attractive sales pipeline of prospective clients, both on the REO side and on the foreclosure auction side. The challenge there, of course, is there's no inventory.

If you think about foreclosure starts, there were something like 79,000 foreclosure starts in the third quarter of last year and only 15,000 foreclosure starts in the third quarter of this year. And then when you think about REO or completed foreclosures, that's down from 33,900 in the third quarter last year to only 6,100 this year. So the available inventory is down quite significantly, but we believe just getting that back to a normal environment will be tremendously helpful to us.

And if you look at 90+ delinquency rates, I think if you exclude foreclosures, they're up over 400%. So when the market does normalize, presumably, it will normalize the delinquency rates that are higher than where they are today, and that should provide a tremendous benefit to us, particularly with our current customer base and our sales pipeline.

Mike Grondahl - *Northland Capital Markets*

Got it. Ok. Thanks a lot.

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

Thanks, Mike.

Operator

Your next question comes from Raj Sharma.

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

Hello, good morning. I just wanted to chat a little about the timing on lifting of moratoriums you estimate is the end of this year or at the end of the first quarter. And then could you talk a little bit about the timeline of how you get the business such that you are projecting the business to pick-up at the end of 2021?

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

Yes, sure. So right now, the Federal government's foreclosure and eviction moratoriums extend through the end of this year and even servicers of non-government related loans, we believe, are largely following those government moratoriums, even though they may not necessarily be applicable or apply to non-government loans.

Then we're forecasting those moratoriums, at least as of right now, to end at the end of this year. Then you have the forbearance plans, which can extend up to a year. And again, we believe it applies to government loans, but also non-government servicers are following a similar approach.

The majority of those forbearance plans were entered into between really late March and July of this year. And so that's when assuming, for those that take the full twelve months, that's when the vast majority of those will begin to roll-off. And then at that point, you've got to follow the CFPB rules around loss mitigation activities and the waterfall.

And so we probably won't anticipate seeing a meaningful amount -- a meaningful increase until late 2021 and going into 2022. We'll see some increase in the second half of next year, but it won't be very meaningful in our forecast until the end of the year.

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

Right. So your guidance of $250 million to $270 million incorporates that pick up only in late 2021?

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

That's correct.

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

Right. And I have a couple more follow-on questions. I know that your statement of 1% increase in the nationwide delinquencies leads to about -- I calculated about 17% rise in your total addressable market. Is that more tied into the overall delinquency rate or the serious delinquency rate? And because the overall rate is being held down right now, and so you expect that to kind of come in line with the serious delinquency rate as the moratoriums end?

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

so I think, Raj, the 90+ days delinquency rate is up over 425% -- I think it's up about 425%, if you exclude loans in foreclosure, and it's up, I think, 300% -- don't hold me to this, 350% or so, including loans in foreclosure. And it's also up on an absolute basis, I think, almost 400 basis points.

And so we think even if delinquencies normalize at something lower than this, borrowers continue to roll-off of their forbearance plans. When we get to the end of the government programs, we think delinquency rates will be significantly higher than where they were pre-pandemic. If you think back to this time last year, delinquency rates were at historic lows. We think as the pandemic ends and as these programs roll-off, the governmental programs, delinquency rates should be significantly higher. Even if they just got back to normal at those historic lows, it presents a large opportunity for us. But that opportunity, we believe, will be much greater because we think delinquency rates will be significantly higher than where they were a year ago.

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

And would you estimate -- there are about 2.3 million, 2.4 million seriously delinquent mortgages right now. What percentage of these do you expect to go into loss mitigation or foreclosures?

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

Yes, when we were talking to servicers over the last couple of quarters and at the time, there was probably over 4 million loans in the forbearance programs, and I think that's really what we're talking about here today, it's about 3 million. The servicers were estimating anywhere from 25% to 50% of those borrowers may end up in some form of loss mitigation. And I think that still is a reasonable assessment today.

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

Ok. I'll take this offline, thank you so much.

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

Thanks Raj.

Operator

I'm showing no further questions at this time. I would now like to turn the conference back to Mr. Bill Shepro.

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

Thank you, operator. Thanks for joining today's call, and we look forward to talking to you again next quarter.

Ladies and gentlemen, this concludes today's conference. Thank you for your participation. Have a wonderful day. You may all disconnect.
