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CORPORATE PARTICIPANTS

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 day, and thank you for standing by. Welcome to the Altisource Third Quarter 2021 Earnings 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, Michelle Esterman, Chief Financial Officer. Please go ahead.

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. Please review the forward-looking statements section in the company's Earnings Release and quarterly slides as well as the risk factors contained in our 2020 Form 10-K and 2021 10-Qs, which describe factors that may lead to different results. We undertake no obligation to update these statements, financial scenarios and projections previously provided or provided herein as a result of change in circumstances, 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'll now 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.

Turning to Slide 3 - This morning, I will discuss the four reasons we believe Altisource is well positioned for 2022 and beyond. First, we believe that our default offerings are poised for significant revenue and earnings growth as we return to a more normal post-pandemic operating environment. Second, we are executing on our strategic plan in our Originations business and believe this will also be a significant driver for growth. Third, we anticipate that we will generate positive cash flow in the second half of 2022 as we return to revenue growth on a significantly reduced cost structure. Fourth, the anticipated sale of our equity interest in Pointillist significantly strengthens our balance sheet by adding an estimated $100 million of cash at closing.

Beginning with our Default business in Slide 4. Our business has been severely impacted by the pandemic over the last year and a half as foreclosure moratoriums and forbearance plans significantly reduced referrals to Altisource. However, we believe the end is in sight as we return to a more

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normal post-pandemic operating environment. The Federal government's foreclosure moratorium expired at the end of July and the CFPB's rules requiring temporary loss mitigation measures are scheduled to end on January 1, 2022. The CFPB's rules essentially prohibit foreclosure initiations until January 1, 2022, other than a few exceptions, including those loans that were 120 or more days delinquent prior to the pandemic.

We are beginning to see some of the leading indicators that support our growth expectations. According to Black Knight, third quarter foreclosure initiations were 28% higher than the second quarter, but still remain more than 85% lower than the pre-pandemic fourth quarter of 2019. Further, third quarter Hubzu referrals were 107% higher than the same quarter in 2020 and ending Hubzu inventory of close to 6,200 homes marks our second consecutive quarter of inventory growth. These increases were partially offset by temporary foreclosure holds on homes impacted by Hurricane Ida. We expect these positive trends to continue and accelerate in 2022 after the scheduled expiration of the temporary CFPB loss mitigation rules and the Hurricane Ida related foreclosure holds.

On a stabilized basis, revenue in our Default business depends on delinquency levels. As shown on Slide 5, we estimate that our Default business revenue could grow on a stabilized basis to between $227 million and $296 million. At the low end, we assume a return to the historically low delinquency rates immediately prior to the pandemic. At the high end, we assume delinquency rates are at the higher third quarter 2021 delinquency levels.

To balance the counter-cyclical nature of our Default business, we continue to refresh our solutions for the single-family rental market as illustrated on Slide 6. The single-family investor market is attractive to us because we can leverage many of our existing suite of solutions and the market is more than 7 times larger than the REO sales market with an estimated 1 million investment homes sold per year compared to 140 thousand foreclosures that became REO in 2019. During the quarter, we updated our Equator.com website and continued to develop our signature buyer and signature seller programs to meet the needs of small and mid-sized real estate investors that make up the lion's share of this market. While still early, we are encouraged by the progress of these programs.

Turning to Slide 7 and our Origination business. The Origination business continues to perform well as we execute on our mission to help banks, credit unions and independent mortgage bankers improve their profitability. During the quarter, we were approved by the three national credit repositories to act as a credit reporting agency, and we executed reseller agreements with 5 providers of verification, fraud and other solutions that are typically ordered during the loan manufacturing process. We plan to launch our tri-merge credit offering along with these other reseller solutions in the fourth quarter. The launch of these offerings and increased adoption of our existing solutions, along with the planned growth of a number of Lenders One members should support 40% to 50% revenue growth in the Origination business despite the MBA's forecast for a 33% decline in origination volume in 2022. We believe the Lenders One members are well positioned to gain market share in a rising interest rate environment as their typical branch office model is more purchase as opposed to refi oriented.

We've included on Slides 8 through 10 a summary of the Origination business. Slide 8 provides a description of Lenders One, whose members collectively originate approximately 16% of all U.S. residential mortgages. Slide 9 describes the Lenders One business model and the manner in which we deliver services to the members. Slide 10 illustrates the compounding growth opportunity driven by the network effect and improving unit economics.

As I shared with you last quarter, we are evaluating ways to enhance shareholder value with respect to our Origination business. These options may include a potential divestiture, joint venture, third party investment in or other strategic transaction, as well as retaining and investing in the business. There can be no assurance that this exploration will result in any transaction or other actions by us. We don't intend to provide updates unless and until we determine that further disclosure is appropriate or required.

Based upon our anticipated return to revenue growth in 2022, we forecast Altisource will generate positive cash flow in the second half of the year on a significantly reduced cost structure. During the third quarter, we reduced our cash expenses, excluding outside fees and services which vary with revenue, by 6% compared to the second quarter of 2021. Cash costs, excluding outside fees and services, for the nine months ended September 30, 2021 were $40.7 million, or 26% lower than the same period in 2020. We continue to take steps to lower our costs by reducing our facilities footprint and investing in automation.

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Finally, turning to Slide 11 and Pointillist, our customer journey management SaaS platform. Last month, we announced that shareholders of Pointillist entered into a definitive agreement to sell Pointillist for $150 million. Based on Altisource's 69% fully diluted ownership interest, we estimate that we will receive approximately $100 million in cash at closing, subject to a working capital adjustment. We will also receive an additional $3.7 million in cash following the one-year anniversary of closing, assuming no indemnification claims. We anticipate the sale of Pointillist will close before the end of the year and estimate that it will generate a pre and post-tax gain of $107 million before any potential reduction of goodwill. We believe this transaction demonstrates that Altisource has a collection of valuable businesses that may not be fully appreciated by the capital markets. Altisource intends to use the estimated $100 million of cash proceeds at closing for general corporate purposes. I'd like to congratulate and thank the Pointillist team and wish them the best in the next phase of Pointillist's evolution.

We are excited about the opportunities in front of us. We believe we are well positioned to grow our Origination and Default businesses in 2022 and generate positive cash flow in the second half of the year with higher revenue on a significantly lower cost base.

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

QUESTIONS AND ANSWERS

Operator

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

Mike Grondahl - *Northland Capital Markets*

Bill and Michelle, two questions maybe. The first one, at a high level, you're saying originations next year should grow 40% to 50% origination revenue. What one or two things are the big drivers behind that? And then secondly, you're talking about generating cash in the back half of the year. Roughly what level of revenues do you need to throw off that cash?

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

Good morning Mike, so let me get to your first question related to the origination growth. So there's a couple of drivers. I think we'll do roughly a little - don't hold to it, it's not an exact number - roughly $60 million, maybe a little bit more in revenue in the Origination business this year. We're launching that tri-merge credit product this quarter. We have very significant growth plans for that product. Two is we have a suite of employment verification solutions that we're going to roll out more wholesomely beginning in January of this coming year. We anticipate our preferred investor program where we help correspondent buyers get access to the Lenders One members origination volume. We anticipate that will pick up some this year in a market where there's a shrinking volume that will be a more important service to correspondent buyers. So those are three of the areas where we anticipate a very meaningful growth in the Origination business.

Then, Mike, with respect to your question on cash, I mean we're not going into sort of specific guidance for next year. It is somewhat difficult to forecast because we've never come out of a pandemic before, but we're anticipating very meaningful revenue growth next year and that accelerating as the year progresses. So our fourth quarter this year, which is typically a seasonally slow, we would expect that to be somewhat similar, if not slightly down to the third quarter. And then as you go into the first quarter, we would anticipate revenue and EBITDA to begin to improve, our EBITDA losses to come down, and that will accelerate as the year progresses. And just to give you an example. I was looking at our REO referrals. In the third quarter of this year, our REO referrals were 986 referrals. That compares to 365 referrals in the second quarter of 2021. And if you go back to the fourth quarter of 2019, we received 2,340 files. And that's sort of the last full quarter pre-pandemic. So if we start getting back to those levels, and we don't anticipate stabilizing REO to the middle of 2023, you can see in our most profitable business, we're already starting to receive the leading indicators that revenue is going to improve, and we're seeing it most in Hubzu as those foreclosure moratoriums ended for the pre-pandemic delinquent loans. So I think that's a great leading indicator. It's up significantly in the third quarter, but there's a lot of room for

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referrals to continue to grow, and that's going to support those numbers we're talking about and help us get to cash flow positive in the second half of the year.

Mike Grondahl - *Northland Capital Markets*

Sure. Yes, it was nice to see a turn in the Hubzu inventory, too. Just going back to the origination revenue growth, 40% to 50%, is that sort of -- even if you dispose or sell off part of the business. Are you at the beginning of that process of kind of putting the Origination business under the microscope and maybe selling off a piece of it or not? Or are you at the middle of the process? Just kind of where are you?

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

Sure. I think Mike, all we're going to say on the Origination process is we're still going through the evaluation around how best to create shareholder value, and we have not made any decisions at this point in time. And so beyond what I've said in my prepared remarks, where we're still considering our options, those list of options, there's not much for me to add. If we were to sell the Origination business, that revenue I just described to you, obviously, would go. We do believe we've looked at sort of what Altisource would look like with and without the Origination business. We also believe we would be cash flow positive in the second half of the year if we sold the Origination business, putting aside any potential transition costs related to the sale.

Mike Grondahl - *Northland Capital Markets*

Got it. Ok, thank you.

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

Again, we still have not made any decisions. And frankly, we're looking at it as what's the best opportunity to create the long-term shareholder value.

Operator

(Operator Instructions) Our next question comes from the line of Raj Sharma with B. Riley.

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

Good morning Bill and Michelle, thank you for taking my question. I wanted to just go back to the slide where you're talking about the potentially stabilized environment on Slide 5, that you're talking about is $227 million of service revenues to $296 million. That was a little higher two quarters ago, you had stated service revenues would range from $240 million to $396 million. Has the outlook on this business changed at all? I know that two quarters ago, you were basing that on December 2020 delinquency rates. And now you're basing the potential scenario on Q3'21 delinquency rates. Has anything changed in your outlook for the default services business?

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

No, Raj, I think the only thing that's driving the change in those numbers, it's two things. One, as you pointed out, we're looking at where delinquency rates are today. And because they've come down over the last couple of quarters, in the right-hand column if you use today's delinquency rates as opposed to where delinquency rates were a couple of quarters ago, that brings down that opportunity to some degree. And then in the middle column, the pre-pandemic delinquency rates, with respect to the Ocwen/NRZ business, we're using Ocwen's current loan count and as that loan

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came down some, the opportunity came down a little bit in that middle column. So that middle column could fluctuate quite a bit depending on what Ocwen looks like, of course, and then where our delinquency rates are as the market opens back up.

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

Right. Would you also have gains in servicers, new servicers that have come on, that have onboarded you since the beginning of the pandemic - I mean the last eight quarters. Is that still true that the opportunity arising from possible foreclosures in the next year to two years, has that in any way changed, or gotten better or gotten worse?

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

No, in fact - Raj, what I would tell you is these numbers do not assume any new sales. This is only based on existing customers. Correct me if I'm wrong, Michelle, but I think that's the way we designed this.

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

You're right. Correct.

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

Look, for the last year and a half as the volumes have been down significantly, the default sales has slowed down, not only for us, but I think industry-wide. As the market starts to open up again, we do anticipate that we will be able to grow not only our existing clients, but add new clients, and that's not reflected in these numbers.

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

Got it. And then on the cost side, I know that you're saying second half you should be free cash flow positive on the servicers side. How should we look at costs? Are costs looking to go down further from this quarterly rate? I'm trying to get to sort of a breakeven revenue level and maybe model the cost out.

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

So I do think there's a lot of operating leverage in our model. So as we grow revenue, we should not be raising or increasing our cost at nearly the same rate at which we're growing revenue. And in addition to that, we believe there is some opportunity, particularly on the facilities side, to bring those costs down probably on a run rate basis by the end of next year by another, Michelle, would you say $2 million or close to $2 million?

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

That's fair, yes.

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

Yes, on a run rate basis by $1.5 million to $2 million. And as we're going through our budgeting process, we're continuing to spend a lot of time to make sure we're running a very efficient operation. But that's where we see some of the opportunity, efficiency improvements and bringing down facilities costs. Michelle, I don't know if you had anything to add to that for next year.

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

Yes. I think those are the big points. We're also focused on continuing automation efforts and things like that.

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

Right. And then lastly, when is the Pointillist sale expected to close? Is it the end of fourth quarter? Is that right?

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

Yes, we filed the HSR applications. We have not received any feedback so far, and we still believe we're on track to close by the end of the year.

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

Great, thank you. I'll take my questions offline.

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

Thanks Raj.

Operator

(Operator Instructions) I'm showing no further questions at this time. I would now like to turn the conference back to Bill Shepro. Please go ahead.

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

Thanks, operator, and thanks for attending the call. We appreciate your support. Thank you.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect.

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