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Raj Sharma *B. Riley FBR, Inc.*

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Altisource First Quarter 2020 Earnings Conference Call. (Operator Instructions) As a reminder, this conference call is being recorded. I would now like to hand the conference 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 and its potential impact makes it extremely difficult to predict the future state of the economy and its impact on Altisource. Please review the forward-looking statements sections in the Company's Earnings Release, quarter 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. COVID-19 is having an unprecedented impact on human life, the economy and the industries in which we operate. Given this environment, today I will provide a brief summary of our first quarter performance, discuss the virus-related disruptions in the real estate, mortgage and servicing industries and describe the actions we are taking to address the short- to medium-term impact and the potential longer-term opportunities from the crisis.

Our first quarter financial performance was lower than the same period last year from the 2019 disposition of certain businesses, the run-off of the Ocwen serviced portfolios and the impact that COVID-19 related governmental restrictions and changing vendor and consumer behavior had on our default related businesses. This was partially offset by stronger performance from our customers, other than Ocwen, NRZ and RESI, in both our default and origination related businesses.

As you can see on slide 5, in the first quarter we generated $0.17 of adjusted diluted earnings per share, $4.4 million of adjusted pre-tax income and $13.2 million of adjusted EBITDA on $113.2 million of service revenue. Across our three core businesses, as shown on slide 6, first quarter 2020 service revenue from customers other than Ocwen, NRZ and RESI grew by 36% compared to the first quarter of 2019 and was modestly higher than the fourth quarter despite COVID-19 headwinds. This year-over-year increase is primarily due to the growth in our customer base, market share expansion and, for our origination related services, lower interest rates. We anticipate that the pandemic will have a short- to medium-term negative impact on default related revenue from these customers but in the longer term, should support strong growth.

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

Turning to the business environment and the impact the coronavirus is having on the real estate, mortgage and servicing industry and Altisource. Today, much of the country is operating under shelter-in-place and social distancing restrictions and non-essential businesses are closed or operating in a work-from-home-environment. At the same time, the Federal Reserve lowered interest rates in early March. Despite assistance programs from the Federal government, the pandemic has had an unfortunate and large negative impact on the economy with a tremendous number of employee furloughs and terminations across the country. Over the last several weeks, 26.5 million people filed unemployment claims and the Mortgage Bankers Association estimates that 7% of borrowers were in forbearance as of April 19th, up from a quarter of a percent in early March. The Congressional Budget Office estimates that the unemployment rate will be 16% in the third quarter and greater than 10% for 2021. These factors have led to a disruption in the real estate, mortgage and servicing markets and greater borrower demand to refinance their mortgages.

While it is too early to estimate the duration of the pandemic, slide 7 summarizes certain COVID-19 programs and what we believe the impact could be for Altisource. We anticipate that the short to medium-term revenue impact to Altisource will largely be driven by two factors: First, with most of the country confined to their homes and growing unemployment, we expect that home buying activity will be significantly lower. This should largely impact our Hubzu and settlement services businesses. Second, with governmental foreclosure and eviction moratoriums and other borrower relief, along with shelter-in-place and social distancing restrictions, we expect that foreclosure and eviction referrals will be substantially lower. We anticipate this will negatively impact our Equator, title, foreclosure trustee, valuation and field service businesses. At the same time, we anticipate that the low interest rate environment will support strong growth in our origination related services.

Altisource, like other companies in our industry, is adapting to this rapidly changing environment. We have three areas of focus: First, maintaining the health and safety of our employees. Second, adjusting our operations to mitigate some of the impact to our customers and business while complying with governmental orders and guidance. Third, addressing our cost structure and preserving liquidity to prepare for what could be a period of lower revenue than planned.

To help maintain the health of our employees and comply with governmental orders, over a month and a half ago, we began implementing our business continuity plans and enabling work-from-home capabilities where possible across the organization. Our employees were able to rapidly adjust to this new environment with minimal operational disruption. The majority of our global workforce is working remotely, with a small number of employees continuing to perform essential functions at our facilities where permitted. For these employees, we have implemented heightened hygiene protocols.

We are also seeking to minimize operational disruptions and deliver for our customers as best we can despite the impact from COVID-19. Our customers rely upon Altisource to perform critical functions for their loan origination and servicing operations. Our customer relationship management, sales and operations teams are in regular contact with our customers, and we are working diligently to manage what is in our control and pivoting our operations to address business related challenges and opportunities.

Finally, we are preparing the firm for what could be a period of lower than planned revenue due to the effects of COVID-19. We believe our current financial position along with changes we are making to our cost structure will help us preserve liquidity and benefit from what we believe could be a longer-term opportunity in a rising delinquency and lower interest rate environment.

Turning to slide 8, from a liquidity perspective, we believe that Altisource is well positioned with $79 million in cash and equivalents, $294 million of debt and $173 million of net debt less marketable securities. Our marketable securities include 3.5 million RESI shares that we anticipate will be sold for $43 million in cash if the previously announced sale of RESI closes. Our debt is covenant light and doesn't mature until April 2024.

In addition to cost reduction activities planned prior to the pandemic, we have taken several measures to further reduce our 2020 expenses to address the anticipated impact from COVID-19. Unfortunately, as part of these measures, we had to make the difficult decision to furlough and terminate certain employees and temporarily reduce director, executive and employee compensation. Based on these and other cost reduction measures, we anticipate reducing our 2020 cash expenses by an estimated $45 million to $50 million compared to the fourth quarter 2019 annual run rate. This is in addition to the savings in outside goods and services that generally decline proportionately with fewer service referrals. As we are operating in unchartered waters and the impact on Altisource remains fluid, we plan to continue to evaluate our cost structure and intend to make adjustments as circumstances may warrant.

We are also seeking to maintain capacity for anticipated growth in our origination related services, continue to innovate across our businesses and prepare for what we believe will be strong medium to longer-term demand for our default related services from growing loan delinquencies. In time, we anticipate homebuyers will return to the market, and we will sell our Hubzu inventory. We further believe the unprecedented level of foreclosure and eviction relief will subside and if unemployment rates remain elevated, delinquency levels are likely to be higher than they were before the pandemic began.

To give you a sense of the potential impact to delinquency rates from this crisis, Black Knight recently estimated that at a 15% unemployment rate, mortgage delinquency rates could rise from approximately 3.7% to 10.3%. While we believe the tremendous governmental relief efforts will help mitigate the horrific impact that this pandemic is having on consumers and the broader economy, delinquency rates were at historical lows prior to the crisis and are likely to stabilize at a higher rate post-crisis.

As a leading national provider of services to support residential loan originators and servicers, we believe Altisource is in a strong position to support the industry and capture a sizable share of the business opportunity that a low interest rate and rising delinquency environment would present. We conservatively estimate that every 1% increase in mortgage delinquencies increases the addressable market for our default related services by over $700 million from what was a total addressable market of roughly $4 billion pre-crisis.

I'd like to conclude by thanking our employees who quickly adjusted to our new operating environment and remain incredibly focused on serving our customers. Our performance for our customers will allow us to emerge from this challenging situation positioned for long-term success with new opportunities.

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

QUESTIONS AND ANSWERS

Operator

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

Mike Grondahl - *Northland Capital Markets*

Good morning Bill and Michelle. The roughly $90 million of Ocwen related revenues, how did that compare to your forecast or internal budget?

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

Mike, we were largely on track to achieve our plan in the first quarter until March. And then in March, we started to see a disruption from the pandemic. So we actually were not that far off our plan. I'd say probably, in total, a couple of million dollars off of plan from an EBITDA, adjusted EBITDA or adjusted pretax perspective.

Mike Grondahl - *Northland Capital Markets*

Got it. And Ocwen moving to that new servicing platform, is any catch-up happening there? Or does that sort of delay still exist?

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

No. So if you remember, in the fourth quarter, our conversion rate for REO sales improved quite substantially over prior periods. In the first quarter, again, we are largely on track to convert what we expected for REO sales, and then March hit and you had delays in REO closings, higher cancellations, all are a result of the pandemic.

Mike Grondahl - *Northland Capital Markets*

Got it. So really, first quarter on an adjusted EBITDA basis, just a couple million kind of spread between COVID and some of the other things you've mentioned. Got it.

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

That's right.

Mike Grondahl - *Northland Capital Markets*

The incremental $45 million to $50 million that you're pulling out of the business; you're streamlining the business. Any rough thought, how much of that is cost of goods sold? How much of that might be SG&A savings?

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

Sure. So Mike, think about all of that as everything -- all cash expenses other than cost of goods sold. In addition to the $45 million to $50 million, our cost of goods sold will largely come down in line with lower referrals. So if we receive, for example, fewer field service referrals or fewer inspections then we don't order an inspection from someone in the field. And so those costs will also come down. And so what's largely directly within our control and not necessarily tied to referrals, we've reduced by $45 million to $50 million. It amounts to roughly a 15% reduction in our expense base. Again, excluding outside goods and services from our fourth quarter run rate.

Mike Grondahl - *Northland Capital Markets*

Got it. So I guess I'm still trying to understand the breakdown between cost of goods sold and SG&A. Is most of it cost of goods sold then?

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

So when I say cost of goods sold, certainly, employee costs inside of cost of goods sold. Sorry, I should really separate; you have employee costs and cost of goods sold, and then you have outside goods and services. Outside goods and services, will decline based on receiving fewer referrals. That's not included. Outside goods and services is not included in the $45 million to $50 million, but we expect that to come down with a decline in referrals. Comp and benefits and other costs inside cost of goods sold and inside of SG&A, we anticipate will come down by about $45 million to $50 million on top of outside goods and services.

Mike Grondahl - *Northland Capital Markets*

Got it. And the line you guys break out in the P&L for SG&A. In the first quarter, it was $28 million, not inside cost of goods sold. That's going to come down meaningfully then over the course of the year?

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

Yes. I think you're going to see reductions and Michelle, you could jump in here, both in cost of goods sold as well as in SG&A.

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

That's exactly right. You'll see it in both places, Mike.

Mike Grondahl - *Northland Capital Markets*

Okay. Great. And then lastly, just if you look at 2020, what's your best guess on cash flow or cash usage this year?

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

Mike, there's a lot of uncertainty around the impact that COVID is going to have on our business. We're only a month or so, a month and a half into this. So based on our best guess, what we're trying to do with our cost reduction plan is to try to stay as close to the cash position we had at the beginning of the year at the end of this year. So we're looking to try to maintain, I expect it will be down, but pretty close to where we started the year -- at the end of the year. That's how we've targeted our cost-reduction plan. Of course, there's a lot of unknowns related to the pandemic and the impact it's going to have on our various businesses. So we'll see, but that's basically how we did our planning, is to basically preserve liquidity.

Mike Grondahl - *Northland Capital Markets*

Got it. Maybe just lastly, it looks like you had a couple or several nice wins in the first quarter. Anyone to call out there? A couple of them look to be large on your slide.

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

Yes. Let me just pull the slide. Give me a second. Yes. We had a couple of good wins. I think one that's worth pointing out that's verification services, this channel partner agreement, we see as a large opportunity. We're basically re-selling all sorts of verification services. And based on the initial feedback we're getting from the Lenders One members, we believe we can save our members a very meaningful amount of money and make a decent margin still on that product. And we anticipate that will ramp throughout the year. And as we generate more referrals, our cost of goods actually goes down from the vendor we're buying the product from to anticipate the revenue to grow and the margins to continue to improve as the year progresses on that product. Let's see if there's anything else worth noting. We did just launch a week or so ago a field services opportunity with a very large servicer, non-bank servicer that launched a week or two ago, and we're now working to launch with the same customer Hubzu, and this is on their FHA portfolio. So we're excited about that opportunity. And then in Trelix, which is our loan fulfillment business, we do underwriting, processing and closing as well as QC. We're getting a lot of traction in that business. Frankly, it's about getting enough people hired and trained. There's a lot of demand for that service. And we're first working for providing some capacity to our existing clients that are good customers, but we have a couple of very promising prospects that could be quite large in that business as well.

Mike Grondahl - *Northland Capital Markets*

Got it. Great. Thank you.

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

Thanks, Mike.

Operator

(Operator Instructions) Your next question comes from Raj Sharma with B. Riley FBR.

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

Hi, good morning. My question is, what do you think, Bill or Michelle, what do you think is going to be the impact of the moratorium on the current flow of business in the sense when do you sort of expect the moratorium, how long do you expect that to last? How many months do you expect that to last? And also the other related question is the advances -- the advances and payments that servicers are facing and all the related issues about the help that different agencies that are providing. How does that impact their ability to not advance or advance and the help that you're going to get, how does that impact your referral business inflow?

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

Sure. So first on -- Raj, first, on the moratorium. I think there are two things that are taking place right now. One is the federal government in several states have put a moratorium on foreclosures and evictions. And so that essentially halts any of that activity. And so that would reduce our inflows into REO. It would reduce referrals potentially related to those businesses. And the moratorium at the federal level, my recollection is that 60 days, some of the state moratoriums for foreclosure of eviction may go out a little bit longer. The second component of what's taking place are the forbearance plans. And so the government on both government loans and GSE loans has put out a program that allows consumers to obtain a forbearance plan initially for up to 6 months and then for up to an additional 6 months. And under that forbearance plan, the borrowers can essentially, if they've been impacted directly or indirectly, they can participate in the program and stop essentially making their mortgage payments for 6 months. And then again, that could be extended for up to a year. So what we anticipate is going to happen is that as these moratoriums come to an end, we will see a pickup of referrals. Both foreclosure related referrals and REO related referrals. But in terms of a large increase from where we might have otherwise been, this year, I don't think we'll start seeing that impact until you get into maybe the fourth quarter and into the first quarter of next year when those forbearance periods start to expire. And then I think a lot is going to depend on where unemployment is. If unemployment is relatively low, people should be able to -- and there are people still working, they should be able to modify their loans. Tack on those past due payments potentially to the end of the mortgage or increase their amortization period. If unemployment is higher, those consumers may not be able to pay their mortgage and that default process will begin. So the way we've approached our business, Raj, is, in the short-term, we want to make sure we very quickly adjust our cost base to be able to manage through what we believe will be a temporary decline in referrals. We also want to make sure we keep capacity for what's going to be a growing origination business. We anticipate that interest rates are going to remain low for the foreseeable future. And we also want to make sure we're getting ready for what we believe could be a large increase in delinquencies as you go into next year. And so we want to be able to continue to innovate across our products and make sure we've got the capacity to support that anticipated growth.

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

And then about the servicer and their ability to advance payments, how does that impact you? If certain servicers really find it hard to advance payments and there is help or there is no help. I just want to understand how that impacts Altisource?

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

Yes. So I think the environment is changing fairly rapidly, but the government has put in place programs that cap servicers' advances at 4 months. So if a loan goes under a forbearance plan, the servicer has to advance for 4 months, it's still unclear at what point that servicer is going to get repaid that advance but their advancing obligations would stop on those loans that are under forbearance after 4 months. So I think that was a good first step to help support both bank and non-bank servicers with their advancing obligations. And so I don't think, Raj, it's going to have necessarily a direct impact on Altisource. Of course, it's still to be seen because the government programs don't cover private label securities. So that's still an open question, how those advances will be handled. But I think historically, I know Ocwen has historically managed their advancing obligations very well. And so we don't anticipate that necessarily has a direct impact on Altisource.

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

Got it, thank you. I just have one last question. You just mentioned how your addressable market goes up with every percentage point increase in delinquency rates. And so I just wanted to clarify, it goes up, as you said by $700 million and prior to COVID, it was a $4 billion addressable market. So up 17%, 18% is the increase in the addressable market for every 1 percentage point increase in delinquency rates. Is that the right way? Am I looking at it right?

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

Yes. And what we did was we looked at both for GSE loans, FHA loans and private label or whole loans. And basically, a 1% increase across each of those products would result in roughly a $700 million increase to the addressable market for us.

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

And then you expect that to start -- depending, of course, on things the way they turn out, you expect the volume starts to increase fourth quarter or first quarter, that's the flow.

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

Yes. Raj, at Altisource, we're assuming the second and third quarters will be the hardest hit from the impact from COVID-19. We'll start to recover, but we won't fully recover in the fourth quarter. And then depending on what happens with unemployment and the delinquency rates going into next year, we could start to see an increase in delinquency rates and a meaningful improvement in revenue. And then on the origination side, we're seeing it now, given the sustained low interest rates, the origination volumes are continuing to grow across all the services we provide to loan originators.

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

Got it. Thank you so much. Thank you for answering.

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

Thanks, Raj.

Operator

Your next question comes from Ramin Kamali with Crédit Suisse.

Ramin Kamali - *Crédit Suisse AG*

Hi Bill, hi Michelle, thanks for taking my call. I hope you are all doing well. I'm trying to understand what the business really looks like today. I guess month April has wrapped up, but just to get a sense of, by segment, I assume field services should remain relatively active whereas the other two segments are probably a bit more compromised. Can you give me a sense of, in the current environment, the percentage of the segment operating percentage wise? And then at the current run rate, what's the monthly burn, or how should I think about kind of the monthly fixed cost base in the current environment?

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

Ramin, let's break down the three businesses. In Marketplace, which is Hubzu and Equator. That's the business that's probably being impacted the most right now from foreclosure moratoriums and stay-at-home orders and inability to close the sale of homes. So we're anticipating that, that business, I think we're estimating it to be down, Michelle, correct me if I'm wrong, about 75% at least in Hubzu, for the next couple of quarters and then starting to improve. And again, keep in mind, Ramin, it truly is unchartered waters here. And so these are just our best guess. And then on field services, the impact, we're definitely going to be lower than -- we believe we're going to be lower than plan, but it's not as bad as we originally thought it was going to be, at least based on April. And so field services, we think, is holding up reasonably well, down from our plan, but holding up reasonably well. And then MRES, Mortgage and Real Estate Solutions. There's a lot of origination related businesses in there, Ramin, that are going to perform well, and potentially better than we expected. And then our default title, our trustee business, default valuation inside of that business unit will be impacted. I think when you net the whole impact, Ramin, we basically did our planning to essentially remain roughly slightly down from a cash perspective at the end of the year to where we were at the beginning of the year. And so when you want to think about cash, we're targeting to try to remain slightly down from where we were at the beginning of the year. Again, keeping in mind, this is unchartered water, and we're going to adjust our operations based on what we see happening over the next couple of months.

Ramin Kamali - *Crédit Suisse AG*

But does that flat cash assume that the current state of what happened in April continues for the duration of the year? Or do you expect business to gradually ramp up from April to December?

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

We're not forecasting a ramp-up in the second or third quarter. Beginning in the fourth quarter, we're forecasting that there is some pickup in Hubzu and in field services. And that makes sense because some of the foreclosure moratoriums will have expired.

Ramin Kamali - *Crédit Suisse AG*

So to think about the segments, so Marketplace down about 75%, particularly related to Hubzu. Field services down, let's say, 10% from capacity and then Mortgage and Real Estate Solutions, I guess the lift from origination offset the declines in other parts of the business are relatively flat. Is that how to think about it?

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

Give me one second, Ramin. Yes. I think the Mortgage and Real Estate Solutions will be down, but not nearly as much, and it will benefit from growing origination business. Hubzu will have the largest percentage-wise decrease for the year. And then field services will be down, but not down as much on a percentage basis.

Ramin Kamali - *Crédit Suisse AG*

Thanks guys.

Operator

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

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

Thanks for joining the call. Thanks for your support. Please stay safe and healthy. Thank you very much.

Operator

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