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TRANSCRIPT

ASPS – Q1 2017 Altisource Portfolio Solutions S.A. Earnings Call

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PRESENTATION

Operator

Good day ladies and gentlemen and welcome to the Altisource First Quarter Earnings Call. (Operator Instructions) As a reminder, this conference is being recorded.

I'd like to introduce your host for today's conference, Ms. Michelle Esterman, Chief Financial Officer. Ma'am, please begin.

Michelle 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 presentation today contains forward-looking statements made pursuant to the Safe Harbor provisions of the federal securities law. Statements in this conference call, our slides and in our press release, issued earlier today, which are other than historical fact, are forward-looking statements. These include financial projections and scenarios contained in our slides and described during this call. Altisource makes no representation that our actual financial results will be the same as those set out in the financial projections and scenarios. The financial projections and scenarios should not be unduly relied upon. Factors that might cause actual results to differ materially are discussed in our earnings release as well as our public filings. The Company disclaims any intent or obligation to publicly update or revise any forward-looking statements, regardless of whether new information becomes available, future developments occur or otherwise. Today's presentation also contains financial measures that are non-GAAP financial measures. A reconciliation of these non-GAAP measures to their GAAP equivalents is included in the appendix to our 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 Shepro - ***Altisource Portfolio Solutions S.A. – Chief Executive Officer***

Good morning and thank you for joining today's call.

There has been a lot of news in the last week, some of which I will address in our prepared remarks. But first, I would like to say a few words about who we are and where are we going. We have thousands of hard working employees coming to work every day committed to delivering high quality, compliant services to our customers and consumers. Our focus on quality and controls has been a key differentiator with new clients and prospects.

We're making tremendous progress developing our four strategic initiatives to build a diversified growth business not defined by any one customer. Despite what we believe to be the misleading and transparently self-serving commentary about Altisource promoted by certain market participants, we have a very attractive and growing customer base, a strong pipeline of opportunities, strong competitive advantages and a business that generates a lot of free cash. Our long-term plan is based upon the growth of our strategic initiatives and the normal runoff of Ocwen’s servicing portfolio. We also have a very attractive covenant-light debt facility that doesn't mature until December 2020 and $180 million of cash and marketable securities at the end of the quarter.

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Now, let me address the recent news. Last week, the CFPB and certain states brought actions against Ocwen concerning elements of its servicing practices. REALServicing, the loan servicing technology Ocwen licenses from Altisource, and certain of our other services were referenced in some of these actions. Ocwen has responded through press releases and actions challenging the allegations of the CFPB and the States. We strongly believe the Altisource services were performed and operated materially in the manner intended in the context in which they were provided. Altisource has invested substantial resources in REALServicing and worked with Ocwen to implement appropriate improvements over the life cycle of this software platform. It appears that many of the allegations referencing REALServicing misunderstand efforts to self-identify and improve the service and recast these efforts as deficiencies. Further, when items were identified, we believe that those were timely addressed and applicable controls and actions limited or avoided consumer impact. Over the last week, certain states also made allegations regarding Ocwen's financial condition. Ocwen's April 21 press release clearly stated that it disagrees with these allegations and that it is one of the least levered non-bank servicers.

We also want to address recent speculation regarding the potential transfer of servicing rights away from Ocwen. Similar to what certain analysts have said, we don't believe such a transfer is likely to happen. But if it does, transfers of servicing rights typically take an extended period of time because of the approval required from many parties. During this time, we believe we would continue to generate attractive revenue and earnings. With $180 million of cash and marketable securities, the variable nature of our cost structure and the growth we anticipate from our strategic initiatives, we believe that we have the runway to be a growing company with a diversified revenue base not defined by any one customer.

Beyond these remarks and our disclosures in the 10-Q, we aren’t going to take questions this morning on these matters. I would now like to turn to our results and strategic initiatives.

I'm pleased with our first quarter financial performance. As you can see on Slide 8, first quarter 2017 service revenue of $230 million is 27% of the mid-point of our full year 2017 scenarios and adjusted diluted earnings per share of $0.69 is 24% of the mid-point. Since our second and third quarters are historically our seasonally strongest, we believe we're positioned to achieve the mid-point of our 2017 service revenue and adjusted earnings per share financial scenarios.

Our strategic initiatives are to grow our Servicer, Origination, Consumer Real Estate and Real Estate Investor Solutions businesses. Beginning with Servicer Solutions - we made solid progress in the first quarter, growing non-Ocwen service revenue by 11% compared to the first quarter of 2016. More importantly, during the first quarter, we began receiving referrals from four customers related to real estate asset management and sales and license fees for Equator’s short sale technology. We are currently providing real estate sales services for over 600 homes for these customers and others, excluding Ocwen and RESI. This represents an 82% increase in units managed compared to December 31, 2016 and a 41% increase compared to March 31, 2016. We also continued the onboarding process to provide services to 5 new and existing customers for real estate asset management and sales. We anticipate receiving referrals from these clients by the end of the second quarter.

We're particularly pleased that we added two customers for our new FHA auction offering. Providing services relating to FHA loan servicing is a major focus for Altisource. According to HUD and Black Knight Financial Services, FHA insured loans represent approximately 15% of active mortgages, 22% of purchase originations and 35% of 30-plus day delinquent loans. We on-boarded our first FHA auction client in February, and we are currently managing 178 pre-foreclosure auction files and 55 REO auction files for this client.

Finally, our Servicer Solutions’ sales pipeline remains very strong. We are responding to requests for proposals and engaged in advanced sales discussions with large prospects.

Our second initiative is growing our Origination Solutions business. First quarter non-Ocwen service revenue for this initiative was 17% higher than the first quarter of 2016, significantly outpacing the estimated 14% decline in originations and the 18% decline in loan applications. We continue to expand relationships with existing customers and attract new customers to our offerings. During the quarter, we signed agreements with two large lenders and are receiving test files to provide fulfillment and QC services to these clients. Revenue from each of these customers could grow to over $1 million per month over the next couple of years. This is in addition to several smaller client wins and the continued build-out of our origination solutions platform.

There is strong demand for our origination fulfillment offerings. We're taking a deliberate approach to growth and are focused on providing high quality services and an industry leading customer experience. To enable us to effectively and efficiently scale, we're leveraging our Lenders One and Mortgage Builder customer channels and enhancing our TrelixConnect loan review technology. We are beta testing this technology with 6 customers and anticipate leveraging this technology for the majority of our fulfillment clients in the fourth quarter of this year.

Our third initiative is growing our Consumer Real Estate business leveraging Owners.com. Owners.com is a technology-enabled national real estate brokerage. There continues to be very strong consumer interest in our offerings. To address this interest, we remain focused on growing the number of Owners.com real estate agents and providing them with tools to increase their productivity. Since our February earnings call, we increased the number of real estate agents from 200 to 264 and are planning to end the year with over 500. To support our growing real estate brokerage, we recently hired 4 leaders – one to oversee real estate agent recruiting, a second to manage agent onboarding, a third to lead agent learning and development and a fourth to oversee real estate brokerage compensation.

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Growth in the number of real estate agents drives improvement in the lower funnel conversion metrics. This translated into 143 first quarter home purchase and sale transactions with a total purchase price of $37 million, representing a 91% increase in unit sales and a 93% increase in revenue from the fourth quarter of 2016. In the second quarter, we anticipate strong growth and estimate closing between 220 and 260 transactions. We are currently working with approximately 1,300 buyers in the late stage of the buying process compared to the 950 buyers I mentioned on our last call. During this late stage, we are showing clients homes, assisting in the offer and negotiation process and working to close transactions.

We are executing on our plan to convert more interest into sales and to better support our customers with a suite of services associated with home purchase and sale transactions, including Owners.com Loans, which we anticipate launching in the next few weeks.

Our fourth initiative is growing our Real Estate Investor Solutions business. Through this initiative, we provide a full suite of services that help real estate investors buy, renovate, rent, manage and sell investment homes. In the first quarter, we continued to support RESI as it transitions to a company focused on acquiring stabilized single family rentals. In this regard, we provided diligence and title services on its recent 757 rental home portfolio acquisition. For the homes that don't meet RESI's rental criteria, we provided preservation and real estate sales services - although at a lower volume than the first quarter of last year, as they continue their transition.

To better support RESI's objective to buy stabilized homes, we are pivoting our business model from brokering homes on a one-by-one basis to Altisource directly buying the homes, completing the renovation and tenanting the home, and then selling the stabilized homes. In the short term, this pivot in business model will reduce this initiative’s growth rate as we develop and scale this new program. Longer term, we believe this represents a very large growth opportunity for us, generating approximately $10,000 to $15,000 in profit per home sold before internal costs. Altisource's economics are attractive given our ability to reduce some of the transaction costs associated with buying and selling homes as we can perform many of these services in-house.

In closing, we are making tremendous progress developing our four initiatives to build a diversified and growing company not defined by any one customer. Our non-Ocwen revenue growth will fluctuate from quarter-to-quarter due to the nature of the businesses that we are in, the sales cycle and seasonality. What's important to Altisource's transformation is that we're operating in very large markets, have distinct competitive advantages and are making very good progress growing our institutional customer base and sales pipeline and developing offerings that resonate with home buyers and sellers.

I'll now turn the call over to Michelle for a financial update.

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

Thank you Bill.

This morning I will discuss elements of our financial results, the change in our reported segments and capital allocation in greater detail. For a more complete explanation of our financial results for the quarter, please refer to the press release and Form 10-Q that we issued earlier today.

Service revenue was largely flat in the first quarter compared to the fourth as growth from higher property preservation referrals and an increase in the number of homes sold in the Buy-Renovate-Sell business partially offset lower mortgage charge-off collections and non-core customer relationship management revenue.

Adjusted pretax income attributable to Altisource of $18.3 million declined by 3% compared to the fourth quarter of 2016. This was primarily the result of service revenue mix changes with higher revenue in the lower margin property inspection and preservation and buy-renovate-sell businesses. Adjusted diluted earnings per share of $0.69 was 25% higher than the fourth quarter because of the fourth quarter 2016 adjustment to true-up tax expense from prior quarters. The fair value of the Company's available for sale securities increased by $17.4 million during the first quarter of 2017, compared to $0.6 million in the fourth quarter of 2016. If this gain were included in first quarter 2017 net income, adjusted pretax income would have been $35.7 million and adjusted diluted earnings per share would have been $1.35.

From a cash perspective, first quarter cash from operations was $12.1 million, or 5% of service revenue, when you add back the $28 million litigation settlement payment placed in escrow and the increase in real estate that we are renovating and will sell. First quarter operating cash is impacted by the payment of annual bonuses. We used cash to repurchase $10.6 million of our common stock and invest $1.9 million in facilities and technology. At the end of the quarter, we had $180.3 million of cash and available for sale securities.

Turning to our change in segment structure - in the first quarter, we changed the Company's reportable segments in the 10-Q to conform with the way we have been discussing the Company and our initiatives. This presentation aligns with the way we think about and manage the business today. We have two segments - the Mortgage Market and the Real Estate Market. The Mortgage Market segment includes revenue that we earn from services and technologies provided to mortgage servicers and mortgage originators. The Real Estate Market segment includes revenue that we earn from services provided to real estate investors and consumers.

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The Other Businesses, Corporate and Eliminations segment includes the items that have historically been in our Corporate segment as well as the non-core credit card charge-off collections and customer relationship management businesses. Please refer to the description in the 10-Q for more information on this change.

The last topic I'll discuss this morning is capital allocation. During the first quarter, we repurchased 421,000 shares of our common stock at an average price per share of $25.10 because of our belief in the long term value of the company. Our existing covenant light term loan has very attractive terms with interest at LIBOR plus 3.5%, a 1% annual amortization and a December 2020 maturity date. As of March 31, 2017, our net debt less marketable securities was $297.9 million, a 14% decrease from March 31, 2016. Looking forward, we plan to execute a balanced approach to capital allocation that includes investments in our strategic initiatives and capital investments in technology and facilities. We also plan to leave our options open to pursue opportunistic share and debt purchases.

In conclusion, we have $180 million of cash and marketable securities at March 31, 2017, a business that generates a lot of free cash and a very attractive covenant-light debt facility. At the same time, we are making very good progress in transforming Altisource from a mortgage services company generating the majority of revenue from Ocwen to a real estate and mortgage marketplace offering many of the same innovative solutions to a diversified customer base.

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

QUESTION AND ANSWER

Operator

(Operator Instructions)

Our first question is from Mike Grondahl of Northland Securities.

Mike Grondahl - *Northland Securities, Inc.*

Couple of questions. One, the bridge that you talked about last quarter to get to the non-Ocwen kind of goal, $72 million coming from 2016 client wins, I think there was a $28 million sales pipeline and sort of a $25 million gap. How is that going? Can you update us on that?

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

Yes, sure, Mike. So the Consumer Real Estate Solutions business, Servicer Solutions and Origination Solutions, we estimate that those businesses will grow, we currently believe, about 30% this year. When you look at the Real Estate Investor Solutions business as well as the non-strategic businesses, the customer relationship management business and the credit card collection business, we expect now that those are going to be relatively flat. And in the case of the real estate investor businesses, it's primarily related to this pivot we're making in the business. So, we're going to have very strong growth in 3 out of the 4 initiatives. And in the fourth initiative and in the non-core business, we expect it to be relatively flat compared to last year.

Mike Grondahl - *Northland Securities, Inc.*

And well, I guess, is the $25 million gap - did you make any progress on that in the quarter? And how did the pipeline go?

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

Yes. So we're making good progress working through the pipeline, growing existing clients, working through the pipeline of new clients and onboarding new clients, as we discussed during the prepared remarks. We think at the end of the day, it will probably be somewhere between the low and the mid-point, in terms of the non-Ocwen revenue growth. And the primary difference in our current thinking is around the flat revenue growth in the non-core credit card collection business and customer care business, and the flat growth in Real Estate Investor Solutions as we pivot our business model. By the way, I think long term, as we pivot, that creates a really attractive growth opportunity for us as we buy homes, stabilize them and rent with the tenant and then sell them.

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Mike Grondahl - *Northland Securities, Inc.*

So non-Ocwen revenue, I think, was at 17% after the first quarter, kind of your mid-point goal for the year. So you're kind of thinking sort of low end to the mid-point for non-Ocwen for 2017? Is that fair?

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

Yes, for the full year. And you would expect the first quarter would normally be lower, as we're ramping up throughout the year.

Mike Grondahl - *Northland Securities, Inc.*

And then maybe for Michelle, your newer real estate segment, the gross margin or the net margin there seems sort of negative. What's the drag? Is that where most of the investments are going? Or what sort of the drag in that business?

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

Sure. So real estate, as I mentioned, is our Real Estate Investor Solutions and our Consumer Real Estate Investor Solutions. And yes, we're making investments in these initiatives.

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

Yes, those investments, Mike, are to grow the Owners.com business. There is a set of fixed costs. We're also spending money for marketing in advance of the closings taking place. And so as you're growing, you're incurring those investments.

Mike Grondahl - *Northland Securities, Inc.*

The 10-Q talked about sort of Ocwen was conducting a strategic review of REALServicing. Is that something that came up real recently? And then how would that affect Hubzu if REALServicing was sort of switched off at Ocwen?

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

Let me take the second question first, Mike. First of all, we do work for a lot of other clients, and we have to interface with their systems. And we always work with our clients, and we interface with whatever servicing system they're using, and that's not an issue and that's very normal in this industry. So there's been a little noise around that. It's an absolute non-issue, Mike. So let's put that one to rest, hopefully. And then let's now talk about REALServicing. So prior to the announcement, we were informed by Ocwen that it was conducting a strategic review of its use of REALServicing as its mortgage servicing platform. At this time, Mike, we're not aware that Ocwen's made a decision whether to continue using REALServicing or whether or not they're going to move to a new system. Let me just give you a little bit of background, though, that we're certainly going to support Ocwen while it does this evaluation. And should they decide to move off of REALServicing, we'll help them during their transition. We also anticipate that any transition would be a multi-year project. And while Altisource has made significant capital and operating investments in REALServicing since the spin-off, we wrote-off the vast majority of those investments, if you recall, in December 2015, and that was based on our estimate at that time of future revenue -- Ocwen revenue from REALServicing. So if Ocwen were to move off, we'd have some shutdown costs associated with the transition. And just as a reminder, REALServicing is a bespoke technology. It's custom and it's only licensed to Ocwen. It's not a software that we sell to other customers, and we included this in the 10-Q as well. But for the last 3 months, it generated about $7 million in service revenue and roughly broke even. And if you keep in mind, our longer-term business plan or strategic plan assumes normal runoff of Ocwen's existing servicing portfolio and so the revenue from REALServicing, we already anticipated that, that would go down as Ocwen's portfolio, existing portfolio were to runoff. So -- and then again, to your second question, we don't anticipate any issues whatsoever should Ocwen move off of REALServicing after a multi-year process, we don't anticipate any issues interfacing with whatever servicing system they move to so that we can continue to receive the referrals.

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Mike Grondahl - ***Northland Securities, Inc.***

It's very helpful and important. So you could still get business from Ocwen if they were off REALServicing. And Hubzu could still sell their foreclosures. Am I hearing that correctly?

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

Mike, of course. We do this today. We provide our mortgage services to many customers, and we absolutely interface with whatever system they use in order to receive referrals. And that's how it works in the space, and it's not an issue whatsoever. I know there's been a little bit of noise around this, but that's not something we worry about at all.

Mike Grondahl - ***Northland Securities, Inc.***

Okay, good. Can REALServicing be used in one state for Ocwen, but not in another state? Is the flexibility to sort of pick and choose by state?

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

Mike, we're not going to sort of go into the details. I mean, REALServicing is a residential loan servicing system licensed to Ocwen. I don't think I want to get into the specifics as to how Ocwen chooses to use the system.

Mike Grondahl - ***Northland Securities, Inc.***

Okay. In the 10-Q, it's mentioned extended period of time. If, in the event of a transfer of servicing at Ocwen, I think everybody knows those approvals take a while. I mean, is an extended period of time, 1 to 3 years, 2 to 4 years? Can you help us understand that a little bit?

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

First of all, again, we don't believe, and there has been a lot of analysis around this issue, and I think others share or have a similar view that it's not likely to happen. But if it should happen, if you think about, Mike, when Ocwen was buying -- very actively buying servicing rights and how long it actually took to complete the transfer onto their system because of the lengthy process, there would be an equally lengthy process to move servicing off of their system and to get all the approvals.

Mike Grondahl - ***Northland Securities, Inc.***

So maybe 1 to 2 years, somewhere in that ballpark?

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

It's hard to say but I think the best analogy I could give you is if you think back to the time at which Ocwen was acquiring servicing rights and how long that took, given all the approvals.

Mike Grondahl - ***Northland Securities, Inc.***

Okay. Got it. And then maybe lastly, has profitability at Hubzu changed at all? I mean, that's always been a very high-margin business and I'm just trying to see if that profitability is similar to where it's been? And then ballpark, about what percent of pretax income is Hubzu making up today?

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

So I think just with respect to Hubzu, Mike, you're seeing a couple of things happen. One is we're selling a greater percentage of homes through auction. And two is, the average sales price is higher. So that -- even if the units are down, I think that's keeping our revenue flat or growing. Two is, we're adding other customers never as quickly as we would like, but we're adding other customers, both REO customers as well as these FHA auction and foreclosure auction and REO auction files, which is very, very exciting. In fact, I want to give some statistics that's probably worth mentioning. Just to give you some background, Mike, I've heard people talk about that Hubzu isn't necessarily a growth opportunity for Altisource. And I think the launch of that HUD or FHA auction product on Hubzu leveraging our Equator short sale platform as well, was a very important milestone for Altisource. FHA, I think there is 7.8 million FHA loans outstanding and 391,000 FHA loans are 90-plus delinquent, out of about 1.1 million of delinquent loans, so it's about 34% of all delinquencies. And there, it's encouraged to actually leverage tools like Hubzu and then, some of our competitors as a system to market the foreclosure sale. And if the home doesn't sell at the foreclosure sale to very quickly market the REO before the home, and if it doesn't sell as REO, you have to give the home back to FHA or HUD. And so that's a very, very large market for us that we could not address historically that we're now able to address with the enhancements to Hubzu and to our Equator platform. We just brought on -- we started with seasonal referrals from our first client, and we signed a contract with the second. And that scenario was that our sales team is very, very focused on because FHA lending, by the nature of its product, has a higher delinquency rate. So that creates a very interesting opportunity for us, and we're having some very good success in attracting clients here.

Mike Grondahl - ***Northland Securities, Inc.***

And then, just lastly, Hubzu is kind of a percent or range of pretax. Can you kind of directionally help us out there?

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

No. Mike, we don't break that out separately. Clearly, it's an important product for us, but so is our property inspection and preservation business, our title insurance business. So we have a lot of products that generate a very meaningful amount of revenue for us each month at nice margins
-- different margins but still very attractive.

Operator

The next question is from Kevin Barker of Piper Jaffray.

Kevin Barker - ***Piper Jaffray & Co.***

In regard to the free cash flow and the walk through you did there with the positive $12 million versus the operating cash flow of negative $10 million reported in the cash flow statement, could you explain like, is the house -- the buying and selling of the housing strategy, are you including the investment in the housing and then the sale in the cash flow? Or is it just purely the sale? Like how is that -- where is that located within the free cash flow that you're producing?

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

In reaching that $12 million, it's just the change in the inventory that we held on our balance sheet during the respective periods. So it's added back. So the inventory went from $13-some-odd million to $15-some-odd million from December 31, 2016, to March 31, 2017, so that changed
-- reduced cash flow from working capital, and we just added it back to get to that number.

Kevin Barker - ***Piper Jaffray & Co.***

Okay. So you're saying there is a $2 million hit because of the investment or how much of the cash flow was reduced by that?

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

It wasn't a hit, it was an increase just like, if receivables grow, you have negative impact on your cash flow in the short term from a change in working capital. As that inventory has grown, it reduced our cash from working capital in your statement of cash flows, which is a temporary item that reverses over time.

Kevin Barker - ***Piper Jaffray & Co.***

Okay. And then in regard to your free cash flow statements back in the last quarter, you mentioned that you were expecting about $70 million of free cash flow this year. Are you sticking with that guidance for 2017?

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

Yes. So the way you get there is really pulling off the mid-point of our scenarios, which we've reiterated the adjusted pretax income, service revenue. But if you take the mid-point net income of $34 million, you add back amortization of $35 million, if you annualize our first quarter depreciation of $10 million, that's a $40 million add back, $6 million of stock-based comp, which is equal to your 2016 actual, less the $28 million litigation settlement, $16 million of CapEx gets you a little over $70 million.

Kevin Barker - ***Piper Jaffray & Co.***

So I'm saying, right now, you had what negative $10 million of operating cash flow this quarter, which would imply $30 million per quarter for the next 3 quarters in order to hit your guidance, or what you stated last quarter. Do you expect the $30 million to come through next quarter? Or do you expect it to ramp up over time throughout the year?

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

Kevin, the first quarter is -- if you look at our cash flows in the present slides we put together, the first quarter is always -- I think it's been around 5% or 6% operating cash as a percentage of service revenue, maybe a little bit higher, 7% or 8%. I mean, it's always our lowest quarter because we typically pay bonuses in the first quarter. And in this first quarter, we happened to also pay this $28 million litigation settlement into escrow. And so you would expect the first quarter to be lower. And yes, we do believe we're going to generate roughly $70 million – approximately $70 million of operating cash this year.

Kevin Barker - ***Piper Jaffray & Co.***

Yes. I get it. I was just trying to understand the ramp of that cash flow throughout the year.

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

The first quarter is just typically your lowest quarter. And then your second and third quarters are your seasonally stronger quarters.

Kevin Barker - ***Piper Jaffray & Co.***

Okay. I was just trying to understand...

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

And of course, Kevin, it always can be impacted by working capital, receivables and payables. But generally speaking, we think that's a very reasonable number.

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Kevin Barker - ***Piper Jaffray & Co.***

Okay. How does that compare versus the $29 million of operating cash flow in the first quarter of 2016? You had the settlement, obviously, of $28 million that played a part in that. And there's other changes in working capital. But it seems like there is still roughly $10 million to $20 million below what you had first quarter of 2016 to do other than one-time items. Is that something that you just expect to shift just because of working capital?

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

Kevin, we had lower net income as we expected in the first quarter and that impacts your cash flow, but that's in line with what we put out in terms of the mid-point for the year.

Kevin Barker - ***Piper Jaffray & Co.***

Okay. All right. I'll move on. And then what other -- so as Mike asked earlier about REALServicing earlier, what other products could you continue to have in place if REALServicing were not Ocwen's platform going forward? Do you feel like every other service that you provide stay in there and it's just -- it's segmented within REALServicing? Or do you feel like there is other ancillary items?

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

Kevin, this is a lot of noise around this is absolute -- there is no reason why we could not receive the vast majority of all the other services we provide just like we receive those services from other clients, whether -- first of all, this is a multi-year process to move off the system #1. But #2, that will not have an impact on the other services we provide. We just need to get the referrals from whatever system they move to, as opposed to the system they're on. And that's very customary in the industry and how all the other firms, our competitors operate today and how we operate with our other customers today.

Kevin Barker - ***Piper Jaffray & Co.***

Okay. And then obviously, you still have the RESI stake on the balance sheet and an increase, your AFCI this quarter. What are your intentions with that stake? I believe you mentioned in the past that it's not something you're planning to keep for the long term.

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

So look, owning RESI stock is not necessarily core to our long-term strategy. But that said, RESI's an important customer and not only do we believe it's a very good investment, we also believe it's a relatively liquid investment and it can support our capital allocation strategy. And that strategy is to maintain a very strong balance sheet to support our longer-term growth objectives. So Kevin, we'll continue to evaluate this strategy over time based on the progress we're making on our initiatives and other environmental factors. But so far, it's been a very attractive investment for us and I think it generated something like -- if we ran it through the income statement, it would have been roughly another $17 million of earnings for us.

Kevin Barker - ***Piper Jaffray & Co.***

Yes, doing very well today. And then in regard to RESI, how much revenue in the first quarter did you have from RESI this quarter? And what's your expectation as the year progresses from RESI?

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

So we don't separately break it out. I mean, clearly, the most of our revenue inside of Real Estate Investor Solutions is coming from RESI, Kevin, and as I've said on the call, we expect or maybe as an answer to Mike's question, we expect revenue in that initiative to be roughly flat for the year. But longer term, again, we think, as we pivot the business, we think we can really grow that, in the manner we described.

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Operator

Your next question is from Fred Small with Compass Point.

Fred Small - ***Compass Point Research & Trading***

So starting on capital allocation. Just last quarter, and I got on the call late, sorry, if I missed this, but I think there was some commentary about refinancing the term loan as a priority going forward. Can you provide some sort of update on the plan there?

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

Yes. We've said, Fred, that we are evaluating it, but you missed the part on the call where we have a very attractive facility. It doesn't mature until December 2020. There is 1% amortization and it's LIBOR plus 350 basis points. So we're quite happy leaving the facility in place. And if we can perhaps opportunistically buy back some of the debt, we'll evaluate doing that. And when the time is right, we'll also look to, if it makes sense -- business sense, to refinance it. But we're very happy with the existing facility.

Fred Small - ***Compass Point Research & Trading***

All right. So it sounds like that's not a priority right now. How attractive, right now, is the share repurchase opportunity? I know the stock ran up in the first quarter, sort of maybe before you got to buy back as much as you wanted. Has that sort of re-entered the picture, as a priority for capital allocation?

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

So I'd say, Fred, on our last call, we talked about a 2021 target of roughly $1.5 billion of revenue at 15% operating margins. And I think we're making very good progress on our growth initiatives. And while our target hasn't changed, even if you were to haircut that revenue by 1/3, Fred, and modestly reduce the margins, we still believe the stock is very attractive at these levels. With that said, though, and as we've seen in the past and as we saw over the last couple of weeks, it may be bumpy, as we continue to execute on our transformation of this company. Our top priority is maintaining a very strong balance sheet so that we have the time to achieve our growth objectives. Irrespective of what happens, what matters that are outside of our control. And at the same time, we're keeping our options open to opportunistically buy back shares and debt. In the nutshell, Fred, that's our approach to capital and why we're taking the approach.

Fred Small - ***Compass Point Research & Trading***

Okay, got it. And then on the non-Ocwen -- just a couple of questions about buy-sell-renovate, but in terms of the scenarios for 2017, how much non-Ocwen revenue do you expect will come from the buy-sell-renovate initiative?

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

Fred, we don't break out the growth in any of the initiatives. So we have been -- on the call today, we talked about what our growth has been in some of our initiatives, but we're not breaking them out individually in our filings. I would say that we believe, again, the Real Estate Investor Solutions initiative will roughly be flat this year. So RESI will be declining some, but we're going to make up for that with other business, and it will be roughly flat, which is below what we expected earlier in the year because we're pivoting the business. But we believe through this pivot, it could be a very interesting business for us over the long run.

Fred Small - ***Compass Point Research & Trading***

All right. So maybe if you can just break out the economics because we know how much you've invested from the balance sheet. I think you've broken out -- I didn't see if that was in the Form 10-Q yet, but in the past, you broke out sort of the investment in homes. Can you just talk about the economics there because -- or how much you are expecting because that's running back through revenue, right?

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

Yes. So we're targeting before internal costs to roughly make a 10% on the cost of the home or about -- unlevered about close to 20% a year if you turn the homes over every 6 months, so you're turning it twice a year. And that on the buy-renovate-sell program, where we're going to put a tenant in place on the -- during the prepared remarks, we talked about targeting and making $10,000 to $15,000 of profit -- pretax profit per home before our internal costs.

Fred Small - ***Compass Point Research & Trading***

Okay. What were you saying, the difference between the 10% and the 20% there, on the cost of the homes for the buy-sell-renovate?

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

My point is if your capital is only out half a year and you can recycle the capital twice, it's roughly a 20% return.

Fred Small - ***Compass Point Research & Trading***

Okay, got it. And does that include -- does the 10% or 20% return there include sale via Hubzu or not?

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

No. I'm including in these numbers the transaction costs that we either save or generate us -- generate income for us.

Fred Small - ***Compass Point Research & Trading***

So that would -- that 10% return includes revenue on the Hubzu sale. And then just on the adjusted cash flow, you're backing out the incremental investment in the home, but the revenue from the sale is still in the number. Is that the right way to?

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

No, Fred. We're not backing out the investment number, we're backing out the change in the investment.

Fred Small - ***Compass Point Research & Trading***

I get it. But the incremental investment is coming back out, but the sale of the home is still in revenue. Is that right?

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

The sale and all of the costs associated with it, yes.

Fred Small - ***Compass Point Research & Trading***

But not the investment in it? But the entire revenue from the -- you're recording as revenue the entire sale of the home. Yes? Like I mean, I think you've said before like a home builder would record it?

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

If we sell a home, the revenue is included and so is the expense on the P&L. Michelle is talking about the balance sheet.

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Fred Small - ***Compass Point Research & Trading***

I know. I understand that. But I'm saying that you're backing out the investment in the home but included in revenue is that -- because you're including the entire sale value of the home, that investment is included in the revenue line. Is that true?

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

Fred, I don't think this is the right forum to go through in great detail. We are happy to walk you through the 10-Q to explain it.

Fred Small - ***Compass Point Research & Trading***

Okay. I'll follow-up. And then I don't know if you're going to give any more color on this, but it's been like, I guess, 4, 5 years trying to understand better. But the margin on Ocwen versus non-Ocwen revenue, can you sort of walk through what margin expectations are embedded in the 2017 scenario guidance for non-Ocwen revenue?

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

So, Fred, let me be very clear. For like services, if we sell an REO home for another customer or perform property inspection and preservation services or title services for another customer, we are in the same margins as we earn from Ocwen, generally speaking. I think there isn't a difference. So it all becomes about the mix of services that you provide. If we grow our property inspection and preservation business, that might have a 15% or 20% margin compared to something that's much, much higher related to REO sales or auctions. And so it just depends on the mix of services we provide but for like services, if it's provided to Ocwen or to someone else, the margins are absolutely the same.

Fred Small - ***Compass Point Research & Trading***

Okay. That's totally fine. Let's just talk about non-like services for the other initiatives. For non-like services, I just want to know -- I just want to understand what is embedded. I'm not trying to say that the analysis shows -- like the analysis I've done shows that the margins look lower, -- and poor, but I'm just trying to understand from the way that you are modeling that has nothing to do with like services between Ocwen and non-Ocwen, just new initiatives, what is the margin expectation there?

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

So, Fred, let's just start with servicer solutions. To be clear, for like services, again, it depends on the mix, the margins are the same. And we are providing the same services to the other customers that we provide to Ocwen. So there is not like there is a new product inside of servicer solutions that's different. And so for the like services, margins are very similar. When you get into Origination Solutions, we're making some investments to scale that business. We talked about those investments last -- on last quarter's call. And today, that business is losing money. But, as it scales, we believe it's a 20% to 25% margin business, as we scale. And we're attracting really strong customers, and we're growing that business, and as we start to cover the fixed costs in our investments, that will have very attractive margins. In the consumer real estate business, we believe that also will have margins -- and keep in mind, in this business, we book as revenue, the 1.5% commission we get paid, but we pay a large percentage of that as outside goods and services to our real estate agent, so we expect that business to be roughly 15% to 20% margin business. And then Real Estate Investor Solutions, I think, Michelle, around 15% to 20% as well, is what our longer-term target is. Keep in mind, Fred, a couple of things. We've listed out our investments on last quarter's call, and that we don't capitalize internal development costs. We think we're taking a very conservative approach there. And those investments also could be impacting margins.

Fred Small - ***Compass Point Research & Trading***

And then the Hubzu, I think you said -- well actually, one more. Just in terms of what's where -- which of the segments does buy-sell-renovate run through right now?

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

That's Real Estate Investor Solutions or our real estate market.

Fred Small - ***Compass Point Research & Trading***

That's Real Estate Investor Solutions. Okay. Got it. Any chance, I mean, though -- one of the things that would be the most helpful, I think, for people trying to analyze sort of the shift of the business over time, if there was some sort of breakout -- maybe we've talked about this before, but some sort of breakout historically of how these new segments line up, in terms of revenue? I mean, even if it's just like in the presentation and numbers around it, but just how they line up in terms of revenue historically? I know you sort of changed a little bit on the Hubzu disclosure to line up with the current accounting. I think that's probably helpful. Then on Hubzu, you said you're selling a greater percentage of homes via auction. What percentage is that now? I know historically when it's been disclosed, it's been I think you got up to like 70% or 80%.

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

Yes, we don't disclose the specific number, Fred, but it's higher than it has been.

Fred Small - ***Compass Point Research & Trading***

Okay. I mean, is 90 crazy? Like, is there a place it maxes out?

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

We think we have a very good success with a lot of bidding activity on these homes, and we're getting very attractive sales prices, and so it makes sense, and it's performing well. So I don't know where -- it depends on the client and the type of work we're doing for the different clients. But from our perspective, I think we're getting very good results.

Fred Small - ***Compass Point Research & Trading***

Okay. And then on revenue per sale with Hubzu being higher, I assume some of that's probably just driven by overall appreciation of homes and real estate values, maybe some of it's driven by just higher ASPs on the stuff you're getting from RESI. I think I've published some stuff on that. But does that continue to move higher ex RESI, if RESI is not selling anything? Does revenue per sale stay higher on Hubzu?

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

Yes, Fred. I think the revenue per sale is higher, and again, we covered this a bit earlier is, because we're selling the homes for more money and some of that is because we're doing a very good job attracting a lot of bids for the property, some of it is the market has been improving, and the third reason is we're getting higher-value properties from some of our customers that we're auctioning on Hubzu. And then in addition, the revenue growth is tied to auctioning a greater percentage of the homes. And so that's what's driving the growth. And again, coming back to Real Estate Investor Solutions, I've said now a few times, we believe the revenue there is going to be roughly flat as we're pivoting that business compared to we were originally expecting, more growth there this year. Longer term, we're very excited about that business.

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Fred Small - ***Compass Point Research & Trading***

Excluding RESI, are you still getting -- excluding RESI and I guess, the buy-renovate-sell, that's running through Hubzu too, are you still having higher-value homes just coming into the platform from other customers?

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

Yes, we're getting high-value homes from other customers. I would point out on the FHA work we're getting, those are going to ultimately, those are lower-value homes, but some of the clients we signed up last year and maybe the year before, are selling higher-value homes.

Fred Small - ***Compass Point Research & Trading***

Okay. Perfect. Segue to my last question, just on the source of the FHA business, I guess, how much of that is related to Ocwen's servicing or Ocwen's Ginnie Mae servicing?

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

None.

Fred Small - ***Compass Point Research & Trading***

None of that's related to that. Okay. And the profitability on the FHA business overall? Is the majority of what you're talking about with FHA business, is the majority of it Hubzu sales or selling the homes on Hubzu?

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

They are Hubzu sales. You get paid differently for FHA auctions, but it's a very attractive business.

Fred Small - ***Compass Point Research & Trading***

Okay. And can you say at all how the economics differ or how much lower they are?

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

No, it's just handled differently. The fees actually are very similar to the auction fees, but it's just the way it's -- who pays the fees is different. Not paid by the buyer, paid by the seller.

Fred Small - ***Compass Point Research & Trading***

Okay. How will it show up differently in your numbers?

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

No, I think we'll be recording in the same manner. Fred, it's just paid by the seller, not by the buyer. That's the difference.

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Operator

Our next question is from Ramin Kamali of Crédit Suisse.

Ramin Kamali – ***Credit Suisse***

I guess, a lot of my questions have been asked. Just a couple of more clarifying points. So as I think about Hubzu, and you disclosed Ocwen unit sales and non-Ocwen unit sales, there's been a pretty material decline of the non-Ocwen unit sales. So what should we be attributing that to?

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

So there was one customer that we boarded a couple of years ago that essentially got out of the business or sold its portfolio and so the REO from that customer declined. We've been replacing it with other customers, some of those customers as I just discussed with Fred, are sending us higher-value properties but fewer in number. So that's helping offset some of that. And we're just now really ramping up, and I talked about it in the prepared remarks, I think we said -- we have something like 615 homes in inventory. Not all of them are on Hubzu at this point because they have to work through the process, that they're doing REO sales or FHA auction for non-Ocwen and non-RESI clients, and that's up quite substantially over where we ended last year and where we ended the first and the fourth quarter of last year as well. This time, March 31, last year, as well as December 31 of last year, we're up substantially. So it takes a while to work through the system, you got to board the loans on the on your platform. You have market the homes, get a buyer and then ultimately, the sale has got to close. So it takes some time before it works through. But we're pleased with the growth.

Ramin Kamali – ***Credit Suisse***

Then if I look at the actual Hubzu revenue that you disclosed, when I compare, it seems like you may have restated the revenue for each quarter, going back a couple of years. What was that attributable to?

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

Yes, there is some closing work that we were -- some of that works shifted from one department to another at Altisource this year and so, it's related to the closing activities. And so now we have re-casted the prior years, to reflect how the business unit operates today.

Ramin Kamali – ***Credit Suisse***

Okay. And I'm not sure I saw this figure, what was the actual non-Ocwen revenue in Q1? Was there a dollar figure that you disclosed?

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

Give us a second. Yes, $55 million.

Ramin Kamali – ***Credit Suisse***

$55 million. And currently, do you provide any origination-related services to Ocwen?

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

It's very minor. I think it's probably a couple of million dollars a year.

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Ramin Kamali – ***Credit Suisse***

Just shifting to free cash flow for a second. So you did reiterate your expectation for about $70 million-or-so free cash flow for the year, given that Q1 typically a drag, $10 million or $20 million, let's figure $80 million or $90 million for the duration of the year. How should we be thinking about capital allocation? I know you've just started to delever and to buy back stock, but as far as prioritizing that $80 million or $90 million, can you bifurcate that into the various categories?

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

No, I don't think we're going to do it, I mean, on this call. But we're going to opportunistically look at where the debt is trading and again where the shares are trading. Keep in mind that our objective is to maintain a very strong balance sheet to make sure we've got the time to achieve our initiatives, particularly -- so that's the approach.

Ramin Kamali – ***Credit Suisse***

Understood. I mean, given the average share price you bought back at $25 or $26 a share and where the trading price is currently and the noise in Ocwen, we think it's advisable, given your 2020 maturity, to keep focusing on deleveraging.

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

Yes, we're going to keep looking at, and I think we said, as you know, I think we bought back roughly $100 million of our debt over the last couple of years. So we've done a decent job and been focused on delevering the balance sheet. And we've continued to talk to the Board about that as well.

Ramin Kamali – ***Credit Suisse***

We just haven't seen any material deleveraging in the last 2 to 3 quarters, so just reiterating that.

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

Great. Operator, are there any other questions?

Operator

No sir, there's no questions at this time. I'll turn it back to Ms. Esterman for closing remarks.

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

Thank you for joining the call today. We look forward to talking to you next quarter.

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Operator

Ladies and gentlemen, thank you for your participation in today's conference. This concludes the program. You may now disconnect. Everyone, have a great day.

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