THOMSON REUTERS STREETEVENTS

TRANSCRIPT

ASPS - Q3 2017 Altisource Portfolio Solutions S.A. Earnings Call

OCTOBER 26, 2017

CORPORATE PARTICIPANTS

Indroneel Chatterjee *Altisource Portfolio Solutions S.A. – Chief Financial Officer*

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

Michelle D. Esterman *Altisource Portfolio Solutions S.A. – EVP-Finance*

CONFERENCE CALL PARTICIPANTS

Leon Cooperman *Omega Advisors, Inc.*

Mike Grondahl *Northland Securities, Inc.*

Ramin Kamali *Credit Suisse*

Seth Glasser *Decade Capital*

Scott Burg *Deer Park Road Corporation*

Matthew Gruppo *CIFC Asset Management*

Shachar Minkove *Napier Park*

David Harrington *MJX*

Kevin Barker *Piper Jaffray Companies*

Fred Small *Compass Point Research & Trading*

PRESENTATION

Operator

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

I would like to introduce your host for today's conference, Mr. Indroneel Chatterjee, Chief Financial Officer.

Indroneel Chatterjee - *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. These measures should be considered in addition to, but not instead of, the financial statements prepared in accordance with GAAP. The non-GAAP financial information may be determined or calculated differently by other companies. The non-GAAP financial information should not be unduly relied upon. A reconciliation of these non-GAAP measures to their GAAP equivalents is included in the appendix to our slides. Today's presentation also includes a discussion of a Cooperative Brokerage Agreement and an amended Letter of Intent to enter into a Services Agreement with New Residential Investment Corp. Further disclosure regarding the Cooperative Brokerage Agreement, the amended Letter of Intent and related agreements is set forth in the Altisource 8-K filed on August 28, 2017, and the Form 10-Q filed earlier today. There can be no assurance that Altisource and New Residential will reach an agreement with respect to the terms of the Services Agreement or that a Services Agreement will be entered into on a timely basis or at all. 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. Today, I plan to provide a brief overview of our financial performance and capital allocation strategy, an update on our investments in diversified growth, the progress we are making on our four core business lines, and the status of our agreements with NRZ. Before I start, I would like to welcome Indroneel Chatterjee as our CFO. Indroneel is initially going to focus on our capital structure, the optimization of our business units, and on strengthening relations with buy-side and sell-side institutions. Both Indroneel and Michelle Esterman are with me this morning and available to respond to questions.

Altisource had a strong financial quarter, with service revenue of $224.3 million, adjusted diluted earnings per share of $0.73, and cash from operations of $34.6 million. If you add back the short-term investments in real estate in our buy-renovate-sell business, cash from operations was $44.1 million.

As you can see on Slides 5 and 6, year-to-date service revenue of $692 million is 80% of the mid-point of our full year 2017 scenarios and represents a modest 3% decline from the same period in 2016. The decline was driven by Ocwen's servicing portfolio runoff, the transition of low-margin technology infrastructure services to Ocwen, RESI's smaller portfolio of non-performing loans and REO, and lower revenue from the non-core Customer Relationship Management business. We were able to largely offset this decline with the expansion of property preservation services and growth of other customers. We anticipate that we will exceed the mid-point of our service revenue scenarios for 2017.

Year-to-date adjusted diluted earnings per share of $2.30 is 84% of the mid-point of our full year 2017 scenarios and 42% lower than the same period in 2016. At the same time, year-to-date adjusted operating cash flow, less CapEx, was 19% lower than the same period in 2016. The earnings scenarios shown on Slide 6 have been updated to reflect the anticipated eight and a half cents per share impact from the NRZ Cooperative Brokerage Agreement that we shared on our last call. We anticipate full year 2017 adjusted diluted earnings per share will be within the range of the updated mid-point of our scenarios. Compared to 2016, adjusted diluted earnings per share was lower due to service revenue mix with growth in the lower margin property preservation and buy-renovate-sell businesses and a decline in other higher margin businesses. On an absolute basis, earnings per share was also impacted by investments in our growth businesses, which we largely do not capitalize. Adjusted operating cash flow less CapEx declined at a substantially lower rate because our CapEx requirements to support the business are lower than in the past.

Before I discuss our core businesses, I would like to discuss our capital allocation strategy. Altisource was established as a capital-light company that generates attractive cash flow. Our capital allocation strategy is centered on deploying our cash in a balanced and disciplined manner by (1) opportunistically repurchasing our debt and shares, (2) acquiring companies that round out our service offerings, expand our customer base and present cross-sell opportunities, and (3) investing in scaling our operations and developing our newer products and services. The actions we've taken as a firm in managing our capital during the turbulent environment of the past three years has further strengthened our balance sheet and positioned us for longer term growth.

In line with our strategy, during 2017, we purchased $50.1 million par value of our senior secured term loan at an average discount of 12.2%, generating a $5.4 million gain. We also used $25.0 million to repurchase 1.1 million shares of our common stock at an average price per share of $22.48, bringing our outstanding share count to approximately 17.9 million. We ended the third quarter with $160.2 million of cash and marketable securities and $264.9 million of net debt less marketable securities. As you can see on Slide 7, this marks a reduction in net debt less marketable securities of 38% since the beginning of 2015, the year we began our discounted buy-back program.

Our investment decisions are borne out of a track record of acquisitions and investments that lead to customer growth and strong free cash flow generation. On Slide 8, we highlight the major acquisitions we've made since 2010 and our assessment of their performance.

Despite lower delinquencies and muted origination volumes, we have profitably grown our non-Ocwen business in the Mortgage Market segment, which includes our Servicer and Origination Solutions businesses. The non-Ocwen Servicer Solutions businesses generate attractive margins roughly in line with our other Servicer Solutions businesses. If you add back our growth investments, we achieved modest margins in our Origination Solutions business in the third quarter. As the Origination Solutions business continues to grow, we should be able to leverage our fixed costs and realize the efficiencies from our technology investments, significantly improving these margins. We also anticipate that we will achieve a strong return on our investments in the Real Estate Market segment, which includes our Consumer Real Estate and Real Estate Investor Solutions businesses. This is based on the success we've achieved in developing our Mortgage Market businesses and on our ability to offer our expansive suite of Mortgage Market products to customers in the newer Real Estate Market businesses.

Let me now turn to some of the investments we are making in each of the large markets in which we are operating. In the Origination Solutions business, to scale operations and cross-sell customers, we are investing in Trelix Connect, our origination due-diligence technology, Mortgage Builder, our loan origination technology, and NoteXchange, a platform to facilitate whole loan purchase and sale transactions. In the Servicer Solutions business, we invested in the foreclosure auction and CWCOT products on the Hubzu platform to address a growing trend of the GSEs, FHA and servicers to dispose of non-performing loans before they become REO. In the Consumer Real Estate business, we are developing Owners.com to address the evolving manner in which consumers search for and buy homes. Owners.com leverages our very successful experience with Hubzu and our other products and services associated with buying a home. In the Real Estate Investor business, we are investing in our real estate acquisition and asset management engine and rental home data to grow our buy, renovate, lease, and sell business and our rental home data sales business.

The historical investments we've made in developing our products and services and the acquisitions of the Homeward and ResCap fee-based businesses continue to generate significant revenue and EBITDA. As you can see on Slide 9, we anticipate that we will generate service revenue of $2 billion and EBITDA of approximately $730 million through 2025, just from the Ocwen and NRZ portfolio referrals. These projections assume a standard run-off of the portfolios and a decrease in delinquencies, consistent with our estimate of the burn-down characteristics of the underlying MSRs. It's worth noting that we have substantially exceeded the projections we last provided to you in January of 2015, and our forecast does not assume potential growth from Ocwen, NRZ or an economic downturn.

Given the strong contractual cash flows from the Ocwen and NRZ portfolios, and the progress we are making with new and existing customers, we plan to continue opportunistic repurchases of our debt and common stock. We believe discounted debt repurchases serve to strengthen our balance sheet and generate attractive returns for our shareholders.

Now to the specific progress we are making on growing our four core business lines. We recognize that we are behind our 2017 non-Ocwen growth scenarios primarily related to the timing of growing existing customers and onboarding new customers. That said, with a very active sales pipeline and three notable recent wins in the Servicer Solutions and one in the Origination Solutions business, we are beginning to see an acceleration of the new and existing customer wins that we anticipated were going to occur earlier in the year. Slide 10 provides an update on new business highlights for the third quarter and early fourth quarter. I will discuss our growth prospects as I go through each of the core businesses.

Beginning with our Servicer and Origination Solutions businesses, as you can see on the highlights slide, we believe that our strong performance is translating into expansion with existing customers, as the trend for servicers and lenders to consolidate their vendor footprint continues. We also made strong progress in winning new business and developing our sales pipeline. On the new customer front, we recently received notification of several meaningful wins. We were selected by a top-5 bank to provide end-to-end REO services for a portion of its portfolio. These REO services include property inspection and preservation, valuation, title, brokerage, and online auction using the Hubzu platform. We were also selected by a large non-bank servicer to provide short-sale services and by a top-25 bank to provide REO brokerage and auction services for a portion of its portfolio. We expect to begin receiving referrals from these customers in the first quarter of 2018. From a sales pipeline perspective, we remain very busy. In addition to many other opportunities, we are having active conversations with two existing top-4 bank customers and an existing GSE customer to provide pre-REO online auction pilot programs on Hubzu. We are also having discussions with an existing Servicer Solutions top-10 bank customer to provide a suite of origination related services related to its correspondent lending division. We are optimistic they will launch these programs by the end of the first quarter of 2018.

I anticipate that our recent wins and strong pipeline will position us well to accelerate the growth of our non-Ocwen and non-NRZ business across our Servicer and Origination Solutions businesses.

Turning to Consumer Real Estate Solutions, we hired Marcello Mastioni from Expedia in August to lead this business. Since joining, Marcello implemented an agile operating model to continuously improve Owners.com's performance. Initially, the model has been applied to improving our ability to convert Internet leads into active clients. As a result, we increased the percentage of leads that became active clients by 38% over the second quarter of 2017. We believe the actions we are taking and plan to take to improve performance will support achieving fourth quarter 2018 revenue in this business that is more than double this quarter, while maintaining relatively flat marketing expenses.

From a purchase and sale perspective, during the third quarter of 2017, we completed 239 transactions in line with the number of transactions we guided to on last quarter's earnings call. In the seasonally slower fourth quarter, we anticipate relatively flat unit transactions estimated to be between 210 and 250.

Finally, our Real Estate Investor Solutions business continues its transition. Historically, this business generated the majority of its revenue and earnings by providing outsourced non-performing loan services and managing REO for RESI. As expected, with RESI changing its business strategy from buying NPLs to directly acquiring rental homes, its NPL and REO portfolio continued to decline throughout 2017, meaningfully impacting our earnings.

To substantially grow the revenue and profitability for this business, we are focused on three areas: (1) our BRS program which directly buys, renovates, leases and sells homes at a 9% targeted return on investment before internal costs, (2) providing renovation management services at a target margin of 12% before internal costs, and (3) developing and growing our rental and investor property data sales. We believe there is a large opportunity to source real estate investments for institutional clients given the large addressable market, compression of absolute yields in the legacy ABS securitization market and investors' desire for yield. With our significant economies of scale, more vertically integrated operations, heritage of sourcing and developing attractive real estate related investments, and significant investor contacts, we believe that Altisource has key competitive advantages that position us very well to capitalize on this opportunity. Although the average margins are lower in the BRS and renovation businesses, the addressable market, revenue per unit, and profit per unit are much greater than our historical business.

Our four core businesses rely on strong partners across our client base to succeed. On August 28, Altisource and NRZ entered into a Cooperative Brokerage Agreement and a Letter of Intent, to enter into a Services Agreement that we believe strengthens Altisource's existing position as a leading services provider to the mortgage industry. Pursuant to the Brokerage Agreement, Altisource will provide REO brokerage services on the Ocwen and PHH MSR portfolios that were acquired, or are to be acquired, by NRZ. Altisource and NRZ are also making good progress in negotiating the Services Agreement. Under the terms of the anticipated Services Agreement, Altisource will provide NRZ the other outsourced mortgage and real estate services that we have historically provided to Ocwen's portfolio. Effective as of October 23, we entered into an amendment with NRZ to extend the term of the Services LOI to provide the parties until January 12 to finalize the Agreement. In late August, Altisource received our first notice that certain of Ocwen's MSRs were transferring to NRZ. In September, we began providing brokerage services directly to NRZ on these MSRs and established a good working relationship with them. We look forward to expanding our relationship with NRZ as they grow their footprint in the mortgage servicing industry.

In conclusion, we believe that our recent client wins, a very active sales pipeline, strong contractual cash flows and the continued development of our newer businesses, pave the path for a very bright future.

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

QUESTION AND ANSWER

Operator

(Operator Instructions) Our first question is from Leon Cooperman of Omega. Your line is open.

Leon Cooperman - ***Omega Advisors, Inc.***

If you look at the Slide 16 in your handout, you see an ominous trend, $7.16 million to $6.96 million to $4.59 million to $2.84 million, trailing 12 months. You obviously have to have an optimistic view of your non-Ocwen businesses because you continue to persist in buying back stock. I'm just curious, do you guys expect to have improved earnings in 2018 versus what your guidance is for 2017? Or is that not yet clear in your mind?

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

We haven't finalized our plan for next year.

Leon Cooperman - ***Omega Advisors, Inc.***

I'm not looking for a specific number, I'm just looking for direction. If you take $2.48, $2.99, average $2.74, would you expect directionally to have another year of decline or a year we would reverse a decline and have an increase? Without getting into specifics.

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

Sure, as I mentioned in the last call, I believe, or maybe it was two calls ago, we believe next year will be lower than this year, Lee. But if you look at those numbers and if you were to add back the investments in our growth, which, again, we don't have to make those investments, we're making those because we believe they're going to support our growth, and it's a couple of dollars a share. So we are making those investments because we feel very confident that in the long run, it's going to deliver a very attractive revenue and earnings for our shareholders. So that's why we're making those investments.

Leon Cooperman - ***Omega Advisors, Inc.***

That's logical. I hope you're right, obviously. So tell me with the agreement that you have with NRZ giving you some more clarity than you had before the agreement, do you still feel like the $160 million cash in marketable securities was the right number to keep? Or could you run with a lower cash balance and either buy back more debt or more equity or reinvest in the business to a greater degree? What do you think the minimum cash balance is? And also, if you would answer that, address the RESI thing. It seems to me that we are better off taking the money you have in RESI and put in your own stock unless you think it's essential to own RESI to keep your relationship with them.

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

Yes, let me cover both. So first, Lee, as we discussed in the prepared remarks, we have a business model that generates a lot of free cash and has limited capital requirements. So, obviously, we think it's a good question. Given the operating environment that we operated in over the last few years, we thought it was prudent to maintain a higher level of cash and marketable securities, while also de-levering. As this environment improves, Lee, we're beginning to reevaluate the amount of cash and marketable securities we need to maintain. So today, we are estimating that we need approximately $60 million of cash to run our business. That number could go up or down based on ongoing assessment and our needs, but that's how we're thinking about it today, is that we need about $60 million.

Leon Cooperman - ***Omega Advisors, Inc.***

And remind me how much we have invested in RESI. So there's $100 million away from that. How much do you have in RESI?

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

Roughly $45 million.

Leon Cooperman - ***Omega Advisors, Inc.***

So you're heading towards somewhere between $50 million and $100 million, could be spent.

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

Yes, let me answer your question on RESI. So clearly, RESI is an important customer. But as I have discussed in the past, owning RESI stock isn't core to our long-term strategy. So as we continue to look for how we want to spend that money, Lee, we will also look to, over time, reduce our position there.

Leon Cooperman - ***Omega Advisors, Inc.***

Obviously, if you think in terms of $100 million of excess cash, you got a $25 stock price, 18 million shares, it's a pretty significant percentage of the market cap of the company. So if you can get earnings turned around, it would be really a very undervalued security. If you can't get earnings turned around, then you're making a mistake buying back all the stock.

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

Yes. And the way we look at it, Lee, so we know and we put out a slide on the Ocwen and NRZ revenue, what that's going to look like over time. And so that's the headwinds we have. The tailwinds we have is, we're making very good progress, much better progress now then we were making earlier in the year in growing our non-Ocwen business. It's just there's going to be an inflection period in a couple of years, we're not going to hit that inflection period next year. But we feel very good about our growth prospects.

Operator

Our next question is from Mike Grondahl of Northland Securities.

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

Bill, the first one is non-GSE delinquent loans at 178,000, it's probably the first time in several years that, that number's increased instead of decreasing sequentially. What was driving that increase from 177,000 to 178,000?

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

So Mike, I think what we saw is with the hurricanes impacting both Texas and Florida, delinquency rates have gone up. And what's interesting though is that as delinquencies go up, you saw that our service revenue per delinquent non-GSE loan came down a little bit. And that's primarily because what you're seeing is the servicers are working, Ocwen in particular, is working with its borrowers around forbearance plans or other modifications. And so some of the work we would normally have anticipated on a delinquent loan hasn't come to fruition. So we are doing some basic property inspection and preservation work but some of the other work or services you would normally expect are coming in, as I think servicers, rightfully so, are working very closely with those borrowers that have been impacted by the storms.

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

Okay. And then the slide where you show the visibility into revenue and EBITDA from Ocwen and NRZ, do you have a comparable number for 2017 for that?

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

No, I don't have it at our fingertips Mike, so the answer is no, not right now.

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

Okay.

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

It's done well and exceeded what we originally expected it to do.

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

And then from a high level, the non-Ocwen revenue growth, what type of range should we think about for next year there?

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

So Mike, we're still going through our budget. Although, I think with these customers, new customer wins, we're talking about and the very attractive pipeline and sort of the tree's been shaken a bit toward the end of 2017, we think that's going to have some very meaningful growth next year. But we haven't finalized the numbers yet, our plan. So more to come.

Operator

Our next question is from Ramin Kamali of Credit Suisse.

Ramin Kamali – ***Credit Suisse***

Just a quick question on the agreement with NRZ. I understand that the assets will be moving over time from Ocwen to NRZ and you've currently established brokerage services. So assuming everything traveled day one, what would you expect the run rate brokerage services contribution to be on the top line? And then secondarily, assuming a Services Agreement is signed up as well, what's the incremental, assuming again all is transferred on day one?

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

If you don't mind, we've looked at it combined. We haven't looked at it separately. So if you don't mind, I won't answer the question that way. If we had signed the agreements at the -- with NRZ at the beginning of this year, and 100% of the MSRs had transferred as of the beginning of this year, NRZ would've represented roughly 50% of our service revenue, and then another roughly 25% would've came from Ocwen and then another 25% from our list of other marquee customers. So this will certainly have the effect of diversifying our customer base across our product suite.

Ramin Kamali – ***Credit Suisse***

Then assuming you established a Services Agreement too, how would those percentages change?

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

So I included both the Services Agreement and the Cooperative Brokerage Agreement, we're working very closely with NRZ to get the other documents signed. We fully anticipate that will finalize that.

Ramin Kamali – *Credit Suisse*

And again, I know the previous caller has pressed you on this, but can you just kind of talk about the prioritization of cash flow use? You still throw off a decent amount of cash even at this kind of lower LTM EBITDA. But how should we be thinking about every incremental dollar as far as use towards deleveraging versus stock buy-back versus investing?

Indroneel Chatterjee - *Altisource Portfolio Solutions S.A. – Chief Financial Officer*

It's not either-or. I mean we look at both de-levering and opportunistic stock buy-backs. Clearly, as you look at our debt, it's trading at 7% to maturity. Adjusted for the forward LIBOR curve and that's pretty attractive given the anticipated revenues from our contractual agreements with our customers. And if you look at the competitive credits trade in terms of leverage and fixed charge coverage ratios, the debt would be trading at 2%. So we continue to pursue debt buy-backs as and when we can. As far as stock goes, we believe in buying back stock when it's trading below intrinsic value. We define intrinsic value as the present value of all the cash flows that we are getting from our anticipated contractual revenues, of probability of adjusted estimation for our revenues from our new clients minus the debt per share. So as we have mentioned in the past when the stock trades below intrinsic value we go out and buy it. But it’s not an either-or. Clearly those mentioned that we have significant amounts of cash flows being generated by the portfolio and as some of you, and certainly we anticipated around the business, the amount of cash we need to run the business is around $60 million so we're going to continue to pursue debt buy-backs because we think it's very attractive. You don't really see a lot of opportunities to buy BB-like paper at 7%, for a 3-year tenure in the market.

Ramin Kamali – *Credit Suisse*

Okay. And then I guess, new plans for RESI stock?

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

Beyond what I mentioned to Lee, there's nothing further to add.

Operator

Our next question is from Seth Glasser of Decade Capital.

Seth Glasser – *Decade Capital*

Is there any update you can provide on what's happening with regard to Ocwen's use of REALServicing? And then beyond that, I know you've stated that you really don't expect much of a financial impact even if Ocwen were to no longer use the platform, can you sort of walk through again why you believe that to be the case?

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

So, I think, Ocwen's announced that they're going through the process of evaluating moving and then moving , or creating a plan to move off of REALServicing. I think we generated roughly $7 million of revenue,$6.6 million of revenue in the third quarter and it's roughly breakeven. And so as Ocwen moves off the system, it's largely variable costs associated with managing it, so we can reduce our variable costs. And from a services perspective, whatever system Ocwen were to move to, it's very customary for service providers like Altisource to connect to those systems to receive their referrals.

Seth Glasser – ***Decade Capital***

Okay, so basically all of the headcount and other costs could be cut to match the revenue decline is what you're saying?

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

Yes. I'll just mention there will be some small shut-down costs I talked about in the past related to severance and things like that but relatively modest.

Operator

Our next question is from Scott Burg of Deer Park Road.

Scott Burg - ***Deer Park Road Corporation***

My question is with regards to Owners.com. I was hoping to get kind of your view on the strategy and outlook for that piece. And then also any sort of guidance that we should be looking at in terms of the value you guys see and/or how we should be kind of looking at maybe potentially monetizing that one day?

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

Thanks Scott. So Owners is our technology-enabled real estate brokerage. And we are leveraging the capabilities we've developed as one of the dominant players in online -- residential online auctions with our Hubzu platform. And all the services that we provide like our mortgage brokerage, our title insurance business, our homeowners insurance business, property inspection business to leverage multiple services for the customers of Owners.com. So as the average of the typical consumer is spending more and more time searching for a home online, we now have a solution where they can search for a home online, get a great experience and get all the services associated with buying that home at the same time from Altisource. So it's a business we are making investments in, but it's a business that we feel confident we can be successful at given our history at developing and successfully running Hubzu and given all these related products that we've created. We are also very excited about the leadership team there with the hiring of Marcello, who's got a lot of direct experience in this space having worked at Expedia, the HomeAway subsidiary at Expedia, which was doing something very similar but in the rental home space. So it's a longer-term investment but we believe with those advantages we can have very exciting growth and really turn this into a meaningful contributor for Altisource.

Operator

Our next question is from Matt Gruppo of CIFC Asset Management.

Matthew Gruppo – ***CIFC Asset Management***

You touched on it a little bit previously but just getting back to the capital allocation. Any thoughts on if you have a target leverage ratio or how you'd like to maintain that going forward?

Indroneel Chatterjee - ***Altisource Portfolio Solutions S.A. – Chief Financial Officer***

We haven't come up with a target leverage ratio. But we just look at where our debt's trading today and just getting the 7% yield we think it's pretty attractive. So obviously we continue to focus on buying back our debt given the short maturity and the attractive yield to maturity as well. I think that's what we would like to see at this point in time.

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

And I think our ratio today, our debt to EBITDA is incredibly very low, it's sub-2, is my recollection if you include the marketable securities.

Matthew Gruppo – *CIFC Asset Management*

And then one other question on just how to interpret Slide 9, since it makes reference to the EBITDA numbers, you're not considering incorporating segment overhead? So is this sort of a gross profit from the Ocwen and NRZ portfolios? Is that how we should be thinking of this kind of $185 million in 2018?

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

So, Matt, it's not perfect but it's a very rough proxy of what we believe that business will generate, the Ocwen and NRZ business will generate. It doesn't include interest expense and some internal costs like sales, for example, because you don't need to sell these customers anymore. So yes, it is a very good rough approximation of how those businesses are performing.

Matthew Gruppo – *CIFC Asset Management*

Okay. And then I guess one question specifically on Hubzu. I guess, how do you differentiate that between your competitors in the marketplace, whether it be Auction.com or Xome?

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

Sure. So just for everyone’s benefit, Hubzu is our online business, where we auction off historically homes. And we believe that Hubzu and Auction.com are the dominant players in this space. We at Altisource and at Hubzu have focused primarily on selling homes, an REO or distressed homes. Auction.com more recently has focused quite a bit on moving up the chain and focusing on selling homes before they become REO. That scenario, we've made investments in over the last couple of years. So that's to basically sell homes to the short-sale process before they become REO, online on Hubzu and also to sell homes through the foreclosure sale. And as I mentioned in my remarks, you are seeing a trend where servicers are very focused on disposing of their homes before they become REO. So they're using the foreclosure auction, the courthouse step auction, as well as short-sales and the FHA's CWCOT program to sell homes at the foreclosure sale. And so we spent some time and money developing our capability on Hubzu to do that so that we can compete with Auction.com. They have a head start, but as you listen to some of our wins and our pipeline, we are making very, very good progress diversifying our customer base on Hubzu and moving earlier into the value chain by selling the homes before they become REO. So we are very excited about Hubzu. We think this presents a tremendous opportunity for the firm and we believe we can compete with the likes of the Auction.coms to win business.

Matthew Gruppo – *CIFC Asset Management*

And then just last one from me. This might be in the 10-Q, but I couldn't come across it. The amount of capital that's dedicated towards the buy-renovate-sell program today?

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

We have a Board approval to spend roughly $50 million on the program, I think we have close to $24 million outstanding. And as we go into next year and work with the Board to approve our plan, we'll reevaluate what's the appropriate level of cash given our excitement about this business. By the way, the only thing I'd point out, there is other difference between Auction.com and Hubzu. Auction.com has developed a commercial business to auction-off office buildings and retail centers online, that's something that we are evaluating getting into. We think the investment would be relatively modest and we have some background inside of Altisource in the commercial space so we think over time we could be competitive there as well.

Operator

Our next question is from Shachar Minkove of Napier Park.

Shachar Minkove – ***Napier Park***

Most of my questions were answered, but just wanted to follow up on one thing. Slide 9 is actually a very helpful slide, really appreciate you giving us an understanding on how the portfolios ramp down over the next bunch of years. But I wanted to ask, first could you give us some perspective on what that looked like for 2016 and 2017? And then second, is around what you think that opportunities for growth, to sort of grow that in this portfolio, I guess grow those portfolios that you're managing for Ocwen and NRZ in the context of the conversations that you're having with them now.

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

So just to be clear, what we're assuming in this forecast right now is just business as usual with Ocwen and NRZ, and that we don't have any additional growth with them. And I think that's the conservative assumption we've historically taken and we are going to continue to take. But obviously, we're going to work very closely with our counterparties to try to grow our relationships with them to extend their growing. I think there's a second part? What are we doing -- I think '15 and '16, we don't have it at our fingertips here but you can get it from our filings or we could point you in the direction as to where you can find it after the call.

Shachar Minkove – ***Napier Park***

Okay, and actually just a quick follow-up on that. These numbers -- the EBITDA number, that is before corporate overhead, I presume?

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

So that is before corporate overhead, yes, which includes interest expense. Yes.

Operator

And our next question is from David Harrington of MJX.

David Harrington - ***MJX***

Most of my questions have been answered, but I did want to go back to Hubzu versus Auction.com. Can you give us a sense of what kind of market share does one have versus the other? And just in terms of, I think you mentioned, transactions earlier for Owners.com, can you give us a sense of transactions and notional volume generated by Hubzu versus Auction.com? Do you have that kind of market data?

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

Yes, so if you were to look -- we occasionally look on their website and our website just to see how many homes are being marketed and sold. And we think largely, we are selling roughly the same number of homes each month. As I mentioned, Auction.com is selling a lot more through the foreclosure auction or at least it appears to be and we're doing a lot more through the REO process. Now when we talked about our customers, today our customers -- we probably have four or five small customers. We have a couple of larger banks -- one larger bank, a non-bank customer and then we talked about a big win -- a couple of big wins where we are going to be leveraging Hubzu with another top-5 bank and also with a top-25 bank to auction their homes. And then we have a pipeline, where we are talking to two top-4 banks as well as a GSE, again, about leveraging the pre-REO auction process. So we think, the market is -- I used to have this at my fingertips, but if you think about, there's something like 50,000 to 60,000 new foreclosures initiated, maybe it's 40,000 say, don't hold me to these numbers, each month, and a certain percentage of those become REO every month, others get modified or re-performing. But there's a large opportunity to market those foreclosure auctions before they become REO. And if you think about some of the GSEs, for example, they generally either managed the REO in-house and sold the homes in-house or they leveraged one or two asset management firms to do the work for them, a couple of asset management firms. So as the GSEs and the FHA move earlier in the process, that's opening up the addressable market to something much larger than it's been historically. That's probably why Auction.com has been very focused there. We have historically focused on the REO side and now we are moving to go after this addressable market, and making very good progress adding new customers. And I think, in our slides, we talk about the total number of sales. But if we want to think about sales excluding -- if you take away the Ocwen, NRZ and RESI sales, I think last quarter, we received, roughly 500 referrals. And I think we received 400 referrals so far in the month of October. And then in terms of sales last quarter, we sold about 200 homes, which is a 17% increase over what we sold the prior quarter. And the revenue per unit is very, very attractive here.

So it takes a while when you onboard new clients. You have to onboard the client, you've got to make the connectivity with respect to the technology, then you have to start marketing the home, get the home under contract and sold. So it does take some time. But the revenue, once you get through that process becomes very, very attractive.

Operator

Our next question is from Kevin Barker of Piper Jaffray.

Kevin Barker - ***Piper Jaffray Companies***

I've noticed your investments this year have been running close to, a little bit over 90% of the mid-point of your estimating at, what $50 million of investments. Do you expect to exceed your Scenario A and B this year on your investments? And do you expect investments to continue at a similar run rate into 2018?

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

We will likely exceed the investments we planned to make this year and that's largely reflective of the timing that I talked about in my prepared remarks. And as we continue to grow those other businesses, we believe those will come down.

Kevin Barker - ***Piper Jaffray Companies***

So you're saying they're going to come down next year as you grow the businesses or like the investment period? Do you believe the investment period has hit its peak or is close to hitting its peak?

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

Kevin, these are investments we're making in our growth. And so, as we've talked about, for example, the originations, as we continue to add additional clients, two things are going to happen: one is, the investments as a percentage of our revenue is going to be going down, and two, the investments we need to make are going to be going down as we complete the investment cycle. So we still have some more time to go in making investments. But we firmly believe that these investments will lead to very attractive growth and also improve our ability to scale, both leading to better margins.

Kevin Barker - ***Piper Jaffray Companies***

Okay, and then you talked about some of the investments that you made start to hit some inflection points a couple of years down the road. At what point do you feel like you're going to see EBITDA turn breakeven or positive on some of the non-Ocwen, non-NRZ business?

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

Kevin, just to be clear, as I said on the prepared remarks, we are making money in Servicer Solutions. If you add back our investments we made in originations, we are making money, not as attractive margins as we want to make, but we are making money in originations. We are making money in Real Estate Investor Solutions. Our Consumer Real Estate business is where we're not making money today, but we believe we have some very strong advantages. It's going to take us some time. This is not something that's going to turn profitable tomorrow. But it's going to take some time. But we believe we have some distinct competitive advantages out there. So in 3 out of the 4 business lines, we are making money. In originations it’s if you add back the investments, and then the fourth, consumer, that's a bet we're making but we believe we are very good long-term prospects. And we look towards next year, we believe we're going to add meaningfully to our revenue without increasing in a material manner our marketing expense. So we feel good about that.

Kevin Barker - ***Piper Jaffray Companies***

Okay, and then you mentioned on Slide 9 $185 million worth of EBITDA from Ocwen and NRZ portfolios. And the mid-point before investment, your 2017 scenario was $181 million in 2017. So it would imply that you would need to be able to sustain or have positive EBITDA in the third party revenue in 2018 in order to hit the numbers from this year. Is there something that would imply that you're going to see that inflection point in the near future? Or that the EBITDA bleed, from the other places where you're not making money, is going to finally stop?

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

I think as I responded to Lee, Kevin, we have the Ocwen business, assuming just a normal runoff of the Ocwen, NRZ, that's going to come down. And as we grow the other businesses, which we will grow, we believe at attractive margins or attractive absolute dollars of profit, as I discussed in the prepared remarks, over time that will offset some of the losses. But we're developing a very attractive fee-based business. If we shut off all the investments today, most of which we don't need to sustain our existing business, we would have a couple of dollars more in earnings per share. We've made a decision as a company to make these investments and we think we have a very good track record of making investments that generate attractive free cash flow over the longer period of time. So we are making those investments. The company is going through a transition period. And as we continue to grow our clients and we have a very -- one of the most exciting pipelines we've had in a very long time, as we grow our pipeline and our clients, we expect we will eventually get to that inflection point. We just happen to have a decent amount of revenue from Ocwen and NRZ and we make no assumptions about further growth from them and so it takes time to offset it.

Kevin Barker - ***Piper Jaffray Companies***

You mentioned some of the M&A activity from 2010, 2016. Are you considering -- are you being active in M&A or some bolt-on acquisitions that may support some of your offerings right now?

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

Kevin, we always keep an eye of what's going on in the market. Generally speaking, we're very focused on organic growth and the investments we're making.

Operator

Our next question is from Fred Small of Compass Point.

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

Following up on Slide 9, I'm just trying to understand that. How much of the EBITDA projections in '18 or '19 comes from Hubzu?

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

We don't break that out, Fred, but I can tell you, look, I think I know where you're going. We make very attractive money on Hubzu. We make very attractive money on our property inspection and preservation business, our title business, our valuation business, our foreclosure trustee business, all make very attractive margins. And so the revenue that's coming from there, Hubzu would be the biggest, property inspection and preservation would probably be the second largest contributor and then it falls down from there.

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

Okay, thanks. I'm trying to understand sort of the 2017 numbers in the context of the slide. I think you said before that it's everything gets transferred over, that NRZ -- starting at the beginning of this year, '17, NRZ would be 50% service revenue and Ocwen would've been 25%. Did I hear you right?

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

Yes, it's really rough numbers. If you're at a pro forma 2017 as if NRZ owned 100% of the MSRs and we were receiving the work, they would represent roughly 50% of service revenue including the highly correlated revenue. Ocwen would be roughly 25% and our other marquee customers would represent the last 25%.

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

If I look at the mid-point of the scenarios on '17 on service revenue the Ocwen, NRZ percentage is around 60%, maybe a little over 60%. Is that -- what drives the big part of the difference there in terms of the revenue contribution?

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

Fred, look, we are going through a pro forma exercise. These are rough numbers as to how we think -- what we think it would be. What it would've been next year. So that's our rough estimate.

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

Okay, so just to understand. So if I look at the mid-point of the scenario, and is use 75% and say okay, that's what it would've been and then I think the '18 number in Slide 9 is about 37% for the EBITDA margin, that implies about $240 million of EBITDA before -- or gross, I guess, gross margin EBITDA is the way that slide is made, that slide is like $240 million. Is that the way to do the math on that?

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

I think you're mixing some apples and oranges with respect to the slide. It might be better for us to talk about it offline. I think you're confusing a couple of different concepts. We can walk you through the slide if you like. But it probably wouldn't make sense to do it on the call.

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

But that 37% margin that's on '18 there you're showing for EBITDA, what's that this year? I guess, because some of the economics are changing with NRZ in '18, which I assume is covered in that slide in the projections?

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

Fred, we haven't separately broken it out for this year.

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

Okay. Did you look at all, or have you thought about selling that contract or that cash flow to a third-party? Part of the argument, right, is that, that cash flow is undervalued at ASPS, the market's undervalued at ASPS, but you can potentially sell that contract to a third party and then take that cash and pay off all of the debt, reinvest in other businesses or something along those lines. Is that something you'd look at?

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

Fred, first of all, we agree with you that we believe the business is undervalued. But we are very focused right now on establishing our relationship with NRZ, making sure that, that goes off well and running our business and growing organically. Of course we always look at options but that's our focus area.

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

Two more quick questions. Number one, if I look at Slide 10, can you maybe quantify the revenue or the pretax opportunity in aggregate or by segment from all the opportunities there?

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

Fred, we're not going to break out each one of those individually. We believe the Hubzu opportunities are very large and represent very attractive margins. The Origination Solutions business, we think platform clients as I've said in the past, can grow up to a $1 million a month or more in revenue. So we're pretty excited about it. And we gave you a sense as to how much capital we are dedicating toward the buy-renovate-sell business and what type of margins we think we can make there. So I think you can do some math based on that information.

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

Just in response to Leon's question and Kevin's questions as well, all the investments you're making that you don't have to make these investments. What's the other option?

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

We're investing in our growth. My point is those investments we are making aren't needed to run -- so they're largely not needed to run the day-to-day business. We're making those investments to grow. And we think we have a good history of making investments that generate very attractive free cash flow and allow us to cross-sell our clients and grow them.

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

Okay. But the businesses -- those other opportunities, if you don't make these -- I mean we sort of talked about this at the beginning of the year, but if you don't make those investments then those businesses, those growth initiatives don't become profitable. Is that the way to think about it?

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

That's not what I said. We can continue to grow our Servicer Solutions business with other clients, all those wins we talked about, we can make very attractive margins very similar to the margins we make today on the Ocwen and the NRZ business with those other clients, without making these investments. In Origination Solutions, we are making investments to scale so it could be more profitable than if we didn't make those investments and we're also making investments so that we can grow. So if we stop, we can essentially make margins but we think these investments allow us to grow very attractively and it's to scale, be more efficient.

Operator

We have a follow-up from Leon Cooperman of Omega.

Leon Cooperman - ***Omega Advisors, Inc.***

I'm not necessarily advocating this, but I've listened very carefully to everything you've said and I've been a shareholder for a long time as you know. But what I'm seeing and hearing, concentrate ownership, cheap valuation, big free cash flow, optimistic on the outlook, improving regulatory environment, there is no analyst, basically that's recommending the stock. I mean there's a gentleman on the call now has a price objective less than half the price of stock. We have some very valuable businesses if we wanted to get rid of them and separate them out, we can separate them out at a big price. We have a $459 million equity market cap, $100 million of excess cash on the balance sheet, have you guys ever thought of taking the thing private? And get rid of questioners like me that are dummies on these quarterly calls?

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

Well you know we always appreciate your questions. You know we are not going to talk about sort of our strategic objectives for the firm. We clearly look to drive shareholder value and I think you made some very relevant points in terms of the business itself. And look, we are always going to evaluate options but our primary focus right now is building the business. And we're going through the inflection point, which a couple of the callers want to focus on that but we really believe we'll get through this inflection point and it's going to be a very exciting company.

Leon Cooperman - ***Omega Advisors, Inc.***

So really it's a 2019 story you would say?

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

More to come, Lee, but definitely we're going to continue to work to the inflection. It just happens to be a large base of revenue that we get from Ocwen and NRZ and we have a very attractive customer base and we just got to, through our growth and with those other customers, offset the decline. And even if we didn't have that other business we are just focusing on -- we have a very attractive set of businesses that we think will be very valuable. Everyone always focuses on earnings are coming down some, but that's related to the sort of the work we're doing for Ocwen and NRZ. The other businesses are going to continue to improve and grow.

Leon Cooperman - ***Omega Advisors, Inc.***

I have a big smile on my face so don't misinterpret it. But if you believe everything you're saying, you should have a killer instinct and go for the whole enchilada. That's what I would say. I'll leave it at that.

Operator

At this time there are no other questions in queue. I will turn to Mr. Chatterjee for closing remarks.

Operator

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