



## Real Matters Q2 2025 Conference Call - Transcript

April 30, 2025

### Corporate Participants

**Brian Lang**, *Chief Executive Officer*

**Rodrigo Pinto**, *Executive Vice President and Chief Financial Officer*

**Lyne Beauregard**, *Vice President, Investor Relations & Corporate Communications*

### Other Participants

**Thanos Moschopoulos**, *BMO Capital Markets*

**Marting Toner**, *ATB Capital Markets*

**Robert Young**, *Canaccord Genuity*

**Richard Tse**, *National Bank Financial*

### Presentation

#### Operator

Good day. Thank you for standing by. Welcome to the Real Matters Second Quarter 2025 Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your speaker today, Lyne Beauregard, Vice President, Investor Relations and Corporate Communications. Please go ahead.

#### Lyne Beauregard

Thank you, Operator. And good morning, everyone. Welcome to Real Matters financial results conference call for the second quarter ended March 31, 2025. With me today are Real Matters' Chief Executive Officer, Brian Lang, and Chief Financial Officer, Rodrigo Pinto.

This morning before market open we issued a news release announcing our results for the three and six months ended March 31, 2025. The release, accompanying slide presentation as well as financial statements and MD&A are posted in the Investor Relations section of our website at [realmatters.com](http://realmatters.com).

During the call we may make certain forward-looking statements which reflect the current expectations of management with respect to our business and the industry in which we operate. However there are a number of risks, uncertainties and other factors that could cause our results to differ materially from our expectations. Please see the slide entitled cautionary note regarding forward-looking information in the accompanying slide presentation for more details.

You can also find additional information about these risks in the risk factors section of the company's annual information form for the year ended September 30, 2024, which is available on SEDAR+ and in the Investor Relations section of our website.

As a reminder, we refer to non-GAAP measures in our slide presentation including net revenue, net revenue margins, adjusted net income or loss, adjusted net income or loss per diluted share, adjusted EBITDA and adjusted EBITDA margin. Non-GAAP measures are described in our MD&A for the three and six months ended March 31, 2025, where you will also find reconciliations to the nearest IFRS accounting standards measures.

With that, I'll turn the call over to Brian. Brian?

**Brian Lang**

Thank you, Lyne. Good morning, everyone. Thank you for joining us on the call today. Our business delivered solid results in the second quarter as we continued to deliver top-of-the-scorecard performance and onboard new customers. We posted consolidated net revenue of \$10.1 million compared with \$11.5 million in the second quarter of 2024, mainly due to a double-digit decline in the addressable U.S. purchase mortgage origination market.

Our U.S. Title segment delivered strong year-over-year growth driven by net market share gains with clients and higher refinance origination market volumes. We posted double-digit revenue growth in U.S. Title and Canada year-over-year, and we continue to leverage our network management model and disciplined cost management to drive net revenue and EBITDA margin improvements. U.S.

Appraisal revenues were down 9% sequentially. However we outperformed an estimated double-digit decline in market volumes. Our net revenue margins improved by 80 basis points quarter-over-quarter to 27.3%, keeping us in the range of our target operating model for the 10th quarter in a row. And U.S. Appraisal adjusted EBITDA increased to \$2.6 million from \$2.4 million in the first quarter due to lower operating expenses.

We maintained our leadership position in U.S. Appraisal, ranking as a top performer on lender scorecards. Our U.S. Appraisal business is in a strong position. We have additional capacity with our existing operating cost base, which should deliver strong operating leverage once more volumes flow across our platform. U.S. Title revenues were \$2.3 million, down from \$2.5 million in the first

quarter, which was a relatively robust quarter, as you'll recall driven by closings from the short-lived September interest rate rally.

On a year-over-year basis, our U.S. Title business continues to build momentum. We outpaced estimated market volume growth in the second quarter and posted an increase in refinance origination revenues of 40% year-over-year as a result of our growing client base and net market share gains.

With the increase in refinance origination revenues, net revenue margins increased 810 basis points on a year-over-year basis to 52.1% in the second quarter. We launched one new client in two channels in Q2, and we expect that our new Tier 1 title client will go live in the coming months. Our sales efforts are in full swing as we are confident that this is the time to amplify our efforts to capture more market share.

Over the past five years we've consistently expanded our client base, steadily bringing new clients onto our platform. However the full impact of this growth hasn't yet been reflected in our results due to the current state of the refinance market. We believe this growing client base represents a coiled spring poised to create significant momentum as market volumes rebound.

With nearly 10 million outstanding mortgages with rates above 6% and nearly seven million mortgages above 6.5%, the pool of rate term refinance candidates continues to grow. Americans also have record levels of equity in their homes, 82% of borrowers have at least 30% equity, which could become a readily accessible source of cash in a recessionary environment. Turning to Canada, revenues for the segment were up 11% on a year-over-year basis, and net revenue margins remain near all-time highs at 19%. We launched two new clients in Canada during the second quarter.

With that, I'll hand it over to Rodrigo. Rodrigo?

**Rodrigo Pinto**

Thank you, Brian. And good morning, everyone. The second quarter has historically marked the trough period of our fiscal year due to purchase market seasonality, which affects our appraisal business in the U.S. and Canada. In contrast, relative changes in interest rates are the biggest driver of refinance volumes for our U.S. Appraisal and U.S. Title segments.

We estimate that addressable mortgage origination market volumes were down both sequentially and year-over-year due to a rising interest rate environment. The average 30-year mortgage rate increased by 20 basis points from Q1 2025 compared to a decrease of 60 basis points in 2024 from fiscal Q1 to fiscal Q2. Turning to our segmented financial performance.

I'll start with our U.S. Appraisal segment where we recorded revenues of \$26.7 million, down 18% from the same period last year due to lower addressable market volumes. Revenues from purchase mortgage originations were down 26% and revenues from refinance originations were down 11%, in line with lower addressable market volumes associated with this quarter's rising interest rate environment. Home equity revenues were down 12% year-over-year, mainly due to a lower addressable market for home equity transactions, partially offset by net market share gains with existing and new clients.

Home equity revenues accounted for 25% of the segment's revenues in Q2. U.S. Appraisal net revenue was \$7.3 million for the second quarter, down from \$9.2 million in Q2 '24 and net revenue margins decreased by 100 basis points, mostly due to the distribution of transactions volume as it relates to geographies, clients and product mix. We posted net revenue margins of 27.3% in Q2 '25, which remains well within our target operating model range.

Second quarter U.S. Appraisal operating expenses were down 2% year-over-year to \$4.7 million due primarily to lower salaries and benefits costs. We posted U.S. Appraisal adjusted EBITDA of \$2.6 million compared with \$4.4 million from the second quarter of fiscal 2024 as lower net revenue was partially offset by lower operating expenses.

Turning to our U.S. Title segment. Second quarter revenues increased 11% year-over-year to \$2.3 million, and refinance origination revenues were up 40%, mainly due to net market share gains with clients and higher refinance mortgage market origination volume. U.S.

Title net revenue was \$1.2 million, up 32% from the second quarter last year, and net revenue margins increased to 52.1% from 44%, mostly due to higher volumes serviced, which diluted our fixed costs as well as higher proportion of income order volumes that closed. U.S. Title operating expenses were up 29% year-over-year, mainly due to hiring additional sales personnel to accelerate market share increases and to a lesser extent increased variable costs associated with higher volumes.

We recorded an adjusted EBITDA loss of \$2.1 million for the U.S. Title segment compared with \$1.7 million loss we recorded in the second quarter of fiscal 2024. In Canada, second quarter revenues increased 11% year-over-year to \$8.3 million, primarily due to higher market volumes and net market share gains with existing and new clients for appraisal services and insurance inspections. Net revenue was up 11% to \$1.6 million with a 10 basis points increase in net revenue margins in the second quarter of fiscal 2025 compared to the second quarter of fiscal 2024 as we continue to leverage our platform.

Canadian adjusted EBITDA was \$1 million, up from \$900,000 in the second quarter of fiscal 2024. In total, second quarter consolidated revenue and net revenue were down 11% and 13% year-over-year to \$37.3 million and \$10.1 million respectively, as lower U.S. Appraisal segment revenues were partially offset by an increase in revenues from our U.S. Title and Canada segments.

We recorded a consolidated adjusted EBITDA loss of \$1.9 million compared with positive consolidated adjusted EBITDA of \$700,000 in the second quarter of fiscal 2024. We continue to successfully navigate through unprecedented market uncertainty, and our business is well positioned to face the current macro environment. We have a very strong balance sheet with no debt and cash of \$45.7 million, down from \$49 million at December 31, 2024, due to the timing of changes in working capital and a modest adjusted EBITDA loss.

With that, I'll turn it back over to Brian. Brian?

**Brian Lang**

Thank you, Rodrigo. The business delivered solid performance in the second quarter, reflecting continuing operational discipline, resilience and growing momentum in our Title business. We posted double-digit year-over-year revenue growth in U.S. Title and Canada, and we continue to leverage our network management model and disciplined cost management to drive net revenue and EBITDA margin improvements. We delivered leading performance on scorecards, and we launched three new clients. As we've experienced in the past, economic and financial market uncertainties can create significant opportunity for the mortgage industry.

We continue to closely watch the impact of policy decisions in the United States on the 10-year treasury yield, which is a leading indicator of mortgage rates. Even minor decreases in interest rates, like those we saw last fall, can have a significant positive impact on origination volumes, especially from today's historically low volumes. We have the capacity to take on more volume with our existing operating cost base, and we are ready to scale.

We remain confident that the U.S. mortgage origination market represents a significant growth opportunity for our business. Under our target operating model, we believe that our U.S. Appraisal segment has the potential to deliver \$50 million to \$65 million in adjusted EBITDA, and our U.S. Title business could generate \$30 million to \$45 million of adjusted EBITDA.

We look forward to leveraging our model to continue to demonstrate the through-cycle earnings potential of our business in line with our focus on scale and market share growth. We continue to focus on the things we can control, which is solid execution of our strategy, broadening our client base and deepening our customer relationships, particularly in U.S. Title, where we have significant runway for growth. With \$46 million in cash and no debt, sound cost discipline and a growing client base, Real Matters remains well positioned to capitalize on mortgage market improvements.

With that, Operator, we'd like to open it up for questions now.

## Question and Answer Session

### Operator

[Operator Instructions] Our first question comes from the line of Thanos Moschopoulos from BMO Capital Markets.

### Thanos Moschopoulos

Brian, could you maybe expand on how your customers are reacting to the current conditions and the uncertainty? I guess with respect to the discussions they're having with you for other channels or Title and other opportunities and also in terms of just their behavior in the market and the stance you're taking versus the nonbanks?

### Brian Lang

Sure, Thanos, thanks for the question. So how are customers reacting to what's going on? And I assume you mean Thanos, a fair bit south of the border. So I think one of the opportunities for us, which frankly started last fall but definitely continues, is this opportunity in Title and the focus that we've had on our Title pipeline.

So I think as we continue to be top of scorecard and perform incredibly well with our existing customers, Thanos, we're in the throes of quite a few RFPs. And so I think it's actually because of some of the uncertainty in the market, I think it's just continuing the momentum that we've had on some of the big lenders starting to look to put RFPs in place around Title.

So if I take a look at the RFPs that we've had on the go, we've talked about closing our second big Tier 1. So we continue to move that forward, both technically and through contracts, and we're feeling very good that we're going to see volume in the upcoming months. We've also got another Tier 1 where we're engaging now in that RFP with them. So that's more a year-end goal with us. Some of the nonbanks, to address that side, Thanos, one of the biggest service providers in the U.S. now we are in RFP conversations with them. There's a couple of Tier 2s.

So I mean on the Title side of the business, I think we're seeing some continued momentum, Thanos. I think a lot of it has to do with some of the uncertainty in the market. As well as we mentioned this refinance pool of opportunity that continues to grow and now is in the numbers of 10 million that's over 6%, and 70% of that, so 7 million over 6.5%. So I think with all of that, I think that's sort of what we're seeing at least on the Title side of the business with particular customers.

The other interesting thing we've seen in this past quarter specifically is a couple of the big Tier 1 lenders have come out quite publicly, Thanos, and talked about the regulatory environment and the impact on their businesses with the regulation that's in place now. So what's encouraging for us, I think around that is there's definitely quite a push from some of those Tier 1 leaders that they want to get back in the market, win more market share and really try and drive more for us, origination

volume into the pipes. So I'll take that also as a positive, and we've actually seen that in some of our numbers from the last quarter with some of our big players really stepping up and starting to accelerate their volume growth compared to the average across our customer base.

So I think that's how I would address that, at least as far as what's going on, I think politically, Thanos.

**Thanos Moschopoulos**

That's very helpful color. Then just a quick one on expenses. Obviously the Canadian dollar has had a (inaudible) the U.S. dollar, rather [has had] a bit of a move. In light of that and just some of the investments you're making, how should we think about the OpEx trajectory in the near term?

**Brian Lang**

Sure. I'm going to get Rodrigo to address that, Thanos.

**Rodrigo Pinto**

Yes. Thanos, the devaluation of the Canadian dollars, as we shared before, it helps our business as we have a lot of expenses in Canadian dollars, and we have most of our revenues in U.S. dollars. As you know we report in U.S. dollars. So overall, devaluation of the Canadian dollar vis-a-vis the U.S. dollars, it should help -- it helps our operating expenses to get lower, if I can put it that way, as we report in U.S. dollars.

**Thanos Moschopoulos**

Yes. So the question was just we've had quite a move in the other direction, though. So if we think about the impact going forward. Then in the context of other investments you may or may not be making, just what would be your thoughts on the OpEx trajectory?

**Rodrigo Pinto**

Yes. As you know it's impossible to call FX rated at this point. It went in the other direction, but we feel like it was almost like a recovery from the decline we saw a couple of quarters ago. So I would say it's back to normal. So we are not expecting or foreseeing any major changes going forward.

**Brian Lang**

Yes. And Thanos, we're going to continue to invest in the areas that we have let you guys know that we are investing in. So we're going to continue to invest in our platform and in the tech work that we're doing, which we think will have us set up for some really good success in the fall and the spring, which is when a lot of that tech is going to hit and land. And then on the sales title side, we're starting to see, I think the benefits of those investments. So those two are going to continue to keep the level of investment that we've got today, Thanos.

**Operator**

Our next question comes from the line of Martin Toner with ATB Capital Markets.

**Martin Toner**

Do you think that Rocket's recent acquisitions will cause them to -- will it benefit their partners like Real Matters? And do you think it will accelerate the timeline for them to do some RFPs, especially in Title?

**Brian Lang**

Great question, Martin. So listen, I can't, of course speak for Rocket. But if I just take a look back in time and especially with our relationship with Rocket, Martin, I go back historically and I take a look at the bump in volume that the Brexit -- so there was a little bit of Brexit RFI. So there was a good bump in volume in 2016. And frankly, that opened the door on the Appraisal side of the house for us to become a provider and partner with Rocket. So that's sort of how we kicked off the relationship when there was a real increase in volume.

So if we think about today Rocket's publicly stated their ambitions around moving market share. So they have very strong ambitions to move market share by 2027. With both the Redfin and the Mr. Cooper acquisition, there is fairly significant volume opportunities there. Mr. Cooper has not been a customer of ours. So that for us is all incremental upside volume opportunity. So if we take a look at it, we've sort of run some numbers, and there's sort of 0.5 million orders there over the next couple of years that, in our view, are going to find their way back into -- on the Appraisal side, the sort of share that we have with them today.

And probably more importantly, what it opens up, I think for us is an opportunity on the Title side. So Rocket, of course has been a major target for us on moving them into Title, moving us into Title as a partner of theirs. And so Martin, with all this incremental volume and the ambition around market share gains, our view is that this definitely will open up the RFP Title conversation and frankly, move it along. And I think that for us is probably the biggest opportunity in the, I'll call it, near term.

So in summary, I think there's shorter-term opportunity on the appraisal side of the business simply by the Mr. Cooper volume coming on to the Rocket platform. Longer term, I think the real opportunity is for us to start moving the RFP conversations with Rocket along, which I think is a 2026 ambition of ours.

**Operator**

Our next question comes from the line of Robert Young with Canaccord Genuity.

**Robert Young**

I'd like to ask if you could expand on the opportunity with the service provider that you said you have an RFP opportunity with in Title. Then obviously you just talked about Mr. Cooper. What is it about the servicing businesses? Like what is the opportunity for Real Matters? Because I think for me at least, that's a new category of potential customer there.

**Brian Lang**

Sure. So I mean it's kind of Mr. Cooper falls into the same category as they're one of the biggest service providers or big servicing shops in the U.S., Rob. So the one that we're talking to is of the same ilk. So they're a very significant player. And in the servicing space, the way servicing generally works is these are the organizations that kind of manage the mortgage, collect the payments. So they get a very good understanding of a significant customer base of mortgage owners.

So what their job is, Rob, and what they really focus on is then going and expanding or building on top of the base that they've got as well as with the base they have. Because of the data they've got on each of those customers, they're able to target those customers at the right time to refinance them. So there is a really significant refinance opportunity within those portfolios. That's frankly what they do. Besides just servicing, they're really focused on re-upping all those customers and refinancing them.

So that's where the real opportunity is for us. When they refinance, they of course need both an appraisal and title work done. So again our view is this is a real opportunity for the future, again building sort of long-term franchise value in both sides of the business, but definitely in the Title side of the business, this is a real opportunity for us.

**Robert Young**

Do you think these services -- servicers would be similar to a Tier 1 bank in the way they allocate share? Would they use balanced scorecard or allocate share gradually? Or would this be something where you could add a lot of volume in a short period of time?

**Brian Lang**

Well they are going to be -- they're significant volume players. So they are in the same realm as Tier 1s as far as volume goes, Rob. So I'll check -- give a checkmark on that. As far as uptick and how fast we can build our share with them, they do manage very similarly to the big Tier 1s around performance and scorecards and those sorts of good things. So that is definitely how we will increase our market share.

My assumption is it will take a little bit for us to move with them simply because we haven't had them on our appraisal platform as we have had lots of our other customers that we're looking at on title. So there'll be a very similar to bringing on a new customer, there'll be a ramp. We'll have to see -- as I say a lot of it, Rob, depends on this refinance pool that's growing and the timing of when a lot of that refinance comes to market. If the volume is significant, then our view would be our market share opportunity is probably fast. If it's still in the lower market, then we're definitely going to have to build market share.

**Robert Young**

Okay. Then last question for me, just maybe clarifying something you said earlier. I think you suggested that a recession in the U.S. -- not hoping for a recession, obviously but I think you suggested that, that's potentially driving RFP activity higher. Can you just explain that, if I heard that right, and then I'll pass the line?

**Brian Lang**

Sure. Well, I think just broadly speaking, Rob, when there's economic and financial market uncertainty, I think it just creates significant opportunities within the mortgage industry. So again if I look back, and I mentioned 2016, if we look at Covid, when there is uncertainty in the market, often that drives lenders to start thinking about the what-if scenarios on what could happen. So this refinance pool that's building, a lot of lenders are looking at that. If recession were to hit, then most likely interest rates are going to need to be managed. I'm not going to call the market. I'm not going to suggest what's going to happen. But if that were to happen, then rates would go down. And as we've said, there's not a lot of downward movement that needs to happen in the rates for there to be a real opportunity for a very significant portion of the market to refinance.

So that's why I think these RFPs are continuing to move with the same momentum, is because a lot of those lenders are looking to the future and making sure that they've got their bases covered when that refinance volume comes online.

**Operator**

Our next question comes from the line of Richard Tse with National Bank Financial.

**Richard Tse**

Just sort of a two-part question. Can you maybe update us on your aspirations for data? Then the sort of second one, I don't know if it's related, but you have sort of talked about adjacent acquisition opportunities in the past. So I guess the question on that side is, why not maybe look at some of those? You've got quite a bit of cash. Valuations are probably low. Then arguably, you probably have some capacity given things are still fairly quiet. So I know they're -- may be a little bit offbeat questions, but just kind of curious what your thoughts would be on those.

**Brian Lang**

No problem, Richard. Yes. So on the data front, we've talked about doing some organic work right now which is what we have been doing. But we do continue to look at acquisition opportunities, Richard. I think up until now over the past couple of quarters, we haven't found a really great fit, but we'll continue to look at those, continue to look at building out the organic work that we're doing. And hopefully, there'll be a marriage between those two at some point in upcoming quarters.

So that's on the data front. And again with the data that we've got, we continue to see looking ahead at long-term franchise value, there's definitely a real opportunity for us to monetize the data in a very robust way.

On the -- I think you said acquisitions that are adjacent acquisitions. Again, we would prioritize that we've been looking and we've been open about looking at the Title side of things. And so we continue to keep our eyes open. We've been participating in conversations around that. So again, that would be something that we continue to look at.

Then those are, I think really are the two areas where we've sort of focused our management's time and energy when it comes to looking at potential outside opportunities. And I'm aligned with you, Richard, on your comments around valuations, et cetera, that they still are some pretty healthy valuations. So I'm not sure that that's come down significantly. But we're going to continue to look at those as it makes sense.

Of course that all being said, Richard, we continue to really drive the core business, keep an eye on making sure that we're making the headway we want, both from a performance, market share and new customer standpoint, building out the sort of stable of the future.

#### **Richard Tse**

And just the last one for me. You have a reasonable amount of cash on the balance sheet. So is it sort of the same amount that's kind of required as before just to sort of give comfort to your customers? Or is there an opportunity to maybe deploy some of that capital into buybacks or wherever it may be? Just kind of wanted to get an update on that.

#### **Rodrigo Pinto**

Sure, Richard. So again, we are trying to be financially prudent as much as we can. We want to keep our healthy balance sheet. As Brian suggested before, there's several discussions about RFPs, and that's a key question, right, showing liquidity and a healthy balance sheet. It's one of the first questions we get when we participate on those RFPs.

So at this point, we feel it's prudent to maintain our balance sheet as is. And as soon as we have more visibility, any changes in the market looking forward, we believe we can then start thinking deeper into capital allocations and how to allocate our capital to perhaps better returns.

#### **Operator**

And I'm currently showing no further questions at this time. This does conclude today's conference call. Thank you for your participation. You may now disconnect.