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CONFERENCE CALL PARTICIPANTS

Thanos Moschopoulos, *BMO Capital Markets*

Gavin Fairweather, *Cormark Securities*

Martin Toner, *ATB Capital Markets*

Daniel Chan, *TD Securities*

Robert Young, *Canaccord Genuity*

Richard Tse, *National Bank Financial*

Paul Steep, *Scotia Capital*

PRESENTATION

Operator:

Good day and thank you for standing by and welcome to the Real Matters' Fourth Quarter and Fiscal 2021 Conference Call. At this time, all participants are in a listen-only mode. After the speaker presentation, there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded. [Operator Instructions]

I would now like to hand the conference over to your speaker today, Lyne Beauregard. Please go ahead.

Lyne Beauregard:

Thank you, operator, and good morning, everyone. Welcome to Real Matters' financial results conference call for the fourth quarter and fiscal year ended September 30, 2021. With me today are Real Matters' Chief Executive Officer Brian Lang; and Chief Financial Officer Bill Herman.

This morning, before market opened, we issued a news release announcing our results for the 3 and 12 months ended September 30, 2021. The release accompanying slide presentation as well as the financial statements and MD&A are posted in the Investor section of our website at realmatters.com.

During the call, we will 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 could also find additional information about these risks in the risk section called Risk Factors in the company's Annual Information Form for the year ended September 30, 2020, which is available on SEDAR and 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 EBITDA, adjusted EBITDA margins. Non-GAAP measures are described in our MD&A for the 3 and 12 months ended September 30, 2021 where you will also find reconciliations to the nearest IFRS measures.

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

Brian Lang

Thank you, Lyne. Good morning, everyone. And thank you for joining us on the call. So, I'll kick things off today by discussing some of the business highlights for fiscal 2021 and our fourth quarter. Bill will then take a deeper dive into our financials. And I'll wrap up the call with some closing remarks prior to taking questions.

I'd like to begin by thanking the Real Matters team for a groundbreaking fiscal 2021, where we continued to win in both our Appraisal and Title businesses. We now have a Tier 1 and Tier 2 lender who are two of the top five mortgage lenders in the US by mortgage origination volumes live on our Title platform. And both of these clients have provided us with market share increases since going live due to our strong performance. We ended the year with double-digit market share in the retail channel with each of these lenders, a great achievement in a short timeframe.

With a very strong client base and a proven performance track record, we are poised to extend our client relationships in Title and grow market share in both Appraisal and Title. Real Matters is well-positioned to continue executing on our strategic plan of doubling our U.S. Appraisal market share and tripling our U.S. Title market share from fiscal 2020 levels by the end of fiscal 2025.

Fourth quarter U.S. Appraisal mortgage origination revenues, which includes purchase and refinance, increased 32% year-over-year compared to an estimated 11.6% increase in market volumes. In the quarter, we launched eight new lenders in U.S. Appraisal and one new channel with one of our Tier 1 lenders. We also continue to rank at the top of lenders scorecards which drove market share gains in the main origination channel year-over-year. Operational excellence continues to be our principal focus as we drive toward achieving our fiscal 2025 objectives.

In U.S. Title, we launched four new clients in the fourth quarter, and the pipeline is strong. We're very pleased with our performance in the market share progression we have seen thus far with our new Title clients. As I mentioned earlier, we drove strong performance with our Tier 1 client and the new Tier 2 lender that resulted in market share already in the double-digits with these clients in the retail channel. We are building a strong foundation with these and other franchise clients, and we continue to look at opportunities to leverage our performance equity with them to enter new channels and to onboard new title clients.

At the same time, we continue to make progress with our purchase title strategy, building on our existing platform to position ourselves in this \$5 billion market, further extending our long-term runway for growth in Title. In our Canadian segment, we also continue to deliver strong performance, which extends our market share with our Canadian bank clients driving fourth quarter revenues up 32.8% year-over-year.

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

William P. M. Herman:

Thank you, Brian, and good morning, everyone. Turning to slides 4 and 5 for a closer look at our financial results. Consolidated revenues increased in the fourth quarter of fiscal 2021 compared to the same quarter last year due to record revenues in our U.S. Appraisal segment and strong growth in our Canadian segment, which were partially offset by the decline in U.S. Title revenues. U.S. Appraisal segment revenues increased 28.4% year-over-year year to \$90.9 million.

As Brian outlined earlier, our U.S. Appraisal segment serviced higher origination volumes from net market share gains and new client additions, as well as higher market volumes. Conversely, revenues from home equity and default volumes declined 9.8% year-over-year due to lower market volumes for these services. Transaction costs in our U.S. Appraisal segment increased 33.1% year-over-year and net revenue increased 13% to \$18.8 million, while net revenue margins declined 280 basis points to 20.7% compared to the same period last year. The decline in net revenue margins was due in part to the mix of mortgage origination volume service and appraiser onboarding to service higher volumes.

With higher origination volume service in our U.S. Appraisal segment, our operating expenses increased 12% to \$7.6 million, up from the \$6.8 million in the fourth quarter of fiscal 2020 due to an increase in payroll and related costs. U.S. Appraisal segment adjusted EBITDA increased to \$11.2 million from \$9.8 million in the fourth quarter of fiscal 2020 and adjusted EBITDA margins expanded to 59.5% in the fourth quarter of fiscal 2021 from the 59.2% we posted in the same quarter last year, and this margin expansion was a result of operating leverage.

Turning to our U.S. Title segment, revenues declined 50.3% year-over-year due to the transition of our centralized title client base resulting from the launch of our first Tier 1 and rollout of a new Tier 2 client, the rationalization of our diversified Title business, and lower market activity for home equity services. Revenues attributable to centralized title services declined to \$19.3 million. Diversified revenues totaled \$1.2 million, representing a decline of \$2.7 million from the fourth quarter of fiscal 2020. The decrease in diversified revenues was due to lower commercial, search, and capital markets revenue attributed to lower market volumes and our strategic decision to rationalize the service offering. We expect that the diversified title business will be fully rationalized by the end of the first quarter in fiscal 2022. Finally, the decline in other revenues was due to lower market activity for home-equity services.

Transaction costs in our US Title segment increased 52.3%, while net revenue margins expanded to 67.1%, up from the 65.7% we posted in the fourth quarter of fiscal 2020. The expansion in net revenue margins was due to the flow of volumes in the fourth quarter, which saw us close more transactions relative to new orders received.

As we managed our operating expenses down this quarter due to lower centralized title volumes and the rationalization of our diversified title business, operating expenses in the segment decreased \$1.7 million to \$11.8 million in the fourth quarter of fiscal 2021.

Adjusted EBITDA declined to \$2.9 million in the fourth quarter of fiscal 2021, down from the \$15.4 million we posted in the same quarter last year. And adjusted EBITDA margins contracted to 19.7% from the 53.4% we posted in the prior-year period owing to the impact of lower volumes. As we have done in the past, we continue to be prudent in managing operating expenses to scale with volumes, while ensuring that we make the right decisions to support our long-term objectives.

In Canada, revenues increased 32.8% on a year-over-year basis to \$12.9 million, while net revenue margins contracted by 330 basis points due to appraiser onboarding in a higher volume environment and product mix.

Canadian segment operating expenses were \$0.5 million in the fourth quarter, up from \$0.4 million in the fourth quarter of fiscal 2020. And adjusted EBITDA margins decreased to 66.2% from 71.8% in the same quarter last year due to lower net revenue margins and modestly higher operating expenses to service increased volumes.

In total, fourth quarter consolidated net revenue was \$35 million compared to \$47 million reported in the fourth quarter of fiscal 2020 due to lower revenues in our US Title segment. Consolidated net revenue margins decreased to 27.9% in the fourth quarter of fiscal 2021, down from the 37.8% we posted in the fourth quarter of fiscal 2020, reflecting lower margins in our US Appraisal and Canadian segments and lower net revenue generated by our US Title segment.

Consolidated adjusted EBITDA was \$11 million in the fourth quarter of fiscal 2021, down from \$22.2 million in the same quarter last year. And consolidated adjusted EBITDA margins decreased to 31.4% in the fourth quarter of fiscal 2021 which compares to the 47.2% we posted in the fourth quarter of fiscal 2020 due to the lower volume serviced in our US Title segment.

Turning to the balance sheet. We ended the quarter with cash and cash equivalents of \$60.2 million at September 30, 2021. Two of our more significant US Appraisal clients remitted payments of \$17.6 million two business days after our year end, which resulted in a significant use of non-cash working capital in the current quarter and for the year.

We purchased 1.1 million shares in the fourth quarter under our NCIB at a cost of \$11.7 million. In fiscal 2021, we allocated \$97.8 million to share purchases, buying 7.3 million shares or approximately 8% of the fully diluted shares outstanding at the end of fiscal 2020. We continue to purchase shares under the NCIB in support of our view that the company has greater value than its current trading price. Post quarter-end, we purchased an additional 353,000 shares under our NCIB.

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

Brian Lang:

Thanks, Bill. Looking back at our financial performance for the year, consolidated revenues were up 10.6% to \$504.1 million. We generated net revenue of \$164.3 million and adjusted EBITDA of \$59.2 million in fiscal 2021. Our business has demonstrated considerable growth since going public in 2017. Consolidated revenues have increased 66%. Net revenues were up 78%, and we have grown adjusted EBITDA more than fivefold from \$9.4 million to \$59.2 million.

In US Appraisal, fiscal 2021 was a record year. US Appraisal origination revenues were up 18.7% compared with an estimated market increase of 7.4%. We grew market share with our top clients over the course of fiscal 2021, and ended the year with purchase market share of 4.4% and refinance market share of 9.9%. Our share of each market was driven in part by shifts in our clients share of the purchase and refinance markets. Today, we service all of the Tier 1 lenders, nine of the top 10 bank mortgage lenders, and five of the top 10 non-bank lenders.

Our US Appraisal business generated more revenues in fiscal 2021 than our consolidated business reported in fiscal 2017. Since going public in 2017, our US Appraisal revenues have grown at a CAGR of 15%. Net revenue has increased at a CAGR of 20% and we have increased adjusted EBITDA nearly sevenfold, demonstrating our ability to scale and drive incremental margins over the long term.

We continue to be squarely focused on our fiscal 2025 strategic objectives that we communicated at our Investor Day at the beginning of this fiscal year, and we remain confident that we can grow our appraisal business to achieve a doubling of our US Appraisal purchase and refinance market share from fiscal 2020 levels and deliver net revenue margins of 26% to 28% and adjusted EBITDA margins of 65% to 70%.

Fiscal 2021 was a milestone year for our US Title business as we rolled out our first Tier 1 client and a new Tier 2 client and achieved double-digit market share in the retail channel with each of these clients. We ended the year with market share of 1.8% and centralized title revenues were up 6.7% compared with an estimated increase in refinance market volumes of 24.7% as a result of our strategic decision to focus on the long game.

Our centralized title volumes have more than tripled since fiscal 2017, and centralized title revenues have grown at a CAGR of 28.2%. US Title net revenue has grown at a CAGR of 13% and adjusted EBITDA at a CAGR of 23% over that same period, despite having rationalized the diversified title business which we represented a third of this segment in fiscal 2017.

We continue to execute on our plan with a long-term view of the business to triple our US Title refinance market share to 68% by the end of fiscal 2025 and achieve net revenue margins of 60% to 65% and adjusted EBITDA margins of 50% to 55%.

Since going public in 2017, we've returned significant value to shareholders by purchasing 16.5% of the issued and outstanding shares at IPO, and we ended the year with over \$60 million of cash on our balance sheet. We're excited about our growth opportunities and confident that we have the right strategy to continue to build value for our shareholders over the long term.

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

QUESTION AND ANSWER SECTION

Operator:

Thank you, sir. [Operator Instructions] Your first question comes from the line of Thanos Moschopoulos from BMO Capital Markets. Your line is open.

Thanos Moschopoulos:

Hi. Good morning. Brian, in terms of the share gains for title, what are the key KPIs that are driving that? I mean, you've talked in the past about improving customer experience. Obviously, speed is a key factor as well, but just the one particular KPI that your customers are focusing on that's driving the ramp, or is it just a bunch of things?

Brian Lang:

Thanks, Thanos. Appreciate the question. Yeah. So, I mean, there's – the scorecards are quite sophisticated as you can imagine, but we talk really about three big buckets. You mentioned one of them, which is speed. Another one, especially right now in the market that we're in because of the busyness of it was, quality, so quality is very important. And then, we talk about outlier management. And so managing the files that are more difficult to get at, either really expensive properties or some of them are really rural properties, so just difficult to find comparables.

So those are the three main buckets, but within each one of those, there's quite a few variations on how they get at those KPIs. So, as I've mentioned in the past, it's very transparent for us, Thanos. So, the good news is with both our Tier 1 and Tier 2, we have reviews every month on those KPIs. They measure us against our competitors, so we can see very clearly where we sit amongst that competitor set. And we've seen that we've continued to drive towards the top of those scorecards.

I was fortunate to be down at the big MBA conference a couple of weeks ago where I was able to talk to those title heads. And it's really reconfirming for me, Thanos, that they were actually quite surprised how fast we moved up the ranks in – on the scorecards, which is frankly why we've been given the type of market share allocation that we've got today. Well ahead really of both our expectations and seemingly theirs.

Thanos Moschopoulos:

Great. In terms of the Tier 3 business within title, you talked a bit the refocusing and reprioritizing there. But at this point, has the Tier 3 market share kind of stabilized, or should we expect that to kind of trend downwards as you continue to focus on ramping up the Tier 1 and Tier 2, and maybe other future Tier 1 and Tier 2 customers?

Brian Lang:

Yeah. So, to answer that, I'd say there's quite a few moving parts right now, Thanos. I mean, you mentioned the strategic focus on the Tier 1 and 2 that we landed. So, that's one that continues to be a high priority. Secondly, of course, new customers. So, not only ramping up the 12 new customers that we won this past year, but looking at the Tier 1 and 2 pipeline which again I was fortunate to meet with some of those title heads of the big Tier 1s down in San Diego.

So, I feel the pipeline is really solid. And we're going to continue to push the pace with the RFI and RFP type processes. And of course, market conditions continue to evolve. And so, I think that's going to play in a fair bit, Thanos, over the next little while. We've seen the new Black Knight report, so it still seems there's a little bit – about 11.5 million American homeowners that have a 75 basis points refi opportunity.

So, there is still a good market out there. Rates and consumers, of course, are going to drive a little bit of that. And lastly, I just think we've got some tough comparables in Q1 and Q2. You know that Q1 and Q2 of 2021 were absolutely historic volume quarters for us, and so we've got some comparable noise there, I think, for the next couple of quarters. So, within the group that we won, Thanos, especially this last quarter, we mentioned four new customers, some of those are win backs from about a year ago.

So, I think we're seeing good progress both on the sort of sales front, the operational front, of course we're seeing very good performance, and so we got to keep winning market share with those Tier 3s that we have on the platform and continue to find the right ones for the long-term fit of the organization.

Thanos Moschopoulos:

Great. Thanks, Brian. I'll pass the line.

Brian Lang:

Thanks.

Operator:

Your next question comes from the line of Gavin Fairweather from Cormark. Your line is open.

Gavin Fairweather:

Hey. Good morning.

Brian Lang:

Good morning.

Gavin Fairweather:

So I thought we'd start out on the US Title and the Tier 1 discussion. I think you've been aiming for a 5% to 10% market share in year one, and clearly, you're kind of ahead of schedule. Can you talk about any expectations that maybe you could share for year two?

Brian Lang:

Well, I think, Gavin, and hopefully for us, anyways, it's sort of more of the same meaning that we continue to operate at the top end of their performance scorecards and continue to win shares. So, both of them have been very clear to us that if we continue to deliver the type of performance that we've been delivering up until now, that they'll continue to drive that market share up.

So my expectation is the team will continue to deliver on that, and it will continue to see that market share grow. And as you mentioned, Gavin, I've been really clear on past calls that when we do launch a Tier 1, my expectation is that we get to 5%, and in a great year, we might get to 10%. So, the fact that we're already at double-digits just over six months into that launch, I think for me reinforces our strategy to ensure that we brought on the right capacity to deliver against those expectations so that we could ramp them up. And the benefit I think for us is that we then use that as our case when we then go to the other Tier 1s to demonstrate that we are performing at very high rates.

Gavin Fairweather:

That's helpful. And staying on title, the operating expenses in Q4 were around kind of \$12 million. I guess I'm curious what kind of level of volume you think that internal capacity could support and how do you think about managing your internal operating expenses in that segment given kind of the ramp up of new clients, plus maybe a softer outlook for rate refi?

Brian Lang:

Yeah. So, I think that's – I mentioned sort of those moving parts earlier with Thanos. So, I think we've got those moving parts in play. I think we built the capacity up to ensure that we were delivering the performance that was required, Gavin.

So, as I'd say, I mean, I'm feeling like that we're seeing the benefits of ensuring that we had that capacity in play for the Tier 1 and Tier 2. So, we're going to have to see how things evolve, how our market share continues to expand with those players, timing on new customers coming on board and ramp up of some of those customers that we've launched in the last few quarters.

But we'll be very mindful, right? So number one, need to have the capacity for the big players to make sure that we're operating at their expectations on performance and make sure that we are keeping enough capacity for expected increases in new customers coming on board. But at all at the same time, keeping an eye on what's happening in the market and following sort of how volume plays out, depending on 10-year rates over the next few quarters.

Gavin Fairweather:

Got it. And then maybe shifting over to appraisal, you kind of commented on the market share stat that you put out, which did show kind of a modest dip in 2021. I think you referenced with this kind of maybe moving share within your client base. Can you just elaborate on that?

Brian Lang:

Sure. So, I mean, I think if you take a look, Gavin, at the information and the data that the big Tier 1s, both bank and non-bank lenders have put out in the market, I think you'll see that not surprisingly, historically, non-banks have done quite well in a refi heavy market. So, somewhat unsurprisingly then, you'd look back at 2021 and non-banks definitely outperformed the big banks, the big asset banks.

So that, I think, was a bit of a shift in our overall business simply because, as you know, on our portfolio, we've got the Wells the Chases the Citi's, those big banks. We also, though, have quickened and we've brought on a couple of the biggest non-banks this year onto the platform. So, over time, I think that will definitely start balancing out. But in 2021, with our concentration on incredibly big banks, we saw a little bit of noise in the market share gains.

So, I mean, if we took that out, Gavin, which we did, we did the analysis of sort of taking out some of that shift in market share between those players, you would have seen double-digit market share expansion for us this past year.

Gavin Fairweather:

Great. I'll pass the line. Thank you.

Brian Lang:

Thanks, Gavin.

Operator:

Your next question comes from the line of Martin Toner from ATB Capital. Your line is open.

Martin Toner:

Hey, guys. Thanks very much for taking the question. It sounds like share from the new Tier 1 and title helped to offset some of the losses from the cap customers that you talked about last quarter. This is the second quarter of seeing the impact of those losses. How should we think of the impact from those customers over the next couple of quarters?

Brian Lang:

So when you say those customers, I'm assuming you mean sort of the historic Tier 3 and Tier 4 customers, Martin. So, if I'm working...

Martin Toner:

Yeah.

Brian Lang:

...off of that. Yeah. So that was sort of my comment I think with, Thanos, around the moving parts, Martin. Because of this focus that we've got on the Tier 1s and Tier 2s, both the ones that we have currently on the platform as well as out – working hard on the new customers, that's definitely a high priority for the business.

The benefit, of course, of the work that we've been doing on the Tier 1s and Tier 2s from an operational excellence standpoint is we're now offering that type of benefit across the board to our other customers. So, I think the benefit there is I think our overall operational performance is starting to spread now across the portfolio with that focus that we've had on the Tier 1s and Tier 2s. So, I think we should see that continuing to be an opportunity for us.

I think market conditions continue to evolve, as I mentioned. So, I think we'll have to see how the rates move and what the evolution is with the consumer. And then, Martin, I talked about the year-over-year comparables because I think those – again, we had those historic Q1, Q2 months – quarters last year. And so, we're going to have to see how that plays through in the first couple of quarters this year.

Martin Toner:

Thanks very much. When I look back to the share you disclosed for the appraisal business in the investor presentation last year at the Analyst Day, it looks like you've lost a little bit of share in purchase appraisal. Can you tell us a little bit about the drivers there and what impact they'll have going forward?

Brian Lang:

Sure. So, I mean, I think that was in the question from, Gavin, around the marginal increase in overall market share. So, you're right, they're slightly down on purchase and slightly up on refi, Martin. I think a lot of that has to do with the mix and the, I would call it, overperformance of the non-bank lenders in the refi space over the past year versus some of the big bank players.

So, I think that goes both on refi and on purchase. It so happens in a heavy refi market that's when the non-banks really lean in to the business. And so I think that really explains it. For our analysis, that really is the key driver of the explanation around that. And as I say, if you take that market mix out of the equation, you would have seen I think a double-digit market share growth for us across both refi and purchase.

Martin Toner:

Awesome. Thank you very much. Can you share anything new about the possibility of developing a purchase title business?

Brian Lang:

Yeah, sure. So, we, of course, continue to evolve that. We've been working with a few lenders that have been very focused on centralizing the purchase experience, as many of the overall process of that into a much more centralized play. So, we've been advancing those conversations, Martin, with a couple of the key lenders. We're feeling very good about the evolution of the design of how that would work. And so, our goal this year is to get out and actually pilot something in the purchase title space. So, I think we're on track to do that, feeling very optimistic about the design that we're putting around that.

Martin Toner:

Oh, great. Well, that is exciting. Last question from me, what has the impact of waivers had of late? Has that waiver rate declined?

Brian Lang:

Yeah, it continues to decline, Martin. So, it peaked in Q2. We shared with you that I think we're in the low 30% range in Q2. We've now trundled down through the 20s in Q3 and we think we're pretty close to that 20%, maybe even a little bit under it in Q4. So, not surprisingly, as sort of I think we laid out at the start of all of that. GSEs did what I think they should do in a time of challenge around the pandemic and now definitely around the pandemic. And now definitely, they are – the GSEs are becoming a smaller proportion of the overall market and waiver rates are definitely coming down. And I think, Martin, we've shared with you in the past that cash-out refi is growing not surprisingly and rate refi has been shrinking. So that mix has definitely come into play. And so, as I say, we're down somewhere under 20% right now.

Martin Toner:

Great. Thanks. That's all for me.

Operator:

Your next question comes from the line of Robert Young from Canaccord Genuity. Your line is open.

Robert Young:

Hi. I was hoping to revisit something you said a few quarters back around the potential for new wins and share gains to sort of move forward if the market slowed down. So now, I guess we're looking at potentially a slower market with – given where rates are. And so are you seeing some of these RFP opportunities in the Tier 1, Tier 2s pipeline in Title or in Appraisal? I think you said one-eighth this quarter. Is this maybe in a slower environment or are you seeing more opportunities starting to come in front door?

Brian Lang:

Yeah. Thanks, Rob. Appreciate that question. And I think I'd actually sort of line that up. The reason that I mentioned the MBA Conference a couple weeks ago is, number one, as the Canadian being down in San Diego. I was a little bit blown away by how open the business was down there. But that, I think, is symbolic of sort of what's going on right now, which is I think businesses are now starting to open up. Employees are now coming back to work. And so, actually, at that conference, because I was able to meet with quite a few title heads. It really drove home for me that for at least down in the US, it's definitely business as usual now. And so, those RFI and RFP conversations have started back up with, I would say, a little more pace than they were, call it, a quarter ago, simply because I think with the Delta wave, I think that sort of slowed things down again a bit.

So, my view would be especially with some of those bigger players that we've been in conversations with, that those conversations are back up on the table. I had very specific conversations with two of our big targets in that Tier 1 space, and both of them I think – I would have taken away from the conversations, both that they're aware that we are performing quite well, Rob, with their competitors, with our other customers and number two, that the RFI and RFP processes are back in play. So, back in play meaning they've got a little bit more pace. I think they – as I say, they slowed down a little bit last quarter, but I feel that they're back moving.

Robert Young:

Okay. And then the eight appraisal wins, that seems like a large number. And so, is there any way to put that into context that these are smaller wins or are they – how would I put that into context with previous quarters?

Brian Lang:

Yeah. So, there are mix, Rob. There are mix. So, listen, these are Tier 3s and Tier 4s, so there's not a Tier 1 or Tier 2 in there. They're Tier 3s, Tier 4s. And as you know, we'll continue to bring on customers, the ones that have, of course, fit into our – interested in operational performance type mix. And so, these are – a lot of them are very healthy customers, there's some really great names in there, we brought on Zillow this past quarter. So, Zillow – we've got a couple of other good names. But maybe not necessarily Tier 1, Tier 2 type volume.

Robert Young:

Okay. Great. You mentioned the higher level of cash-out refi, and I was hoping you expand on that, just to try and put that into context with the rate refi headwind, how much of an offset is that, how large is this. Could you put any color around that? That would be helpful.

Brian Lang:

Yeah. I mean – so I think if I put color around it, I'd start with the equity that are in people's homes now, Rob, because it's quite a bit different than even 10 years ago. So, right now, there is \$9 trillion in American homes and so – whereas we're at sort of single percentage of those homeowners that have negative ownership in the home. I think we're down in the sort of 2% to 3%, so historic lows, whereas even a decade ago, we were in the 20s in negative equity. So you start there. I think that's the macro that lots of equity in American homes now, and we'll have to see how that plays through as far as cash-outs go. But what we've seen in the past quarter is that the cash-out rate is definitely up. So it's up in the teens. And not surprisingly with interest rates where they are, the refinance – rate refinance has definitely come down. So we'll have to see what that plays through, Rob, as far as rates go over the next couple of quarters, but we're definitely seeing movements one up on the cash-up and then not surprisingly, rate refinance coming down a bit.

Robert Young:

And would cash-out refi lean more towards the bank refis that you're more heavily involved in or would that also be a non-bank driver? I hear rocket mortgage ads on the radio around cash on refi, and so I'm just trying to understand how that would impact your mix of business relative to rate refi?

Brian Lang:

Yeah. Historically, Rob, it's definitely been a bank – definitely a bank-centric type play. They've definitely, I think, sort of led the charge on cash-out. But as you say, the non-banks will do what they need to do over the next couple of quarters or the next year to make sure that they're continuing to drive business. So, we might see some creative work from them. But historically, it's definitely been more bank-driven.

Robert Young:

Okay. Thanks for taking all the questions.

Brian Lang:

Hey. Appreciate it. Thanks, Rob.

Operator:

[Operator Instructions] Your next question comes from the line of Richard Tse from National Bank. Your line is open.

Richard Tse:

Yes. Thank you. So, as you optimize capacity to bring on an increasing number of Tier 1 and 2s in Title, do you think that as you look forward to either next year or the year after that you'll be able to sort of bring back some of that capacity to the Tier 3s and 4s, or should we not kind of think that to be an opportunity going forward here?

Brian Lang:

No. Thanks for the question. No, we're going to continue to bring on Tier 3s and 4s as it make sense. We just – we are very focused on the Tier 1 and Tier 2 lenders. And that's really – we built the capacity to start bringing them on. So, I mean if you take a look in this past quarter, we're bringing on some very solid Tier 3s and Tier 4s. So, we will continue to bring those types of customers on. I've got the sales team now incredibly focused on Tier 1s and Tier 2s. So, over time, we're going to bring on those Tier 1s and Tier 2s, and we will continually pepper quarterly with Tier 3s and Tier 4s.

Richard Tse:

Okay. And thanks for sort of kind of reminding us of the scale the company has sort of come to. Like obviously, the margins for the year have been quite strong. So as you look to 2022 given that the volumes will sort of pull back in the Appraisal side, what's your ability to sort of preserve those margins? Do you have any kind of room to sort of kind of take OpEx down a little bit here and there to kind of preserve those margins or is there probably a bit more negative operating leverage that way?

Brian Lang:

Yeah. No. So, listen, on the Appraisal business, as you know, I mean that business has scaled up. We do have all the Tier 1s. So, that business is, I would suggest, humming. And so, when we take a look at the year, even if the rates continue to move up and even if there is an impact from a volume standpoint, our intention is to continue to drive very strong margins, both net revenue and EBITDA. So you've seen I think that the last quarter. We continue to have strong margins there. I think the lessening of the waivers and the GSE proportionality in the market also plays to our favor as far as addressable market going forward. So, I think when we look at both those margin lines, the scale of the business is such that we can continue to flex as need be and really preserve those margins.

Richard Tse:

Okay. And then just one – another one for me. If you can maybe update us on the status of the acquisition prospecting on the data side. I didn't hear that sort of in your initial comments. And it's something that you had talked about through the course of the past few quarters and your recent or not so recent Investor Day. Just wondering if you can kind of give us a sense of where that stands.

Brian Lang:

Sure. Well I mean, that of course continues to be part of our longer term view on where we're going to go and the opportunity in the data business. So, we've continued this past quarter as we have much of the year looking at verticals, talking to companies within those verticals and really honing our overall strategy around data. So we're going to continue to do that. We take a look at other inorganic growth opportunities. So we've continued to do that whether they're tuck-ins or other opportunities in that space. That, of course, will continue to be part of what we look at from a long-term perspective.

The reality is we are very focused right now on the Title business. As you've seen from the results, we're going to continue to focus both on the performance side of the business but also on onboarding new customers. And so that's really been at the forefront which is why you sort of heard us spend a good chunk of time on it, continue to drive as you mentioned the margins and the business on Appraisal. And as I say, we'll continue to have in our scope data and other inorganic opportunities and we'll just have to see how that unfolds over the next few quarters and years.

Richard Tse:

Okay. Thank you for that update.

Operator:

Your next question comes from the line of Paul Steep from Scotia Capital. Your line is open.

Paul Steep:

Great. Thanks. You just caught the first part of my question with Richard. So, just two quick model cleanups. Just can you clarify us first on central title, maybe the client shift that's occurred therefore through that? And then were we fully ramped with the Tier 1 and Tier 2 for the full quarter or was it still building? And then just one clarification on Bill's comment on the non-centralized piece?

Brian Lang:

So on the – I'll try and tackle that as best I can. So, the first piece that I'll tackle is Tier 1. So we were awarded that share during the quarter. So, I think you're asking me, is it fully ramped. It wasn't fully ramped in the quarter. As I say, we were sort of allocated that during the quarter. So, that's the first piece. The second piece, I think, was around I guess sort of our Tier 1, Tier 2s versus our Tier 3s and 4s. So Tier 1s and 2s, the goal, of course, will be to continue

to perform the way we have this past year and continue to build share there. We are now getting the benefits of some of that operating performance that we've got with that Tier 1 and Tier 2 now. We can now start pushing that throughout the business. So, some of our Tier 3s and 4s are now experiencing some of the benefits of that operational work that we've done by adding the capacity that we added.

So, my assumption is that, Paul, we'll continue to see positive market share trending with those customers. The other pieces are those things, sort of the moving parts, right, which is the new customers, so when they come on, and which tiering comes on and sort of what cadence over the next quarters/year. And then, of course, the market piece and continuing to figure out which lenders are able to take advantage of the 11.5 million homeowners that are ready for a refi. So, which of those are actually going to start really pushing in, putting a lot of marketing in and

driving, driving some results from that. So, I think there's sort of a bit of a mix in there depending on which of the moving parts pulls which lever.

Paul Steep:

That helped.

William P. M. Herman:

And then Paul, I think your last question was just...

Paul Steep:

And then second one – yeah.

William P. M. Herman:

Sorry. Yeah, Paul, I think your last question was around the diversified piece. And in my prepared remarks, diversified revenue has basically been fully rationalized. We really have what will be, our view is a trickle of revenue coming through in our Q1 2022 timeframe, but really expect no further revenue from that service offering in Q2 and beyond.

Paul Steep:

Got it. That was the question. Thanks, guys.

William P. M. Herman:

You're welcome.

Brian Lang:

Okay. Thanks, Paul.

Operator:

There are no further questions at this time. Presenters, please continue.

Brian Lang:

Presenters, please continue. I think that means we'll probably wrap up the call then if there's no other questions. Thanks, everyone. Appreciate your time.

Operator:

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