Real Matters – First Quarter 2021 Conference Call

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CONFERENCE CALL PARTICIPANTS

Richard Tse, *National Bank Financial*

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PRESENTATION

Operator:
Ladies and gentlemen, thank you for standing by. Welcome to the Real Matters First Quarter 2021 Conference Call. At this time, all participants are in a listen-only mode. After the speaker's remarks, there will be a question-and-answer session. [Operator Instructions] Thank you.

I would now like to hand the conference over to your host, Ms. Lyne Beauregard, Vice President of Investor Relations. Ma'am, the floor is yours.

Lyne Beauregard:
Thank you, operator, and good morning, everyone. Welcome to Real Matters financial results conference call for the first quarter ended December 31, 2020. 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 Q1 results for the three months ended December 31, 2020. 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 may make certain forward-looking statements which reflect the current expectations of management with respect to our business in 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 detail. You could 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, 2020 which is available on SEDAR and in the Investor 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 and adjusted EBITDA margins. Non-GAAP measures are described in our MD&A for the three months ended December 31, 2020 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. I will kick things off today by discussing some of the highlights of our first quarter. Bill will then take a deeper dive into our segment financials. And I'll wrap up the call with some brief remarks prior to taking questions.

Turning to slide 3, we delivered solid financial results in the first quarter. Consolidated net revenue increased 24.8% year-over-year to $44 million and adjusted EBITDA was up 19.7% to $17.4 million. And for the third quarter running the contribution to net revenue and adjusted EBITDA of our US Title segment surpassed that of our US Appraisal segment. The US mortgage origination market remained robust in the first quarter as low interest rates continue to provide a tailwind to market growth.

These market dynamics provided a healthy backdrop for our growth and we realized solid year-over-year market share gains in US Appraisal and even stronger gains in our US Title segment. US Appraisal segment revenues increased 3.2% year-over-year to $69.6 million principally driven by market share gains and new client additions which together drove higher origination revenues. The increase in origination revenues was offset in part by 37.1% decline in other revenues which represent home equity and default transactions. Origination only revenues were up 9.2% year-over-year relative to what we estimate was a flat addressable market for appraisals which take into account the impact of VA and waivers. In the quarter we launched one new Tier 2 lender in two channels in US appraisal. We also continue to rank at the top of lender scorecards which drove market share gains in the main origination channel year-over-year. In fact in the first quarter we marked our third straight year as the top performer with one of our Tier 1 clients.

Operational excellence continues to be our principal focus as we drive toward achieving our fiscal 2025 objectives of doubling our US appraisal purchase and refinance market share at the midpoint of the range. In our US Title segment first quarter revenues rose 39% year-over-year. Growth in our centralized title operations continued to significantly outpace the market with revenues increasing nearly 93% compared to an estimated 60% increase in refinance market volumes. The significant increase in centralized title revenues was partially offset by a $4.1 million decline in diversified title revenues and a $2.1 million decline in other title revenues representing home equity and real estate owned transactions.

With new client launches in our centralized title business on the horizon we have shifted resources away from our diversified title operations with a view of supporting our long-term growth strategy in the origination channel. In the quarter we went live with two new clients including a Tier 2 lender and our sales pipeline continues to be strong. As we indicated during our last quarterly call we are actively engaged in a sales process with the majority of the Tier 1s on title today and we remain confident that these engagements will result in our first Tier 1 lender launch.

In our Canadian segment, first quarter revenues were up 40.7% year-over-year and adjusted EBITDA increased to $1.2 million from $0.7 million in the first quarter of fiscal 2020. Higher appraisal volumes from increasing market share with certain Canadian clients and a stronger mortgage origination market in Canada were partially offset by

modestly lower revenues from insurance inspection services due to COVID-19. The Canadian mortgage market continues to be remarkably resilient.

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

Bill Herman:

Thank you, Brian and Good morning, everybody. Turning to slides 4 and 5 for a closer look at our financial results. Consolidated revenues were up 15.9% in the first quarter of fiscal 2021 compared to the same quarter last year due to significant revenue growth in our US Title Segment and continued growth in Canadian and US Appraisal segment revenues. Revenues in our US Title Segment were up 39% while revenues in our US Appraisal segment increased 3.2% and Canadian segment revenues rose 40.7%, each expressed on a comparative basis. In our US Appraisal segment, we serviced higher origination volumes from market share gains and new client additions. Conversely, revenues related to home equity and default volumes declined year-over year. Transaction costs in our US Appraisal segment increased 3.8% year-over-year compared to the 3.2% increase in revenues for the same period. As a result that revenue was up 1.4% to $15.7 million. However, net revenue margins declined 40 basis points to 22.6% in the first quarter a fiscal 2021 from the 23% we posted in the first quarter of fiscal 2020. Due in part to the mix of mortgage origination volume service and we continued to build capacity and strengthen the network in anticipation of volume growth in the second half of fiscal 2021. Operating expenses in our US appraisal segment increased 3.5% to $6.9 million up from $6.7 million in the first quarter of fiscal 2020 due to higher payroll and related costs from higher origination volumes service.

As a result adjusted EBITDA was flat with the first quarter of 2020. Adjusted EBITDA margins in our US appraisal segment decreased to 56.3% in the first quarter of fiscal 2021 from the 57.2% we posted in the same quarter last year.

Turning to our US title segment, first quarter revenues were up 39% year-over-year while transaction costs increased 29.3% leading to net revenue margin expansion of 250 basis points. The expansion in net revenue margins was due to the flow of volumes in the first quarter which saw as closed more transactions than we received in new orders. Transaction costs attributable to mortgage origination orders are typically incurred 45 days in advance of recognizing revenues. Accordingly there is a lag between when we record transaction costs and when we recognize revenue. As expected new refinance orders in the month of December for example were lower than October and November due to the holidays. As such, net revenue margins improved as the number of orders be completed and recognized revenue for were proportionately higher than the new orders received in the quarter.

Looking ahead, we anticipate the launch of a number of new title client in the second quarter of fiscal 2021. Accordingly, we expect to incur transaction costs attributable to orders from these new clients in the latter half of the second quarter that will convert to revenue in the third quarter of fiscal 2021.

As Brian mentioned earlier, centralized US title segment revenues nearly doubled to $36.2 million from $18.8 million in the first quarter of fiscal 2020. Diversified revenues decreased 63.2% to $2.4 million as a result of planned initiatives to focus on large centralized US Title client and other title revenues were down 59.9% to $1.4 million, representing lower home equity activity.

As we outlined during our last quarterly call, over the course of fiscal 2020, we made the strategic decision to streamline some of our diversified title operations due to the growth in our centralized title business. To that end, we exited the commercial business and unwound our title-only and search operations and reallocated these diversified title resources to our centralized title operations to support a larger long-term strategic growth opportunity for the company.

Operating expenses in our US title segment increased $5.1 million to $15.1 million in the first quarter of fiscal 2021. In the quarter, we continued to build capacity in this segment and rationalized our customer base to make room for a Tier 1 launch. This capacity build will result in a further increase in title operating expense in the second quarter of this year. While it's often difficult for us to dictate when new client launches will occur, we are confident in the timing and scale of our investment.

Adjusted EBITDA increased to $11.6 million in the first quarter of fiscal 2021, up from the $8.4 million we posted in the same quarter last year. However adjusted EBITDA margins declined 220 basis points to 43.5% as a result of our ongoing investment to build capacity for growth in our US Title business. We remain confident in our ability to achieve adjusted EBITDA margins of 50% to 55% by fiscal 2025.

In Canada, revenues increased 40.7% on a year-over-year basis to $10.8 million while the net revenue margins contracted by 190 basis points due to a reduction in insurance inspection services as a result of COVID-19 and the mix of mortgage origination volumes serviced. Canadian segment operating expenses were $0.4 million in the first quarter, down 26.9% from the first quarter of fiscal 2020 and adjusted EBITDA margins increased to 73.7% from 55% in the same quarter last year, as we leveraged our appraisal operations in a higher overall volume environment and incurred modestly lower travel and entertainment expense due to COVID-19.

In total, first quarter consolidated net revenue increased 24.8% to $44 million, up from the $35.3 million reported in the first quarter of fiscal 2020. And consolidated net revenue margins increased to 36.6% in the first quarter of fiscal 2021, up from 34% in the first quarter of fiscal 2020 due in large part to the contributions made by our US Title business. As a result of our solid operating performance, consolidated adjusted EBITDA rose to $17.4 million in the first quarter of fiscal 2021 from $14.5 million in the same quarter last year and consolidated adjusted EBITDA margins decreased to 39.6% in the first quarter of fiscal 2021 versus the 41.2% we posted in the first quarter of fiscal 2020 due to the capacity investments we made in both our US Title and US Appraisal segments this quarter to service higher volumes in Q1 and in anticipation of higher volumes in the second half of the year. These investments were partially offset by lower travel and entertainment expense as a result of COVID-19.

Turning to the balance sheet, we ended the quarter with cash and cash equivalents of $118.6 million, down from $129.2 million at September 30, 2020. Cash from operations of $7.3 million was offset by CapEx of $2.3 million related to the opening of two new title offices in Dallas and Phoenix. As we continue to scale our title business, we are making the necessary investments to support our growing footprint and expanding the breadth of our operations to meet clients and regulatory requirements.

We also continue to purchase shares under our normal course issuer bid, purchasing approximately 1.2 million shares at a cost of about $18.9 million in the first quarter of fiscal 2021. Post quarter-end, we purchased over 90,000 additional shares.

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

Brian Lang:
Thanks, Bill. Overall, we were very pleased with how the business performed in the first quarter, making it a solid start to the year in a traditionally seasonally lower quarter. While our US Title segment benefited from US mortgage market tailwinds in the first quarter, more importantly, we continue to make progress with market share in appraisal and title, and we are investing in our business laying the foundation for future growth. As Bill mentioned, we are continuing to build title capacity in Q2 while rationalizing our customer base to make room for at least one Tier 1 launch. We are making the right decisions today for the long-term and we remain confident in our ability to convert at least one large Tier 1 lead client in title this year. We believe that the market surge for refinance activity will continue. We remain focused however on driving market share through operational performance and scale to build value over the long-term. I'd like to thank our team and the field professionals on our network for helping us deliver solid results this quarter, especially during the holidays.

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

Operator:
Thank you, sir. At this time, I would like to remind everyone [Operator Instructions] Presenters, your first question will come from the line of Mr. Richard Tse from National Bank Financial. So your line is now alive. Go ahead please.

Richard Tse:
Yes. Thank you. Guys, I was just wondering if you could maybe talk about the trajectory of the Appraisal business for the remainder of the year. I'm expecting that you're still going to see some growth that maybe you kind of give us an update on that?

Brian Lang:
Yeah. So you know seasonality, Richard is playing into things. And so our view is we're going to go into that spring and summer market. And much as we sort of forecasted out in the year, we believe that we will see some good up ramp in Q3 and Q4. Q2 will continue to sort of plug away and, but I think we'll actually see that up ramp Q3, Q4.

Richard Tse:
Okay. And then I guess one of the challenges is that there are a number of different items within this appraisal segment for sure you know call it home equity and default. Can you give us maybe a bit more color or some finer detail on sort of market share gains you are having in appraisals.

Brian Lang:
Sure. So the majority of our Tier 1 in this past quarter we increased market share with. So we – we are continuing to see through operational excellence. I mentioned that we celebrated our third year being top of the scorecard with one of our Tier 1s. So we continue to see the fruits of that labor. And that was that was a very good quarter that we just had as far as continuing to build market share with those Tier 1s. I also mention Richard that we launched a new Tier 2 into two different channels. So that is at the very front edge of course of volume. But we expect to continue to see some growth and market share gaining with that new Tier 2.

Richard Tse:
Okay.

Bill Herman:
If I could, sorry Richard, I apologize. It's Bill, if I could just add one of the things that we've expressed I think on the call and it's in our MD&A as well as just to give you some perspective on how we've done relative to the market. So when we look at the addressable market in our appraisal business our view is that it was really flat year-over-year. But when you look at those origination revenues and isolation they increased over 9%. So I think that's a pretty decent proxy for our volume growth and our market share gains on the quarter. There really was no meaningful price change quarter-to-quarter as it relates to the – the average price from appraisal be it refinance or purchase. So it's really, that's a good proxy for our volume gains quarter-over-quarter or year-over-year, I apologize.

Richard Tse:
Okay. And just sort of on that point, would you guys ever consider segmenting that sort of information on those other lines of businesses within appraisals going forward? Just because obviously in kind of the stores, the results – this is a pure business that you have right now, is that something you reconsider going forward?

Bill Herman:
Yeah, absolutely. So, we certainly laid down the difference in revenues, and we have done so since the end of last year, Richard. So, we're going to continue to see at least a bifurcation. So you can -- you can see how the home equity portion of our business relative to the main larger origination channel is behaving. And remember giving our

market estimates for obviously focused on the origination channel principally, we obviously gravitated away from a total market view where we included home equity and default transactions, really just focused on isolating on the main origination channel. And those are aligned with a 2025 strategic long-term targets as well. So I think that sets up well for at least understanding the business and where we're focused on and where we intended to go. I don't think I would ever see us taking home equity and actually subdividing it in our appraisal segment down the net revenue and EBITDA. But we certainly give some color at the revenue line. So hopefully that's helpful.

Richard Tse:
Okay. And just one last quick one for me. Obviously the business is shifting increasingly more towards title -- sounds like you guys have a bit of activity on Tier 1. So the question is once you bring on one of these Tier 1s, is it sort of typically take a quarter to scale these up much like you referred to in your text today? But those aren't Tier 1s. But what's sort of the timeline to scale up to Tier 1s?

Brian Lang:
Good question, Richard. So, our expectations on the Tier 1 that we're in discussion with are probably a little more aggressive than we've talked to you in the past. And I think that's mainly because we've got and built up this sort of performance equity on the appraisal side. So, as opposed to it taking some time, a quarter or two for us to actually start seeing a decent amount of volume, our feeling is that – and our planning is around us taking on a much better chunk of volume, so a decent amount of market share from the get go. So, we have expectations that we'll take on some good volume from a Tier 1 in the second half of this quarter.

Richard Tse:
That's great. Thanks guys.

Operator:
Your next question will come from the line of Mr. Daniel Chan from TD Securities. Your line is now live. Go ahead, please.

Daniel Chan:
Thanks. So, you mentioned that you have discussions going with the majority of the Tier 1s. Can you just give us some color on the timing of those and how far along you are in those discussions?

Brian Lang:
Sure, Daniel. I think we look at this very similarly to our appraisal experience. So, if we fall back on that, it was 18 months plus give or take a month, so call it 18 to 24 months from the signing of the first contract with the Tier 1 until we had all six of the Tier 1s in contract. So, our view is similar with the title business. We feel that the progress on the sales pipeline sets us up for that sort of – that same type of dynamic.

Daniel Chan:
But we should expect steady Tier 1 wins throughout that 18-month period, right?

Brian Lang:
Correct. Correct.

Daniel Chan:
And then, on the waivers that you guys start talking about last quarter, any change on the percentage of appraisals needs to be waived?

Brian Lang:
No, it's very similar quarter this quarter as we had sort of suggested and forecasted last quarter. So what's going to happen now as we go forward, is the waiver rates, the average waiver, waiver will come down simply because of mix. So remember that the waiver rates on rate refinance as the market shifts, purchase starts coming up, cash out refi comes on board, we believe that the waivers will slowly start making their way down.

Daniel Chan:
Okay. And the last one for me. You introduced your data strategy at the Analyst Day, just wondering what the pipeline of acquisitions is looking like for you to acquire into that data strategy? Thanks.

Brian Lang:
Yeah. Not much of an update there, Daniel. We continue to look at opportunities in the market but nothing has progressed worth the conversation here.

Operator:
Thank you, sir. Your next question will come from the line of Thanos Moschopoulos from BMO Capital Markets. Your line is now. Sir, go ahead please.

Thanos Moschopoulos:
Hi. Good morning. As we think about your market share gains in Appraisal through the rest of the year, are there any mitigating factors we should think about, be it in terms of what you're seeing as far as the type of share gains that your own customers are likely to capture as far as the overall market or be it with respect to the purchase requirements in the industry and if you could call out as we think about share gains.

Brian Lang:
No. So I think it's still early to make a call on that, Thanos as, as I think we've talked about in the past with regards to refinance often some of the non-banks will get going and take some share early when there's – when there's a refinance event. And so I think there may have been a little bit that early, but I think the some of the big Tier 1s now, you're seeing some good growth there, definitely very competitive on the rates. So, we think that that will continue to evolve. But definitely, we're feeling very confident in some of the big Tier 1s, making sure that they are continuing to take their fair share of market share. So that's how we would look at it going forward. And the purchase and refi mix I think we told you, we have been heavier on the refi mix, a bunch that's driven by just the customer mix. So players -- some of our big players are very refi focused. And that's generally not surprisingly a non-bank like Quicken. And so, some of our Tier 1s are quite focused on purchase. So, as we move into the purchase cycle, we think that they will fare very well.

Thanos Moschopoulos:
Okay. And with respect to your expectations of waiver activity coming down later this year. Is that primarily a mixed dynamic or might there be other factors that you're anticipating in terms of be it the GSE participation in the overall market or be it in terms of GSE waiver behavior within refi versus purchase?

Brian Lang:
So refi versus purchase, that's for me anyways part of the mixed piece. So, I just -- the waiver rate on purchase is quite a bit less than it is on refi rate and same with cash out. So there was a mixed piece. So I think that will just evolve especially as we head into the spring and summer markets. As far as GSEs, we've talked a little bit around the fact that there's a sort of cohort of identified mortgage holders that we believe will find their way through the pipeline. And so, hence why we've talked about in the second half of the year starting to see that overall sort of waiver rate start finding its way down.

Thanos Moschopoulos:
And sorry, just to clarify, would you expect that the GSE level of waivers, say within refi, I think they are waiving for something like ratios now. But would you expect that their waiver activity within, let's say, refi would come down or do you think that remains constant? But that's with the deal volume, mixed issues. Yeah.

Brian Lang:
We think, over time – Thanos, we think, over time, that the cohort that we talk about, the 720 credit score, the recent appraisal, good LTV, that whole group, we believe that will find its way through the funnel. So, we've talked about in the second half, seeing that actual rate refinance waiver rates slowly start making its way down. We planned

for a very slow decrease, but I think we might see a little bit more of a decrease just with the mix coming in with purchase starting to ramp up in the spring.

Thanos Moschopoulos:
Okay. And then finally, what are you seeing as far as lender capacity? Are they growing their processing capability to the extent that you have been anticipating?

Brian Lang:
Yeah. They're getting there, I think, from our standpoint. So – and you're seeing it, I think, in the margins. You're seeing the margins from the 10-year and 30-year come down, you've seen the rates come down dramatically, of course. So, they're now starting to compete more for the business, which – that's I think a decent proxy for them definitely having more capacity. If you look at the labor rates, it's a slightly sort of static story. It's not a significant growth in capacity. But from what we're seeing in the market, the market dynamics would tell us that they're getting good, they're getting close to where we would expect capacity to get to.

Operator:
Thank you, sir. Your next question will come from the line of Paul Steep from Scotia Capital. Sir, your line is now live. Go ahead, please.

Paul Steep:
Great. Thanks. Could you comment maybe just a little bit about the trend in diversified title revenue and put it in context of your comments from the MD&A regarding maybe reallocating resources, respecting that you're ramping for your Tier 1 clients later in the year. Should we read that to mean basically that those revenues are basically going to approach zero? You exited the market or is it going to sustain? That'd be the first part.

Brian Lang:
Sure. So Paul, diversified title, it's a less scalable business than our centralized title business. So as we saw the refinance wave start picking up, we took a look at a portion of our diversified title business that was very relevant to the centralized title business as far as capabilities go. And so, we then decided it made sense for us to start streamlining that part of our business and move it into support centralized title. So that was the commercial side of the business. And so, as of this past quarter, we have shut down that portion of diversified title. We are still running our capital markets piece of the business, and that continues to perform. But that's sort of our view. So that business will continue going forward. So expect that there will be capital markets revenue coming in. Capital markets have been a little bit soft. So, we'd like to see that be a little healthier that portion of the business, but that's currently the way we're looking at it. So, commercial has been closed down. Those resources have been put into the centralized title business, and will continue to run the capital markets portion of the business.

Paul Steep:
That's helpful. So just to be – so I'm clear on it, the 2.4 at this quarter, that's just pure capital markets. And so, there's no real trailing amount, not that it's material with regard to the...

Brian Lang:
Yeah. It would be immaterial. It would be, yeah it would be immaterial at the commercial revenue there.

Paul Steep:
So then the second part of that and it's to the comments you made in the MD&A and in the prepared text, just regarding the cost, right. It sounds like you shifted resources. It wasn't clear whether you added new resources and whether those resources were all in for full quarter, I guess where I'm going with this as I'm trying to reconcile your comments about your adding expense into the next quarter in advance. How much should we think it grew in terms of, you know is this a decent baseline or is it going to materially move higher. Thanks.

Brian Lang:
No problem. So we, we've been growing our costs. We started talking about building up the capacity, capacity in two areas. One of course is building out our network. So onboarding more notaries and abstractors in preparation for more volume as well as onboarding resources to support things like, like search and curative. So we've been hiring Paul. I think we've been pretty clear and actually given numbers on folks that we've been hiring. So we definitely bringing folks in as well as that transition that we mentioned around some of the DT resources onto the centralized Title business. So we're building people as well as investing in the network and making sure that we – we're attracting and bringing up the network. So that is I think the way we would look at it. Did I answer your question, I apologize. Is there a second part to your question?

Paul Steep:
Just try – all we're trying to do is just sort of level set, you know whether or not you've got a full quarter over the cost and how significantly and I was just referring to OpEx, so. Sure.

Brian Lang:
Yeah, so we'll continue. I mean I can turn that over to Bill for maybe a little more color on OpEx. But we're going to continue to scale that business up in this quarter with that expectation of a volume in the second half increase in volume. But Bill I'll let you comment on OpEx.

Bill Herman:
Sure. Thanks Paul, great question. I think what you're going to continue to see and is really just echoing Brian's comments that we are going to continue to build that capacity up with the expectation of that volume coming especially in Q3 and Q4 converting into revenues. Your question really is you know we posted a $15.1 million OpEx in our title business. That was up roughly $1.6 million sequentially over the Q4 period. The ultimate I think what you're asking is we did see another $1.5 million or $1.6 million. The short answer is it's probably not going to be that significant. But I would certainly expect it to have a slight further increase of the $15.1 million level you saw in Q1.

Paul Steep:
Thanks, Bill.

Bill Herman:
You're welcome.

Operator:
Thank you. [Operator Instructions] Your next question will come from the line of Mr. Rob Young from Canaccord Genuity. Sir your line is now live, go ahead please.

Rob Young:
Hi, good morning. If you're look back to the Investor Day is the -- the waiver volume that you're seeing. Is that playing out relatively consistent with your view then? Is there any change in scope of where the waivers are being applied or is there any change in the volume as you expected it?

Brian Lang:
Yeah I mean I think we've, we've stated Rob the waiver rate was a little higher than we'd expected but we had built waivers and a pretty healthy waiver rate into the overall plan. So I mean the plan has that in place. It has it slowly starting to track down in the back half of this year. And as we've mentioned before, it makes its way back down to 2019 rates by 2025. The reality is, of course, with the mix of the business changing over time as rate refi becomes, over time, a smaller part of the overall mix, that of course will become less relevant in the back couple of years of the plan.

Rob Young:
Okay. And that's being driven by two factors. As we head into the spring market, there's more purchase volume. And the underwriting capacity where you're expecting they'll shift more towards the Tier 1s which would seem less wavering. Is that or at least in your – in the composition of your revenue, is that a good way to summarize that?

Brian Lang:
Yeah. So, the overall mix of the market will definitely start moving more towards purchase, simply because of the dynamics of seasonality kicking in. So, you're going to get that. And purchase has a very low waiver rate. It's somewhere in the 5% to 6% right now. Historically, more like 2% to 3%. So, that will of course just generally change the overall average of the wavering. So, that's I think in the short term. And then, longer term, Rob, we've talked about the cohort that we think goes through this and the requirement for data, all the other elements around the GSEs, we think, we'll start that track down in the second half.

Rob Young:
Okay. And then, going into the spring market, where the volumes are expected to increase, if lender underwriting is at very high capacity levels right now, should we expect a normal seasonal uptick or will it be limited by lender capacity?

Brian Lang:
No, I think we'll have to see. Our expectation is that we will have a strong spring market. The analysts out on the street have been talking about the US market having a strong spring and summer. So our view is the overall purchase market should be pretty solid. Comment earlier around, I think the capacity is pretty good at the lenders. It may not be exactly where we would have liked it to be but it's definitely much better than it was last year at this time. So the comment Rob is I think the purchase market will be strong. It's not much different though than the way we had forecasted it for Q3 and Q4.

Rob Young:
Okay. And then when you talking about the shift of headcount, that's likely a bit of a top, a short-term revenue headwind and also in Q2 the capacity increases that you're expecting, I think you'd suggested that you're expecting Title volume to increase in the back end of Q2 where you would recognize the costs. And so Q2 you're going to see some top line headwind but also a strong pickup in your expenses.

Brian Lang:
Yeah. So the top – yeah, well, the top line is making room in the portfolio for the incoming tier 1 volume. So there's a piece of that. There's another piece Rob which is I think the second point you were talking about which is we had a very good margin in Q1 on title down to EBITDA. And we had a really good margin because we closed more orders than we opened which is not unusual with December. And so in this upcoming quarter we see that in the back half we are preparing for that volume, to your point, we think we are going to open lots of orders in the back half we think we are going to open lots of orders in the back half and close those in Q3. And we take the COGS on those orders upfront. So, we've got that. And then you've layered on the piece which is around capacity build. So, we will continue to build up capacity. So that's where you will get some expenses in Q2.

Rob Young:
Okay. And maybe just put a little bit of finer point there. I don't know if you said this earlier on the call, but with that capacity increase exiting Q2, is that related to like expectations on new customer wins or is that just related to regular volume increase from seasonality?

Brian Lang:
No, that's very much focused on customer wins. That's almost 100% focused on customer wins.

Rob Young:
Okay, great.

Brian Lang:
Expected customer wins.

Rob Young:
And then last question from me would be, I mean there's some complaints in the market around appraiser professional shortages. And are you seeing any impact on the capacity, especially I guess the capacity increase is more on the title side. But are you seeing any impact in capacity on the appraiser side?

Brian Lang:
Yeah. No we haven't. And we're quite fortunate that some of the large lenders are actually warming up to the idea of including trainees as long as of course it's signed off by that certified appraiser. So our view right now Rob is we're not seeing any shortages around that, and we haven't had a problem finding and fulfilling orders.

Rob Young:
Okay. Thank you.

Operator:
Thank you, sir. And that will be for -- our last question for today's conference. Again thank you so much presenters. Thank you everyone for participating. This concludes today's conference. You may now disconnect. Stay safe and have a lovely day.