



Real Matters Q4 2022 Conference Call - Transcript

November 16, 2022

Corporate Participants

Brian Lang, *Chief Executive Officer*

William (Bill) Herman, *Executive Vice President and Chief Financial Officer*

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

Other Participants

Thanos Moschopoulos, *BMO Capital Markets*

Daniel Chan, *TD Securities*

Gavin Fairweather, *Cormark Securities*

Robert Young, *Canaccord Genuity*

Martin Toner, *ATB Capital Markets*

Mihir Raul, *National Bank Financial*

Steven Li, *Raymond James*

Presentation

Operator:

Good day, ladies and gentlemen, and welcome to the Real Matters Fourth Quarter and Fiscal 2022 Conference Call. At this time, all lines are in a listen-only mode. Following the presentation, we will conduct a question-and-answer session. [Operator Instructions] This call is being recorded on Wednesday, November 16, 2022.

I would now like to turn the conference over to Lyne Beauregard, Vice President, Investor Relations. 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, 2022. With me today are Real Matter's Chief Executive Officer, Brian Lang and Chief Financial Officer, Bill Herman. This

morning before market opened, we issued a news release announcing our three months and year ended September 30, 2022. The release, accompanying slide presentation as well as the financial statements, MD&A are posted in the Investors 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 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 detail. 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, 2021, which is available on SEDAR and in the Investors 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 and adjusted EBITDA margins. Non-GAAP measures are described in our MD&A for the three months and year ended September 30, 2022, where you will also find reconciliation to the nearest IFRS measures.

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

Brian Lang:

Thank you, Lyne. Good morning, everyone, and thank you for joining us on the call today. By most measures, fiscal 2022 was a challenging year for our industry, following a period of historically low interest rates and elevated mortgage origination volumes in 2021, these last 12 months have seen the US mortgage market absorb the impact of record home price appreciation, low housing inventory and rapidly rising interest rates in the second half of the year. The result has been a steep mortgage market slowdown that we haven't experienced in several decades. Despite these unprecedented market headwinds, we continue to focus on the core fundamentals of our business in fiscal 2022 by growing market share with existing clients, launching new clients, achieving top performance on lender scorecards and actively managing our costs.

The cyclical nature of the mortgage market is nothing new to us. It's the very reason we built a business that can weather the peaks and valleys and why we prioritize long term objectives and profitability. It's why we focus on building market share with large blue-chip clients that are driven by performance metrics and why we create a platform that would allow us to scale up and down with a lower cost to serve than our competitors. And so today, I will focus the bulk of my remarks on the

fundamental drivers of our business that are germane to how we operate the business, which is what will drive our long-term success.

Before we move into the review of our performance, I'd like to take a moment to recognize our team for the incredible job they've done over the course of the year to ensure our business remains on solid footing and positioned for growth on the other side of this cycle. We have excellent leaders and a strong bench with decades of experience in this industry under their belts who are aligned to our business model and our long-term objectives.

Turning to our results, I'll kick things off with a review of our full year performance and then Bill will discuss the fourth quarter. I'll wrap things up with some brief closing remarks before we take questions. In fiscal 2022, we launched a total of 27 new lenders across all three segments, and we increased market share with our five largest U.S. Appraisal clients by an average of 6%. We also marked a major milestone by surpassing 50% market share with one of our Tier 1 lenders in US Appraisal. Our market share gains with clients was the direct result of our performance as we continue to rank at the top of lender scorecards in both Appraisal and Title, expanding our leadership position. We ended the year with more than \$46 million of cash on our balance sheet and no debt. We continue to focus on managing our costs, in line with market volumes and keeping the business EBITDA neutral on a full year basis through this part of the mortgage market cycle. In fiscal 2022, we launched 14 new lenders and two existing clients in new channels in US Appraisal, including a Tier 1 lender in the home equity channel. We closed out the year with US Appraisal purchase market share of 4.1%, which compares to 4.4% at the close of fiscal 2021 and US Appraisal refinance market share of 12.1%, up from 9.9% at the end of fiscal 2021.

As you know, our respective market shares will shift in line with the mix of business of our client base, some of whom have historically been more weighted towards refinance. When taking into consideration the shift in purchase market share of our clients, our purchase Appraisal market share for fiscal 2022 would have been higher. U.S. Appraisal purchase and refinance origination revenues were down 26% year-over-year, largely the result of an estimated addressable market decline of 32%, and other revenues were up 39%, mainly due to higher home equity volumes. As market volumes receded from last year, the platform directed more work to our top appraisers, which bolstered quality and drove faster turn times. This also allowed us to benefit from a network effect in U.S. Appraisal, which increased net revenue margins to 22.1% from 21.5% in fiscal 2021. And we exited fiscal 2022 at 25.4%, which is the highest quarterly net revenue margin we've ever posted in the company's history.

Over the course of the year, we actively managed our operating expenses in response to progressively declining market volumes. In fiscal 2022, we posted adjusted EBITDA of \$27 million in U.S. Appraisal, down from \$39.8 million in fiscal 2021. In U.S. Title, we launched seven new lenders in fiscal 2022 and we ended the year with U.S. Title market share of 1.2%, down from 1.8% at the end of fiscal 2021. Our U.S. Title market share was impacted by changes in our client portfolio as well as certain clients shutting down their mortgage operations due to market conditions for refinance mortgage origination activity.

That said, our sales team continues to advance the pipeline, leveraging the home equity opportunity to expand our channels with existing clients and to win new Title business. In fiscal 2022, our performance remained at the top of scorecards across our lender base. We will continue to maintain our focus on operational excellence by improving performance and closely managing our expenses through this part of the cycle. U.S. centralized Title revenues were down 74% year-over-year, largely due to the estimated decline in refinance market volumes of 61%. We reduced our operating expenses in U.S. Title over the course of the year by 45%, and we exited the fourth quarter of fiscal 2022 with a 61% year-over-year decline in payroll and related costs compared to the same quarter last year. We expect to garner the full year impact of these initiatives in fiscal 2023.

As we said in the past, our focus remains on leveraging our current performance and home equity strategy to onboard new clients and build franchise value for the long term. In Canada, we launched six new clients in fiscal 2022. The Canadian segment revenues were generally flat on a year-over-year basis. However, excluding FX, Canadian segment revenues increased modestly on higher insurance inspection revenues. Appraisal revenues were flat year-over-year, as solid market share gains were offset by significantly lower market volumes. Net revenue margins increased to 13.2% from 12.9% in fiscal 2021, exiting the year at 14.3% and we posted adjusted EBITDA of \$4.5 million, compared with \$4.8 million in fiscal 2021.

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

William (Bill) Herman:

Thank you, Brian. And good morning, everyone. Turning to slide 4 and 5 for a closer look at our fourth quarter financial results. Consolidated revenues declined 54% in the fourth quarter of fiscal 2022, compared to the same quarter last year due to lower revenues across all three segments. U.S. Appraisal revenues declined 52% year-over-year to \$43.9 million due to lower addressable mortgage origination volumes, partially offset by net market share gains with existing clients and new client additions. We launched five new clients and an existing client and one new channel in the fourth quarter of this year. U.S. Appraisal origination only revenues were down 58% year-over-

year in the fourth quarter, which compares to a 62% decline in volumes for the largest public company mortgage originators we track in the U.S.

Other revenues from home equity and default increased 42% year-over-year due to higher market volumes, which is aligned to our strategy to cross-sell into new channels with existing clients. Transaction costs in U.S. Appraisal declined 55% year-over-year and net revenue declined 41% to \$11.1 million. Net revenue margins increased 470 basis points to 25.4%, compared to the same quarter last year as we leveraged our Appraisal network in a lower market environment, which was partially offset by an increase in lower margin home equity volume service. U.S. Appraisal operating expenses declined 14% to \$6.6 million, down from \$7.6 million in the fourth quarter of fiscal 2021, due in large part to lower payroll and related costs. U.S. Appraisal segment adjusted EBITDA declined to \$4.6 million from \$11.2 million in the fourth quarter of fiscal 2021 and adjusted EBITDA margins contracted to 41% in the fourth quarter of fiscal 2022, which compares to the 59.5% we posted in the same quarter last year owing to the lower addressable mortgage origination market volumes.

Turning to our U.S. Title segment, revenues declined 82% year-over-year, due primarily to lower refinance mortgage origination market volumes. Our strategic decision to focus on centralized operations and long-term centralized franchise clients, which changed our client portfolio. The rationalization of our diversified Title business and certain clients ceasing their mortgage origination operations due to recent market conditions for refinance mortgage origination activity. Revenues attributable to centralized Title services declined 87.9% year-over-year. Diversified revenues totaled \$0.3 million, representing a \$0.9 million decline from the fourth quarter of fiscal 2021. Transaction costs at our U.S. Title segment declined 69%, or net revenue margins contracted to 44.1%, down from the 67.1% we posted in the fourth quarter of fiscal 2021. The decline in net revenue margins was due to a higher proportion of lower margin home equity volume serviced and a lower proportion of incoming order volumes at close.

We continue to manage our operating expenses down the quarter due to lower centralized Title volume service. Operating expenses declined \$7.1 million to \$4.7 million in the fourth quarter of fiscal 2022, which is largely the result of adjusting our cost structure in line with market conditions.

The U.S. Title segment posted adjusted EBITDA loss of \$2.9 million in the fourth quarter of fiscal 2022, down from the positive \$2.9 million we posted in the same quarter last year owing to the impact of lower market volumes. As a result of the significant decline in rates refinance volumes in fiscal 2022, we progressively reduced our U.S. Title operating expenses throughout the year.

We exited the fourth quarter with a 61% year-over-year decline in payroll and related costs in U.S. Title. And we expect to garner the full year impact of these changes in fiscal 2023. In Canada, revenues declined 20% on a year-over-year basis to \$10.3 million, while net revenue margins expanded by 240 basis points as we leverage our Appraisal network in a lower market environment. That was partially offset by lower net revenue margins from insurance inspection services.

Canadian segment operating expenses were flat year-over-year at \$0.5 million, and adjusted EBITDA margins declined to 65% from 66.2% in the same quarter last year on lower net revenue. In total, fourth quarter consolidated net revenue was \$14.4 million compared to \$35 million reported in the fourth quarter of fiscal 2021, due to lower revenues across all three segments. Consolidated net revenue margins declined to 24.7% in the fourth quarter of fiscal 2022, down from the 27.9% we posted in the fourth quarter of fiscal 2021, principally reflecting lower margins in U.S. Title, which was partially offset by margin improvement in U.S. Appraisal and Canada.

We reduced consolidated operating expenses by 36% year-over-year to \$15.8 million in the fourth quarter, which largely reflects the changes we effected during the quarter and earlier in the year, in response to declining market volumes. Had the changes be affected in the fourth quarter of fiscal 2022, been in effect for the fourth quarter, consolidated operating expenses would have declined 42% year-over-year versus the 36% we reported. And we would have had posted positive adjusted EBIDTA on the quarter.

However, we posted a consolidated adjusted EBITDA loss of \$1.1 million in the fourth quarter of fiscal 2022, down from the positive \$11 million in the same quarter last year. As we discussed on our third quarter conference call, we have been focused on keeping the business EBITDA neutral on a full year basis and adjusting our operating costs in line with volume.

Turning to the balance sheet, we ended the quarter with cash and cash equivalents of \$46.1 million at September 30, 2022, and we purchased 400,000 shares in the fourth quarter under our NCIB at a cost of \$1.5 million. In fiscal 2022, we allocated \$28.7 million share purchases, buying 6.5 million shares or approximately 8% of the fully diluted shares outstanding at the end of fiscal 2021. Given current market conditions, we continue to be prudent in managing our capital allocation with an ongoing focus on cost discipline and maintaining a strong balance sheet as we manage our way through this part of the mortgage cycle.

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

Brian Lang:

Thanks, Bill. Looking back at our financial performance for the year, consolidated revenues were down 33% to \$339.6 million. We generated net revenue of \$85.4 million and adjusted EBITDA of \$7.4 million in fiscal 2022. We continue to execute on our strategy in fiscal 2022 by increasing market share with existing clients and launching new clients. And we reached a major milestone by surpassing the 50% market share threshold with one of our Tier 1 clients in U.S. Appraisal. At the same time, we adapted our cost structure in response to market changes, while ensuring that we continued our focus on operational execution. We are squarely focused on our fiscal 2025 strategic objectives that we communicated at our Investor Day in 2020. We remain confident that we can grow our Appraisal business to achieve a doubling of our U.S. 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%.

In U.S. Title, we remain committed to building franchise value for the long term, executing on our plan to triple our U.S. Title refinance market share from fiscal 2020 levels to 6% to 8% by the end of fiscal 2025 and achieving net revenue margins of 60% to 65% and adjusted EBITDA margins of 50% to 55%.

Since going public in 2017, we purchased 24% of the issued and outstanding shares at IPO and we ended the year with more than \$46 million of cash on our balance sheet. With a strong balance sheet and no debt, Real Matters has the financial strength to manage through the current downturn in the mortgage market. We continue to be focused on keeping the business EBITDA neutral on a full year basis through this part of the mortgage market cycle. We have a very strong client base and a proven performance track record which positions us well to extend our client relations in the US Title and grow market share in both U.S. Appraisal and U.S. Title through this cycle and into the growth on the other side.

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

Operator:

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. [Operator Instructions] One moment please for your first question. The first question comes from Thanos Moschopoulos, BMO Capital Markets. Please go ahead.

Thanos Moschopoulos:

Just given the – Hey Brian. Just given obviously the industry headwinds, how do you think the competitive dynamic plays out over the next year? I mean, clearly you're taking share, but as you

look at some of the smaller competitors out there, I mean, do some of them start to go out of business or exit the market, are their consolidation opportunities? Are you seeing any change in their behavior in response to the market pressure? I mean, how do you think all of that evolves in the coming months?

Brian Lang:

Thanks for the question, Thanos. So, as you know, from our standpoint, we focus squarely on continuing to perform in a market like this. I think the benefit for us is with the network capabilities that we've built out. I think it's clear that our cost structure is something that we can flex up and down in a market like this. And I think Q4 further provides the background on that. And so to your point, I think with assuming that the interest rates continue to sort of be where they are now and that there are some challenges around market volumes going forward, I think a lot of competitors are really going to struggle, especially those in the title space that are focused on the refinance side.

So, there probably is some opportunity for consolidation in the business and some of those are going to struggle. And so, we'll as always, keep our eyes open to what's going on more broadly in the industry around competitors. The reality is we're going to stay very focused on, I think, what we do best, which is to perform, win market share and manage our OpEx and cost, in line with what we see from a market volume standpoint.

Thanos Moschopoulos:

Okay. And a question for Bill, if we look at the net revenue margin trajectory on a short-term basis, I mean not including volume dependent, but should we think about the net Appraisal margin remaining at a somewhat really high level and Title being similar in terms of the mix kind of weighing it down or how do we think about that dynamic short term?

William (Bill) Herman:

So, great question, Thanos, appreciate that. I think Q4 was pretty indicative of the current market environment. And with that as backdrop and absence of significant change in the current market environment, I think the net revenue margins continue to hold through. So, when I think about Appraisal being north of 25% in the quarter in particular, again absent a change in market dynamics, I think you're going to continue to see something like that on the forward and maybe even something a little bit better. In Title, the same. So, absent a change, save a change in refinance market activity, we've got, as we noted in our prepared remarks, a disproportionate amount of home equity activity that we're servicing. And as a consequence, we've seen some compression in Title margins. So, absent a significant change in refinance market activity, I think you would expect to see that forward.

Thanos Moschopoulos:

And then finally, how would you think about the NCIB and your intention to execute on that just in context of where the industry is?

Brian Lang:

So, yeah. So, I think, Thanos, if we take a look at capital allocation and how we're looking at that, I think the NCIB, we have put a hold on expenditure on the NCIB. We've got, as you know, a very healthy balance sheet right now with \$46 million in cash and no debt. So, I think we're going to continue to focus on an EBITDA neutral stance for the year and look at cash preservation, as we say, through this mortgage cycle, pending the cycle and the mortgage market moving up in a different direction. And we'll look at something then. But right now, that is definitely our focus.

Thanos Moschopoulos:

Great. Thanks, I'll pass the line.

Brian Lang:

Thanks, Thanos.

Operator:

Thank you. The next question comes from Daniel Chan, TD Securities. Please go ahead.

Daniel Chan:

Hi. Good morning. Just wonder if you can shed some light on the Appraisal management purchase side, the market share declines there.

Brian Lang:

Sure. Thanks for the question, Dan. So, the Appraisal, as we mentioned, Appraisal market share on purchase came in at 4.1%. And so, Dan, if we take a look at the changes in the market share of our customer base over the year, that number would actually be north of 5%. But right now it's 4.1%, just based on the overall market. So again, I think we continue to move the sticks on Appraisal purchase. Again, you saw – you've seen the results on our refinance side up over 12%. So, both of them, I think we continue to move towards our 2025 targets of 7% to 9% and 17% to 19%.

Daniel Chan:

Okay. That's helpful. Yeah. And you mentioned that you're maintaining that fiscal 2025 target. Why do you think you're – you've typically got larger lenders in your customer base? Why do you think

the larger appraisers are losing share this year? And as you think about hitting that fiscal 2025 target, is there any shift in your strategy to reach that target?

Brian Lang:

No. We stay focused on the big Tier-1s and Tier-2s. As you know, Dan, there's an awful lot of benefits that come with running the network. Running the business focused on those big players. We've got sort of one manufacturing plant that we go through and we don't need to do a lot of customization. So, we continue to focus on the big players. I think there'll be movements in the market. There's always ebbs and flows amongst those, but the Tier-1s and Tier-2s, especially in a market like this, are the ones that will definitely find their way through some difficult times. So, we continue to stay squarely focused on them, continue to focus on performance. They continue to own a very, very significant market share of the overall market, and we continue to see the results that that we're expecting with those players.

Daniel Chan:

Great. Thanks.

Brian Lang:

Thanks, Dan.

Operator:

Thank you. The next question comes from Gavin Fairweather of Cormark. Please go ahead.

Gavin Fairweather:

Oh, hey, good morning. I thought I'd check in on pricing. Are you seeing field professionals sharpening their pencil to get more work? And do you anticipate passing that onto lenders if you are seeing that?

Brian Lang:

Yeah. So, in an environment like this, Gavin, I think this is our network effect only gets amplified. So, our network effect is, we continue to focus on being able to drive the volume in the market to the best appraisers on our platform. Those that definitely perform the best, fastest turnaround times, highest quality, which takes expenses out of our business when we're pushing that work out to the network. So, that's really what ends up happening in a market like this when we do have lower volume and we are able to pass along those benefits. I mean, the pricing, as you know, we've talked about in the past, that is something that we don't end up spending a lot of time on. Those are – that pricing is passed along to the homeowner. And so, we stay squarely focused on making sure

that we're running the economics around the network as efficiently as possible with the best, of course, performance and results at the back end.

Gavin Fairweather:

That's helpful. And then just on the dynamic of certain Title clients kind of shutting down, does that have a big impact on your volume or is that mostly kind of smaller Tier 3, Tier 4 customer that may get lower volume contribution?

Brian Lang:

Yeah. So, I mean, the client that we mentioned, so – the clients we mentioned, I mean they are definitely in that smaller Tier 4, Tier 3. They were inherited through our linear acquisition and you know that we are squarely focused now on bringing the Tier-1s and the Tier-2s on the platform. And it's partially for this type of reason, which is through these types of dynamics, especially on the Title business with the refinance market, the Tier-1s and the Tier-2s are the ones that can definitely find their way through even in challenging times. So, we're definitely squarely focused on the Tier-1s and the Tier-2s. I think this is sort of a smaller impact on the business going forward. I think with those blue-chip clients, I think we'll see very little of that.

Gavin Fairweather:

That's great. And then just lastly for me, you've obviously taken a lot of cost actions to right size the business to the current market environment. And I think previously in times of growth, you kind of called out \$0.65 or \$0.75 of kind of operating leverage in terms of net revenue following the EBITDA in those periods of growth. So, as we think about an eventual recovery of volumes, maybe on a second half of fiscal 2023 or maybe fiscal 2024, but – do you think that that rule of thumb still holds or do you think you have to kind of build up some capacity first?

Brian Lang:

Good question, Gavin. Why don't I pass that one over to Mr. Herman?

William (Bill) Herman:

Sure. Thanks, Gavin. I think, what we're going to see in the back half of that 2023 is probably the seasonal uptick that we would expect in the housing market, especially in obviously U.S. Appraisal. Hitting the margin profile like you just referenced I think volumes need to be more robust. This is going to be in our expectation, probably one of the lowest market environments for mortgage origination volume in F 2023 if we believe that the MBA and Freddie & Fannie have their forecasts right. So, I think those economics really accrue to us when mortgage volumes are a little more robust or perhaps even just simply normal and you get that scalability. So, I don't know if we're going to be

hitting the targets that you've outlined, but we're certainly confident in doing so as we think through the 2025.

Gavin Fairweather:

Thanks so much. I'll pass the line.

Brian Lang:

Thanks, Gavin.

Operator:

Thank you. The next question comes from Robert Young, Canaccord. Please go ahead.

Robert Young:

Hi. I was hoping that you could give us maybe a sense of any change in the risk that the GSEs are willing to accept over this period. I know waivers have declined recently, but maybe a shift in waivers towards purchases. Curious if you just maybe give us a summary of how you see the GSEs changing their stance around risk.

Brian Lang:

Sure. Thanks, Rob. Appreciate the question. So, as you'll remember, waivers were quite a conversation back in 2020 and 2021 when the rates came down and there was tremendous amount of demand in the market. So, we saw our numbers up in the 30%, 40% from a waiver rate standpoint. And at the time, Rob, we suggested that the waiver rates would slowly come down over the next couple of years and find their way back down to very low double digits. And so, I think, frankly, that's what we're seeing. So, last year, waiver rate was 26.5% on the year and you see this year we're down to 17.6%. So, even though there is a slight shift there, Rob, which is no doubt, I assume not surprising with refinance volume coming down as much as it has, there's a little bit of a shift over to purchase. Our view is we will continue to see that waiver rate slowly come down over the next couple of years.

Robert Young:

Okay. Are there any other changes in tools that they are looking at in the market?

Brian Lang:

No. I mean, I think, again, we've talked a little bit in the past around appraiser modernization, which they continue to stay focused on. And we appreciate modernizing the process. But frankly, when you take a look at things like desktops, Rob, we've seen very little volume around that. So no, there's

really been, in our view anyways, no dramatic changes in GSE requirements nor sort of their overall strategic intent.

Robert Young:

Okay. Thanks for that color. Maybe a bit of an extension on Gavin's question just around the field professionals. It's a pretty tough market and maybe this is a market where they might throw in the towel and decide to find some other place to take their career. Just curious if you're seeing any change in your ability to get the capacity even in a lower market like looking forward into the future. Do you see any restrictions or issues around capacity on professionals?

Brian Lang:

Yeah. I mean, Rob, we have a very healthy network. I mean, I've mentioned before that we use a sort of smaller proportion of the overall network to do the work that needs to get done in our sort of higher decile and quartiles depending on the state of high performing appraisers. So, no, no, my, my short answer is no, I don't see there being any issue longer term. Ironically, I was asked the same question when the market was incredibly busy, whether appraisers were going to throw the towel in because they were so busy and a lot of them were – had sort of burned out a little bit. So, no, I think that we've got great performance from the appraisers that we've got on the network, Rob. We end up using a fairly smaller proportion, especially when volumes are lower, but we make sure that we continue to feed those really strong appraisers which drive all those network effects into the rest of the business.

Robert Young:

Okay, great. I guess we see the strength in net revenue margins. One last...

Brian Lang:

We do, yeah.

Robert Young:

One last question for me is just around, I appreciate the flexibility in the model and your ability to bring the operating costs down so effectively here. But are you making any trade-offs like is there any change in your R&D on new products like decentralized Title or any of the business development in Tier 1 Title? Maybe just give a sense of whether there's any trade-offs you're making that you would rather not. And then I'll pass the line.

Brian Lang:

Yeah. I think you need to be very prudent in these times, Rob. So, I think we are being prudent in the way that we're managing the overall cost structure of the business. I don't think we're making any major trade-offs of any sort. We're simply flexing as we've commented on in the past, flexing the model up and down. So, we're managing costs. We're getting some benefits from things like moving to the cloud, which we had started previously and have accelerated. So, there are areas where we're actually getting some cost benefits on strategic pillars that we were already quite focused on. So, we – our focus has to be, Rob, that we continue to deliver and delight our customers on the products that are required in the market and so we continue to do that and continue to make enhancements where we need to, to ensure that, that performance stays top of plate and we continue to drive the market share results that we commented on today.

Robert Young:

That's great. Thanks a lot.

Brian Lang:

Thanks, Rob.

Operator:

Thank you. The next question comes from Martin Toner, ATB Capital Markets. Please go ahead.

Martin Toner:

Thanks so much. Quick question for me, refinance volumes of about a million, I'm assuming those are all non-financially motivated borrowers. Just wondering, do you see like upside or downside to those estimates [indiscernible].

Brian Lang:

Yeah. So, Martin, I believe I heard the question was around, is the one million do we feel that that's a fair assumption going forward for 2023? I believe that's the question.

Martin Toner:

Yeah. Just wondering like do you see upside or downside to that number, do you see it is fair like historically there was a good rule of thumb to non-financially motivated refinances.

Brian Lang:

Yeah. So again, if we look out at sort of the MBA, Fannie & Freddie and what they're looking at, Martin, you'll see sort of from 0.8 million, so 800,000 to 1.2 million is kind of the reference on their

expectations around refi. I think those seem to be fair. I think we talked about one of the lowest markets up until now was – we had 1.8 million refi transactions. So, that sounds about – that's almost sort of half and so I think that sounds about right. So, I think that would be sort of a fair assumption. Again, it depends on rates, you know all the caveats that come with that. So, we'll have to see how the rates play out over the rest of the year, but that seems to be what the industry players are forecasting.

Martin Toner:

I think that's it for me.

Brian Lang:

Thanks, Martin.

Operator:

Thank you. The next question comes from Richard Tse of National Bank Financial. Please go ahead.

Mihir Raul:

Good morning. This is Mihir calling in for Richard. Just wondering if you can provide an update on how things are progressing on regards to signing additional Tier 1s in the Title and close segment.

Brian Lang:

Yeah. Thanks for the question. So, I would say that in the near term, the opportunity in our Tier 1 space on Title is definitely the second channel with the Tier 1 that we have on our platform. So, we're looking at that being launched in 2023. So, that I think would sort of be piece number one. It's the second channel and it's volume. They've indicated to us it's volume very similar to the volume we have currently on the channel from them, so – on the platform from them. So, I think that sort of piece one.

Piece two is on the Tier 1s. We're coming at it from a couple of different angles. So, of course, we're progressing the sales pipeline on Title origination conversations, but we're also coming at it from home equity. We're using that lever to get in, have a conversation on home equity, which then would be a drive back into Title origination. So, the sales pipeline is moving, I think with a reasonable amount of pace. I mean, we've got quite a few meetings before the end of the year this year around exactly this topic, HELOC Title origination. So, I think we're in good shape. In the near term though, I think it's definitely the second channel with the Tier 1 that we have on our platform that we're expecting in the near term.

Mihir Raul:

Okay. Thanks. And just one more from me. I know the current macro environment like, there's been a lot of different opinions on how things are going to go in regards to rates. So, in terms of the cost structure, is there still any more room to flex down or are you guys kind of, at your barebones cost structure now?

Brian Lang:

Yeah. I'm going to pass that one over to Mr. Herman. Bill?

William (Bill) Herman:

Yeah. Certainly, great question. I think as you've seen we've certainly had some cost cutting measures affected in our Q4 timeframe. We've exited Q4. When you do the math and you exclude stock-based comp, our run rates around \$13.8 million on a quarterly exit. I think there's still a little bit of room for us to maneuver now. We've actually affected some of those changes already in our Q1 timeframe for fiscal 2023. So, the short answer is there's still a little bit more that we can certainly affect.

Mihir Raul:

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

William (Bill) Herman:

Thank you.

Operator:

Thank you. The next question comes from Steven Li, Raymond James. Please go ahead.

Steven Li:

Hey Brian. So, I just want to confirm, so you added one new channel with a Tier 1, correct?

Brian Lang:

Correct.

Steven Li:

Is that why your market share exceeded 50%?

Brian Lang:

No, no, that's not why – it was more than 50%, Steven. That was on a – that's a different player that we launched that second channel on. So, that was performance based with the Tier 1. Very, very

strong performance in the last couple of quarters. And so, we benefited with that. And also, they've done some slight consolidation on their vendor program. So, we also benefit from that.

Steven Li:

Okay. That's good to know. And the volume size of this new channel, is that comparable to the original channel?

Brian Lang:

Yes, it's comparable. So, I mean, we'll see that play through in the numbers, Steven, I think as we sort of go into Q1 and Q2. But I mean, as part of the overall mix of the entire business, as you can imagine, it's a smaller number, but it's a new channel.

Steven Li:

And Brian, all of your Tier 1, are they prospects to add a new channel?

Brian Lang:

Sorry, say it again Steven, of all our tier 1...

Steven Li:

Yeah. Are they – could they potentially add a new channel with you?

Brian Lang:

Well, sure. I mean, some of them do HELOC with us, Steven, and some of them we are not currently doing HELOC with. We talked a little bit around some of the big players like Wells and Chase who very publicly shut down their HELOC businesses in 2020. So, there's opportunity for us to continue to have conversations with them as they look at opening up and getting back into the HELOC market. So, there's opportunity for us to extend into other channels. As you know, we stay incredibly focused on the mortgage origination channel. So, our focus is definitely on Appraisal and Title origination. But in this particular case, we launched with one of our big Tier 1s in HELOC in the quarter on Appraisal and a couple of others who are considering re-entering the market.

Steven Li:

Okay. Got it. Thanks.

Operator:

Thank you. There are no further questions at this time. Ladies and gentlemen, this does conclude your conference call for today. We thank you for your participation and ask that you please disconnect your lines.