Real Matters – First Quarter 2018 Conference Call

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REAL MATTERS

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Daniel Chan, *TD Securities*

Robert Young, *Canaccord Genuity*

Richard Tse, *National Bank Financial*

David Ridley-Lane, *Bank of America Merrill Lynch*

Steven Li, *Raymond James*

Hubert Mak, *Cormark Securities*

PRESENTATION

Operator:

Good morning, my name is Jodi and I will be your conference Operator today. At this time, I would like to welcome everyone to the Real Matters First Quarter 2018 Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. If you would like to ask a question during this time, simply press star, then the number one on your telephone keypad. If you'd like to withdraw your question, press the pound key. Thank you.

Lyne Fisher, Vice President of Investor Relations, you may begin your conference.

Lyne Fisher:

Thank you, Operator, and good morning everyone. Welcome to Real Matters financial results conference call for the first quarter of 2018. With me today are Real Matters' Chief Executive Officer, Jason Smith, and Chief Financial Officer Bill Herman.

This morning before market open we issued a news release announcing our Q1 2018 results for the period ending December 31, 2017. The release, accompanying slide presentation, as well as the financial statements and MD&A are posted in the Investor Relations section of our website at realmatters.com.

During the call, we may make certain forward-looking statements that relate to our current expectations and views of future events, including but not limited to future market share and future results. We have based these forward-looking statements on our current expectations and projections about future events and financial trends that we believe might affect our financial condition, results of operations, business strategy and financial needs. A comprehensive discussion of the risks that impact Real Matters can be found on the Company's annual information form dated December 27, 2017, which is available on SEDAR and on our website. Actual results may differ materially from those indicated or underlying forward-looking statements as a result of various factors, including those described under the heading, Important Factors Affecting Results from Operations, outlined in the Strategy and Outlook section of the Company's MD&A for the three month period ending December 31, 2017 and 2016.

As a reminder, we refer to non-GAAP measures and key performance indicators in our slide presentation, including market share, net revenue, net revenue margins, Adjusted EBITDA, Adjusted EBITDA margins, adjusted net income, and adjusted net income per share. Non-GAAP measures are described within our MD&A where you will also see reconciliations to the nearest IFRS measures.

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

Jason Smith:

Thank you, Lyne, and good morning everyone, and thank you for joining us on the call today. Turning to Slide 3, we were very pleased with our financial performance in Q1. We reported consolidated revenues of $74 million and delivered estimated market-adjusted revenue growth of 19%, which was in line with our expectations. We achieved market-adjusted revenue growth of 28% in appraisal and 4% in title and closing.

As noted in our press release, the first quarter of fiscal 2017 was a very tough comp for us as it was the peak of the refi boom in the U.S. On a year-over-year basis, we estimate the market was down 28% principally because of the massive falloff in refi volume. The size of the origination market in the first fiscal quarter of 2018, so the period ending December 31, 2017, was what we would deem to be a normal market on an historical run rate basis. In fact, we've been running in a normalized market since the second quarter of fiscal 2017. Looking ahead into the third and fourth quarters of fiscal 2018, the total market is forecast to be roughly the same size as the comparable quarters in fiscal 2017.

Taking a look at our appraisal business in the first quarter, we continued to keep pace with our expectations for market share increases with our clients. We also added clients, signing two new Tier 2 lenders in the first quarter, which has since gone live. From an operations perspective, we were ranked number one on lender scorecards for all of our Tier 1 lenders.

Turning to the title and closing business, our first quarter results demonstrated market-adjusted growth, particularly in our refinance origination products which exceeded our expectations. As we've discussed on previous calls, we also offer clients a variety of title and closing products that aren't subject to the same trends as the overall mortgage origination market, and so revenues for this part of the business don't follow the same seasonality curve. We made significant progress with our title and closing pipeline within the top 100 lenders in the first quarter, making us confident in our ability to achieve our 2018 objectives for title and closing. We expect to grow title and closing market share for the top 100 lenders in our existing portfolio and with the addition of new lenders.

As we communicated on our last call, we've hardened the business to meet the requirements of regulated banks and have made the transition to our network management operating model. The last piece of this transition is

porting the business to our technology platform, which is the same platform we use for appraisal, and we are on track to deliver on this by March 31.

During our last call, I also talked about how our engagement with Tier 1 and Tier 2 lenders for title and closing was moving faster than we anticipated. We believe that those efforts will come to fruition in the second quarter. That said, we do not foresee changing our outlook for growth in title and closing as we will be rationalizing other title and closing products into this growth.

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

Bill Herman:

Thank you, Jason, and good morning everyone. Turning to Slide 4 for a look at our segment results, we reported U.S. revenues of $66 million compared with $72 million in the first quarter of fiscal 2017. U.S. appraisals and ancillary service revenues were $50 million in the first quarter of 2018, which was on par with the first quarter last year. Taking into account the estimated 28% decline in the U.S. mortgage origination market, appraisal revenues grew organically by 28% due to higher appraiser volumes from new clients and market share gains with our existing clients.

Title and closing revenues declined to $16 million from $22 million in the first quarter of 2017. We estimate that the refinance mortgage origination market declined 50% since the first quarter of 2017, which significantly impacted our title and closing revenues due to their high correlation to changes in refinance market activity. On a market-adjusted basis, we estimate our title and closing revenues were up organically by 4%.

Taking a look at the Canadian segment, revenues were up 4% to $7.4 million, led by higher appraisal and ancillary service revenues. We increased our market share in Canada during the first quarter and FX also had a positive impact; however, these contributions to revenue were partially offset by lower estimated market activity.

Turning to Slide 5, consolidated revenues declined 6.4% to $73.9 million due to lower title and closing revenues of $5.5 million in the first quarter of fiscal 2018 versus the same period last year. We estimate U.S. total residential mortgage origination activity declined 28% between the first quarter of fiscal 2018 and fiscal 2017, comprising an estimated 1% increase in residential mortgage purchase activity and a 50% decline in refinance activity.

On a consolidated basis, transaction costs declined 2.8% to $51.4 million in the first quarter of fiscal 2018. We benefited from lower transaction costs in our supply of appraisal services and the decline in refinance market volumes drove transaction costs lower in our supply of title and closing services.

First quarter net revenue was $23 million compared with $26 million in Q1 2017, and net revenue margins decreased to 30.4% from 33% over the same period. The change in net revenue margins was principally attributable to a change in our U.S. revenue mix and product mix within our title and closing service line.

As you know, net revenue margins in our title and closing business are higher than in our appraisal business, and so lower proportional title and closing revenues impacts both net revenue and net revenue margins. That said, we recorded net revenue margin expansion on a comparative quarter basis as we continued to benefit from the network effect on the appraisal side of the business. We expect to leverage our platform to lower transaction costs as a percentage of revenues over the long term as we continue to build market share with clients, and we remain confident in our ability to deliver on our net revenue margin target of 35% to 40% by 2021.

Working our way down the income statement, consolidated operating expenses were down $0.1 million in the first quarter of fiscal 2018 compared to the same quarter last year. Lower operating expenses in our U.S. segment were the result of reduced headcount from lower refinance volumes and an early day shift to a network management model in our supply of title and closing services. These reductions to operating expenses were partially offset by an

increase in corporate segment costs attributable to higher public company costs and higher staffing levels to support investment in our platform.

The result of these changes to revenues, transaction costs and operating expenses resulted in a decline in Adjusted EBITDA to $2.4 million from $5.5 million in the first quarter of 2017. This decline was primarily due to lower mortgage origination market activity which we discussed, a change in U.S. segment revenue mix, and higher corporate segment costs.

Before I hand it back to Jason for his closing remarks, I wanted to address the recent tax changes resulting from U.S. tax reform and its impact on our results and deferred tax assets. The change in the U.S. statutory income tax rate resulted in a significant reduction to the carrying amount of our deferred tax asset. Deferred tax assets in the U.S. were previously recorded applying a tax rate of 40%, which compares to a tax rate of 28% at December 31, 2017. Accordingly, we recorded a one-time charge to deferred income tax expense of $4.7 million in the first quarter of fiscal 2018. On a go-forward basis, we expect our effective tax rate in the U.S. to be 28%, reflecting the federal rate of 21% and estimated state tax rates of 7%. On a consolidated basis, we are expecting an effective tax rate of roughly 27% to 27.5%.

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

Jason Smith:

Thanks Bill. Overall, we were very pleased with our performance in the first quarter. We posted market-adjusted revenue growth of 19%. The U.S. mortgage origination market continues to be very healthy, fueled in part by a steadily growing purchase market. Our appraisal business continues to thrive by delivering organic growth and new customer wins based on its strong fundamentals. We are on track with our appraisal market share goals for 2018 and out to 2021. We also advanced our title and closing pipeline with top 100 lenders, which makes us confident that we can achieve our 2018 objective for title and closing. On the whole, we're feeling really good about the business, the market and the year ahead.

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

Operator:

At this time, I would like to remind everyone, in order to ask a question, press star then the number one on your telephone keypad. We'll pause for just a moment to compile the Q&A roster.

Your first question comes from the line of Thanos Moschopoulos from BMO Capital Markets. Your line is open.

Thanos Moschopoulos:

Jason, just given your commentary in terms of how your efforts to sign a Tier 1 or Tier 2 for title and closing are approaching fruition, just remind us what ramp time we would expect from the time you sign a customer to the time you start generating revenue?

Jason Smith:

Sure. Well, the hard work is typically in the ramp up to executing a master services agreement, and so we are very fortunate that within our large customer base, we have connectivity and we have a master services agreement in place, so it's significantly cut down, and where we're really focused is on executing a statement of work with these customers, which really lays down the pricing, the market that we're going to launch in. When we announce or execute on a statement of work, we would expect deployment to start very shortly thereafter, so within really a matter of 30 days. You know, I think as I indicated in my remarks, this pipeline has been growing significantly and we actually expect, Thanos, to have a statement of work executed within the quarter that we're in right now.

I'll sort of bring you back to the 2021 model, we weren't expecting a Tier 2 bank to launch until the very back half of this year - just a little bit in Q4, and then not a Tier 1 bank until the very back end of 2019. The larger the banks and the regulated nature of them fit really well with our value proposition, so this is higher quality revenue as we think about it. It's in that core refi business, and we will continue to rationalize sort of the non-core default REO commercial business lines into that growth. I'd say that we're not moving up our guidance for 2018 or 2021. We will rationalize these other product streams that were acquired through Linear into that growth, so we're very pleased with our progress.

Thanos Moschopoulos:

Good to hear. Just to clarify a point, you were saying that by March 31 your existing title and closing customers for centralized refi are going to be on the new platform. Is that correct?

Jason Smith:

That's correct. When we think about the platform, Thanos, we're really referring to three things. One is the operating model and our internal staff being lined up to support the whole platform. The second is the network in place and the right network, and this would be closing agents or abstractors in the case of title, and then the third component is the technology itself. The first two are done and they have been hardened with respect to the footprints that we're in, and on March 31 is the full port to the technology, and then we'll have the whole business on the platform. That technology would be the demos that you would have seen in the November timeframe.

Thanos Moschopoulos:

Great. Just one last one - you mentioned that you signed two Tier 2 appraisal customers in the quarter who are already ramping. That seems to be a very quick time frame. Is that unusually quick? Have you gotten faster in terms of your deployment ability over time, or is this just specific to those customers in terms of why you were able to get them up and running so quickly?

Jason Smith:

Yes, so the pipeline—these customers have been in the pipeline for a long time, RFIs, RFPs, and when we finally executed a master service agreement and a statement of work, it is around a deployment timeline, and so in these particular cases the master services agreement and SOWs were executed very close to when we were set to deploy, so all the hard work was done in Q1 and the quarter is part of that, and we were ready to deploy here right after the new year. Thrilled with our execution on that front.

Thanos Moschopoulos:

Great, thanks. I'll pass the line.

Operator:

Your next question comes from the line of Daniel Chan of TD Securities. Your line is open.

Daniel Chan:

Hi guys, good morning. There are a number of dynamics happening in the market - Fannie and Freddie waivers that we've always known about, but also the tax reform with the mortgage interest rate deduction caps. Do you have any view on how these all play out in terms of the overall market for you guys?

Jason Smith:

Sure. You know, the way that we look at it, and we've done significant work on it, both pre our IPO and post, is essentially neutral to the plan that we laid out in our prospectus. The waivers, and the very small percentage of the waivers that were playing out, played out actually before we went public, so when we look at our total addressable market as we laid down, we had factored a small percentage of waivers in the market, and so we do not see a change in our total addressable market.

I think the commentary around Fannie and Freddie with respect to these waivers is interesting and really speaks to the small effect of that. Dan, I happened to read your phenomenal report where you broke down the market and the different market segments that this would address and came up with a less than 5% number, and what's interesting—and you go one step further, which is—and that's when it's an offer, and so for the regulated banks, just because they're offered it, doesn't mean that they take Fannie or Freddie up on it, and so you even go further down that.

Many of the Tier 1 banks don't know who in their regulated banks they are ultimately going to sell the mortgage loan to, whether or not they're going to keep it on their balance sheet, so they're actually managed to a much lower standard than the highest quality standard, which is a full appraisal. Many homeowners in the U.S. actually write in the purchase agreement that it's conditional upon appraisal, not for mortgage financing purposes but for consideration around the purchase price, so that they have an out if the appraised value comes in differently than the purchase price. The overall effect of waivers is very insignificant on our business and something that our customers tell us that is not changing their behavior.

With tax, I would say that the overall market effect is neutral. There are certainly markets where it does impact part of the market, but on balance I think most of the commentary is neutral, and we have not seen—we don't have particular concentration in those areas, so I would say that there's some pros, there's some cons, and so it nets out as neutral in terms of tax effect.

Daniel Chan:

Great, thanks for that. Then you also mentioned that you're going to be migrating some of your business over to the new title and closing platform, the digital platform. How do we look at that in terms of impact on net revenue margin versus EBITDA margin?

Jason Smith:

Sure. Bill, do you want to—

Bill Herman:

Again, I think it's best laid out this way, Dan, in that—you know, we've stated this a few times, in that when we think about our title and closing business where we bought a company that was a 60/40/10 as it relates to revenue, net revenue and EBITDA contributor to the business, we still think of it as a 60/30/15 when we think forward about porting that business onto our network management platform. Again, that 60/30—I'm sorry, yes, 60/30/15 is revenue, net revenue and EBITDA, just to be clear, so again no change there, and where we're thinking about how that business is going to behave as we think forward into and through to 2021.

Daniel Chan:

Great, thank you.

Bill Herman:

Thank you.

Jason Smith:

You're welcome.

Operator:

Again, if you would like to ask a question, press star, then the number one on your telephone keypad. Your next question comes from the line of Robert Young of Canaccord Genuity. Your line is open.

Robert Young:

Hi, good morning. On the presentation, you mentioned that you're being ranked number one on all of the scorecards for your Tier 1 lender customers, and so could you talk about how that feeds to share? Is it a very precise process that the banks run around how they allocate share or is there some subjectivity, and if you could talk about the dimensions of that scorecard. Like, what are they looking at, what's important? Maybe just some broad color around what that means and what it means for the share growth going forward.

Jason Smith:

Sure, so Robert, addressing the second part of your question there first, the big drivers for the banks in score carding, number one is quality, and so that's the error rate in appraisals. It's whether or not the end appraisal meets the requirements of the Fannies or the Freddies, it meets the requirements of the banks' regulator, if it meets the requirements of the state regulator, and so quality with that respect is the number one focus, so think of that as an error rate and they are benchmarking their providers with respect to that error rate.

The second component in terms of priority for the bank goes to speed, and that's becoming more important in a purchase-driven market, and so on refis you have longer closings, and as long as you've got the rate locked, when it actually closes is less important. On a purchase in highly competitive markets where you've got consumers competing and the bank competing amongst other banks for the deal in order to get that closed, getting that appraisal in to firm up the deal is very important, and so speed and turn time, not just delivering the appraisal report or getting into the house, but the process of delivering that report with no errors on it in a final, firm form, so that entire end-to-end process is very important.

Then the third would be respect to capacity in the marketplace. So as we've moved into a seasonality driven purchase market where the spring market and the summer markets, so our Q3s and Q4s, have much higher overall market volume in it, the ability of a business model to scale becomes very important. It's great that in January and February you can do all right, and I would tell you that this is where if you were competing with a staff appraiser model, that we would—it would one of their strongest markets because they don't have to worry about scaling and extending out to third parties that they're not used to working with. Having that ability to scale for the purchase market becomes very important, so being ranked number one on all three of those components in that ranking order is very important to market share growth.

In terms of how the banks—there's no exact measure here. There are different drivers within the banks based on their strategies, and so as we think about it over a year-long process, we know that coming into the spring market, and the busy spring market is when banks are really focused on making sure that they have their vendors and their best vendors in the best shape, but if a bank is still dealing with a captive and they've got to wind down that captive's volume relative to our performance, that can drag on their growth, etc. I would say that it's in plan, but no, it's not measured every month and every month you get a pick-up based on some formula, and it's the same for all. It's directionally in that direction, but I'd tell you that the focus on great performance, great quality and a

great consumer experience is top of mind for the banks like never before, and driving your volume to your best vendor is strong.

I mean, we've indicated in the past with that first Tier 1 lender that we were launched, that we continued to see significant growth even after the 29% share that we were at when we went public last year, and that's directly driven to creating a better consumer experience with speed in a highly compliant manner for the bank with the ability to flex up in busy times for the market.

Robert Young:

Okay, and is that performance consistent with past periods, like have you improved those rankings over time, or are you highlighting it now because it's hit a high mark? What's going on there?

Jason Smith:

Yes, so we are constantly improving, so we constantly have improvement metrics within our businesses. As volume grows, that's that network effect, so as volume grows we get a stronger and stronger base. The competition and competitive market continues to ramp up. That's how volume is allocated across our business, so we have constant targets on a quarterly basis around improvements, balancing the capacity we're building in the network through the outsized performance that we're looking to get, and I think I gave an update a quarter or two ago around our consumer scheduling initiative, which also delights the consumer. For the bank, it's their number one focus for spend at the bank right now is their digital consumer experience, but it also affects the turnaround time, and we saw half a day improvement as we've been rolling out consumer scheduling, so that drives as well.

Continual improvement, that's our focus, and really not just focusing on the average but focusing on the long tails, taking those—you know, the last 5% out for the bank and delighting them on the noise within their business, so it's a continued improvement effort.

Robert Young:

Okay, then if I could ask a question about the market, some of the commentary recently has been around the comparison from the end of 2016, where there was a spike in refi. We're now getting past that, but it looks as though the macro data or the market data was a little bit different than we expected this quarter, so could you revisit those comments and talk about what you expect to see through the balance of the year?

Jason Smith:

Yes, I'd be happy to. The real challenge in our business was the Brexit-led boom in what are our Q4 and Q1 quarters, and that outsized activity around refi drove the overall market and particularly it drove the refi market. Once we entered January of 2017, we entered what we would call a normalized market, a market that was 1.7, 1.6, $1.7 trillion of total originations, which is a very healthy, average mortgage market. We just had an outsized, very large market back in 2016. You know, I would add that not only was it an average sized market, it was made up largely of the very healthy purchase side of the business and has continued to grow in the right direction.

With respect to the overall mortgage markets, we've been in great, healthy markets since January. We continue to focus on growing share within these very healthy mortgage markets that are in front of us, so it's just the year-over-year compare goes away. When we look to our next quarter and you look at the forecast for mortgage origination versus that quarter next year, then as we think through that 30% market share growth we had in appraisal and our focus on the title and closing business with moving up that pipeline, it becomes easier to see that come across on a pure revenue basis, that growth on a pure revenue basis versus on a market-adjusted basis.

I think what becomes very interesting in the last two quarters of our year is those are the really busy quarters, and pronounced so from a purchase activity, so we're focused on scale, we're focused on the clients that we're

launching and growing market share with, and making sure we have capacity in the market and delivering excellent service to our customers. As we look out on 2018 and the balance of our fiscal year, we're feeling great in all aspects of our business and I think we're set up well for '18 and consistent with our objectives out to 2021.

Robert Young:

Okay, and last one, hopefully a little quicker, the—you said you added two Tier 2s. I think in Q3, you had three that you added, two or three, so you've added five since going public. Can you talk about the strength of the pipeline of other Tier 2s? I think now you said 60 of the top 100, so maybe you have 65 now. Of those 35, are those in the pipeline, can you win those, and how quickly do those turn into revenue? Then I'll pass the line.

Jason Smith:

Yes, I would say that given the long sales cycles and the difficulty of predicting when we go to live—we get to go live, we do not build those into our budgets for the year. One of the drivers for us to go public was that we knew we'd got some master service agreements, we'd got to first deployment with the large drivers of our revenue so that our revenue is much more predictable, so we've got an aggressive sales team, we're really focused on the quality of clients. There are customers out there that don't line up fantastic to our value proposition based on their business model, so we'll never have 100% of them, but I think we'll continue to see execution there over the 2021 period and continue to add great customers to our customer base.

Robert Young:

Okay, thanks. I'll pass the line.

Jason Smith:

Thank you.

Operator:

Your next question comes from the line of Richard Tse of National Bank Financial. Your line is open.

Richard Tse:

Yes, thank you. I was wondering if you could give us a bit of color in terms of your go-to-market strategy in title and closing with your existing base. Are you pitching to the same decision markers? I'm kind of curious to see on a relative basis the timing of those sales cycles or your expectations of those sales cycles going forward.

Jason Smith:

Yes, I think there's two elements to this, Richard. There is the customer win and then there is also the network build-out. So the way that we're thinking about executing on this business is geographically. As much as we'd love to be able to take a large Tier 1 bank that's national right off the get-go, and there's certainly a lot of pain there, we have to be thoughtful that those lenders want us to deliver for them in every single market. It's just too expensive for them to deal with a large number of smaller regional players. The Tier 2s are perfect, this tracks our appraisal model. We focus on banks that have constrained footprints, so think midwest or think the southeast or California, and we focus on launching a number of them such that we can build up to that national footprint, so that we can be at the very back end of 2019 live with our first Tier 1 with a very small market share of their business, but across the nation. That's how we think about it.

You know, I think the positive comments that I gave about the pipeline, where it was originally focused on Tier 3, Tier 4 customers, and the Tier 2 is advancing, the highly-regulated focus of the bank, the focus on the consumer

has moved that up, and so I think our long-term guidance in terms of growth off the base is indicative of how we think these things will track. I'd have no other specific color in terms of conversion times or number of launches per quarter, etc., because we're very focused on thoughtful delivery, knocking it out of the park with these customers when we launch, building out the full national footprint such that we can be focusing on the long game of the deliveries to the largest lenders in the nation.

Richard Tse:

Okay, great. Thanks. I noticed you made commentary in terms of your ranking with your Tier 1 lenders, which is great. A different question here - would you have some similar context when you look at the appraisers on your network? I ask that because I sort of noticed that you had a bit of a change, I think in timing of how you pay your appraisers here.

Bill Herman:

Well, I think, Richard, we changed the manner in which we pay appraisers last year, actually, so we actually increased the speed with which we made payment to them, really just to further forge those partnership relationships that we have with them, and really that was the premise of that change, so we haven't made any subsequent changes since.

Richard Tse:

Okay, great. Thank you.

Operator:

Your next question comes from the line of David Ridley-Lane of Bank of America Merrill Lynch. Your line is open.

David Ridley-Lane:

Sure, so just on the U.S. tax changes, the highest state and local tax jurisdictions are areas like California, New York, Connecticut, Massachusetts. Now, would your business roughly match the national mix, or is there a bit of an over or underweight to those higher tax U.S. states?

Jason Smith:

Well, I would—it's a good question. The analysis that we've done, as I stated earlier, was quite neutral in terms of the overall impact. I'm a big Crossing the Chasm fan, so where we've come from and where we have higher concentration of volume is on Tier 2 lenders, and they tend to be regional lenders, so I would say that we have areas of the market where we're very strong that sort of outweight the national average, but we also have had significant growth. Half of our market share growth last year came with only Tier 1s, which happened to be nationals. On mix, David, our analysis is that the tax changes are neutral to our business, as we also then break down and think through product lines, so full 1004s on appraisals, home equity, etc. where we're seeing the pipelines as we talk to our customers, where they're targeting their campaigns, so on and so forth.

David Ridley-Lane:

Understood, and then a question for Bill - understand the commentary on the one-time revaluation of the deferred tax assets, but any thoughts on the normalized tax rate you would have going forward given your mix of pre-tax income and the new statutory tax rate?

Bill Herman:

Yes, so the way we're thinking about it, David, is that we're going to see about a 27% to 27.5% effective tax rate on a consolidated basis - that's our early estimate of how that's going to play through our consolidated results.

David Ridley-Lane:

Understood, thank you very much.

Bill Herman:

You're very welcome.

Jason Smith:

Thanks David.

Operator:

Your next question comes from the line of Steven Li of Raymond James. Your line is open.

Steven Li:

Thank you. Jason, on your slide with market sizes, you have the Q2 market size expected down sequentially from Q1, so my question is, do you have enough positive offsets, maybe it's the new Tier 2s or share gains, to have revenues and net revenues up sequentially from Q1?

Jason Smith:

Thanks Steven. Yes, the 30% appraisal market share growth within 2017, so that data point that's right on the bottom of that slide, would be the very significant offset to a 389 to 349. The big challenges are the very significant drop-off from the bigger peaks back in '16, so at our growth rates, those relative market changes are manageable.

Steven Li:

But if we just—so if I'm not looking at it year-over-year but just looking at Q1 as the base, where your market size was 416 and your revenues were 74, so your market goes down to 349. Is there enough offsets to be—to show revenues or net revenues up, or you might be a little bit down quarter-over-quarter?

Jason Smith:

Yes, I would say there's enough offsets. The interesting part of our business is just where we get share gains and where we launch relative to the seasonality curve on the appraisal side of the business, so if you thought—you know, a good data point for you would be if you looked at our Q2 fiscal '17, we delivered $18.5 million of net revenue, and so you can sort of think through that market size relative to where we are now and what we just delivered and how we're feeling about the growth of the business.

Steven Li:

That's great, thank you.

Operator:

Your next question comes from the line of Hubert Mak of Cormark Securities. Your line is open.

Hubert Mak:

Thanks. I just wanted to touch on the opex. Obviously you're investing in your platform as well as, I think, obviously your deployments for Tier 1s as well. If you look at the opex, it's been—it's actually flat here, so can you just kind of give us some commentary in terms of how that should trend over the course of the year, and maybe even into '19, whether there's any significant ramp-up in expenses here?

Bill Herman:

Yes Hubert, it's Bill. I think really it's an operating leverage story that's playing through opex as we think of—as we think how that's played out thus far. I don't see a significant uptick as it relates to opex relative to how we've been performing and how we expect to continue to perform. Clearly as we think through to 2021, that obviously plays out nicely for us in additional expansion, so in that we've got the ability to leverage that a little bit further as we think out that far. But, you know, for the purposes of you thinking through 2018, I'm not seeing any significant change.

Hubert Mak:

Okay, and then just my last question, I think I may have missed this earlier, but can you comment on the up-selling of title and closing into your appraisal base, maybe you can just talk about the pipeline and whether we'll see anything in sort of six months?

Jason Smith:

Yes, so as comments I made, last quarter the pipeline was growing faster than we thought, which is fantastic. We expect to execute on a statement of work this quarter, Hubert, from that pipeline, and so we would expect to see that revenue play out in the Q3 and Q4 of this year.

Hubert Mak:

Okay, great. Thanks.

Operator:

There are no further questions in the queue at this time. I turn the call back over to Mr. Smith.

Jason Smith:

Well thank you, Operator. That wraps things up for today. Thank you all for joining our call. Have a great day.

Operator:

This concludes today's conference call. You may now disconnect.