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Lender Processing Services

Lender Processing Services is the largest provider of software and services to the mortgage industry. The company offers technology and business solutions that allow financial institutions to make their mortgage operations less costly and more efficient.

Business Services March 29, 2012

Initiating Coverage with a HOLD Rating and $26.00 Price Target

(LPS - $25.55) HOLD

Key Points

- **We are initiating coverage on Lender Processing Services (LPS) with a HOLD rating and $26.00 price target.**
- **LPS is a leading provider of technology and business-process-outsourcing to mortgage servicers and other players in the mortgage market.**
- **Company Faces Near-term Uncertainty Tied to Financial Liability for Discontinued Practices Around Document Execution.** The stock fell significantly in FY11 and remains depressed due to lingering issues tied to improper document execution practices in its default management business between FY08-FY10. The company has accrued $78 million to reflect its best estimate of the financial impact of these issues, but the ultimate amount is unknown at present.
- **LPS Offers End-to-End Package of Mortgage Software and Business Solutions.** LPS has strong relationships with a number of mortgage servicers, and the company offers an end-to-end package of software and business solutions that its clients can utilize to improve different steps in their mortgage operations.
- **Should Be Net Beneficiary of Recent Changes in Mortgage Market, Regulatory Pressures Facing Clients.** LPS offers products that lower costs for servicers and make their operations more efficient, and the company has won additional customers for its products over the past three years as servicers sought to develop more efficient processes within their operations. LPS also hires staff to update its products in real-time to ensure they meet changing laws and regulations governing mortgages, helping solve a major challenge faced by servicers.
- **Core Business is High Margin, Highly Recurring.** EBITDA margins in the company's TD&A segment are near 40% and the company earns roughly $400 million in annuity-like high margin revenue from MSP, its mortgage servicing application. The combined company generates margins around 30% and we expect LPS to generate FCF of $182 million in FY12 and $217 million in FY13.
- **Our target price of $26.00 is based on 6.5x NTM EBITDA.** We believe this is a reasonable multiple given LPS's mix of fundamental momentum and lingering uncertainty over its legal liability for past practices. If the legal liability was resolved consistent with LPS's reserves, the EBITDA multiple could easily rise to imply a price between $40.00-$50.00 per share.

Financial Summary

Rev(mil)	2011A	2012E	2013E
Mar	$556.2	$486.9	$563.3
Jun	$517.5	$494.1	$565.6
Sep	$532.1	$503.1	$567.0
Dec	$533.8	$523.6	$565.5
FY	$2,139.6	$2,007.7	$2,261.4
P/Sales	1.0x	1.1x	0.9x

EPS	2010A	2011E	2012E
Mar	$0.81	$0.55	$0.77
Jun	$0.56	$0.60	$0.77
Sep	$0.59	$0.64	$0.82
Dec	$0.72	$0.68	$0.81
FY	$2.67	$2.48	$3.17
P/E	9.5x	10.3x	8.0x

Price:	$25.55
52-Week Range:	$12.91 - $32.79
Target:	$26.00
Rating:	HOLD
Shares Outstanding:	84.4 mil
Mkt. Capitalization:	$2,140 mil
Ave. Volume:	1,314,950
Instit. Ownership:	85%
BV / Share:	$5.62
Debt / Tot. Cap.:	70%
Est. LT EPS Growth:	15%

Please see important disclosures on pages 24 to 26.

INVESTMENT THESIS

Mortgage servicing in the United States is a unique and highly-specialized market dominated by a small number of large financial institutions. Lender Processing Services (LPS) has developed a strong and hard-to-replicate position within this market. By building long-term relationships with leading mortgage servicers over the past two decades, the company has put itself in a position to both anticipate industry needs and present clients with an end-to-end package of software and business process outsourcing solutions that the client can pick and chose from to make the various steps in their mortgage operations less costly and more efficient. The specific package of software and solutions varies by client, but we believe LPS has been largely successful in growing its client relationships over time, generating significant revenue, EBITDA, and FCF in the process.

The company is currently benefiting from two major trends in the housing market. In the aftermath of the housing boom, mortgage servicers are finding that they need to be significantly more efficient in the way they conduct their operations both to deal with the incremental costs on their business model imposed by larger number of delinquent loans and to meet the burden imposed by increased regulatory scrutiny from the government. LPS products can help meet these needs, and the customer wins racked up by the company over the past three years bear this out.

Against this backdrop of positive fundamental improvements at LPS are the lingering issues around document execution practices in the company's default services operations. The company discontinued these practices in January 2010 but they have resulted in regulatory scrutiny of LPS under the consent order process and are likely to require a payout by the company. This clearly creates uncertainty around what constitutes a fair valuation for LPS given that the full financial impact of these regulatory and legal issues is not fully visible at this time. For this reason, we rate the stock a HOLD. We believe a settlement, similar to the recent one announced between the government and the mortgage servicers over similar practices, is likely to be announced in the future and will re-evaluate our rating when this occurs. While lingering uncertainty makes LPS's stock is difficult to value, our $26.00 price target is based on a 6.5x multiple on our NTM EBITDA estimate of $515 million. We believe this is a reasonable multiple for the company given the mix of positive fundamental momentum in the company's core business combined with uncertainty over its liability for previous document practices.

CURRENT VALUATION		
	LTM	NTM
EV/Revenue	1.6	1.7
EV/EBITDA	6.1	6.5
P/E	9.6	10.3
P/FCF	5.8	11.8

If the legal liability was resolved consistent with LPS's reserves, given the company's strong competitive position and profitability, we believe the EBITDA multiple could rise to around 8.0-10.0x. This, combined with the company's likely earning power in a more normalized environment as servicers work through their backlog of delinquent loans could push our price target significantly higher to between $40.00-$50.00 per share ($50.00 per share would represent an 8.0x multiple on our FY13 EBITDA estimate of $613 million.

THE CALL

LPS is a Valuable Collection of Software and Businesses Tied Together with Lingering Uncertainty Over the Company's Financial Liability for Discontinued Document Execution Practices

MSP, the company's flagship mortgage servicing platform, is used to service roughly 50% of all residential mortgage loans outstanding in the United States and, following major customer wins in 2010 and 2011, Desktop, a workflow management application used for mortgage defaults has been adopted by servicers representing 80% of total mortgages outstanding. Both these high margin software applications dominate their market and create a very close relationship between LPS and the mortgage servicer which the company uses to sell additional software and services, dependent on the varying needs of its customers.

However, attached to these businesses, is LPS's lingering liability for improper document execution practices in its default services business between 2008 and 2010. The ultimate cost of this liability is unknown, but at present the company has accrued $78.5 million that represent its best estimate of what it will need to pay. LPS does possess significant financial resources. The company is highly profitable with EBITDA margins close to 30% and should generate FCF of $182 million in FY12 and $217 million in FY13. However, until the full financial impact of this liability is known the stock is difficult to value.

Until We Have Visibility on the Ultimate Financial Impact of These Practices, We Rate the Stock a HOLD

Following the recent settlement between mortgage servicers and state attorney generals, we believe LPS is likely to enter into a similar settlement with state AGs in the near future and the company has indicated it is in discussions to that effect. However, until we know the financial size of the settlement we cannot arrive at a definite valuation for LPS.

In its most recent 10-k, filed 2/29/12, the company stated its belief that the financial impact of these issues will not ultimately be material to operations and the company has accrued $78.5 million for this issue, which represents its current estimate of what these issues will ultimately cost. At present, we are not in a position to judge the accuracy of this accrual.

Core Business Positioned to Benefit from Cost Pressures on Mortgage Servicing and Increased Government Oversight

LPS's software and services reduce the cost and increase the accuracy of mortgage servicing and the company has been able to use these advantages to win additional customers for its products over the past three years as large numbers of delinquent mortgages – which cost more to service – put pressure on servicer margins. LPS also dedicates a large staff to keeping its programs current with existing government regulations and automatically updates them for any changes. This aspect of the company's business is especially appealing to servicers who otherwise would have to make IT investments to bring their own internal systems into compliance with the new rules.

Default Services Business Should Benefit as Servicers Work through Backlog of 4 million Severely Delinquent Loans

The company should also benefit from a rise in its default services business as servicers begin to work through the current backlog of four million severely delinquent loans. This business declined in FY11 as uncertainty caused by the "robo-signing" scandal caused banks to curtail foreclosure activity until they were certain they had correct policies and procedures in place. While the company no longer offers document execution services, LPS continues to offer a range of solutions that help servicers manage various aspects of delinquency and foreclosure, and revenue in this business should rise as foreclosure activity resumes following the recent settlement between servicers and the government.

Core Business is Highly Profitable and Generates Significant FCF

LPS has a strong competitive position within the mortgage market and margins and FCF at the company bear this out. EBITDA margins in the company's TD&A segment are near 40% and the company earns roughly $400 million in high margin revenue from MSP – its leading mortgage servicing software application – that is highly recurring. In Loan Transaction Services, EBITDA margins are lower, around 20%, but the combined company produces margins around 30%. We expect LPS to generate FCF of $182 million in FY12 and $217 million in FY13 with the potential for further upside dependent on customer wins and transaction volumes.

BUSINESS MODEL: LPS Offers Technology That Makes Mortgage Operations More Efficient

Lender Processing Services is the largest provider of software and services to the mortgage industry. The company offers technology and business solutions that allow financial institutions to make their mortgage operations less costly and more efficient. Mortgage servicing in the United States is a unique and highly specialized market dominated by a small number of large financial institutions, and LPS has developed a dominant and hard-to-replicate position this market by creating the core operating systems its clients use to service tens of millions of mortgages.

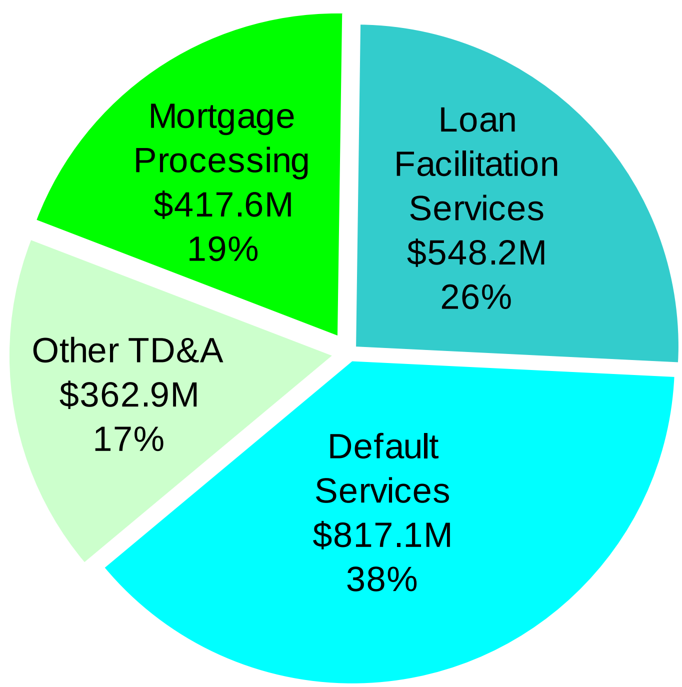
The company possesses strong relationships with leading US financial institutions and its products are market leaders in key areas of the mortgage market. To give two examples: MSP, the company's flagship mortgage servicing platform, is used to service roughly 50% of the current mortgage loans outstanding in the United States and, following major customer wins in 2010 and 2011, Desktop, a workflow management application used for mortgage defaults has been adopted by servicers representing 80% of total mortgages outstanding.

End-to-End Package of Products and Services for Mortgage Companies

LPS is the only company that offers a comprehensive suite of end-to-end solutions for the mortgage industry. Individual customers differ in which solutions they utilize; however, all are seeking to reduce costs and often open to outsourcing non-core processes. Over time this allows LPS to win additional business from existing customers and generate growth

LPS is Divided into Two Major Segments With Four Major Divisions

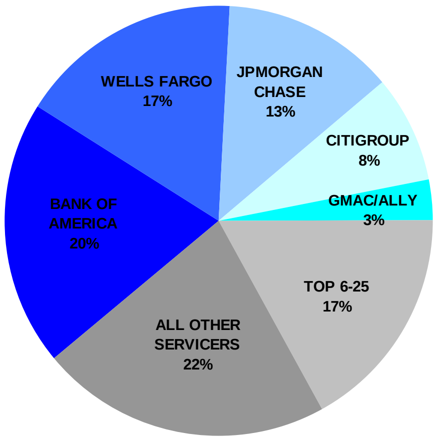
LPS reports results in two segments: technology, data & analytics (TD&A) and loan transaction services (LTS). TD&A consists mainly of software sales while LTS consists essentially of business process outsourcing. In its TD&A segment the company provides: mortgage processing technology that automates mortgage servicing, and other TD&A, including workflow management and mortgage origination software as well as several smaller information businesses. In its loan transaction services segment the company provides: loan facilitation services that help originate mortgages; and default services that help servicers maintain and manage properties that have either defaulted or been foreclosed upon. Revenue by division over the trailing 12 months is shown below:



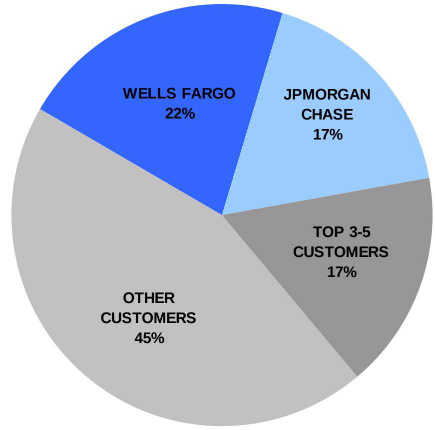
Top 5 Customers Account for Around 50% of Sales

Mortgage servicing in the United States is a dominated by a relatively small number of large financial institutions, with the top five servicers accounting for 61% of the total market. Sales at LPS follow a similar pattern. The company's top five customers accounted for 48% of total sales in FY10, and given the nature of the industry, we expect this level of customer concentration to continue into the future.

MORTGAGE SERVICERS BY MARKET SHARE



LARGEST LPS CUSTOMERS AS % OF SALES FY11



Average Customer Relationship Length is Quite Lengthy

LPS is entrenched with its customers, as the company's relationships with servicers stretch back decades. LPS has disclosed that its top 10 customers have been using LPS for an average of 21 years. Different customers use different bundles of services and the company can generate growth by leveraging its existing relationship to sell new services to existing customers.

LPS Provides Software & Services, but Does Not Conduct Mortgage Operations Itself

While LPS helps mortgage companies in a variety of ways the company does not directly: provide services to borrowers, originate loans, underwrite loans, service loans, modify loans, or make default or foreclosure decisions.

Overview of LPS

The table below provides an overview of LPS's segments:

	WHAT IT DOES	TTM REVENUE	GROWTH RATE	EBITDA MARGINS
MORTGAGE PROCESSING (MSP)	Software that facilitates mortgage servicing operations, reducing errors and saving money.	$418 million (19% of sales)	Low single digit – revenue driven by total mortgages in the system	Segment EBITDA margins are around 40%. Believe incremental MSP revenue is particularly high margin.
OTHER TECHNOLOGY, DATA & ANALYTICS	Software that helps mortgage companies automate and origination and default operations. Also provides data on housing market.	$363 million (17% of sales)	Varies. Dependent on customer wins and transaction volumes in mortgage defaults and originations.	
LOAN FACILIATION SERVICES	Business process outsourcing for mortgage originators.	$548 million (26% of sales)	Varies. Dependent on loan origination volumes and customer wins.	Segment EBITDA margins are around 20%-25%. Title work on both segments is higher margin, while property inspection & preservation and appraisal are lower margin.
DEFAULT SERVICES	Business process outsourcing for servicers in the event of a mortgage default.	$817 million (38% of sales)	Varies. Dependent on mortgage default volumes, REO inventories, and customer wins.	

STRATEGIC RATIONALE

The mortgage servicing industry is subject to unique incentives that benefit LPS. Servicing operations must all follow essentially the same procedures to service mortgages, and industry participants must accept fixed pricing from the GSEs in exchange for servicing. Because of the undifferentiated nature of these operations, servicers can best achieve higher profitability through scale and cost control. Since the tasks, procedures, and pricing do not vary between servicers and because mortgage servicing is not a key area of differentiation for financial institutions, there are strong incentives to simply use the solution that works best and costs least. In many cases this ends up being a product offered by LPS.

Mortgage Servicing is Done by Large Financial Institutions, but Not Core to Operations

The main function of mortgage servicing is to facilitate the lucrative securitization of mortgage loans. Investors in the bond market often prefer to have servicing conducted by financially strong institutions, because in some cases of borrower default, the servicer is still legally required to make certain payments to investors and a financially strong parent company helps ensure this occurs. This, combined with the financial benefits of scale, helps explain why the servicing market is so concentrated among a handful of companies.

As part of a larger institution, mortgage servicing makes a predictable contribution to revenue and profitability, but is not a major area of differentiation between providers. Once a mortgage is assigned to a servicer, it is very unusual (and costly) for an investor to assign it to a different company. This means that servicer profitability depends on scale and on using the least costly most efficient solution. This creates a market where using the best, least expensive product leads to the greatest profitability, even if it is identical to the product used by all your competitors.

LPS Products Benefit from Access to Best Practices and from Economies of Scale

While other providers of servicing software and services do exist, LPS primarily competes against internally developed systems. When facing off against these products, LPS immediately possesses two advantages. First, through its existing client relationships the company is able to learn industry best practices from different servicers and incorporates these into its system. Second, LPS is able to spread the software development and upgrade cost over a larger pool of mortgages than any individual servicer can do – that alone ensures a lower price.

Increasing Regulation Also Creates Opportunities

The high degree of state and federal regulation of the housing market also tends to benefit LPS. The company employs a large team of developers to keep its programs current with relevant laws. By using LPS, servicers avoid the headache of having to adapt their own internal systems to regulatory changes and compliance issues. That alone can be a major selling point that helps the company win new customers. We believe the highly regulated nature of the mortgage market also acts as a barrier to entry, intimidating competitors and making servicers reluctant to try new systems because of the potential legal consequences of any errors.

Strong Customer Relationships With Major Banks Create Sticky Customers, Opportunities for Expansion

When a servicer adopts an LPS Solution, it is inserting LPS into the core of its servicing operation and switching products can be difficult. If the client had previously used an internal system, then it is essentially placing itself in a position where it would might need to essentially start over and build a new system from scratch if it wanted to shift away from LPS. The fact that the company's top 10 customers have been using LPS products for an average of 21 years speak to the stickiness of its products.

Sales of the company's software solution from its TD&A segment create opportunities to sell other software to the client as well as loan facilitation services, and the company's sales people are trained to focus on these opportunities. LPS's offering of end-to-end solutions for servicers allow client to pick and fill in gaps in their operations with LPS outsourcing areas where they do not feel they possess an advantage to focus on the aspects of servicing where they feel they are superior.

MSP Systems Creates Annuity-Type Stream of Revenue

While many LPS products are driven by variable levels of transaction volume – mortgage originations and mortgage defaults – MSP, likely the company's highest margin product, earns revenue based on the relatively fixed number of mortgages in its system and is essentially an annuity-type stream of revenue for the company.

Businesses Generate High EBITDA Margins, Strong FCF

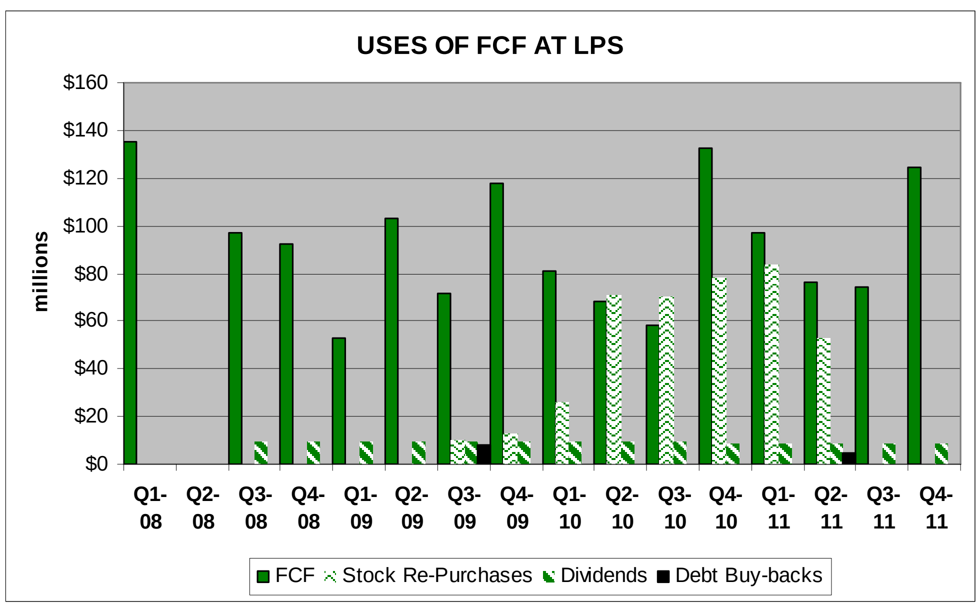
Reflecting the company's strong competitive position, LPS's businesses are quite profitable, and under normal condition they generate EBITDA margins of 25%-30%, ROIC above 20%, and around $300-$400 million in FCF each year. While origination and default activity vary year-to-year, the company revenue software revenue tends to be highly recurring and predictable year-to-year.

PERFORMANCE TO DATE

Since being spun-off in 2008, trading in LPS shares has followed sentiment swings in the mortgage market. Rising revenue and an aggressive share buyback in FY09 caused a run in the stock. However, emerging issues around document execution pratices at LPS subsidiaries and the robo-singing scandal is FY11 caused a significant drop in the stock.

Core Business Generates Significant FCF Which the Company Uses to De-Leverage, Buyback Stock

LPS's core businesses are highly profitable and generate significant FCF which the company has used to re-purchase stock, pay its dividend, and opportunistically buyback debt. Based on current management commentary, we believe the company aims to maintain a cash balance of around $100 million and to use further FCF generated to pay down debt.



CURRENT REGULATORY AND LEGAL ISSUES ARE THE MAJOR FACTOR DRIVING THE STOCK PRICE

LPS currently trades at 6.5x NTM EBITDA and around 10.3x cash EPS, a relatively low multiple given the company's competitive position and underlying profitability. The company's financial results have been affected by the slowdown in foreclosure activity in FY11, but have benefited from new customer wins over the past year and the company's ability to create products that stay current with changes in government regulations should help them win additional customers in the future, given ongoing regulatory scrutiny of the market.

While the company's business fundamentals are healthy and likely to improve from these levels, the major factor driving the company's current stock price and valuation is uncertainty over the outcome of legal and regulatory issues it faces. Since we are not in a position to predict the ultimate outcome of these processes, we rate the stock a HOLD. This section provides an overview of the issues facing the company and some thoughts about LPS's financial ability to meet these challenges.

ROBO-SIGNING AND THE CONSENT ORDER

The major issues at LPS revolve around document execution practices in the company's default management business. Accurately preparing and handling legal documents is a key aspect of the foreclosure process in part because the court system generally lacks the resources to review each filing in detail and reliance on servicers and foreclosure attorneys to follow correct processes is a necessary feature of an orderly mortgage market.

Surrogate Signing at Docx Subsidiary

LPS acquired Docx, a document preparation service, in 2005. In November 2009, the company uncovered a practice wherein an employee of Docx who had been authorized to sign certain documents on behalf of mortgage servicers had – in turn – authorized lower level employees to sign on her behalf. LPS has stated that upon discovering this had it occurred it discontinued this practice and contacted the affected clients to attempt to remediate the issue, and the company eventually closed Docx outright in early 2010. At least 34,000 documents were affected by this practice, the bulk of them (30,000) were prepared for American Home Mortgage Servicing. Following unsuccessful talks between the companies about resolving the issue, American Home Mortgage Servicing sued LPS in August 2011, and this case has now been moved to arbitration.

Issues Around Signing and Notarization at Docx & Default Services

Other issues in default services at LPS are broadly similar to the robo-signing issues that affected the mortgage servicing industry as a whole. Specifically documents that would be used for foreclosure were prepared and signed without and adequate level of review. This practice was widespread across the industry due to inadequate staffing levels at servicers and the huge increase in defaults – the consent order process between the government and servicers was largely aimed at correcting this deficiency.

Outside of the issue at Docx alluded to in the previous paragraph, in other cases where LPS signed or "executed" a document it was doing so with written permission from the mortgage servicer. This practice, while controversial, is arguably legally permissible under certain circumstances. Regardless, as the federal investigation into robo-signing got underway, LPS discontinued its document execution practices – the practice signing on behalf of the servicer with its permission – in January 2010. At this point the relevant question is what the financial impact to the company will be under the consent order process and state AG lawsuits.

The other issues specifically highlighted in the government consent order against LPS and other mortgage servicers regard the question of whether proper notarization practices were followed. Similar to the issues with document execution, the large volume of documents that needed to be notarized appears to have led to sloppy processes and short-cuts in this step of the process.

Consent Order Process

In late 2010, the Federal Reserve, FDIC, OCC, and OTS conducted an investigation in practices around mortgage default and foreclosure at 14 of the country's largest servicers. They also investigated practices at LPS and MERSCORP, a joint venture between a number of players in the mortgage market that enables certain types of paperless mortgage operations. The investigation uncovered a number of weaknesses in how defaults and foreclosures were handled and ordered the companies to take action to correct these problems and retain third parties to review their previous foreclosure activity to determine and offer remediation to any borrowers harmed by poor practices. Roughly concurrent with this investigation, the servicers were sued by the state attorney generals.

The consent order for LPS is publicly available and alleges the following at LPS:

- Executed documents certifying personal knowledge of the contents without adequate review
- Executed assignments of mortgages containing inaccurate information.
- Executed documents without on behalf of servicers without authority to do so (this specifically refers to the issues at Docx).
- Did properly notarize certain documents.
- Did not hire adequate staff to handle the volumes of incoming documentation.
- Had inadequate internal controls, policies and procedures, compliance, risk management, internal audit, and oversight of its document execution services.

To correct these deficiencies the order requires LPS to undertake a three step process to correct these issues: In phase one the company was required to develop plans for better board oversight and internal compliance with the laws around default management. In phase two, the company was required to hire a third party to conduct a risk review of its default services business – which was completed in September 2011. The company is now entering phase three of the process which will consist of an independent review of all documents executed by its default services business between FY08-FY10 and remediating any issues arising from cases where improper procedures were followed. This is similar to the reviews required by servicers.

Most Recent Quarter Contained "Legal and Regulatory Accrual" of $78.5 Million

While estimating the full financial impact of LPS's current legal and regulatory issues is difficult, GAAP requires companies to accrue for contingencies that are considered both probable and estimable. LPS is now most of the way through the consent order process and in ongoing conversations with state attorney generals. This, combined with the recent settlement between the government and mortgage servicers, has provided a company with what it believes is a reasonable basis for estimating its ultimate liability for the legal and regulatory issues facing it.

In its most recent 10-k, filed 2/29/12, the company states its belief that the financial impact of these issues will not ultimately be material to operations and the company has accrued $78.5 million which represents its current estimate of what these issues will ultimately cost.

Our opinion on these issues is as follows: Until the financial outcome of the consent order process and state AG lawsuits is visible we rate the stock a HOLD given that we're not in a position to judge how accurate the accrual is likely to be. Despite that, we do note that LPS possesses financial resources significantly in excess of its current accrual with $77 million in cash and $388 million in capacity on its revolving line of credit at the end of the most recent quarter. On top of this, we expect the company to generate FCF of $182 million in FY12 and $217 million in FY13.

OTHER LITIGATION

We consider the regulatory action around the consent order and the lawsuits by state attorney generals to be the major weight on LPS's stock. If this issue can be satisfactorily resolved, then, on balance, we'd expect to see the shares move to a level consistent with the company's earning power and business fundamentals. However, the company does face other legal complaints outlined below.

Washington Mutual Receivership Proceedings

The FDIC in its capacity as Washington Mutual's receiver filed a lawsuit against LPS seeking to recover $154 million in damages tied to the company's appraisal practices in its loan transaction services segment. The complaint alleged gross negligence of breach of contract. To date the gross negligence charge has been dismissed, however, the FDIC is still alleging breach of contract and the case may move to litigation.

Shareholder Lawsuits

Following the decline in its stock price, the company faces lawsuits from shareholders alleging violations of securities laws due to inadequate disclosures around the company's default services operations.

Other Matters

Fifteen separate class action lawsuits were filed alleging illegal fee splitting between LPS and foreclosure attorneys in 2010. Of these cases 14 have now been dismissed leading us to believe this is unlikely to affect the company. Had this become an issue for LPS, the financial impact could have been material and we believe these, ultimately unsuccessful lawsuits played a role in driving down the company's stock price.

LPS had also been engaged in a dispute with American Home Mortgage over robo-signing by its Docx. LPS contends that once it learned of the practice it discontinued it and immediately notified American Home Mortgage. The two companies have been attempting to resolve the issue since then, and American Home Mortgage sued LPS in late 2011, however, this case has now been moved to arbitration.

TECHNOLOGY DATA & ANALYTICS: AN ANNUITY-TYPE STREAM OF REVENUE DRIVEN BY TOTAL MORTGAGE LOANS OUTSTANDING

LPS's technology data & analytics (TD&A) segment consists of two divisions, mortgage processing: the company's flagship MSP platform as well other TD&A, consisting of: Desktop, the company's workflow management application for servicers and Empower, the company's mortgage origination application, along with several smaller applications and data services.

	FY08	FY09	FY10	FY11	FY12E	FY13E
MORTGAGE PROCESSING	$334.2	$388.0	$402.7	$413.1	$425.6	$425.6
Yr/Yr % Growth	*-2%*	*16%*	*4%*	*3%*	*2%*	*0%*
OTHER TD&A	$231.5	319.5	$360.0	$377.6	$333.6	$367.1
Yr/Yr % Growth	*0%*	*38%*	*13%*	*5%*	*-3%*	*10%*
SEGMENT EBITDA	$252.2	303.8	$314.5	$303.6	$297.2	$319.8
EBIT Margin	*44.6%*	*24.2%*	*41.2%*	*38.4%*	*39.1%*	*40.3%*

MORTGAGE PROCESSING

MSP: The Standard for Mortgage Servicing Software

MSP is a software application that automates essentially all the routine aspects of mortgage processing for the servicer. MSP's functionality includes: setting up the loan, processing routine payments, providing customer service for the borrower, accounting and reporting for the bondholders, and federal regulatory reporting. Along with providing the hardware to make the system run, LPS also provides on-site technical support that includes system upgrades and the ability to adjust the software to account for changes in federal regulations.

MSP Used to Service 50% of US Mortgages & Still Seeing Growth

MSP is used to service around 50% of all mortgages currently outstanding and is currently used by eight of the top 10 mortgage servicers. LPS signed seven new MSP customers in FY11, and we believe the company will continue to gain share as servicers continue to seek ways to make their operations less costly and more reliable.

Gives LPS a Foothold that it Can Use to Sell Additional Services

MSP is one of the company's strongest products and, from a sales perspective, can serve as the initial foundation for a relationship that broadens over time to include other LPS services. While a client's adoption of MSP does not in and of itself lead to them buying additional services from LPS, it does establish a deep relationship that gives LPS a view of the clients needs and challenges and creates opportunities over time to pitch additional services.

In Mortgage Servicing Price is Set by GSEs, As a Result Scale & Cost Control Determine Servicer Profitability

In mortgage servicing, pricing is generally set by GSE's Fannie Mae and Freddie Mac, with financial institutions generally earning 25 bps per loan. When a loan is performing, mortgage servicing is essentially a payment processing business, and once the initial infrastructure is in place there is only a modest incremental cost incurred by adding additional performing loans to the system. Therefore profitability increases as additional loans are added to the system and scale is achieved.

MSP: The Value Proposition

At the most basic level, mortgage servicers save the cost of developing and maintaining internal software by adopting MSP. By adopting MSP they also gain access to industry best practices around mortgage servicing which LPS has learned from other clients and incorporated into its system.

Another major advantage of MSP is regulatory compliance. LPS employs a staff of 200 focused on ensuring compliance with new and existing regulations. By outsourcing this function to LPS, the servicers also benefit from the company's ability to change the system in response to regulatory changes, freeing them from the IT costs these changes would entail. As regulatory activity has increased in housing since the end of the boom in 2008, this feature of MSP has become a greater and greater selling point for servicers.

Competition Consists Primarily of Internally Developed Software

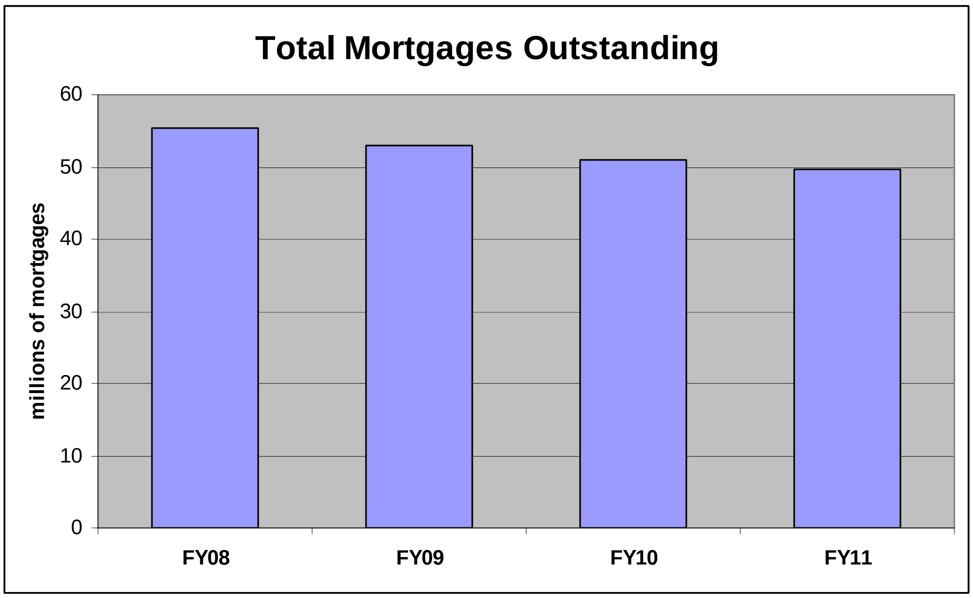
MSP's competition consists primarily of internally developed software – essentially mortgage servicers who have chosen not to outsource their servicing software. Bank of America, the largest mortgage servicer with around 20% market share, uses an internally developed system. Other major servicers who are not on the MSP platform include: Citigroup, the fourth largest with around 8% market share also uses an internal system, and GMAC/Ally Bank which uses a system owned by Fidelity National Information Services, the former parent company of LPS.

Revenue Based on Number of Loans in the System

MSP earns a per mortgage fee from its customers driven by the number of loans in their systems. Absent major new customer wins, changes in revenue should largely reflect low-single digit yr/yr changes in total mortgage loans outstanding. We believe this fee is around $15 per loan per year.

Moderate Downtrend in Total Mortgage Loans Outstanding is Modest Headwind

We note that the total volume of mortgage loans outstanding has been in a moderate downtrend since the end of the housing boom, with total mortgage loans outstanding declining from 55 million in 2008 to the current level around 50 million. Given the current backlog of four million delinquent loans, we expect this total to decline further though new mortgage originations will act as an offset, particularly as the economy strengthens. We note that to date the decline in total mortgage volumes has not impacted mortgage processing revenue with new customer wins offsetting declines.



Increased Scrutiny of Mortgage Servicers Could Lead to "Flight to Quality" Additional MSP Wins

The recent robo-signing scandal resulted in government regulatory action against mortgage servicers. Under the terms of the consent order, mortgage servicers are required to invest in technology to bring their internal systems into compliance with relevant laws and regulations and ensure their smooth functioning. While we believe the major beneficiary of this action by the government has been the company's desktop application, a workflow management system that helps handle mortgage defaults, the experience of close regulatory scrutiny may also benefit MSP as the remaining servicers look for a simple solution that keeps them current with existing laws and avoids the potential for further issues in the future.

Potential for Major Customer Win Exists

MSP continues to grow and gain share. It added seven new customers in FY11, and the company believes that over time there is the potential for additional customer wins and share gains. The servicing market also contains at least two whale customers that LPS could win in the future: Bank of America and Citigroup which would represent a 40% and 16% boost to total mortgage processing revenue if they were ever to switch from their internal systems to MSP. We note that Bank of America was once an MSP customer, prior to their acquisition of Countrywide (the company's servicing operations were much smaller back then) they switched off the system to adopt Countrywide's internal system. We believe LPS has an ongoing dialogue with both companies, though we're not in a position to predict when or if either company would make a switch to MSP.

High Contribution Margin on Incremental Revenue

MSP is LPS's highest margin product line with the company incurring only modest additional costs. While we do not know the exact contribution margin on incremental MSP volume, we believe it is nicely above the 40% EBITDA margin achieved by the TD&A segment as whole.

OTHER TD&A

Other TD&A Consists of Software for Mortgage Originations and Defaults Along With a Housing Data Business

Unlike mortgage processing, which consists mainly of MSP, other TD&A includes revenue from a number of product lines, including: Desktop, a workflow management application used to handle mortgage defaults; Empower, a mortgage origination application; and several minor lines of business, including McDash, the company's housing data provider that helps generate the LPS mortgage monitor.

DESKTOP – IMPROVING MORTGAGE DEFAULT – A BIG WINNER IN THE HOUSING CRISIS

Desktop is a Workflow Management Application for Servicers – Used Primarily to Handle Mortgage Defaults

Desktop is a work-flow management application that can be used to automate various mortgage servicing processes. While technically it can be used to automate any internal servicing process, it is most commonly used by servicers for default management. With increased scrutiny of servicers default management practices, Desktop has been widely adopted to help improve default management practices.

Increased Regulatory Oversight & Overhang of Defaults Have Led to Surge in Sales of Desktop

Perhaps more than any other LPS product line, Desktop has been a major beneficiary of the overhang of delinquent loans and the increased regulatory scrutiny affecting how servicers handle defaults. In early FY10, LPS won three major customers: Bank of America, Chase Manhattan, and Wells Fargo, that substantially increased its market share in default, and this momentum continued in FY11 with the company announcing 15 new customer wins.

Following These Wins, Desktop is Used to Handle Defaults by Servicers Representing 80% of Total Mortgages Outstanding

Following its recent wins, Desktop is now used for default management by servicers representing 80% of total mortgages outstanding. We believe the financial impact of these wins has been blunted somewhat by the delay in foreclosure activity brought about by the consent order – with servicers unwilling to go forward on delinquent loans until they were sure of their internal processes. With the recent government settlement with servicers, announced March 1st, we expect the pace of activity to pick-up.

Desktop Revenue Earned on a Per Transaction Basis; Revenue Should Rise When Foreclosure Activity Resumes

Revenue from Desktop is generally earned on a per transaction basis. This is generally set fee "for the life of the foreclosure" that occurs at the outset of the foreclosure process. While the company has won extensive share in default management software – we believe the full financial impact of these wins will only be seen when foreclosure activity resumes – likely to occur later this year. We believe the fee is generally around $40-$50 per loan. Using relatively simple math we estimate this could generate over $100 million in incremental revenue from the product as servicers work through the current backlog of four million defaulted loans.

Sales of Desktop Can Be Used to Upsell Other Default Services

Sales of Desktop also provide LPS a place within its customer's default management operations which the company can then use to up-sell the other default management solutions (reported in its LTS segment). Over the next several years, the company believes it will be able to convert its new desktop customers into customers for its default services.

Desktop Margins Similar to Segment Margin

We believe Desktop makes a positive contribution to TD&A's EBITDA margin. The product line is not as profitable as MSP, but is still quite high – with EBITDA margins around 40%.

Origination Software, Several Other Small Businesses Included in Other TD&A

Revenue from Empower, the company's mortgage origination application, is also included in other TD&A. Like MSP and Desktop, Empower plays a role in automating mortgage origination activities and provides a platform for the company to up-sell other mortgage origination services. LPS generally refers to its origination activities as a single entity though reported revenue from origination solutions is divided

We believe Desktop, and to a lesser extent Empower, are the major drivers of LPS's are Other TD&A revenue. The segment also includes revenue from several smaller businesses, including: alternative valuation services, which provides client with a range of solutions for valuing property, and information on the housing market generated by LPS's McDash database – which incorporates data from 40 million of the 50 million mortgage loans currently outstanding.

LOAN TRANSACTION SERVICES

Whereas TD&A largely consists of software sales, Loan Transaction Services (LTS) is essentially consists of business process outsourcing for mortgage companies related to origination and defaults. Relative to software, BPO carries a higher cost of sales, and this is reflected in the lower margins in LTS relative to TD&A.

	FY08	FY09	FY10	FY11	FY12E	FY13E
LOAN FACILIATION SVCS	$456.0	$547.3	$640.9	$580.1	$435.7	$329.4
Yr/Yr % Growth	*-30%*	*20%*	*17%*	*-9%*	*-21%*	*-24%*
DEFAULT SERVICES	$851.8	$1,137.2	$1,060.6	$818.8	$818.8	$1,145.3
Yr/Yr % Growth	*80%*	*34%*	*-7%*	*-17%*	*0%*	*40%*
SEGMENT EBITDA	$333.3	$406.9	$416.4	$304.1	$278.8	$348.7
EBIT Margin	*25.5%*	*24.2%*	*24.5%*	*20.8%*	*22.2%*	*23.6%*

The Business Case for Outsourcing to LPS

In both its loan facilitation services and default services, LPS allows financial institutions to outsource parts of their existing mortgage business that – while essential to the process – are unlikely to yield significant operating efficiencies or serve as areas of differentiation as they pursue their strategy. By centralizing these services and leveraging its existing expertise in streamlining and automating business processes, LPS is able to realize economies of scale that reduce costs for its customers and allow them to simplify their mortgage operations to focus on areas where they possess an advantage.

LOAN FACILIATION SERVICES

Outsourcing Business Processes Around Mortgage Origination

LPS's loan facilitation services consist of offerings from the company that allow the mortgage originator to outsource various steps of the origination process to LPS. These offerings integrate well with LPS's Empower software and other company applications.

LPS's major offerings in this area consist of the following:

- Settlement Services: LPSs settlement services include: title services, which perform the necessary steps to ensure that there are no issues with title on the property; and closing management services: which prepare closing documents for lenders.
- Appraisal Services: LPS obtains property appraisals for lenders through an appraisal management company that contracts with independent appraisers.
- Other Services: These include real estate tax information and flood zone certification.

Relationships with All the Top 20 Originators

The top 20 mortgage originators in the country, accounting for 80% of total origination volume, use certain LPS origination services. Though origination revenue declined in FY11, the company actually increased its revenue with the top 20 originators by 1% and the top 5 initiators by 2% and won 24 new origination customers for its Empower software (the 9% decline in loan facilitation services revenue came from origination activity falling off at subprime originators which are not expected to be a major source of originations going forward).

Total Origination Activity Expected to Decline in FY12, Purchase Originations Expected to Be Flat

Helped by lower interest rates, refinancing activity surged in FY09 and FY10. Refinance volumes have trailed off since then as those homeowners able to refinance have done so, declining 22% in FY11 and the MBA forecasts they will decline a further 32% in FY12. Originations from purchases of new homes have been weak since the collapse of the housing market in FY08 and are expected to be essentially flat FY12.

Recent Changes to Federal HARP Program May Create Some Lift in Refinancing

According to current estimates, some 11.1 million borrowers are underwater on their mortgages – owing more than the value of their home. This makes it difficult for them to refinance because, as part of the refi, they now must purchase mortgage insurance which offsets the savings from the lower interest rates. Since refinancing would allow these homeowners to take advantage of lower interest rates and thereby lower their monthly payment, removing barriers to refinancing has been viewed as a politically attractive option for stabilizing the housing market and providing aid to homeowners who may at risk of default. The federal government's Home Affordable Refinance Program (HARP) was implemented in 2009 to allow certain borrowers to refinance while foregoing mortgage insurance. In December 2011, the program was modified to encompass a larger pool of potential borrowers

Expect Loan Facilitation Revenue to Decline in FY12 & FY13

Given that refinancing activity is declining and existing home sales remain weak, we expect revenue in the segment to decline 21% in FY12 and an additional 24% in FY13. The extent of the decline will hinge largely on the company's degree of success in continuing to sell new services to its existing origination clients. The government HARP program may boost refinancing activity in FY12, though for now it is too soon to judge what impact it will have.

Margins May Be Modestly Higher in Loan Faciliation vs. Default Services

LPS does not provide detail on its margins for loan facilitation, however, we believe that settlement services carry relatively higher margins than appraisal services, largely due to the lower cost of sales from not having to hire an appraiser. We also believe higher margin services revenue accounts for a higher percentage of total revenue in loan facilitation relative to default services, so we believe that facilitation may at least potentially carry somewhat higher margins than default. However, lower origination volumes may reduce margins in this product line over the coming two years.

DEFAULT MANAGEMENT SERVICES

Outsourcing Business Processes Around Mortgage Default

LPS's default services consist of offerings from the company that allow the mortgage servicer to outsource various parts of their default and foreclosure processes to LPS. These offerings integrate well with LPS's Desktop software which is frequently used by servicers to handle their default process.

LPS's major offerings in this area consist of the following:

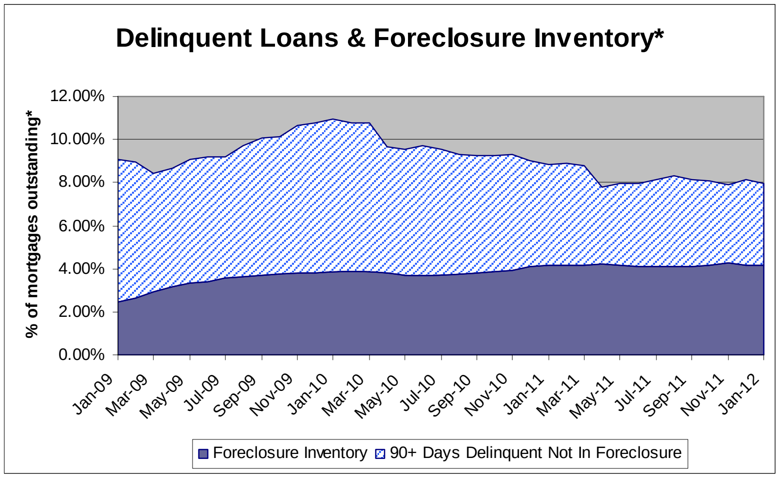
- Foreclosure Services: This essentially consists of administrative support that aids in the foreclosure process. As foreclosure is a legal service, these LPS services fall short of actual foreclosure, which would require an attorney.
- Property Inspection & Preservation Services: When a property defaults, servicers must undertake certain actions on behalf of bondholders to assess its value and, if needed, preserve it in good condition. LPS hires independent inspectors to determine the property's value and independent contractors to make necessary fixes (changing locks, replacing windows) and preserve the property.
- Asset Management, Default Title & Settlement Services: Once a property has been foreclosed it is re-possessed by the servicer. These are generally referred to as REO properties. LPS's asset management, default title & settlement services help servicers maintain the properties, ensure they hold proper title, and provide solutions for managing or auctioning these properties.

Recent Wins Customer Wins for Desktop Leave LPS Well Positioned to Gain Additional Share in Default Services

Following significant customer wins over the past two years, Desktop, LPS's workflow management software is used by institutions representing 80% of total mortgages outstanding. Over the next few years, the company believes it will be able to leverage its position in the customer's default management process to sell additional default management services, helping boost share in this segment. While market size varies year-to-year depending on the number of defaults, the total market for default services is likely to be around $5 billion, providing the company with plenty of space to grow share in this business.

Significant Backlog of Delinquent, Seriously Delinquent, and Foreclosure Pre-Sale Properties Should Drive Results in this Segment

For the past nine months, total delinquencies have held relatively steady at 8% of total outstanding mortgages or four million total loans as actions to resolve these delinquencies through foreclosure or other means were stalled by uncertainty surrounding government action against mortgage servicers. January data from the LPS Mortgage Monitor shows delinquencies as a percent of total mortgages at 8.0%, down 2% sequentially from December and 10% yr/yr. As of December a full 94% of these loans were over 90 days delinquent – the average delinquent borrower hasn't made a payment in 1½ years. Foreclosure inventory, also shown, consists of loans classified as referred to a law firm for foreclosure but not yet sold (marking the end of the foreclosure process). As of January this stood at 4.2%, flat both sequentially and yr/yr.



**Reported as a % of total mortgages outstanding. Total mortgages outstanding is currently around 50 million, down from around 55 million in 2008.*

In addition to the existing backlog of defaulted loans that have not entered foreclosure, LPS also has a potential opportunity to earn additional revenue by helping banks manage inventories of foreclosed REO properties.

Expect Rising Volumes; Market Share Gains in this Segment

Consistent with management commentary, we are modeling flat revenue from default services in FY12. However, this masks what we believe should be trough revenue in the segment in Q4-11 and Q1-12, followed by a steady increase in the following quarters. Prior to the robo-signing scandal, LPS was generating significant revenue in this segment, and we believe revenue will rise back to levels approaching those seen in FY09 and FY10 as servicers resume foreclosure activity following the recent settlement with the federal government.

Default Services Tends to be Lower Margin

While LPS should benefit from significantly higher revenue in the default services, we note that default services – particularly those tied to property management – tend to be among LPS's lowest margin offerings. This is mainly due to the high cost of sales incurred by needing to hire independent parties to inspect and maintain properties.

FINANCIAL ASSUMPTIONS

Our financial assumptions for LPS are laid out below.

TECHNOLOGY, DATA & ANALYTICS

	Q1-11	Q2-11	Q3-11	Q4-11	Q1-12E	Q2-12E	Q3-12E	Q4-12E	Q1-13E	Q2-13E	Q3-13E	Q4-13E
TD&A Revenue	$199.2	$195.3	$193.7	$192.1	$185.9	$187.9	$192.1	$193.3	$193.9	$196.1	$200.7	$202.0
Seq.	*-1%*	*-2%*	*-1%*	*-1%*	*-3%*	*1%*	*2%*	*1%*	*0%*	*1%*	*2%*	*1%*
Yr/Yr	*11%*	*5%*	*-2%*	*-4%*	*-7%*	*-4%*	*-1%*	*1%*	*4%*	*4%*	*4%*	*5%*

Assuming Essentially Flat Revenue from Mortgage Processing

Using Q4-11 as our run rate, we are modeling essentially flat revenue from mortgage processing. We do not expect this number to change much, but do see the potential for slight single digit increases or decreases in revenue depending on fluctuations in the total number of mortgages outstanding, with foreclosure activity having the potential to modestly reduce this number.

Other TD&A Should Get a Lift in Desktop Revenue as Foreclosure Activity Resumes; Empower Likely a Modest Drag on Revenue

We expect revenue from other TD&A to decline by 8% in FY11, largely due to the impact of lower foreclosure activity in the first quarter of the year and lower revenue as a result of LPS exiting several of its smaller businesses that had been recorded in this segment.

However, we expect to see a gradual sequential increase in revenue over the course of FY11 which should continue into FY12 as a result of rising foreclosure volumes boosting revenue from the company's deskptop product. Since Desktop revenue is not disclosed by the company and foreclosure activity has been stalled over the past year, blunting the financial impact of LPS's previous large customer wins in this space, this highly likely increase in revenue is difficult to model. We believe our estimates here will likely prove conservative but lack sufficient detail at present for a more accurate estimate.

Expect Modest Increase in EBITDA Margin Driven by Higher Revenue, Bump in Desktop Transactions Driven by Foreclosure Activity

We expect EBITDA margins to rise modestly driven by higher gross margin and modest expense leverage. Rising volumes of Desktop transactions as foreclosure activity resumes will likely push margins upward in FY12 and FY13.

	Q1-11	Q2-11	Q3-11	Q4-11	Q1-12E	Q2-12E	Q3-12E	Q4-12E	Q1-13E	Q2-13E	Q3-13E	Q4-13E
Segment EBITDA	$74.0	$66.4	$80.5	$77.1	$71.9	$73.0	$75.5	$76.8	$77.6	$78.4	$81.5	$82.3
EBITDA Margin	37%	34%	42%	40%	39%	39%	39%	40%	40%	40%	41%	41%

LOAN TRANSACTION SERVICES

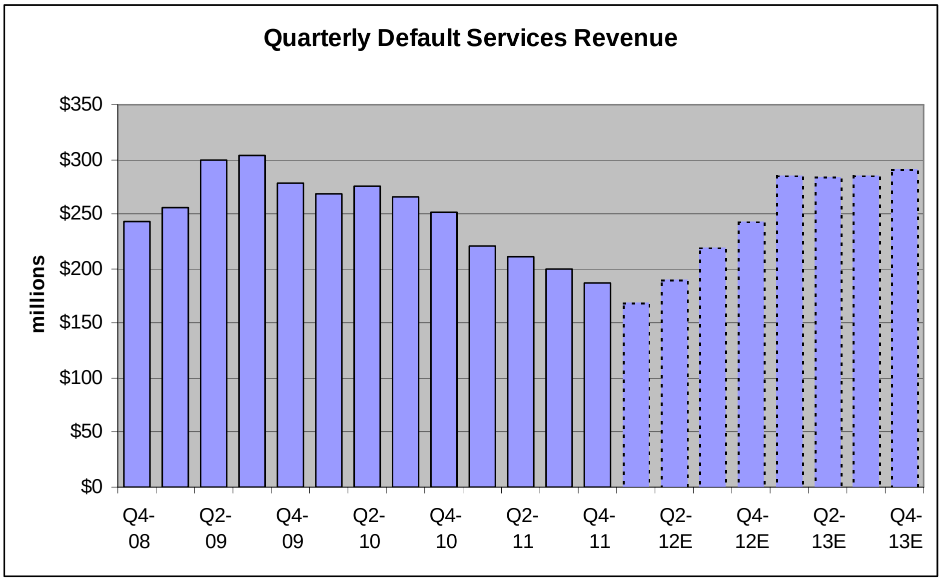
	Q1-11	Q2-11	Q3-11	Q4-11	Q1-12E	Q2-12E	Q3-12E	Q4-12E	Q1-13E	Q2-13E	Q3-13E	Q4-13E
LTS Revenue	$358.4	$323.7	$340.2	$343.0	$302.5	$307.7	$312.5	$331.8	$379.3	$389.9	$389.7	$382.0
Seq.	*-18%*	*-10%*	*5%*	*1%*	*-12%*	*2%*	*2%*	*6%*	*14%*	*3%*	*0%*	*-2%*
Yr/Yr	*-14%*	*-22%*	*-21%*	*-22%*	*-16%*	*-5%*	*-8%*	*-3%*	*25%*	*27%*	*25%*	*15%*

Loan Faciliation Revenue Should Trend Downward

Following recent surges in refinance activity, origination revenue should trend drop off over FY12. The current MBA forecast suggests refinance volumes will fall 24% in FY12. The recent changes to the government HARP program may move this number upward but it's too early to tell. We expect a 21% in loan facilitation revenue in FY12 followed by further declines in FY13. Given the significant amount of refinancing that has already occurred over the past several years, we view material declines in this product line as the most likely scenario over the next two years.

Forecast Material Lift in Default Services Revenue

We are very confident that default services revenue will rise materially above current levels over the next two years as mortgage servicers begin to work through the current backlog of four million severely delinquent loans. Our current estimates assume a gradual rise throughout FY12, followed by a return to FY10 levels in FY13 as servicers begin working through delinquent loans in earnest.



Assume Modest Rise in Margins

We are assuming a modest rise in EBITDA margins from expense leverage as revenue rises in the segment. However, many default services tend to be lower margin, particularly those around managing foreclosed property. Still, given how low revenue was in FY11, we expect to see margins rise. Improvements in mortgage originations, if they occur, could provide upside to our margin estimates for this segment.

	Q1-11	Q2-11	Q3-11	Q4-11	Q1-12E	Q2-12E	Q3-12E	Q4-12E	Q1-13E	Q2-13E	Q3-13E	Q4-13E
Segment EBITDA	$90.2	$62.1	$65.9	$80.4	$66.3	$67.7	$70.2	$74.6	$87.7	$90.4	$93.8	$91.7
EBITDA Margin	25%	19%	19%	23%	22%	22%	22%	22%	23%	23%	24%	24%

MANAGEMENT

Hugh Harris – President & CEO – Mr. Harris joined LPS in October 2011 as President & CEO, replacing Jeffrey Carbiener, former CEO of LPS, who had resigned July 2011, due to health reasons. Prior to joining LPS, he served as President of the Financial Services Technology division at FIS and in the same role at FNF prior to the spinoff of FIS. Prior to joining FNF he served in various roles in the mortgage industry including a stint as CEO of HomeSide Lending.

Lee Kennedy – Executive Chairman of the Board of Directors – Executive Chairman of the Board & Former Interim CEO – Mr. Kennedy has served on the Board of LPS since 2008. Following the departure of Jeffrey Carbiener, he served as interim-CEO of LPS. From 2006 to 2009 he served as President & CEO of FIS, the parent company of LPS. Prior to that, he served in various executive roles at Certergy and Equifax.

Thomas Schilling – EVP & CFO – Mr. Schilling joined LPS in 2010 as EVP & CFO. Prior to joining LPS he was CFO of USA Mobility, a provider of pagers and wireless services. Prior to that, he served in various roles at Cincinnati Bell, a diversified telecom company, including CFO.

Daniel Scheuble – EVP & COO – Mr. Scheuble has been with LPS since it was spun-off from FIS. Prior to the spin-off he served as EVP of the Mortgage Processing Services division. Prior to joining FIS he served in various executive roles at GMAC Residential and HomeSide Lending.

Todd Johnson – EVP, General Counsel & Corporate Secretary – Mr. Johnson has been with LPS since it was spun-off from FIS. Prior to the spin-off, he served as Assistant General Counsel and Corporate Secretary of FIS and also played this role at FNF, the parent company which spun out FIS. Prior to joining FNF, he was a partner in the Corporate and Securities practice group of Holland & Knight LLP.

Joseph Nackashi – EVP & CIO – Mr. Nackashi has has been with LPS since it was spun-off from FIS. Prior to the spin-off, he served as SVP & CTO prior to that he served in various corporate roles at FIS and its predecessor companies.

Compensation

Management bonuses at LPS are set based on targeted levels of revenue, adjusted net earnings, and FCF.

Insider Ownership

Officers and directors own 4.0% of LPS. Jeffrey Carbiener, former CEO, owns 2.0%.

LENDER PROCESSING SERVICES (NYSE: LPS)
(FY Ends December)

INCOME STATEMENT	2009	2010	2011	Q1-12E	Q2-12E	Q3-12E	Q4-12E	2012E	Q1-13E	Q2-13E	Q3-13E	Q4-13E	2013E
Revenue	2,370.548	2,456.335	2,139.639	486.900	494.100	503.100	523.600	2,007.700	563.300	565.600	567.000	565.500	2,261.400
Cost of Revenue	1,571.003	1,642.075	1,471.500	329.936	334.452	338.402	353.102	1,355.891	378.980	380.339	375.843	374.406	1,509.567
Gross Profit	799.545	814.260	668.139	156.965	159.648	164.699	170.498	651.809	184.321	185.262	191.157	191.094	751.833
Selling, General & Administrative	267.339	257.350	397.202	70.972	66.233	66.251	66.338	269.795	68.178	67.851	68.108	68.234	272.371
Total Operating Expenses	267.339	257.350	397.202	70.972	66.233	66.251	66.338	269.795	68.178	67.851	68.108	68.234	272.371
Operating Income, GAAP	532.206	556.910	270.937	85.993	93.415	98.447	104.160	382.015	116.142	117.411	123.049	122.860	479.462
Operating Income, Adjusted	541.191	570.979	409.658	85.993	93.415	98.447	104.160	382.015	116.142	117.411	123.049	122.860	479.462
EBITDA	667.155	701.817	549.635	119.243	126.665	131.697	137.410	515.015	149.392	150.661	156.299	156.110	612.462
Interest Income	1.654	1.316	1.460	0.361	0.355	0.349	0.343	1.407	0.337	0.331	0.325	0.319	1.311
Interest Expense	(84.630)	(70.850)	(67.392)	(16.088)	(16.088)	(16.088)	(16.088)	(64.353)	(16.088)	(16.088)	(16.088)	(16.088)	(64.353)
Other Income (expense), net	(0.248)	0.273	(0.192)	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Total Other Income (expense)	(83.224)	(69.261)	(66.124)	(15.728)	(15.734)	(15.740)	(15.746)	(62.946)	(15.752)	(15.758)	(15.764)	(15.770)	(63.042)
Earnings before Income Taxes	448.982	487.649	204.813	70.265	77.682	82.708	88.414	319.069	100.391	101.653	107.285	107.090	416.420
Provision for Income Taxes	171.735	185.305	73.911	26.349	29.131	31.015	33.155	119.651	37.647	38.120	40.232	40.159	156.157
Net Income, Continuing Operations	276.233	302.344	130.902	43.916	48.551	51.692	55.259	199.418	62.744	63.533	67.053	66.932	260.262
Discontinued Operations, net	(0.504)	0.000	(34.359)	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Net Earnings, GAAP	275.729	302.344	96.543	43.916	48.551	51.692	55.259	199.418	62.744	63.533	67.053	66.932	260.262
Adjusted Net Earnings	303.701	326.433	228.909	46.416	51.051	54.192	57.759	209.418	65.244	66.033	69.553	69.432	270.262
EPS, GAAP	$2.87	$3.23	$1.13	$0.52	$0.57	$0.61	$0.65	$2.36	$0.74	$0.74	$0.79	$0.78	$3.05
EPS, Adjusted	$3.16	$3.49	$2.67	$0.55	$0.60	$0.64	$0.68	$2.48	$0.77	$0.77	$0.82	$0.81	$3.17
Shares Outstanding	96.152	93.559	85.698	84.432	84.439	84.415	84.430	84.429	85.277	85.283	85.259	85.274	85.273
INCOME STATEMENT METRICS													
Gross Margin	33.7%	33.1%	31.2%	32.2%	sos	32.7%	32.6%	32.5%	32.7%	32.8%	33.7%	33.8%	33.2%
EBITDA Margin	28.1%	28.6%	25.7%	24.5%	25.6%	26.2%	26.2%	25.7%	26.5%	26.6%	27.6%	27.6%	27.1%
Net Margin	12.8%	13.3%	10.7%	9.5%	10.3%	10.8%	11.0%	10.4%	11.6%	11.7%	12.3%	12.3%	12.0%
D&A	97.9	98.8	98.8	25.0	25.0	25.0	25.0	100.0	-	-	-	-	-
CAPEX	(98.8)	(108.3)	(104.9)	(27.0)	(27.0)	(27.0)	(27.0)	(108.0)	(27.0)	(27.0)	(27.0)	(27.0)	(108.0)
FCF	344.9	340.4	373.0	44.8	44.2	46.5	46.7	182.2	26.8	60.7	64.0	65.4	216.8

LENDER PROCESSING SERVICES (NYSE: LPS)
(FY Ends December)

BALANCE SHEET	2009	2010	2011	Q1-12E	Q2-12E	Q3-12E	Q4-12E	2012E	Q1-13E	Q2-13E	Q3-13E	Q4-13E	2013E
Cash & Equivalents (excl. restricted cash)	70.528	52.287	77.355	122.128	166.313	212.844	259.591	259.591	286.347	347.031	410.982	476.407	476.407
Trade Receivables	401.333	419.647	345.048	321.033	325.780	331.714	345.231	345.231	371.407	372.923	373.846	372.857	372.857
Other Recievables	3.770	4.910	1.423	1.423	1.423	1.423	1.423	1.423	1.423	1.423	1.423	1.423	1.423
Prepaid Expenses and Other Current Assets	26.985	38.328	33.004	29.214	29.646	30.186	31.416	31.416	28.165	28.280	28.350	28.275	28.275
Deferred Income Taxes	47.528	44.102	74.006	74.006	74.006	74.006	74.006	74.006	74.006	74.006	74.006	74.006	74.006
TOTAL CURRENT ASSETS	550.144	559.274	530.836	547.804	597.169	650.173	711.666	711.666	761.348	823.663	888.607	952.968	952.968
PP&E	113.108	123.897	121.245	119.245	117.245	115.245	113.245	113.245	111.245	109.245	107.245	105.245	105.245
Capitalized Computer Software	185.376	217.573	228.882	235.882	242.882	249.882	256.882	256.882	263.882	270.882	277.882	284.882	284.882
Other Intangible Assets	72.796	58.269	39.140	36.140	33.140	30.140	27.140	27.140	24.140	21.140	18.140	15.140	15.140
Goodwill	1,166.142	1,159.539	1,132.828	1,132.828	1,132.828	1,132.828	1,132.828	1,132.828	1,132.828	1,132.828	1,132.828	1,132.828	1,132.828
Other Non-current Assets	109.738	133.291	192.484	192.484	192.484	192.484	192.484	192.484	192.484	192.484	192.484	192.484	192.484
TOTAL ASSETS	2,197.304	2,251.843	2,245.415	2,264.383	2,315.748	2,370.752	2,434.245	2,434.245	2,485.927	2,550.242	2,617.186	2,683.547	2,683.547
CPTLD	40.100	145.154	39.310	39.310	39.310	39.310	39.310	39.310	39.310	39.310	39.310	39.310	39.310
Accounts Payable	38.166	51.610	43.105	39.882	40.428	40.906	42.683	42.683	41.646	41.795	41.301	41.144	41.144
Accrued Salaries & Benefits	54.376	55.230	64.383	53.559	54.351	55.341	57.596	57.596	45.064	45.248	45.360	45.240	45.240
Recording & Transfer Liabilities	15.208	10.879	11.901	9.738	9.882	10.062	10.472	10.472	16.899	16.968	17.010	16.965	16.965
Income Taxes Payable	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Other Accrued Liabilities	154.922	145.203	235.209	235.209	235.209	235.209	235.209	235.209	235.209	235.209	235.209	235.209	235.209
Deferred Revenues	66.602	57.651	64.078	58.428	59.292	60.372	62.832	62.832	56.330	56.560	56.700	56.550	56.550
TOTAL CURRENT LIABILITIES	369.374	465.727	457.986	436.126	438.472	441.200	448.102	448.102	434.458	435.090	434.890	434.418	434.418
Deferred Revenue	37.681	36.893	34.737	31.649	32.117	32.702	34.034	34.034	36.615	36.764	36.855	36.758	36.758
Deferred Income Taxes, net	65.215	96.732	122.755	122.755	122.755	122.755	122.755	122.755	122.755	122.755	122.755	122.755	122.755
Long-term Debt	1,249.250	1,104.247	1,109.850	1,109.850	1,109.850	1,109.850	1,109.850	1,109.850	1,109.850	1,109.850	1,109.850	1,109.850	1,109.850
Other Non-current Liabilities	19.926	22.030	32.099	32.099	32.099	32.099	32.099	32.099	32.099	32.099	32.099	32.099	32.099
TOTAL LIABILITIES	1,741.446	1,725.629	1,757.427	1,732.479	1,735.293	1,738.605	1,746.840	1,746.840	1,735.777	1,736.558	1,736.449	1,735.879	1,735.879
Non-controlling Minority Interest	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
SHAREHOLDER'S EQUITY	455.858	526.214	487.988	531.904	580.455	632.147	687.406	687.406	750.150	813.683	880.737	947.668	947.668
Book Value Per Share	$4.74	$5.62	$5.69	$6.30	$6.87	$7.49	$8.14	$8.14	$8.80	$9.54	$10.33	$11.11	$11.11
Tangible Book Value	($10.07)	($9.72)	($10.65)	($10.34)	($9.81)	($9.25)	($8.64)	($8.64)	($7.86)	($7.17)	($6.43)	($5.69)	($5.69)
Debt-to-Total Capital	74%	70%	70%	68%	66%	65%	63%	63%	61%	59%	57%	55%	55%
Cash Per Share	$0.73	$0.56	$0.90	$1.45	$1.97	$2.52	$3.07	$3.07	$3.36	$4.07	$4.82	$5.59	$5.59

LENDER PROCESSING SERVICES (NYSE: LPS)
(FY Ends December)

STATEMENT OF CASH FLOWS	2009	2010	2011	Q1-12E	Q2-12E	Q3-12E	Q4-12E	2012E	Q1-13E	Q2-13E	Q3-13E	Q4-13E	2013E
NET INCOME	275.729	302.344	96.543	43.916	48.551	51.692	55.259	199.418	62.744	63.533	67.053	66.932	260.262
Depreciation & Amortization	97.922	98.761	98.828	25.000	25.000	25.000	25.000	100.000	0.000	0.000	0.000	0.000	0.000
Amortization of Debt Issuance Costs	5.404	4.716	10.017	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Asset Impairment Charges	0.000	0.000	71.995	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Loss on Sale of Discontinued Ops	(2.574)	0.000	0.849	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Deferred Income Taxes, net	25.463	30.417	(4.761)	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Stock-based Compensation	28.042	32.077	41.709	9.300	9.300	9.300	9.300	37.200	9.300	9.300	9.300	9.300	37.200
Income Tax Effect of Equity Compensation	(2.921)	(0.165)	0.873	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Other	1.014	0.000	0.000	(9.300)	(9.300)	(9.300)	(9.300)	(37.200)	15.700	15.700	15.700	15.700	62.800
Trade Recievables	(49.602)	(17.802)	72.446	24.015	(4.747)	(5.934)	(13.516)	(0.183)	(26.176)	(1.516)	(0.923)	0.989	(27.626)
Other Recievables	13.637	(1.126)	3.303	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Prepaid Expenses and Other Assets	(11.578)	(22.859)	(6.274)	3.790	(0.432)	(0.540)	(1.230)	1.588	3.251	(0.115)	(0.070)	0.075	3.141
Deferred Revenue	11.316	(11.687)	3.975	(8.739)	1.332	1.665	3.793	(1.949)	(3.921)	0.379	0.231	(0.248)	(3.559)
Accounts Payable, Accrued Liabilities and Other Liabilities	51.836	34.018	88.356	(16.210)	1.482	1.647	4.442	(8.638)	(7.142)	0.402	(0.340)	(0.323)	(7.402)
Other	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
NET CASH USED IN OPERATING ACTIVITIES	443.688	448.694	477.859	71.773	71.186	73.531	73.747	290.236	53.756	87.684	90.951	92.425	324.816
Capital Expenditures - PP&E	(40.890)	(40.653)	(32.768)	(7.000)	(7.000)	(7.000)	(7.000)	(28.000)	(7.000)	(7.000)	(7.000)	(7.000)	(28.000)
Capital Expenditures - Capitalized Software	(57.885)	(67.603)	(72.111)	(20.000)	(20.000)	(20.000)	(20.000)	(80.000)	(20.000)	(20.000)	(20.000)	(20.000)	(80.000)
Acquisitions	(48.322)	(23.224)	(33.769)	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Other	(32.638)	(20.956)	(17.058)	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
NET CASH USED IN INVESTING ACTIVITIES	(179.735)	(152.436)	(155.706)	(27.000)	(27.000)	(27.000)	(27.000)	(108.000)	(27.000)	(27.000)	(27.000)	(27.000)	(108.000)
Debt	(254.497)	(40.109)	(95.242)	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Debt Buy-backs	(8.000)	0.000	(4.925)	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Stock Issuance	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Stock Re-Purchases	(22.757)	(246.549)	(136.878)	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Dividends	(38.306)	(37.139)	(34.446)	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Other	4.169	9.298	(25.594)	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
NET CASH USED IN FINANCING ACTIVITIES	(319.391)	(314.499)	(297.085)	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
INCREASE (DECREASE) IN CASH	(55.438)	(18.241)	25.068	44.773	44.186	46.531	46.747	182.236	26.756	60.684	63.951	65.425	216.816
Cash from Operations	443.688	448.694	477.859	71.773	71.186	73.531	73.747	290.236	53.756	87.684	90.951	92.425	324.816
Less: Capex	(98.775)	(108.256)	(104.879)	(27.000)	(27.000)	(27.000)	(27.000)	(108.000)	(27.000)	(27.000)	(27.000)	(27.000)	(108.000)
FCF	344.913	340.438	372.980	44.773	44.186	46.531	46.747	182.236	26.756	60.684	63.951	65.425	216.816

Analyst Certification

I, **Ty Lilja**, certify that the views expressed in this research report accurately reflect my personal views about the subject company and its securities. **I** also certify that **I** have not been, am not, and will not be receiving direct or indirect compensation related to the specific recommendations expressed in this report.

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The analyst **has not** received any compensation for any investment banking business with this company in the past twelve months and **does not** expect to receive any in the next three months.

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Strong Buy: The stock is expected to have total return potential of at least 30%. Catalysts exist to generate higher valuations, and positions should be initiated at current levels.
Buy: The stock is expected to have total return potential of at least 15%. Near term catalysts may not exist and the common stock needs further time to develop. Investors requiring time to build positions may consider current levels attractive.
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Sell: Expect a negative total return. Current positions may be used as a source of funds.

3/29/2012

Ratings Distribution for Feltl and Company

			------ Investment Banking ------	
Rating	Number of Stocks	Percent of Total	Number of Stocks	Percent of Rating category
SB/Buy	44	63%	3	7%
Hold	24	34%	0	0%
Sell	2	3%	0	0%
	70	100%	3	4%

The above represents our ratings distribution on the stocks in the Feltl and Company research universe, together with the number in (and percentage of) each category for which Feltl and Company provided investment-banking services in the previous twelve months.

Date	Nature of Report	Rating	Price Target
3/29/12	Initiation @ $25.55	HOLD	$26.00

Feltl and Company **does** make a market in the subject security at the date of publication of this report. As a market maker, Feltl and Company could act as principal or agent with respect to the purchase or sale of those securities.

Valuation and Price Target Methodology:

We considered historical EV/EBITDA and ratios for Lender Processing Services in arriving at our target price.

Risks to Achievement of Estimates and Price Target:

- **Uncertain Financial Impact from Previous Document Execution Practices –** LPS practices around document execution in its default services operation were found to be inadequate by federal regulators, and the company discontinued these practices in early 2010. At present LPS is being sued by state attorney generals, and we believe a financial settlement similar to that recently reached between the government and mortgage servicers is likely in the future. The full financial impact of these issues cannot be fully determined at present.
- **Government Intervention in Housing Market –** The housing crisis has resulted in significant scrutiny of the mortgage market by states and the federal government. Changes in government policy may affect LPS's business in unpredictable ways, including higher costs to comply with new and existing regulations, swings in mortgage refinancing and origination driven by government programs, and changes in the pace of foreclosures.
- **Potential for Further Investigations, Legal Action –** LPS has been sued by the state attorney generals and had its operations inspected by federal regulators as a result of the consent order process. The issues identified by these actions appear to have been largely addressed. However, given the politically charged nature the current mortgage market, there is a potential risk that further regulatory or legal action could be brought against the company at a future date.
- **Business Affected by State of the Economy and Housing Market –** Demand for LPS's services is affected by the state of the economy and the state of the housing market with total mortgages outstanding, mortgage originations and refinancing activity, and mortgage default activity all affected by swings in the economy.
- **Customer Concentrations – I**n FY11, the company's largest customer, Wells Fargo, accounted for 22% of total revenue at LPS. The company's second largest customer JPMorgan Chase accounted for 17% of revenue, and the company's five largest customers accounted for 56% of total revenue. This concentration in part reflects the concentrated nature of the market for mortgage servicing and for this reason we believe it is likely to continue into the future.

Other Disclosures:

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