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PRESENTATION

Operator

Good morning, and welcome to the Realogy Holdings Corp. First Quarter 2019 Earnings Conference Call via webcast. Today's call is being recorded and a written transcript will be made available in the Investor Information section of the company's website later today. A webcast replay will also be made available on the company's website. At this time, I would like to turn the conference over to Realogy Senior Vice President, Alicia Swift. Please go ahead, Alicia.

Alicia Swift - *Realogy Holdings Corp. - SVP of Financial Planning & Analysis and IR*

Thank you, Natalya. Good morning, and welcome to the Realogy's first quarter 2019 earnings conference call. On the call with me today are Realogy's CEO and President, Ryan Schneider; Chief Financial Officer, Charlotte Simonelli; and Chief Accounting Officer, Tim Gustavson.

As shown on Slide 3 of the presentation, the company will be making statements about its future results and other forward-looking statements during this call. These statements are based on the current expectations and the current economic environment. Forward-looking statements and projections are inherently subject to significant economic, competitive and other uncertainties and contingencies, many of which are beyond the control of management. Actual results may differ materially for those expressed or implied in the forward-looking statements. For those who listen to the rebroadcast of this presentation, we remind you that the remarks made herein are as of May 2 and have not been updated subsequent to the initial earnings call. Important assumptions and other important factors that could cause actual results to differ materially from those in the forward-looking statements are specified in our earnings release issued today as well as our annual and quarterly SEC filings.

Also, certain non-GAAP financial measures will be discussed on this call and, per SEC rules, important information regarding these non-GAAP financial measures is included in our earnings press release. Now I will turn it over to our CEO and President, Ryan Schneider.

Ryan M. Schneider - *Realogy Holdings Corp. - CEO, President & Director*

Thank you, Alicia. Good morning, everyone. We have a lot to cover today. The most important thing to start with is that we are moving aggressively in our strategy execution and on streamlining our operations. I'd like to start by introducing Charlotte Simonelli, Realogy's new Chief Financial

Officer. Charlotte joined us in late March from Johnson & Johnson and has been quickly getting up to speed. Now that Charlotte's here, let me take a minute and share with you what I was looking for in our next CFO.

Given the housing market and competitive challenges we face, my highest priority was to find a partner who would be world-class at driving operating performance with a special strength and track record around reimagining and reengineering the expense side of large businesses. Both are increasingly critical for us to unlock here additional shareholder value. I am excited Charlotte's here and I look forward to working closely with her.

Shifting to housing. We are encouraged by some of the recent things happening in the macro environment. Mortgage rates are down a bit. Inventory is up in some of the most constrained markets and both GDP and low unemployment bode well for the health of the economy. Anecdotally, we're hearing more positive feedback from our agents and franchisees than we have heard in a while. And it goes without saying, given how much the housing market impacts our P&L, we are excited for improvement. We have a strong company foundation, a market-leading position, great brands, technology and data scale and the free cash flow to invest in the business. We are driving substantial change in the company to better leverage those strengths to improve financial performance in the future.

With that setup, let me cover some Q1 financial highlights. As we all experienced together, we entered 2019 coming off a very challenging Q4 2018 with industry transaction volume down 4% year-over-year in the quarter. In fact, 2018 overall was a pretty challenging year for the housing industry with no growth in home sale transaction volume and the number of industry housing transactions actually down compared to previous years.

Realogy's Q1 2019 operating EBITDA was negative $4 million in what was another tough quarter for the housing market. A 9% transaction volume decline drove our revenue decline in the quarter. In Q1, we made substantial progress and started to get the benefits from the expected $70 million in cost reductions for the year that we shared with you in the last call. We are not resting and continue to look for more efficiencies.

Our volume was lower than NAR's, which was down 4% year-over-year, and our variance was driven primarily by 2 factors. First, geographic mix. Industry volume in California was down significantly more than the national average, and we have a very high concentration in California. It makes up over 25% of NRT's volume. Second, an even greater increase in the competitive environment that began in late 2018, especially in a few specific markets.

For the full year 2019, we still agree with forecasters that industry transaction volume will likely improve sequentially each quarter. We told you last quarter we expect the first half of 2019 for us to have negative transaction volume growth in each quarter with Q2 better than Q1 before shifting to positive transaction volume growth in the second half of the year. We also expect the geographic mix pressure at NRT to persist in the near term. Given the environment, we must keep investing to improve our value proposition to create even more and even better offerings to attract and retain our agents and franchisees, and we're doing this at a faster pace than ever. We continue to expand initiatives we've previously told you about, such as our new commission plans are now live or in pilot in nearly all of our markets nationally. They're incredibly important for us to deliver greater recruiting success going forward to grow our business. Listing Concierge has now expanded to about half the country and we'll be fully national later this year. This product is a good example of leveraging our scale to deliver a great marketing product to our agents. It continues to help our agents win listings and earn higher commission rates from customers than agents in the same market who are not using the product.

Finally, we've told you before about our emerging partnership with Facebook and Instagram, and in Q1 of 2019, together, we delivered a new product, Social Ad Engine, that lets agents do an automated marketing campaign on Instagram and Facebook in about 3 minutes that leverages Facebook's marketing best practices and Realogy's AI technology. We launched at our annual conference in March and already have close to 7,000 agents connected to the program.

In terms of new products, nearly 11,000 of our agents and franchisees gathered in March for our annual conference. At that event, we shared new lead generation products and new technology offerings. Delivering this volume of new products quickly demonstrates our commitment to moving faster on our value proposition to increasingly attract and retain agents and franchisees and to help them close more transactions.

Finally, our iBuying product cataLIST is part of our agent value proposition today in 3 cities in a capital-light way in partnership with Home Partners of America. At our March event, we announced that in Q2, we will expand the cataLIST product to our franchisees in those 3 cities, and we will expand cataLIST to new cities later in the year. We are moving faster than ever to bring more value to both our agents and our franchisees while we continue to drive efficiencies through the business. So let me now turn the floor over to Charlotte to review our financial results.

Charlotte C. Simonelli - *Realogy Holdings Corp. - Executive VP, CFO & Treasurer*

Thank you, Ryan. Good morning, everyone. I am excited to be here at Realogy and look forward to working with Ryan and the team to drive improved business performance. The competitive environment continues to evolve, and we are further leveraging technology and data to win in the marketplace. I am energized by the challenges, the opportunities and the great team we have in place to tackle both.

Let's get right into Q1 2019 operating performance, starting with our consolidated results on Slide 5. Total net revenue in the first quarter was $1.1 billion, a decline of $115 million or 9% below Q1 2018 primarily due to lower NRT revenue. Operating EBITDA was negative $4 million, a decline of $38 million from Q1 2018 and in line with our expectations for the quarter. Expenses decreased by $74 million due to the lower overall commissions and operating costs.

Q1 2019 net loss was $99 million compared to a net loss of $67 million in Q1 2018, due predominantly to the decline in transaction volumes and an increase in interest expense of $30 million. The interest expense increase was driven by a $26 million swing in the mark-to-market on our interest rate swaps.

In Q1 2019, we experienced a $14 million mark-to-market loss on our interest rate swaps versus a $12 million gain in Q1 2018. The Q1 2019 net loss was partially offset by lower expenses driven by commissions and the carryforward benefit from restructuring programs. Adjusted net loss per share was $0.67 compared to an adjusted net loss of $0.38 in Q1 2018.

Now let's turn to cash flow and the balance sheet. Free cash flow was negative $172 million in the quarter, typical for Q1 due to the seasonal trough. During the quarter, we raised $550 million of 9.375% senior notes with an 8-year term. For the year, with the new senior notes, we expect cash interest expense to be approximately $200 million. Our leverage increased to 5.2x in Q1 2019 from 4.6x at year-end 2018. As you know, Q1 is always our smallest quarter with negative free cash flow. The second to fourth quarters are expected to generate positive free cash flow. Our balance sheet continues to provide us with financial flexibility and we will prioritize investing in the business and reducing leverage until we achieve leverage below 4x.

Now let's move into a Q1 2019 year-over-year review of segment operating performance on Slides 6 and 7. RFG revenue declined $13 million, largely due to a decrease in intercompany royalties from NRT and domestic royalties driven by lower volumes. RFG revenue includes intercompany royalties received from NRT of $53 million. RFG operating EBITDA was $90 million, a decrease of $15 million due predominantly to the reduction in revenue. NRT revenue decreased $101 million largely due to lower transaction volume. Operating EBITDA was negative $62 million, a decrease of $17 million due to lower revenue and higher agent commission splits, partially offset by lower employee costs.

Q1 2019 agent commission splits were up 45 basis points year-over-year. On a like-for-like basis, splits were up 80 basis points, which is 31 basis points lower than the increase we saw in Q4 2018 due predominantly to geographic mix and improvement in our new development business. The 45 basis points year-over-year increase was affected by the increasing rollout of our new commission plans over the last 6 months. Remember that these new commission plans are meant to have more aspirational pricing to incent higher productivity and include charging additional fees. Given our rollout progress, these fees are becoming a more meaningful part of our agent economics and are recorded as a contra commission expense. This explains the 35 basis point difference between the 80 basis points like-for-like and the actual result of 45 basis points. You should assume the impact of these fees will be less than 35 basis points in higher volume quarters, but this is expected to continue to be a part of our agent commission expense story.

Cartus revenue decreased $3 million primarily due to a decrease in referral revenue. Operating EBITDA was $2 million, an increase of $3 million year-over-year as cost savings more than offset the decline in revenue. TRG revenue decreased $6 million primarily due to lower resale revenue. Operating EBITDA for TRG was negative $9 million, down $3 million due to the decline in resell revenue, partially offset by an increase of $3 million in GRA mortgage JV earnings. We continue to expect the GRA mortgage JV to modestly contribute to profitability for the remainder of 2019.

Turning to Slide 8. During the quarter, we incurred $12 million of restructuring costs associated with our cost savings initiatives. We expect approximately $53 million of restructuring costs through 2019 to contribute to approximately $70 million in cost savings in the year. We are aggressively pursuing even more cost efficiencies throughout the business.

Wrapping up, I am excited to be here at Realogy, an industry leader with unmatched scale and substantial cash flow generation in both good and tough housing markets. To reiterate, I look forward to working with the team to leverage the company's resources including technology and data analytics to drive improved business results going forward. I am moving quickly to explore further operational efficiencies and simplification to drive improved shareholder value. Now let me turn it back to Ryan for some closing remarks.

Ryan M. Schneider - *Realogy Holdings Corp. - CEO, President & Director*

Thank you, Charlotte. So let me step back for a minute and talk about strategy. It was about a year ago when we began to share our current strategy with you. Our current strategy is focused on organic growth and is based on using technology and data to enhance our value proposition for current and potential agents and franchisees. It also includes more aspirational commission plans to drive recruiting and productivity, making strides on cost and changing how we run the company to move much faster.

Shifting to execution. We've demonstrated substantial progress. We're excited about many new things we're doing and we get good feedback on our pace of change. However, while we're working to change our financial trajectory, it has not happened yet. The housing market being down the past few quarters hasn't helped. And equally important, the competitive environment has gotten even tougher recently especially from a few companies who seem fine losing money.

Given all that there's four things I wanted to share. First, we must stay incredibly focused on executing what we're doing strategically in the market. Improving our value proposition, driving more transactions, lowering our cost and moving faster are all needed to compete today given the dynamics in the market. Second, we need to do more and we need to do it rapidly. So for example, at our March conference, we shared it with our agents a bold new effort we call FastTrack to reinvent the transaction process. FastTrack will leverage our industry-leading agent scale, national title business, mortgage expertise and our partner Home Partners of America's homebuying capabilities to see if we can shorten the transaction process from months to something like a week. By doing the mortgage and title work specific to the house in advance, with Home Partners of America's homebuying as a backstop, we believe we can substantially shorten the closing time frame and increase the certainty of close. Many competitors talk about making money from ancillary services like title and mortgage. We actually do that today. Many competitors talk about reinventing the transaction process. We actually have the business components to do it. And so while it's early, if we can make FastTrack work it would be really impactful for consumers, for agents and for us. It would create a much better customer experience. It would help us capture more transactions and generate more ancillary services revenue. And that is also the kind of unique product Realogy could provide its agents, creating beneficial differentiation helping us recruit and retain. It's an opportunity to leverage Realogy's strengths to think bigger and drive more results.

Third, we're not only going to execute on the cost opportunities we shared in the last quarter, but with Charlotte's leadership, we are looking to be even more aggressive streamlining our operations.

Finally, I am on the hunt for new and bigger ideas that can change our company and even the industry. I know we have to keep thinking bigger given the industry dynamics and our need to create more shareholder value. With that Charlotte and I will take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from the line of Jason Deleeuw with Piper Jaffray.

Jason Scott Deleeuw - *Piper Jaffray Companies, Research Division - VP & Senior Research Analyst*

Just looking for a little color on RFG, it seemed a little weaker than what we would have thought with the sites. And just wondering if there's any franchisee switching around there or is there any competitive environment impact on the RFG part of the business.

Ryan M. Schneider - *Realogy Holdings Corp. - CEO, President & Director*

Great question. The biggest thing that we've talked about was what was happening with California and then a few specific cities, which is a little more talking about what's concentrated in NRT. RFG being a little below NAR was a little bit more of a mix of cats and dogs. So we were actually overweight in California in RFG also, nowhere near as much as NRT but we are overweight there. That had a bit of an impact. There were a couple of other geographies that had some impact. It wasn't a switching or terminations or anything like that. It was more of a cats and dogs kind of thing, and our franchisee health remains good. We're watching days of sales outstanding, which is kind of the delinquency metric we track. It's not really moving or anything. So that one was more of a cats and dogs thing, though both the California thing and a little bit a competitive thing swept RFG in, but neither one's extreme as on the NRT side.

Jason Scott Deleeuw - *Piper Jaffray Companies, Research Division - VP & Senior Research Analyst*

And then I'm just looking for additional color on the net agent growth last quarter. The piloted markets, I believe you were seeing 5% net agent growth. And I'm just wondering as it continues to roll out what are you seeing the net agent growth? And are you comfortable with the strategy as is? Or have you made tweaks? Or how are you thinking about the strategy going forward?

Ryan M. Schneider - *Realogy Holdings Corp. - CEO, President & Director*

Yes. We're always evolving both on like individual strategies kind of at the market level as well as kind of some of the stuff I closed at in terms of trying to think bigger. The reality is our net agent growth if you look year-over-year is basically flat. We have some markets that are up very substantially that we're a little excited about. But there have also been a few markets, there's like 4 in particular that I kind of referenced in the -- when I talked about some of the -- what happened in the kind of Q4 competitively, where it's -- the competitive intensity changed pretty dramatically when the housing market kind of had a bad patch. And then those markets, it's gone in the other direction. So overall, it's been about flat. We've got a lot of markets we like the results in, but we definitely have some where it's been more challenging. I think our agents are liking the new products that we're putting out there in the market, having cataLIST in some cities, listing Concierge and our commission rollout is pretty much national now. So that's a little more color on that.

Operator

Our next question comes from the line of Jack Micenko with SIG.

John Gregory Micenko - *Susquehanna Financial Group, LLLP, Research Division - Deputy Director of Research*

Charlotte, welcome. I guess my first question, for you. On the expense side, given Ryan's prepared comments, maybe an unfair question, but talking about the $70 million remaining on track this year, clearly looking for more. If the revenue trends this year continue at a slower clip, I mean how quickly can we expect to hear more on the expense side from you? And are you looking at it in the context of absolute dollars? Or are you looking at it more in terms of positive operating leverage or at least matching the leverage if revenue were to slow further? Just some thoughts on what you think we can expect from that in the next couple of quarters.

Charlotte C. Simonelli - *Realogy Holdings Corp. - Executive VP, CFO & Treasurer*

Yes. Well, as you pointed out, it's still early days, but what I can say is in the early days that I have been here, I do see opportunities to drive additional efficiencies in-year but also for future years to come. There's things that we're going to do that will impact this year and also set us up for the future. So I do feel very good about the $70 million that's already there, and I'm definitely optimistic there's more that we're going to deliver this year.

John Gregory Micenko - *Susquehanna Financial Group, LLLP, Research Division - Deputy Director of Research*

So do you think there's upside to $70 million in 2019?

Charlotte C. Simonelli - *Realogy Holdings Corp. - Executive VP, CFO & Treasurer*

I do.

John Gregory Micenko - *Susquehanna Financial Group, LLLP, Research Division - Deputy Director of Research*

Okay. Okay. Great. And then Ryan, on cataLIST, I know you're in the 3 markets, sounds like you're moving -- expanding into the franchisee side. Any plans to take that to other brands? And can you share with us the markets you think you're looking at and to expand to from here?

Ryan M. Schneider - *Realogy Holdings Corp. - CEO, President & Director*

Yes. So we're in Atlanta, Tampa and Dallas, and we're going to take it to our franchise brand in those geographies. We've announced that. We've told those franchisees that, that'll be something their agents can use as part of their toolkit to win more listings, something those franchises can use to recruit agents. We've announced to our whole network that we're going to go into more cities. We have not named the cities yet, and we're going to name them later this quarter. But since we publicly told everybody we are going into more cities I felt fine sharing that with this group today, but we'll announce the additional cities later in the quarter.

Operator

Your next question is from the line of Anthony Paolone of JPMorgan.

Anthony Paolone - *JP Morgan Chase & Co, Research Division - Senior Analyst*

You mentioned the competitive landscape and some of the competitors willing to operate at losses. Can you just talk a bit more about what you're seeing out there that doesn't either feel rational or what you're fighting against these days outside of say, over the last year or 2? It seemed to be very split-driven. Is there anything else that competitors are doing that you're saying that you have to match or that's on your mind?

Ryan M. Schneider - *Realogy Holdings Corp. - CEO, President & Director*

Yes. No. It's -- when we talk about some of the competitive challenges and people willing to operate at a loss and basically operate at a loss, it effectively shows up in one place, which is the agent commission area in terms of having real impact. A lot of people talk about attacking the average broker commission rate that customers pay, but there's been very little traction on that when you look at the numbers either regionally or nationally, whereas there are people out there who will make offers that are literally underwater, and we've seen that. And we actually -- part of the reason we saw what happened is the ramp-up in Q4 is in a few cities, when the markets got really tough, we saw people making even more aggressive offers to agents. And so who knows if people have a path to make money in the future? Some have said they don't have a path even to that point, but that's a little bit of what we're dealing with is it is a geographic thing. And I called out there were 4 cities, Chicago, San Francisco, San Diego and L.A., where the real violence was on that in the fourth quarter, but there's other geographies where that's not anywhere near as big of an issue, and those are some of the geographies for the first question I got where we see a lot more growth and we're a lot more excited. But we've got to -- we compete in all these places and we've got to deal with all of them. So that's a little bit more color.

Anthony Paolone - *JP Morgan Chase & Co, Research Division - Senior Analyst*

And then my second question, just to better understand I think an earlier question on recruiting efforts and NRT. When I think about the goals you set for I think it was in last quarter, was 2,000, 3,000 I think it was something in that order of magnitude to add. Is that still something you think likely you'll hit by the end of this year?

Ryan M. Schneider - *Realogy Holdings Corp. - CEO, President & Director*

I don't think we ever put out a specific number on that, but we're still positive on our progress. We have a lot of markets where we feel good and we have the kind of growth that you would want us to have. There have been in these few that have been pretty tough in the last kind of 3 to 6 months that showed up in some of the results here, but that's exactly what we're focused on, working on and driving toward and continue to enhance our value proposition, provide more things to recruit people with. Listing Concierge, cataLIST, us and our franchisees is just an important thing. This is a -- there is a -- the value proposition that we offer is at the end of the day what everyone is going to compete on out there in the industry, and we have a lot of things that can really enhance ours on a relative basis. We think it can pay off in a lot more recruiting success over time and we've got to stay focused on it no matter what others are doing.

Operator

Your next question is from the line of John Campbell with Stephens Inc.

John Robert Campbell - *Stephens Inc., Research Division - MD*

Nice work against a pretty tough backdrop. It seems like you guys are ahead of schedule on the cost saves and you have a better grip on the splits. But if you guys can -- I'm just wondering just kind of high level, if you can keep both of these on schedule and it sounds like there's even upside to the $70 million in cost saves you've kind of outlined and then you get back to kind of positive transaction volume growth by, I don't know, call it 4Q. Would that be enough of a formula to get you back to kind of the year-over-year EBITDA growth by the end of the year?

Ryan M. Schneider - *Realogy Holdings Corp. - CEO, President & Director*

Look, we are -- given how crazy the housing market's been and this -- the big shifts at the end of last year and the start of this year, we're out of the annual EBITDA guidance business just because of how it is. But look, I'd go one notch further than what you did, which is we still think we get the positive transaction volume growth in Q3 and Q4, not just waiting until kind of Q4. And so it kind of depends on how much positive growth we get, the market gets, et cetera. But that is what we're still kind of anchored to that it'll be positive transaction volume growth in the second half of the year, cost plus additional stuff. We like some of the emerging macro trends. Our April numbers so far are better than the first quarter. Our opens are better, and opens today are things that closed in the second half of the year. So we're probably more optimistic on that than waiting until the fourth quarter, but it's a pretty balanced housing market, so we'll see.

John Robert Campbell - *Stephens Inc., Research Division - MD*

Yes, understood. It seems like you guys are on track. And then lastly, on the RGX conference, just given all the brands, and then hosting that in Vegas, I'm guessing that was definitely a step-up in cost. Could you guys talk about how much of a headwind that was in the quarter and whether that's pulling forward and then maybe the conference-related expense throughout the remainder of the year?

Ryan M. Schneider - *Realogy Holdings Corp. - CEO, President & Director*

Yes. So it was a time -- I view it as a timing thing. We spent about as much for this conference as we would have spent for the 5 conferences that we didn't do that we brought together all at once. Now it all happened now in 1 quarter instead of being spread out. But we did -- instead of doing an ERA, Better Homes and Gardens, Coldwell Banker, Century 21 and Cartus broker network individually, we did it all as one. And going into it and coming out of it, the net expenses of it were what it would have been on the 5. So a little bit of timing and it all happened in 1 quarter. But on an annual basis, it's a wash.

John Robert Campbell - *Stephens Inc., Research Division - MD*

Okay. And is that -- just order of magnitude, is that $1 million swing? Is that a handful of million? Just any kind of sense for that?

Charlotte C. Simonelli - *Realogy Holdings Corp. - Executive VP, CFO & Treasurer*

Somewhere in between.

Operator

Your next question is from the line of Chris Gamaitoni with Compass Point.

Edward Christopher Gamaitoni - *Compass Point Research & Trading, LLC, Research Division - MD & Head of Research*

Could you give us some clarity on the decline of the net royalty per site at RFG here year-over-year? Your average price was up, it just seemed like a pretty big effective percentage decline.

Charlotte C. Simonelli - *Realogy Holdings Corp. - Executive VP, CFO & Treasurer*

Hi, Chris. Thanks for the question. Yes, so the non-effective -- the royalty per site is a little bit of 2 factors. There's less price appreciation. It's less than it's been historically and there's a bit of amortization of the incentives. They're fixed and the units in the quarter are pretty low. So it's a bit of those 2 factors.

Edward Christopher Gamaitoni - *Compass Point Research & Trading, LLC, Research Division - MD & Head of Research*

Okay. I mean it was the lowest that I can calculate on a whole price basis in a long time. Did you have an impact of like the amortization delta year-over-year?

Charlotte C. Simonelli - *Realogy Holdings Corp. - Executive VP, CFO & Treasurer*

So the pricing was definitely the bigger factor.

Edward Christopher Gamaitoni - *Compass Point Research & Trading, LLC, Research Division - MD & Head of Research*

Right. Pricing was up 2% year-over-year, though.

Charlotte C. Simonelli - *Realogy Holdings Corp. - Executive VP, CFO & Treasurer*

Versus 6% last year.

Edward Christopher Gamaitoni - *Compass Point Research & Trading, LLC, Research Division - MD & Head of Research*

Okay.

Charlotte C. Simonelli - *Realogy Holdings Corp. - Executive VP, CFO & Treasurer*

It was up 6% last year.

Edward Christopher Gamaitoni - *Compass Point Research & Trading, LLC, Research Division - MD & Head of Research*

All right.

Charlotte C. Simonelli - *Realogy Holdings Corp. - Executive VP, CFO & Treasurer*

The incentive bidding -- the impact of the incentives bidding -- the impact of the incentive did increase year-over-year, but the pricing was definitely the more material factor.

Edward Christopher Gamaitoni - *Compass Point Research & Trading, LLC, Research Division - MD & Head of Research*

Okay. Charlotte, I have a question for you on finding additional cost saves. Could you give us a sense of like the categories of what you're looking at? Is it real estate efficiencies? Is it back office? Is it consolidating vendors? Just anything high level but tangible that we can kind of sink our teeth into.

Charlotte C. Simonelli - *Realogy Holdings Corp. - Executive VP, CFO & Treasurer*

Yes, yes and yes. It's a little bit of all of those. I think also we really have a great opportunity on the data and the tech side to be a lot more efficient but also to use the data in a better way. So it's a little bit of all of those things.

Edward Christopher Gamaitoni - *Compass Point Research & Trading, LLC, Research Division - MD & Head of Research*

All right. Do you have an outlook that you can provide, I don't know if you can, for CapEx for the year?

Charlotte C. Simonelli - *Realogy Holdings Corp. - Executive VP, CFO & Treasurer*

Yes. So we're still revisiting the CapEx number. It will have a bit of a swing because of some of the restructuring that we're doing, but that's still being fine tuned.

Operator

Your next question is from the line of Bose George with KBW.

Thomas Patrick Mcjoynt-Griffith - *Keefe, Bruyette, & Woods, Inc., Research Division - Assistant Analyst*

This is Tommy on for Bose. I just wanted to clarify your comments on the commission split. So it increased 46 basis points year-over-year, and can you just clarify, is that a good run rate base? Or was there something unique this quarter?

Charlotte C. Simonelli - *Realogy Holdings Corp. - Executive VP, CFO & Treasurer*

So the unique thing that we called out earlier in the call was there was a bit of a rollout of our commission plans, which it impacted how we report the expenses. So they're now a contra commission expense. So on a like-for-like basis, that's really 80 basis points versus what we saw in the fourth quarter, which was 111 basis points. So yes it did improve from 111 in the fourth quarter to 80 on a like-for-like basis. But to get to the 45, there's a bit of a reclass of some of the new ways that we're rolling out our commission plans, and it's really -- geography drives a lot of that. The difference between the 111 and the 80, there's a bit -- the geography is driving a lot of that.

Thomas Patrick Mcjoynt-Griffith - *Keefe, Bruyette, & Woods, Inc., Research Division - Assistant Analyst*

Got it. And just with the whole new rollout of the commission framework, how are agents responding? Are you seeing some agents leaving? Is anything kind of -- has anything changed as those plans have rolled out?

Ryan M. Schneider - *Realogy Holdings Corp. - CEO, President & Director*

Look, in a bunch of geographies it's actually been helpful to both attract new agents, which is the lion's share of the focus of it. We're not forcing agents to move to the new plans. So it's not like we're creating breakage and just driving people away if they don't like it. But the goal is to recruit. We've had a bunch of markets with some success on that, but on a net basis we are flat on agent count as there's been a few challenging markets that I highlighted on the call.

Thomas Patrick Mcjoynt-Griffith - *Keefe, Bruyette, & Woods, Inc., Research Division - Assistant Analyst*

Did you say that you're not requiring agents to change? Can you like say like what percentage or how much like adoption has been?

Ryan M. Schneider - *Realogy Holdings Corp. - CEO, President & Director*

It's hard to give one number, because we've been rolling this out kind of across the country, so everybody's at a different stage. The two things I'd give you is one, the new things are all focused on recruiting more than the current, but if current people want to move we let them. From our history of a few kind of natural experiments on this, it takes about 3 years for the most people to want to move to the new thing when we tried this kind of more aspirational plan, and we're kind of in year 1 of that. So that gives you a sense of my guess of what will happen but we don't have -- everything is in too much of a different stage to give you just a single number.

Operator

The next question is from the line of Matthew Bouley with Barclays.

Matthew Adrien Bouley - *Barclays Bank PLC, Research Division - VP*

I wanted to ask about the performance versus the market on transaction volumes but focusing on NRT because, obviously, you saw some of the progress on commission splits this quarter. So I mean just going forward, is it as simple as thinking about splits versus market share, I don't know, offsetting for the next couple of quarters at least? But how do you think about that balance this year? And I guess how long do you expect this performance versus the market or I guess underperformance like this to persist?

Ryan M. Schneider - *Realogy Holdings Corp. - CEO, President & Director*

Yes. Thanks, Matt. Good question. I'm not sure it's splits versus market share. I mean if you look at -- we like what happened with splits this quarter for a couple of reasons. One -- and this was our strategy, along with rolling out kind of more aspirational higher approach to the commission plan, we told you multiple quarters ago that we were going to start having more fees as part of our proposition, which is a benefit to us on the split thing and you saw that kind of for the first time as we kind of got the things to a certain scale show up in our numbers. So we like that, and then we had a little bit better quarter on splits. Some of that was just geographic mix and some was the comeback of our new development business, which we like. So the trade-off for us is not typically market share. It's market share versus bottom line. We can keep market share. We matched or exceeded some offers that were negative economics for us, either the people make it to our agents so that we would have to make it to other people. We typically have chosen not to do that. In fact, not typically. We don't do that, effectively. But we're going to -- we still think there'll be some upward pressure on the splits, but we're going to keep watching it. I think the biggest thing, and it's what I led with, is just the geographic mix, right? I mean California last year in Q1 was up or the West was up like double digits and it was down double digits this year in Q1. And we are pretty heavily weighted out there, especially California in NRT and even in RFG a little bit. And so I'm more thinking about the market share versus profit trade-off than market share versus split. So anyway, that's a lot of thoughts and I should just probably stop there.

Matthew Adrien Bouley - *Barclays Bank PLC, Research Division - VP*

Okay. And then I guess secondly, maybe at a higher level, obviously, Ryan, you've enacted multiple different kind of strategic changes here, changes to product, et cetera. So it'll be great to hear kind of what you think has worked. And honestly it'd be interesting to hear what you think has perhaps not worked. And I just ask because there have been a lot of different areas you've attacked and it would be great to kind of hear where, among all of these changes you're making, where you're seeing the greatest promise and where you can, I don't know, perhaps step up on the gas, so to speak.

Ryan M. Schneider - *Realogy Holdings Corp. - CEO, President & Director*

Yes. That's a great question. So look, we like a lot of the things we've done and we've gotten good feedback on them, especially if you want to compare it to the hypothetical universe of us not doing a bunch of this stuff, which is a little hypothetical in general. But look, the new product I think helped a lot. Changing our commission approach to be more competitive in the market for recruiting helps a lot, and we've paid this off either by some regional results we feel good about or by kind of more, call it, flat agent results in the world where before we were on a negative trajectory kind of thing. So that's great, but as I acknowledged we haven't changed the financial trajectory of the company. So we've got to move fast. I think we've got to do more on the cost side than I articulated a year ago. Hopefully, you heard a little bit of that in the February call and even more today and, frankly, what I was looking for when I went through the process to find Charlotte. So that's something where I think we got to step on the gas more. And the industry dynamics here are driving pretty fast pace of change, and the kind of 3 or so kind of not so good housing market quarters kind of haven't helped. So those are a few thoughts. I think if we don't stay focused on improving our value proposition, I think we're in the lot of risk for regression. So we've got to do that, but I am also still in the hunt for the bigger ideas that we could potentially do that would change our trajectory, change the industry and reimagine our company a little bit in some different ways. So those are a few things I feel good about and a few things that we should put a little more effort into, especially the cost and some of the hunt for bigger basically, given the industry dynamics both housing market and competitive.

Operator

Your next question is from the line of Ryan McKeveny with Zelman & Associates.

Ryan McKeveny - *Zelman & Associates LLC - Director of Research*

Welcome, Charlotte. So I have a twofold question about consolidation, one from an industry perspective and one from a kind of company-specific perspective. So on the industry side, so it's obviously a challenging business for most brokers. Margins are pressured. That's a pretty common theme across the industry. There's a need to invest in the value proposition, technology, et cetera, a lot of the things where you at Realogy can invest. And then I'm just curious if your view around M&A opportunity has shifted at all. We've obviously all seen Compass gaining a lot of shares through acquiring and I know that's kind of Realogy and NRT's historic one, and I know you've shifted away from that. But I'm curious with the challenges out there, if there is a competitive or a compelling company that you are looking at, are you simply trying to maybe make that person become a franchise? Or is there just -- any update on just the M&A thought process that you guys go through in this environment?

Ryan M. Schneider - *Realogy Holdings Corp. - CEO, President & Director*

Sure. Great question, Ryan. Let me just give you my current thoughts. So one of the reasons, about a year ago we wanted to make more of our investments closer to organic growth as opposed to M&A, was 2 things that we saw happening, right? One was when you look at the M&A that had been happening in our industry, and this is true for Realogy and it's true for a few of our competitors if you look. Even if they're not public, there's a few. You can see some of their numbers. There's a lot of M&A happening that increase people's top line but did not change the bottom line, right? And that happened for us. That happened for others and that happened for others and that still happening for others in a few companies that you can see some of their numbers out, and that's not a great outcome. The other thing that has happened kind of when I first got here was that the multiples for M&A before the housing market kind of went south here in the last few quarters had actually gotten much higher than the historical multiples that Realogy was kind of used to paying whether on a pre or a post interview basis. So you look at those 2 things, you see where the organic opportunities are and we articulate. Let me tell you the 2 things that might have changed a little bit my view, and when we said we were not going to do M&A I said you never say never, but it was not going to be our core strategy. I think there's 2 things that have changed that could change our view on that at some point. We're not there today, but it could change our view. One is if in the tough housing market, if people's expectations on the actual prices at which these things trade drop a lot, that's an interesting thing. The other is, I'm still very, very skeptical on buying other brokerages for their revenue because again, whether it's our experience or what's happening even in 2018 with some of our competitors, you can just see that they actually don't translate to the bottom line. But it could be a more interesting, especially if the multiples are different, where it's not about the revenue side, but it's about the cost takeout side. And in that scenario, it's not expanding into new geographies through acquisition. It's water companies that you have 100% overlap on your footprint with, and if the economics align and the price aligns, could you do it more for a cost takeout reason? So that's higher on my radar than it's been. We're not -- I got nothing to announce. I got no deals that we're -- that we're going to be talking about anytime soon and we did no M&A in the last quarter, but that is the thing that's going on there. Our priority is to invest in the business and that could be one version of that. And then we go to deleveraging in terms of free cash flow. But for now you should assume we're sticking with the organic growth thing and our investment in the business is more around our value proposition, our technology and our data. But those are my thoughts, and if that ever does -- if the world changes that way, I'd come back and talk in more detail. But that is what could be different than what it was a year or so ago.

Ryan McKeveny - *Zelman & Associates LLC - Director of Research*

That's very helpful. And then the second part of that is, within NRTs, we've heard some chatter that in some markets, there's been some kind of office consolidation, some changes in just the office space dynamic. And then I saw this quarter, there was that $1 million lease asset impairment. I wonder if that relates to that. And is this maybe a broader strategy happening within NRT to kind of reconfigure the office side to get efficiencies? Anything you can share there?

Charlotte C. Simonelli - *Realogy Holdings Corp. - Executive VP, CFO & Treasurer*

Yes. That is part of the restructuring program, and, we're constantly evaluating our space. There's places where we have overlap and offices are very closely located. I think in today's environment, people like to work more remotely and more mobile. There's different offerings that we're giving our agents in that regard. So yes, it is definitely part of the restructuring program and it's intentional but it's not designed to do anything other than create like a new office of today. But there will be savings. And on a square footage ratio per agent, that will definitely go down in the future.

Ryan McKeveny - *Zelman & Associates LLC - Director of Research*

Okay. Got it. And very last one, and I apologize if I missed this, are you giving any guidance on either transaction volume, EBITDA for the second quarter at least directionally? And I apologize if I missed that.

Ryan M. Schneider - *Realogy Holdings Corp. - CEO, President & Director*

No. We want to stay with the statement we used before. We think Q2 will be negative transaction volume. That's what we said last quarter, so we think it will be better than Q1 and I just gave you a little bit about April and then shifting to positive transaction volume in the second half of the year. And so we're staying consistent with what we said last time we talked.

Operator

Your final question is from the line of Stephen Kim with Evercore ISI.

Unidentified Analyst

This is actually Chris on for Steve. So with your cataLIST program with HPA, have you disclosed how many homes you've bid on or bought so far? And then also, what do your conversion rates look like compared to other iBuys?

Ryan M. Schneider - *Realogy Holdings Corp. - CEO, President & Director*

So 2 things, we haven't disclosed it and we're not planning to. It's not a huge number. We're in this for the learning more than when you've got $6 billion of revenue, starting something like this isn't going to change our company in the near term. And then our conversion rates are -- have been a little bit higher than our competitors. Part of that is -- by the way, is because our partner, Home Partners of America, we're not in the business they're not in the business of buying houses just to flip them like iBuyers are. Home Partners of America has a business around buying houses to rent or lease them back. So we actually may want to buy a few more houses here than some of the competitors who, frankly, often bid incredibly low and kind of look for desperation and have massively -- kind of massive decline rates. But most of this is about what we can do for our agent value proposition. This can be a unique thing we can offer. Most brokerages don't have something like this and it also helps our agents win more listings. Even if people don't want the iBuy -- the cataLIST offer, right, we get the listing the lion's share of the time. And when we don't get the listing it's usually because people choose not to list their house, not that they get it from someone else, so keeping the agent at the center of this thing and learning on this is a big part of what we're doing here and it's a small thing but meaningful in terms of our agent value proposition, and we're excited to expand it.

Unidentified Analyst

And then I guess I'll turn to the balance sheet. Have you put out I guess a time frame for your deleveraging process?

Charlotte C. Simonelli - *Realogy Holdings Corp. - Executive VP, CFO & Treasurer*

No.

Ryan M. Schneider - *Realogy Holdings Corp. - CEO, President & Director*

We have not put out a time frame, but we're trying to be consistent in both written and verbal statements. Priority one is invest in the business in different ways and then put our free cash flow toward deleveraging. And the time frame in many ways will be driven by the market, the housing market and how that impacts our business as much as any of our individual actions. So we'll keep you posted.

Operator

There are no further questions. Are there any closing remarks?

Alicia Swift - *Realogy Holdings Corp. - SVP of Financial Planning & Analysis and IR*

No. We thank you for joining us on the call today, and we look forward to talking to you over the coming quarter. Thank you.

Operator

This concludes today's first quarter 2019 earnings conference call. Thank you for your participation. You may now disconnect.