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PRESENTATION

Operator

Good morning, and welcome to the Realogy Holdings Corp. Third Quarter 2018 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, Laurie. Good morning, and welcome to Realogy's third quarter 2018 earnings conference call. On the call with me today are Realogy's CEO and President, Ryan Schneider; and Chief Financial Officer, Tony Hull.

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 from 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 are made herein as of this today, November 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 the call over to our CEO and President, Ryan Schneider.

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

Good morning. First, I'd like to share a few thoughts regarding our announcement this morning about Tony's retirement. Since I joined Realogy, Tony and I have had ongoing discussions about his long-term plans for the broader Realogy finance organization. And as the new CEO, I incredibly appreciate Tony is working closely with me in my first year. I benefited substantially from his partnership and learnings. Tony is a strategic and valued partner to all of our business leaders, leaving the company with a healthy balance sheet. And I've asked him to stay on as a senior adviser through March of 2019 to support the transition. Over his 15-year tenure at Realogy, Tony has brought a disciplined and principal approach to financial management. He led the company through the Great Recession. He led our successful IPO in 2012. And since then, he had strategically reshaped our balance sheet as a public company, continually driven financial improvements to deliver results.

And one of Tony's legacies at Realogy will be the deep bench of financial talent he has helped develop within the organization. That



brings me great confidence that I've appointed Tim Gustavson to serve as interim CFO and Treasurer, in addition to his responsibilities as Realogy's Chief Accounting Officer and Corporate Controller. I believe we are in capable hands with Tim and the rest of the finance team, as I begin the search for a permanent CFO.

With that, let's turn to earnings. I continue to be excited to compete from a position of leadership in the attractive residential real estate market. We are driving our strategy forward, most recently with the launch of 2 new franchise brands to continue to capitalize on Realogy's strengths, industry-leading market position, great brands, strong cash flow and technology and data scale.

Let me quickly highlight our third quarter performance. We were involved in approximately 400,000 homesale transactions in the quarter, which generated \$1.7 billion in revenue in Q3 2018, in line with Q3 2017. Q3 2018 operating EBITDA was \$242 million, down \$16 million from Q3 2017. Most of the decline was due to the absence of the \$12 million gain from the PHH Home Loans JV in 2017. And the remainder was primarily due to commission split increases. Our commission split increases are moderating as expected. Q3 was up 143 basis points, lower than Q1's increase of 284 basis points and lower than Q2's increase of 209 basis points. We continue to expect further moderation in Q4.

Before I review our guidance and progress on our strategic initiatives, let me step back for a broader look at the housing market. We have talked with you for 3 quarters about how low inventory has been the most troubling issue, even as rising prices were helping drive increases in overall transaction volume. This low inventory continues to be a concern. However, in Q3, we saw affordability issues and rising mortgage rates create an environment where some consumers stayed on the sidelines in many markets, especially in September. NAR reported that year-over-year homesale transactions increased in July, were close to flat in August, but declined substantially in September. This transaction data is in line with our performance and our reports from our franchisees and agents, but it marks a big departure from the win the industry saw in the first half of the year.

The market is changing as affordability becomes stretched and inventory levels are beginning to rise. According to NAR, inventory was about 4.5 months in September 2018, up from about 3.5 months in January 2018. When we look at the MLS market-level data, it was striking to us in September to see inventory rise by double-digit percentages West of the Rockies, where it has been most constrained. East of the Rockies, however, inventory remained flat to down. Overall, while the higher national number is still below a healthy inventory level, the demand still exceeds supply. The slowdown in September transactions, combined with the increase in inventory, may be the start of a transition to a more balanced environment that would be positive for the housing market.

So let me turn to our guidance. First, we based our Q3 guidance in part on a strong July. Both our company-owned brokerage and our franchisees saw softness in August and then transaction declines in September, in line with market trends. For the quarter, Realogy homesale transaction sides were down 3%, with average homesale price up 4%. So the overall transaction volume for the quarter was up 1%, consistent with NAR, but this was 2 percentage points below the low end of our guidance range that we provided at the beginning of August. We're encouraged that even with these market challenges, we held revenue flat at \$1.7 billion for the quarter and maintained our market share.

To dive into our own brokerage regional results for Q3 versus last year, the West experienced the greatest market deterioration. Remember that the West had a 13% transaction volume increase for us in Q1 and 6% in Q2. In Q3, transaction volume in the West declined 2%, driven by the substantial 6% drop in sides year-over-year. The Northeast was also down 1%, driven by the decline in the New York City region, but that was actually a bit better than Q1 and Q2 results, which were down 9% and 5%, respectively. For the first time this year, Midwest transaction sides were down slightly, although overall volume increased 1%, and the South had positive transaction volume of 6%.

Now let me look at ahead to Q4. We are clearly in a volatile period for the housing market, and there are many different views as to what will happen going forward and why. In the spirit of transparency, I thought I would share some of what we are already seeing in Q4. Based on actual closed transaction data through most of October, compared to the same period of October 2017, we are seeing homesale transactions down around 6%, with price up around 5%.

Across the other data we track in our national footprint, we are seeing mixed signals. While we don't have a definitive answer to how the



housing market will play out this quarter, based on what we know today, we are modeling overall around flat homesale transaction volume in Q4.

On operating EBITDA, as we consistently shared in our last 3 earnings calls, we have been guiding you that, subject to macro uncertainty and what we knew at that time, operating EBITDA for 2018 Q2 to Q4 would be at or above 2017 Q2 to Q4. This equated to \$705-plus million in earnings -- in operating EBITDA for full year 2018.

You've seen the housing market statistics and commentary and the macro shift in the latter part of Q3, so we are changing our guidance. Based on our Q3 results and our flat Q4 volume outlook, we are lowering our operating EBITDA guidance for the year to approximately \$660 million to \$670 million, though the variance could be wider than usual this time of year given the volatility we're all seeing in the housing market.

Finally, let me update you on some of the strategic initiatives we are pursuing to drive growth. First, in our last earnings call, I reminded you how much we love our franchise business. We make -- we made \$560 million last year from our franchise business and have operating EBITDA margins over 65%. We want to grow this business and make it a bigger part of Realogy. Last week, we announced that we're launching 2 new franchise brands in 2019, Corcoran and Climb.

Corcoran is one of the top brokerages in New York City, the Hamptons and Palm Beach, with an incredibly strong brand name and a large international client base. We see a big opportunity to leverage its reputation to grow in the high-end markets abroad and here in the U.S.

Climb, mobile-first flexible approach, will appeal to the next generation of agents and consumers who are the future of U.S. homesales. Climb gives us additional opportunity to grow, especially in dynamic urban markets.

As the market leader, remember, our business covers about 16% of the U.S. residential real estate market today based on transaction volume, and we believe these new franchise brands will help us profitably capture more of that remaining 84%.

Second, in our own brokerage business, we continue to move quickly on new commission pricing designed to attract faster-growing and higher-producing agents. I told you last quarter that we had rolled out these new plans in much of California. We are now also rolled out in Texas and Colorado. We're piloting new commission plans in 3 other markets and anticipate launching an additional pilot in more than a dozen markets before the year-end. This initiative is all about growth. We are leveraging these new plans to attract more agents quickly, while allowing our existing agents to continue on their existing plans or explore the new plans where appropriate.

Related to our new commission plan, I told you last quarter, we would also begin charging fees for select high-value products we provide. I told you about Listing Concierge, a product helping agents win and market listings. This project is now available across almost all of California, Colorado and Texas. And agents in those markets are electing Listing Concierge packages on more than 1/3 of all listings. We now have other additional live products agents can purchase as we continue to grow these high-value products.

Third, 2 quarters ago, I told you about our new technology products we were developing to help our agents. Last quarter, I highlighted investments in new technologies we made to help our agents. This quarter, I want to describe a new partnership that enables us to deliver more value to our agents. In September, we announced a partnership with Home Partners of America, which arms Realogy agents with the ability to provide their listing clients with an immediate cash offer. Our program, called cataLIST, is designed from start to finish to keep our real estate agents in the transaction and equip them with another product to ensure that they can serve all potential customer needs. The program is launched in Dallas, and we're launching later this month in Atlanta, then in Tampa. In this pilot, Home Partners is providing the capital to purchase the home and using our industry-leading agents in both the purchase and sale.

While I'll come back at the end of the call to summarize my thoughts, now let me turn it over to Tony to discuss our Q3 2018 results in more detail.

Anthony E. Hull *Realogy Holdings Corp. - Executive VP, CFO & Treasurer*

Thank you, Ryan. Before I dig into the results, I want to share that I take great pride in the past 15 years at Realogy. We've been through many cycles together. And stepping away from my role during this time of exciting change for the company did not come without much thought. I built a really great team, and I have every confidence in Tim and the entire organization. I look forward to my continued involvement with the company over the coming months as a strategic adviser and to following Realogy's success for years to come.

Turning to Slide 7 for third quarter 2018 results. Q3 revenue of \$1.7 billion was flat compared to last year. Operating EBITDA was \$242 million, a decrease of \$16 million, including the absence of a \$12 million gain on the wind-down of our PHH Home Loans joint venture last year. Operating and G&A expenses were down in the quarter. Adjusted net income was \$104 million or \$0.85 per share compared with an adjusted net income of \$97 million or \$0.71 per share in Q3 of 2017. Adjusted earnings per share increased 20% year-over-year due to the combined impacts of our share repurchases and lower corporate tax rate. We generated free cash flow of \$194 million in the quarter. For the full year 2018, we expect operating EBITDA to free cash flow conversion rate in the mid-50% range.

Our capital allocation strategy remains unchanged. We returned \$102 million to shareholders through share buybacks and another \$11 million in dividends during the third quarter. We expect to repurchase approximately \$100 million of shares over the fourth quarter. We expect our leverage ratio to be a bit above 4x at the end of 2018, and we will revisit our capital allocation strategy in the beginning of 2019.

Slide 8 provides information about our business unit operating performance in Q3 2018 versus Q3 2017. RFG's operating EBITDA increased \$2 million, principally due to a decrease in employee-related cost, partially offset by lower NRT intercompany revenues. RFG's Q3 revenue decreased by \$3 million, primarily due to the timing of brand conferences in Q3. This had no impact on operating EBITDA due to the offset in decrease in expenses. Royalty per side reached \$322, up by 2%. Net effective royalty rate declined to 4.39%, down 3 basis points from Q3 of 2017.

NRT operating EBITDA was \$43 million. This was a decrease of \$21 million. The largest contributor to the decline was the absence of the PHH Home Loans JV gain recorded in 2017. On an operating basis, greater agent commission expense more than offset a decrease in employee-related costs. NRT also contributed \$80 million of intercompany royalties, which are in RFG's results for the quarter.

As a reminder, we exited the PHH Home Loans JV in 2017. Earnings in the NRT segment from the wind-down of this JV will be a further \$14 million headwind in the fourth quarter.

Cartus operating EBITDA increased \$2 million in the third quarter due to expense reduction initiatives and positive foreign exchange impacts.

TRG operating EBITDA decreased \$1 million, as lower title closing revenue due to lower refinance unit volumes was partially offset by a higher average fee per transaction.

The shift in the market in August and September was a combination of a number of factors: higher mortgage rates; limited inventory; and affordability concern due to increasing home prices, especially at mainstream price points. We are in a transitional period for residential real estate as consumers adjust to these new dynamics. Over time, we believe that strong housing demand, supported by increasing inventory, strong economic fundamentals and demographic tailwinds should propel growth.

Now let me turn it back to Ryan for some closing remarks.

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

Thank you, Tony. We are committed to moving quickly, staying focused on executing. We realize there's uncertainty about the near-term housing market right now. As you would expect, we are focused on that every day. We are the market leader in a cyclical business, and we believe we're well positioned to capitalize, even in the challenging parts of the cycle. We have a very strong balance sheet with staggered debt maturity schedule. We have deep liquidity with a \$1.4 billion revolver. We have the size and scale to weather market

changes that may cause many of our competitors to struggle. And we have the earnings and free cash flow to invest for growth throughout the cycle.

In that latter spirit, the past few months have been through slower growth in housing, and we'll see how the next few months evolve. We will continue to move quickly to make changes on how we run the business and to make proactive investments to drive top and bottom line growth in the future. We are launching new franchise brands to grow our franchise revenue, creating multiple new products to enhance our value proposition to agents, using technology and data to improve our results, staying on track with our cost reductions, and we continue to return capital to shareholders. We are excited about the future.

With that, Tony and I will take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of John Campbell of Stephens Inc.

John Robert Campbell Stephens Inc., Research Division - VP and Research Analyst

And Tony, it was great working with you. And we wish you the best wherever life takes you next.

Anthony E. Hull Realogy Holdings Corp. - Executive VP, CFO & Treasurer

Thanks.

John Robert Campbell Stephens Inc., Research Division - VP and Research Analyst

So we've heard several players in the space and, I guess, a few different economists or forecasters calling this -- the slowdown more of a kind of temporary event versus the start of, I guess, a sharper downturn. Just interested to get your take on what you view this pause as. Is this signaling a further slowdown in the months ahead? Just any rough thoughts there.

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

Well, look, we told you what we were forecasting for our outlook, which is flat transaction volume. And we gave you a little bit of literally what we're seeing in October in terms of the size and price mix. I actually started my career trained as an economist. And I think we're in the same boat of hoping that this is just a temporary slowdown. It doesn't feel at all like a decade ago, frankly, to me. But as I said in my closing remarks, we're going to be watching for whatever this cycle looks like. And I think we're well positioned to make it through whatever cycle is in a successful way, especially relative to a lot of the competition. But we are heartened by the increase in inventory, which we've told you, again, for 3 quarters in a row is by far the biggest issue. And I think if we can get to a little more balanced inventory price dynamics, that will be good for the housing market over time, much more healthy than what we had the first half of the year with incredibly constrained inventory, even if we were making it up on price.

John Robert Campbell Stephens Inc., Research Division - VP and Research Analyst

Okay. Makes sense. And then for 2019, for EBITDA, I mean, clearly, you guys won't give us guidance, I guess, middle -- towards the middle part of next year. But just if you guys can help us think about what the kind of net headwind or tailwind is as far as the JV transition for next year relative to '18 and then also maybe the new development business, if you can.

Anthony E. Hull Realogy Holdings Corp. - Executive VP, CFO & Treasurer

On the JV, I think we launched a new JV with Guaranteed Rate late last year, and this has been sort of the first full year it's running. Unfortunately, the mortgage market has been quite challenged this year because of lower spreads on the originated loans to servicers and that sort of thing. So I think what happens with that next year is going to have a lot to do with what happens to the competitive environment for the mortgage business, but we're really happy with the partnership. And I think our agents are getting a lot of great benefit from -- our NRT agents are getting a lot of great benefit from having that to offer to their clients, to their buyers. And then on --



definitely, a pause this year on the new development business, so that is -- there's a number of projects that are going to get to their closing. They're already open. We already have deposits on them. So it's just a question of when the construction is completed. And we think that's going to start to really ramp up next year.

Operator

Your next question comes from the line of Matthew Bouley of Barclays.

Matthew Adrien Bouley Barclays Bank PLC, Research Division - VP

I guess, I wanted to start out asking around the standardization of agent commissions that, Ryan, you were mentioning. So I mean, of the markets where you've rolled it out, it sounds like you're planning a dozen or so this year. So any color you can give on kind of where you're seeing this working better or worse? What has been the agent response to fees, so far? And any detail that you can give on progress around both recruitment and retention?

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

Sure. Yes. So Matthew, on retention, it's actually a pretty easy answer, which is our retention kind of stays right out where we want it to be. Our top 2 quartile retention across the whole business remains around 94%. That's a very healthy place. We're pretty happy with that. And in the markets where we've done these rollouts, we haven't seen any step-back in retention, so we feel really good about that. On recruiting, it's pretty early. We're seeing positive -- I would say, we're seeing more positive signs in the cities in Texas, San Diego, Sacramento. San Francisco, we have not seen positive signs yet, but that is for a number of competitive reasons just turned into an incredibly competitive market, even more so than normal. So we see a bunch of green shoots in 6 or 7 of the bigger cities where we've already got this rolled out. We've got one city where we haven't seen the green shoots yet. And then we're excited kind of to do the next dozen kind of between now and the end of the year. Still too early to tell you how it's going to translate into financials in '19 and '20 and '21. But we like the direction and we're learning from each pilot we do to make the next city's rollout even better. So we like what we're doing and we're going to stick with it.

Matthew Adrien Bouley Barclays Bank PLC, Research Division - VP

Okay. Appreciate that color. And then secondly, I wanted to ask about the updated operating EBITDA guidance and the implications for the fourth quarter, I guess, given what you've guided to on transaction value. And you mentioned the expectation for further moderation and splits. It just seems that the bridge to that EBITDA number in the fourth quarter, there would still need to be more, I don't know, significant cost inflation somewhere else. So I guess, what exactly can you point to within the components of that bridge?

Anthony E. Hull Realogy Holdings Corp. - Executive VP, CFO & Treasurer

Yes. I think the biggest thing is Guaranteed Rate versus our expectations because of the competition in the mortgage market. I think that's probably a \$10 million kind of delta from what we had thought earlier in August. So -- and then the rest is really just sort of a 4 to 5 point reduction in volume, a little more heavily weighted towards NRT, which obviously has a bigger impact.

Operator

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

Ryan McKeveny Zelman & Associates LLC - VP of Research

And congratulations and good luck on the future endeavors, Tony. So I have 2 questions on the franchise.

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

Ryan, can I interrupt you? Can you speak up? You're difficult for us to hear your. I apologize for interrupting you.

Ryan McKeveny Zelman & Associates LLC - VP of Research

No. I apologize. Is this better, guys?

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

That's much better. Thank you so much.



Ryan McKeveny Zelman & Associates LLC - VP of Research

Okay. So 2 on the franchise side and then 1 on just the leverage and capital allocation. So on the franchise side of things, I guess, thinking about the quarter, this quarter itself seems like most of the down side was kind of on the NRT side of the business. Assumingly, that's kind of the fourth quarter as well. So broadly speaking, we've seen the franchise business doing well, high margins, expanding margins. NRT has, obviously, been the drag. And I guess, with the expansion of the franchise business going forward, I guess, what are you thinking on the future of the NRT business? Is this something where -- I know there's always kind of chatter out in the market, could you spin off the NRT business? Could you franchise those offices? Is there any indication underlying what's going on where you're kind of stepping back from the NRT business given the challenges that, that has had and really kind of incrementally relying on the franchise side? And even things like, over time, obviously, NRT has acquired some franchise offices, but is there any potential or thoughts around actually franchising off some of the company-owned stores? That's the first one.

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

Sure. So look, there's a lot in that question Ryan. Let me hit a bunch of things. Start out with: a, we love the franchise business, as I talked about. The earnings, the margins, it's great. And we think Climb and Corcoran are going to be able to really help us grow those as they're both -- they both have kind of a -- Corcoran is really iconic in the markets it's in and has such a strong international client base. We believe there's going to be very high demand for that. And then Climb is just targeting this new set of consumers in a mobile-first kind of tech-enabled way that we think will really help kind of in the future, especially in a lot of the most dynamic kind of urban markets in the U.S. So we totally want to grow that. We like it. Remember, though, that a lot of that franchise revenue does come from our own brokerage business, right? Literally, about half of that comes from the franchise fees that we charge ourselves. And we charge them at a rate that's above our franchise kind of average net effective royalty rate. So if you switch over to their own business, we've looked at every kind of possible options as kind of you've described there. The reality, Ryan, is 2 things. One is that business can and should be a much bigger source of operating leverage for us, right? And so in many ways, changing some of our company trajectory financially is actually about how do we operate that business with much better kind of operating leverage, right? So that's the first thing. Second, there -- while we -- while -- there's -- if you want to talk about franchising our owned business or something like that, there's a lot of challenges with that. We've looked at it every way from Sunday. We think the right answer is to drive that business to better performance and get the operating leverage I described. Third thing, and final thing, because your question had a lot to it, is, remember, from a capital allocation standpoint, we're kind of out of the acquisition business, right? We're going to be about organic growth on the franchise side with these new brands as examples. We're going to be about organic growth on the own side with the kind of commission pricing and new product changes that I've described. So the days of us like buying our franchisees and bringing them into our owned business and changing that dynamic, you shouldn't assume we'll have the going forward.

Ryan McKeveny Zelman & Associates LLC - VP of Research

Okay. That's very helpful. And the second one on the franchise side, I guess, just how do you balance the growth potential against the potential of kind of cannibalizing against existing franchise offices or agents at those other offices? Can you strategically position kind of geographies to avoid that potential cannibalization? I'm just curious because we know it's a competitive environment for, obviously, agents, but also new brands, new franchise models, et cetera. So any thoughts you can share around just how you plan to do that kind of balancing act and ultimately get the incremental 1 plus 1 equals closer to 2 as opposed to 1.5?

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

Sure, yes. And look, frankly, we want to make it 1 plus 1 equals 3 kind of thing wherever we can. Look, let me give you 2 answers. Let me start with the strategic answer that I would want you to know about how we're operating the company, and I say this to our employees also, which is we could make the choice and not launch new franchise brands because of the cannibalization risk that you're talking about, Ryan. But what I find, especially for market leaders across all industries, is one path to market leaders kind of declining from being market leaders is you spend most of your time worrying about defending what you have, not about growing for the future, right? And so we need to take this kind of risk of let's put Corcoran and Climb out there, even if it has a little bit of the cannibalization risk you described, Ryan, because we cover 16% of the market. I want to focus more on how do we get the other 84% with these new brands that I want to worry about will we cannibalize a little bit what we have. So it's a philosophical and kind of strategic approach there that is what we're taking for the future that makes us excited to launch these. Second, we look at a lot of different ways to do this with different brands, and we came to these 2 because we actually think they can be additive in the 1 plus 1 equals 2 way. So Climb is a very different thing than many of our other brands. It's mobile first. It's targeted to, frankly, a younger kind of demographic on both the agent and the



consumer side. It's targeted kind of in urban markets. It was kind of -- its history starts in kind of downtown San Francisco and kind of was built there in Silicon Valley, and so it targets more those kind of markets. And you see less of our traditional franchisees in those kind of markets. Similarly, Corcoran is just a very different kind of high-end brand, and I mentioned its international focus and international client base. It has a different kind of international appeal, we believe, than a lot of our -- some of our other brands do. And so we're excited about that. And we think we've chosen these because they can be additive, even if there's a little bit of cannibalization risk. But we've got to focus on how do we get more of the 84% and not be afraid of, oh, will we cannibalize a few existing franchise opportunities here. So that's the philosophy. And then we chose these 2 because we think they are different and that we can drive real growth with them in that attractive franchise business.

Ryan McKeveny Zelman & Associates LLC - VP of Research

That's very helpful. And a quick one on the leverage. So just the tougher market conditions, obviously, reduced level of EBITDA. Just curious of the changes you're thinking at all about kind of deleveraging versus stock buybacks going forward. I think maybe, Tony, you alluded to that a little bit, but just curious for your updated thoughts on that.

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

Yes. Look, it doesn't change it for right now. We're going to go ahead and continue what we started. We're going to buy back \$100 million shares here in the fourth quarter. We're committed to that. We've told you about that. We're going to fulfill on that commitment. But as Tony said, we're going to step back at Q1 and then answer the question that you're asking right now. And look, we're -- I think we're in this time, for the earlier question that we got of there is more uncertainty about what's going to happen in housing, right? And so I think the question will be at that time is kind of what have we learned in the last 3 months on the trajectory of housing for '19 and '20. And that, obviously, we'll go into that decision. But just like I told you, we were going to step back in the middle of the year, look at our capital allocation. We did. We decided to continue with a strong buyback pace. We thought getting capital back to you that way was the best thing to do. We're going to continue through this year and then we're going to take that look again really to make sure we internalize whatever we all together learned in the macro in the next few months of the year.

Operator

Your next question comes from the line of Stephen Kim of Evercore ISI.

Stephen Kim Evercore ISI Institutional Equities, Research Division - Senior MD & Head of Housing Research Team

And again, Tony, good luck with everything. And we appreciate all the help over the years. I wanted to ask you a couple of questions regarding your guide and then a bigger picture question. So with respect to your guide, one of the important variables, I imagine, would probably be the split that we see in the -- in 4Q. And generally, in a situation where the market slows later in the year in terms of transaction volume, typically, what I would expect that to correlate with would be a reduced split, as folks, agents generally don't do as well maybe in the year as they might otherwise had if the market was very strong. And I was curious as to whether or not, based on that, we are -- is it reasonable to think that you might see the split maybe move sideways here in the fourth quarter or if you still think that you're going to see a meaningful increase?

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

Yes. Look, we're -- so great, great questions. So look, we've been, all year, telling you that we think the increases are going to moderate kind of quarter-to-quarter. It happened 3 quarters in a row. I told you it was going to happen again in the fourth quarter. That's what we strongly believe. And that was -- and all those, by the way, were when volumes were kind of forecast a little bit higher, right? How big the effect you're describing of kind of lesser productivity, for example, driving people down their rate tables a bit, people doing less, right, there could be some of that if the market continues to struggle. The 2 things I'd say to you is I think there's still going to be some upward pressure. And as I talked about, though, it is moderating. And some of that because of we have -- some of our recruiting payments that we amortized are still built into this thing no matter what. The other thing you have to remember, Q4 tends to be relatively small on volume compared to Q1 and -- or Q2 and Q3. And so it's not like agents make a lot of big moves in their split table in the fourth quarter. They've done the majority of volume per year. So the thing you're talking about would be a bigger impact if we were to start at the second quarter. But I would want you to think, as we've said before, that there's still a bit of upward pressure. It's moderating. Will it moderate a



little more than what we've got maybe in our model? That -- that's kind of one of those kind of silver linings you may not wish for if the market goes south because you don't want the market to go south, but there is some potential for that. But I -- I'm still in the directional guidance on that, that we've been giving you.

Stephen Kim Evercore ISI Institutional Equities, Research Division - Senior MD & Head of Housing Research Team

Yes. That's fair. Okay. And then one thing that I was also thinking about was, perhaps, if you could comment on what you're seeing, specifically on the upper end of the market, maybe the top 1/3 or so or even top quarter of the price point listings in the various markets. One of the things that we've been seeing, I'm sitting here in Westchester County in New York, is a fair amount of activity in terms of capitulation on pricing as you get into October and the fall as people are sort of anticipating that there's going to be a surge of inventory put on the market in February and March of next year as people's tax pictures come more into view. I was curious if -- number one, if you track pooled listings. In other words, listings that are on, but they don't transact, and so those listings get pooled. If you track that and if you've seen any trends, whether or not -- and then secondly, whether you have seen any indication of reduced prices or asking prices that is different this October versus what you've seen in the past. If you have that kind of granularity, that would be very interesting to hear you talk about that.

Anthony E. Hull Realogy Holdings Corp. - Executive VP, CFO & Treasurer

Yes. I think one of the interesting things about Q3 and, really, the trends we've seen this year is that the -- for NRT, for their transactions to average sell price of \$2.5 million or greater is actually up 4% year-over-year, the volume on those deals. So -- and that's -- you've got to take into consideration what's going on in New York City and California, but it was still up 4%. So I think the high end is kind of performing very differently than other parts of the market, it seems. And if you look at all the NAR statistics in the back of their data, the best-performing segment is, really, the \$1 million-plus segment for the year compared to the under \$500,000, which is where you see the inventory constraint. So the high end seems pretty healthy. And on a sequential basis, the Northeast, which includes New York, is -- went from -- like we said in the script, went from sort of minus 9% in volume at NRT to only down 1% in the latest -- from the first quarter to third quarter. So it's -- I think the healthy consumer and the demographic trends are boding well for that segment right now.

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

Yes. Steve, we obviously track a lot of stuff, including the many things you said. I'm sharing a page right now that I found interesting for this call. It's September and it's not our data. It's market data for September compared to last year, as we look across the MLSs. And as the national player we are, we have kind of national MLS access. But it's incredibly striking, and this is something on the inventory side, the place where listings and closings are down the most, September of '18 versus '17, in every region, it's in the low end, right? And so the inventory issues that we talk about that haven't actually fully gone away at all, and in fact, there's still a bunch of ways to go is, by far, the most acute at the kind of low end of the market, whether you want to call that \$300,000 and below or \$500,000 and below. And in every single region of the country that I'm looking at here, and what I'm looking at covers the whole country, active listings into September closings in the low end are down more than anything else on -- in any region. And so it's where I worry more even than at the high end where, depending on the market, you do see different levels of softness. But anyway, so -- we -- those are a few thoughts from me.

Stephen Kim Evercore ISI Institutional Equities, Research Division - Senior MD & Head of Housing Research Team

Yes. We track that data, too. And we've seen it, as well. And obviously, there's things like inflation, quality-adjusted inflation that could pull homes out of one price category in to another and -- but -- and there's also inventory issues that you talked about. I just want to make clear, I mean, my commentary about the capitulation at the high end of the market would actually be a good thing for real estate agents because it essentially means that there's a -- there had been a big gap between the buy and the ask, and that is narrowing effectively, which would be good for agents because these homes I would think to transact. And it sounds like you're basically saying you're seeing that. But I didn't hear you say that you saw an acceleration in that sort of capitulation activity. Is that data that you actually have seen asking price reductions? Or is that not something that you're able to -- just to comment on?



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

I don't -- it doesn't seem -- I don't think we have the decimal point data that let us say it the way you're looking for us to say it. I will say, when I talk to the folks who run, say, our New York City business, they talk about the capitulation that you're describing as definitely going on and a positive absolutely for agents. So I think your thesis is right. Even if the kind of the way the data gets captured industry-wide or internally isn't as easy to do the math on that. But that is what we hear, and we do agree it's a positive for the market.

Operator

Your next question comes from the line of Jason Deleeuw of Piper Jaffray.

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

On the commission split, further moderation in the fourth quarter and just the trend that we saw in the third quarter. I believe there was some -- there's different splits in different geographies. So how much of the moderation is from the geographic mix shifting? And then how much is coming from kind of the new Realogy recruitment strategy or just the overall kind of competitive environment?

Anthony E. Hull *Realogy Holdings Corp. - Executive VP, CFO & Treasurer*

With the shift in geography from out of California, that was worth about 10 basis points of split to the good, so that's -- that had some piece of it. But obviously, given -- going from 209 to 143 basis points, it was not a big piece of it, but it was incremental. In terms of the other pieces, we've said that the on-site -- having lower on-site business, having a pause in that activity, given their commission structure, has been about probably a 40 basis point sort of bad guy this year. But as that business improves next year, that should be a tailwind for next year. So -- and then we're kind of getting to sort of a steady state on the recruiting piece because the amortization is going on and it's kind of closer to steady state than it's been in the past. As you know, it's ramping up. So those are the big pieces. And clearly, the interesting thing on -- the last piece of it is retention. The -- we're kind of lapping a lot of the adjustments made for our great agents through '17 and '18. And so the sort of year-over-year changes for that are going to be much less going forward because, even though there'll still be pressure on that, I mean, that's not going away, but -- because there's a lot of competition out there. But it's -- I think the impact of that is going to start lapping, and so it will be less and less, which is what -- part of the moderation.

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

And Jason, just to take on your question about kind of some of the new commission plans directive, the one thing I'd love you to anchor to is the goal of new commission plans is not to try to, like, push splits to a certain number. The goal of commission -- new commission plans is to drive a lot more success at recruiting and growth. And a lot of the recruiting plans are very aspirational in that they're driven -- they're productivity aspirational. And what I mean by that is we're actually -- for really high productivity, we're willing to pay maybe more than the average today, but it's contingent on much higher productivity. And so it's a growth-driven thing we're trying to drive, not a reduced split thing we're trying to drive. Our goal, obviously, is to keep splits as good as we can. But it's really about driving recruiting success and growth, and it's meant to be productivity aspirational almost, if that word matter -- if that -- those words make sense to you. So that's the thing I want to focus on the most as I -- when I talk about whether those things that we're changing in California, Texas and Colorado, or the other 12 pilots market we're about to do or doing or about to do. As I give you how they're going, I'm going to be talking about overall improvement in the top and bottom line, not like a split-driven component to it.

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

That's all very helpful, and I appreciate all the detail. And then just a second question on the iBuyer initiative that was announced. Any -- I know it's early, but any details on kind of the broker commission rate? Or is the commission rate you're going to charge to home seller? Any details on what the agent -- the Realogy agent can earn? Just any kind of details on some of the dynamics of that initiative.

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

Yes. We're piloting in Dallas. 2 other pilots are ready to roll out. One of the things you do in pilot is you actually test some different things, so we're going to test some different things there. The thing I'd want you to know is 2 things for us that we -- I can't tell you now. One is the Realogy agent will be doing 2 transactions. They'd be buying that, working with Home Partners of America, and the client and the customer to buy the house. And then our agent would sell that house. So we've got 2 transactions that are happening. And the



commission across those 2 will be pretty attractive to the agent and then, obviously, to our economics also. We are testing different things in those 3 markets on those. And what we end up doing more broadly will be partly a function of those tests. But those were a couple of pieces of the way you should think about it and our agent role, agent economics and our role and our economics on it.

Operator

Your next question comes from Anthony Paolone of JPMorgan.

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

First question is on the cost side. Can you give us a sense as to what the system-wide fixed costs are now as we look into 2019 and how to think about opportunities or risks there if the backdrop remains pretty soft?

Anthony E. Hull Realogy Holdings Corp. - Executive VP, CFO & Treasurer

Well, we're in budget season, so that will be TBD. I mean, the goal that everyone's focused on is to keep the fixed cost base as flat as possible through efficiencies and footprint changes on the office side and that sort of thing. So the goal, as we go in, is to keep it as flat as possible. So I think that should not be a headwind if we do that correctly.

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

And one of the nice things about the company, I obviously didn't have the experience, but I know that the subject matter of efficiency here is this company has actually shown and we -- is that during a -- if there's a deeper downturn that's really traumatic, we are actually able to adjust that base faster. There's options and some -- there's some negatives that come out of doing that, but we know we can do that. That's a little bit of my -- this is a company that can, I think, adjust to the cycle and do well through it. But Tony is right. Our current focus is how do we make sure we kind of fight off inflation. And again, if we drive -- can drive growth on the franchise side with the owned brokerage, et cetera, get better bottom line results going into '19 and '20.

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

Okay. And so the goal there will be to be flat. Even with rolling out the 2 new franchise brands, I guess, that -- those costs can be absorbed.

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

Flat inflation, I think one of the things I've got to decide if I can -- if I should share with you at the start of the year is what the investment will be and whether it's those 2 things or other things. As Tony said, we're in budget season right now. There's a lot of things that we're going to want -- we are investing to drive growth. The question on the iBuyer thing just came up. We've got some new product set for agents that we're continuing to do. So we're going to have a bunch of places where we're going to invest to drive growth. I'll have to decide if there's -- if how much -- if there's incremental cost there that's worth giving you transparency on, but please do let -- we need to get through the budget kind of season and figure some of that out before we'll be in a good place to give you guidance on that, Anthony.

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

Got it. Fair enough. And then second question is just on the fourth quarter volume. And you mentioned the October number, and it didn't seem to be particularly good, but you're still going with flat. Just curious like what gives you comfort that flat is the way to go.

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

Well, look -- look, I mean, the blunt -- the one answer does start with -- I think -- as I said, I think there's a wider variance right now as we all try to figure out what's happening with housing. And you can look at external forecast that have some pretty wide range on them. The October stuff that I gave you is kind of through a certain number of closed days. And a couple of things to keep in mind. One is we look at a lot of other metrics besides the one that I gave you. So we have a lot of other things we look at when we forecast. We look at opens. We look at some of the things that we're asked about of listings that have been pulled, all those kind of trends. The other thing just -- and this is a little geeky, but I think it's important, just the October thing is that results up to a certain point -- October will actually be better than what I told you because there's actually an extra day in October. I wasn't going to get into day count when I was trying to give you what we're seeing. I just gave you for the first blank business days of October, sides are down 6 and price is up 5, right? October will be a little better than that because there was an extra day, but there's a lot of things we use to forecast. And I think it's overall flat, but you should put your own range around that. And there -- there's nuances of our business versus some of the forecast in terms of where we



have NRT versus the national stuff. So I don't -- you shouldn't anchor that we can guarantee that's going to come to fruition as much as when we look at everything we look at, that's kind of where we came out. And what we want to do is make sure you knew that, so you knew how kind of we -- that translated then to some of the EBITDA changes at the earlier question asked. Both came from volume, but then also they came with a big one that -- from the mortgage side that was probably a little bigger than -- made the number a little bigger than many people would have thought. So just a bunch of color there for you, Anthony. And hopefully, it's helpful for you knowing what's in our head when we share that and why we did.

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

Okay. And best of luck Tony, and appreciate all the help.

Anthony E. Hull Realogy Holdings Corp. - Executive VP, CFO & Treasurer

Thanks.

Operator

Your next question comes from the line of Bose George of KBW.

Bose Thomas George Keefe, Bruyette, & Woods, Inc., Research Division - MD

Actually, most of mine have been answered, but just one more follow-up on the question about the bridge of the 4Q EBITDA. Are there going to be onetime or unusual charges at guaranteed mortgage? Or is it just really operating weakness that's going to drive the quarter?

Anthony E. Hull Realogy Holdings Corp. - Executive VP, CFO & Treasurer

I think it's just the environment, the competitive environment. I think in terms of -- they have -- they're really recruiting a lot strong mortgage brokers, and they're in our offices at NRT. So I think, from an operating standpoint, they're definitely making huge strides. So it's really about the overall competitive -- the mortgage market right now that has its own cycles, as you know.

Operator

That does conclude the Realogy Holdings Corp. third quarter 2018 earnings conference call. You may now disconnect.

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