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Realogy Holdings Corp. (RLGY)

Q4 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the Realogy Holdings Corporation's Fourth Quarter 2020 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 tomorrow. 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 the Realogy Senior Vice President, Alicia Swift. Please go ahead, Alicia.

Alicia Swift
Investor Relations & Senior Vice President-Financial Planning & Analysis, Realogy Holdings Corp.

Thank you, Carmen. Good morning and welcome to Realogy's fourth quarter 2020 earnings conference call. On the call with me today are Realogy's CEO and President, Ryan Schneider; and Chief Financial Officer, Charlotte Simonelli.

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 including, among others, the ongoing COVID-19 crisis and uncertainties related to the continued strength of the housing market or refinancing volumes. Actual results may differ materially from those expressed or implied in the forward-looking statements.

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For those who listen to the rebroadcast of this presentation, we remind you that the remarks made herein are as of today, February 23, 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. Additionally, the Cartus Relocation business has been reclassified into continuing operations and is now included within the RFG segment. The Leads Group also remains in the RFG segment. All reported financial information has been restated to reflect this change and could be found in Table 6 of the press release. Slide 12 of our Q4 investor presentation also refers to this change in the reporting structure.

Now, I will turn the call over to our CEO and President, Ryan Schneider.

Ryan M. Schneider

Director, Chief Executive Officer & President, Realogy Holdings Corp.

Thank you, Alicia. Good morning, everyone. We have been transforming Realogy for the past few years. We are faster, we are leaner and we are more innovative. We are driving more organic growth. We are differentiating with technology. We are working to get closer to the consumer and we still are substantially improving our balance sheet. And even in the midst of 2020 challenges, we were able to accelerate our transformation.

We delivered incredible 2020 operating results, $726 million operating EBITDA, $555 million free cash flow, double-digit transaction volume growth and market share gains in the back-half of the year; all while streamlining our businesses. We reduced net debt by $0.5 billion and our consolidated net leverage ratio is 3.4 times, the lowest level since Realogy went public in 2012, and we entered 2021 with great momentum. December open volume was up 51% year-over-year.

In January, open volume was up 45% year-over-year. Our closed volume in January was up 32% year-over-year even with January having two fewer business days than 2020. We believe Realogy is well-positioned strategically for where the residential real estate market is today and where it's going in the future.

The future is creating a more of integrated customer home buying and selling experience and in capturing a greater share of the overall economics. In 2020, we leveraged our title and mortgage businesses and technology products to deliver a better closing experience for customers and over $150 million in incremental operating EBITDA versus 2019.

Our digital title closing products had 1,500% usage growth year-over-year and our mortgage joint venture saw its digital closing product usage increased 4 times year-over-year. Strategically expanding these businesses, combined with our technology product investments from 2018 to 2019 created a better customer experience, helped customers more easily close on their homes and improved our economics. The future is using data technology to support the agents who remain central to the transaction today and into the future. The digital marketing products, technology products and data insights we are developing, ranging from when a consumer starts looking for a home all the way to closing on a home created advantages with the acceleration of digital adoption in 2020.

These differentiated products and insights helped our agents and franchisees drive substantial volume throughout 2020, including market share gains in Q3 and Q4 when volumes were the highest in the industry. The future of distinctive brands especially at the high-end, we are well-positioned with multiple strong brands to capture growth

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across all parts of the market and we are having outsized success with our higher-end brands. We successfully launched and expanded the Corcoran franchise brand in 2020 even in the midst of a pandemic, and we are seeing incredible power from our Sotheby's International Realty brand. It demonstrates real differentiation in the market, driving volume growth in the brand up over 60% in the back-half of the year.

And finally the future requires the ability to invest as the industry evolves. Our strong free cash flow allows us not just to invest in the customer experience, in technology and in brands that positions us to invest in different real estate models. For example, our RealSure iBuying joint venture provides our agents a differentiated offering to compete in the market and gives us the ability to go head-to-head against pure-play iBuyers, and we are incredibly excited that our joint venture partner, Home Partners of America, is deeply experienced at buying and selling homes as they've already purchased over 18,000 homes in their core business. Our program is live in 11 markets. We are planning to be in about 20 markets in 2021. This gives us real option value as the industry evolves.

Now, Realogy's great 2020 results and our strong position for the future starts with the successes of our affiliated agents. The power of the agents' role as a trusted advisor was clearly demonstrated as they skillfully helped customers navigate an extraordinarily challenging year. Their expertise and creativity, paired with our strategic progress on technology, marketing and data insights enabled them to get more deals done even in the most difficult circumstance of 2020.

Realogy's field employees also found ways to safely support customers and agents, utilizing inventive in-person practices and enhanced technology and our corporate staff has seamlessly transitioned to hybrid remote work. We are transforming Realogy's headquarters from 270,000 square feet of offices to a 60,000 square feet of brand and technology showcases with an emphasis on collaboration. Our employees have been resilient as they have embraced to new ways of working and our results during this transition speak for themselves.

Now, let me shift now to what we're seeing in the housing market. Realogy's Q4 2020 closed transaction volume increased 45% year-over-year with similar growth across Brokerage and Franchise. Even with brokerages, New York City volume is still being negative year-over-year. As I told you, 2021 is off to a strong start. January closed volume is up 32% year-over-year, even with the two fewer business days in the month versus prior year. We closed volume for franchise ahead of record. January open volume on a same-day basis was up 45% and we are very excited that it's up equally across Brokerage and Franchise and we also saw New York City open volume growth moved to positive in January.

So, what's driving this momentum? So, first, our actions are working. We are growing our own brokerage agent base. Our agent retention has improved every quarter for the past five quarters. Our corporate franchise business is already operating in 20 domestic markets and we just opened our first international franchise this month. Our Sotheby's International Realty business is showing differentiated performance and our investments to deliver technology products, marketing products and data products to help make us do more transactions are paying off.

Second, the housing market is clearly doing great. And in fact, it seemed to have come unstuck from the low 5-plus million units per year, the markets been at for almost a decade, with 2020 ending the year at 5.6 million units sold. With our national footprint on the franchise side and our attractive market footprint in owned brokerage, we're well-positioned to capitalizing the strong demand.

The consumer trends propelling the market for the past six months are continuing. Consumers are rotating from urban to suburban geographies across the country. They are rotating within suburban geographies to buying homes that better meet their needs and they are accelerating the existing trend to attractive tax and weather

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destinations. While the COVID crisis originated many of these behaviors, more remote work and work-from-home is clearly driving these trends forward. Finally, very low interest rates are good for housing and we're seeing millennials continue to increase their homeownership rates.

Now, while I love telling you about the strength of the housing market, keep in mind we are still in the midst of a public health and macro uncertainty and we can't predict the future. So, we are especially monitoring the macro inventory constraints and consumer trends, given the potential uncertainty of the housing market.

So, pulling away up, Realogy had an exceptional year of execution. We delivered powerful profitability and free cash flow. We significantly improved our capital structure and we demonstrated strategic success in the market. We believe Realogy is well-positioned to deliver and lead into the future.

Now, I will turn the call over to Charlotte for a review of the financials.

Charlotte C. Simonelli

Executive Vice President & Chief Financial Officer, Realogy Holdings Corp.

Thank you, Ryan. Good morning everyone. 2020 was a tremendous year of operational and financial execution for Realogy. Full-year 2020 revenue grew 6% to $6.2 billion and we delivered $726 million in operating EBITDA, an increase of 23% from 2019. We also generated $555 million of free cash flow, up $329 million versus prior year.

Operationally, our agents and franchisees closed 1.4 million transactions during 2020 as we saw 13% year-over-year transaction volume growth despite the dramatic Q2 housing market contraction and the year-long headwinds in the New York City market. What remains the most compelling and impactful is the fact that unit growth was up double-digits in Q3 and Q4. Unit growth was two-thirds of our Q4 brokerage growth and one-half of our Q4 franchise growth.

We delivered two consecutive quarters of market share gains in Q3 and Q4 and held our full-year market share steady at 15.3%. Having been under market share pressure for a few years, we were very pleased by these two quarters of consecutive market share growth. We had a record year in mortgage and title which we have been investing in and expanding over the past few years. We delivered $226 million and 2020 operating EBITDA, up $158 million versus prior year.

We continued to aggressively lower cost, delivering $83 million in permanent cost savings and over $150 million in temporary cost savings. We expect to deliver an additional $80 million of permanent savings in 2021. COVID brought new ways of working and some of these changes will drive savings going forward.

Even as we realize additional permanent savings, please do not lose sight of the $150 million in temporary cost savings we executed in Q2 and Q3 amid COVID that will not repeat in 2021. Commission splits increased 265 basis points year-over-year in a very high-volume year. The lion's share of that, approximately 200 basis points was driven by two things: We saw upward pressure as a greater share of our transactions were closed by higher split agents and as other agents produced more and progressed up the commission rate schedule. We also saw upward pressure from our investments to grow agents and improve retention. Our owned brokerage agent base grew 2% and retention improved each quarter and we like the net economics of our agent investment.

The remaining 60 basis points was driven primarily by the loss of the lower split USAA business in the previous year, the sale of our Property Frameworks business and geographic mix. We expect continued pressure on splits in 2021 which, in part, will depend on the strength of the housing market and we will work to offset split increases

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by growing our agent base, leveraging our ongoing cost reduction programs and by capturing more economics from the consumer transaction.

We improved our capital structure and reduced net debt by approximately $500 million versus 2019 and have also substantially improved our balance sheet. Our total net leverage ratio is 3.4 times and the senior secured leverage ratio was at an all-time low of 1.7 times as of December 31, 2020. Our senior secured leverage ratio is now below 1 times on a pro forma basis after our recent refinancing transaction. We ended the year with approximately $520 million of cash, including $150 million of statutory cash. Our revolver balance in Q4 was zero for the first time in several years and has been zero since October despite Q1 specifically being a negative free cash flow quarter.

In early 2021, we aggressively and opportunistically tackled our capital structure, taking proactive steps to address portions of our 2023 and 2025 maturities. Realogy raised $900 million senior unsecured notes with a 5.75% coupon maturing in 2029. We used the proceeds to reduce our senior secured debt, the Term Loan A outstanding borrowing was reduced by $250 million and Term Loan B by $655 million. We also finalized an amendment and extension of slightly more than 50% of our Term Loan A and close to two-thirds of our revolver.

As a result of these transactions, we shifted our capital structure to substantially more unsecured notes and license our debt maturity profile. We now have only approximately $600 million in maturities in 2023, down 50% from year-end and we remain confident in our ability to satisfy those maturities. Our capital allocation priorities are unchanged. We will continue to prioritize investing in our business and paying down debt in 2021.

Wrapping up, we exited 2020 with tremendous momentum. Realogy delivered exceptional financial results and we are operating more efficiently and effectively. The strength of our operating results, in conjunction with significant improvements to our capital structure, puts us in a position of strength entering 2021. I am extremely proud of the team and the results we executed in 2020. I am excited for the future as we continue to leverage the power of Realogy's size, scale and full-service business model to deliver profitable growth.

With that, we will open it up for your questions.

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QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question is from John Campbell with Stephens. Your question, please.

John Campbell
Analyst, Stephens, Inc.

Q

Hey, guys. Good morning and congrats on wrapping up a great year.

Ryan M. Schneider
Director, Chief Executive Officer & President, Realogy Holdings Corp.

A

Thank you, John.

John Campbell
Analyst, Stephens, Inc.

Q

Yeah. On the overall transaction volume lift, I mean that was impressive throughout the year. You guys really – I mean it really stood out in the back-half of the year and that's a good result considering the continued headwinds out of the New York market, but Ryan can you talk to maybe the organic share gains and what you think helped drive that in the back-half particularly?

Ryan M. Schneider
Director, Chief Executive Officer & President, Realogy Holdings Corp.

A

Yeah. Look, it's no secret; we've been under some market share pressure with some competitive stuff for a couple of years. We're really excited to show some pretty substantial market share gains relative to NAR in both Q3 and Q4. There are really two things that drove this, John. So one is our action, right? Our agent growth is up as Charlotte talked about; our retention is up as Charlotte and I both talked about. We had franchise expansion success and some of our brands are just doing great.

The second is the strongest part of the housing market was at the higher-end. And we are very well-positioned at the higher end, which is a place I think you really want to be with our Sotheby's brand, our Corcoran brand, Coldwell Banker brand as well as the geographic footprint of both our franchise and our owned business. So I would say a bunch of the share gain was our actions of the list that I just gave you, and a piece of it was also the fact that we're just well-positioned at the high-end, and that was a stronger part of the housing market for the last half of 2020.

John Campbell
Analyst, Stephens, Inc.

Q

Yeah. Makes sense. Thanks for that color. And then on the mortgage JV impact, just a couple of quick questions there. So, first, how much did that contribute in the quarter and then what was the full 2020 impact versus 2019? And then I know a lot depends on the macro, but just at a high-level, how should we be thinking about that contribution in particular just throughout 2021?

Ryan M. Schneider
Director, Chief Executive Officer & President, Realogy Holdings Corp.

A

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Well, Charlotte can give you some numbers so let me just give you a little bit of strategy here. So, looks, just like I gave you the answer on market share there's two things going on at mortgage, right? One is obviously it was a strong year for mortgage and a good refinance market and we benefited from that. But the other and the thing I hope people don't lose sight of is two years ago, we started this brand-new mortgage joint venture and we lost money in it, and I had to eat some dirt and all that kind of stuff but we've been strategically expanding this thing.

Our coverage of our brokerage business is greater with this. Our loan officer expansion has been really good. Our service quality is doing great. And so part of what we got in 2020 was this just strategic expansion and more geographic coverage, better penetration et cetera along with the hot market. So for us if the refi market goes a little bit backwards from 2020 that will affect us, but a lot of what we build and grew in 2020 was our strategic expansion, our digital title closing product getting a lot more usage and so we like the strategic trajectory. We're going to move with the macro on the refi side and 2020 is clearly a great year for that. But just like the market share, some of it was the market and some of it was us and we're excited about that.

Charlotte, do you want to give John any of the numbers he asked about?

Charlotte C. Simonelli
Executive Vice President & Chief Financial Officer, Realogy Holdings Corp.
A

Yeah. Sure. So the title group, in total, the Q4 operating EBITDA was $58 million which was up $44 million versus the prior year. So as you can see, mortgage was a big piece of that and we had outstanding results. But to the Ryan's point, there's a lot more to us than just – there's things that we've done to grow the business. There's a refinancing impact, there's also higher gain on sale margins which were prevalent last year. So all those things are things we're watching. What we're excited about is it's still off to a good start this year and we'll continue to watch it.

John Campbell
Analyst, Stephens, Inc.
Q

Okay. Great. Thank you.

Operator: Thank you. Our next question comes from Ryan McKeveny with Zelman & Associates. Your question, please.

Ryan McKeveny
Analyst, Zelman & Associates
Q

Yes. Good morning and congrats on the performance through the year. I wanted to follow-up on John's question around the mortgage and title performance, so Ryan I hear you calling out obviously a combination of market dynamics, some of the strategic expansion, the uplift on the digital side of things.

So, I guess, my question is maybe from a geographic standpoint where is the guaranteed rate JV or even on the title side of things in terms of the actually coverage and breadth across Realogy customers? Is there kind of clear runway for just expansion of getting more loan officers across the country from where we are today or has the heavy lifting kind of been done in terms of that footprint and now it's more of the execution? Just trying to separate sort of the clear growth potential incrementally versus just kind of leveraging what's already built at this point?

Ryan M. Schneider
Director, Chief Executive Officer & President, Realogy Holdings Corp.
A

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Yeah. Well, let me start with a strategic answer. I tried to talk about this a little bit in the future, Ryan, which is we have a vision, which a lot of people I think have that there could be much more done to create an integrated transaction for the customer to just make the process easier and most of that process, by the way, is the closing process.

And we have the pieces of it with title and mortgage and some of the digital products we have invested in, plus our leading position in brokerage. And in 2020, we started to put that together and you can just see how much we were capturing more of the economics by creating a better closing experience and beginning to integrate these things. We think strategically, there's a lot more room to go on that.

On the more tactical, practical side, our title business is pretty well-architected across the nation, but we're still expanding. We expanded in Idaho. We expanded in Utah. We got a couple other ones kind of coming up. So, we got a little bit more expansion there.

Mortgage has more room to expand and the expansion is both a little bit more geographic coverage, but there's also depth. We have a vision of, whatever, 1 loan officer to every 25 agents, right? We're not at that vision yet, right? We're more like 1 at 50 kind of thing. And so, along the kind of finishing the geographic coverage of our brokerage footprint, which we have a little bit more to go on, we want to get more depth, right?

And there's real power and I think what our agents can do to help loan officers drive business and so we think there's room for that. So, those are a little bit of the places where I think we've got more to go, but it's all in this architecture, strategically, how do we integrate these businesses we've got, the technology that we've been building to create a better experience, capture more of these transactions, both title and mortgage and drive more integrated economics like we actually demonstrated more in 2020 than we had ever done before.

Ryan McKeveny
Analyst, Zelman & Associates

Q

Yeah. That's very helpful, Ryan. Thank you and a follow-up to it. So, I'm trying to tie it back a bit to the brokerage agent split dynamics. So, big picture strategy-wise, I guess my assumption would be the stronger kind of performance and contribution you can get out of title and mortgage, theoretically that allows a bit more leeway or flexibility on the split side of things, especially with just industry splits tending to just move up and up and up.

So, is it fair to think that kind of the strategy around mortgage and title ties back to how you guys kind of game plan and strategize within kind of the performance you put up directly within the brokerage segment? Kind of tying to, I think, the concept you mentioned around the integrated transaction and all the pieces. We obviously see the segments broken out, but just curious if you could talk about the bigger picture strategy of kind of tying it all together on a company-wide basis? Thank you so much.

Ryan M. Schneider
Director, Chief Executive Officer & President, Realogy Holdings Corp.

A

Yeah. I think you actually answered the question, Ryan, for us which we appreciate. And Charlotte talked about this, which is in a world where not just Realogy, but our industry has some increase in upward pressure in agents' commissions. Being strong on our cost approach year-over-year on operating cost is a way to offset some of that margin pressure. And then, the more we can capture the integrated transaction economics, obviously that's another way not just to offset the pressure, but if you look at 2020, go beyond offsetting the pressure with our mortgage and title results. And so, that's how the business works.

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And one thing is, as you know, we report mortgage and title separately, but those businesses wouldn't exist without brokerage, right? And when you go talk to our franchisees who are running brokerages, they don't report this stuff separately. It's brokerage, mortgage, title, it's an integrated business. That's how we are trying to deal, run it also.

And so, when you think about the power of our brokerage business which makes hundreds of millions of dollars on the owned brokerage side, the title and mortgage economics are an integral part of that and you can think of them all as a whole that we're trying to maximize and creating more integration for the customer is a big part of our future on that we believe and we've got some early success on. But it's also, with mortgage and title on these integrated economics, a way to deal with some of the margin pressure that's been in this industry and for our company on commission splits.

Ryan McKeveny
Analyst, Zelman & Associates

Q

Makes sense. Thank you very much.

Operator: Thank you. Our next question comes from Matthew Bouley with Barclays. Your question, please.

Matthew Bouley
Analyst, Barclays Capital, Inc.

Q

Good morning. Thank you for taking the questions. Following up actually on the last points around commission splits, you mentioned that – I think you said 200 basis points of the pressure in 2020 was from a confluence of few factors, mix, the lack of – or excuse me your own efforts to recruit, and then just agents moving up the split schedule earlier. My question is why wouldn't those three factors drive a similar increase in splits in 2021? And just thinking about the timing of how strong volumes have started the year, is there risk to agents moving up the split tables even earlier than normal? Thank you.

Charlotte C. Simonelli
Executive Vice President & Chief Financial Officer, Realogy Holdings Corp.

A

Sure. So, yeah, the drivers will be the same and it really does depend on the volume because it's not just the mix, it's the mix combined with just how high volumes were and you start to see that a lot in the back-half. And so, yeah, the drivers will be the same. The amount of the impact could vary based on just the housing market in general as far as how they progress up the table.

So, it does not just like one shut-off point throughout the year, they're pretty evenly seasonalized [indiscernible] (00:29:01). So, yeah, there can be a point where folks do drop off but then they reset based on where they finished the year. And so if they finish the year strong on their table then they'll remain at that table until the following year when we see how their performance was. So hopefully those mechanics help.

Ryan M. Schneider
Director, Chief Executive Officer & President, Realogy Holdings Corp.

A

Yeah. Just one thing that. Remember, look, on our investments which we like and they have frankly worked out pretty well for us when we look back at our integrated economics of 2020, we get to own our choices on that, right? We like the choices on that. So on that metric, we do have actually some real control over how this metric goes and then as Charlotte said because not everybody resets on January 1. It's a little more of a kind of we'll see on the volume thing. But at the end of the day I think Charlotte laid out pretty much what the drivers are.

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And you look back in very strong housing market years, whether it was 2020 or others, the pressure is even higher. In years like 2019, where the housing market is bluntly flattish or slightly negative or whatever it was, it's frankly much lower. So the housing volume correlates pretty interestingly with this. And obviously we're rooting for a high volume year but we have some choices in this that we are also going to be making.

Matthew Bouley
Analyst, Barclays Capital, Inc.
Q

Right. Okay. No, that's helpful color. The second one just on the model. You're looking at the G&A in Q4, was a little bit higher than we expected. Was that just employee incentives, what else drove that and obviously I'm trying to understand how to think about leverage on G&A going forward in 2021? Thank you.

Charlotte C. Simonelli
Executive Vice President & Chief Financial Officer, Realogy Holdings Corp.
A

Yes. You hit the nail on the head there. Definitely there was some timing on employee-related costs and there were some other non-employee-related expenses that timing hit Q4. So, yeah, that's the right way to think about it. So that was a timing issue and not repeated.

Matthew Bouley
Analyst, Barclays Capital, Inc.
Q

Okay. Thank you very much.

Operator: Thank you. Our next question comes from Tommy McJoynt with KBW. Your question, please.

Thomas McJoynt-Griffith
Analyst, Keefe, Bruyette & Woods, Inc.
Q

Hey. Good morning, guys. Thanks for taking my question. Could you guys talk about the outlook for the Cartus Relocation business now that it's part of franchise and do you think that business can expect to be profitable on either a GAAP or EBITDA basis going forward?

Ryan M. Schneider
Director, Chief Executive Officer & President, Realogy Holdings Corp.
A

Well, look – look, we like the Cartus Relo business. We've always have and primarily we like it because it's a really good part of our value proposition especially for franchisees around lead generation, right? Now, I think we've given you more detail than we've ever given you on the Cartus Relo economics because it was in discontinued ops for the period that it was, so you can actually see what the true economics were even for most of 2020 because we've already seen those out there. At the moment, like the relo market is under some pressure, right? It is not experiencing the same recovery as the housing market.

And it's really driven by two things, right? The obvious one is COVID and what that's done both to international moves and domestic moves but the other one is actually visa restrictions. So the visa restrictions that were in place or have been in place in the last kind of year or two have actually been a pretty big headwind for the relocation industry, especially for a global player like us.

So, we moved pretty quickly to take costs out bluntly and kind of we liked how we've done on that. And we still have a pretty strong position in this business and so we're looking forwards to probably what will be more of a

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gradual recovery. The biggest dynamic there will probably how much work-from-home does affect the relo side on the global economy.

But work-from-home vary substantially, right? There's a lot of geographies; I'm not going to name them where frankly work-from-home probably won't be as big of a trend as it is in the US because the ability to work-from-home, whether it's Internet connection or – bluntly, like the number of people in a building or a house or a apartment doesn't make it as viable as it does in the US. So we'll see what happens on that. But one thing I would tell you is I think we are in an advantaged position relative to most of our competitors on relo because, for us, relo is important but not very big part of a pretty decent-sized company.

We mostly compete against pure-play relo companies who have all the pressure that we just talked about but have none of the benefits of Realogy's economics, technology, data, scale et cetera, et cetera. So we've had a lot of transparency about the business and we're excited to keep working on it but it's got some headwinds at the moment; a different shaped recovery but we like the lead generation it's still giving even today and we like the actions the management team has taken on the cost side.

Thomas McJoynt-Griffith
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Thanks. Yeah, that all makes sense. Switching over, so now that you've got leverage down in order and refinanced the debt and there's a pretty strong outlook for housing how do you think about capital priorities from here and does that include potentially reinitiating the dividend?

Charlotte C. Simonelli
Executive Vice President & Chief Financial Officer, Realogy Holdings Corp.

A

Yeah. So I tried to cover that a little bit in the script. Yeah. Our capital priorities remain the same. So we're going to continue focusing on investing in our business and paying down debt. We were very excited by the progress we made last year but it definitely still remains a top priority for us.

Ryan M. Schneider
Director, Chief Executive Officer & President, Realogy Holdings Corp.

A

Yeah. If I can just comment on that a little bit. Look, we made $725 million (sic) [$726 million] (00:34:50) of EBITDA and we did $0.5 billion of debt reduction and we like it a lot. But I did end my section with the fact that there's a lot of uncertainty, both public health and macro, right? So we think for now at least staying the course on the capital side is the way to go.

The one thing that we used to do that I don't think is probably going to be – one thing we used to do that I can't imagine as ever coming back is our dividend, so let's just put that out there for you guys to have that. As we get farther into 2021 as our progress continues I think we will continue to always be revisiting our capital allocation strategy. We want to do our best for our investors on that. But for right now investing at the business is absolutely at the top of the list. We have the capacity to do that. We're going to continue to do that. We're going to stay the course on debt pay down for right now and put the dividend thing aside. It will be the uncertainty that kind of determines how long we stay this course versus do something different, but you should assume we're on the path we're on until we tell you differently.

Thomas McJoynt-Griffith
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Makes sense. Thanks, guys.

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Operator: Thank you. Our next question comes from Jack Micenko with Susquehanna. Your line is open.

Jack Micenko
Analyst, Susquehanna International Group, LLP (SIG)

Q

Hi. Good morning, everybody. Ryan, following up on that question, you had a pretty active 2021 on the balance sheet side already. You've got debt where you are a bit more comfortable. It sounds like you're going to be pretty much hold pat until 2023 on that maturity. So, with the business where it's at and the volumes where they're at, a lot of cash generation probably again in 2021, where are you going to invest in the business? Is it going to be agents? Is there some sort of technology piece? I know you talked about mortgage and improving maybe the ratio of lenders to agents? Where should we expect that investment really to fall into in the coming year?

Ryan M. Schneider
Director, Chief Executive Officer & President, Realogy Holdings Corp.

A

Well, the first thing I'd say is even – where you look back at 2018, 2019 or 2020, we have never starved ourself for investing in the business. So, even in the midst of Q2 of COVID when we were doing 50% and 90% salary reductions for folks and hours cut across the board and all that kind of stuff, we did not stop, Jack, at all in investing in our technology for example. We did not stop the launch of our corporate franchise and tried to starve that.

So, we have put a pretty substantial amount of money into investing in kind of the core business that's paid off in some of the different things we talked about, whether it's on the agent growth retention side, on the mortgage side, on the corporate franchise launch and the technology stuff. So, we're going to keep doing that.

The two places that I think there are potential for more investment in the business if the opportunities were there, one would be continued in the technology area. I said many times I'm surprised we haven't like done even more purchasing or investing in technology companies. And part of that is because I think there aren't that many differentiated solutions in the industry, but we've done some. And like our investment in remote notarization product paid off dramatically in 2020; 1,500% usage increase; a huge part of our title growth is capturing more economics kind of thing. So we're open to continuing to do that.

The other is, as we watched the world change, we have planted a lot of seeds for different business models and approaches. So, for example, we formalized our joint venture with Home Partners of America to do iBuying if we want to do it. Now, nobody's using iBuying today, because the market is very hot and it's not a needed thing, but we love our agents having an offer so they can go toe-to-toe with anybody on that thing.

And it's a kind of place where house depends on how the world evolves, we might end up investing more. The buying homes part is off balance sheet. So, we're not taking that on, but we may invest more in that joint venture. We've done a partnership with HomeAdvisor to actually help customers prepare their house for selling, fronting them the money and then using HomeAdvisor's great network of service providers to coordinate the repair, so it's kind of turnkey for the homeowner. We love it. It's a great thing. We've gone national with it. We're willing to put as much into that as we need to.

So, these themes will continue to be there and then we're always watching how the market evolves if we need to make a bigger investment in something to turbo charge it or pivot. Then, you should assume that we have not starved ourself even in the worst time, investing in the business as our Q2 investments in technology, in corporate franchising, in agent retention, in recruiting demonstrated and it showed up in our 2020 results.

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Jack Micenko
Analyst, Susquehanna International Group, LLP (SIG)

Got it. Thanks. And then, Charlotte, looking at – you talked about another $80 million expense savings this year and we've all been impressed with the outperformance of mortgage and title. If volumes kind of hang in here and I know that's a big if, how do we think about EBITDA margins for the year? Do we leverage from here? Do we look flat to 2020? I mean we had – we didn't have that air pocket in the second quarter. Just curious how we should sort of think about the full year on the margin side based on what you see today?

Charlotte C. Simonelli
Executive Vice President & Chief Financial Officer, Realogy Holdings Corp.

Yes. I think you've got the drivers nailed. I think the issue is the temporary cost saves are material and they're Q2 and Q3. So, you'll see the margins vary quarter-by-quarter depending on what we're lapping. You're right. We do get a leverage benefit from volumes, so the longer that the volumes last. The other thing that we get is because the JV is a minority interest and we consolidate only the earnings and not the revenue, so that helps on margin. So, you've got all the drivers right. It will depend on volumes, but you can't ignore the humongous temporary cost savings, because those two quarters discretely will have their own impact.

Jack Micenko
Analyst, Susquehanna International Group, LLP (SIG)

Okay. Thank you.

Operator: Thank you. Our next question comes from Matt Gaudioso with Compass Point. Your question, please.

Matthew Gaudioso
Analyst, Compass Point Research & Trading LLC

Hey. Good morning. Actually just to follow up on that point on operating expenses, I'm wondering if you could kind of expand on where those $80 million of additional cost savings are coming and maybe some – are there any kind of call-outs on inflationary pressures elsewhere in the business on the expense side to offset that?

Charlotte C. Simonelli
Executive Vice President & Chief Financial Officer, Realogy Holdings Corp.

Yeah. So we always experience inflation and the single biggest thing I can point out is like merit increases and things like that. There are things of inflation that will always hit our business.

As far as the $80 million and where we're benefiting, so we have an ongoing effort across just automating things amongst all of our business that fits in brokerage; that fits in relocation. There's definitely ongoing savings of travel and entertainment and conferences and meetings and things that we consider to be temporary in 2020. But we've just found different ways of working and now we can move them into the permanent section of the savings.

So they're going to hit across the P&L. You'll see them in corporate; you'll see them in brokerage and relocation, et cetera. But the drivers will be sort of on the marketing, the travel, some salary stuff. That's basically where you should expect to find them, and they're pretty evenly seasonalized throughout the year. So for your models, they're relatively easy, seasonalized evenly throughout the quarter or the year.

Matthew Gaudioso
Analyst, Compass Point Research & Trading LLC

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Great. That's really helpful. And then maybe just another one sort of a modeling question but in the fourth quarter in the corporate and other section or segment just with $25 million of lower operating EBITDA, was that also the timing aspect that you called out earlier or was there anything else driving that? And what's a...

Charlotte C. Simonelli
Executive Vice President & Chief Financial Officer, Realogy Holdings Corp.

A

It's...

Matthew Gaudioso
Analyst, Compass Point Research & Trading LLC

Q

...good run rate for that going into 2021?

Charlotte C. Simonelli
Executive Vice President & Chief Financial Officer, Realogy Holdings Corp.

A

Yeah. It's the same question as before for sure.

Matthew Gaudioso
Analyst, Compass Point Research & Trading LLC

Q

Yeah.

Charlotte C. Simonelli
Executive Vice President & Chief Financial Officer, Realogy Holdings Corp.

A

So it's timing on employee-related expenses but also there were some timing on some other corporate expenses too. And so I think if you look back at previous quarters, you can sort of do an average and get a good run rate for what corporate should look like.

Matthew Gaudioso
Analyst, Compass Point Research & Trading LLC

Q

Great. Thank you for clarifying.

Operator: Thank you. And ladies and gentlemen this concludes our Q&A session and conference for today. Thank you for your participation and you may now disconnect.

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