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RLGY - Q1 2018 Realogy Holdings Corp Earnings Call

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## PRESENTATION

**Operator**

Good morning, and welcome to the Realogy Holdings Corporation First 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's Senior Vice President, Alicia Swift. Please go ahead, Alicia.

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**Alicia Swift**

Thank you, Shelby. Good morning, and welcome to Realogy's First Quarter 2018 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 made herein are as of today, May 3, 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 CEO and President, Ryan Schneider.

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

Thank you, Alicia. As I shared with you last quarter, I was attracted to Realogy because of its powerful strengths, industry-leading market position, great brands, strong cash flow, and especially close to my heart, technology and data scale.

I'm excited to compete from a position of leadership in this attractive and growing $70 billion plus residential real estate market, especially given the positive demographic trends that bode well for housing in the future.

Before I discuss our Q1 results, let me share a few strategic thoughts. First, it is great to see the number of players in and out of this industry, who see this as an attractive market. For example, we are seeing other large brokerage players excited about the market, with Berkshire Hathaway the most prominent example.

Outside capital continues to invest in traditional brokerage models. Outside capital continues to invest in new models meant to disrupt the current market. And outside capital continues to invest in services like lead generation and curation meant to capitalize on this attractive market. We share the excitement about the market and are encouraged that in this highly competitive environment, we once again grew our revenue and transaction volume in Q1.

Second, as the long-term industry leader in both owned brokerage and franchise brokerage, we like our position and would not trade it. Industry leaders like us in increasingly competitive markets typically go down 1 of 2 paths, a long-term defensive battle or they go on offense, using their scale as the foundation for growth and success. We clearly plan on the latter. We believe our scale, true national footprint, our 190,000-plus U.S.-based agents, industry-leading data quantity and technology reach will be critical to winning over time.

For example, as we develop data insights, technology products and even stronger lead generation engine, we have unique power to distribute these across our industry-leading network, which we believe will have unmatched economic impact.

Similarly, we should be able to best access any opportunity requiring national scale given our unique geographic reach.

Third, we need to move quickly to leverage our strengths. I know shareholders expect better results. While the results trajectory will not change overnight, we are committed to demonstrating a fast pace of change and improving profitability over time.

With that, let me discuss what we saw in the first quarter.

Q1 2018 operating EBITDA was $34 million, in line with our guidance of about half of Q1 2017. Based on what we know today and subject to macro uncertainty, we continue to expect the aggregate Q2 to Q4 operating EBITDA to be in line with or better than the same period in 2017 as we said on our last call.

As we said in February, we expected Q1 commission rates to be up substantially year-over-year, including the impact of fewer transactions in our new development business. Q1 commission rates were up 284 basis points year-over-year, with approximately 65 basis points of that increase from fewer new development transactions. This upward commission rate explains the lion's share of the change in operating EBITDA in Q1 of 2018 versus Q1 2017. Consistent with what we said last quarter, while we expect continued upward pressure on agent commission rates, we expect the quarterly year-over-year increases will substantially moderate over the rest of 2018.

We outperformed the market on transaction volume in Q1, while delivering on our guidance for the quarter. RFG transaction volume was up 5%, relative to NAR up 2%. NRT transaction volume for the quarter increased 2%, even with a 2% headwind from fewer new development transactions.

Let me provide you some geographic color for NRT.

First, we saw strength in the West, up 13% in volume; and the South, up 10% in volume, driven by both sides growth and price growth in each of those markets. Second, the Midwest was up 5% in volume, driven by price growth. Third, if you exclude New York City and the Hamptons, the Northeast was up 4% in volume with equal growth in both sides and price. However, as you've probably read, the New York City market is challenging right now. When New York City and the Hamptons are included in the overall numbers, NRT's Northeast volume was actually down 9%.

Pulling up on the broader market in Q1, inventory remains our greatest concern. While we're closely watching for the impact from mortgage rates and tax reform, what we are seeing in the mainstream market is that there just isn't housing supply to meet the demand. That appears to be the dominant issue. Inventory is currently hovering near 3 months, close to all-time lows. And while this has a positive effect on price, it is not healthy from a supply perspective and make sides growth harder.

Before I turn it over to Tony, I want to share a few thoughts on strategic areas I mentioned in our last call. First, our capital allocation strategy remains the same. We are deemphasizing M&A to focus on organic growth. We returned $99 million to shareholders through share buybacks and another $12 million in dividends during the first quarter, and we expect to repurchase approximately $100 million in shares in the second quarter subject to market conditions.

While we know our leverage ratio increased in the first quarter, we generally do not intend to increase leverage to buy back stock. We will reevaluate our share buyback run rate for the balance of the year after Q2 based on the outlook for the year, our leverage ratio and our stock price.

Second, we are incredibly focused on enhancing our agent value proposition by producing new technology and data products. To that end, I'm excited to share that in the past 75 days, our new technology and business leaders developed 4 new beta products meant to increase agent productivity and efficiency. We've also established an enterprise data platform that will accelerate our ability to generate and implement better data insights.

Success with good technology and data product development will be increasingly important in how we drive value for agents and for Realogy.

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 Q1 2018 results in more detail.

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

Thank you, Ryan. Turning to Slide 6 in the earnings presentation for the first quarter of 2018 results. Revenue of $1.22 billion was up 2% compared to Q1 2017. This growth was attributable to an increase in homesale transaction volume and NRT and RFG.

Our operating EBITDA of $34 million was in line with what we had guided to on our last earnings call. The year-over-year change of $27 million was largely due to a $24 million decline in NRT. This was the result of rising agent commission rates and tough year-over-year comparisons in our new development business, as Ryan discussed.

We are on track to achieve approximately $50 million this year from restructuring and other cost-saving initiatives. Restructuring charges relating to these initiatives were $30 million during the quarter, consisting of $23 million from personnel and facilities actions, and a $7 million impairment in software development as we quickly shift our technology approach.

Adjusted net loss was $49 million or $0.38 per share compared with an adjusted net loss of $23 million or $0.16 per share in the first quarter of 2017.

We had a use of free cash flow of $166 million. This is typical of our seasonal cash trends as the first quarter is the lowest in terms of our EBITDA generation. It is also the quarter during which our securitization obligations are paid down and we compensate our franchisees with volume rebates on royalties earned in prior periods.

We generate the bulk of our free cash flow in Q2-Q4. For 2018 as a whole, we continue to expect conversion from operating EBITDA to free cash flow to be at a rate of 60%.

Our net debt leverage ratio was 4.3x at March 31. We expect this to moderate by year -- by the end of the year. As a reminder, we expect corporate cash interest expense to be approximately $170 million this year.

Slides 7 and 8 provide information about our business unit operating performance in the first quarter of '18. RFG improved revenue and operating EBITDA in the quarter with revenue growth of 4% due to higher net domestic affiliate and NRT royalties. RFG's operating EBITDA increased $3 million principally due to higher revenues.

NRT saw revenue growth, but agent commission splits continue to be challenged. Its revenue increased $20 million in Q1 2018 due to transaction volume that was driven by higher average sales price. NRT operating EBITDA decreased $24 million to negative $45 million as the increase in revenues was more than offset by $40 million of increased agent commission expense.

Of the $40 million increase, approximately 1/3 was due to volume growth, about 1/2 from agent retention and recruiting and the remainder was due to new development activity.

Just a reminder, in our last call, we told you that our NRT numbers will include a negative impact from lower new development business in Q2, similar to that in Q1, of approximately $10 million of EBITDA, but then less effect in Q3 and Q4. In Q2, this will show up in both the agent commission split rate and transaction volume.

NRT's first quarter operating EBITDA benefited $4 million in the absence of the PHH Home Loans JV loss last year. In the second half of 2018, the one-time gains realized in the NRT segment from the wind down of this JV last year will be a headwind.

Cartus revenue increased $2 million in the first quarter, primarily due to an increase in affinity and other revenue. Operating EBITDA decreased $2 million because of exchange rate fluctuations.

TRG had a number of items in the first quarter that we don't expect will continue for the remainder of the year. Its revenue is flat and operating EBITDA decreased $8 million. Resale revenue growth partially offset a 37% decline in refinance activity. Refi will be less of a factor going forward. TRG's operating EBITDA was also impacted by a $3 million decrease in earnings from equity investments related to the ramp-up costs for our mortgage joint venture Guaranteed Rate Affinity. It's now beginning to show a profit.

Corporate operating EBITDA in the first quarter was $4 million better than the first quarter of 2017.

As Ryan mentioned, the most pressing factor faced today is limited inventory, which slows transaction sides growth, but has been more than offset by price appreciation.

Moving to our transaction volume guidance for the second quarter. On Slide 9, we forecast that Realogy's combined homesale transaction volume will increase in the range of 2% to 5% year-over-year with sides down 2% to flat and 4% to 5% growth coming from price. Broken down by business unit, we expect 3% to 5% transaction volume growth at RFG and 1% to 3% growth at NRT.

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

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

Thank you, Tony. Pulling way up, after 4 months, I continue to be incredibly excited by Realogy's strengths and look forward to leveraging our market leadership, geographic reach, data and technology scale to improve profitability over time.

While our results trajectory will not change overnight, I feel good about our pace of change. I am confident that we are headed in the right direction. We are growing revenue and volume in a competitive market, while we continue to recalibrate our agent commission approach. We are quickly producing multiple technology and data beta products to enhance our value proposition. We are driving efficiencies in our cost structure, and we are returning substantial capital to shareholders.

With that, Tony and I will take your questions.

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## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) your first question comes from Matthew Bouley of Barclays.

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

I wanted to start out with a question on the commission splits here moving into the second quarter. Just thinking on normal seasonality, you typically see a step-up sequentially, which off of that first quarter level would potentially still leave a significant year-over-year headwind on EBITDA. So -- and obviously, as you just called out, you still have this mix shift away from new development. So just wanted to get some more clarity on how we should think about near-term splits.

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

Yes. So thank you, Matthew, for the question. Look, we looked at a lot of -- we've looked at a lot of scenarios for the second quarter incorporating the seasonality trends you described, the new development headwinds. And bluntly, they all had a substantial moderation in the year-over-year increase. There's still upward pressure and so you should expect that there will still be year-over-year increase in the second quarter. But compared to the 209 basis point increase you saw in the third quarter, the 204 basis point increase you saw in the fourth quarter and the 284 basis point increase or 219 if you want to subtract out the 65 basis points from new development, compared to those range, we expect it to be substantially moderate in Q2 and in Q3 and Q4. So I don't want you to lose the fact that there is still upward pressure, but the moderation should be substantial even taking your seasonal point into account.

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

Okay, understood. And then second question, and I guess, just taking a step back. Ryan, now that you have been in the seat for a few months, I'd be curious to just kind of hear your broader thoughts on thinking about brand and the value of Realogy's brands. And more specifically, how that pertains to kind of agent switching costs? Just given kind of an environment where there is a lot more information readily available and lead generation is something that has been kind of spread out, just how do you think about Realogy's ability to kind of boost retention in an environment where switching costs maybe diminishing?

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

Yes, so a couple of thoughts on that. Look, I think brands matter. And I think they matter for consumers from a legitimacy standpoint for brokerage. But for agents, the brands can really stand for something in terms of what the brand delivers in terms of their support, what the brand can deliver in terms of leads. And we've got the advantage with our Cartus relocation and affinity business of delivering kind of 75,000 closed transactions to people across our different brands. So there's a lot of power in that as we grow that. I do think, going forward, kind of using the technology data, kind of innovations and delivery to agents in all the different brands that we have, it can be a powerful part of the future of making people more sticky with the brands, both in terms of giving them things that's going to make them more productive, that's going to make them want -- make it harder for them to leave. But also, if we can create an easy operating environment for them with technology, it raises the bar kind of in terms of switching costs a bit. And so we want to keep building our brands. We will not be building a Realogy brand. The brands we need to invest in are our agent-facing brands. But we want to do that not just by putting money against those brands, but against delivering things for agents that help their productivity that can be part of not just retaining people into those brands, but attracting them to it. And so I'm excited that Realogy has got great brands. We want to keep building off them, especially from an agent retention and recruiting standpoint.

**Operator**

Your next question comes from Jason Deleeuw of Piper Jaffray.

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

I believe there was mention of recalibrating the commission split approach. I was just hoping to get more details on how you're thinking of handling the commission split strategy going forward.

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

Yes. So great question, Jason. I talked a little bit about this on the last call, and there are some things that wouldn't be appropriate to share publicly just for kind of competitive reasons. But let me just give you kind of 3 different themes that I believe are going to be part of the future on this. So one is, I talked before a little bit in the answer to Matthew's question, the more we can enhance our value proposition, especially with technology and data products to support agents, the more we can continue to build on our strong lead generation engine that we already have today and deliver more value to agents. That's going to help us vis-à-vis agent commissions just by delivering more value and making them more productive. Second, we have a big opportunity to take a more data-driven approach around agent commissions, and frankly, start to make some of the decisioning around individual agent commission decisions more driven by analytic insights and frameworks in, kind of, call it the home office as opposed to kind of the individual negotiation in the field, which is a little more how the business kind of works today. We -- I talked last time, we started to do some analytics around commissions. I won't share the insights yet, but we're starting to build our muscles using a more data -- much more data-driven approach to that to take more of that ownership into kind of the analytics decision-making being done in the home office. And then third, and I mentioned this last time a bit, is changing our target recruiting profile, again, through a different use of analytics. Over the first quarter, we actually did some pretty good analytic work, I think, as a company using some different AI tools and things like that, that really said, "Hey, there is a different profile of recruiting that we can target." The recruiting we did in 2016 and '17 was quite powerful. We're net up by about 2,000 agents in our team. We like those agents. Their productivity has been good. And so that was all good things to do. But you'll notice we took a little bit of a pause in that right now, and our next generation that's probably going to be more of -- a little more analytically driven, likely targeting a slightly different mix that has some impact on the commission dynamics. So we need to make some changes in all 3 of those kind of areas, I believe, over time, both to make our agents more productive, which helps on this topic, but also to recalibrate the approach that we've been using a bit.

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

Great. And then the -- in the press release, there's talk about the improving profitability over time, which obviously is a key thing here, while trying to manage the agent recruitment efforts and the market share trends, just given the competitive environment for agents. So I guess, what's kind of the high-level goal here? Is the goal to maintain and grow market share going forward, while also improving profitability? Is that achievable? Is that the goal for Realogy at this point?

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

So Jason, the goal is to improve profitability. There's a lot of different things we can talk about. We can talk about margins, we can talk about operating leverage, et cetera, et cetera. There's a lot of different choices we kind of have here to kind of look at how we would judge, kind of what's most important. But given kind of the history of the company over time and kind of just listening to our investors, I think it's relatively easy that the goal actually just needs to come straight down to can we show and drive EBITDA growth. Period. That's the goal. What we have learned a little bit, and as I look back in history is, if you go back to 2016 when Realogy was kind of off the fairway in terms of commission rates, we were losing agents and losing market share. And on an integrated basis across NRT and RFG, we were losing some of that transition we think we lost like $14 million going through that -- a bit of that transition. Whereas in '17, even though the commission split violence was painful on the P&L, on a net basis, we actually on an integrated basis made $2 million. And so there is no magic market share number, but I think we realized with the scale that we've got and the benefits of that, that we're probably better off being on market on commissions and trying to grow our market share, both because the integrated economics have looked better for us versus the alternative in the past, but also because we're actually bullish about the future of this market. I mentioned in my comments, I think there's some real good demographic trends for housing. We've got about 5.9% share of the market at NRT. RFG covers another kind of 10% of the market, so there's a huge amount out there. And if we can profitably grow it, I think we'd rather have more than less because we believe in the demographics and we believe in the power of it. But at the end of the day, we -- I feel we're going to be judged purely on can we improve our profitability, and so that's what we are focused on. At the moment, we do like kind of growing market share because we think that's going to be part of improving our profitability given our scale, but there's nothing magical about that -- about the market share targets or statements. Though again, we are biased for more because we believe in the future and the demographic trends I mentioned.

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**Operator**

Your next question comes from John Campbell of Stephens Inc.

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

So thanks for the color around the NRT regional trends. As best you guys could kind of hash out, what are the splits look like across the 4 regions? I'm guessing the West region is a little bit higher than others. Is that right?

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

Yes, I'd say the West stands out just because of the tradition of those markets where marketing costs are borne by agents versus broker paid. And then -- so yes, they are. And the sort of great strength we saw in California contributed a little bit, not (inaudible) for me, but a little bit to the split pressure. But the gross profit was definitely up year-over-year nicely, and we're very happy with our performance in California, especially versus the market as a whole. So we are encouraged by that trend.

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

Okay. And then in the industry, obviously, there was some pretty big news with Zillow moving into the iBuying. It looks like you guys are going to partner with them. So maybe if you could shed a little bit of light on -- your thoughts on the Zillow move. And then whether that relationship could be additive to you guys, can actually move the needle over time?

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

Yes. So we've got a long relationship with Zillow, and we're here to do whatever we can do to make our agents successful. We serve agents. If our agents succeed, we succeed. And Zillow offers many things that are helping our agents succeed, and so we've got a long partnership there. We continue to do that. We watch -- kind of strategically, if I step back, we are watching the iBuyer phenomenon relatively closely. So far, it's been confined to a very few cities, very narrow price bands. Only certain kinds of constructions in the cities. So it hasn't really kind of hit any sort of size, radar screens that would change anything that we're doing, yes. But we are watching it closely. And look, we love the fact that Zillow has been innovative. We love the fact that they are choosing to partner with one of our most important franchisees. So in Las Vegas, their partner is one of our most important franchisees, and we are excited about that. We are also excited about the fact that they are keeping agents at the center of the transaction process, which, again, is good for their agent customers. It's good for our agents. And so obviously, you should direct your specific questions about it to them, but we're -- we look forward to continuing our partnership there and are very excited that they chose to work with one of our most important franchisees in their Las Vegas launch.

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**Operator**

Your next question comes from David Ridley-Lane of Bank of America Merrill Lynch.

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**David Emerson Ridley-Lane** - *BofA Merrill Lynch, Research Division - VP*

Decline in days on the market metrics, it's pretty fresh inventory. It's good inventory. It's coming on.

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

David, I'm sorry. David, can I interrupt you? We did not hear the start of your question. You loaded a little bit late, at least on our side. Would you like to repeat your question for me?

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**David Emerson Ridley-Lane** - *BofA Merrill Lynch, Research Division - VP*

Sure. So a lot has been made of the inventory declines, but the decline in days on the market metric, this is fresh inventory that's coming on. It's good inventory that's coming on. And there's also at least an argument to be made that technology should increase the speed of the transactions. So I'm wondering, how much of an impact are you seeing on inventory? And do you buy any of those arguments that the decline in days on the market and potentially technology is making it less of an issue for the market?

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

I mean, inventory is the most pressing issue, David. I agree with you that absorption rates are improving, but it's still the main driver of sort of sides being sort of flat and price being up significantly. And if you look at some of the NAR data from March, you can see most of the sides decline were in sort of the [2 50] and below. I mean, it was really some sort of mid-teens type unit declines in that price point -- whereas 750,000 and above price point, where there's more and more inventory as you go up. It was actually up pretty significantly to get to their overall number. So inventory is definitely the most relevant factor affecting us more than taxes, more than mortgage rates, more than weather, more than Wall Street, stock market volatility. So it's definitely inventory. In Massachusetts, right, sitting here today, going into their spring season has 2 months of inventory, if you go to the Massachusetts Association of Realtors' website. So -- for Massachusetts -- I expect that in San Francisco, but not Massachusetts and it's really an issue.

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**David Emerson Ridley-Lane** - *BofA Merrill Lynch, Research Division - VP*

Okay. And then on NRT, I hear you the goal here is to grow EBITDA. Wondering if there are further costs that could come out in that segment either on a per office basis or is this all going to be about commission splits?

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

Well, commission splits is the dominant thing at the moment just because that's where kind of the violence in the P&L has been. But cost and changing the cost base there is absolutely going to be part of the future, and that can happen in multiple ways. So for example, we've got a lot of 5,000 square foot offices right now. We got to be in exploring what the 2,000 square foot office looks like and how does that -- can we deliver something great to help agents with that, but that actually changes the cost base. So we've got to hit NRT not just on the agent commission side, we've got to hit it on the cost side. We've got to deliver data and technology products to help make people more productive. We want to up our lead generation and delivering more and more close leads into NRT. And so there's no one silver bullet for a business with this much competition and this much intensity right at the moment. And we are focused on multiple levers there. Giving you transparency on splits has been the most important thing for me because that is where most of the violence has come from recently, and it's an incredibly important market factor that we are all going to have to keep watching and confronting. So that maybe why I probably overemphasized that a little more than cost, even though cost has got to be part of our future on this.

**Operator**

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

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

So Ryan, you mentioned the -- just at the beginning of your prepared remarks the competitive environment, kind of the money flowing into the sector and some of the "disruptors". And it seems several of the newer entrants are focused on the commission rates, so actually what consumers are kind of paying to agents. So obviously, good to see that your commission rate for both RFG and NRT was flat year-over-year. But just curious if you can give some big picture thoughts on what you're thinking about for the commission rate moving forward because it's obviously a point of discussion in the industry over whether there could be pressure into the future. I'm -- so just would be curious what you are seeing on that front, if you do have any maybe markets where you do hear about some pressures versus others may be less so. And ultimately, you just said kind of value proposition between your agents and the actual consumers.

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

Yes. Great question, Ryan. Both coming into this role and being here now for -- in this role for 4 months, the stability of the ABCR has been both a pleasant surprise, but also one that has made me want to kind of scratch my head strategically and make sure we really understand it. And so that's something we are watching pretty closely. The thing that I probably most struck by is if you go back to those places, I talked about competition. If you look at what's happening with traditional brokers, I called out Berkshire. If you look at the people investing in traditional brokerage and you look at the people who are investing in the services that are meant to target this market like lead generation or lead curation, the amount of money flowing into that is phenomenally larger than the amount of money flowing into things that are trying to target the ABCR. And so the competition around the rest of the business is just incredibly intense, as we've been talking about, and that we're doing well in, by the way. And so I find that to be an interesting thing strategically. And then on the ABCR, look, Redfin has been around for a decade going after this -- going after that. And they've had whatever success -- you want to judge that they've had, but we (inaudible) them for a long time. And while ABCR moves down a point or 2 a year maybe, if you look kind of across markets and some are a little lower than others, its stability has been pretty impressive. And interestingly, consumer price of housing during that time has gone up pretty dramatically. And so the actual total return from the transaction, ABCR x price, has actually grown pretty substantially. So -- it's -- to me, it comes back just to the value that an agent delivers for what is the most important financial transaction for like 95% of people in their life, basically, right? And at the end of the day, what I'm increasingly coming to believe is that: a, agents deliver real value of getting people the best price and helping them navigate this kind of incredibly important financial transaction; and b, people are not necessarily willing to trade a discount on the commission side for the chance that they may not get the best price and the guidance from someone that can truly shepherd them through the whole process, which is why I think the strategy we have of serving agents and kind of betting on agents just like Berkshire is doing, just like all the outside capital and best in traditional brokerage is doing is actually going to be the right one over time.

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

Got it. That's very helpful. And Tony, 2 for you. One, on the debt side of things to the leverage at 4.3x, I guess, just how you envision that moving forward? I think you did make a comment about by the end of the year, but my phone cut out for a second. But just curious because there has always been this thought around long-term target of more like 3x. So just moving later in the cycle, kind of, how you view that? And then the second question for you would be just any updated thoughts on tax reform? You made some very helpful comments last quarter when it was kind of a newer thing, but any updated thoughts there on kind of what you are seeing related to tax reform?

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

Sure. So the leverage increased in the first quarter because of a combination of the normal use of free cash flow in the quarter that we see every year and the fact that we continued our return of capital cadence because we think the stock is a good value. So we think by year-end, we'll be at least back to where we were at year-end in 2017. And our goal remains unchanged longer term to continue to chip away that to get it to the lower numbers. I think in terms of I think a big help to that would be what Ryan talked about, which is our goal is really to get -- improve our EBITDA levels on an absolute basis, and obviously, that would help that ratio. So I think we still intend to decrease that leverage ratio over time. And just -- I also pointed out that regardless of the ratio, our interest expenses -- our annual burn rate on interest is $170 million. So it's -- relative to our EBITDA up, down, sideways, it's -- the coverage is very strong and we pushed out all the maturities on our debt. So -- But anyways, it's still our intention to delever over time. On tax reform, again, I think the -- what we are seeing and the data suggests is that inventory is the most pressing issue and the sides declines, as I mentioned earlier. In March, we're much more at the lower end and they were much higher at the higher end, so you'd expect -- if tax reform were affecting that, you wouldn't see such a big sort of disconnect between those 2. It's really inventory is kind of swamping all other factors. So it's not just tax reform, it's also same thing with mortgage rates. Even -- the only thing we could sort of see in the first quarter was -- and we didn't really want to call it out because it always happens, was weather. Because, obviously, the Northeast, the 4% -- being 4% up before New York City, some of that was weather impacted. But having said that, it's still -- its inventory is the #1 factor here.

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

If I can just add on that, Ryan, just to give you -- just so you get to hear from me, too. I've been -- look, we're watching tax reform closely. We're watching mortgage closely. I'm 100% with Tony. It's all inventory. I was struck by our numbers. And it's part of the reason I want to give you guys some geographic color, which is you look out West in the high tax states and they had both strong sides and price growth even with tax reform kind of having happened. You look at the Northeast, and if you exclude New York, the rest of the Northeast, which have some pretty high tax states, also had like a couple of percent side growth and a couple of percent price growth, which that was interesting to me. And then New York City, obviously, went the opposite way. There's a tax component to that. We are clearly seeing some big disconnects there between buyers and sellers, especially at the high end of the market. So -- but it's just -- a lot of the places we expected to probably see some tax reform impact, the data just didn't show it yet and that's why I want to call out some of that geographic color. It doesn't mean we are not going to watch it. It doesn't mean it couldn't be there. It doesn't mean it couldn't be a piece of the puzzle in New York City or something, but it was quite interesting to see the strength in a bunch of the higher tax regions of the country.

**Operator**

Your next question comes from Stephen Kim of Evercore ISI.

**Stephen Kim** - *Evercore ISI, Research Division - Senior MD, Head of Housing Research Team & Fundamental Research Analyst*

I had a couple of questions related to your commentary about data development or data mining. You said you had 2 new -- 4 new beta products to aid agent productivity and efficiency. I guess, pulling it back a little bit, I was curious if you could help us think about what you think are the key attributes of the unique data that Realogy has that are therefore uniquely valuable. And I was wondering if it was possible to break down these attributes or these types of data maybe between data that's particularly relevant for agency and brokerage versus data that might be more broadly applicable. So for instance, again, it started -- you had mentioned, I think, thus far that from a brokerage perspective, you have data around agent productivity and data that would be helpful in commission negotiation. I assume you meant the ABCR there. And then beyond brokerage, I know - I would think that your data is probably more timely and more accurate perhaps than other folks may have access to. But I was wondering if you could sort of continue that along. And what are the other things that you think you have access to, data wise, that others don't?

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

Sure. So a couple of things. The commission thing I mentioned, by the way, was agent commissions, not ABCR. Just -- sorry, my mistake on that one. But that's what I intended to communicate on that. Look, I think there are 2 ways you can kind of go at it in terms of kind of what we have and what we have that might be unique. One way is just the scale way, right? So with 6% of the market NRT, with 10% of the market at RFG, with a title business that does a lot of transactions not just for our agents, but for nonaffiliated to us agents out there. And then our geographic reach -- if you just look at even just the number of MLSs we accessed the data from and the number of transactions we see, et cetera, et cetera, from that scale stuff, there's kind of a quantity of data differentiation thing that I believe Realogy has. A lot of that benefit is going to be in what we as Realogy can use to mine that data, get insights from it and then give that -- those insights either out to agents or franchisees or use them in our commission negotiations or our recruiting tactics or whatever. So I think there's just a scale access thing that is one vector of that, basically, right? The second thing, which you touched on a little bit is can we deliver a lot of these things to customer -- to our agents, for example, in real time? And that's a little harder on the franchise side because we have to work through the franchisee there. But again, for NRT, which is where most of our economics come from, right, we have the ability in real time to get our -- get any of these data insights to the biggest owned brokerage business with 50,000 agents. And by the way, we have the ability to see and test how those 50,000 agents use that data differently and who succeeds and who doesn't. And so what do we do the next time we learn from that? And so I think there is a scale aspect just to the amount of data that we can actually use to generate insights for ourselves, for our agents and for our brokers and then distribute to them. But then there's like a real time and a testing kind of component to that, that we could also do. And I think it's got insights on how we negotiate and pay commissions for agents, which is a big, obviously, part of our P&L that we talk a lot about. I think there are recruiting aspects to it. I think there is lead generation versions of this, both within our company's network but also as we expand that. And then I think there are things that can be helpful to those agents in being productive with their customers winning listings and things like that. So the scale thing and the real time thing are probably the 2 ways I kind of come at it. And I'm happy to go deeper in it because I'm a geek on this stuff off line, Stephen, but that's where I'll probably start.

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**Stephen Kim** - *Evercore ISI, Research Division - Senior MD, Head of Housing Research Team & Fundamental Research Analyst*

That's really helpful. And you talked on this call and many others have talked on other calls about the fact that the inventory shortage across the market is very different at the lower end, much more severe at the low end than it is at the high end. I was curious as to whether you thought -- I assume you think that that's going to be a somewhat intractable force here for a fairly long period of time. But even if you don't, I'm curious as to whether you think that the data that you have access to and the things you can do with it would be more valuable at sort of improving efficiency and productivity at the higher end than at the lower end? Or if the data is actually more skewed to the lower end?

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

That's a great question. I haven't thought about it that way very often. Look, in the current market, you -- I think you're totally right because in a world where the mainstream inventory is that kind of 3 months or 2 months in Massachusetts thing and where inventory in the couple of million dollar range is more like north of a year, right? You've got more opportunity to have impact in the upper end. So you're right about that. Over time, I think as the market normalizes, there's value across the spectrum on this stuff. But you're probably right that in today's environment, if it persists, it's going to be -- there will be more insight into the higher end, which only probably plays to our strength because we've got NRT architected to be in more of the higher end markets. We got a much higher average price point, et cetera. So that would be good for us. But that's a good question. Those are just immediate reactions, not something I'd spend a ton of time thinking about.

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**Operator**

Your next question comes from Anthony Paolone of J.P. Morgan.

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

Can you talk specifically like -- an example you gave about the venture you have with Zillow in Las Vegas. Whether that cuts into the typical 5% ABCR to kind of make the principal risk they are taking work? Or how does the transaction work?

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

So our partnership with them in Vegas is actually of one of our franchisees. So it's not an owned brokerage thing. And so you're going to need to direct the specifics of that one of how they're structuring it to Zillow. We are excited though that they are keeping agents in the transaction, so -- which, again, they make most of their economics from agents. So I'm excited they're keeping agents in the transaction. That will benefit our agents. And I'm excited that they thought that our brokerage was the best one in Las Vegas to partner with or our franchise in Las Vegas was the best one to partner with. (inaudible) who leads that and his wife, Molly, they're just incredibly successful, good franchisee. We're incredibly lucky to have them. So we're excited about the agent component. We're excited that they want to work with one of our franchisees. How they're doing their economics and what the choices they're making around ABCR, you're going to have to ask them. I don't know the answer to that.

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

Okay. Do you see that as being a broader issue? I mean, you talked about ABCR being (inaudible) factor than splits at the moment. But when you get whether it's open door there that might be taking principal risk. Do you see them using that $70 billion pot, if you will, as the area to kind of cushion for profits on that?

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

Well, I mean, look, there's -- yes, they're clearly trying to shift some of that money from agents and brokerage -- agents and brokers and folks like us to them. I find it interesting. Again, it's been a (inaudible) a narrow market thing. They're taking principal risk and they're doing it at a time when, per Stephen's question, your inventory is so tight that homes just sell incredibly quickly. I'm -- as we do our strategic thinking on this, Anthony, I'm really focused on kind of what's going to happen in those models at a more normal inventory level or even through a downturn. Look, the reality is from the data that we can see, obviously, they charge a service fee that's equivalent to the agent commission or more, right? And the price at which they buy a bunch of these houses, in one man's opinion, it looks like they're at a discount, given what they sell them at a few months later. And so there is -- looks like there is a subset of consumers who need the liquidity, who will take a pretty big haircut on their house to avoid the transaction. How much of the market that puts at risk over time I think is TBD and Zillow showing, or at least trying, a different way that keeps the agent in the transaction. And they obviously must believe the economics can work for that. So I'm curious to watch how these different models actually play out, and this is on our strategic radar screen, even if I don't have any news to share specifically about it at this point yet.

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

Okay. Got it. And then just a question maybe for Tony. You mentioned I think $23 million of the $30 million in restructuring charges in the first quarter it looks like was cash. Do you have an estimate what cash restructuring might look like for the full year?

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

I believe it's $36 million in restructuring costs for the full year. It's in the 10-Q. There's a schedule on there what we spend today and what we are going to spend. $36 million is the number that I recall.

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

Okay. If I could sneak one more, last one in. Just curious, you guys had not mentioned Zap in a while. Is that still something you're investing in?

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

Yes, we're really excited. We're glad we've got Zap at the platform. We got about -- I think it's 100,000 agents or -- the platform's deployed 100,000 agents who are using it. While the data is not as tight as we'd like it to be, we actually believe the data we have shows that agents who are using it are more productive, which is great. And the reality is it's a technology platform we offer to our franchisees for free that others in the industry don't. So we like it and we're glad it's there. But in the spirit of driving improved profitability, we've got to really expand our technology and data product development and delivery outside of just the franchise network, which Zap has been focused on, and really make sure we are doing great not just with our franchises, but with NRT, given the economic leverage there. And so that's why you hear me even on this call talk about, "Hey, we can -- we have shown we can do a few things in 75 days that we hope will help drive some agent productivity at NRT and efficiency." And so don't think that we're not excited about Zap or proud of it or that it's going to be a -- it's not going to be an important part of our future. It will be, but there needs to be more than that. There needs to be substantial use of our technology and data scale, especially with NRT, right, to help agents be more productive, just like we need to use data also to have better insights, so we can make better business decisions on commissions, on recruiting, et cetera. And all of that plus Zap is kind of the technology journey and data journey we need to be going on and we are going on in 2018. But that's why you probably heard a little less about it because I think the challenge is frankly much broader than just succeeding with that product.

**Operator**

Your final question comes from Bose George of KBW.

**Unidentified Analyst**

This is [Tom Allen] for Bose. Just quickly, back to the restructuring costs for this year. Could you just remind us like the breakdown of the -- kind of the segment and initiatives that that's really focused on? And then the $36 million that you pointed for the full year, is that really just heavy in the second quarter? Or does that kind of get spread out evenly throughout the rest of the year?

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

So the total is $41 million, I have been corrected, for the year and we spent $30 million in the first quarter. So of the remaining $12 million or so, it will mostly be in this quarter -- in the second quarter. And it, again, is mostly facility rationalization and HR rationalization for those -- for that spend.

**Unidentified Analyst**

Okay. And with the high level that your capital return is coming in at, is it fair to say that kind of the flip side of that is that you see pretty limited acquisition opportunities in the market whether it's due to not seeing something you like or just the price not being there?

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

Well, there's a couple of different versions of that. So one is you mentioned pricing. Pricing has been going up. Realogy's history is kind of doing deals that are kind of 5 to 6 multiple after synergies. And at least from the market intel we've had, there have been a lot of deals trading at much higher levels than that in the last kind of 15 months. So definitely, there are some things that are less attractive on price. More strategically, I just have an incredibly strong belief that Realogy has massive scale, right? It's not like we need acquisitions to enter almost any new markets. Maybe the Carolinas we could go a little -- we could -- we'd like to be bigger in. But in general, we don't need acquisitions to be in the markets we want to be in. And that we think with some of the recruiting success the team had in 2017, that the returns are just higher for organic growth. And given that kind of an acquisition-heavy approach (inaudible) hasn't translated into the improved profitability that you demand and that we expect to deliver, right? I come from much more of a power of organic growth background, and I'm really excited to go on that journey. So we'll still look at things on occasion. There'll still be probably really small things that will happen, but I think our -- the philosophy around our use of capital is we want to invest for organic growth. We want to return capital to shareholders. We want to keep our kind of leverage ratio about where it's been and chip away out of it over time. And you shouldn't expect that we're going to use our capital for kind of material acquisitions.

**Operator**

There are no other questions in queue.

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

Thank you, Shelby.

**Alicia Swift**

Thank you, Shelby. This concludes our call, and we look forward to speaking with you over the coming quarter.

**Operator**

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