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Realogy Holdings Corp. (RLGY)

Q3 2019 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to the Realogy Holdings Corp. Third Quarter 2019 Earnings Conference Call via Webcast. Today's call is being recorded and a written transcript will be made available in the Investor Information section of the company's website later today. A webcast replay will also be made available on the company's website.

At this time, I'd like to turn the conference over to Realogy's Senior Vice President, Alicia Swift. Please go ahead, Alicia.

Alicia Swift

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

Thank you, Shelby. Good morning, and welcome to Realogy's third quarter 2019 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 the call. These statements are based on 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, November 7, 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 in our annual and quarterly SEC filings. Also, certain non-GAAP financial measures will be discussed on this call, and per SEC rules, important information regarding these non-GAAP financial measures is included in our earnings press release.

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

Ryan M. Schneider

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

Good morning, and thank you, Alicia. I am really looking forward to this call and the Q&A, given everything that has happened since we last talked to you three months ago, especially the very recent changes in the competitive environment that look positive for us. We have new product and partnership launches, continued agent growth, some new efficiency results, and the backdrop of an improving housing market. We also have a couple of exciting strategic changes to discuss.

Let me start with our Q3 financial results. We generated $223 million in operating EBITDA in the quarter. Our revenue was a little lower than what we expected, but expense savings were better than we expected. So, we ended the quarter about right where we thought we would. We generated $174 million in free cash flow and reduced debt by $163 million, including retiring $93 million of bonds at a $10 million discount. Given our

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confidence and commitment and our ability to de-lever, Charlotte and her team seized the latter opportunity to pay down debt while generating better economics for Realogy.

We delivered our second consecutive quarter of agent growth in our owned brokerage business, with the overall agent count up an additional 1% in the third quarter and now up 3% year-to-date. With the recent positive changes in the competitive environment, September and October were two of the three best agent-growth months we have achieved in the last two years. And we remain on track to deliver the $70 million in cost reductions for 2019 that we've previously discussed. And Charlotte will share with you a new and material set of 2020 expense reductions that we've already executed since we last spoke to you.

We like the improvement in the overall housing environment that we are seeing and the low-rate environment is clearly a positive for housing, especially compared to the rising rates of a year ago. Our volume in the quarter improved from minus 3% in Q2 to minus 1% this quarter, but was less than the shift to positive volume we had guided before.

Our franchise business was basically flat year-over-year on volume, which improved from minus 2% in the prior quarter. Our owned brokerage business was down 3% on volume year-over-year, which improved from the minus 5% in the prior quarter. The decline was driven by continued competitive pressure in select geographies, particularly in California.

Another and new Q3 headwind was New York City, one of our larger markets, which was down substantially in Q3, consistent with the other industry reports. Much of the New York City decline is attributed to recent tax changes, especially the new mansion tax.

Just like in Q1 and Q2, we had a gap to NAR this quarter, approximately 700 basis points. While some of this is driven by the geographic mix of our business, e.g., New York City in Q3, the lion-share is the competition for high-volume agents that really ramped up in late 2018. Attrition of our high-volume agents has gotten worse over this time. And while those agents contribute much less to profitability, they do contribute a substantial amount through volume/market share. This has been and will continue to be a market share headwind. Given the choice between profitability and market share, we do choose profitability and you are seeing the market share impact of that choice in our results.

Looking ahead financially to the rest of the year, and subject to potential macro and other uncertainties, on operating EBITDA, we now expect to land near the lower end of the $590 million to $610 million guidance previously provided. Landing near the lower end of our operating EBITDA guidance is based on us having around 5% volume growth in Q4, with a bit better balance between NRT and RFG. We expect to be below NAR's current Q4 transaction volume forecast of 13%, as we continue to experience headwinds from the impact of competitive pressures we have faced since late 2018.

Let me now turn to the biggest question that we've been getting recently, which is, what is happening in the competitive environment. As we told you earlier this year, the competitive intensity and agent recruiting and retention took a large step-up in Q4 2018 and continued through this past summer, with August 2019 being one of the most intense months in the last two years. This challenge has really been all financial disruption from one competitor, not the technology disruption that grabbed headlines.

But then something happened in September. Investors seem to start caring about profitability and it started to show up in the competitive environment. In both September and October, we saw a substantial decline in agent recruiting intensity, both year-over-year and compared with the summer of 2019 from our most intense

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competitor. And in our own brokerage business, September and October were two of the three best months of agent growth for us in the last two years. And so, while we cannot predict what other companies will do in the future, this is by far the biggest change in the competitive environment to our benefit that I have seen in the last two years.

During this whole time, we've stayed focused on recruiting profitable agents and not making unprofitable decisions. While big revenue headline numbers are interesting and no one has bigger revenue numbers than ours in our industry, we operate for profitability. So, given that positive change in the competitive environment, we're even more excited about the potential of the many new products that we're introducing in the market to help us win more listings, drive agent productivity, and recruit and retain agents.

First, over the past year, we've launched multiple marketing products, including Listing Concierge and Social Ad Engine, to help drive better marketing for our agents. In Q3, we launched Exclusive Look, a new marketing product that will have all of our 47,000 Coldwell Banker-owned brokerage agents share and search new listings, before they are available to the broader market via public websites. Given the size and scale of our business, this is a unique competitive advantage. Exclusive Look should be national by the end of the year and expanded to our Coldwell Banker franchisees and there are approximately 40,000 domestic agents in 2020.

Second, last quarter we launched TurnKey in collaboration with Amazon as a new source of lead generation for our agents and franchisees. In Q3, we launched the Realogy Military Rewards program. And more recently, we announced an affinity lead generation program with AARP that we'll launch in Q1 of 2020. We are excited to enter 2020 with three new high-potential lead generation programs that can provide high-quality leads to our agents and franchisees and deliver great value propositions to consumers. We look forward to ramping up all three as we invest in each throughout 2020, and we expect these programs to build over time.

Third, we've been testing iBuying in a capital-light way in a few cities for almost a year. We have three big learnings from our own testing and from watching the industry. First, we remain skeptical about using our capital to fund a stand-alone home buying and selling model, because we do not see a path to profitability and, frankly, we don't like the risks. Second, there is real power to the consumer certainty and flexibility iBuying provides and we have found it to be very helpful for our agents to win listings. Third, the predominant iBuying experience we see in the market today is just not financially good for the consumer, as they pay a higher fee than the agent commission and they typically realize a substantial discount to where their house would trade in the market.

So, given those learnings, this quarter we launched a better product for consumers and agents named RealSure, a capital-light program again in partnership with Home Partners of America. RealSure provides sellers certainty via a cash offer bid for 45 days and the ability to market their home with an agent to beat that cash price during that time, with the consumer keeping all the financial upside.

We launched a complementary product, RealSure Mortgage, that allows the same seller to use the RealSure cash offer to guarantee funds to bid on their next home with no sale or financing contingencies in their offer, making them an attractive buyer. RealSure further differentiates Realogy and our agents and helps us win additional listings. We are very excited about this and are moving quite quickly. RealSure is already in 10 markets, both for company-owned agents and franchisee agents.

Finally, we launched RealVitalize, a product for sellers that better positions their property for sale by funding staging and home improvements, including everything from landscaping, to appliance repair, to bathroom remodels with payment collected at closing. RealVitalize leverages a partnership with HomeAdvisor, who organizes and executes the home improvements. This product provides a differentiated offering for our agents

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and is already available to approximately 40% of all Coldwell Banker company-owned offices. We anticipate scaling this product across our company-owned brokerage operations this year and expanding to franchises in 2020.

We've been moving very fast and delivering in an agile way both on our own and with partners. In the last 12 months alone, we've launched multiple unique products and established multiple new partnerships. We believe that providing unique products and partnerships that only a company of our size and scale can do to help agents, franchisees and consumers, will be a substantial differentiator for us to win more listings, attract more agents and drive growth.

Finally, I want to share two strategic changes with you. First, today, we announced that we are selling the relocation part of our Cartus business to SIRVA for $400 million of proceeds. We like this transaction a lot. We are divesting a non-core, very complex business. At the same time, we've also signed a five-year broker services agreement with SIRVA with the goal to continue to provide high-quality brokerages services through the Cartus broker network to our current relocation clients and to try to earn even more relocation transactions from SIRVA. Today, we're already earning about 1,000 of SIRVA's current relocation transactions in our network.

We are very happy with the price and proceeds of the deal. We'll be using the substantial majority of the proceeds to accelerate our debt pay-down. We will also receive a big simplification dividend from this transaction. Our global relocation business has operations in 12 countries, has a very large supplier network, requires significant capital expenditures and needs its own securitization facilities which drive swings in working capital.

Realogy will retain the Cartus affinity business, which delivers brokerages services to affinity members. Realogy will also retain its broker network made up of expert agents and brokers for Realogy's residential real estate brands. Realogy will continue to generate earnings from its affinity business as well as continue to generate downstream earnings from transactions provided to our franchise and owned residential real estate brokerage companies. The transaction is expected to close in the first half of 2020, pending regulatory review and the satisfaction of other closing conditions.

Second, as we approach 2020, our top two priorities have not changed, investing in the business and continuing to deleverage. On investing in the business, I described three new lead generation programs that we want to invest in for growth, and I've shared multiple new consumer-facing products that we want to expand nationally that are designed to help our agents and franchisees win more listings to drive growth. On deleveraging, you're seeing our actions this quarter.

To accelerate both, investing in our business and our deleveraging, we are eliminating our dividend which will free up about $40 million annually in free cash flow. While we have ample free cash flow to pay a dividend, we believe this is the right move for our shareholders. It's driven by our view that the long-term interest of our shareholders are best served by proactively accelerating deleveraging towards our below 4 times target and by ensuring we invest to grow our new partnerships and products as quickly as possible.

I will now turn the call over to Charlotte for a deep dive into the financial performance.

Charlotte C. Simonelli

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

Thank you, Ryan. Good morning, everyone. Let me start with a few highlights in the quarter, before diving into more of the financial and operational details. During the third quarter, we continued to deliver operating EBITDA

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and generate strong free cash flow. We executed significant operational improvements across the business and remain laser-focused on driving even greater efficiency and lowering costs.

We reduced net debt, paying down on our revolver, and repurchasing unsecured notes in the open market at a discount, as we work towards our goal of reducing overall leverage. Commission split pressure was lower than we had previously anticipated. Our new commission plans remain well received by the market, contributing to this 3-plus-percent NRT agent growth we have achieved so far this year.

Now let's jump into our Q3 consolidated financial results on slide 6. Total net revenue in the third quarter was $1.6 billion, down $47 million versus prior year, primarily due to lower NRT revenue. Operating EBITDA was $223 million, down $19 million from Q3 2018 and in line with our expectations. Expenses were relatively unchanged in the quarter versus Q3 2018, as ongoing cost savings initiatives and lower overall commission costs helped offset higher employee benefit expenses and the volume decline. We anticipate there will be stronger flow-through from our cost savings efforts in the fourth quarter.

In the quarter, we took a non-cash impairment charge of $180 million related to our Company-Owned Real Estate Brokerage Services segment, which reduced goodwill at NRT. Q3 2019 net loss was $70 million, compared to a net income of $103 million in Q3 2018, due predominantly to the impairment charge, increased interest expense of $25 million and the decline in transaction volume. Interest expense was impacted by a $19 million swing in the mark-to-market on our interest rate swaps. Q3 2019 had a $12 million mark-to-market loss versus a $7 million benefit in Q3 2018. Adjusted earnings per share was $0.65, compared to an adjusted earnings per share of $0.85 in Q3 2018.

Now, let's turn to cash flow and the balance sheet. Free cash flow was $174 million in the quarter and $149 million year-to-date. Cash from operating activities increased year-to-date, largely due to working capital improvement. Capital expenditures were $24 million in the quarter, in line with the prior year, although we do anticipate slightly higher expenditures in the fourth quarter associated with the ramp-up of our office footprint optimization efforts.

We continue to execute upon our commitment to de-lever and reduced net debt by $163 million. We paid down on our revolver by $65 million and repurchased $93 million of the 2023 unsecured notes which generated $10 million in one-time gain. Our overall net debt leverage ratio and senior secured leverage ratios improved on a sequential basis to 5.2 times and 3 times, respectively. We also exited the third quarter with over $1.4 billion in liquidity. We will continue to actively manage our debt portfolio and remain committed to using our excess free cash flow to reduce leverage below 4 times.

Now, let's move into a Q3 2019 year-over-year review of segment operating performance on slides 7 and 8. RFG revenue was $216 million, down $5 million due primarily to lower intercompany royalties from NRT. RFG transaction volume was flat and royalty per side was $329, up $7 versus prior year. RFG operating EBITDA was $153 million, down $8 million primarily due to intercompany royalties and higher IT costs as we continued to invest in our technology stack.

NRT revenue was $1.2 billion, down $46 million predominantly due to lower transaction volume. NRT transaction volume improved sequentially, but did not return to positive growth for the quarter. Operating EBITDA was $31 million, down $12 million as the decline in revenue was partially offset by lower overall operating expenses driven largely by the savings programs implemented to-date.

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Q3 2019 agent commission splits were up 47 basis points year-over-year and slightly better than our expectations. On a like-for-like basis, splits were up 64 basis points. We now anticipate overall splits to increase by 50 to 60 basis points for full-year 2019. Cartus revenue was $103 million, down $5 million primarily due to a decrease in international revenue. Operating EBITDA was $34 million, down $5 million driven by the revenue decline.

TRG revenue was $170 million, up $8 million primarily due to higher closed units from refinancing activity and higher underwriter revenue. Operating EBITDA was $31 million, up $11 million largely due to a $7 million increase in GRA mortgage JV earnings. We are pleased with the performance of the GRA JV and continue to anticipate it will generate approximately $10 million in operating EBITDA for fiscal year 2019.

Corporate expenses were higher by $5 million, primarily due to higher health and welfare costs, spending to support our strategic initiatives and legal fees. We anticipate additional pressure here in Q4.

I will now turn to our cost savings initiatives on slides 9 and 10. Our cost savings initiatives basically consist of two broad buckets of activity, the 2019 cost savings program we announced earlier in the year and new programs centered on simplification and standardization. As a result of both, we expect to realize cost savings totaling $75 million in 2019, exceeding our original plan, and we are now targeting $80 million to $100 million of savings to be realized in 2020.

First, our original 2019 $70 million cost savings program that was announced earlier this year, this program largely consists of office footprint and related workforce optimization. We have been redesigning office space to both improve overall attractiveness and functionality, while right-sizing NRT square footage. We have already actioned 80% of this $70 million target. In 2020, I expect the carryover from these initiatives to drive an incremental $30 million of savings for Realogy.

Second, in Q3, we have already executed new programs that further simplify our processes, organization structure, and enterprise-wide procurement of goods and services. These actions will drive $40-plus million in annualized savings in 2020. Through a centralized approach, we looked broadly across Realogy to identify areas we could streamline management layers, redesign team structures to enable teams to move faster and make quicker decisions.

We also took an in-depth review across our three largest areas of spend and have identified areas where we can take better advantage of Realogy's scale and resources. At the core, these changes are designed to enhance our ability to help all affiliated agents and owners grow their businesses.

So, in summary for 2020, we are excited we have $70 million of savings already auctioned. And while we have $10 million to $30 million still to identify, we are confident that we can deliver on our $80 million to $100 million goal. These bold and exciting moves will position us for stronger performance going forward and are a big step towards offsetting inflation and other negative impacts to the business like commission split increases and USAA.

If I could take just a moment on USAA. We were disappointed that our longtime relationship with our affinity partner, USAA, came to an end as they focused their priorities on their core business. The USAA partnership represented a large portion of our highly concentrated affinity business and in-network homesale transactions that were closed by our company-owned and franchise brokerages as a result of leads from the Cartus broker network. We incurred $11 million of restructuring costs in the third quarter in conjunction with these cost savings initiatives. We expect to incur total restructuring costs of $66 million for full-year 2019.

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Wrapping up, I am pleased with the quarter. We delivered steady progress across key metrics and continued to execute meaningful operational efficiencies. We are positioning Realogy for improving financial and operational performance, and we remain resolute in our goal to reduce leverage. I am excited about what we have accomplished so far as well as what we are building toward.

With that, I'll turn the call back to Ryan for some closing remarks.

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

Thank you, Charlotte. We're generating substantial EBITDA and free cash flow, despite all the financial disruption in the last two years. We are making progress both in our operating efficiency, with benefits to both 2019 and 2020, and in our debt pay-down. We are demonstrating strong agent count growth. We are launching new products and partnerships to win more listings, recruit more agents, and drive future growth. And we are making strategic changes to better position us for the future, like divesting a non-core business.

We're excited by the changes in the competitive intensity we've seen in the last few months, and we remain strongly convinced, especially in a more rational world, that we have, by far, the best combination of scale, market position, agents, brands, products and partnerships to win in our industry. We're demonstrating that we're moving quickly to drive change that sets us up for future growth. We have the financial resources to invest in the business, compete successfully, and grow profitably.

With that, I'll turn it over to the operator.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from John Campbell of Stephens.

John Campbell
Analyst, Stephens, Inc.

Q

Hey. Thanks. Good morning, guys.

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

A

Good morning.

John Campbell
Analyst, Stephens, Inc.

Q

So, Ryan, you touched on the market and kind of attrition at the high-end. I just want to dive in a little bit more on the competitive environment and how you feel – I guess about the sustainability of some of the recruiting tactics you're seeing out there. It sounds like that cooled off a little bit over the last couple of months, which is good to hear, but do you expect that to hold?

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

A

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Well, look, I can't predict what competitors are going to do but it was incredibly striking. We told you how last year Q4 was a huge recruiting time and that continued. And August of 2019 was a very big recruiting time when you watch what happened across the industry, both anecdotally from our people in the field, but also we watch the agent migration from company-to-company across by using data from 240 MLSs. So, this is data-driven.

And given that all the disruption was kind of coming from one financially disruptive competitor, especially at the high-end, we actually saw the recruitment intensity drop substantially in September compared to both the year before and to August of 2019. And in October 2019, it dropped even more. It was down almost half from what it was in October 2018 and down almost two-thirds from what it was in August of 2019.

So, I don't know whether it's going to continue, but something changed in the ecosystem. And I strongly believe it's that investor focus on profitability that I commented on. And in my two years here at the company, it's been by far the best benefit I think for us from a competitive intensity and environment standpoint going forward. And we've tried to – we're seizing that moment. And as I said, we had two of our three best months of agent growth in the last two years in September and October.

John Campbell
Analyst, Stephens, Inc.

Q

That's great to hear. And then on the sale of Cartus, that was a little surprising when I think kind of about the long-term value there. But I guess shorter-term it makes sense with kind of the looming impact of the USAA loss. But two quick questions here. So, first, is it safe to assume that I guess all of the sale proceeds go to debt reduction?

And then, secondly, with AARP and the Military Rewards programs, it sounds like those are still on the table. But how difficult is it to manage those without Cartus's relocation business? I just want to better understand I guess the type of services you guys have been seeing.

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

A

Yeah. So, let me just stop you because your first statement, a minor correction. So, we did not sell Cartus. We sold the relocation business that's part of Cartus and we kept every single thing associated with the affinity business at Cartus, including many affinity partners, including the newer ones that you named. So, we have every single piece of the ecosystem needed to not just do great with our existing affinity partners, but to bring in a new one like AARP, grow it, work with our agents in the Cartus broker network and our great brands to do that, right?

What we've done is get rid of what is a very complex global business, which does one thing really good for us in an ecosystem standpoint, which is, it actually provides some relocation leads to us. But as you'll see in our press release, we also signed a five-year broker services agreement with SIRVA to really make sure we do everything we can to hopefully compete, to preserve and hopefully even grow the relocation leads. So, you should really think of this as a sale of the relocation business part of Cartus, not all of Cartus. And then I think it sets us up even better to focus on generating those leads without all the complexity of owning that business.

And SIRVA runs a very large business. They're in a better position to consolidate and get value out of that integrated company, and we're excited for the transaction. And our broker network will always have those great agents from our brand. So we have not hurt ourselves at all in that area. I think we feel like we're doing good things there. And we like not just the sale proceeds, which will primarily go to debt reduction, but we also like this complexity dividend in terms of simplification that I tried to describe going forward.

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

A

And what I would add to that too is, while the affinity business, I think we disclosed it, represents about 18% of the revenue, in 2018 the margin profiles of those businesses are very different. So, just to put that out there too.

John Campbell
Analyst, Stephens, Inc.

Q

Okay. Thanks for the clarification. Just one more on that. What was the kind of rough mix of EBITDA between the two? I mean, that would be helpful for us to kind of forecast that out as we move forward.

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

A

So, we've never disclosed that. With this transaction, I think bluntly there'll be a lot of moving pieces in our financials, and reporting, and stuff like that. But, frankly, we're just going to have to give you more clarity on – down the road. So we've never disclosed what you're asking for today and today won't be the day to do it.

John Campbell
Analyst, Stephens, Inc.

Q

Okay. Fair enough. Thanks, guys.

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

Ryan McKeveny
Analyst, Zelman & Associates

Q

Hi. Thank you so much. So, just one follow-up on the last question on the Cartus side of things. So, with the 18% of revenue that's affinity, is that the baseline to think about as far as what's being kept kind of excluding any movement with like USAA versus AARP versus TurnKey, et cetera? Or is there additional revenue related to the relocation that would still be flowing through there? Again, just trying to think about a baseline or how to best think about the revenue side of things into 2020 [indiscernible] (31:20)

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

A

Yeah. So, there's a couple of different ways you can think about it. In the Cartus segment P&L, the 18% is the combination of all affinity businesses. So, what's left from a revenue perspective is the relocation business. But there are other pieces that go into it from a total Realogy perspective. There's like knock-on transactions that happen in our owned and franchise brokerages.

Ryan McKeveny
Analyst, Zelman & Associates

Q

Got it. Okay. And a separate question on RFG, so kind of a two-parter. So, when I look at the quarter itself, just when I compared the sides through RFG versus the market in total, it would seem as though there is some share loss in the segment. So, curious if there's anything specific to call out on that, whether it's any big franchises that may have left or anything along those lines?

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And then the second piece of that question on more of the forward outlook, we've seen a lot of the announcements of late, some of the ERA affiliations that I'm sure Sherry and Simon are kind of driving with the new strategic organizational changes. So, I'm just curious if you can give us, A, what's currently going on with RFG and then maybe just a big picture overview, how you're thinking about that going forward? And are we starting to see the benefits of the moves you guys made on the reorganization a few months ago? Thank you.

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

A

Sure, Ryan. I'll take that. So, look, you called it exactly right. Our RFP volume in the quarter did fall shorter than our and it was mostly driven by sides. There two things really drove that, so one is our franchisees, especially in some geographies, frankly, are subject to the same competitive pressures we've been highlighting, especially in our owned business. So, life at one of our franchisees in California is very different than life at one of our franchisees in Ohio. And so, that is definitely a piece of it.

But the other is, we did in Q2 have a very high volume but very low margin franchisee that we couldn't come to terms with and kind of mutually decided to part ways. They've gone independent. And we had the full impact of that for the first time in Q3 and that was big enough to actually be one of the drivers that's worth calling out for you there.

On the flip side, we've seen some good things on the announcements you've talked about with ERA and Better Homes & Gardens. As we've talked before, we're trying some different pricing approaches. We've called up Better Homes & Gardens as an example both to hopefully drive more franchise sales and drive more agent recruiting for our franchisees. But, overall, that competitive pressure thing is probably a bigger headwind than anything.

There's always puts and takes of franchisees who are leaving the ecosystem, usually a pretty small number, as well as new ones that come in. And so, we do have both of those going on. But that one high-volume, low-margin one we couldn't agree with, that had a bigger impact and then the competitive pressures.

And, hopefully, one of the things you heard in my talk, Ryan, was how many of the new products and partnerships that we're doing are for franchisees as well as for our owned business, both in terms of great lead generation, but even things like RealSure and Exclusive Look and things like that. We want to bring them to our franchisees also because I think the helpful thing along with pricing change is to help drive more growth there.

Ryan McKeveny
Analyst, Zelman & Associates

Q

Got it. Thanks very much.

Operator: Your next question comes from Stephen Kim of Evercore ISI.

Stephen Kim
Analyst, Evercore ISI

Q

Yeah. Thanks very much, guys, and thanks for all the information regarding the savings plan. Charlotte, I wanted to ask you a little bit about the – where we're seeing that show up? Obviously, it looks like we would expect to see that in the NRT margins. But when we look at the effect of the splits move in the quarter, at least in my model, I didn't see the benefit that I would have expected to have seen from the fact that you have 80% of the $70 million plan already done. I didn't see the benefit in the margin. In fact, it seemed like there was something weighing on the margins in NRT.

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And so, I was curious if you could talk a little bit about, are there other pressures right now in the NRT margin which are offsetting some of the savings program benefits. In particular, I'm thinking maybe the loss of some USAA referrals, which come in at a high margin maybe if you lose some of those. Is that weighing on the margin? If you could just talk about things like that that may have affected the numbers in 3Q as we see them.

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

A

Sure. So, let me just clarify, while we have actioned 80% of it, we have not realized 80% of it in the P&L yet. So, the biggest single chunk will come in the fourth quarter. So, there's like $44 million year-to-date of the $70-plus million. So, you can do the math on how that works. So, actioning it, didn't mean it hit in the P&L.

We do generically have inflation like everybody else, and so there will always be offsets to inflation. We did have an unusually high hit in health and wellness, we're self-insured, and there was a large – there were three large catastrophic claims that hit us in the quarter. And so, that's sort of a one-off that we've had to deal with.

But I've tried to give more detail on the savings because you can back into a $44 million achieved year-to-date, how much is going to hit in the fourth quarter. And then, because it's so back-loaded, that's why we get $30 million carryforward benefit from those programs next year. And then, the ones that I announced in the script, sort of that $40 million-plus, like, the vast majority of that has already been actioned. So, some of those savings will roll through as well in the fourth quarter, but the majority of that is going to contribute to 2020.

And it's an important distinction because while we've only actioned 80% of our $70 million today, we've already actioned 80% of next year's savings targets today. So, like, I feel very good about the programs. The benefits are to come, but I will leave you with they are actions.

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

A

Yeah. And Stephen, just to close off on the USAA thing. The thing that we did the 8-K about in August, the program kind of ran as normal through September. And we and USAA together are taking care of all the members who are in the pipeline kind of going forward. So the impact you're talking about did not show up in the third quarter from USAA. But USAA will be a headwind both at the Cartus P&L and downstream a bit in 2020. But it has not affected the Q3 or the 2019 numbers.

Stephen Kim
Analyst, Evercore ISI

Q

Got it. Okay. That's very good color. Thanks very much for that. That's helpful. The second question related to – maybe I missed this, but I didn't hear you mention among the long list of initiatives that you are working on, Amazon TurnKey. I was curious if you could talk a little bit about that. How important is that and relative to the other initiatives you're doing across the business?

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

A

Well, just got them fired up this morning, Stephen. Just to be clear, the things I listed aren't things we're working on. There's actually things that we've launched and we're really excited about.

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Stephen Kim
Analyst, Evercore ISI

Q

Sure.

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

A

But I did mention Amazon. Look, we all launched the TurnKey program in collaboration with Amazon last quarter. It's still pretty early. We're only in 15 cities. We like the learnings and we think it's a really good potential source of high-quality lead generation for the future. But I just wanted to use that to pivot to the fact that since we last talked to you, which included Amazon, we'd launched the Realogy Military Rewards program to have an offering out there to kind of meet the needs of not just the USAA-type customers but others.

We've been growing our Navy Federal Credit Union program substantially. They've ramped up their marketing as part of this, which has been great. And then we've signed the AARP program that we will launch in Q1. So we love the Amazon thing, early days, and apologies that I wasn't clear about that in the script.

Stephen Kim
Analyst, Evercore ISI

Q

Thanks a lot, guys. Very encouraging.

Operator: Your next question comes from Jason Deleeuw of Piper Jaffray.

Jason S. Deleeuw
Analyst, Piper Jaffray & Co.

Q

Thanks for taking the question. Just on the lessening of the competitive intensity from that key competitor, has that been across all geographies and is that helping lessen the commission split pressure that you've been experiencing?

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

A

I would say because, again, I was talking about September and October, I wouldn't say anything on the commissions that Charlotte talked about is affected by that yet. These things kind of have a lag, competitive intensity now kind of shows up even more in results kind of down the road and splits and other things.

And then we've – the numbers I gave you and the way we've been looking at it, because we've been – even like the October data, we're looking at a pretty real time here in early November, we've really been looking at it national. We haven't pulled apart the same kind of data city-by-city. But the overall pheromones qualitatively from our field is about the same. But, again, these things can turn again in the other direction. But, boy, it was after two years of a certain kind of financial disruption, it's by far the biggest benefit on the competitive environment that I felt in a couple years.

Jason S. Deleeuw
Analyst, Piper Jaffray & Co.

Q

That's good to hear. And then on the guidance, so you're guiding to the low end. If I just do the math, it implies pretty significant growth in the fourth quarter. I know that assumes a 5% volume growth. But with the loss of the

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affinity business, I know there is the benefits with the cost saves. But can you just help us try to understand the fourth quarter kind of implied guidance, the big step-up there?

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

A

Yeah. So, the affinity thing, just to reiterate, it does not impact us this year. So the loss of USAA begins to impact us next year. So there's not any negative hurdles there. And if you do the math on the cost saves, we're talking over $30 million-plus of cost saves that are going to hit in the quarter. And then there's just other general timing and volatility on some of our expenses. But the peg is to the 5% growth that Ryan spoke about.

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

A

Yeah. Yeah. And look, you used kind of big growth. I mean, look, last year, Q4 was a down quarter. So let's – I don't want to be disingenuous, like, the comparison isn't a huge number and just trying to be really clear. The mark – people are forecasting a much bigger number than what we're kind of anchoring to. But both kind of given our relative performance and some of that cumulative market pressure stuff that we've been talking about, we just want to be clear with you that, hey, if it's around 5%, that's how we kind of get there. If it's above that, we'll do better. But below that, where the mix is kind of weird, then that may be a little bit at risk. But just trying to be clear, 5% is kind of the number and 5% in Q4, we'll see how it goes. But that's the clarity we just thought might be helpful for you on how we're doing the math. So, that's it.

Jason S. Deleeuw
Analyst, Piper Jaffray & Co.

Q

That's helpful. Thank you.

Operator: Your next question comes from Anthony Paolone of JPMorgan.

Anthony Paolone
Analyst, JPMorgan Securities LLC

Q

Thank you. So, first question, on USAA, is there a way to just give us a sense in 2019 what you think the EBITDA contribution from that program is? And how much of it would come through RFG, NRT versus Cartus EBITDA?

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

A

So, we've never – just like with the relo stat, we've never broken out the subparts of the Cartus P&L and I don't think today will be the day to start doing that. But obviously we make money both on the core relo business that we've just divested but also on the affinity business.

I think the color that I probably give you a little bit is that, look, we told you our affinity business is highly concentrated, right? USAA was frankly our biggest affinity partner and that was by a reasonable margin, right? So, its impact is going to be material and that hits directly in Cartus on the Cartus P&L, but there's kind of about an equal hit on the downstream from the transactions that kind of Stephen's question was getting to earlier. About 80% of those transactions from USAA go to or went – or have typically gone to RFG. About 20% have gone to our owned brokerage business and different parts of NRT.

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And so, again, between the divestiture we've done, the USAA thing, there may come a day when we decide to give you either more historical or future clarity on stuff we've never given before. Today won't be that day but, again, highly concentrated, our biggest partner and kind of a 50/50 split between the direct hit and the downstream hit, and the downstream is 80% RFG, 20% NRT. That's probably as far as we're going to go today and it's a lot farther than we've ever gone before. But, hopefully, [audio gap] (45:29) because I have seen a pretty wide range of how people model that impact in 2020.

Anthony Paolone
Analyst, JPMorgan Securities LLC

Q

Right. And so, maybe just asking about the Cartus and the relocation piece being sold, just trying to understand the effect it could have on your leverage. Because if we just look at the two numbers we kind of know we have, Cartus in the last four quarters did $77 million of EBITDA and you're selling a piece of it for $400 million. Like, if you sold all of that EBITDA effectively, you'd be at about the same multiple as your net debt to EBITDA is now. And so it wouldn't really do much in terms of deleveraging. It would just kind of shrink the business. Like, what do you think is the effect on net debt to EBITDA from this sale?

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

A

Sure. Sure. So, as I piped in earlier on a question that, while the business on a revenue basis is more like 80% of the Cartus P&L, it's much less on the EBITDA basis. So, I can sort of direct you to it. It's a relatively sizable chunk of deleveraging from the transaction. I'm not going to give you an exact number because then you'll back into all the rest of the numbers. But it's certainly not neutral. It basically gives us a good chunk on our deleveraging.

Anthony Paolone
Analyst, JPMorgan Securities LLC

Q

Okay. And then just one last one if I may. Shifting gears over to NRT and the recruiting there. How should we think about the growth in agents in head count versus growth in revenue and growth in profit? Just trying to understand the nature of the recruiting. I don't know if those things all match perfectly one-to-one?

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

A

They don't. Let me just give you a few thoughts and none of them are going to have the detail that you're, like, looking for. So, first off, when we recruit agents and we talk about agent growth, they're profitable. So we're in the business of recruiting profitable agents and especially trying to grow agents here, something we've done for a long time and will continue doing. We are not out making negative offers to agents just to bring in volume. So, that's one thing that you should keep in mind.

The second thing you may want to think about there is that we don't do a lot of the whale hunting. We don't pay seven-figure bonus, right? We like to bring them in and grow them, as I kind of said. The second thing though is we are fighting the cumulative effect of some of the past competitive things, which is if you lose an agent in Q1 of 2019, you've lost their volume kind of going forward and it shows up in your Q3, Q4 kind of numbers. You bring an agent in, who may not be as big of a whale at the time, it takes time to actually grow them. So there's a little bit of a timing thing there. But growing the profitable agent base clearly is a good thing to be doing.

We believe kind of making or keeping unprofitable people is just not the right thing for the company and we're going to keep choosing profitability over market share. But then, when you look at what happened in September and October, our agent growth, we had two of the best three months we've had. The word agent growth means

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the combination of recruiting and retention. So, both of those got better during that time, leading to the best – two of the three best months of agent growth, which is why we like the positivity what's happened to competitive environment. Even if we don't control or can guarantee that it's going to continue, it sure feels different and we like that and it's to our benefit.

Anthony Paolone
Analyst, JPMorgan Securities LLC
Q

Okay. That's helpful. Thank you.

Operator: Your next question comes from Jack Micenko of SIG.

Jack Micenko
Analyst, Susquehanna Financial Group LLLP
Q

Hi. Good morning. I wanted to put a little bit of a sharper pencil on the debt reduction. So, we've got $40 million of dividend. We've got $400 million gross from the sale. I guess, there's going to be a tax implication on that. Is there any basis or – I guess what's the net number we should expect on the debt? And then, you've got term loan, you paid down some revolver, you can't – I don't think you can do anything on the 9.375%. Where does that – the kind of sources and uses, where do we expect to see that chip away on the leverage?

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

Sure. So, first of all, the majority of that will be tax-free because we'll be absorbing our NOLs. So the majority of that will come to us. There's a bit of timing. We get sort of $375 million at closing and $25 million later. And as far as like closing costs and other things, there's something there but it's not hugely material. It will go first to our term loan commitment for sure and that's a requirement from some of our covenants. So, that's the first place that it will go. But we do have the capacity to be able to reinvest some of that in the business if we chose to do so.

Jack Micenko
Analyst, Susquehanna Financial Group LLLP
Q

Okay. And then, leads me to the next question. Ryan, bigger picture, you talked previously in the call about you don't chase whales and there's obviously an offset between maintaining commission splits and market share and that sort of thing. I guess, when you think about the business overall, how do you balance leverage and market share? How do you balance growth and new initiatives and spending there, versus additional deleveraging?

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

Yeah. It's a great question. One of the great things about this company, even with all the financial disruption in the markets the last couple of years, is we still generate a lot of free cash flow, right? And I've never actually felt like we're constrained on our ability to invest in the business, which is I think our top priority over time. And so, I've never felt the need to starve either the things we need to do to grow the business or invest in new partnerships or whatever, so that we can focus on deleveraging.

The dividend change does give us the ability to actually focus a little bit more on deleveraging and invest in the business. I think those are higher uses than paying a dividend on it. And so, that's just – the trade-off between investing in the business and deleveraging itself isn't one we've had to make any time recently, given that we do generate good free cash flow. But I never thought that dividend was the highest calling for our company and this

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seemed like the right time when we want to invest to drive more growth in these partnerships and consumer products and when we've got a good deleveraging opportunity in front of us kind of piggybacking on the transaction to actually be really clear on those two things we're going to be focused on.

But I don't feel like on a daily basis I'm trading off deleveraging with investing in the business. And again, we're going to stay focused on profitability, right? We could go out and grow our market share by making big offers and bringing over volume but not profitability. But we're out there recruiting profitable agents and we got 3% growth on that this year and we're excited about it.

Jack Micenko
Analyst, Susquehanna Financial Group LLLP

Q

Okay. And can I just sneak one more in? Charlotte, on the – I guess I'm looking at slide 9. Just there's a lot of numbers that are kind of unclear. Of the $75 million, of the $80 million to $100 million, how much of that is net? How much of that drops to the bottom line? Or should we see a majority of that go to some of these expansion initiatives?

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

A

Yeah. It's a great question. It's a question I get all the time. And I think – you have to think about it in pieces because there's moving pieces to the business. So, these savings will all drop to the bottom line. The question is what do they offset? And so, from our perspective, we have ongoing inflation, merit increases, blah, blah, blah, there's pressure on the commission splits. And so, those are things that will definitely absorb a portion of it. And I think if you think about it in those terms, then you can back into sort of a decent percentage of what may drop to the bottom line. But that's first and foremost.

Then, on top of that is sheer volume. So, if we assume sort of flat volume and you assume a commission split increase and you assume inflation, those things solve each other. To the degree that volume is up or down, that's what makes it fall through more or less.

Jack Micenko
Analyst, Susquehanna Financial Group LLLP

Q

Okay. Thanks for taking my questions.

Operator: Your next question comes from Matthew Bouley of Barclays.

Matthew Bouley
Analyst, Barclays Capital, Inc.

Q

Good morning. Thank you for taking my questions. So I wanted to go back to some of the competitive commentary. I know it's been asked about a few different ways, but obviously some great color there just around how you're tracking that. So, it sounds like you're kind of linking that with your own agent count growth and market share, of course.

So, kind of without predicting what your competitor will do, if, Ryan, we sort of flat line what you saw in October, what's kind of the go-forward impact there? How would you – or how should we think about resulting kind of agent count growth and volumes versus the market in that type of environment? Thank you.

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

A

Yeah. So, look, so we are pretty clear, like, in the near-term, we're going to lag the NAR numbers partly from that cumulative thing that I talked about. And, again, we talked about agent growth because it encompasses both the recruiting we're doing and the retention of existing agents. And again, in previous quarters, it's been some retention stuff with a very aggressive competitor that's caused a little bit of market share challenge.

So, if the competitive environment goes back to the way it was, then life will kind of continue the way it's been and that's not as good for us. But for us, the first thing we got to do is grow our pool of profitable agents, and we're up 3% on that this year. And then, second, if the environment stays the way it is, right, over time the cumulative thing that's been a headwind for us will become a positive for us, right? And that does imply a little bit more of a rational world for a longer period of time.

But, again, given how we've lived in the last two years as an industry with the financial disruption challenge out there, it just feels different qualitatively and quantitatively, and so we can't control it. But the same thing that's cumulatively been a headwind, if things are a little more rational and like they felt like they were in, say, October, will cumulatively over time turn positive if we can keep driving our agent growth and having the higher retention that we saw.

Matthew Bouley
Analyst, Barclays Capital, Inc.

Q

Got it. That's very helpful. And then, secondly, just on the commission split side, I think the Q4 guide would sort of imply a step-up around 100 basis points or so year-over-year, plus or minus. And I guess, presumably, that's simply just as agents kind of reach those higher productivity tiers seasonally.

So I guess, number one, just how should we think about the seasonality of splits now as you've rolled out these new programs? Does that sort of imply that there would be then a greater-than-usual step-down into Q1 of 2020? And secondly, do you kind of have an update on what you see is like the ongoing market rate of splits, like, on an annual basis? Thank you.

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

A

Yeah. So, for Q4, to get to a step-up in Q4, it's actually largely driven by some assumptions on higher recruiting efforts. It's not like a new market rate. Yes, there is a piece of it as the agents get higher up on their commission split grids. And then, there's always timing in our P&L basis like if they're big deals, development deals that go or don't go, those happen at a different split but they can actually have a material impact on our overall split rate because they're at a much lower rate. So, whether we have some or we don't have them or we're lapping them or not. So those are the real reasons for the Q4 uptick.

As far as Q1 goes, it really is sort of dependent on our ongoing recruiting efforts that can drive things up as well. There is a little bit that we will end up being hurt next year by the loss of USAA because of some of the difference in the commission rates on those transactions, but it's not material.

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

A

The other and the biggest thing by the way for 2020 is back to the earlier question, just what happens with the competitive environment, right? And so, that's kind of – that question of what happens with commission splits in

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2020 is pretty correlated. But the nice thing for 2019 is, even with the very tough competitive environment at least for the first eight months of the year, we actually showed that we're able to get out of the plus-200-basis-point kind of increase as we dealt with in 2017 and 2016, and get to the kind of plus 50 basis points to 60 basis points that we were talking about. We'll see what happens next year. And with this competitive environment, it's probably going to be a few more months of watching to give you a better sense of what the actual trend is as opposed to what I – some recent changes, but again still positive for us, but admittedly recent over only a couple months.

Matthew Bouley
Analyst, Barclays Capital, Inc.
Q

All right. Got it. Thanks, again.

Operator: Your next question comes from Chris Gamaitoni of Compass Point.

Chris Gamaitoni
Analyst, Compass Point Research & Trading LLC
Q

Good morning. Charlotte, I wanted to follow up on the cost inflation, kind of offset of the cost saves. So, just on your fixed cost base, what's your typical rate of inflation?

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

Well, so there's a normal nominal inflation in general. It's like 2% to 3%. However, if you look at some of the initiatives that we're trying to go after, when you lower the overall cost base, you help both ways. So, you help lower the today's cost base and then you have less inflation. So we're really targeting the spaces that are both in efficiencies today but also will drive just more inflation in the future.

Chris Gamaitoni
Analyst, Compass Point Research & Trading LLC
Q

Okay.

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

Trying to get a double benefit there.

Chris Gamaitoni
Analyst, Compass Point Research & Trading LLC
Q

Okay. That's helpful. And I wanted to get any updated thoughts on the capital contribution to RealVitalize, your partnership with HomeAdvisor. Assuming you're front-loading the costs, how much of working cap do you think that's going to kind of consume as you ramp it up?

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

Yeah. We like the partnership a lot. They're very good partners. We're going to fund the program's working capital related to the timing of the work performed and the ultimate consumer repayment when they sell their house. We don't anticipate the working capital need to be material to our total free cash flow. But, boy, we're excited about the program and if that becomes a different answer over time, we'd tell you. But at the moment, we don't anticipate it to be a material to our total free cash flow.

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Chris Gamaitoni
Analyst, Compass Point Research & Trading LLC

Q

All right. Thank you so much.

Operator: Your final question comes from Bose George of KBW.

Bose George
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Hey. Good morning. On the California realtor data, it showed improvement in September. So, I was just wondering on a monthly basis, in the NRT segment, what sort of trends did you see there?

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

A

Yeah. We saw California also improve. California still did improve less than the national. So, from a geographic mix standpoint, that hurts us a bit versus the market number. The other thing, though, is California has been where we've had the most competitive pressure. And so, once you've lost somebody in California and then California comes back a little bit, you don't get that comeback because you don't have that person with you anymore.

But we like the positive trend for California. It's still a very big business, very profitable business for us out in California. And so, again, relative to the US, California was a little weaker. That's what we saw in our data. But it was still better than California had been. So, a bit of a market share gap – a NAR gap kind of headwind, but we also got that accumulation of the competitive stuff. But we're rooting for a strong California. Again, still a big profitable business for us. Just a place of a lot of competition in the last 18 months.

Bose George
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Yeah. Okay. Makes sense. Thanks. And actually, just one on Cartus. Is there any unallocated sort of expenses at the corporate segment that we could see sort of being removed as a result of the sale?

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

A

Yeah. Like Ryan said, there is a simplification dividend here for sure, and we will be looking to make sure that we take full advantage of that across the network.

Bose George
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Okay. But you'll quantify that in the future?

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

A

Yeah. We'll come back more broadly in 2020. There's a lot of moving pieces here, so we want to make sure we get it all laid out clearly.

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

A

Yeah...

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

A

Yeah.

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

A

...and, by the way, when we did the – we really like this transaction a lot and we really like this transaction without even having tried to quantify all of the pieces of that simplification dividend. We know it's there. We've been focused on taking care of our employees and this transaction, which we like the proceeds and the economics of as is. The thing you're talking about is an additional benefit economically that is there that I listed a lot of examples of, but we have not even tried to make them – put that into the business case yet. So, we're real excited. We got work to do, though, still.

Bose George
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Okay. Great. Thanks.

Operator: There are no other questions in queue. So, with that, we'll conclude today's conference call. Thank you for your participation and you may now disconnect.

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