

**Realogy (RLGY)**

Evercore ISI Industrials/Housing/Airlines Conference and Evercore ISI Payments Conference

**March 6, 2019**

Company Name: Realogy (RLGY)

Event: Evercore ISI Industrials/Housing/Airlines Conference and Evercore ISI Payments Conference

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<<Stephen Kim, Analyst, Evercore ISI>>

Okay. We are going to get started. Up next, we have Ryan Schneider, who became Realogy's new Chief Executive Officer. And he took over that role at the year-end 2017, just 2 months after being on the job as COO. Talk about a quick study, but I guess that makes sense because Ryan studied at Williams and Yale and was a partner in McKinsey. And before coming to Realogy, Ryan spent 15 years at Capital One, including nine as President of the Cards division, where apparently he learned exactly how much junk mail can fit into the average mail box. And since then, coming over to Realogy, he has been using those talents to try to figure out how to use machine learning and artificial intelligence to make the real estate brokerage industry more efficient and to enhance agent results. So Ryan, thanks for coming.

<<Ryan M. Schneider, Chief Executive Officer and President>>

Thanks for having me. Sure, absolutely. I also learned how many television commercials we can put on TV to see what's in your wallet.

<<Stephen Kim, Analyst, Evercore ISI>>

Great. That was a great, great campaign. So this AI and machine learning, all sounds terribly sophisticated. And I was wondering if you could explain a little bit to some of us old-school types, how you're using this stuff in your business now.

<<Ryan M. Schneider, Chief Executive Officer and President>>

Sure. What's the majority of what we're doing at Realogy and in this industry is actually focus on the agent, focus on the human part of it, but when I look at this whole industry on both technology and data, there – it is far behind what a number of other industries have done to use tech and data to actually drive change. So for example, just to give you – in our case, we've been using kind of Realogy's industry-leading data. We cover the most country, we've got the biggest market share, we've got the longest history to work on both the recruiting side and the commissions side. So on recruiting, we ingest about 2 million agent's records from MLS' everyone in the country because we have national coverage.

We ingest those records every quarter. We've built kind of a – we've built a machine learning model that's looks at not just their characteristics, but our characteristics and is all about trying to predict who's going to be able to drive the most incremental productivity down the future. It's not who's the whales because everyone's knows that, it's who are the up-and-coming people, where are people potentially of, effectively the efficient frontier. And when we do that, and we keep improving it over the course of 2018 and 2019, we find two things. One is, of the 10 most

important variables that explain someone's future potential, five are actually Realogy-specific. It's the match between us and them, but five are them.

And there's some unique data about Realogy, the Realogy-specific data that actually creates something there that could be a bit of a competitive advantage because others don't have that data or have it in depth. The other thing then is we take about 75,000 of those – of the top people out of that and put that out to our local managers every quarter to really let them use that to prioritize their agent recruiting, to effectively help them spend their resources both dollars and time on people we think have the highest productivity.

<<Stephen Kim, Analyst, Evercore ISI>>

In other word you'll identify – so you'll identify an agent in that market.

<<Ryan M. Schneider, Chief Executive Officer and President>>

Absolutely.

<<Ryan M. Schneider, Chief Executive Officer and President>>

And tell them that hey, keep your eye on this one, he's over with somebody else and...

<<Ryan M. Schneider, Chief Executive Officer and President>>

Yeah, we'll give them – their subset of that group. Every single quarter we've been updating that. The model kind of gets better every quarter. And so that's like a recruiting example because in this business driving recruiting, it has a huge lever and so it's a great place for us to really put kind of our industry-leading data to work. And we're doing some of the same things on commissions, and there's three or four more we need to do, but it's using those kind of approaches a bit differently, we hope, can unlock some incremental value because we have unique data that others don't, because we have more data than others, and we have the scale, nationally, to really make these investments.

<<Stephen Kim, Analyst, Evercore ISI>>

So you've talked about this alignment of the Realogy-specific characteristics that lead to a great agent for you. You mentioned there's five of them or something. Can you give us a sense – give us one of those? So that we have some understanding of what that means, something that's Realogy-specific.

<<Ryan M. Schneider, Chief Executive Officer and President>>

Yeah. So some of it's actually the match between an agent and kind of what they're demonstrated in the market with what we offer in our value proposition. So for example, there are certain pools of agents that they're really good, who actually operate incredibly autonomously. And that may not be as good of a fit in a world where we have dedicated managers who don't compete against

the agents selling real estate, they do nothing but they're to coach and help them. The other thing that we found out is – as an example is, people who are more inclined to do co-listing deals with others out there in the market, do much better in the Realty ecosystem than the average agent. And so when we look at our competitors and their agents who do co-listings that's one of the five of their and our variables that kind of pop-up and help people move higher on that rank in who we think has the highest potential again in our ecosystem. So it's a bit of a marriage there of their characteristics and ours, but those are a couple of examples.

<<Stephen Kim, Analyst, Evercore ISI>>

You know, those are good examples. That's helpful. Now on your earnings call, you referred to – that the Listings Concierge program, it's helping you to drive higher commission rates for the agents that use it. Can you describe how this helps your agents outperform the current...

<<Ryan M. Schneider, Chief Executive Officer and President>>

Sure, absolutely. So one of the things we're on a journey to do is to increasingly improve our value proposition, which our industry may have let lag a little bit as brokerage firms over time. And Listing Concierge is just one example, we have tech examples, we have data examples. That is a marketing example, where instead of asking an agent to do the marketing for their listing, we have used our scale to put together a set of resources, where if they pay us a small fee, we will effectively push button, build an integrated marketing campaign for them with photos, social, et cetera, for every one of their listings.

And agents have really liked it. In the markets we have it in about 40% of all listings, they're paying us for this. This is extra money that they actually pay for this because they find it valuable. We like it to improve the agents chances to win listings, but we've now actually that we've had it for a while, have seen that the agents actually, who use these things, are able to get a bit of a higher commission rate from the homeowners than our same agents in the same market, in the same price band who don't use it. And that's based off kind of thousands of data points kind of comparisons.

And when I actually talk to agents who do it what they basically say is, is the – when they do their listing presentation and they describe here's the market I'm going to do, they show what it looks like, they show past versions, and when the customers tries to initiate commission, they will say something like, hey, I appreciate what you're trying to do, but I'm worth this, and it's – but me being the able to charge this that I can afford to deliver this kind of marketing for your house. And it seems to be resonating. And so again, we did it for the value proposition, the agent help them win listings, something else that makes it attractive to be here versus another place. The fact that it could actually help on the consumer – what the consumer pays the agent, that's been a kind of unexpected bonus. It's not going to move our bottom line in 2019, but you think about building that kind of set of things from a better value proposition, and I get pretty excited about it.

<<Stephen Kim, Analyst, Evercore ISI>>

That's pretty huge. The average broker commission, or the ABC, is a pretty darn important number that we put into our model. Now, of course, our audience is full of highly sophisticated numbers folk who hear something like that and they say, okay, they're immediately trying to deconstruct and so how does that – now you said on the call, I believe, that you've adjusted that analysis and the conclusion that you derive from it for price and geography. Can you elaborate a little bit on that?

<<Ryan M. Schneider, Chief Executive Officer and President>>

No, the insight that you – the Listing Concierge listings have a higher ABCR in kind of same price bands and in the same markets, it is true across every price band from under \$250,000 to over \$1 million price band by price band and in all the different geographies we've tested it. So it's a – it passes all my tests of being a significant difference, and then there could be sustainability in that, which gets me excited.

<<Stephen Kim, Analyst, Evercore ISI>>

That is definitely important. You talked about social media. And recently, I've heard one of the investors mentioned that you've done something with Facebook. So can you talk a little bit about that? What are you doing there and how important is that?

<<Ryan M. Schneider, Chief Executive Officer and President>>

Yeah. It's got a lot of potential. We're in 12 states with Facebook. We've got a dedicated unique partnership. I don't – while other people, of course, can always work with Facebook, I don't believe there's another brokerage firm that is working with them the way we are. They have dedicated engineering teams on our partnership together. And what we're really looking at, together them and us, they're looking at the fact that there's a relatively small amount of real estate advertising spent on Facebook. Most of what Realtors do on Facebook is purely on the social side and the brand side, but Facebook looks at that 750 million, Zillow gets in the 400 plus million that realtor.com gets, and they obviously want to get that revenue for themselves.

From our side, we look at Facebook as a really unexplored opportunity for lead generation because it hasn't been well invested in and because Facebook tells us that real estate agents typically don't do a good job. So Facebook is helping your agents say look, this is type of photo to lead with, right? This is the type of thing that works in this campaign. So we can again build something at scale that we can provide to our agents with the push of a button. Now the reality is the world is awash in lead generation and typically low quality. So we're not just doing this to generate a bunch of low-quality leads. We've actually linked this with a AI company that we made a small investment in last year. They had a series of chatbot and other things running off an AI platform. And instead of getting the leads from Facebook and sending them to agents, we send them to the AI system, which interacts with the customer over either text message or over Facebook and incubates those leads.

And then, we together, have an algorithm, the three of us have built, of when is the right time to get the lead out of the chatbot and to an actual human agent. And so in a world where there's all

these 50 basis points conversion leads, if we can turn these into 5%, 10%, 15%, 20% probability of converting leads, that's just massively valuable. So it's us and Facebook and this company we've made an investment in trying to create really high-quality lead generation, not just more low-quality leads. And like I said, we're in 12 states right now. We're going to roll out nationally, and we like the innovative aspects of it. We like the potential. Whether it'll change the world are not, still TBD, but it's something we're working on.

<<Stephen Kim, Analyst, Evercore ISI>>

It's exclusive – an exclusive partnership?

<<Ryan M. Schneider, Chief Executive Officer and President>>

Everybody can work with Facebook in real estate and everybody does and people talk about it. Having talked to Facebook, I don't know of another real estate company that has dedicated Facebook engineers on their product that they're working on.

<<Stephen Kim, Analyst, Evercore ISI>>

Yeah.

<<Ryan M. Schneider, Chief Executive Officer and President>>

So it's not exclusive in terms of a contractual thing, but I believe that we're in a different position that kind of the average brokerage firm with them.

<<Stephen Kim, Analyst, Evercore ISI>>

So let's talk about the average brokerage firm. Compass is a company that got a big investment from SoftBank. And so people are always asking us about Compass. And they talk about having a lot of technological advantages, actually. That's a big part of their presentation. How different do you think the things you're working on or from what Compass is working on or what Compass has?

<<Ryan M. Schneider, Chief Executive Officer and President>>

Yeah. I don't think Compass has any technological advantages. I'm not sure anyone in this industry including us has technological advantages. That's one of the things I was actually most surprised by my first year in this role is actually how little technology and data disruption there's been in this industry. Compass talks a lot about technology, but the reality is, they're doing a lot of financial disruption. They haven't changed the agent of the consumer experience. They talked for like two years about their marketing and their CRM system. And then they went out like a week ago and bought a very small CRM company. So you guys read into that what you want to read into it, but this whole industry, I think, has a lot of opportunity to use technology and data better.

I believe, we've got the scale and the data assets to actually be the leader in driving that change, but I personally haven't seen very much change at all in kind of what the consumer and the agent experience have been in the last, at least, few years. Zillow's change on consumer search five or six years ago, I think, was a meaningful change technologically in this industry, but there's a great opportunity there, and I think we are as well, if not better, positioned than anyone to seize it. And I'd like some of our early efforts that we're getting, whether it's the machine learning, like some of our newer technology products. We also have a different philosophy than a lot of people. And Keller Williams and RE/MAX and Compass have all talked about the end-to-end platforms they're building. We bought an end-to-end platform via ZapLabs like four or five years ago.

And we've had an end-to-end platform for our franchisees for a very long time. And it's been a really good product, and it's free from them and we keep enhancing it, but the real thing in the past 12 months we've come to the conclusion on is, life is not about end-to-end products because when you have the hundreds of thousands of agents out there, they all work very differently, just like everyone of in this room works somewhat differently. And that what we think the key is, is not to build another end-to-end platform in the world, but to actually build what we would just make of as an open architecture. We're going to provide a bunch of technology to agents and franchisees, we want it to be great, but again, they're not employees. We can't mandate the use of it. If it's good enough for them to adopt like about 20,000 adopted our Desk product, I talked about in our earnings call, then that's great, but we also want to make it easy for them to plug in third-party technology.

We already are linking to about a dozen third-party products integrated into our ecosystem. And instead of making agents pay for it on their own or not being able to integrate it with those things we do provide, our view of the world is, it's got to be an open architecture. We provide some great products, and we make it easy through APIs to link into the third-party products agents want to use. It's about making the agent of the franchisee have what they want. It's not about building the perfect platform and thinking it's going to work. So with our experience with end-to-end platforms and this philosophy, we are building a bit differently than a couple of your competitors, but we like our situation our odds.

<<Stephen Kim, Analyst, Evercore ISI>>

Yeah. Let's talk a little bit about iBuyers. We're going to have a panel at lunch on iBuyers. You and I had an interesting conversation on that a little while ago. Zillow got into this space. Apparently, it's going to be much bigger part of their business. You all bought cataLIST or created the cataLIST partnership with Home Partners of America. What differentiates your iBuyer program from the likes of Zillow or Opendoor?

<<Ryan M. Schneider, Chief Executive Officer and President>>

Yeah. So we're excited to be in the iBuyer business to try – we're in three cities right now, we're going to expand into more. And we've taken a slightly different approach than some of the others for two reasons. So one is, our iBuying thing has the agent involved in both the purchase and the sale of the property. And given the number of agents we have and our belief that agents do have

a strong role in future, we think it's additive to have the agent have that as an option. By the way, it differentiates us from all the other brokerages because the only other brokerage that does iBuy and I believe at the moment is Redfin and they have employees not agents.

And so it's part of our value proposition you can't get if you're at Ebby Halliday or Berkshire or Compass or whomever. And so we like it for the agent-centric of it. The other thing we made the choice to do was to partner with Home Partners of America and not use our own capital for it because they're in the business of buying homes, not just to flip them, like most iBuyers that actually rent them and own them. And I am interested in the iBuyer phenomena because I think there is a real consumer demand and need there that could be met, but I've got – I think there's a couple of things that we all have to see if they're going to work. One is, how this model works through any sort of the cycle.

I mean, it's very easy in this world where the inventory in suburban Las Vegas at lower-priced homes is like two weeks to buy a house and then sell it. Anything in a more normal housing environment, I think, it's a different dynamic if you're buying houses with the expectation you're going to flip them. So we need to see how that works out. And we've again hedged that a bit because Home Partners is an owner of homes and whatnot a flipper of homes. The other thing, and probably the bigger one for me, is I'm very intrigued what'll happen with price competition in iBuying. There – a smaller company came out about two weeks ago and said they wanted to create kind of like a lending tree for iBuying to show consumers how to compare their iBuying offers.

And I think that's the greatest thing ever because a lot of the success for iBuying, I think up to this point, and we see this even in our markets that we play in, is consumers only get one offer, but unlike some things, iBuying won't be a winner take all, if I'm going to sell a house, I'm going to get every iBuying offer I can get in my geography. And whatever people are making by effectively bidding low today and selling a few months later for a much higher price, you got to envision if there's four or five or six offers out there that's got a bit of way somehow.

So I'm very interested in this. We've planted our flag in this kind of capital-light way. We are going to expand it. Agent centricity is one differentiator on it, but I – part of the reason I wasn't willing to commit our capital in a major way to this is I still think there's some open questions about this model that we all playing in this area will need to confront, especially what happens when people don't have the field to themselves, and there are five or six offers out there for each house. It may be a pretty different margin business than what people think it is today.

<<Stephen Kim, Analyst, Evercore ISI>>

Well, it's not a particularly high-margin business to begin with that's we'll hear about during lunch, but – so I'm guessing that you don't think that this cataLIST is going to be a particularly large revenue driver than for your company in the next couple of years.

<<Ryan M. Schneider, Chief Executive Officer and President>>

Well, the challenge for us is they think when you've got \$6 billion of revenue, anything new is hard to become a harsh driver of revenue, right? On the flip side, if you look at how many cities a lot of the people who've been at this for a while are in, we started with three, we're going to expand that, and so we won't be that far behind. Our economic model, because we're not taking a principal interest, is a little different than theirs, but we'll take all the incremental transactions we can get from it. And so I think it more of is I like having this flag planted. We're learning a lot. We've got a lot of option value if we want to go much bigger in this someday down the road, but almost anything we start from scratch has a hard time moving this \$6 billion number.

<<Stephen Kim, Analyst, Evercore ISI>>

Well, last parting shot. Spring selling season, how are you seeing it shaping up year-end?

<<Ryan M. Schneider, Chief Executive Officer and President>>

TBD on the actual data, still a little bit early. We're just in early March. March will be twice as big – March will be the same as January and February historically. So this is the biggest month of the quarter by a big amount, where we've got – we know it's going to be a tough start to the year based off what happened in January and what everybody in the planet is forecasting, but we've got more optimism, especially, with the back half of the year, both because some of the things we're doing that you mentioned are starting to payoff and by the back half of the year, they'll be more nationalized. The other is, some of the things that really from August to December just crushed the consumer around affordability with much, much higher mortgage rates in particular and the lack of inventory, those things are starting to improve.

And we see that today, right? Mortgage rates are down 50, 60 basis points from the November. And that's kind of playing out hopefully positive for later this year. Inventories got some upward trend on it. And so we think the environment is getting more healthy, the fact that the U.S. macro looks pretty healthy. All the rate increase talk has really dialed down. So we think the environment is getting better, but the numbers themselves are still too early, but keep in mind, if this is a good year, it'll be more driven by the back half probably than the front half on a year-over-year comparison just because of how violent the end of 2018 was.

<<Stephen Kim, Analyst, Evercore ISI>>

Of last year was. Right. Got it. Well, thank you so much, Ryan. As always, it's nice to see you.

<<Ryan M. Schneider, Chief Executive Officer and President>>

Great to see you. Thanks for having us. All right. Have a good day.

<<Stephen Kim, Analyst, Evercore ISI>>

Okay, you too.