THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

RLGY - Q4 2015 Realogy Holdings Corp Earnings Call

EVENT DATE/TIME: FEBRUARY 24, 2016 / 1:30PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

Alicia Swift *Realogy Holdings Corporation - SVP of IR*

Richard Smith *Realogy Holdings Corporation - Chairman, President and CEO*

Tony Hull *Realogy Holdings Corporation - EVP and CFO*

CONFERENCE CALL PARTICIPANTS

David Ridley-Lane *BofA Merrill Lynch - Analyst*

Will Randow *Citigroup - Analyst*

Mike Dahl *Credit Suisse - Analyst*

Brad Burke *Goldman Sachs - Analyst*

Anthony Paolone *JPMorgan - Analyst*

Jason Deleeuw *Piper Jaffray & Co. - Analyst*

Ryan McKeveny *Zelman & Associates - Analyst*

Brandon Dobell *William Blair & Co. - Analyst*

Hayden Blair *Stephens Inc. - Analyst*

PRESENTATION

Operator

Good morning and welcome to the Realogy Holdings Corporation full-year 2015 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 until March 10.

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

Alicia Swift - *Realogy Holdings Corporation - SVP of IR*

Thank you, Crystal. Good morning and welcome to Realogy's full-year 2015 earnings conference call. On the call with me today are Realogy's Chairman, CEO and President, Richard Smith, and Chief Financial Officer, Tony Hull.

As shown on slide three 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 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 February 24, and have not been updated subsequent to the initial earnings call.

Important assumptions and other 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 are included in our earnings release.

Now I will turn the call over to our Chairman, CEO and President, Richard Smith.

Richard Smith - *Realogy Holdings Corporation - Chairman, President and CEO*

Thank you, Alicia, and good morning, everyone, and thank you for joining our call.

We delivered solid results for the full year reflecting the successful execution of our strategy to drive growth and innovation in our business. In 2015, we increased our revenue by 7% to $5.7 billion and adjusted EBITDA increased by 8% to $845 million which is at the high end of the guidance range we provided in November. Our overall adjusted EBITDA margin came in stronger than guidance at 14.8% due largely to the prudent management of our cost structure.

Adjusted earnings per share increased 27% year-over-year and we generated $437 million in free cash flow while continuing to delever our balance sheet. We are very pleased to report that we ended the year at 3.9 times net debt to adjusted EBITDA and are making significant progress towards our target of 3 times net debt to adjusted EBITDA.

Since the beginning of 2013 we have reduced our outstanding debt by approximately $623 million and based upon current projections for 2016, we expect our corporate cash interest expense to be approximately $170 million.

Turning to slide four, reflecting our deleveraging progress and our solid confidence in our business momentum, the Realogy Board has approved the repurchase of up to $275 million of the Company's common stock. The purchases will occur from time to time as market conditions permit. We are pleased that our strong free cash flow generation enables us to return value to our shareholders through stock repurchases while maintaining the flexibility to invest in the growth of our Company through acquisitions, market expansion and innovative technologies. This repurchase program clearly demonstrates our confidence in the strength of our business model and our long-term prospects for continued growth and value creation.

One of our 2016 Companywide initiatives is the ongoing enhancement of our value proposition and our service levels to customers, franchisees and affiliated sales associates while fully leveraging our size, scale and infrastructure to maximize Company profits. We have a seasoned leadership team across all of our business units and have great confidence in their ability to deliver on this continuous improvement goal. We have successfully implemented a number of business optimization initiatives in the recent past and fully expect to continue making progress on those that are currently underway.

On the regulatory front, the October implementation of the new federal three-day disclosure notice known as TRID, resulted in home sale transaction delays throughout the industry, the impact of which Tony will address in his comments. Like any new regulation, the industry is adjusting to TRID.

Turning to slide five, looking ahead according to NAR and others who forecast the industry, 2016 transaction volume is expected to increase 6% to 7%. Even though these housing forecasts don't yet reflect the recent volatility in the equity markets or any macroeconomic concerns it is still very early in the year. We anticipate that the housing industry will continue its recovery as mortgage rates remain very attractive, household formation continues to strengthen, employment levels rise and credit availability improves.

On the corporate governance front, we take great pride in the world-class directors we have assembled on our Board and we are committed to maintaining a Board that encompasses a broad range of skills, expertise, industry knowledge and diversity of opinion. In January we were pleased to welcome Duncan Niederauer, the former CEO of the New York Stock Exchange as the newest member of our Board. With his appointment as an independent director, our Board now consists of 10 directors, eight of whom are independent.

With respect to our long-term financial goals, strong free cash flow, a delevered balance sheet and returning capital to our shareholders, we are well ahead of schedule. We remain confident in the strength of our business model as the preeminent and most integrated provider of residential real estate services in the United States and in our ability to deliver on our strategic objectives.

So with that I'm going to turn the call over to Tony. Tony?

Tony Hull - *Realogy Holdings Corporation - EVP and CFO*

Thanks, Richard. 2015 was a solid year for Realogy. Before I review our results in more detail, I would like to focus on several aspects of our corporate financial strategy that we have put in place to enhance value creation for our shareholders.

As Richard mentioned, today Realogy announced a $275 million share repurchase authorization by our Board of Directors. Our target leverage ratio remains at 3 times net debt to adjusted EBITDA which we believe is the optimal long-term level to run the business based on our weighted average cost of capital and the cyclical nature of housing.

With the progress we have made in deleveraging and given the current value of our stock, we believe now is the right time to put a share repurchase program in place. Share repurchases will be executed opportunistically and evaluated against other investment opportunities as they arise.

Another area of focus is the optimization of our cost structure. As an operator of multiple brands and owned operations across the country, we have the unique opportunity to realize greater economies of scale in areas like procurement, process efficiencies, marketing, and organizational design. Our intent is to improve service levels across all business units while increasing profitability by reducing complexity and related costs.

We expect our business optimization initiatives to deliver approximately $40 million of annual run rate savings. In 2016, the Company expects to realize $25 million of these savings. This is an ongoing effort aimed at mitigating the impact of annual inflation of approximately $40 million on our cost structure.

On the operational side of the business, as slide six shows, RFG completed new franchise and sales production of $378 million and franchise gross commission income for the year, a 24% increase from the prior year and further demonstrates the continued desirability of our world-class brands in a highly competitive marketplace.

The rollout of our proprietary ZAP technology platform easily surpassed our goal of 300 RFG franchisees by year end. Today more than 550 Realogy franchise brokerages are up and running on the ZAP platform across the ERA, Coldwell Banker, Century 21 and Better Homes & Gardens real estate brands. We believe ZAP will increase our value proposition to our franchisees, their independent sales associates and their customers. By the end of 2016 we expect that half of our approximately 2700 franchisees will be on the platform.

Our industry-leading ZAP initiative has brought cutting edge technology to our franchise base and has the potential to meaningfully drive the future growth and profitability of our business.

With that backdrop, let's turn to slide seven to review our 2015 results in greater detail.

Revenue of $5.7 billion increased 7% driven by transaction volume gains of 8% and despite wholesale transactions sides lagging in the fourth quarter due to TRID, which I will discuss shortly. Adjusted EBITDA was $845 million which represents an increase of 8% year-over-year. Our adjusted EBITDA margin for 2015 was 14.8%.

Realogy continued to execute on business optimization efforts, the impact of which are reflected in adjusted EBITDA on a pro forma basis. Adjusted basic earnings per share was $1.49 compared to $1.18 per share in the prior year on the same basis and that is an increase of 27%.

In 2015, we generated $437 million of free cash flow, a $70 million increase from 2014 which equates to $2.98 per share and a conversion rate of over 50%. As a result of our strong adjusted EBITDA and debt retirement activity, we achieved a 3.9 times leverage ratio at the end of 2015.

For 2016, CapEx needs are expected to be approximately $90 million and cash taxes should be in a range of $20 million to $25 million. We expect our $1.7 billion year-end NOL balanced to keep our cash taxes minimal until sometime in 2018. Legacy items are anticipated to be a $10 million to $15 million use for the full year.

We expect our corporate cash interest expense in 2016 to be -- will be about $170 million compared to $238 million last year. We also expect to use our cash on hand and draw on our revolver or other financing to retire $500 million of debt due in May.

Because of the October implementation of TRID, it is worth spending a minute discussing NRT and RFG revenue drivers for the fourth quarter so let's turn to slide eight.

In the fourth quarter of 2015, combined closed home sale transaction volume was 5% higher than Q4 of 2014 but below the 7% to 10% range projected at the time of Realogy's November 5 financial results webcast. Home sale transaction sides increase 1% in the quarter compared to previous guidance of 4% to 6%. Fourth-quarter year-over-year average sales price growth of 4% was in line with guidance.

From the second half of November through the end of the year, we estimate that the time needed to close a home sale transaction was extended by approximately 5 days on average as a result of the newly implemented TRID requirements. While the timing delays resulting from TRID put pressure on revenue in the fourth quarter including approximately $45 million of NRT revenue, the time needed to close the transaction has stabilized since the middle of December. We saw comparable low cancellation rates for NRT home sales during the fourth quarter versus the prior period indicating that the lower sides growth in the quarter was timing related rather than being demand related.

For Q1 our transaction volume guidance takes into consideration that lenders are still on a learning curve with the new closing procedures so we don't expect the five-day closing delay to improve in the foreseeable future.

Looking at our expectations for the first quarter of 2016 on slide nine, we forecast that Realogy's combined home sale transaction volume will increase in the range of 6% to 9% year-over-year with 3% to 5% coming from home sale sides growth and 3% to 4% coming from average sales price growth.

Turning to full-year 2015 revenue drivers on slide 10, RFG home sale sides increased 3% and average home sale price increased 5%. NRT home sales sides increased 9% in 2015 and its average wholesale price decreased 2%.

As we discussed throughout the year last year, the acquisition of Coldwell Banker United in April 2015 had certain impacts on the comparability of NRT and RFG to the prior year as shown on slide 11. You will recall that in April 2015 we purchased a large Coldwell Banker franchisee, the seventh largest broker in the United States by transaction sides which resulted in a shift of sides from RFG to NRT.

For full-year 2015, this had a 2 percentage point negative impact on RFG sides meaning without this adjustment the increase in RFG sides would have been 5% instead of the reported 3%. Before the impact of the acquisition, RFG's volume gain of 11% would have been comparable to NAR's reported 2015 volume increase.

Similarly the addition of CB United boosted NRT sides by 5% but had a negative 2% impact on NRT's price. Excluding the impact of CB United acquisition, NRT's transaction volume increase was 4%. Throughout 2015, inventory constraints persisted at the high end of the market particularly in New York City, the Hamptons and San Francisco which represented about 27% of NRT's volume for the full year. Transaction volume from these markets increased approximately 2% for the full year in 2015 and put pressure on NRT's overall volume growth.

NRT's Northeast and Midwest regions ended the year with high single-digit transaction volume growth and the South benefited from acquisitions we made during the year as we entered the Carolinas and expanded in Florida and Texas. The housing market in Houston has been holding up reasonably well but Companywide represents less than 2% of revenue.

A couple of other comments on RFG and NRT drivers. Net effective royalty rate at RFG was down 1 basis point on the year and commission splits at NRT held steady at 68%. Despite competitive pressures, we are again managing to hold both these metrics in check for 2016.

Moving to TRG drivers on slide 12, you can see that purchase units were up 15% of which 4 percentage points came from NRT's organic sides growth and the remainder from the acquisition of Independence Title in Texas. Refinance volume is up 40% of which 28% was from organic gains and the remainder from the acquisition.

Now let's look at revenue and EBITDA at the business unit level for the full-year 2015 compared to 2014 as shown on slide 13. RFG revenue increased $39 million or 5% driven by domestic franchise volume increases as well as $15 million of an increase in royalties received from NRT mostly from its acquisitions. This was partially offset by the impact of lower international royalties due to the stronger US dollar and a 1 basis point reduction in both average broker commission rate and net effective royalty rate.

RFG's EBITDA increase of $32 million was driven by revenue increases partially offset by an $11 million increase in employee-related costs which includes full-year staffing costs related to the ZAP platform rollout.

In 2015, NRT revenue increased $266 million which includes $199 million of revenue from acquisitions. The revenue increase was partially offset by a corresponding $176 million increase in commissions and a $15 million increase in royalties paid to RFG. Operating expenses also increased driven largely by the acquisitions completed in the year specifically employee expenses increased $47 million of which about half was related to acquisitions and $12 million was due to higher incentive compensation levels relative to 2014.

Marketing and occupancy costs were $25 million higher of which about 75% was related to acquisitions. NRT EBITDA was also adversely impacted by $5 million in restructuring costs related to merging NRT offices into existing locations to concentrate market presence as well as related workforce actions.

Finally, NRT EBITDA was negatively impacted by approximately $9 million due to TRID, the TRID effect mentioned earlier. As a result of these factors, NRT EBITDA increased $6 million.

Cartus EBITDA was up 3% year over year primarily due to the net positive impact from foreign currency exchange rates partially offset by higher employee-related costs. Finally, TRG EBITDA increased $12 million due to higher purchase and refinance volume as well as the inclusion of the results of the acquisition of Independence Title.

Corporate expense increased $14 million year-over-year primarily due to the full-year inclusion of ZipRealty Company-wide technology support costs and a reset of performance incentive accruals from 60% in 2014 to 100% in 2015. Also of note, corporate expense in both years includes approximately $48 million of early extinguishment of debt charges.

In 2015, our results were positively impacted by a continuation of the housing recovery. Looking ahead, there are large cross-currents right now that make it difficult to assess the direction the housing market will take in 2016 including any consumer confidence impact of the recent instability in the stock market. On the positive side, extremely attractive mortgage rates improving, household formation and a better jobs environment are supportive of a steady and sustainable housing recovery. We expect to have a clearer picture of the residential real estate market next quarter.

We are well-positioned to build on the robust free cash flow we generated last year regardless of how transaction volume transpires given our strong market position, our focus on costs and reduced interest expense. We intend to drive shareholder value by thoughtfully utilizing our free cash flow to deploy capital in a combination of prudent acquisitions, continued deleveraging of our balance sheet and share repurchases.

With that I will turn it over to the operator who will open this call for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). David Ridley-Lane, Bank of America Merrill Lynch.

David Ridley-Lane - *BofA Merrill Lynch - Analyst*

Can you talk a little bit about the breakout of the $25 million in cost savings. Is that mostly concentrated in the NRT segment or --?

Tony Hull - *Realogy Holdings Corporation - EVP and CFO*

No, it is across the business units. Because NRT has the largest cost base, it has the largest percentage of the $25 million but all of the business units are participating in the optimization exercise.

David Ridley-Lane - *BofA Merrill Lynch - Analyst*

Got it. And then completely understand the conservatism in the first-quarter guidance around not assuming closing times get back to normal. But when you have seen similar regulatory changes in the past, has the mortgage industry been able to get back into the swing of things one year out i.e., during the course of 2016, would you expect to recover some of this?

Tony Hull - *Realogy Holdings Corporation - EVP and CFO*

We don't expect the five days to recover in 2016, the five-day delay that we saw in TRID. We expect that to be -- continue through 2015.

David Ridley-Lane - *BofA Merrill Lynch - Analyst*

Got it. Thank you very much.

Tony Hull - *Realogy Holdings Corporation - EVP and CFO*

2016, excuse me.

David Ridley-Lane - *BofA Merrill Lynch - Analyst*

Thank you very much.

Operator

Will Randow, Citigroup.

Will Randow - *Citigroup - Analyst*

Good morning and congrats on the progress. Can you talk about how we should think about the walk towards EBITDA? I know you are going to give more clear guidance next quarter but when you think about you mentioned inflation, I think the number kind of offsets cost savings you are expecting if I'm not mistaken. When you think about there is a four-month's supply in regards to inventory and how that may affect splits and New York City inventory coming online and other factors, can you kind of talk through that?

Richard Smith - *Realogy Holdings Corporation - Chairman, President and CEO*

That is a lot of questions. Inventory as you know is below the norm, the norm on a run rate basis is about six months of inventory. This time of year however it is always somewhat depressed. So it is around four months, a little bit less than that. I think NAR issued a report yesterday it is around 3.9, 3.7 but improving. So we anticipate those are not related questions so inventory will increase, it always does this time of year. TRID will be what TRID is going to be. It will sort of be built into the closing process through the balance of this year. So I don't think we have been conservative in our view of the quarter, I think those who are forecasting the business are expecting the traditional spring market. So nothing indicates to us that it is going to be anything other than the traditional spring market.

Will Randow - *Citigroup - Analyst*

Got it. And then on the buyback piece, you historically have said you want to get down to 3 times net debt to EBITDA. It appears like your view may have changed based on this morning's release but would love more color on that.

Tony Hull - *Realogy Holdings Corporation - EVP and CFO*

Really, we looked at the progress we made in deleveraging the balance sheet, the confidence we have in our business model and the prospects for the next several years and felt that now is the right time to start this process. I think it really as I said, it underscores our confidence in the strength of our business model and the long-term prospects for growth and value creation that we see.

Will Randow - *Citigroup - Analyst*

Thanks, guys, and congrats again.

Operator

Mike Dahl, Credit Suisse.

Mike Dahl - *Credit Suisse - Analyst*

Thanks for taking my questions. Richard, I want to go back to the answer to Will's question and maybe Tony also because it seemed like in the opening remarks when you went over some of the industry commentary that the forecasts don't currently take into account any of the volatility that the markets are experiencing on consumer confidence, seemed to be a bit more of a conservative tone from you guys than we have seen a couple of high-end builders in California and New York City talk about January order trends that were pretty flat year on year. So just curious if you look at the NRT business in particular at the opens you have seen in January and February, are you seeing that step back or hesitancy in the higher-end buyer right now?

Richard Smith - *Realogy Holdings Corporation - Chairman, President and CEO*

As you know, our open contracts give us a view into the quarter that other people just don't have because it is a real-time view. So our view of open contracts at this point would support what we have indicated for the quarter. So we see nothing that would suggest otherwise. The forecasts that others are making for the year are again yearly forecasts based on what they know today so we are consistent with that. Based on what we know today, we think our guidance for the quarter is appropriate.

Tony Hull - *Realogy Holdings Corporation - EVP and CFO*

And the tailwinds are very strong. I mean no one expected mortgage rates to be at 3.50, 3.75 at this point. The demographic picture household formation is very strong. Employment levels are increasing. So we are very positive. I think the volatility is one issue that could affect the higher end a little bit but I think we would make it up on the middle and low end.

So it is really early in the year and the first quarter is not indicative of how the year, it never is because of the low -- it is only about 15% of our revenue, 10% of our EBITDA but we obviously from what we are seeing the 6% to 9% is a solid number for the first quarter.

Mike Dahl - *Credit Suisse - Analyst*

Great, thanks. And shifting back to the cost savings initiatives and thoughts around EBITDA, could you give us some context because as you mentioned, this is an ongoing effort, it seems like maybe it is stepping up here but I think in 2015 you may have had $15 million or so. So could you give us a sense of in 2015 how much did you see in terms of inflationary costs and how much of that were you able to offset? And then how much is kind of truly incremental as we look at 2016 in terms of again, are you expecting the $40 million to hit you in full in 2016 in terms of the inflation and then only offset $25 million? Just trying to get a sense of how much leverage we should expect.

Tony Hull - *Realogy Holdings Corporation - EVP and CFO*

Yes, I think that is right. We expect $25 million to partially offset about $40 million of inflation that we normally see year in and year out. In terms of sort of breaking it down between 2015 and 2016, I mean you can see in our adjusted EBITDA calculation that the actions we took in 2015 resulted in about $10 million of restructuring costs and about $10 million of run rate savings. So $10 million of the $25 million was completed and I think the difference, Mike, between what we have done before and what we are doing now is this is much more of -- we are targeting specific areas where we think we can be more efficient. And as you say, it is an ongoing -- we are going to be doing this year in and year out and we really want to work hard to improve our service levels across the businesses, reduce the complexity of our business and so we expect this kind of savings level to be a recurring effort. And we want to do it in such a way that we really do a better job for our customers whether they are franchisees, corporate customers, Cartus, our agents, NRT and their customers so it is really a much more in depth and strategic look at our costs and really improving the way we do business.

Mike Dahl - *Credit Suisse - Analyst*

Great, that is helpful, thanks, Tony.

Operator

Brad Burke, Goldman Sachs.

Brad Burke - *Goldman Sachs - Analyst*

I was hoping that you could comment -- and I realize you might not be able to comment much on the class-action RESPA lawsuit filed in California. And just beyond that lawsuit whether you would expect any increase in regulatory scrutiny on your relationship between the PHH JV and your other businesses?

Richard Smith - *Realogy Holdings Corporation - Chairman, President and CEO*

It is Richard. As you know, we don't publicly discuss litigation. As I said, we don't expect any new or different regulatory focus on any aspect of our business. We endeavor to comply with all the regulations that govern the conduct of business in our industry and we have done a good job of that and we will continue doing a good job of that. Any updates to that litigation you will find in our required public filings.

Tony Hull - *Realogy Holdings Corporation - EVP and CFO*

But I would add that we strongly believe the case is without merit and we will aggressively defend our Company against these claims that are baseless we believe. And we filed a motion to dismiss, we and PHH filed a motion to dismiss and we think that motion speaks for itself.

Brad Burke - *Goldman Sachs - Analyst*

I appreciate that. And then also I was reading the Wall Street Journal yesterday about the impact of startups potentially impacting the apartment brokerage market and I know that is not a huge component of your total revenue but I was hoping you could remind me just how much exposure you have to apartment brokerage and whether you are seeing much in the way of tech-related disruption?

Richard Smith - *Realogy Holdings Corporation - Chairman, President and CEO*

Virtually none. This is Richard. Virtually none. I read the same article. Interesting but not much more than that. And as to technology in general, our acquisition of ZipRealty has gone phenomenally well and every day we are more and more impressed with the basis in that investment and the expansion possibilities with respect to our business model and how it works. So I think the most disruptive technology you could buy we bought and it is working quite well so we are excited about the future.

Brad Burke - *Goldman Sachs - Analyst*

Okay, thank you.

Operator

Stephen Kim, Barclays.

Unidentified Participant

It is actually John filling in for Steve. Tony, just first on the leverage side, obviously 3 times net debt to EBITDA is the target. I mean just from like a gross debt outstanding, how are you thinking about deleveraging moving forward? Beyond the 500 that you have earmarked for May, do you think much of the deleveraging moving forward is going to be focused on more on the debt repayment or the EBITDA growth side just so we can get a sense for when we can expect the uptick in cash return to shareholders?

Tony Hull - *Realogy Holdings Corporation - EVP and CFO*

Well first of all, $500 million is a lot. So it is -- but again we think the cash flow that we generate is sufficient to do all three of the things that we want to do which is grow the Company through prudent acquisitions, return capital to shareholders and continue to reduce our debt but I think that leverage ratio as you point out will come from a combination of the numerator going down and the denominator going up.

Unidentified Participant

Got it. And I guess on the ZAP rollout, you did 550 this past year, you are looking for another 800 this year, is the expense associated with that rollout going to increase as a result of that or have you kind of streamlined the process now and it should kind of stay where it was this year?

Tony Hull - *Realogy Holdings Corporation - EVP and CFO*

Yes, most of the expenses is shifting from development to agent engagement and franchisee engagement so it is not a significant increase.

Richard Smith - *Realogy Holdings Corporation - Chairman, President and CEO*

Let me just comment on that. The anecdotal we are receiving from the pilot brokers who are currently engaged with the ZAP platform are reporting some very interesting operating results, higher retention rate of agents, top producing agents, far more attractive to recruit agents. We literally have brokers reporting 30% increases in their agent recruiting. It is proving to be very strategic and very valuable to us. So we expect to accelerate the installation this year so we will outperform the numbers just like we did last year. We outperformed the expectation, we will outperform again this year because from our perspective, the sooner we get this installed everywhere the better off we are going to be.

Unidentified Participant

Thanks, guys.

Operator

Anthony Paolone, JPMorgan.

Anthony Paolone - *JPMorgan - Analyst*

Tony, I think last quarter you got behind the idea that incremental margins this year should be somewhere north of 20%. Does that get better with these cost save initiatives or is that kind of the number with these cost save initiatives that you announced today?

Tony Hull - *Realogy Holdings Corporation - EVP and CFO*

Again, it is too early in the year to speculate it but clearly these cost savings would be incremental. So but again, it is too early to speculate on the overall number for 2016 because we are too early in the year. We will have much better visibility in May.

Anthony Paolone - *JPMorgan - Analyst*

Okay. Can you give us just an updated kind of fixed cost component of the cost structure, I think it was around $1 billion? I'm just trying to understand this idea of like the inflation sounds like it would normally be $40 million-ish but maybe this year it sounds like that is only going to be $15 million because you will save $25 million. What is the base line again?

Tony Hull - *Realogy Holdings Corporation - EVP and CFO*

It is about $1.6 billion our fixed cost base.

Anthony Paolone - *JPMorgan - Analyst*

Okay. So it will still be up marginally this year, just not as much as it would have been in a normal environment?

Tony Hull - *Realogy Holdings Corporation - EVP and CFO*

Exactly.

Anthony Paolone - *JPMorgan - Analyst*

And those costs, you kind of mentioned again that this would be an ongoing thing to try to keep the organization lean I guess. But what about the cost to implement that? Do you see that every year having the magnitude of costs to get these savings being about the same or is that just specific to this program?

Tony Hull - *Realogy Holdings Corporation - EVP and CFO*

It is too early to tell. We will have a better handle on that in the third and fourth quarter.

Anthony Paolone - *JPMorgan - Analyst*

Okay. Is there a way to just on the TRID impact kind of quantify just the sheer number of sides that you think got shifted from 4Q to 1Q or even 1Q out into the future? Because if I think about if I go back to last year and take 3% or say that is the number that was impacted, it is like 10,000 -- is there a number you could put around that?

Tony Hull - *Realogy Holdings Corporation - EVP and CFO*

I have the 45 million -- it was about $45 million of revenue at NRT. I don't have that in terms of sides right off the top of my fingertips.

Anthony Paolone - *JPMorgan - Analyst*

Okay. Do you think that all shifts into 1Q? Or trying to just tie together the comment that you think delays seem to continue into one quarter so you have shifted 4Q into 1Q but it sounds like there is still more shifting? I'm just trying to understand that?

Tony Hull - *Realogy Holdings Corporation - EVP and CFO*

I think 2015 was kind of the adjustment year and then I think all of 2016 will be sort of as I mentioned from an earlier question, we will still have that five-day -- we are expecting that five-day delay to continue so we don't expect to see a catch-up any time in 2016.

Anthony Paolone - *JPMorgan - Analyst*

Okay. So again just to kind of understand, because I'm trying to understand just what the market conditions are so if I think about your sides guidance for the first quarter if TRID didn't happen, would that be like 4 points higher?

Tony Hull - *Realogy Holdings Corporation - EVP and CFO*

No, it would be the same.

Anthony Paolone - *JPMorgan - Analyst*

Okay. Okay. And then last question I think last quarter you talked a little bit about the high-end had kind of started to flatten out a bit and you thought as you go into 2016 that that maybe would pick up some. And then you also had the benefit of looking out and seeing a lot of the condo deliveries starting to hit in places like New York. Do you still think that is going to be a benefit and that the high-end can re-accelerate or just what are the updated thoughts there?

Tony Hull - *Realogy Holdings Corporation - EVP and CFO*

Again, it is too early in the year to form an opinion on that. So I can't speculate on that at this point. What we are seeing in the first quarter is not going to be indicative of the full year. We will have a better sense in May. But I agree with you that New York City in particular, there is over 5000 units coming in the market so I think that will create inventory to sell and it will benefit our operations in New York City.

Richard Smith - *Realogy Holdings Corporation - Chairman, President and CEO*

This is Richard. What is most important as a takeaway is there is strong demand and adequate inventory. In the markets where we have inventory and it is priced right, it sells quickly. We still get multiple offers in various markets around the country and as you know we operate virtually everywhere. So we have the best view of what is happening at the ground level.

The lack of inventory is what is clearly impacting the industry, so more inventory, better outcomes. Again, as Tony points out, spring -- this time of year is not the time of the year to predict where inventory is going, but that we suspect it's going up. It is just a matter of time.

Anthony Paolone - *JPMorgan - Analyst*

Okay, thank you.

Operator

Jason Deleeuw, Piper Jaffray.

Jason Deleeuw - *Piper Jaffray & Co. - Analyst*

Thank you and good morning. Question on the margin expectations. It sounds like we will get more color maybe next quarter, but I am wondering: aside from the cost saves, can we expect similar margin trajectory, you start to leverage and get positive operating leverage above kind of a 2% to 3% inflation on your cost?

Can we expect similar types of operating leverage, just aside from the cost saves as we go through the year?

Tony Hull - *Realogy Holdings Corporation - EVP and CFO*

It is too early to talk about that. We just have to have a better sense of the direction of the year before we have a good view on that.

Jason Deleeuw - *Piper Jaffray & Co. - Analyst*

I guess then are there any expense surprises that we should be aware of or anything? Because you guys outperformed the margins this year and the guidance, so I am just wondering is there just anything that we need to be aware of from the cost side that could maybe change the margin profile that we have seen over the last year.

Tony Hull - *Realogy Holdings Corporation - EVP and CFO*

No.

Jason Deleeuw - *Piper Jaffray & Co. - Analyst*

Got it. And then for M&A activity, is there a point in the year where you kind of know how the M&A opportunities are going to stack up for the remainder of the year, either stuff is going to happen or it is not? And maybe that is -- do you think kind of your view on the M&A pipeline, is that a governor at all on your ability to buy back stock or do you think you will just kind of be able to buy back stock as you generate cash flow and still be able to do M&A opportunities as they (multiple speakers)?

Tony Hull - *Realogy Holdings Corporation - EVP and CFO*

Again, we think just looking at the M&A activity, the pipeline is pretty strong right now. But I think I estimate that we will spend $75 million to $100 million on M&A this year and that we can do that and pay down debt and share repurchases. So I think we have enough just because of the significant free cash flow we generate, we can do all of the above.

Richard Smith - *Realogy Holdings Corporation - Chairman, President and CEO*

This is Richard. What is important is this balanced approach to managing the capital structure of the Company. So in contemplating the value of the repurchase, we took into account the strength of the pipeline and the timing of the pipeline which as you know, we are not neophytes at that. We have been doing this a long time. So we know what is going to come to market and when and at what price so we are very, very comfortable with our position right now especially with respect to the acquisition pipeline.

Jason Deleeuw - *Piper Jaffray & Co. - Analyst*

Thanks. The last one on the ZAP and the Zip technology update and the rollout, it sounds like it is going well, thanks for some of the stats on the early rollout. I'm just wondering on agent productivity, I may have missed the step that you gave but are you seeing that? Is that coming in line or better than expectations because I believe that is kind of a key part of it here -- is I remember you guys used to give a stat on incremental EBITDA from incremental sales per agent, better productivity. Can you just kind of level set us on early results and where that stands right now?

Richard Smith - *Realogy Holdings Corporation - Chairman, President and CEO*

Sure. So there are a variety of ways that we evaluate the importance of the ZAP technology. One, from a broker perspective, so the broker's ability to better utilize technology to manage his or her business i.e., recruit agents, retain agents. The other component of the productivity gains pertains to the agent conduct and their ability to generate incremental business. That is too early to tell. We can get the -- we have preliminary performance data on the broker because that is real time. But the agent is going to have to be measured on a year-over-year basis. Later in this year, we will have agent metrics which will be focused on the productivity of those individual agents and have productivity tied to the technology. So later in the year we will be in a better position to report on the agent gains as a result of the ZAP platform.

Jason Deleeuw - *Piper Jaffray & Co. - Analyst*

Great. Thank you very much.

Richard Smith - *Realogy Holdings Corporation - Chairman, President and CEO*

Yes, sir.

Operator

Ryan McKeveny, Zelman & Associates.

Ryan McKeveny - *Zelman & Associates - Analyst*

Good morning. In terms of foreign buyer activity, I was wondering if there is a way for you to frame within NRT how much of that business is essentially generated from foreign buyers and whether there has been much of an impact thus far in 2016 just given the financial market losses and such in some of the high-end markets like New York, Miami, Bay Area, etc.?

Richard Smith - *Realogy Holdings Corporation - Chairman, President and CEO*

Clearly the strength of the dollar has indicated that foreign buyers are not as active now as they have been in prior periods. So you are right to point out the markets like San Francisco, LA, New York and Miami. So NAR I think yesterday reported that foreign buyer activity was down. We are certainly seeing that as well but that is baked into all of our forecasts so it is not a surprise to us and it is not significant.

Tony Hull - *Realogy Holdings Corporation - EVP and CFO*

You get anecdotal information from Florida, we hear in Miami there is a little less -- and this is more sort of about 2015, not about the first two months of this year. In Miami, there is less South American money and less Canadian buyers on the East Coast or on the West Coast of Florida. But it is more anecdotal than concrete. And again the foreign buyer I think it is just one of the things that could affect the high end but I think we would offset that in other parts of the market.

Ryan McKeveny - *Zelman & Associates - Analyst*

Got it. And in terms of the recruitment and retention, it sounds like the ZAP progress has been very good on a franchise side. Within NRT, can you maybe just walk through the kind of technology offerings you have there to your agents whether there is an expectation for ZAP to eventually kind of filter into that or if your current processes are kind of what you will maintain? Just any thoughts around that?

Richard Smith - *Realogy Holdings Corporation - Chairman, President and CEO*

So ZAP is currently focused on the franchise side of our business and we are actually installing at the smaller franchisee level, moving up the ladder if you will. NRT is a very different animal from that perspective. They have homegrown proprietary operating systems. What may eventually occur at some point is better utilization of the ZAP CRM and other aspects related to the broad marketing capability of ZAP technologies. So that is sort of phase two of the development. Right now we are focused entirely on our franchisees.

Ryan McKeveny - *Zelman & Associates - Analyst*

Okay, thank you.

Operator

Brandon Dobell, William Blair.

THOMSON REUTERS

Brandon Dobell - *William Blair & Co. - Analyst*

Good morning. As you think about the spend to save initiatives, any color on the cadence of how that spending and then how they subsequent cost savings may flow through the quarters here front-end loaded, backend loaded? Just trying to get a better idea of how you expect that to play out?

Tony Hull - *Realogy Holdings Corporation - EVP and CFO*

I think they will be a little more front-end loaded sort of through the summer to achieve the 25 out of the 40.

Brandon Dobell - *William Blair & Co. - Analyst*

Okay. And then Richard, going back to your comments about some of the metrics you are seeing in agent recruiting and retention, pretty good metrics. Do you think you've got a big enough sample size across the types of franchisees or geographies that give you confidence that say you can extrapolate that through RFG at this point?

Richard Smith - *Realogy Holdings Corporation - Chairman, President and CEO*

Yes, we are well over 500 installations, we will be 1200 plus this year so absolutely. The geographic distribution disbursement is pretty good and the type of brokerage firm is giving us good comps as well. So we are going to have very interesting data throughout the year. So again, we are bullish because we see real-time data and it is very, very encouraging.

Brandon Dobell - *William Blair & Co. - Analyst*

Okay. And then the (inaudible) comment about ZAP over in NRT. Is there a timeframe that you guys think about I guess to maybe tighten up how you think about using any of the Zip technologies, the ZAP technologies across the NRT business? Do you think you want to get the franchises done in totality and then look at what options you may have within NRT or can those things go parallel?

Tony Hull - *Realogy Holdings Corporation - EVP and CFO*

The NRT brokerage side of Zip has been incredibly successful and we are broadening, we are looking to broaden that out in markets we are not in so it has really been a successful model for us. And it can coexist very well with our traditional brokers in the same office. So we are looking to capitalize on that this year and really grow sort of that footprint within our NRT footprint.

In terms of the CRM for the rest of the NRT agents, that is really a work in progress so we don't have any definitive plans at this point.

Richard Smith - *Realogy Holdings Corporation - Chairman, President and CEO*

Just to clarify that point, the distinction between the technology platform and the brokerage model, as Tony points out rightfully so, is what people haven't focused on and it is our ability to install the Zip brokerage model in the existing NRT footprint. That has gone exceptionally well.

They use the technology on a freestanding basis. The broader application of that technology will take years to get there but we are very pleased with how the brokerage model is working and also the expansion of that this year is I think impressive as well. So it has been a very interesting acquisition with very interesting consequences for our Company.

Brandon Dobell - *William Blair & Co. - Analyst*

Got it. And then Tony, I may have missed it in your remarks, CapEx needs for this year, is there anything specific we should think about from either technology or PP&E point of view that would look different than 2015?

Tony Hull - *Realogy Holdings Corporation - EVP and CFO*

No, I think as is normally the case most of the $90 million is going to be spent on sort of maintenance in terms of office refurbishment and IT system refurbishment and some of it is growth related. But it is mostly sort of the normal run rate items.

Brandon Dobell - *William Blair & Co. - Analyst*

Got it. Okay. Thanks, guys.

Operator

John Campbell, Stephens Inc.

Hayden Blair - *Stephens Inc. - Analyst*

This is Hayden Blair sitting in for John Campbell. I may have missed this earlier but do you guys have a blackout period on those buybacks? And if so, when is the earliest you can start initiating them?

Tony Hull - *Realogy Holdings Corporation - EVP and CFO*

We can do the buybacks during -- there are many ways you can do a buyback. But just on an open market repurchase, it is during our open windows.

Hayden Blair - *Stephens Inc. - Analyst*

And did you guys say when those start?

Tony Hull - *Realogy Holdings Corporation - EVP and CFO*

They usually go about a month after we announce earnings, a month and a half after we announce earnings.

Hayden Blair - *Stephens Inc. - Analyst*

Excellent. And then quickly the CB United and the Independence Title acquisitions, is there any risk to slow down in oil related markets in Texas that may affect those transaction volumes? We are hearing that there may be some early signs of slowdown in Houston in particular.

Richard Smith - *Realogy Holdings Corporation - Chairman, President and CEO*

Title has gone and Title has gone quite well so it has seen no impact whatsoever. On the brokerage side, Houston reflected some softness both for builders and also folks like us. The Austin market has been very strong. The early indications for 2016 is that Houston is starting to recover so it has performed better than most people expected.

Hayden Blair - *Stephens Inc. - Analyst*

Great. Thanks, guys. Congrats on the quarter.

Richard Smith - *Realogy Holdings Corporation - Chairman, President and CEO*

Thank you. Now I think this concludes our call. In summary, I just want to make sure that everyone is of the same view. We are very pleased with our solid financial and operating results for 2015. Our strong free cash flow reflects the strength of our business model and our commitment to growth and innovation. Our focus on enhancing profitability, reducing costs, delevering our balance sheet and returning capital to shareholders will continue to be our top priorities. We remain confident in the strength and resiliency of our integrated business model and its long-term ability to enhance shareholder value.

Thank you very much for joining our call today.

Operator

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