THOMSON REUTERS STREETEVENTS

# EDITED TRANSCRIPT

RLGY - Q2 2016 Realogy Holdings Corp Earnings Call

EVENT DATE/TIME: AUGUST 04, 2016 / 12:30PM GMT





THOMSON REUTERS

## CORPORATE PARTICIPANTS

**Alicia Swift** *Realogy Holdings Corp. - SVP*

**Richard Smith** *Realogy Holdings Corp. - Chairman, CEO & President*

**Tony Hull** *Realogy Holdings Corp. - CFO*

## CONFERENCE CALL PARTICIPANTS

**Jason Deleeuw** *Piper Jaffray & Company - Analyst*

**Will Randow** *Citigroup - Analyst*

**John Campbell** *Stephens Inc. - Analyst*

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

**Brandon Dobell** *William Blair & Company - Analyst*

**Chas Tyson** *Keefe, Bruyette & Woods - Analyst*

**Anthony Paolone** *JPMorgan - Analyst*

**Mike Dahl** *Credit Suisse - Analyst*

**Ryan McKeveny** *Zelman & Associates - Analyst*

**Brad Burke** *Goldman Sachs - Analyst*

## PRESENTATION

**Operator**

Good morning, and welcome to the Realogy Holdings Corporation second-quarter 2016 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 August 18.

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

---

**Alicia Swift** - *Realogy Holdings Corp. - SVP*

Thank you, Shannon. Good morning, and welcome to Realogy's second-quarter 2016 earnings conference call. On the call me with today are Realogy's Chairman, CEO, and President, Richard Smith, and Chief Financial Officer, Tony Hull. As shown on slide 3 of the presentation, the Company will be making statements about its future results and other forward-looking statements during this call.

These statements are based on 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 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, August 4, 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 Chairman, CEO, and President, Richard Smith

**Richard Smith** - *Realogy Holdings Corp. - Chairman, CEO & President*

Thanks, Alicia. Good morning everyone. Our results for the quarter were mixed. The continued growth at RFG and TRG was offset by weakness at NRT, which put our overall transaction volume growth at the low end of our guidance range.

Before I get into the business unit specifics, let me highlight the progress we have made on our long-term financial goals. Today, we announced the initiation of a quarterly cash dividend policy. The Board has declared a cash dividend of $0.09 per share of the Company's common stock, payable on August 31 of this year to shareholders of record as of the close of business on August 17, 2016. The dividend complements the Company's existing $275 million share repurchase program announced in February of this year.

During the second quarter, Realogy repurchased approximately 1 million shares of common stock on the open market, at a weighted average market price of $31.50 per share, with $34 million. Year to date, we have repurchased $67 million, or approximately 2 million shares. We continue to believe our stock price is trading below its intrinsic value.

During the quarter, the Company successfully completed the refinancing and extension of its Term Loan B, providing a more attractive maturity profile. And finally, we are executing on our initiatives to reduce expenses and improve services. Our current annualized run rate savings target is now $60 million, a 50% increase from our first-quarter forecast, $30 million of which we expect to realize this year.

Now to the business unit highlights. For the second quarter, our Realogy Franchise Group, we refer to as RFG franchisees, reported increases of 7% in transaction volume, 4% transaction sides, and 3% in average sales price. Combined across all Realogy brands, the RFG average sales price for the second quarter was approximately $274,000. As a reminder, RFG manages our portfolio brands, and our franchisees operate domestically in all 50 states.

Our franchisees continue to see solid demand in the Northeast, with the most prominent gains occurring in Massachusetts and New York state. RFG's 13% volume increase in the Northeast was comprised of 9% on sides and 4% on price. The Midwest and South both had approximately 9% volume gains, split fairly evenly between sides and price.

Conversely, the West region was RFG's weakest region, with only 2% volume growth, which reflects a 3% increase on average sales price, offset by 1% decline in sides. As to franchise sales, RFG added $103 million in new franchisee and sales production gross commission income in the second quarter; that's 21% increase over the second quarter of last year. And through the first half of this year, the sales team has recorded $192 million in new GCI gross commission income, a 24% increase year over year.

On the technology front, we are excited to report that the ZAP technology platform rollout for RFG is going quite well. We're ahead of our original forecast, with over 1,000 franchisees in the platform. We expect 1,500 franchisees will be live on ZAP by year-end 2016, along with 20,000 active agent users.

Our long-term plan is to get the majority of our franchisees operational on the ZAP platform by the end of 2017. As our franchisees go live on the ZAP platform, our focus is on driving agent engagement. We have already begun the process of measuring agent productivity, and although the results are based on a small data set, we're encouraged by what we are seeing.

In June we announced the organization of ZAPLabs as our innovation and technology hub, headquartered in the San Francisco Bay area. Formerly operated as ZipRealty's technology development group, this new positioning as ZAPLabs more clearly identifies its focus on new product research and development for the entire Company. Its near-term priority is the successful rollout and enhancement our proprietary ZAP platform to our franchisees, after which it will focus on emerging technologies and new product development.

Moving to NRT for the quarter: our Company-owned brokerage operations reported approximately 98,000 closed home sale sides, a 1% decrease from the second quarter of last year, and an average sales price of approximately $486,000; that's 2% less than last year. NRT's performance stems from a combination of agent attrition and weakness at the high end of the housing market which includes NRT's key markets: the New York Metro area, the Hamptons, key coastal Florida markets, and Northern and Southern California.

On a regional basis, the Midwest was NRT's best-performing region, with a 10% increase in volume, up evenly between sides and average sales price. In the Northeast, transaction volume was down 4%, driven by an 8% decline in average sales price. If you exclude the Corcoran group, which is New York City-based, and the NRT-owned Sotheby International Realty Operations, Northeast volume increased 5%.

The West was the weakest of our NRT markets, with volume down 6% due to a decrease of 7% in transaction sides. California was the weakest single state, with a volume decline of 8%. Northern California transaction volume was down 10%, and Southern California transaction volume was down 6%.

It is important to point out that high-value property sales are still occurring, but in smaller-than-expected numbers. California, Florida, and the New York City tri-state area are NRT's top markets, and volume was down in all of those markets in the second quarter. These market areas, combined, accounted for 60% of NRT's revenue in 2015.

Collectively, these markets were down 8% in the quarter on a volume basis compared to last year, while the remainder of NRT's markets were up an average of 6% on transaction volume. These are among the most valuable real estate markets in the country, and long term will continue to be beneficial to Realogy. At the core of this quarter's performance in NRT is a combination of high-end softness in its major markets, and the cumulative effect of competition towards top-producing sales associates.

Our agents are some of the top talent in the industry, and as such, have historically been targeted by the competition. This trend has recently become more pronounced, as new entrants to the industry, as well as assorted, established firms use short-term economic incentives to build market share. Our experience tells us that economic incentives need to be complemented by a strong level of support to the agent, which we uniquely provide. We take great pride in the fact that we've built a comprehensive full-service platform of best-in-class marketing, technology, and professional education that makes it possible for agents and agent teams to significantly build their businesses.

Our track record of retaining and recruiting agents at all production levels is based in part on the strong value proposition we provide to our agents. For these reasons and more, we consistently retain over 90% of our top-two quartile sales associates, and annually recruit a significant number of new agents. Still, we recognize the need to keep pace with the more competitive market for agents.

To address this challenge, we have implemented a multi-point plan, the outcome of which is a stronger focus on agent retention and agent and agent-team recruiting. The benefits of our plan will be realized over the next 12 to 18 months. While we expect near-term moderate pressure on costs from these initiatives, the expected increase in revenues should more than offset the related costs, producing improved financial results for NRT and the Realogy business units that benefit from NRT's volume gains.

In addition to these efforts, NRT continues to invest in activities that create Company- generated leads that add to our value proposition to our agents. Company-generated relocation leads, Its ZipRealty brokerage expansion, and consumer website leads, which together in 2015 comprised approximately 10% of NRT's closed business, all generate home sale closings that have higher margin characteristics than agent-generated business.

Finally, we are redoubling our efforts to improve operating leverage with a focus on NRT's cost structure. NRT's current fixed-cost base of approximately $970 million mainly reflects the expenses related to the employees and the field operations teams that support approximately 800 leased offices and 47,000 sales associates in 50 metropolitan areas. Our initiatives are focused on further streamlining our business and improving responsiveness to the needs of our agents, buyers, and sellers.

Specifically, we are centralizing systems and processes in order to more efficiently deploy our field support, management, and services so that they can focus on their most important job: making our agents more productive. We are increasing our total Company annualized run rate cost savings from $40 million to $60 million, which we expect to accomplish by mid 2017. The increase of $20 million is all related to NRT, and as I commented earlier, $30 million of the expected savings will be realized in 2016.

It was a challenging quarter for NRT. As said, we have a solid action plan in place to more significantly increase agent retention and new agent and agent-team recruiting, the outcome of which will be stronger long-term profitability in 2017 and beyond. The eventual strengthening of the high-end market will leverage these enhancements.

In addition, our growth plan for NRT includes tuck-in acquisitions in both core and adjacent businesses. This quarter, NRT acquired the Collaborative Companies, a full-service residential real estate marketing firm focused on vertical urban and suburban development in the greater Boston area. This is similar to our very successful Corcoran Sunshine Group that is based in New York City.

After the close of the second quarter, NRT acquired the largest independent brokerage firm in Boston, Hammond Properties, which will enhance our already-strong position in the metro Boston market. Also in July, Property Frameworks, NRT's property management company, acquired ONEprop, a multi-state, single-family residential property management company headquartered in Dallas. The firm operates in eight states and manages about 5,700 single-family homes. With this acquisition, NRT's single-family property rental management business now operates in 15 states and is one of the largest of its kind in the country.

We continue to gain a more meaningful presence in this facet of residential real estate, which we believe represents an important strategic opportunity for NRT. Both Cartus, our relocation company, and TRG, our title and closing services company, are performing at expected levels. TRG continues to explore the expansion of its geographic coverage through both organic growth and strategic acquisitions.

Cartus is managing several pilot programs through its Affinity Partners' business that show great potential. The Affinity business provides Cartus-managed real estate services to members of large Affinity membership programs. This is a growing business channel for Cartus that creates incremental, high-quality real estate leads that are served by our franchisees and Company-owned real estate brokerage operations.

Now let me provide more context as to the current and forecasted state of the housing market. We continue to believe that housing is on a growth trajectory and still has years to go before it reaches peak levels. The industry is benefiting from low mortgage rates and strong demand at the entry and move-up market levels, and in our view has years to go before it is fully recovered.

We believe there are a number of variables, but two in particular are still challenging: credit and inventory. Credit terms, although improving, continue to be unnecessarily restrictive, evident in the very high FICO scores. And low inventory levels in most markets are holding back the strength of this recovery. According to the National Association of Realtors there are 4.6 months of inventory, which is substantially less than the six to seven months we have seen historically.

As you can see on slide 4, the five industry forecasters we follow are forecasting 8% transaction volume growth for full-year 2016. This has remained relatively consistent since the beginning of the year. Based on our current visibility, and the expectation that the trends in NRT markets will continue through year end, slide 5 shows our third-quarter guidance of 1% to 4% home-sale transaction volume growth. The components are transaction sides growth of 1% to 3%, and average sales price between flat to up 1%.

RFG home-sale volume in the third quarter is anticipated to be in the 4% to 6% range, while NRT transaction volume for the third quarter is expected to be down between 1% to 3%.

Before I conclude, I want to recognize our newest independent Board members, Matt Espe and Chris Terrill. Matt has extensive leadership experience as a former CEO of two publicly traded companies, most recently at Armstrong World Industries, and has a comprehensive knowledge of the home-building supplies market.

Chris is the CEO of HomeAdvisor.com, a leading national home-services digital marketplace. He's a seasoned Internet veteran with extensive experience in online housing-related business services. The collective experience that Matt and Chris bring to Realogy will serve our Board, the Company, and our shareholders quite well.

In summary, we have a demonstrated commitment to our long-term financial goals: delevering our balance sheet and returning capital to our shareholders. We recognize the challenges and opportunities ahead of us and are moving aggressively to address the issues within our control and influence.

Simultaneously, we remain focused on our long-term growth strategies: the continued investment in our core brands, the strengthening of our value proposition, the solid execution of our long-term business strategies, and the investment in ZAPLabs and emerging technologies. These strategies reinforce our number-one position in the housing industry.

So with that, I will turn the call over to Tony to review our second-quarter financial performance. Tony?

---

**Tony Hull** - *Realogy Holdings Corp. - CFO*

Thanks, Richard. Let's go through our key financial metrics for Q2. Starting on slide 6, revenue for the quarter was $1.66 billion, up 1% compared with the same period in 2015. Operating EBITDA was $275 million, a 4% increase over the prior year. Last quarter we introduced operating EBITDA, which is EBITDA before restructuring costs, early extinguishment of debt, and former parent legacy items.

Adjusted basic earnings per share was $0.74, representing a 16% increase. The increase was due to higher operating EBITDA, as well as lower interest expense before non-cash mark-to-market changes on our swaps, as well as lower depreciation and amortization. We generated $208 million of free cash flow, which is $65 million less than Q2 of 2015, and the decrease is primarily due to the timing of net borrowing under our securitization program and working capital movements.

Last year, our relocation receivables and related borrowings increased $43 million to accommodate a large corporate client group move. Those borrowings were subsequently repaid. Relating to working capital, lower bonus accruals this year, compared to last year, as well as cash restructuring costs incurred, required a $19 million use of working capital in the period relative to last year.

As of June 30, our net-debt leverage was 3.8 times, an improvement from the first quarter and year-end 2015 results. In July, we reduced the size of the Term Loan B by approximate $760 million to $1.1 billion, using proceeds from a new $355 million Term Loan A, revolver borrowings, as well as cash on hand.

Turning to slide 7, which is key revenue drivers, Realogy combined home-sale transaction volume for the quarter was up 3% compared with the second quarter of 2015. Broken out by business unit, RFG home sales sides increases 4% and average sales price was up 3%, compared with the same period last year. NRT transaction volume decreased 3% in the quarter, compared with the same period last year, as transaction sides declined 1% and average sales price decreased 2%. Average broker commission rate at RFG decreased one basis point during the quarter, while NRT's average broker commission rate increased three basis points.

Net effective royalty rate for RFG year to date was 4.5%. For the full year, we expect it to be flat to prior-year levels. NRT commission splits increased 20 basis points on a year-to-date basis. For the full year, we currently expect commissions splits be in the range of 20 to 30 basis points above prior-year levels.

Now I'll go into some more specifics on the second quarter, starting with an NRT revenue walk-down on slide 8. NRT revenue decreased $21 million in the latest quarter, compared to the same period last year. Here, we have broken out NRT's revenue changes between those periods into three categories: first, revenue changes from home-sale transactions at $2.5 million and above; revenue from acquisitions completed prior to the second quarter; and revenue changes for the remaining home-sale transaction volume occurring with average sales prices below $2.5 million, and this also includes other NRT revenue changes.

A drop in NRT's home-sale transactions priced above $2.5 million caused its revenue to decline approximately $35 million. The decline in this segment was due to softness in the high-end market, as well as agent attrition. As a point of reference for the second quarter of 2016, NRT's sales volume at the $2.5-million-and-above level was 16% of total volume, and that's down from 19% in the second quarter of 2015. Transaction volume for homes with prices below $2.5 million, on a same-store basis, offset by other revenue increases at NRT, was down $3 million year over year, and this was influenced by agent attrition.

Turning to slide 9, NRT operating EBITDA decreased $12 million as a result of the reduced revenue, as well as lower PHH Home Loans joint-venture earnings of $3 million and higher marketing costs of $2 million. This was offset by lower commission expense and lower employee-related costs.

At RFG, revenue increased $8 million or 4%, and that was driven by domestic franchised volume increases, as well as a $4 million increase in other revenue, primarily related to marketing-related activities. RFG's operating EBITDA increased $6 million, or 4%. Revenue gains were partially offset by a $3 million increase in expenses related to the timing of grand conferences and franchisee events.

Cartus' operating EBITDA increased 3% due to revenue being up 1%, as well as favorable FX movements. TRG's operating EBITDA increased $6 million due to higher purchase and refinance volume, as well as the inclusion of the results from its acquisition of Independence Title last August.

Corporate expense decreased $10 million year over year, primarily due to the absence of a legal settlement that occurred in the second quarter of 2015. Year to date, corporate cash interest decreased 21% to $83 million in the latest six-month period, as a result of refinancings completed over the past year. Book interest expense for the first six months of 2016 was $132 million and was adversely impacted by a $34 million increase in our non-cash mark-to-market adjustment on our interest rate swaps. Excluding this effect, book interest decreased $20 million on a comparative basis. For the full year, we expect corporate cash interest to total approximately $170 million.

Richard spoke earlier about our third-quarter transaction volume guidance. Turning to slide 10, for the full year we expect total transaction volume to be up between 3% and 5%. RFG transaction volume will increase 5% to 7%, and NRT transaction volume will range from down 1% to up 1%.

As a result, for the full-year 2016, we expect adjusted EBITDA to be between $845 million and $885 million. This is on revenues of approximately $5.75 billion to $5.95 billion. And we expect the adjusted EBITDA margin to range from 14.7% to 15%.

Operating EBITDA for the year is forecast to be between $760 million and $800 million, yielding $450 million to $500 million in free cash flow for the full year. As a point of reference, this will add to the $1.2 billion in free cash flow generated by the Company over the past three years.

Slide 11 provides guidance for specific cash flow items below operating EBITDA. In conclusion, despite a challenging quarter, our business continues to generate significant cash flow. We will continue to be thoughtful about its deployment. We are progressing ahead of schedule on returning capital to shareholders and believe that the combination of the quarterly cash dividend and our existing share repurchase program is an efficient and sustainable way for us to deliver on that commitment.

We are also maintaining a focus on our continued growth and will continue to make opportunistic acquisitions and deleverage the balance sheet.

With that, we will open the lines for Q&A.

## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions)

Jason Deleeuw, Piper Jaffray

**Jason Deleeuw** - *Piper Jaffray & Company - Analyst*

Thanks, and good morning.

Just a question on the guidance range for the full year: can you help us kind of understand what's driving the range from the low to high end, in terms of the agent retention assumptions and the high-cost market trends? Are you expecting stabilization on those trends, or further worsening? If you could just provide a little color there.

---

**Tony Hull** - *Realogy Holdings Corp. - CFO*

Sure. As we mentioned, we expect a continuation of those trends in Q3, but when we get into Q4, we're seeing some offsets due to the impact we had on TRID last year that we don't expect to have this year, so it's kind of a mixed picture. But continuation in third quarter, and then more strengthening in the fourth quarter, but really based on the comparisons.

---

**Jason Deleeuw** - *Piper Jaffray & Company - Analyst*

Okay. And then for NRT, the agent splits were higher, and now we are guiding to higher splits for the year. But I guess I was a little surprised to see the broker commission rate also increased there; and I guess I would've thought that maybe that rate would've gone down with maybe the high-end agents doing better. So if you could just give us some color on the split trends and the commission trends in NRT?

---

**Tony Hull** - *Realogy Holdings Corp. - CFO*

Sure. The commissions went down, I believe -- I have to look at my -- I mean, the commissions went up, as you'd expect, when the price goes down; so I think that followed what you'd expect with the high-end weakness that we saw. And then on splits, I'd say that the increase we are seeing this year is reflective of the beginning of our response to some of the intensified competition. But the most important thing, Jason, is, we expect to generate more revenue than the increased split, so our overall profitability will improve as a result of the actions we are taking

---

**Jason Deleeuw** - *Piper Jaffray & Company - Analyst*

Yes, and then just to follow up: the competition for the agents -- is that mostly in the high-cost, high-end markets? Or are you seeing that more nation-wide?

---

**Richard Smith** - *Realogy Holdings Corp. - Chairman, CEO & President*

Jason, this is Richard.

It varies -- real estate is a local business, so it varies market by market. It is generally intensified in the higher-priced markets, but we see a little bit of it here and there. These are not major adjustments; they are sort of churning up to the market. But if you had to pick a market, it would be predominantly the high-end markets.

---

**Jason Deleeuw** - *Piper Jaffray & Company - Analyst*

All right. Thank you very much.

---

**Richard Smith** - *Realogy Holdings Corp. - Chairman, CEO & President*

You're welcome.

---

**Operator**

Will Randow, Citigroup

---

**Will Randow** - *Citigroup - Analyst*

Good morning, guys, and thanks for taking my questions.

In terms of your net debt leverage, you guys are at about 3.8, which I think implies you have about $200 million of buyback capacity. With the stock at about $29 in the free market, how aggressive do you think you'd be, looking at the next quarter and a half, if you will?

---

**Tony Hull** - *Realogy Holdings Corp. - CFO*

We're not limited necessarily to 4 times; we have other baskets in our credit agreements that allow us to do significantly more, so that's not a limiting factor. Having said that, we have $275 million authorized; we've only used $66 million to $67 million of that, and we continue to believe that our stock is priced well below its intrinsic value, so we will be looking at repurchases -- continue to look at them opportunistically

---

**Will Randow** - *Citigroup - Analyst*

And then on an unrelated follow-up, you spoke of some of the, I'll call it, competitive pressures. In terms of agent poaching, I know you guys recently got the head of recruiting from Compass, for example. Can you talk about some of those competitive dynamics in deeper detail? I mean, you'd think with the high-end off, some of those folks would be thinking about exiting the business. And in addition you have this recent Zillow acquisition of Bridge Interactive.

---

**Richard Smith** - *Realogy Holdings Corp. - Chairman, CEO & President*

Will, this is Richard.

The market is always competitive for agents. As the market is getting stronger, you get more start-up competitive pressures. You get some pressure from existing, well-established firms, based on the strength of the market. The talent pool is very competitive, and we were very focused on the balance sheet; we got the balance sheet where we needed it, and made it possible for us to now be more aggressive and far more competitive than perhaps we have been in some markets on a split basis. And we absolutely intend to do that.

So we're going to generate more volume, we will generate more EBITDA, as a result of this. But you'll see some movement in the costs related to the recruitment of top-producing agents. So market by market, it is nothing extraordinary; it is pretty commonplace.

As to the Zillow acquisition -- good for them. We don't see any meaningful issue as it pertains to us; we wish them well. And as to recruiting, we're always looking for talent, both at the staff level as well as the agent level, and Corcoran's always done a terrific job of recruiting and retaining the top-producing brokers in the New York City and beyond markets, so.

---

**Will Randow** - *Citigroup - Analyst*

Thanks, guys, and congrats on the free cash flow growth continued progress.

---

**Richard Smith** - *Realogy Holdings Corp. - Chairman, CEO & President*

Thank you very much

**Operator**

John Campbell, Stephens Inc.

**John Campbell** - *Stephens Inc. - Analyst*

Hello guys, good morning.

Just on the upsize cost reduction plan, good work with that, but how do you guys plan to achieve that within NRT? What are the key levers there?

**Tony Hull** - *Realogy Holdings Corp. - CFO*

The key levers are really centralization of a lot of the functions that are spread throughout the country, and doing them much more efficiently and effectively for our agents. So that's really the main change from what we were looking at in the first quarter versus second quarter. We worked really hard in the second quarter to come up with an improved plan that really is going to make NRT a much more agile organization, and much more effective for our agent population.

**John Campbell** - *Stephens Inc. - Analyst*

Okay, that's helpful.

And then, on the dividend, it seems like you guys are getting a little more aggressive on the capital returns; so I guess, A, what's driving that? And then, B, as you guys plan for that going forward, is that more of a disciplined payout ratio, or is there a desired dividend yield you guys are managing to?

**Tony Hull** - *Realogy Holdings Corp. - CFO*

I agree with you, we are getting more aggressive, and I think it's because we generate a significant amount of free cash flow, and we think the most efficient use of that cash flow is, at this point, given where our balance sheet is, we are definitely biasing our use of cash flow towards returning capital. We think having a balanced approach between a dividend and share repurchase is most effective for our shareholders, so that's what we elected to pursue.

**John Campbell** - *Stephens Inc. - Analyst*

Okay; and is there a disciplined payout ratio you guys are managing to, or is that kind of still in the works?

**Tony Hull** - *Realogy Holdings Corp. - CFO*

The Board will review that from time to time, and this was where they felt it was important to start the process.

**John Campbell** - *Stephens Inc. - Analyst*

Okay, thanks for taking our questions, guys.

**Operator**

David Ridley-Lane, Bank of America

---

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

Sure. Can you walk through the monthly trends you saw in NRT? Was there any improvement from March, which I believe was pretty weak, as you went through the quarter?

---

**Tony Hull** - *Realogy Holdings Corp. - CFO*

They weakened during the quarter, especially at the high end; they softened. I think what's really impacting the high end, we believe, is, we've had three kind of stock market jolts over the last year. We've had the strengthening of the dollar that has impacted the foreign buyers; they just haven't really adjusted to that new reality yet. Our view is, over time the high end will strengthen and rebound, and we've seen that before, in the housing recession and the recession in general, the high end was the first to recover, and it really operates on a different sort of track than the entry and the move-up market, so we are encouraged that it is going to snap back.

---

**Richard Smith** - *Realogy Holdings Corp. - Chairman, CEO & President*

David, this is Richard.

There's also a bit of some market adjustment, because the high-end markets got pretty frothy from the valuation perspective, so pricing was outstripping demand for some period of time, so now pricing is settling in. And what's an important characteristic for us as operators: when a seller reduces their price, the wish, on the list price of the home, to what seems to be more market, the buyer's buying. But until they find that price discovery there's a stalemate, and we think that's what's playing out in the major markets. So we view that as a good sign, because the buyer is still there and still transacting, but at lower price points.

---

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

Understood. And then, could you see any benefit from higher-risk financing levels in the second half from your PHH joint venture and the TRG segment? And would that potentially be upside to your guidance, if that did in fact occur?

---

**Tony Hull** - *Realogy Holdings Corp. - CFO*

I don't believe it would be significant enough to cause upside to the guidance.

---

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

Got it. Thank you very much

---

**Tony Hull** - *Realogy Holdings Corp. - CFO*

And that's based on what we are seeing on the opens at TRG and PHH -- refi opens -- so it's definitely strong, as you point out; it's definitely much higher than last year, but it's not going to be enough to move the needle out of the range

---

**Richard Smith** - *Realogy Holdings Corp. - Chairman, CEO & President*

David, a stronger refi market would clearly benefit TRG, so we will see, we will see how the market plays out. But as to PHH, Tony's right -- it would not be material to us

---

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

Okay, thank you

---

**Operator**

Brandon Dobell, William Blair

---

**Brandon Dobell** - *William Blair & Company - Analyst*

Thanks. I want to try to connect two data points. One is the comment about being a little more aggressive on the splits and recruiting and things, now that you've got the balance sheet squared away. And then also the cost containment efforts within NRT. Is one serving as a source for the other? Do you need to be more aggressive on the cost side in order to get more aggressive on the recruiting side? I'm trying to reconcile how you guys think about those two things in concert.

---

**Tony Hull** - *Realogy Holdings Corp. - CFO*

They are both important; we don't view them a dollar for dollar funding type of thing. We think there is a more efficient way to operate NRT, and that's what we are going to do. And we think it's important to meet the challenges on the agent retention and recruiting side, and that's what we are going to do. And the common theme of those two things: their EBITDA is going to improve as a result. Not only NRT, but also the royalty piece at RFG and TRG units, and that sort of thing. So we think it will help Realogy overall.

---

**Brandon Dobell** - *William Blair & Company - Analyst*

Okay. Are there certain markets, or I guess parts of NRT, where you've got, maybe call it evidence, or a case study, where you say we can run this a certain way and now we need to apply that way across the broader network? Or is this just, hey, we are going to start with some fresh ideas across the entire platform?

---

**Richard Smith** - *Realogy Holdings Corp. - Chairman, CEO & President*

Brandon, it's a product of decades of experience. And been there, done that; we know how this works. The beauty of the model is we can do both. Don't look for correlation between cost reductions and agent recruiting. We continue to maintain very high service levels to our agents, and especially in markets where that is important to top-producing agents. So there's no correlation between the two. As to being more competitive, the landscape is changing a little bit, and we intend to be aggressive in retaining our top-producing agents and sales associates. There's no tie between the two; we can do both.

---

**Brandon Dobell** - *William Blair & Company - Analyst*

Okay. And a final one for me.

Within Cartus, how do I think about the trajectory of that business in the back half of the year, relative to the first half of the year? Referrals down; high single digits or so in the first half. Is that is a timing issue? Is there something more structural there? Just want to make sure I understand how the back half looks versus the first half.

---

**Tony Hull** - *Realogy Holdings Corp. - CFO*

The trajectory, the initiatives they are working on, on building their Affinity business, are going to play out over 12 to 18 months. It's not going to be in the back half. I think the back half is going to be pretty similar to the first half. Not a big change in 2016, anyway.

---

**Brandon Dobell** - *William Blair & Company - Analyst*

Okay, great, thanks a lot.

---

**Operator**

Bose George, KBW

---

**Chas Tyson** - *Keefe, Bruyette & Woods - Analyst*

Hey guys, this is actually Chas Tyson on for Bose.

Thanks for the detail on the amount of transactions that are happening above $2.5 million in NRT. Is there a way we can think about the margin differential between transactions above $2.5 million and below $2.5 million from an EBITDA perspective?

---

**Tony Hull** - *Realogy Holdings Corp. - CFO*

It's really going to be market-specific, so I'd say in general, the margins are a little lighter, but it's not that material. It really depends if they are happening on the West Coast or East Coast, and that sort of thing.

---

**Chas Tyson** - *Keefe, Bruyette & Woods - Analyst*

Okay, the margins are lower on the higher transactions?

---

**Tony Hull** - *Realogy Holdings Corp. - CFO*

Yes. Because also at the higher end there is lower commission rates, because at those prices, you don't get the 5% necessarily for much larger transaction size.

---

**Chas Tyson** - *Keefe, Bruyette & Woods - Analyst*

Right, yes. Is there a way to think about the average commission rate on large transactions, or is this just kind of transaction-specific?

---

**Tony Hull** - *Realogy Holdings Corp. - CFO*

Yes, it's pretty much specific to the transactions. And where they occur.

**Chas Tyson** - *Keefe, Bruyette & Woods - Analyst*

Okay. And then you guys talked about a little bit of the stalemate that you're seeing in some your higher-end markets. Are you seeing that break up at all in Q3 and heading for, I think, one market where there's been a significant amount of inventory increases has been San Francisco? So just curious if you are seeing that? If it seems to be that people are reacting to the high prices and hopefully getting some transaction volume going again?

**Richard Smith** - *Realogy Holdings Corp. - Chairman, CEO & President*

You know, the price adjustments occur over time; people buying at that level are not necessarily urgent in trying to execute their purchase of the high-end property, so they are patient, and we see that playing out. Great deal of patience, no sense of urgency, generally these are cash transactions, they are not worried about financing -- just buyer and seller playing the market. So good news is, when price discovery concludes with a price that both parties are happy with at a much lower level, obviously, they are transacting. We see that as a good sign.

So it varies by market, but generally across the board, there is price discovery going on, and we still see a lot of activity, and we expect that to continue this year, and jury's out as to whether that continues in the next year. But we see it, we observe it, and we continue to be a participant. So it looks encouraging, but it's too early to tell when this plays out.

**Tony Hull** - *Realogy Holdings Corp. - CFO*

Yes, and our guidance for NRT is down 1% to 3% for the quarter, so that's a continuation of what we saw in the second quarter.

**Chas Tyson** - *Keefe, Bruyette & Woods - Analyst*

Right, yes. And then I know you guys have given the amount of NRT revenue that comes from California, that comes from New York, and from some other markets, but is there way to think about specifically what comes from San Francisco and what comes from New York?

**Richard Smith** - *Realogy Holdings Corp. - Chairman, CEO & President*

We don't break it out. As we indicated, 60% of NRT's revenue, and we don't, for a lot of reasons, we don't break it out specifically. But you know that we're a major player in San Francisco --

**Tony Hull** - *Realogy Holdings Corp. - CFO*

Yes, it's about It's about 30% California, and a little bit less than 10% in Florida.

**Richard Smith** - *Realogy Holdings Corp. - Chairman, CEO & President*

We just don't break it out by city

**Tony Hull** - *Realogy Holdings Corp. - CFO*

No.

**Chas Tyson** - *Keefe, Bruyette & Woods - Analyst*

Okay, thank you very much.

---

**Operator**

Anthony Paolone, JPMorgan

---

**Anthony Paolone** - *JPMorgan - Analyst*

Thanks, good morning.

Can you talk about how to think about spending $100 million on acquisitions, and getting those folks into the organization over the year, versus this competitive idea about losing agents to competitors, and perhaps matching what the competitors might be offering? I'm just trying to think about how that trade-off looks, when you guys think about it

---

**Richard Smith** - *Realogy Holdings Corp. - Chairman, CEO & President*

Well, let me begin, and Tony can chime in.

We do both. We are going to continue tuck-in acquisitions, for especially like CB United, where we are moving into markets that are strategic, where we had no presence from an operating perspective. So we don't view the two as being necessarily connected. So we're going to continue to do tuck-in acquisitions; they are very creative; they meet very high ROI standards. They are long-term acquisitions; we're not acquiring them for the moment or for the quarter.

The other issues is an ongoing operating issue. So one is strategic acquisitions, which we built the entire Company on the basis of that, and our knowledge of the markets; and the other is an operating issue. And we don't intend to match competitors; we don't have to. We have a stronger value proposition, but we can be more aggressive now, and we intend to do that. So don't look at the two as being linked, necessarily. One is very -- deployment of capital in an efficient way, and the other is operating the business more aggressively in certain markets, with respect to splits and the economic relationships we enjoy with agents. That's an ongoing issue.

---

**Anthony Paolone** - *JPMorgan - Analyst*

Okay. And then on the competitive side, can you put any brackets around what to expect in terms of perhaps like agent splits? Should we expect those to creep up a bit, or can you hold those where they've been?

---

**Tony Hull** - *Realogy Holdings Corp. - CFO*

No, we should expect them to creep up, a bit. But the more important thing is that our EBITDA, our revenue will be greater than the expense increase in our EBITDA and our profitability will overall improve.

---

**Anthony Paolone** - *JPMorgan - Analyst*

Okay. And then you alluded, I think, maybe the stock market as being a factor on the high end and this rediscovery of price. If we notch down to below $2.5 million, maybe even to the $1 million to $2.5 million range on your major coastal markets, what you think drives that segment? How big is that, for you all, and what's the risk to that level if the economy starts to stall out or something like that? How should we think about it

**Tony Hull** - *Realogy Holdings Corp. - CFO*

Well, getting into that range, it's more about credit availability, mortgage rates, wage growth, that range down to the full gamut. So clearly what we're seeing is very attractive mortgage rates, although it's still challenging to get a mortgage. And then inventory levels at low levels -- historically low levels. That's putting pressure -- downward pressure -- on unit growth, but it's obviously putting some upward pressure on price.

So we don't see -- again, we don't see the trajectory of that main market moving that much. Again, we think we have a long way to go before we get to peak, and we think we're in this 6%, 7%, 8% growth in those markets. Obviously, unless some exogenous event gets in the way, but we feel pretty good that the housing market's going to recover on a steady pace that we are seeing now, especially at those levels, for the foreseeable future.

---

**Anthony Paolone** - *JPMorgan - Analyst*

Okay. And in terms of the weakness in the major metros or coastal markets -- how much of that was, do you think, share versus just the high end? How do you split the two of those?

---

**Tony Hull** - *Realogy Holdings Corp. - CFO*

Roughly, we think it was like 2/3, the high end being weak, and 1/3 attrition. And of those two things, we can control one, which we talked about, we are going to control, and we're going to regain that. And the other one -- we don't obviously have control over that.

---

**Anthony Paolone** - *JPMorgan - Analyst*

Okay. And on the buyback program, I think you may have had twice as many days in the second quarter open to use it versus the first quarter, but you did a fairly comparable amount. Just trying to understand the thought process behind your appetite to use it, and pace, and so forth.

---

**Tony Hull** - *Realogy Holdings Corp. - CFO*

That was the cadence. We just started doing it. That was the cadence in the first quarter. We felt it appropriate to have that same cadence in the second quarter going forward. Again, we have the $275 million authorized, and we'll continue to judge or look at what the market opportunities are, and move from there.

---

**Anthony Paolone** - *JPMorgan - Analyst*

Okay. Thanks.

---

**Operator**

Mike Dahl, Credit Suisse

---

**Mike Dahl** - *Credit Suisse - Analyst*

Thanks for taking my questions.

Tony, just as a follow-up to the split rate question: I think you made the comment that the full year's going to be up 20 to 30 basis points. If the actions started in Q2, you are 50 basis points weaker, and implies 40 basis points or so in the back half. Presumably, there's a carryover effect at least through the first quarter of next year before you annualize it. So, ballpark, it puts you at 68.7. Is that, in your mind, the run rate that your new strategic initiatives are targeting? Or do you think that as you ramp up these initiatives there could even be some further pressure beyond that?

---

**Tony Hull** - *Realogy Holdings Corp. - CFO*

Yes, I think we're open to having it go up higher, but we're not open unless the bottom line is improved. So I think we're going to get more aggressive. We have the balance sheet, and our leverage is in good place, so I think we can be more aggressive on that, and we're going to be. But the bottom line is, it may impact margins, but the cash flow and the EBITDA results will be very positive.

---

**Mike Dahl** - *Credit Suisse - Analyst*

Right, okay. I think some of Richard's earlier comments were also saying, look, these things go in cycles; sometimes you tend to see short-term incentives and agents jump to get the highest bid. Is there anything different about today's competition, from maybe a cost structure standpoint, that would lead you to believe that this may be something that competitors can sustain for beyond just a year or so?

---

**Richard Smith** - *Realogy Holdings Corp. - Chairman, CEO & President*

Listen, it varies market by market. We've seen this come and go in the past, and these types of competitive pressures are part of the industry; that's how the industry works. We managed through all of them, and we intend to manage through this one as well. Now we are in a position to capitalize on the weaknesses we believe exist in some of those models that are only incentive-driven. Because our basis of the relationship with the agent is not just driven by the economics -- it's driven by the full suite of values that we provide to them. So we're a full-service shop; we don't compete just on the economics. We compete on the full value relationship. So this is something you manage through, and that's what we are doing, and we don't see it as being terribly different from any in the past.

---

**Mike Dahl** - *Credit Suisse - Analyst*

Okay, got it. And then, last question for me is, have you seen any impact from some of the Treasury rules around disclosure in New York and South Florida? And any idea of how to think about the impact in the back half as that expands out to California and some of the other New York boroughs also?

---

**Richard Smith** - *Realogy Holdings Corp. - Chairman, CEO & President*

Yes, as you know, this is limited to certain states, and applies to the industry more broadly. We see no impact, and we don't anticipate it. It's just another full disclosure obligation on the part of practitioners, and I think the industry has met that obligation. I know we have. So we are seeing no impact on transactions.

---

**Mike Dahl** - *Credit Suisse - Analyst*

Okay, great. Thank you.

---

**Operator**

Ryan McKeveny, Zelman & Associates

**Ryan McKeveny** - *Zelman & Associates - Analyst*

Thank you and good morning.

On the M&A side, with the slower high-end market, the focus on improving recruitment and retention, and driving efficiencies in the business, I'm just curious if this changes the way you think at all about acquisitions in the current environment, versus if NRT's footprint was growing at a faster rate, let's say?

**Richard Smith** - *Realogy Holdings Corp. - Chairman, CEO & President*

Ryan, as you know, NRT's assortment of acquisitions go all the way back to 1995, 1996, so we know this. We've been through a number of markets, so we know how market conditions impact valuations; that will be reflected in our acquisition activity going forward. It certainly has been reflected in our acquisitions in the past. We continue to be, as we indicated, in the market. From a tuck-in perspective, I don't see anything materially beyond tuck-in acquisitions. But we'll be selective, and our interest will be determined by the state of the market, conditions of the industry, and all the variables we've used in the past, so we'll see how the month shades out

**Ryan McKeveny** - *Zelman & Associates - Analyst*

Got it, thanks.

And just one more -- I don't mean to beat a dead horse, but on the recruitment and retention and the cost side of things within NRT, could you give some examples of what exactly is being driven out from a cost perspective, and the efficiencies? Because the offset I'm trying to balance against is assuming with the greater focus on recruiting and retention, assuming it is partly driven by better services, better offerings to the agents. So just trying to balance that in a bit more detail on what exactly is potentially being removed out from the cost side.

**Tony Hull** - *Realogy Holdings Corp. - CFO*

It's really the back office -- it's consolidation of the back office functions, and putting them into centers of excellence, and then using those to provide support for the 800 offices and 800 office managers, and the 47,000 agents that we have. And really to focus -- to be able to allow the focus of the managers and the regional management to focus on sales, on being the best sales organization we can be, and make our agents as productive as possible, so they are not mired in the day-to-day stuff. We are going to deal with that at corporate, and they're going to deal with making sure our revenue is as strong as it can be with our strong agent base.

**Ryan McKeveny** - *Zelman & Associates - Analyst*

Got it. Thank you.

And if I could squeeze one last one in. That slide 8 is very helpful, on showing the split of the $2.5 million price point. Do you have the data of what percentage of transaction volume would be above and below that threshold to help frame those numbers?

**Tony Hull** - *Realogy Holdings Corp. - CFO*

Yes, it was 16% above.

**Ryan McKeveny** - *Zelman & Associates - Analyst*

Got it. Okay, thank you.

---

**Operator**

Brad Burke, Goldman Sachs

---

**Brad Burke** - *Goldman Sachs - Analyst*

Good morning, guys. Thanks for squeezing me in.

Richard, you mentioned that the high end of the market has been giving back some of the frothiness that we have seen over the last few years. But NRT's average price is up about 1.5% over the last three years, and I realize that CB United and presumably some other acquisitions hurt by comparison. But it's still a fairly modest increase. Do you think that NRT has been able to participate in the higher-end home price appreciation that we've seen on the way up? And if it hasn't, are there some reasons that would explain that disconnect?

---

**Richard Smith** - *Realogy Holdings Corp. - Chairman, CEO & President*

No, absolutely. We're in the markets where it matters, and we have well-established influence in those markets, and we participated based on our share of those markets. So we have no concern there at all. Now that said, we intentionally moved NRT organically and through acquisitions into markets that are not at those higher price points -- that's by design. The CB United acquisition is a classic example of that. We moved into highly attractive, long-term, demographic-driven market, at lower price points. So over time, you'll see that kind of, I think, influence, on the average sale price, as we move into markets that have higher volumes; longer, better stability over time, that are going to be at lower price points.

---

**Brad Burke** - *Goldman Sachs - Analyst*

Okay. And in the interest of getting off before we hit an hour, I'll drop off now.

---

**Tony Hull** - *Realogy Holdings Corp. - CFO*

Thanks, Brad

---

**Alicia Swift** - *Realogy Holdings Corp. - SVP*

We thank you for joining our call today, and we look to speaking with you over the next quarter. Thank you.

---

**Operator**

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

---