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RLGY - Q4 2014 Realogy Holdings Corp Earnings Call

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PRESENTATION

Operator

Good morning, and welcome to the Realogy Holdings Corporation's full-year 2014 earnings conference call via webcast. Today's call is being recorded, and a written transcript will be available in the Investor's Information section of the Company's website later today. A webcast replay will also be made available on the Company's website until March 10th.

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

Alicia Swift - *Realogy Holdings Corporation - SVP*

Thank you, Sean. Good morning, and welcome to Realogy's full-year 2014 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 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 in 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 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 another 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 these measures are defined and reconciled to their most comparable GAAP measure in our press release.

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

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

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

Our fourth-quarter and full-year results are the product of solid operational execution, and the continued advancement of our strategic initiatives. During our third-quarter earnings call, we provided a fourth-quarter 2014 forecast for home sale transaction volume to increase in the range of 4% to 8% as compared to the same period in 2013. We are pleased to report that for the fourth quarter, we achieved the high end of our volume range, an increase of 7% on a combined basis for our Company-owned and franchise business segments as indicated on slide 4.

Realogy Franchise Group, which we often refer to as RFG, sales volume increased 8% in the fourth quarter. On a component basis, RFG had an average sales price increase of 6%, with a 2% increase in transaction sides. NRT volume was up 4% in the fourth quarter, with price gains of 2% and a 2% increase in sides, which included the incremental impact of the ZipRealty, and Martha Turner Properties acquisitions.

As you can see on slide 5, Realogy achieved a 5% increase in home sale transaction volume in 2014, attributable largely to strong relative demand at the high end of the housing market. When compared to the National Association of Realtors national average increase of 1%, it is clear that Realogy outperformed the market last year. On an NRT and RFG combined basis, Realogy's affiliated brokers and agents were responsible for closing $1.37 million transaction sides last year, or approximately $420 billion in home sale transaction volume.

Our market penetration increased 1 percentage point to 27% in 2014, versus 26% in 2013. Which means Realogy was involved in approximately 27% of the US existing home sale transaction volume involving a real estate brokerage firm. We believe the key contributors to our market penetration increase were our relative strength at the high end of the housing market, and our ongoing strategic growth initiatives.

As a reminder, market penetration is a comparison of Realogy transaction volume, sides times price, relative to the overall US existing home sale transaction volume involving a real estate broker.

Our regional performance varied widely as one would expect in a recovering housing market. The South was our best performing region in 2014, with combined volume of 8%, followed by the West region with a 7% combined volume increase. The Northeast and Midwest each experienced volume increases of about 1%.

Operationally, we enjoyed a strong quarter. The execution of the ZipRealty strategic plan is well underway. As we stated at the time of the acquisition last Summer, our intent is to make ZipRealty's Zap technology platform available to the entire RFG franchise network.

The Zap platform, when rolled out to franchisees is expected to generate incremental business for our franchisees and their independent sales associates. Fundamentally, we are building the framework for a single integrated end-to-end platform that will make it possible to deliver innovative products and new services to our franchisees, their sales associates, and the buyers and sellers of real estate faster and more consistently.

The reaction to the strategy from our franchisees has been overwhelmingly positive. And our technology team is preparing for an aggressive deployment effort that will commence late in the second quarter. We look forward to discussing the ZipRealty technology strategy in more detail with you during our Investor Day presentation, which is scheduled for March 18.

Now, allow me to discuss some of the operational highlights for each segment. Turning to slide 6, the Realogy Franchise Group added new franchises and sales associates, representing $309 million in franchisee gross commission income in 2014, which is a 21% increase over the prior year. And RFG achieved a 98% GCI retention rate in 2014. That's a full percentage point above its five-year average of 97%.

If you recall, during last year's Investor Day presentation, we discussed in detail the NRT digital commerce strategy, which is primarily focused on using search engine technology to generate incremental leads. The NRT management team continues to make good progress on its lead generation strategy. In particular, the start up consumer facing website we announced last year, is operational in 14 of our 40 NRT targeted markets. And is expected to be operational in the balance of our NRT markets by mid year. The expected result is an increase in Company-generated leads, which we then distribute to participating agents on attractive economic terms.

In 2014, NRT completed 17 brokerage acquisitions, representing $182 million in incremental gross commission income, or GCI, including the ZipRealty brokerage operations.

Our M&A pipeline is solid, and we will continue to be opportunistic with respect to accretive acquisitions. NRT management performed well against its operating metrics, retained more than 93% of the production of its top 50 percentile sales associates last year, recruited more than $81 million in GCI in new agents, and managed its agent commission splits to a year end 68%.

As to the ZipRealty Brokerage operations, we have integrated this new business model into our NRT field operations. We like the model. We find operating metrics attractive, and are focused on the potential growth opportunities of this new channel.

In a very competitive relocation services environment, Cartus signed 102 new clients in 2014, the benefits of which we will recognize over the next several years. More than half of the Fortune 50 is represented on Cartus' client list, and their top 25 clients have an average tenure of 19 years. Last year, Cartus managed more than 171,000 international, domestic, and affinity moves on behalf of its clients. Of the approximately 97,000 domestic real estate referrals generated in 2014 by Cartus, the majority were handled by our franchisees and our NRT Company-owned offices.

In our Title and Settlement Services segment, TRG's direct operations had capture rates of 41% on NRT closings in 2014. In addition, their underwriter experienced a claims rate of 1.8% in the fourth quarter, which is well below the industry average lost ratio of approximately 5%.

Now let's take a few minutes to discuss the current market environment. For the first quarter of 2015, the data indicates that Realogy's home sale transaction volume will increase in the range of 5% to 9% as shown on slide 7. We anticipate that transaction side increases will be in the range of 2% to 4% on a combined basis for RFG and NRT, and average sale price gains will be in the range of 3% to 5%. Nationally, inventory continues to be low, but should begin increasing in advance of the seasonal Spring housing market.

As to the lending environment, Washington has taken a number of actions that should encourage lending. Particularly as it relates to first-time buyers. These include HUD's recent decision to lower fees, the Federal Housing Finance Administration offering 97% LTV loans, and the clarification of the loan put-back rules. According to our estimates, reduced FHA fees alone could add an incremental 90,000 to 140,000 buyers to the market on an annual basis.

As you can see on slide 8, prominent industry forecasts for existing home sale transaction volume for full-year 2015 are showing increases in the range of 6% to 12% with an average of 9%. As we discussed last year, we believe the next stage in the housing recovery will be the return of the first-time homebuyer. According to the latest census report issued in January, more than 1.6 million households were formed during 2014, the highest annual figure since 2005 and the data support an increase in long-term demand for housing.

Overall for 2015, we believe current tailwinds including the likelihood of an expanding credit box, continued low mortgage rates, improving consumer confidence and the government reported jobs gains averaging 336,000 over the past three months, should help mitigate the pressures of low inventory levels and continued difficult lending standards.

In summary, we are pleased with the progress we have made on our short- and long-term strategic initiatives. Our fee-for-service business model enables us to invest in long-term strategies that will enhance the value of our brands, the success of our franchisees, the vitality of our relocation and settlement services segments, and the expansion of NRT operations. Management and our Board are taking a long-term view of the business, simultaneously balancing the near-term and long-term interests of our shareholders.

To that end, we continue to focus on our goal of shrinking the debt on the balance sheet and investing in growth, which is made possible by the proven and resilient free cash flow characteristics of our business, and eventually returning capital to our shareholders.

With that, I'll turn call over to Tony, and we'll have Q&A at the close of Tony's comments. Tony?

Tony Hull - *Realogy Holdings Corporation - CFO*

Thanks, Richard. Turning to slide 9, let me make some comments about the fourth quarter and full year of 2014.

Q4 2014 revenue, at $1.3 billion, increased 3% compared to the fourth quarter of 2013, driven by higher transaction volume at RFG and NRT. Q4 2014 adjusted EBITDA was $167 million compared to $151 million in Q4 2013, an increase of 11%. For the full-year 2014, revenue was $5.3 billion. That's a 1% increase compared to 2013, and that increase was driven by higher transaction volume at RFG and NRT, but was offset by lower refinance volume at TRG.

Full-year 2014 adjusted EBITDA was $779 million, which was above the range of $765 million to $775 million that we anticipated and communicated to you during our third-quarter call. Adjusted EBITDA excludes the impact of a number of items, including $47 million of early extinguishment of debt charges incurred in 2014, as well as $10 million of ZipRealty transaction and integration related costs.

Full-year 2014 net income was $143 million. On an adjusted basis which removes the impact of tax related valuation allowance reversals and loss on early extinguishment of debt, adjusted net income was $160 million relative to $137 million in 2013 on the same basis. The Company generated $367 million of free cash flow during the year or $2.51 per share, which reflects a $63 million or 20% reduction in cash interest expense, year over year, that was primarily a result of refinancing activities executed in 2014. Lastly, our net debt to adjusted EBITDA ratio was 4.6 times at December 31, 2014.

Next, I will discuss our key revenue drivers for the full year on slide 10. RFG home sales sides decreased 2% year over year in 2014, and average home sale price increased 7%. NRT home sale sides decreased 3% year over year compared to 2013, and its average home sale price increased 6%. Average broker commission rate, or ABCR, was off 2 basis points for RFG and 3 basis points for NRT in 2014 due to the continued strength of the high-end priced segment. ABCR has held up very well over the past three years in the face of a 22% increase in average home sale price that we've experienced during that period.

The high-end priced segment outperformed the lower price segments throughout 2014, as activity from the first-time homebuyer was still below historical averages. Homes with price points above $750,000 represented 24% of home sale volume at RFG, and that's up from 21% in 2013. At NRT, those homes represented 51% of home sale volume, up from 48% in 2013.

Across RFG, the volume of home sales at price points under $300,000 in 2014 was 43% of total home sale volume, down from 46% in 2013. RFG's net effective royalty rate was flat at 4.49% in 2014, and continues to reflect the strong performance of our largest affiliates. NRTs commission split was 68.4% for the year, which was a slight increase compared to 2013. In 2015, both the net effective royalty rate and the split rate are expected to remain at 2014 levels.

Now let's look at revenue and EBITDA for full-year 2014 compared to 2013 as shown on slide 11. As we mentioned, revenue totaled $5.3 billion for the year, an increase of 1%, which was due to higher transaction volume offset by lower TRG revenue. And that lower TRG revenue was a result of a 64% decline in refinanced related closed units.

RFG EBITDA increased $15 million, primarily due to higher third-party domestic franchisee transaction volume. NRT EBITDA decreased $13 million, despite a 2% increase in revenue, primarily due to the $16 million decline in PHH Home Loans joint venture earnings, and that was mostly refi related. Cartus EBITDA decreased $2 million, primarily due to higher employee related costs. TRG EBITDA decreased $14 million, primarily due to lower refinance volume.

And finally, Corporate expenses factoring out early extinguishment of debt charges and one-time acquisition related transaction costs, increased $3 million from $58 million to $61 million, with the bulk of the increase coming from the inclusion of recurring ZipRealty overhead costs from August 2014 on. And that was offset by lower bonus levels for the year. We expect our ongoing book tax rate to be 42%. But because of a reversal of a state tax valuation allowance in the fourth quarter, the 2014 full-year income tax expense rate was approximately 37%.

Turning to slide 12. In the first quarter of 2015, we expect home sale transaction volume increases in the range of 5% to 9%, with 2% to 4% coming from sides growth, and 3% to 5% coming from price growth. You will recall that our one-quarter-ahead transaction volume guidance reflects our most current open and closed sales transaction data. Our guidance track record has proven to be an accurate short term predictor of the direction of the existing home sale market.

One note on expenses in 2015 relative to 2014 that we want to remind you of, is that we will be reflecting a full year of Zip related expenses that will add $12 million of incremental expenses at Corporate and RFG in aggregate. And they will be spread ratably during the year. Although adverse in the short term, we think this investment will pay significant dividends over the long term.

Also in 2015, we anticipate accruing for performance-based management incentives at 100% relative to the 60% achieved in 2014. Obviously, that's if the 2015 performance goals are met. This adds about $30 million to our run-rate expenses in 2015 versus 2014. The Company generated $367 million of free cash flow during the year, and we had $313 million of cash and cash equivalents at year end.

Slide 13 provides cash flow guidance for 2015, including our estimate for the year of CapEx of $80 million to $85 million. Capital expenditures are expected to be higher in 2015, due to the inclusion of ZipRealty and one-time facility improvements at Cartus. Corporate cash interest expense is expected to be $205 million to $215 million, assuming no changes to the current capital structure.

Working capital is expected to be a source of $10 million to $20 million, and legacy cash settlements are expected to be a use of $15 million to $20 million. Cash taxes are expected to total $15 million to $20 million for 2015.

To summarize, 2014 performance relative to the national existing home sale market was strong, as we outperformed the national market by 4 percentage points on sales volume, and increased our market penetration from 26% to 27%. Similar to many of the industry prognosticators out there, we believe that there are certain factors that are encouraging for an enhanced base of recovery for the housing market in 2015. These include an improving employment picture, moderating price increases, and progress on expanding the credit box. The timing and magnitude of those factors and the cadence at which they may effect transaction volume growth is difficult to predict. And it's likely the cause of the wide range of forecasts, the average of which is 9% for the year.

We expect to continue to generate significant cash flow due to the operating characteristics of Realogy's businesses. In addition, cash flow in future periods will be enhanced by the utilization of our $2 billion in net operating losses and related minimal cash taxes, as well as lower cash interest requirements. As Richard mentioned, we intend to use our free cash flow primarily to delever our balance sheet, invest in the growth of our business, and eventually return capital to our shareholders.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Steve Kent, Goldman Sachs.

Steve Kent - *Goldman Sachs - Analyst*

Hello. Good morning, can you hear me?

Tony Hull - *Realogy Holdings Corporation - CFO*

We can. Hey, Steve.

Steve Kent - *Goldman Sachs - Analyst*

Hey. So a couple things. One, can you just give us a little bit more color on what you're seeing in terms of regions pick up? We've seen some pick up in existing and pending home sales in New York, California, Florida. Just what you are seeing.

And then I'm always intrigued by Zip, and what the reaction was from where you rolled it out and what people's views as that has been rolled out. Because that seems like an interesting driver over the next few years.

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

Steve, this is Richard. Let me address the Zip, and then Tony can give you some regional color. Zip, as you know, an entirely new technology platform, which we are going to introduce to our franchisees. We're actually installing pilots as we speak, but the full-blown distribution will not occur until the end of the second quarter.

It's going to, in many cases, replace the current forms of technology that are expensive, not synergized, generally not consistent, and really don't deliver a lot of value. So this is a platform that was built around the needs expressed by brokerage and agents. So it's extremely friendly to the brokerage industry from that perspective.

The reception thus far has been overwhelmingly positive. It's being introduced at all the national conferences. We literally can't keep up with the interest being expressed by the franchisees.

So we're very bullish on its near-term and long-term prospects. So long term, it makes it easier for the broker to create and deliver new services both to the agent and to the buyer and seller.

It's just -- it's an integrated form of technology that we've never had. In fact, I don't think the industry has it. So it will be I think first to market, and again, the distribution begins into the end of the second quarter. Tony, you want to give color?

Tony Hull - *Realogy Holdings Corporation - CFO*

Sure. Just on the regional piece, Steve, for the year, for NRT, which is the biggest revenue driver of the Company, the strongest region was the South. And the other three regions -- so the South was up about 12% in volume for the year. And then the other three regions, the West, Midwest and Northeast were all up 3% each on total volume.

So the fourth quarter was a little bit different than the full-year. There was a little more strength in the South, it was up 16% on volume. And the weakest in the fourth quarter was the Midwest, which was down about 1% in volume. So just good strength in the South region for NRT.

For RFG, was spread more evenly the West region and the South region were the strongest for RFG for the year at 7%, 8%, 9%. The Midwest and Northeast were flattish for the year in terms of volume. So again, very different outcomes depending on what region.

Obviously looking at the first quarter, you would not be surprised to know that the one area showing some weakness is New England. Which is not a surprise, because there are inventory constraints because of snow buildup, and not because there's a lack of inventory but people cannot get to the homes.

The only other place that's a little bit strained that we're seeing right now in the first couple months of the year is the San Francisco area just because of the chronic lack of inventory. But the rest of the country -- the rest of NRTs markets are performing well.

So it's really those two markets that are off year over year. The rest are flat or up.

Steve Kent - *Goldman Sachs - Analyst*

Okay, thank you.

Operator

Jason Deleeuw, Piper Jaffray.

Jason Deleeuw - *Piper Jaffray - Analyst*

Thank you, and good morning. Just getting back to the supply issue, are you trying to say that the supply issue is not really holding back sales when you look at it from a national level and is just confined to some certain markets? Or do you think supply as an issue is holding back just the total national unit size?

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

No, inventory is low across the board. It's around 4.6, 4.7 months depending on who you're listing to. It should be six or better. Six months or better.

We literally have, as Tony mentioned, San Francisco proper has inventory you can measure in weeks. There's just nothing to sell.

It's always generally that way in January of any year, early stages of February. So it is not really the Spring market yet. So we expect inventory to build.

We'd be very disappointed if we didn't see an improved Spring inventory level. But I think it's, for the most part, typical of the entire country. There'll be exceptions here or there, but for the most part, low inventory is a problem across the board.

Tony Hull - *Realogy Holdings Corporation - CFO*

Jason, if you look at the NAR numbers that came out yesterday, the national inventory levels are pretty much consistent where they were. Which is -- the January numbers was 1.87 million units. It's very consistent with year end 2014, year end 2013, year end 2012. So as Richard said, it's the normal year end off-season the levels of inventory that generally build over as the Spring season develops.

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

Let me also say this, I'm sure you follow the builders. The builders are building again, and that's going to help build the inventory pipeline.

It's sort of an unusual way that it does it, but it does it. So we're encouraged by the increased builder activity, because that's eventually going to create stronger existing home inventory. So we'll see how that shapes up over the next couple quarters, but it looks encouraging.

Jason Deleeuw - *Piper Jaffray - Analyst*

Okay. And then on the margins, we've got the extra IT spend or the extra spend from Zip, some accrual for the performance-based. Now that volume and revenue is expected, just based on the forecast expected to grow again, what's your expectation for margin expansion in 2015 in light of some of the headwinds that you pointed out?

Tony Hull - *Realogy Holdings Corporation - CFO*

I would just say that we'll talk about that a little bit at Investor Day. We said at last year's Investor Day, that our margins for the year would be 14.2% to 14.6%, we ended up at the high end of that range. And we'll discuss forward-looking margins at Investor Day.

Jason Deleeuw - *Piper Jaffray - Analyst*

Okay. Thank you.

Operator

David Ridley-Lane, Bank of America.

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

Sure, so the NAR data suggests that sales to first-time homebuyers have been up for the past five months. Just curious, are you seeing anecdotal evidence of greater interest among first-time buyers, and also do you think mortgage availability for this group is increasing?

Tony Hull - *Realogy Holdings Corporation - CFO*

The NAR numbers, actually the first-time buyer percentage went down in January versus December. So we haven't seen it yet. But we do think that the credit box opening and the loans available, the lower fees at FHA, and the 3% down loans available from Freddie and Fannie, the lower put back risk, is going to encourage lending.

And we just don't know what the timing and the cadence of that's going to be. But we think it's definitely -- everything is moving in the right direction to get that segment of the market more robust.

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

Great. And then is there an upward bias to the net effective royalty rate in 2015, just given the uptick that you saw in the fourth quarter?

Tony Hull - *Realogy Holdings Corporation - CFO*

It's tough to look at that on a quarterly basis. But as we said during the prepared remarks, we think it's going to be flattish, maybe up a little bit in 2015. But basically flat.

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

Okay. If I could squeeze one more in. How much of a benefit do you think the snapback on refinancing activity will be for both the PHH joint venture and the Title and Settlement in the first quarter here?

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Tony Hull - *Realogy Holdings Corporation - CFO*

I think it will be helpful to TRG's results. But it's not going to move the needle that much. They are seeing increased opens activity, but I don't think it's going to move the needle that much in the first quarter. Because most of those aren't going to close until the second quarter.

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

Got it. Thank you very much.

Tony Hull - *Realogy Holdings Corporation - CFO*

Okay.

Operator

Michael Dahl, Credit Suisse.

Michael Dahl - *Credit Suisse - Analyst*

Hello, thanks. Tony, wanted to go back to some of your regional comments for a minute, and maybe just ask more specifically. Within the guidance for sides and price, is there a -- is it consistent across NRT and RFG, or should we be looking ahead different trends? I know price for NRT was quite a bit different in the fourth quarter, so any color within that guidance by segment would be helpful.

Tony Hull - *Realogy Holdings Corporation - CFO*

I think that we had some very strong high-end activity in the first quarter of 2014 at NRT. And I think it's probably not going to be quite as strong, so price won't be as robust at NRT as you'll see it at RFG. So RFG price looks -- is sort of carrying the weight on the price increase that we gave, the price increase guidance we gave.

Michael Dahl - *Credit Suisse - Analyst*

And are the sides pretty similar?

Tony Hull - *Realogy Holdings Corporation - CFO*

Actually, sides are a little stronger at NRT, and probably a little weaker at RFG.

Michael Dahl - *Credit Suisse - Analyst*

Got it, okay. Second question, also the agent commission split on the NRT side. I think it improved year over year for the first time in a little while, or at least all year.

So how much of that was maybe lower -- just a mix with Zip coming in at lower spot rates, or how much was some of the initiatives that you guys have talked about for the past several quarters? And any thoughts -- sorry if I missed it, but on what the split rates will look like for the year in 2015?

Tony Hull - *Realogy Holdings Corporation - CFO*

Again, we expect them to be flat to 2014 and 2015. The split movement in Q4 was more about where the business was done. Anything east of the Mississippi has better splits than west of the Mississippi, and there was a slight shift in volume towards the east of the Mississippi.

So, that helped splits in the fourth quarter. So nothing -- long-term, and we'll discuss this on Investor Day, the way we are going to manage splits, because it's very competitive out there. For NRT, it's very competitive on the splits, is really shifting more of the business to the lead-generated business that has better economics.

And that's how, over the long-term, we're going to -- we plan to manage splits. Because you can't fight the reality of the local markets, because you're going to lose your best agents if you do and we want to keep them. So the way we're going to do it is really just shift more of the overall business to lead-generated business with better economics, and that's going to keep splits under control for the foreseeable future.

That's really the strategy. That was the Zip strategy. It's a strategy for all the initiatives that NRT has underway to really generate more leads, generate better leads to agents, and hopefully get the closure rate on those up. And that will help -- that will be much bigger impact on splits over time than trying to fight the local battles.

Michael Dahl - *Credit Suisse - Analyst*

Okay, that's helpful. Thank you.

Operator

Ryan MacKenzie, Zelman and Associates.

Ryan MacKenzie - *Zelman and Associates - Analyst*

Thanks, guys, good morning. First question, on NRT specifically, could you just update us what you're seeing in terms of the acquisition opportunities?

I guess how competitive the environment is for those acquisitions? And how you view acquisitions going forward in NRT's prouder strategy, and I guess within the guidance for 1Q as well?

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

It's a good environment, as I mentioned in my comments, it's a pretty robust pipeline. NRT prefers, and we traditionally have preferred, to acquire companies in our existing footprint because they're very synergistic. We mentioned over the past couple quarters that we have a very strong interest in the Southwest.

We think the sand states represent an enormous opportunity for the industry, and also for our Company. So we're paying particular attention to the sand states, and the growth, both income growth, job growth, stability, better economics, et cetera. So, that's encouraging.

We did 17 last year. We have a pretty good pipeline for 2015. The environment is we compete generally -- if we compete against one other buyer, that's Berkshire Hathaway Home Services, but we don't see them a lot.

And they tend to be fairly disciplined. We are absolutely disciplined. We pay five to six times EBITDA, and that's before synergies.

We often, if it's in our existing footprint, as you know we deliver a point sometimes two points in synergies. So it's a good strong pipeline, and we're very encouraged by the prospects over the next several years.

Ryan MacKenzie - *Zelman and Associates - Analyst*

Great, thanks. And on the commission rates. RFG we saw a slight sequential increase this quarter, NRT down slightly sequentially.

Can you just describe the moving pieces between those businesses? Maybe how to think about the various pluses and minuses of the commission rate going forward for RFG and NRT?

Tony Hull - *Realogy Holdings Corporation - CFO*

Sure. The commission rate at NRT is always several basis points lower than it is at RFG, because their average sales price is double RFG, and double the national average. So it's not surprising to see the slight disparity there.

And really what you're going to see -- if you see ABCR movement, it's mostly going to be due to what's happening with price. ABCR has been amazingly steady over the last three years, despite very robust average sales price increases.

So we really benefit from that. And if it moves in the future, it will move a basis point here or there, and it will move mostly by what's happening with average sales price. So, we feel pretty confident that that's not going to be a big variable in the future.

Ryan MacKenzie - *Zelman and Associates - Analyst*

Great, thanks. And maybe just one more, as it ties a little into that topic potentially. But just any update in terms of the Zillow Trulia, merger and any potential impact that you guys see from the combination versus those companies being separate?

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

No. It's a marketing channel, so we have not seen nor do we expect any material change in how we can do business with them, or how our franchisees do business with them. So as we've said in the past, to the extent they continue being a good marketing venue, then our franchisees, their agents, and also our agents will use it as a tool to generate incremental leads.

So we see that only proving over time, not getting worse. So the combination probably makes a lot of sense for a lot of reasons. So we are indifferent as to the merger, we just hope they continue to produce good, solid actionable leads.

Ryan MacKenzie - *Zelman and Associates - Analyst*

Okay. Thank you.

Operator

Adam Rudiger, Wells Fargo Securities.

Adam Rudiger - *Wells Fargo Securities, LLC - Analyst*

Hello, good morning. Thank you. Richard, I was just wondering if you see some more -- the government trying to do some more to ease mortgage availability and stimulate housing going forward? Or is what we've seen over the last couple months it for a while?

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

Well the good news there is there's an intent to expand the credit box, both Mel Watt and others in positions of responsibility have made it clear that they would like to make it easier for a first-time buyer to buy that first home. So I much prefer the dialogue I'm hearing now and the tone and tenor versus, what we saw five, six, seven years ago.

So I'm encouraged by it, and I think the reduction in FHA fees is a good example of strong intent. The 97% LTV loan strategy for the GSEs should, over time, encourage more first-time buyers to step up to the plate and take advantage of these low interest rates. So I think the tone, the tenor and the intent are all very favorable to a stronger housing market.

Adam Rudiger - *Wells Fargo Securities, LLC - Analyst*

Okay. And then, Tony, question for you on the balance sheet. Is there anything to do with that first lien and first and a half lien debt, or is it just sit tight until 2016 when they're callable?

Tony Hull - *Realogy Holdings Corporation - CFO*

You never know what market opportunities are going to come your way. But absent those, I think sitting tight is probably what we're going to do.

Adam Rudiger - *Wells Fargo Securities, LLC - Analyst*

And just let cash build up on the balance sheet then?

Tony Hull - *Realogy Holdings Corporation - CFO*

Exactly.

Adam Rudiger - *Wells Fargo Securities, LLC - Analyst*

All right. Thanks for taking my questions.

Operator

Stephen Kim, Barclays.

Stephen Kim - *Barclays Capital - Analyst*

Thanks very much, guys. Was wondering if I could revisit the guidance on the sides again if I could. I just wanted to make sure that we have the proper context on that. For example, we're hearing from the builders that in late January and into early February trends markedly improve. We just had a builder come out today talk about sales per community up 24% so far.

So against that backdrop, the increase of Q4 in your guidance, it raised some eyebrows for us. And I was wondering, was there anything -- is there anything in the first quarter that might be a bit unusual that we need to adjust for? For example, some of the companies have talked about an increase in number of days, I assume that's week days. Are you having less weekends or something in the first quarter? And in addition, if you could just help us --

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Tony Hull - *Realogy Holdings Corporation - CFO*

No.

Stephen Kim - *Barclays Capital - Analyst*

Okay, there's not.

Tony Hull - *Realogy Holdings Corporation - CFO*

No. The number of days in the quarter is exactly the same as last year, and there was one less day in January. There's going to be one extra day in March, but the number of days for the quarter is the same.

Stephen Kim - *Barclays Capital - Analyst*

Yes. And then how about in terms of the mix geographically. I think you had indicated that the Northeast was flat, if I remember that correctly. Are you assuming that the Northeast is a bit of a drag in 1Q relative to maybe what we're seeing nationally?

Tony Hull - *Realogy Holdings Corporation - CFO*

I would limit it more to New England than the Northeast. Boston, in particular. Again, the two areas where NRT opens are down year-over-year as opposed to the rest of the markets, which are flat to up is New England which is mostly Boston and San Francisco. And they're both for the same reasons, which is inventory constraints, but the reason for the inventory constraints are different in Boston than they are in San Francisco.

Stephen Kim - *Barclays Capital - Analyst*

Yes, sure. So I guess finishing up on this line of thought. The builder report orders right? And you guys -- I know the existing home sale number reflect more of a combination of orders, as well as closings. So I guess I'll just ask the question outright, do you see any material improvement in the back end of January and into early February on the order side versus the closing side?

Tony Hull - *Realogy Holdings Corporation - CFO*

January, just on the closed side as you saw from the NAR report yesterday, January was just not good. Not only did we lose a day, but it was just not a good month for either NRT or RFG.

But the opens were strong, especially towards the end of month. And then as you say, early February, the opens looked good as well. But again, a lot of the opens we saw -- we're starting to see now, aren't going to close till April, so we won't see the benefit of that until April.

So anyway, we definitely saw the first part of February was very strong on the closed and opens, but we still have to contend with January which was weak. And the most important month of the three months, obviously due to seasonality in terms of overall side, the number of transactions is March.

So that tells the tale of the quarter, January and February don't really tell the tale. It's really, when we start getting to full swing Spring season, which is in March. But I think again, we took into account the opens and the closes that we've seen through last night to give the guidance.

Stephen Kim - *Barclays Capital - Analyst*

Yes, okay. That's actually very helpful. Thanks very much for that.

My next question related just to a general question about what's likely to happen when the inventory situation ultimately is relieved and you actually have more listings coming on the market? I'm particularly curious about how that might affect the distribution of activity amongst the higher performing agents versus the lower performing agents?

Generally, what we've thought is that as the market improves, you'll get more activity going to the less productive agents. However, given your focus on agents who have relationships and listing relationships, I was curious as to when you see the market improve, do you still see that same kind of retention? Where the agents who are more productive tend to have those same listings, or do you find that when more listings hit the market that that also gets distributed to less productive agents just because of the sheer volume? Thanks.

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

The top producing agents are always going to outperform their colleagues, that's just the nature of their -- the business they build and how they go about the business. The real key is if more and more first-time buyers enter the market, many of the top producing agents would prefer not to deal with the low end of the market. So generally that accrues to the benefit of e-agents, which are agents that we use on a different set of economics so they have more attractive splits.

They're a product of ZipRealty, as an example, so that channel works very well for the first time buyer and midmarket buyers. So if there's more business at the low-end of the market, everyone is going to benefit.

But generally, the top producing agents are not going to spend a lot of time going after the first time buyer. So I don't see that doing anything but just empowering agents at the lower levels, and making them more productive than they would have been otherwise.

Stephen Kim - *Barclays Capital - Analyst*

Okay.

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

That's generally how it works. It varies by market, but that's generally how it works.

Stephen Kim - *Barclays Capital - Analyst*

Okay. Great. Thank you very much, guys.

Operator

Will Randow, Citigroup.

Will Randow - *Citigroup - Analyst*

Good morning, and thanks for taking my question. In terms of the luxury market, I was curious on your thoughts there. I seems like it's starting to have tougher comps from year-over-year price appreciation perspective.

And in particular, there's questions around the international buyer potentially slowing as well. Love to get your thoughts there. And I assume the sensitivity is more towards NRT, but love to get your thoughts on that as well.

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

I'll just add a quick comment. The one segment of the international buyer that's noticeably absent is the Russian buyer, for all the obvious reasons. So that component of the international buyer market is not completely gone, but it's substantially limited as compared to prior periods.

We continue to see the strong influence of the Asian buyer. And also Latin and South America continue to be pretty robust buyers, depending on the market is principally Miami and the East Coast of Florida. So I don't know if the absence of the Russian buyer is a temporary issue or a long-term issue, we'll assume that it's longer than a year.

But the international buyer continues to be robust, principally, because where are you going to put your money? Where in the world will your investment be safe? One. And then two, appreciate over time.

So we continue to see strong foreign buyer interest in the major destination markets New York City, Miami, San Francisco, LA. So we don't see any near-term change, and that's something we're actually expecting this year. Tony?

Tony Hull - *Realogy Holdings Corporation - CFO*

Anything else, Will?

Will Randow - *Citigroup - Analyst*

Thanks for the color on that. And then just lastly in terms of technology initiatives like the new website, using Zip's infrastructure to boost transaction volume at RFG. I'm sorry if I missed it, but any updates there?

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

We are expected to start rolling it out to our franchisees on a broad basis at the end of the second quarter. We already have a long waiting list for those franchisees who want the system installed as soon as possible.

We have pilots that are working their way through the system now, so we can work out any bugs that may exist and get the system prepared for broad distribution in the second quarter. We're going to go into that in great detail on Investor Day on March the 18th, so hopefully you can be there.

Will Randow - *Citigroup - Analyst*

Okay. Thanks for taking my questions, and congrats, looking forward to the Investor Day.

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

Thank you.

Alicia Swift - *Realogy Holdings Corporation - SVP*

That concludes our call. We thank you for taking the time to join us. Let me remind you that we holding Realogy's Investor Day at our offices in Madison, New Jersey come on March 18th. Thank you.

Operator

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