THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

RLGY - Q2 2014 Realogy Holdings Corp Earnings Call

EVENT DATE/TIME: AUGUST 04, 2014 / 12:30PM GMT

©2014 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

CORPORATE PARTICIPANTS

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

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

Tony Hull *Realogy Holdings Corp. - EVP, CFO & Treasurer*

CONFERENCE CALL PARTICIPANTS

Eli Hackel *Goldman Sachs - Analyst*

David Ridley-Lane *BofA Merrill Lynch - Analyst*

Mike Dahl *Credit Suisse - Analyst*

Adam Rudiger *Wells Fargo Securities - Analyst*

Brandon Dobell *William Blair - Analyst*

Tony Paolone *JPMOrgan - Analyst*

Will Randow *Citigroup - Analyst*

Robert Rutschow *CLSA - Analyst*

PRESENTATION

Operator

Good morning and welcome to the Realogy Holdings Corp. second-quarter 2014 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, Alisha.

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

Thank you, Rachel. Good morning and welcome to Realogy's second-quarter 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 the call. These statements are based on current expectations and the current economic environment. Forward-looking statements and projections are inherently subject to significant economic, competitive and other uncertainties and contingencies, many of which are beyond the control of management.

Actual results may differ materially from those expressed or implied in the forward-looking statements. For those who listen to the rebroadcast of this presentation, we remind you that remarks made herein 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 was 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 measures in our press release.

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

©2014 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

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

Thank you, Alicia, and good morning, everyone. We are pleased with our results for the second quarter as we continue to execute on our strategic initiatives intended to drive market outperformance and improve customer engagement while generating strong cash flows and deleveraging.

In that regard we see this as an exceptional opportunity to drive growth in our brokerage operations and undertake a significant technology upgrade through our recently announced agreement to acquire ZipRealty, which we will discuss in a moment. First let's discuss the second quarter as well as current housing market trends.

You will recall that our previous guidance for the second-quarter transaction volume was a range of down 2% to plus 2% compared to the prior year's results, which was based on our open contracts at the time of our first-quarter call coupled with a broader market insight at the time.

We are pleased to report that the second quarter improved after we gave guidance and, as shown on slide 4, we outperformed those expectations by achieving home sale transaction volume of plus 3% for the quarter on a combined basis between our Company Owned brokerage and our franchise business segments.

While price was a principal reason for the overall volume increase, better-than-expected sides comparisons also drove the better-than-expected performance.

As previously discussed, we expect that our third-quarter 2014 comparisons will be difficult given the very strong performance of the third quarter 2013. However, the trend line for home sale transaction volume through the balance of this year appears to be more positive than we had previously anticipated.

On slide 5, for the third quarter in particular, we are expecting volume again to be down 2% to plus 2%, relative to the same period in 2013 for RSG and NRT on a combined basis.

Our free cash flow for the quarter was strong, a trend we fully expect to continue through year end. We expect to be well-positioned to call the remaining 7 7/8 debt in early 2015, which is currently about $330 million, contributing to our goal of reaching a ratio of three times net debt to adjusted EBITDA while simultaneously strengthening our growth trajectory through the strategic deployment of capital.

Our business units performed well given the current market conditions. Turning to slide 6, year-to-date franchise sales are up 27% over the same period for 2013 and we are on track to achieve our sales target of $300 million of new gross commission income, or GCI, for the year.

NRT made four tuck-in acquisitions in the quarter totaling $5 million in GCI and we currently have one of the strongest pipelines of prospective brokerage acquisitions that we have seen in the recent past. These are high-quality, small- to medium-sized highly accretive tuck-in acquisition prospects. As we discussed previously, NRT acquisitions accrue not only to the benefit of NRT but to RFG and TRG, our title operations, as well as our mortgage joint venture.

NRT's technology initiatives, which were discussed during our Investor Day presentation in May are progressing nicely, major portions of which we expect will be operational during the fourth quarter of this year. These efforts will continue in addition to the initiatives we expect once we close the ZipRealty acquisition.

NRT has an extremely strong track record of sales associate retention over the past 10 years and for the first half of 2014 NRT management retained well over 90% of its top producing sales associates.

Cartus continues to grow its global reach, expand its client services and retool its expense base in the face of a challenging worldwide relocation market. On slide 7 Cartus signed 38 new clients, expanded the scope of relocation-related services with 113 of its existing clients and continued to see growth in its affinity business.

©2014 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

The strategic alliance Cartus entered into with Learnship, an exciting new digitized language training platform, has been well received by Cartus clients and we are optimistic as to its growth prospects.

Also in the quarter TRG launched Title!Snap, an innovative agent centric mobile app that provides instant and accurate closing cost estimates that empowers NRT sales associates to help their customers gauge the true closing costs for any given property. The power of this instant information should help NRT sales associates close more deals which benefits NRT as well as our title business at TRG.

Of course, the most exciting recent news is our planned acquisition of ZipRealty which is expected to close during the third quarter. As shown on slide 8, ZipRealty is a great fit for our business on two fronts: the addition of Zip's residential brokerage operations and approximately 1,800 sales associates across the United States into the NRT brokerage operations, and an integrated leading edge real estate technology platform that Realogy intends to leverage across all of our franchise brands and company-owned offices.

Technology is becoming increasingly important to our franchise value proposition. We fully expect that this acquisition will strengthen the competitive advantages of our Realogy brands by ensuring they are equipped with a productivity platform that will not only drive more customers to their affiliated brokers and sales associates, but that will provide consumers with more personalized service to strengthen relationships and convert more leads to home sales.

We are excited about this new strategic initiative and look forward to providing advanced productivity tools to our franchisees and sales associates.

Taking a broader look at the housing market, slide 9 shows existing home inventory levels by month from 2010 through June 2014. Focusing on the green 2014 line you can see that inventory levels were at 2.3 million units in June which is up 22% from 1.9 million units in January. Although inventory is improving at a slower pace than we would like to see, it is nevertheless improving.

Slide 10 provides a summary of NAR and Fannie Mae's 2014 and 2015 full year existing home sale unit and median price forecasts. NAR is forecasting an overall decline of 3% in units for full-year 2014. Fannie Mae is forecasting a similar movement in units.

These forecasts are based on a seasonally adjusted annualized rate of approximately 4.7 million units in the first half of the year a forecast of an increase to an annualized rate of about 5 million units for the back half of the year. The expected back half strengthening is an encouraging trend that supports the 2015 forecasts from NAR and Fannie Mae indicating a low teens increase in overall transaction volume due to both existing home sale unit and median price gains.

We believe the combination of still low mortgage interest rates, improving home inventory and unit sale trends, an improving job market and relatively high home ownership affordability all bode well for the continuation of the housing recovery.

In summary, we believe we have executed very well year to date despite the challenging economic backdrop and look forward to the exciting opportunities that lie ahead.

With that I will turn the call over to Tony our CFO. Tony.

Tony Hull - *Realogy Holdings Corp. - EVP, CFO & Treasurer*

Thank you. Turning to slide 11 let me make some comments about second-quarter results. Revenue of $1.5 billion was down 1% compared to the second quarter of 2013, driven by lower refinance volume at TRG, and adjusted EBITDA was $269 million, down 3%.

Although transaction volume increased at RFG and NRT, it was not sufficient to offset approximately $11 million of lower EBITDA that resulted from reduced mortgage refinancing activity at PHH Home Loans and TRG relative to the same period in 2013. The Company generated $198 million of free cash flow during the quarter or $1.36 per share.

Next I will discuss key revenue drivers for the quarter shown on slide 12.

©2014 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

RFG home sale sides decreased 3% year over year in the second quarter 2014 and average home sale price increased 7%. NRT home sale sides decreased 5% year-over-year compared to 2013 and its average home sale price improved 7%. Average broker commission rate decreased 2 basis points for RFG and NRT in the quarter, primarily due to the strong increase in average home sale prices we have experienced over the past several quarters.

The price gains at both RFG and NRT reflect the continued strength of sales of mid- to high-priced homes in the second quarter. Homes with price points above $750,000 represented 24% of the home sale volume at RFG, up from 22% in the prior year period. At NRT those homes represented 52% of home sale volume, up from 48% in the prior year.

Conversely, low inventory and difficult credit underwriting standards continued to negatively affect sales of lower-priced homes. Across RFG the volume of home sales at price points under $300,000 in Q2 of 2014 decreased to 43% of total home sale volume -- that was 46% in the previous year.

Turning to other key drivers, RFT's net effective royalty rate was 4.47% year to date which was driven by our larger affiliates continuing to achieve higher volume levels. We continue to expect that the net effective royalty rate will be approximately 4.5% for the year which is flat to last year. The NRT commission split was 68.3% year to date, an increase of 30 basis points compared to the first half of 2013.

Splits increased year over year as the high end of NRT's markets continued to strengthen which resulted in a greater percentage of revenue being generated by the top quartile of its sales associates. On a full-year basis we are managing this metric to be relatively flat year-over-year.

The third quarter of 2013 was especially strong as RFG and NRT combined experienced exceptional year-over-year transaction volume growth of 29%. This makes Q3 2014 comparisons challenging. Accordingly, as indicated on slide 13, we expect our overall third-quarter home sale transaction volume to be in the range of minus 2% to plus 2% compared to the same period in 2013 for both RFG and NRT. This guidance is comprised of an expected transaction sides decline of between 4% and 6% year over year offset by an expected increase in average sales price of 4% to 6%.

Now let's look at revenue and EBITDA for the second quarter of 2014 as shown on slide 14. While NRT and RFG revenue is flat to modestly up, TRG revenue declined 17% year over year due to a 72% decrease in refinance units. As a result Realogy's overall revenue declined 1%.

Adjusted EBITDA declined $9 million to $269 million due to an $8 million decrease in our mortgage joint venture earnings as well as a $3 million decrease in TRG EBITDA both primarily related to lower refinancing activity and partially offset by improved EBITDA due to higher home sale transaction volume as well as lower employee-related costs.

Slide 15 highlights book interest expense for the second quarter of 2014 compared to the same period last year and year-to-date corporate cash interest expense in 2014 compared to the first half of 2013. Book interest expense increased in the quarter compared to last year primarily due to the impact of mark-to-market adjustments for our interest rate swaps.

While this impact is non-cash in nature, in the second quarter it adversely impacted book interest expense by about $14 million. Looking over a longer period, for the six months ended June 30, 2014, cash interest expense was $52 million lower than the same period of the previous year, and we continue to estimate that corporate cash interest would be approximately $230 million for full-year 2014.

Slide 16 provides additional cash flow guidance for 2014. One other item of note on the income statement is the GAAP tax increase to $51 million in the second quarter compared to $9 million in the previous year period.

Subsequent to the release of our full valuation allowance in 2013 quarterly tax expense is computed by applying our estimated annual effective tax rate of 41% to pretax earnings with adjustments for discrete items such as early extinguishment of debt. Last year we had not yet reversed our valuation allowance and under GAAP requirements did not apply our effective tax rate. As shown on slide 16, cash taxes are expected to total $15 million to $20 million this year.

©2014 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

In closing, we are pleased with our performance in the second quarter despite a challenging housing market so far this year. As shown on slide 17, while 2014 has not shown the dramatic growth that we recorded in 2012 and 2013, we have seen an improvement in the monthly seasonally adjusted annual rate of home sales over the past several months. Based on this upward trend we are optimistic about the outlook for the balance of 2014.

Slide 18 shows 2015 existing home sale unit and median price forecasts from various industry sources. As you can see, they indicate a range of 7% to 12% for transaction volume growth in 2015. In 2014 our free cash flow generation remains strong and we intend to use free cash flow to continue to deleverage the Company and pursue growth opportunities to further enhance shareholder value.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Eli Hackel, Goldman Sachs.

Eli Hackel - *Goldman Sachs - Analyst*

Can you just talk a little bit about the rate at which agents are now coming back into the industry, now several years into the recovery? And maybe how that has changed over the past 12 months or so and if there is different trends in RFG or in NRT?

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

Eli, it is Richard. I think you've seen an increase in licensed agents as you would expect as the market starts to recover. I think what is most important to us is that productive agents are coming back into the industry I think, what did we report -- up 4% or so in headcount?

So it is a continuing trend, so you will see more productive agents coming back into the market. But it is not happening as strongly as one might think. That will occur as housing gets stronger. So you are right, its trend is up, we like what we see so far and it bodes well for the industry.

Eli Hackel - *Goldman Sachs - Analyst*

Great. And then just one second one. Richard, maybe you could just comment on lending standards and credit. I mean, you hear anecdotes about things maybe getting a little easier, it is hard to see concrete signs. What is your view on where things are from a credit standard perspective and what is your outlook over the next 12 months or so? Thank you.

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

Thanks, Eli. None of our forecasts are based on the credit box expanding although we thought that based on Mel Watt's previous statements about expanding the credit box it would have shown up by now, it hasn't. We think that is still the intent -- to lessen some of the difficulty in underwriting -- but we've seen no evidence of that so far.

So, some of the overlays have been stripped away so lenders are not as cautious as they have been in some areas. But they are still very cautious. So that is just an opportunity on the horizon when credit becomes more realistic and reasonable. So news at 11 as they go. but unfortunately this is government at its best.

©2014 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Eli Hackel - *Goldman Sachs - Analyst*

Great, thanks very much.

Operator

David Ridley-Lane, Bank of America.

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

One for Tony. last quarter you gave some details on the guidance between RFG and NRT. And wanted to see if either segment had a bias towards either the high or low end of the range in third quarter?

Tony Hull - *Realogy Holdings Corp. - EVP, CFO & Treasurer*

No, they are both in the minus 2% to plus 2% range for this quarter. You are right, though, last quarter NRT was obviously on the lower end but this quarter they are both right in line with each other.

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

Okay. And then one story, the US housing market is the clearing of distressed and NAR data suggests distressed sales were down something like 24% in the second quarter with non-distressed only down slightly. What is Realogy's relative market share among distressed and non-distressed homes sales? And do you see this as a source of potential outperformance in the back half of 2014?

Tony Hull - *Realogy Holdings Corp. - EVP, CFO & Treasurer*

Traditionally we haven't been -- our share of the distressed has not been equal to what we have seen at NAR just looking anecdotally at NRT and RFG. So we have been -- we are more of a retail shop. So our fortunes really go up or down by what is happening on the retail side.

Obviously we had a foreclosure shop, an asset management shop at NRT that during the downturn had a significant number of assets that it managed and obviously the earnings from that are down pretty significantly because of less activity. But other than that I would say we generally play less in that market than the market in general.

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

Okay. And then if I could squeeze in one more. Since you have seen the transaction volume trend line a bit better than expected would you be more inclined to think that the adjusted EBITDA margin decline of 59 basis points will be a little bit towards the better than midpoint? Thank you very much.

Tony Hull - *Realogy Holdings Corp. - EVP, CFO & Treasurer*

Sure, the range is still the same as we gave on Investor Day. I think obviously to the extent the market is better than expected you would expect us to be -- do a little better. But -- and that is before obviously you factor in the Zip transaction into the equation. But we're definitely still in the range that we gave on Investor Day.

©2014 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

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

Thanks very much.

Operator

Mike Dahl, Credit Suisse.

Mike Dahl - *Credit Suisse - Analyst*

My first question is just on the overall sales environment -- talked about some of the improvement and expectations for improvement in the back half. Wondering if you could characterize how much of it you think is really being driven by some of the inventory coming back onto the market and allowing for some of the pent-up demand perhaps to come through versus a more meaningful positive shift in buyer sentiment?

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

It is a combination of both, obviously. The inventory levels have improved. It is not just that inventory levels have improved but it is sellable inventory. You still have stale inventory out there that is not priced right and it is distressed or it is in bad condition and just not as attractive as it might be otherwise to a retail buyer, but we see that improving.

So we see better inventory coming into the market, it is not as strong as we would prefer. But nevertheless, as we indicated in our comments, it is improving, so that is a good sign. So that plus I think people opportunistically taking advantage of still very attractive home affordability.

So you've got good pricing and markets, still have very low interest rates. And you will have more people coming back into the market when all those things add up to a buyer's market. So it is encouraging and I think the inventory levels that we have said since the early part of this year are necessary to see a more robust housing recovery.

Mike Dahl - *Credit Suisse - Analyst*

Okay, thanks. And then the second question, Tony, the comments around expectations for agent commission splits to still be flat for the full year. I guess that implies that the back half would have to be down from what you just saw in 2Q. And I know you've had a number of initiatives to try to stabilize that, hasn't seemed to have really shown through yet. So just what are you seeing to give you that confidence that you will be down in the back half?

Tony Hull - *Realogy Holdings Corp. - EVP, CFO & Treasurer*

Well again, the 700 managers at our offices are -- a fairly significant part of their compensation is based on managing agent splits. So we think that that is a process that continues during the year. In Q2 we had a very large increase in the number of over $1 million homes that we sold and those were mostly -- those mostly go to the first quartile agent, so we don't think that is going to continue for the rest of the year.

And then finally, as we start to -- as you start to see to the extent when the Zip deal closes those agents operate at lower margins, so that should take some -- lower splits, so that should take some pressure off splits as well for the remainder of the year.

Mike Dahl - *Credit Suisse - Analyst*

Got it. Thank you.

©2014 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Operator

Adam Rudiger, Wells Fargo.

Adam Rudiger - *Wells Fargo Securities - Analyst*

I was wondering if you could talk about ZipRealty and how, if at all, that opportunity you think has changed in how you view it since the announced Trulia Zillow deal, if at all. And also maybe in there just could you offer your comments on that transaction?

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

Sure, this is Richard. The zip Realty acquisition has very little to do with Trulia and Zillow. Remember Trulia and Zillow are current marketing channels for us and they do that quite well and we expect that that will continue. And we will see when they close the transaction, but we fully expect that we will enjoy the benefit of soon being their largest customer. So that relationship should continue.

The ZipRealty is distinctly different. This is back-office and consumer facing technology that will substantially improve the productivity and efficiency of our franchise companies as well as our company-owned operations.

So this is really the nuts and bolts of technology and the impact on the business. So it will, one, generate more leads and make us more productive, increase the flow through to EBITDA so it will convert more leads to home sales. It is one of those overlooked assets in our industry.

We saw it for what it is, it is very meaningful to us, it's going to have a fairly substantial impact on the success of our franchisees and our value proposition. So we are excited about it but they are distinctly different issues, one not having a lot to do with the other.

Tony Hull - *Realogy Holdings Corp. - EVP, CFO & Treasurer*

The only thing I would add is that the -- since the announcement we have gotten feedback for our franchisees from potential independents who are looking to franchise as well as our agents. And I think the reaction has been universally positive.

I think in an age where there are going to be more -- leads from the Internet are still a fairly small part of sourcing. But to the extent that is growing, having a platform that allows us to capitalize on leads better and our franchisees to capitalize on leads better is obviously going to benefit us tremendously.

Adam Rudiger - *Wells Fargo Securities - Analyst*

Okay, thank you. And then last quarter I think it was -- there appeared to be a pretty noticeable change, I think, Richard, and perhaps the whole Company's or your sentiment. Harder for me to pick up where you are this quarter. How would you characterize your outlook and sentiment this quarter versus three months ago?

Tony Hull - *Realogy Holdings Corp. - EVP, CFO & Treasurer*

Well, let me take a step and then Richard can -- I think three months ago we were looking at the NAR forecast and the Fannie forecast and they were all forecasting that the back half of the year would be at a seasonally adjusted annual rate of unit sales of well over 5 million, and I think their forecast is 5.2 million.

©2014 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

We were cautious whether or not that could occur. But clearly given what we've seen in the monthly SAR number since then, which basically was at 5 million in June, we are encouraged that we can be at a plus 5 million unit number in the back half.

And obviously it has taken about a year for consumers to digest the higher rates we saw in the third quarter of last year. And I think that's -- they are digesting that and getting used to that. So I think that is all driving a better SAR number and that is what -- that is really what encourages us for the balance of the year.

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

This is Richard. So, the third quarter of last year was very strong. That we were even close to performing year-over-year quarter-over-quarter is a strong indication as to the continuing recovery in housing. So it is not as robust as we would like to see. I think all of us would like to see something much, much stronger.

But nevertheless your -- the year-over-year comparisons are tough. That were performing that well I think is another leading indicator that the recovery is occurring, just slower than we had anticipated. So we feel pretty good about that part of our forecast.

Adam Rudiger - *Wells Fargo Securities - Analyst*

Great, thanks for taking my questions.

Operator

Brandon Dobell, William Blair.

Brandon Dobell - *William Blair - Analyst*

Thanks, maybe in light of the Zip transaction, how do you guys think about spending on technology across the different segments, I guess in the back half of this year -- in 2015 versus where you thought or how you thought about technology spending as you opened the year this year?

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

There could be some offsets, some of the technology that we will have the good fortune of having post closing at the acquisition will be I think possible offsets for some of our current spending. But I don't see dramatic changes in that.

As you know, our CapEx spending is pretty low to begin with, so this is going to be complementary to that. But over time we clearly will see synergies as we contemplate moving more and more of the technology production to ZipRealty, which is probably something that has a lot of opportunity for us. Again, that may result in some offset but I don't think it is going to be substantial.

Brandon Dobell - *William Blair - Analyst*

Okay. And as we think about second half of the year, within TRG given the fall off in refinance volumes, how do we think about profitability maybe second half versus first half? And has there been any effort to strip the cost structure down and resize that business just given the refi volumes?

©2014 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

Tony Hull - *Realogy Holdings Corp. - EVP, CFO & Treasurer*

Well, I am pretty happy with the fact that their refi volumes were down 72% in the second quarter and because of all the actions they took on cost cutting that their EBITDA was only down $3 million, I think that is a pretty impressive feat for TRG management to have accomplished.

Fortunately their refi volume has stabilized over the last -- the amount of sort of opens they have in their pipeline has stabilized. And I think we will see much less of an impact in Q3 and in Q4 where refi's were down significantly last year. We should start to see some positive comps. So I think their cost-cutting is behind them and they have done an admiral job on that to align themselves with the current market.

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

Is, this is Richard. I have nothing to add to that. They do a remarkable job of cutting costs ahead of the curve. So they have obviously executed against that, continuing planning quite well.

Brandon Dobell - *William Blair - Analyst*

Okay, great, thanks.

Operator

Tony Paolone, JPMorgan.

Tony Paolone - *JPMOrgan - Analyst*

First thing I want to clarify -- in your 3Q volume guidance, is there any impact from ZipRealty in that number?

Tony Hull - *Realogy Holdings Corp. - EVP, CFO & Treasurer*

No. And you shouldn't -- on a companywide basis it won't -- you won?t see a big impact in Q3 since we won't own it until earliest sort of middle of August.

Tony Paolone - *JPMOrgan - Analyst*

Okay, so like any sides and price from their system I guess that just won't show or (multiple speakers)?

Tony Hull - *Realogy Holdings Corp. - EVP, CFO & Treasurer*

It will show but it will be -- it won't move the needle that much on an overall basis. You will probably see at a little -- if you see it at all you will see it more at NRT then RFG, obviously.

Tony Paolone - *JPMOrgan - Analyst*

Okay. And then in the first quarter I think the Realogy system outperformed NAR by like 1,000 basis points in the second quarter, it seemed like about 400. Just how do guys think through that or how do you break down where you are beating and what is driving that and how should we think about that going into the rest of the year?

©2014 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

Tony Hull - *Realogy Holdings Corp. - EVP, CFO & Treasurer*

Well, as we always say, the first quarter given the very low volume, it is tough to draw a lot of conclusions. The bottom line is in the second quarter, RFG beat NAR by 2 points on sides. And I think that is what we have sort of set our expectations are, in terms of with franchise sales and agent growth and that sort of thing we would expect RFG to outperform NAR by two points on sides. And on price we beat them by 4 points.

I think that is a continue testament to the impact of Sotheby's growing significantly in the overall franchise group and their average price reflecting itself in RFG's results. So again, we are very pleased that we obviously outperformed them pretty significantly in the quarter.

Tony Paolone - *JPMOrgan - Analyst*

Okay. And then in NRT, if I just look at the OpEx, because revenue basically came in pretty much where it was last year in this quarter. And if you just take PHH out it just looks like despite the acquisitions and probably some inflation through some of the cost structure you guys were able to keep that pretty flattish. Any initiatives there or anything we should read into how that is working?

Tony Hull - *Realogy Holdings Corp. - EVP, CFO & Treasurer*

I think we saw about $3 million of EBITDA come into NRT from our two large acquisitions, the Martha Turner and Frank Howard Allen acquisitions. And then as we talked about Investor Day there was $2 million of incremental royalties at RFG from those acquisitions. So overall those acquisitions delivered $5 million to the quarter. So obviously they are working well.

But we had to have the incremental we had about 6 million of incremental costs related to those acquisitions, but even with that incremental cost the EBITDA was favorable from those deals.

So the only other thing is just you are going to see that the employee-related costs not only at NRT but at all the business units and corporate are down year over year because last year we were overachieving on bonus accrual and this year we are under 100%. So that is obviously -- that obviously works in our favor and all business units. So maybe that's the item you are looking at.

Tony Paolone - *JPMOrgan - Analyst*

Okay, got it. And then on the tuck-in transactions, you mentioned that pipeline was fairly sizable. Any ability to put some dollar amount around just magnitude of spend there over the balance of the year?

Tony Hull - *Realogy Holdings Corp. - EVP, CFO & Treasurer*

I think when Richard mentions the pipeline I think he means $1 million deals and $5 million deals. There is probably maybe one or two that are sort of of the magnitude of Martha Turner or Frank Howard Allen for the remainder of the year. And who knows if those will come to fruition. But I don't think it is a big number and obviously the ROI on these is very attractive to the Company as a whole. So we keep pushing to get them.

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

Tony, what is interesting, given our footprint and our ability to acquire these small tuck-in acquisitions and then take all the costs out of the acquired entity it is unique to us given our footprint and it is in our wheelhouse. We do it quite well, but Tony is right.

©2014 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

The vast majority are small, tuck-in acquisitions. We have a few outliers that could develop during the year, news at 11 on that, but it is very much in keeping with the strategy that we've deployed for a long time, and that is these very attractive small- to medium-size tuck-in acquisitions. And it's continuing on the same pace that you probably would have seen last year.

Tony Paolone - *JPMOrgan - Analyst*

Okay. And then just real quick, last question for you, Richard, on the Zillow Trulia tie up. A lot of what I have read seems to be their pitching of what it is going to do for agents and the ability of agents to really market themselves through the site.

Do you think there is any long-run implications on what that does with sort of the agent affiliation? Does that change how the agent wants to work with their brands at all do you think or any thoughts there?

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

No, not at all. We don't -- we think it is nothing more than what has been stated, it is an improved media channel, the combination of the two should be attractive to agents and brokers as they become more efficient with their spend and they generate more leads online.

Remember, at the end of the day this continues to be not the most robust production of housing-related leads. The lead generation coming off the Web hasn't materially changed since 2005. So I think the combination of the two may improve that a little bit but it is off a very low base to begin with.

So I see it as a productivity tool like so many other productivity tools. That doesn't change the agents' affinity for the brand, the tools, everything we represent to not only the broker, which is the more important consideration, but also to the agent. So we have been doing this a long time, we know how to do it well and an improved media channel doesn't change that value proposition at all.

Tony Paolone - *JPMOrgan - Analyst*

Great, thank you, guys.

Operator

Stephen Kim, Barclays.

Unidentified Participant

Hey, guys, it is John filling in for Steve. Just really quick on regional trends, were trends in the weather impacted area stronger this quarter? Like did you see a snapback or was it more aligned just across the board trends in the second quarter?

Tony Hull - *Realogy Holdings Corp. - EVP, CFO & Treasurer*

It is interesting that whether it is weather-related or not, for both RFG and NRT the Northeast is our weakest region this year. And also interestingly, especially given the report that came out on new homes, our strongest region is the South for both NRT and RFG. Sides in the South for both were basically flat to down a point or 2, price was up 7% to 9% in the South.

©2014 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

So the South was our strongest region of our four regions. And again, the Northeast, we saw basically volume sides plus price was down 2% to 3% for both RFG and NRT. And then the West and the Midwest were both strong -- on the stronger side but not as strong as the South. So just interesting that whatever the weather impact was in the Northeast anyway seems to have continued into the second quarter.

Unidentified Participant

And just following on that. Splits came in a bit higher than we were expecting. And given the relatively lower commission split rate in the Northeast, how much do you think that is impacting your splits on a year-over-year basis just regional mix? Do you have anything you could add there?

Tony Hull - *Realogy Holdings Corp. - EVP, CFO & Treasurer*

Yes, I mean I don't have a specific number, but it definitely put pressure. I mean the biggest thing that drove -- as I mentioned earlier in the call, the biggest thing that drove pressure in the split was the NRT sale of homes of $1 million and above increased 6%. A lot of those are done by first quartile agents. So that is going to put pressure on splits. Whereas $300,000 and below the volume was down 8%.

So, this first-time buyer thing is really resonating in that split number. So, as that market continues to rebound, even if it is very slowly rebounding, that should help on splits overall.

Unidentified Participant

And if I could sneak one more in for Richard. Richard, upon Mel Watt's confirmation, I feel like there was a lot of excitement coming out of DC just given the strength of the rhetoric he used in his speech. Since then it seems like his actions really haven't been as accommodative as you would have thought. What is your latest view on housing policy and DC?

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

That is a great question. We agree that Mel Watt's comments as to opening the credit box or expanding the credit box, his comments were very encouraging, very pro housing. I think he continues to be very pro-housing and would like for much to move this along. I think he is feeling his way through the process.

I do expect that this will eventually occur. I mean QRM, as an example, still undefined, the 20% down payment, some of the credit overlay is still undecided. So the good news is we know they have a desire to expand the credit box, it is just like so much in government, it is timing.

So they have not changed the intent but execution is slower than we would like so I think this bodes well for the balance of this year probably early part of next year. I don't see anything materially happening in the third quarter. I think if they expand the credit box and take some of the initiatives that are necessary to do that it will be later this year or early next year.

But the good news is they haven't changed their policy or their thoughts, they are just slow on execution. To Tony's point, the sooner they can do that the sooner we can change the first-time buyer mix of business.

Because, as you know, FHA financing is very tough (technical difficulty) first-time buyers are paying more than they would have otherwise in a less stringent credit environment. So when the first time buyer comes back into the market in a big way, that is upside to the industry, which eventually will occur, it is just slower than we thought.

Unidentified Participant

Thanks, guys.

©2014 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Operator

Will Randow, Citigroup.

Will Randow - *Citigroup - Analyst*

In regards to your -- could you talk about your progress with NRT's website launch this year including the progress in bringing on competitor listings on the full IDX website?

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

Sure. We covered that at Investor Day and indicated that toward the end of this year that would be operational. Remember it is consumer facing websites, a generic URL, it is not intended -- and I will make this point as we did on Investor Day.

It is not intended to compete against the big portals like Zillow or Trulia. It is a very different approach to the markets, very smart, I think it is very strategic. And we will have it operational before the close of the year.

So we are encouraged by the results thus far and we will see how well it produces the expected incremental gain in leads. And as to the IDX, it's -- as you know, IDX is fairly common in our industry, we don't see any problem there at all. So we are on track.

Will Randow - *Citigroup - Analyst*

Great, thanks for that. And then just as a follow-up. In terms of opportunities for cash flow deployment. As you guys get closer to that three times net debt to EBITDA call it line in the sand, how do think about the risk/reward of repurchasing stock once you get the notes out of the way that have the restricted payments basket on them?

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

Listen, we have said from the very beginning the Board and the Company have every intention of finding ways to continue to create value for shareholders. So when that time comes I'm sure the Board will very much appreciate the optionality of doing a variety of different things to increase shareholder value, which buying back shares, paying a dividend, buying companies like ZipRealty, which are very, very accretive to share price.

So, the good news is we will have a lot of options so nothing will be discounted and that would be one of the options that would be considered by the Board at the appropriate time.

Will Randow - *Citigroup - Analyst*

Thanks again and congrats.

Operator

Robert Rutschow, CLSA.

©2014 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Robert Rutschow - *CLSA - Analyst*

A couple questions. First on the royalty rate. Could you just give us some of the ins and outs on why that declined year over year and any thoughts on what we should look for going forward?

Tony Hull - *Realogy Holdings Corp. - EVP, CFO & Treasurer*

Yes, actually the -- you are saying the commission rate or the royalty rate, I'm sorry?

Robert Rutschow - *CLSA - Analyst*

The royalty rate.

Tony Hull - *Realogy Holdings Corp. - EVP, CFO & Treasurer*

Oh, the royalty rate. The royalty rate, again we expect it to be about 450 for the year. And in the second quarter our top 250 franchisees did 62% of the business versus 61% of the business last year. So that put some pressure on it, but obviously we are very happy that we outperformed NAR on price insights and our EBITDA is higher because they are performing even after giving them a slightly larger piece of the royalty fees.

So it is a net positive obviously for the Company. But I think a combination of the higher end doing more and them just being very successful in their initiatives -- our franchisees being very successful is again putting a little -- a point or two of pressure on the net effective royalty rate not putting -- it seems very stable to us at this point.

Robert Rutschow - *CLSA - Analyst*

Okay. Just so I understand, it looks like you are calling for it to improve in the second half of the year, is that the way we should take guidance?

Tony Hull - *Realogy Holdings Corp. - EVP, CFO & Treasurer*

Well, we -- yes, we expect it to be about flat for the year to last year. Last year it was [449]. So plus or minus a point we think it will be flat.

Robert Rutschow - *CLSA - Analyst*

Okay and then just a quick question on Cartus. It looks like pricing they are obviously there is price of seasonality. Maybe down a little bit year over year. Can you just give us any color on sort of what drives that pricing trend?

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

I think it is more what Cartus experienced and more reflective of corporate America's interest in relocating employees, which, as we indicated, is a challenging environment as corporations try to figure out how to save money and not move employees.

That said, we continue to attract very hope profile clients and (we are signing them and keeping with our historical track record of success versus losses). And we continue to expand the services we are provided -- that we are providing to our existing client base. So it is a tough relocation environment but that reflects corporate America's view of the macroeconomics. So we don't see any material change in pricing up or down, we just think it is a very competitive market and we have to continue to take out costs in the business, which we are doing, so that we can be more competitive than we are now.

©2014 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

And we've indicated that two or three year process of repositioning the cost structure of the Company and also entertaining adjacent revenue opportunities which we are doing to relationships like Learnship. So we are doing all the right things to make sure the Company is properly positioned to capitalize on what is inevitable and that would be more corporations moving employees at some point in this economic cycle.

Robert Rutschow - *CLSA - Analyst*

Okay. Thanks for the color.

Operator

We have no other questions. I would now like to turn the conference back over to Alicia Swift for any closing remarks.

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

We thank you for taking the time to join us on the call and we look forward to speaking with you over the quarter. Thank you.

Operator

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

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2014, Thomson Reuters. All Rights Reserved.

©2014 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS