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RE/MAX Holdings, Inc.

NYSE:RMAX

Earnings Call

Friday, November 1, 2024 12:30 PM GMT

Call Participants

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Presentation

Operator

Good morning, and welcome to the RE/MAX Holdings Third Quarter 2024 Earnings Conference Call and Webcast. My name is John, and I'll be facilitating the audio portion of today's call. At this time, I would like to turn the call over to Andy Schulz, Senior Vice President of Investor Relations. Mr. Schulz?

Andrew Schulz
Vice President of Investor Relations

Thank you operator. Good morning, everyone, and welcome to RE/MAX Holdings Third Quarter 2024 Earnings Conference Call. Please visit the Investor Relations section of www.remaxholdings.com for all earnings-related materials, including our standard earnings presentation and to access the live webcast and the replay of the call today. Our prepared remarks and answers to your questions on today's call may contain forward-looking statements.

Forward-looking statements include those related to agent count, franchise sales and open offices, financial measures and outlook, hurricane-related financial support, brand expansion, competition, technology, housing and mortgage market conditions, capital allocation, credit facility, dividends, share repurchases, litigation settlement, strategic and operational plans and business models. Forward-looking statements represent management's current estimates.

RE/MAX Holdings assumes no obligation to update any forward-looking statements in the future. Forward-looking statements address matters that are subject to risks and uncertainties that may cause actual results to differ materially from those projected in forward-looking statements. These are discussed in our third quarter 2024 financial results press release and other SEC filings. Also, we will refer to certain non-GAAP measures on today's call.

Please see the definitions and reconciliations of non-GAAP measures contained in our most recent quarterly financial results press release, which is available on our website. Joining me on our call today are Erik Carlson, our Chief Executive Officer; and Karri Callahan, our Chief Financial Officer. Our brand leaders, Ward Morrison and Amy Lessinger are also here and will join us for Q&A.

With that, I'd like to turn the call over to RE/MAX Holdings' CEO, Erik Carlson. Erik?

W. Erik Carlson
CEO & Director

Thank you, Andy, and thanks to everyone for joining us today. Before discussing our quarterly performance, I wanted to start with a few comments regarding the recent hurricane activity. These were extraordinary storms, and most of us probably know someone who is directly affected by them. Unfortunately, we tragically lost one of our brokers and their spouse and the thousands of affiliates were impacted have now begun the task of rebuilding their lives. We are proud of the way RE/MAX and Motto Networks rallied to support their affiliates and their communities.

Our team from around the world is doing what they always do in times of crisis, stepping up to help. Given the magnitude of destruction from these historic storms, we plan to provide limited financial relief for those impacted based on individual facts and circumstances. We want to do what we can to help our networks rebuild and bridge the interruption to their respective businesses and lives. Karri will provide more details in a few moments on the financial impact.

Moving to our earnings; we generated better-than-forecasted financial performance for the second quarter in a row. Our team is working on running our core business better each day, and that effort has contributed to our strong margin over the past two quarters, which is an encouraging trend. Both the real estate and mortgage industries were working their way through uncertain times. So we remain centered on what we can control, and we believe our third quarter financial results are further proof that our actions are making a difference.

Karri will get into the financial details shortly, but the strength of our business model was again evident during the quarter, highlighted by strong cash flow generation, driven by ongoing cost management efforts and strong RE/MAX collections alongside improvement in our total leverage ratio. The past quarter was also notable for the real estate industry as it implemented business practice changes because of the NAR settlement. The lead up to August 17 brought heightened attention to the crucial role professional agents and brokers bring to their home buying or selling experience.

For market participants like RE/MAX, we were confident that trusted professionals would rise to the occasion and adapt as they've done so many times before. And that initially appears to be the case in the weeks immediately after the business practice changes were implemented. We're proud of the way our team and our network handled this significant chapter in the history of real estate. We, alongside our franchisees and many of our nearly 3,200 offices across the U.S. leaned in.

We leaned in to focus on education, and we spoke loudly about the value professional agents bring to homebuyers and sellers and what agents can and should be doing to thrive. Having both a global and local presence, along with a well-established culture of professionalism and productivity are true competitive advantages. Skill is essential in this market, and RE/MAX is home to the highly skilled full-time agents who are also the most trusted by consumers. RE/MAX agents are simply the gold standard.

As anticipated, additional items will pop up as we navigate the new landscape. One thing that's currently being debated in the industry is NAR's clear cooperation policy. Our view on the matter is straightforward. RE/MAX is in favor of policies that help buyers and sellers achieve their homeownership dreams. We support full transparency in real estate transactions. Agents and companies who promote listings to the widest possible audience are serving the best interest of buyers and sellers alike and honoring their fiduciary responsibilities.

Buyers deserve equal access to available properties and sellers deserve the broadest possible exposure for their homes. We stand for trust, transparency and professionalism. We believe in prioritizing consumer interests over practices that benefit a few at the expense of many. As the industry moves forward, there will continue to be discussions around industry practices that may result in further change. We consistently remind our affiliates to stay focused, focused on articulating their value as trusted professionals and providing their buyers and sellers the best customer experience each and every day.

Another significant event at the macro level this past quarter was last month's 50 basis point cut by the Federal Reserve. Look, this was welcomed by many in the industry. It appears that some negative housing trends may be bottoming out, although October's rise in mortgage rates may result in softer demand trends in the near-term. Despite all that, overall, there's growing optimism for 2025. We share that. We're optimistic the moves we're making to drive efficiency and growth have pointed us in the right direction.

Granted, there's much more work still to be done, especially when it comes to agent count, but it is rewarding to see our results beginning to show up in our financial performance. Improving agent count is essential to a better top line. So agent stabilization and growth remains a major objective. On the positive side, we saw our international agent count continue to rise in the third quarter, increasing nearly 6% over last year's Q3. In fact, our September 30 total of over 67,000 agents outside the U.S. and Canada was a record. So far in 2024, notable performers include Brazil and Argentina.

Successful recruiting, training and retention programs have aided in their progress. In Canada, we totaled almost 25,400 agents as of September 30, also a record. In this extremely competitive market, RE/MAX continues to be the place more professional agents choose to operate their business than any other brand. Now here in the U.S., significant industry-wide agent attrition is widely being reported and is a real factor. But we know we need to improve upon what we can control to advance our performance.

One way we aim to stem and ultimately reverse this trend is by focusing on providing the best customer experience we can. For example, at our annual Broker Owner Conference in August, we announced an expansion of our MAX/Tech powered by BoldTrail partnership. In addition to increasing agent-focused process and tools, the expansion aids brokerage functionality, creating a front office, back-office alignment benefiting both RE/MAX agents and brokers.

This platform features a state-of-the-art user interface, AI-driven workflow tools and actionable business insights aiming to augment recruiting activities, enhance agent productivity, streamline operations, facilitate connectivity between the agent and consumer and in general, help deliver a superior customer experience. We've got a growth mindset, and we are working to get our top line moving in the right direction. While better results from our growth initiatives will certainly help, we're also exploring other ways to innovate.

To that end, we've identified additional opportunities to enhance the customer experience, which can also drive revenue. That's a powerful combination. For example, we mentioned last quarter the launch of MAX/Tech Lead Concierge. It's an optional program which delivers vetted, conversation-ready home buying and selling leads from remax.com and remax.ca. With this program, real people, real people contact leads within minutes of their inquiry, a speed that aligns with evolving consumer expectation and aids in maintaining that consumer trust in the RE/MAX brand.

Research suggests that the chances of connecting with a lead are 100x greater if contact is made within 5 minutes rather than 30. It makes a difference. It's still very early, but the majority of remax.com leads sent to Concierge have turned into qualified conversation-ready referrals. Thousands of RE/MAX agents have opted into the program, and we're seeing the initial leads convert. It's exciting to see this capability take hold and show signs of success so early on. We're also interested in optimizing assets across the portfolio. One set of underappreciated assets is our websites, remax.com and remax.ca.

We've been making purposeful investments in our websites over the past year to improve the functionality and customer experience. These investments not only have enabled Lead Concierge, but also supported a new capability that allows display ads to appear on dot com and they will soon appear dot ca. Given our iconic brand, the strong market share we have and franchisor leading websites, we view the monetization of our digital assets as an innovative and relatively low-risk, high-reward opportunity.

Now looking at our Mortgage business, our recent results show that rates do matter. September was the best month of Motto franchise sales since March of 2023. Similarly, during September, wemlo enjoyed its best month of the year so far in loan submissions. Despite this recent bright spot, continued elevated mortgage rates have made it a tough time to be in the mortgage business. We're feeling the effects as the number of open Motto offices is declining slightly for the first time ever as franchise sales have slowed and a few existing franchises have terminated due to their financial position, lack of transaction activity or not being connected to the real estate transaction.

While Motto has seen some of those terminations increase during the past year as the macro economy changes, we do believe we'll be able to start growing that open office count again soon. Now I'll wrap up my comments by pointing out that we continue to make steady progress at running our business as efficiently and as effectively as possible, having that growth mindset and most importantly, delivering the absolute best customer experience possible.

Setting aside the onetime impact associated with supporting our networks affected by the hurricanes, we believe we're well-positioned to end the year with momentum with increasing optimism about the trajectory of our future interest rates, about growing global agent count and about our new initiatives, including providing innovative and enhanced technology products to our networks, improving the agent customer experience through our Lead Concierge program and starting to monetize our digital assets. We believe we're headed in the right direction but we're very optimistic about the future.

With that, I'll turn it over to Karri.

Karri R. Callahan
Chief Financial Officer

Thank you, Erik. Good morning, everyone. We had another solid quarter, highlighted by effective cost management and strong collections, which generated robust free cash flow alongside expanding margins. Some of our notable quarterly financial metrics included total revenue of $78.5 million, adjusted EBITDA of $27.3 million, up 2% over Q3 of last year, adjusted EBITDA margin of 34.8%, an increase of 190 basis points over the third quarter of 2023 and adjusted diluted EPS of $0.38.

Looking closer at revenue, excluding the marketing funds, revenue was $58.4 million, a decrease of just 3.3% compared to the same period last year, driven by negative organic growth of 3% and adverse foreign currency movements of 0.3%. Negative organic growth was principally due to lower U.S. agent count and reduced revenues from previous acquisitions, partially offset by higher broker fee revenue. The increase in broker fee revenue was primarily driven by higher sales prices and to a lesser extent, slightly increased productivity in the U.S., which collectively more than offset the impact from reduced agent count.

The uptick in U.S. agent productivity was great to see and highlighted the strength of our network in the current environment despite the recent industry practice changes. Importantly, third quarter selling, operating and administrative expenses decreased $7.2 million or 16.6% to $35.9 million. The cost reductions were broad-based in nature and evidenced across most of our cost structure and highlighted by lower personnel costs, a decrease in bad debt, legal and other technology expenses.

Like last quarter, decreased personnel expenses on a year-over-year basis were principally a function of the restructuring announced in Q3 of 2023. And RE/MAX Collections also continued to improve, which is an encouraging positive trend. Lower legal expenses and miscellaneous reductions, eliminations and efficiencies elsewhere across the company all contributed to this quarter's solid results. From a capital allocation perspective, we remain patient. The good news is our Total Leverage Ratio, or TLR, is now under 4.5:1 as expected.

Importantly, we now have access to our revolving credit facility should we need it, although we currently have no plans to tap it. Further reducing our TLR by the end of the year remains a focal point for our entire company. Once our TLR returns to a desired level, we will evaluate our capital allocation opportunities and priorities, including debt repayment, stock buybacks and strategically reinvesting in our business, among others. The cash-generative nature of our business is perhaps our most attractive financial characteristic.

Before I get to our outlook, and as Erik alluded to earlier, several of our affiliates were severely impacted given the magnitude of the recent hurricanes. We currently estimate that our fourth quarter financial performance will be lower than previously expected as limited financial support is extended to affected affiliates. As a result, we reduced our fourth quarter and full year revenue guidance by approximately $1 million to $1.5 million. In addition to the impact from the hurricanes, our fourth quarter and full year 2024 outlook assumes no further currency movements, acquisitions or divestitures.

For the fourth quarter of 2024, we expect agent count to change 0% to 1% over fourth quarter 2023, revenue in a range of $71 million to $76 million, including revenue from the marketing funds in a range of $18.5 million to $20.5 million and adjusted EBITDA in a range of $20.5 million to $23.5 million. And for the full year 2024, we now expect agent count to change 0% to 1% over full year 2023; revenue in a range of $306 million to $311 million, including revenue from the marketing funds in a range of $78.5 million to $80.5 million and adjusted EBITDA in a range of $95 million to $98 million.
With that, operator, let's open it up for questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Ryan McKeveny with Zelman & Associates.

Ryan McKeveny
Zelman & Associates LLC

So first one on the MAX/Tech Lead Concierge, really interesting to think through the potential there. I know it's early days, but I guess anything you could share about how we should think about the potential economics of those deals, how that gets split up between kind of agents, franchise owners and corporate?

And similarly, on the cost side and kind of the infrastructure needed to vet those leads, is that done via your partnerships? Is that done internally? And just thoughts around kind of investment needed or costs that may or may not be needed to kind of get this rolled out and scaled.

W. Erik Carlson
CEO & Director

Yeah. Hey Ryan, it's Erik. I'll start off. And if my answer needs any cleaning up, the team will help me here. And look, thanks to everyone for joining us the morning after Halloween. So hopefully, everyone got treats and not tricks. But look, the MAX/Tech program, it's really kind of the Lead Concierge program is a capability that we've been building for -- over the course of the year. When you think about it, we get some -- we get decent traffic, organic traffic off of dot com and dot ca.

I'll focus a little bit on the U.S. here, Ryan, just for purposes of the example. And it's really about improving the customer experience, first and foremost, right, making sure that those leads, we're responding to them in a very timely manner. Folks that show interest, obviously, we want to get back to and convert in order to improve that experience. And then also, it's about the agent experience really, right? Leads are obviously filtered out, sent to a lot of brokers in today's world, whether it's in real estate or other industries, not qualified.

And at least in real estate, the agent has to do a lot of work in order to qualify that lead. So what we're trying to do with Lead Concierge initially is in testing the capability is taking traffic off of dot com, folks that show an interest, warming those leads through a relationship that we have. So it's a low investment from our perspective there and making sure that they're ready and qualified from a sales qualified perspective before we give them to an opted-in agent, right?

So you can think about the actors in the play, all of them want someone to take action or they're ready to take action. So I think it's a win-win kind of on the customer side. It's a win-win for the agent because they're opted in. On the economics, we are taking a bit of a [piece] in order to help support the program. Part of that is shared with our partner that's doing some of the warming or the qualifying of the lead.

Some of that comes back to us. Some of that comes to the broker and obviously, the agent sees the majority of that deal. So when you think about it, it's really a low investment from our perspective on this initial program. But for us, it's really about building this capability off a dot com initially, and then we can see kind of where we can take it.

Amy M. Keith-Lessinger
President

I might add to that just a little bit. And this is Amy. In the fact that we're trying to drive productivity in our agents, and we're trying to help enable them to do more in less time. And so I think that the overwhelming response from the network has really shown that they see this as a big value as well.

Ryan McKeveny
Zelman & Associates LLC

Yeah, that's very helpful. And Erik and Karri, maybe on the cost side of things. So within the release, I think it's pretty obvious you mentioned driving operational efficiency, business optimization and just financially I think at least for the last couple of quarters, the SO&A expense has been better than we've expected at least.

So maybe you could talk a little about the focus on the cost side of things, driving efficiencies. Like is the low-hanging fruit already taken care of? How do you think about the cost structure moving forward and into '25 through this lens of still having a growth mindset, but is there also further progress you can make on the efficiencies and kind of keeping costs contained?

Karri R. Callahan
Chief Financial Officer

Yeah, good morning Ryan, I think it's been really great to see two quarters in a row just in terms of a trend. We really have taken a prudent approach just in terms of turning over kind of every rock and making sure that every dollar that we spend is being spent in the most judicious manner and really focused on -- we're spending our dollars in the right way to do the top line.

So investing in some foundational things, as Erik and Amy talked about on some new capabilities, some new things in the pipeline and really making sure that we're just being smart about that. I think we've also made some very smart decisions over the last 12 months or so, just looking holistically across the organization from a personnel perspective, what we've done from a legal perspective, etcetera. And then I think if you look also at the quarter, we're seeing some continued favorability just in terms of the operations of our franchisees.

So bad debt continues to perform well as well. So as we look ahead into the fourth quarter, that SO&A run rate maybe ticking up a little bit from what we saw in Q2, Q3, but not significantly. And then as we get into next year, we're in that process right now, continuing to be very strategic about how we invest our dollars and really being smart about how we're investing in those capabilities to ultimately drive the top line.

Operator

The next question comes from the line of John Campbell from Stephens.

John Robert Campbell
Stephens Inc., Research Division

I wanted to start on just the pace of RE/MAX franchise sales, whether you guys feel like there's an inflection point back to growth at some point on the horizon? And then just kind of related to that, just some broad color on how impactful the franchise growth has been to just overall agent count growth in prior years.

W. Erik Carlson
CEO & Director

Yeah. Sure, John. Thanks for the question. Look, I think as we've talked about a bit before, and I'll let Amy weigh in maybe on a few specifics on kind of what she's hearing from the field, not only regarding kind of agent count growth from maybe existing brokers, but also a bit on kind of franchise and the pipeline. We're in a bit of a -- I call it like a wait-and-see type market. I mean obviously, we've been going through a transition and I'm talking a little bit broader than just RE/MAX. Obviously, at RE/MAX, we're going through a bit of a transition also.

However, when you think about the -- what's been happening kind of with the overhang on whether it be lawsuits, it be low inventory, it be policy and practice change, it be higher interest rates. Obviously, you guys know better than I do probably. The number of transactions is at a historic low. And so that's why I come out to say, like, look, I mean, from a broker perspective, whether you're interested in moving to the power of the RE/MAX brand or not or whether you're a current supporter of RE/MAX and working your local community, there is a bit of a wait-and-see type attitude.

And there is still -- like I don't want to say that there's a ton of noise, but there's still a lot of focus on practice changes and doing the right thing by customers. So we at RE/MAX remain the most trusted, the most productive place to be. And so you see in the field, our brokers and owners and agents spending a lot of time on really focusing on their craft, making sure they're winning the right listings; in some cases, actually, unfortunately, reeducating agents on the other side of the table on what the practice changes mean for the transaction.

So we're spending some time there. With all that said, I will say that there is interest, right? I do think independents are struggling. I think agents aren't finding necessarily the coaching, the mentorship, the education, whether it be from a brand at headquarters like RE/MAX and the great work that Amy and the team do or whether it's really happening at the local level, which is kind of the power of our position because we have both a corporate and a community-based approach and the education and the training that, that brokerage is doing.

So we're seeing some decent kind of inbound activity. However, that activity, I don't think, is necessarily -- I wouldn't look for that to be converting necessarily in the near-term, but we're laying the foundation to help improve some of those conversions going into 2025 just because of some of the overhang that's happening within the industry. Now we'll get rid of one of the overhangs next week, hopefully, on Tuesday.

It may take a little bit longer. But just think about the level of noise, John, for a second. And I think that people are cautious but optimistic and working really to improve kind of the business-as-usual business that they're running. So Amy, I know -- I mean, Amy has been in the field a bit lately, and so I'll let her weigh in on a couple of specifics, John.

Amy M. Keith-Lessinger
President

Yeah. I think -- hi John, I think many independents, what we're hearing is that they are really distracted and pretty focused on trying to navigate a lot of the industry changes on their own. And they have some frustration, concern. And I think small to midsized brokerages it's very difficult for them to keep up technologically with education, with tools, services and support. And so our interest level is high given everything that we have that can help a broker support agent productivity and education.

So I think that, that trend is going to continue without a doubt. And we will continue to keep our [Technical Difficulty] there and make sure that we are at the forefront of capitalizing on those opportunities. I just think it's a fantastic opportunity for us to be their solution and help lead them through change and drive succession planning and growth planning within the industry.

W. Erik Carlson
CEO & Director

And John let me just say one more thing. I mean, look, the RE/MAX value proposition is great. I mean it's a great brand. It stands -- I mean it's got tons of awareness. It stands for trust, productivity, and we're only enhancing it with kind of some of the productivity tools and the platform that we're putting in place and some of the programs like Lead Concierge.

So you can start seeing some of the fruits of the work that we've done kind of in the first half of the year come to fruition by rolling out programs, whether it's technology, which has process to go along with it or programs like Lead Concierge, which can help agents be more productive and converting consumer-ready sales qualified leads at a higher rate. So look, it's early days still, but I'm optimistic about some of the things we've put in place and some of the investments we've made either with time or money and setting ourselves up to win in 2025.

John Robert Campbell
Stephens Inc., Research Division

Okay. That's great color. And just as an add-on to that, the independent conversions, is that -- does that land in the actual RE/MAX franchise sales?

Amy M. Keith-Lessinger

President

I think -- can I add to that just really quick? The first thing is we also are seeing a concept called roll-in, where they may not opt to have footprint, but they'll roll into an existing brokerage. So in that instance, that is -- it's not a full franchise that is counted in those numbers. But we're seeing an uptick in that as well. Yeah. And John, they do show up in those counts. So those independent ones, they do show up in those counts. And we have continued to see good momentum, especially in those kind of smaller cohorts of independents that are coming into the network.

And as we do franchise sales just from an agent count perspective, I think the thing that's very exciting from that perspective is we do see uptick in terms of agent count and coming into the top end of the funnel when we're selling new franchises and when we have those conversion activities, and that's why there's been so much focus on it and why from a -- as Erik and Amy mentioned, from a foundational perspective with some of the additional value proposition offerings that we have, why these initiatives are so important. So we're continuing to see momentum there, and they are included in those franchise sales counts.

John Robert Campbell
Stephens Inc., Research Division

Got it. And then just one more on -- back to your focus on Lead Concierge and then obviously dot com and then kind of how that relates to your stance on CCP. It seems like, obviously, your other kind of scaled competitors have been a lot more vocal in the market, and they've been taking, obviously, the other side of the CCP debate. I think like you guys, I would think they would probably benefit from elimination of CCP. I just wanted to revisit your stance, how convicted you are and maybe a little bit more color on why you wouldn't line up with your scaled competitors on this one?

W. Erik Carlson
CEO & Director

Well, look, I mean, John, I mean, we're really focused on ultimately providing a great buyer seller experience. And in our core, we believe just that transparency is better for not only professionalism and trust with agents, but also getting a better buyer and seller outcome. I think you're right in pointing out because of the strength of the brand and the strength of the network and our numbers.

I guess to take a hypothetical, if CCP was eliminated, we probably would benefit from that, at least in the short-term, right? But I think we're long-term players here. And 51 years in business, thinking about Dave and Gail and their legacy and what they've built and like the foundational aspects of what has been built on, I mean, ultimately, I think you win long-term by not trying to manipulate buyers and sellers, but provide them the greatest distribution and transparency of what's available in the market either for sale or available. And so ultimately, we're going to side with the consumer.

And we're going to side with the consumer, and we're going to side with the agent and the professionalism and the trust that we think our agents provide. And so that's -- I mean, ultimately, if the CCP changes, look, we'll be ready for it. And we're having internal discussions on what that could mean. But I mean, we are definitely going to be focused on that buyer and seller experience because ultimately, that's going to help our brand and our team of agents and brokers to have the greatest benefit over the long-term.

Operator

Your next question comes from the line of Anthony Paolone from J. P. Morgan.

Anthony Paolone
JPMorgan Chase & Co, Research Division

Maybe for Amy, since it sounds like you're out in the field. Can you give us any early data on what's been happening to buy-side commissions and also a sense as to what RE/MAX is doing top of the house down to the agents to kind of help them with that initial relationship and agreement?

Amy M. Keith-Lessinger

President

Yeah, for sure. Our agents are continuing to navigate change and they lean in and they're out there articulating their value. I do think that not enough time has passed for us to draw any large conclusions from it. That said the difference in average rates was very negligible so far. And I just think that our agents are having more discussions with buyers and they're welcoming the opportunity to discuss the value of a professional trusted agent.

Prior -- once -- prior to the announcement of the settlement, we were preparing for broad education on these topics. And so we've done nothing but lean into that for -- since we announced our settlement months ago. And so we wanted our agents to be fully prepared. And what we're hearing is that buyers are appreciating those conversations. They value being represented by a professional and trusted agent. And so that's where things stand in the field at this point.

W. Erik Carlson
CEO & Director

And Tony let me maybe just add one thing. And I haven't been in the field as much as Amy, but I've been spending some time with agents and brokers. And look, the great thing about the model and our community is I think that, one is we can create and then distribute training at kind of a nationwide level. And Amy is kind of a rock star in the -- within the agent and broker community being a RE/MAX professional for almost over 25 years now, right?

And so you can see us, and this is what's happened is creating these -- creating the content, deploying it in a variety of ways, having kind of live events where Amy will be in the studio here and talking about the different rule changes and education and how to prepare and you see watch parties happening kind of around the nation where agents will gather kind of in the local brokerage. And this is what is really super cool is you've got actually agents that are invited from other brands to come in.

They may not be seeing that training. So that happens kind of at a headquarter level where Amy can deploy that type of training at a nationwide level. But then you're also seeing brokers pick up and say, hey, I'm going to have my own watch party for my folks and maybe invite some others from the community that may be working for a different brand and then helping agents that are in need by having specific trainings for items that they have to get over, right?

And so it's really when you think about the kind of the power of the brand in the community, it's not only can we cover it at an HQ level, whether it's over video or at events, etcetera. But then we have the broker community out there, which lives and breathe this every single day. And they are community builders, and they know exactly what has to happen with their specific forms in their community, with their association, what agents need help and they're face-to-face on the frontline every day.

So we've had good success in preparing for the rule changes in August, and we're seeing good success after the rule changes in August to not only help our team, but also show the power of the brand to maybe some other folks that want to be a part of the team at some point. Hopefully, that's helpful.

Anthony Paolone
JPMorgan Chase & Co, Research Division

Yeah. Got it. And then maybe for Karri, can you talk about just what's happening with franchisee credit? It seemed to be okay in the quarter, but just kind of where that stands. And also as it relates, I think, to Motto because it seemed like the opens went down a little bit again.

Karri R. Callahan
Chief Financial Officer

Sure. So we are seeing just continued strength in terms of what our exposure is from a bad debt perspective. So I think -- as we've said before, our franchisees are experienced business people. They've been through ups and downs from a market perspective before, and they appropriately make decisions at the local level in terms of operating their businesses as efficiently and effectively as possible. And I think we've seen that translate into our performance from a Collections perspective.

The team has really done an outstanding job, which was a big contributor to the strength of our cash flow in the third quarter. Obviously, from a cash flow perspective, we converted about a third of our revenue into free cash flow and about two-thirds of our earnings on an adjusted EBITDA basis into free cash flow during the quarter and so that was really good to see, again, driven by some of the strength from the Collections on the RE/MAX side. On the mortgage side, I'll kind of build on that for a second and then have Ward jump in here.

Obviously, it's been a little bit tougher. Obviously mortgage, there's a lot of headwinds, probably outsized even compared to the real estate side on the mortgage side. I think the thing that's really exciting is we're still seeing interest. Obviously, September was the strongest month that we've had from a franchise sales perspective going back about 18 months. And so while there's still a little bit of mud in our boots from a Collections perspective on the mortgage side financially, I think operationally, there's some cautious optimism that we're moving in the right direction.

Ward M. Morrison
President & CEO

And I would add on there, we continue to try and work in conjunction with our broker owners, much like the RE/MAX side. We're trying to educate. We're trying to support. We're trying to help them in recruiting and retention. We're trying to help them grow their businesses.

So even though they are having some issues right now in one of the toughest mortgage markets ever, we continue to provide that support, that education and the tools that they need to be successful. And we're just trying to develop just like the other side, adoption and really some coaching to try and get them through this unusual market.

Operator

Your next question comes from the line of Tommy McJoynt from KBW.

Thomas Patrick McJoynt-Griffith
Keefe, Bruyette, & Woods, Inc., Research Division

I just want to clarify on the expense side, Karri. Was there anything sort of temporary or onetime in this quarter that lowered the expenses?

Karri R. Callahan
Chief Financial Officer

Yeah. There wasn't really anything in particular in Q3 that's impacting us. I mean, obviously, in the release and in the scripted remarks, we did call out the onetime item that we expect in Q4 with respect to just providing that limited assistance to our affiliates that were impacted by the hurricanes. But I think the thing that's good about that is given the strong cost contain that we saw and the effective cost management in Q3 that we're expecting to hit into Q4. I mean, absent that, the raise from an earnings perspective in Q4 would have been possibly even a little bit higher.

Thomas Patrick McJoynt-Griffith
Keefe, Bruyette, & Woods, Inc., Research Division

Okay, got it. And then just second question, can you remind me of the typical seasonality that you expect with the U.S. and Canada agent counts just over the next couple of quarters? Remind me like into the spring selling season, what usually happens with those agent counts?

Karri R. Callahan
Chief Financial Officer

Sure. So really focusing primarily on the U.S. and Canada, I would say that from a seasonality perspective, it kind of tends to follow existing home sales. So it tends to follow kind of existing home sales. So Q4 and Q1 tend to be a little bit more sluggish, and then it ramps up into Q2 and into Q3.

Operator

Your next question comes from the line of Ronald Kamdem with Morgan Stanley.

Ronald Kamdem
Morgan Stanley, Research Division

Just a couple of quick ones. So I noticed -- I don't think I saw the October operating statistics that you usually provide. I don't know if that was intentional or if there's sort of any sort of update or data you could share on the agent count model franchises for October?

Karri R. Callahan
Chief Financial Officer

Yeah. Hi Ron, so we usually do provide that information if we are sending that release out after the end of the quarter. This one -- this quarter just happened -- or I'm sorry, after the end of the month with the month being complete. So obviously, with the release going out yesterday, it was simply a timing issue with the month not having been complete.

But I would say that as we look at things from a seasonality perspective and given our guidance, everything was pretty much in line. So I'd say the trends that we saw through September 30 across kind of all of the key geographies from an agent count perspective in the U.S. we're pretty consistent as we looked at the October results.

Ronald Kamdem
Morgan Stanley, Research Division

Okay, great. And then my second one was just on the agent count, obviously, very strong international continues to be a little sort of soft in the U.S. and Canada. I would just love a little bit -- if we could just double-click on that. When you're thinking about sort of the U.S. and Canada is there any sort of obvious trends in terms of the agents that are leaving? Is it all just individuals?

Is it like very unproductive? And do you have a sense of how much more of that to go? And then the other side of that coin is what's driving the international? Is it market share gains? Is it just a lot of traction? Curious on that as well.

Karri R. Callahan
Chief Financial Officer

Sure. So I'll go ahead and start there from a numbers perspective. I think the first thing is from a Canadian perspective, we did -- we saw a record high. So even with the very significant market share that we have there, it's hard to grow when you have close to 30% market share, but we continue to do that and do that well, and it was a record high. Still seeing a lot of momentum there.

We saw a couple of large conversions, one at the end of Q2 and then one at the beginning of Q3. And so it's really good to see momentum not only from an individual agent account perspective, but also in terms of large companies looking to join the brand up there. From an international perspective, also a record high, so 67,000 agents outside. Erik highlighted a couple of areas primarily in South America that are really driving that.

And I think it just really highlights the strength of the entrepreneurial network and the fact that we have really good operators in a host of the 110 countries and territories that we operate in globally. In a couple of those markets, Brazil, in particular, also a very large conversion that we saw in the third quarter. And so some of that is market share gains as we look to convert larger scale swaths of agents from other brands to RE/MAX given the size, scale and the power of the brand. From a U.S. perspective, I think one thing that's important to note is that we did see some productivity gains with our agents this quarter.

So that was very good to see. So obviously, still pressured a little bit from a U.S. agent count perspective but because we're seeing some of those productivity gains in terms of the per agent productivity, some of the losses are really more in that cohort of lower productivity agents. And so that's why we continue to really push from an operational perspective on the tools, the services, the capabilities and the foundation to really help our agents that are with RE/MAX today and that we hope will be with RE/MAX tomorrow in terms of really driving their productivity.

Operator

As there are no further questions at this time, I would like to turn the call over back to Mr. Schulz for closing remarks.

Andrew Schulz
Vice President of Investor Relations

Thank you, operator. Thanks to everyone for joining our call today. Have a great weekend.

Operator
That concludes today's conference call. Thank you for your participation. You may now disconnect.