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RLGY - Q1 2015 Realogy Holdings Corp Earnings Call

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PRESENTATION

Operator

Good morning and welcome to the Realogy Holdings Corporation first-quarter 2015 earnings conference call via webcast. Today's call is being recorded and a written transcript will be made available in the Investor Information section of the Company's website later today. A webcast replay will also be made available on the Company's website until May 18. At this time, I'd like to turn the conference over to Realogy's Senior Vice President, Alicia Swift. Please go ahead, Alicia.

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

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

As shown on slide 3 of the presentation, the Company will be making statements about its future results and other forward-looking statements during this call. These statements are based on current expectations in the current economic environment. Forward-looking statements and projections are inherently subject to significant economic, competitive and other uncertainties and contingencies, many of which are beyond the control of management. Actual results may differ materially from those expressed or implied in the forward-looking statements. For those who listen to the rebroadcast of this presentation, we remind you that the remarks are made herein as of today, May 4 and have not been updated subsequent to the initial earnings call.

Important assumptions and other important factors that could cause actual results to differ materially from those in the forward-looking statements are specified in our earnings release issued today, as well as in our annual and quarterly SEC filings. Also, certain non-GAAP financial measures will be discussed on this call and these measures are defined and reconciled to their most comparable GAAP measure in our press release. Now I will turn the call over to our Chairman, CEO and President, Richard Smith.



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

Thank you, Alicia and good morning and thank you for joining our call. Today, we will discuss our first-quarter results, provide an operating update and briefly discuss our views on the housing market. Our first-quarter home sale volume growth was stronger than expected. The increases we saw in home sale transaction sides and average sale price in March and the strength of the sales contracts opened in March and April are indicating a healthy spring selling season for the existing home sale market.

As shown on slide 4, our first-quarter guidance had called for home sale transaction volume to increase in the range of 5% to 9% as compared to the same period last year. We are pleased to report that for the first quarter of 2015, Realogy surpassed this forecasted range and achieved a 10% sales volume increase on a combined basis for our Company-owned and franchise business segments.

As you can see on slide 5 that the better-than-expected volume was a product of the Realogy Franchise Group, hereinafter referred to as RFG, posting a sales volume increase of 10% and NRT's 9% increase. RFG's volume growth was comprised of a 4% increase in transaction sides and a 6% increase in average home sale price while NRT's volume increases were the result of year-over-year gains in sides and price of 6% and 3% respectively. On a combined basis, which reflects the blended RFG and NRT totals, Realogy's regional performance was remarkably consistent with 11% year-over-year volume increases in the West, Midwest and the South. Only the weather-impacted Northeast lagged behind and has still posted a 7% volume increase year-over-year.

Turning to slide 6, operationally, the first-quarter momentum carried over into the second quarter with NRT's acquisition of Coldwell Banker United, Realtors and the addition of its 60 offices and 2000 agents in strategic new markets in Texas, Florida, North Carolina and South Carolina. We expect it to be an immediately accretive acquisition. It geographically strengthens NRT's presence in the Sun Belt states. The acquisition expands NRT's presence in Texas and Florida, as well as gains entering into new markets in the Carolinas connecting NRT's Eastern seaboard presence from Maine all the way to Florida.

In April, NRT was ranked as the number one residential real estate brokerage company in the United States by the REAL Trends 500 report in both sales volume and transaction sides for the 18th consecutive year. NRT topped the list with about \$157 billion in pro forma sales volume and about 317,000 transaction sides.

As we outlined at our Investor Day in March, RFG is continuing to execute on its strategic plan to make the proprietary Zap technology available to our franchisees. The Zip(Realty) development team continues to work at a rapid pace and we are track to begin rolling out the integrated Zap technology to our franchisees this summer. We expect to deliver this new offering to approximately 300 franchisees by year-end and to significantly increase implementation in subsequent years, making the Zip solution an essential part of our franchise value proposition.

As to franchise sales, RFG added new franchises and sales associates, representing \$70 million in franchisee gross commission income during the first quarter and is managing a strong pipeline of perspective new franchisees.

Let's take a few moments to discuss the current housing market. The National Association of Realtors report on April 22 showed that existing home sales jumped in March to their highest annual rate in 18 months. With a seasonally adjusted annual rate of 5.19 million units in March, the pace of existing home sales has increased year-over-year for six consecutive months and is now 10.4% above a year ago. Even more recently, NAR reported on April 29 that pending home sales rose for the third straight month in March and were at their highest level in nearly two years. Its pending home sales index also showed an increase of 11% year-over-year versus March of last year.

Nationally, we are encouraged to see inventory beginning to build as we move into the seasonally stronger spring housing market. According to NAR's most recent report, total housing inventory at the end of March climbed to 2 million existing homes available for sale, which is a 5% increase from the prior month and up 2% from a year ago. However, the discussion on inventory is more relevant on a local market basis and as we have said many times in the past, one of the signs of a healthy housing market is when local dynamics drive the business and the variability in inventory is an example of that as it differs market by market.

For example, based on Multiple Listing Service statistics through March 31, the San Francisco and Denver markets have approximately one month of inventory, while Atlanta and Chicago have three and four months respectively. Minneapolis had a five-month supply of inventory while the Long Island, New York market has approximately 9 months. The national average is approximately 5 months of inventory.

Now regarding Washington DC, as to the regulatory and legislative environments, we do not see any material regulatory or legislative issues in the near term. We were encouraged to hear HUD Secretary Castro's public comments as to the likelihood of a new credit scoring model that will target first-time home buyers. The dialogue, coming from the administration regarding the expansion of the credit box, is positive, especially as it pertains to the first-time buyer. To put that in perspective, the Urban Institute recently published research that indicated that if credit standards returned to 2001 standards well before the crisis, an additional 1.2 million qualified homebuyers would have existed in 2013 alone and an incremental 4 million in total for the years 2009 to 2013.

Among the other positive trends we see occurring, interest rates in the mortgage market remain near historic lows with the average 30-year fixed mortgage rate recently falling to about 3.8%. That is down from 4.3% a year ago as reported by Freddie Mac. The Mortgage Bankers Association reported that, as a result of Freddie Mac and Fannie Mae's introduction of their 97% LTV program, a reduction in the underwriting standards for jumbo loans and a number of similar changes, its mortgage credit availability index increased 2.3% in March. This may very well improve somewhat given Fannie and Freddie's recent decision to slightly reduce mortgage fees for borrowers with lower down payments and lower credit scores, which is an encouraging development for first-time homebuyers.

Affordability has improved based on a combination of slowing price gains, lower mortgage rates and improvement in household income. NAR's most recent housing affordability index of 179.0 is within 2 points of the 12-month high and is a 24-point increase from the June 2014 index. NAR also recently reported that the share of first-time homebuyers was 30% in March, a 100 basis point improvement from February and just the third time in the past year that the first-time buyer's share was at or above 30%. We are encouraged by the increase in first-time buyer sales.

In summary, we are pleased with the progress we've made on our strategic objectives year-to-date. The ZipRealty integration is well underway. Our acquisition strategy continues to deliver the intended outcomes and our organic growth initiatives are performing as planned. We remain highly focused on taking steps to drive long-term growth and value in our business. Our business model is built for the long term and we expect our substantial free cash flow to grow as the housing market recovery gains momentum.

As we have reminded our shareholders on virtually every call since our public offering, the strong free cash flow characteristics of our fee-for-service business model make it possible for management and the Board to continue focusing on shrinking the debt on the balance sheet and investing in growth. With that, I'll turn the call over to Tony Hull, our CFO. Tony.

Tony Hull - *Realogy Holdings Corporation - EVP, CFO & Treasurer*

Thanks, Richard. Turning to slide 7, let me make some comments about the first quarter of 2015. Our revenue of \$1.1 billion represents a 5% increase compared to the first quarter of 2014 and it was driven by higher transaction volume at RFG and NRT. Adjusted EBITDA was \$70 million, an increase of 32% compared to the first quarter of 2014.

Net loss was \$32 million compared with \$46 million in the prior year quarter. We typically have a net loss in the first quarter of every year since transaction volume is at its annual low and revenue generated is insufficient to offset the fixed operating costs of our businesses, as well as depreciation, amortization, interest expense that are all straight lined over the full year.

Next I will discuss our key revenue drivers for the first quarter on slide 8. RFG home sale sides increased 4% year-over-year in Q1 2015 and average home sale price increased 6%. NRT home sale sides increased 6% year-over-year compared to the first quarter of last year and its average home sale price increased 3%. Average broker commission rate, or ABCR, decreased 1 basis point at RFG and 7 basis points at NRT. The NRT ABCR decline in Q1 was impacted by the strength of the high-end price segment, but even more by the level of development sales in New York City like those at 157 in Manhattan. Because Q1 is always NRT's seasonally lowest transaction volume quarter, these development sales, which have a lower ABCR, had an exaggerated effect. On a full-year basis, we currently expect NRT's ABCR to be flat to 2014.

Now let's look at revenue and EBITDA for the first quarter of 2015 compared to the first quarter of last year as shown on slide 9. RFG revenue increased 5% as the third-party domestic franchise volume increases of 10% were partially offset by lower international revenue and flat marketing fund revenue in the quarter. RFG EBITDA increased \$7 million primarily due to the higher transaction volume. NRT revenue increased 6% versus the first quarter of 2014 as transaction volume increases of 9% in the period were partially offset by the decline in ABCR.

NRT EBITDA increased \$4 million, primarily due to a \$5 million increase in PHH-HL joint venture earnings. Cartus EBITDA was flat, TRG EBITDA increased \$2 million primarily due to higher purchase and refinance volume. As it relates to corporate, excluding \$10 million of early extinguishment of debt charges incurred in 2014, expenses went from \$15 million to \$16 million, an increase of \$1 million.

Overall, on the face of the income statements shown on table 1 of the press release, you can see that there was a \$14 million increase in operating and general and administrative expenses in the first quarter compared to last year. As discussed on Investor Day, this was primarily driven by a \$12 million increase in employee-related costs, including \$6 million of incremental accrued incentive compensation and a \$3 million increase in employee-related costs for acquisitions completed after the first quarter of 2014.

Turning to slide 10, in the second quarter of 2015, we expect home sale transaction volume increases in the range of 8% to 11% with 5% to 7% coming from sides growth and 3% to 4% from price growth. As the spring selling season unfolds, we expect our aggregate number of home sale transaction sides to increase sequentially from approximately \$272,000 in the first quarter to between \$400,000 and \$408,000 in the second quarter of 2015.

Let me briefly talk about the impact the acquisition of Coldwell Banker United will have on drivers. While the acquisition will not change Realogy's aggregate total volume, we expect for the next year the difference between the volume drivers for RFG and NRT will be more disparate than they've been in the past. On slide 11, we illustrate what transaction sides and price would have looked like on a pro forma basis had we owned CB United beginning on January 1, 2014. As to our second-quarter guidance, RFG's home sale sides growth is anticipated to be below the 5% to 7% range and its average sales price will be largely unaffected.

Conversely, NRT sides growth is anticipated to be approximately double the 5% to 7% forecasted range and its average sales price change is anticipated to be modestly negative due to the dilutive impact of CB United's lower average sales price, as well as other acquisitions completed since last year such as ZipRealty.

With the closing of the first quarter and our visibility into the second quarter, we now expect that full-year 2015 adjusted EBITDA margins will be between 13.8% and 14.3%. This includes the effect of the CB United acquisition, together with the previously discussed impact of compensation accruals being recorded at a higher rate than the prior year and the incremental full-year impact of Zip-related costs.

Now let's turn to cash flow, which is presented on table 7 of the press release. The first quarter is our weakest EBITDA quarter and is when many year-end accruals are paid. As a result, we generally report a use of cash in the first quarter in any given year, which reverses significantly as we get into the second quarter and beyond. Nevertheless, cash outflows in the first quarter of 2015 were comparatively lower than they were a year ago at \$122 million outflow versus \$181 million outflow in the first quarter of 2014. The improvement in free cash flow was mainly due to higher EBITDA, lower cash interest expense and lower bonus payouts.

Book interest expense was \$68 million in the first quarter of 2015 versus \$70 million in the same period last year as the non-cash mark-to-market on our interest rate swaps increased \$6 million in the quarter relative to the same period last year. Corporate cash interest was \$55 million in Q1 versus \$87 million in the first quarter of last year due to the timing of interest payments, debt repayments and refinancings completed in 2014.

Lastly, our net debt to adjusted EBITDA ratio was at 4.7 times at March 31. This is up 1/10 of a point from year-end as cash flow was negative for the quarter. We expect this ratio will decline as the year progresses due to the substantial cash generation that occurs over the remainder of the year.

Slide 12 provides cash flow guidance for 2015. CapEx is expected to be approximately \$85 million in 2015. This includes ZipRealty and facility improvements at Cartus. Corporate cash interest expense is expected to be between \$205 million and \$215 million assuming no changes to the



current capital structure. Working capital is expected to be a source of \$20 million to \$30 million and legacy cash settlements are expected to be a \$15 million to \$20 million use of cash. Cash taxes are expected to total \$15 million to \$20 million for 2015.

We are pleased with our first-quarter financial performance. Transaction volume was stronger than anticipated and recent trends bode well for a healthy spring selling season, as indicated by our anticipated gains of 8% to 11% in transaction volume for the second quarter.

In closing, we remain focused on taking steps to drive long-term growth and value for our shareholders. We expect our substantial free cash flow to improve as the housing market recovery gains momentum. With that, I will turn it over to the operator who will open this call for Q&A.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). Tony Paolone, JPMorgan.

Tony Paolone - JPMorgan Chase - Analyst

Thanks for the walk between NRT before and after the Coldwell Banker United transaction. I was wondering if you could help push that into 2Q a little bit to understand how the dispersion might be between NRT and RFG in that 8% to 11% volume guidance.

Tony Hull - Realogy Holdings Corporation - EVP, CFO & Treasurer

We expect that the overall volume for NRT will be maybe 100, 200 basis points higher than RFG, sort of on a relative scale, but where you're going to see the big disparity is obviously the unit growth at NRT is going to be much higher and then there's going to be, as I said in the script, there's going to be some dilution on price because of the addition of a fairly sizable number of sides at a lower average sales price. But overall it's going to be just a little bit higher than RFG on a relative basis.

Tony Paolone - JPMorgan Chase - Analyst

The total volume in NRT in 2Q will be a little bit higher than RFG?

Tony Hull - Realogy Holdings Corporation - EVP, CFO & Treasurer

Right.

Tony Paolone - JPMorgan Chase - Analyst

Okay. Got it. And then -- thanks for addressing the commission rate with NRT. What about on the splits? If we look historically from 1Q to 2Q, there is about 100 basis points or so bumpup it looks like in the payouts. Is that -- with sort of a mix change and acquisitions, is that something to continue to expect as we go into 2Q and the rest of the year, or does something change there?

Tony Hull - Realogy Holdings Corporation - EVP, CFO & Treasurer

No, it generally does go up in the second quarter a bit. And we expect that to occur this year as well. So the acquisitions don't affect that. But again for the full year we expect about a 68% split rate for NRT.

Tony Paolone - *JPMorgan Chase - Analyst*

Okay. And then would you care to give us any sort of band of volume that that 13.8% to 14.3% I think margin level you gave us ties to?

Tony Hull - *Realogy Holdings Corporation - EVP, CFO & Treasurer*

Sure. The industry can take an average of -- of the five forecasters we look at, they are forecasting about a 7% gain in volume. It actually came down a little bit from Investor Day. But I think a lot of that is because they didn't factor in the first quarter and they didn't smooth out the full year. But NAR actually has gone up from Investor Day from -- I think we were at 11%, 12%. Now they are at 13% for the full year, so they keep going up and the other forecasters go down, but the average is about 7%. So I think that gives you a sense of where we would be.

Tony Paolone - *JPMorgan Chase - Analyst*

Okay, great. Thank you, guys.

Operator

Stephen Kim, Barclays.

Stephen Kim - *Barclays Capital - Analyst*

I wanted to talk to you a little bit if I could about the better outlook in terms of transaction volume and the relationship that can have with splits. As you know, a couple years ago, you had some very, very strong transaction volume growth, but one of the things investors were focused on was the fact that splits were rising up to about the 68% level that you are currently at. I was curious if you could talk about your outlook, which has gone up here, the degree to which that has also increased your assumptions, which are embedded in your conversations with your agents. Is it reasonable to think, for example, that the numbers you give in your transaction volume guidance to the street are fairly consistent with what is embedded in your internal conversations, or are the reasons that that would be materially different? Thanks.

Tony Hull - *Realogy Holdings Corporation - EVP, CFO & Treasurer*

I think there's a huge gap between the individual conversations a manager has with our 44,000 agents or 46,000 agents I guess with CB United and we are really managing a portfolio at the corporate level. So as we have said before, there's -- just the nature of the beast is that there's going to be split pressure and competitors, that sort of thing and we are working hard to offset that natural evolution with a change in the mix of business towards the referral-based Internet lead business, so that's really how we manage it. I think the individual manager discussions with agents depends on their performance, where they were last year. They've set the bar -- they've set a new bar every year. They start at a lower level and they have to achieve, so I think that's a whole different kettle of fish.

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

The dynamic of managing the agent relationship doesn't change based on volume. It changes based on their individual production and that occurs annually. So there is nothing different about how we manage those relationships driven by the volume that is currently forecasted by those who forecast the business. We are very comfortable where we are and what we've said about the splits and where we should be by year-end.

Stephen Kim - *Barclays Capital - Analyst*

Okay. I guess just to clarify that, so if quarter to quarter your commentary about what you think the industry overall may do, if that were to go up, you wouldn't necessarily translate that into -- we shouldn't necessarily think that that translates into the conversations about where thresholds are set for individual agents and therefore --?

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

Correct.

Stephen Kim - *Barclays Capital - Analyst*

Okay, got it. Thanks. And then the second question relates to your Internet initiatives. Was wondering if you could give us an update on how homes for sale is doing. If you have any longer-term expectations for what that may do for your business and maybe if you could also talk a little bit about what you have seen in terms of the ongoing innovation in the industry around the Internet and around some of the initiatives, that would be similar to what Zip is working on.

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

Homesforsale.com, as you know, is a consumer-facing website. The intent and purpose of which is to generate leads, so we've learned a lot and we've made progress. The NRT technology team has, we think, properly positioned that to eventually generate the lead flow that we think is important to justify the initiative. So we -- news at 11 -- we are working hard on that and continuing to make investments and doing all the right things to become the experts we want to be in online lead generation directly from the consumer.

As to ZipRealty, Zip is, as we said in our comments, making great progress. Their purpose is to fully automate the process of signing up franchisees. So instead of a laborious human involvement process to get a franchisee up and operational, we want them to literally be able to just download the software and be up and operational in just a very short period of time and that's what they are working hard on. We expect that to be fully deployed beginning in June, as we have indicated, with about 50 plus, maybe a little bit more than that, integrations in June and then we will rapidly get to about, we hope, 300 by year end.

As to the Web-based environment, I think it continues to be an environment intended to generate leads from consumers, thus an advertising world, not a transaction-based world. So we don't see anything recently introduced in the marketplace that would suggest anything is different than that. Zillow and Trulia as an example and others are trying to figure out how to capitalize on lead generation as any advertiser would. So I don't -- nothing dramatic has changed and we are staying the course on all of our technology initiatives and you'll see the progress as we report every quarter.

Stephen Kim - *Barclays Capital - Analyst*

Great. Thanks a lot, guys. Appreciate it.

Operator

Ryan McKeveny, Zelman & Associates.

Ryan McKeveny - *Zelman & Associates - Analyst*

First question, I just wanted to see if you could give any update on the goals for paying down debt and how you would think about debt reduction over the next year or two versus other opportunities such as some of these acquisitions.

Tony Hull - *Realogy Holdings Corporation - EVP, CFO & Treasurer*

We are still focused on what we talked about on Investor Day, which is we have \$1.3 billion of debt that either becomes callable or repayable next year, so \$900 million or \$800 million of that is very expensive debt, so we would love to get the interest rate down. It becomes callable in January, so our intent is to use free cash flow and refinancing opportunities to really reduce our cost of debt. And at the same time, we want to grow the business. So if opportunistic acquisitions come our way, we would obviously look at them. As long as they meet our requirements, we would want to do both. So I think we have enough cash flow to do both and lower our interest expense and reduce our leverage over the next 12, 18 months.

Ryan McKeveny - *Zelman & Associates - Analyst*

Okay, thanks. And second question, in terms of the competitive landscape, can you just describe what you are seeing in terms of some of these discount brokers or flat fee brokers entering the market and if anything is differing sort of this cycle versus historically from what you see out of some of this form of competition entering the market? Thank you.

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

The discount brokerage models and flat fee brokerage models have been around for a very long time. Most have had a difficult time attracting the consumer and a very difficult time attracting and retaining agents. So we watch them. We pay very close attention to every new model. We don't see anyone out there today representing any kind of competitive threat. Nevertheless, we are not -- we don't assume anything. We look at everything that comes to market. Some are a little more attractive than others. If there is anything about any emerging model that we think should be adopted, we take advantage of that. But, currently, we don't see anything that looks interesting.

Ryan McKeveny - *Zelman & Associates - Analyst*

Got it. Thank you.

Operator

Mike Dahl, Credit Suisse.

Mike Dahl - *Credit Suisse - Analyst*

Wanted to start with a question on the guidance for 2Q and in particular if you could give us any sense of what the growth you saw in April closed and opens were specifically. I guess looking at the pendings, I think you had noted up pretty strongly. So wondering if you saw double-digit growth and you are expecting it to moderate as the quarter goes along monthly just given some of the tougher comps or what type of cadence are you seeing to get to your guidance?

Tony Hull - *Realogy Holdings Corporation - EVP, CFO & Treasurer*

Our guidance is based on April closes and opens that we saw at NRT and RFG and we don't get into monthly data. But I think the opens give us a good sense of how the quarter is going to play out. I think you sort of alluded to something that is important is that last year we were at a 4.9 million SAR base on existing home sales in Q2 versus 4.7 million in Q1. So any growth we see in Q2 is going to be off a higher base than Q1 versus Q1 last

year. So you can see that in the NAR numbers, etc., that they have a little more modest growth just because there's a higher base they are working off of. So that -- I think as the quarter goes on, that's really going to be -- the interesting challenge is going off a higher base from last year.

Mike Dahl - *Credit Suisse - Analyst*

Right, okay. And then I guess shifting gears, a question on just acquisition rationale. Wondering how you think about the CB United and in particular just given this was an existing franchise, so you had access to a high margin revenue stream that is getting capitalized by the market at a pretty high multiple too. So how do you balance taking something like that in-house onto the NRT side versus looking at truly incremental acquisitions that would be totally new to the overall umbrella?

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

The basis upon which we built NRT was an acquisition strategy. You buy in existing markets, large markets where there's a lot of upside, establish a footprint and then you roll in tuck-in acquisitions that are highly accretive and we've been doing that since 1997 and this is a continuation of that strategy. So to be as representative in the Sun Belt states that we think we should be from an NRT perspective, you are often blocked by franchisees who are in those markets and -- have certainly done a terrific job as in the case of CB United, but they are not capitalizing on the opportunities in those markets either because they don't have the capital or the intent.

So we, as you know, based on our many acquisitions, we fully intend to do that. So we had to establish a strong presence in those Sun Belt states. We think Texas in particular is one of the population growers and income growers. It's just going to be one of the best housing markets in the country for, we think, decades to come. So we had to be in that market and we had to buy a franchisee to do it. So it's very much in keeping with the original strategy; nothing has changed and we see this as being a continuation of that strategy.

Mike Dahl - *Credit Suisse - Analyst*

Okay, great. That's helpful. Thank you.

Operator

David Ridley-Lane, Bank of America.

David Ridley-Lane - *Bank of America Merrill Lynch - Analyst*

So Richard, the report you cited in the script around what credit standards returning to pre-crisis levels would bring in terms of additional buyers, based on your view of the banks and some of the improvements in regulations, is 2015 a year where the overall market sees some of that benefit from credit standard normalization, or is this potentially more of a 2016 type of story?

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

It's hard to say what 2016 might be, but what's important about 2015 is the dialogue. So there's a continuation of let's expand the credit box and you are hearing that from the administration, not as much from the regulators, but that I think is coming in time and I think 2015 is starting to show some upside as a result of that. So credit standards are slightly more practical, nowhere near being normal. I think it is starting to look a little better for the first-time buyer and as you have heard us and others say, to have a robust housing recovery, the first-time buyer needs to be more active. So I think we're starting to see that. So I am encouraged and I think others are as well.



David Ridley-Lane - *Bank of America Merrill Lynch - Analyst*

And then according to the NAR data, the first-time buyers are ticking up and conversely, the mix towards investors is down. Could you speak to your relative marketshare among the first-time buyers? Is that significantly higher than versus say investors?

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

I don't know what our marketshare is for first-time buyers except by market. And in the aggregate, one could argue that our national marketshare should be somewhat indicative of where we might be in the first-time buyer too, but I don't know the answer to that. I don't think we have an answer to that.

I do know this, that the first-time buyer more often than not is looking for that starter home and that is often new construction for a variety of different reasons. I think Horton recently, one of the builders, announced that they didn't understand why people were concerned about first-time buyers because all of their first-time buyer inventory was selling as quickly as they could build it. That's our point exactly. If the builders would build more first-time buyer product, we are confident it will sell and we're starting to see the indication of that.

So I think coming out of where we've been, this is going to be a slow process, but it is happening. So with job confidence and income growth and job creation, I think the first-time buyer will be more active in the next several years than they have been in the past six.

David Ridley-Lane - *Bank of America Merrill Lynch - Analyst*

Okay. If I could -- just a quick one for Tony. Does the uptick in refinancings change your thinking around the TRG or the PHH contribution in 2015? Thanks.

Tony Hull - *Realogy Holdings Corporation - EVP, CFO & Treasurer*

No. It's pretty insignificant, so it doesn't change our view.

David Ridley-Lane - *Bank of America Merrill Lynch - Analyst*

Thank you very much.

Operator

Jason Deleeuw, Piper Jaffray.

Jason Deleeuw - *Piper Jaffray - Analyst*

A question on the margin guidance. You narrowed the range to low end and the high end and I was just wondering what brought down the high end of the margin guidance? Is it simply a narrowing of the volume growth expectations because it looks like you guys are running at the high end of the volume range for the margin guidance. I'm just wondering what brought that high end down.

Tony Hull - *Realogy Holdings Corporation - EVP, CFO & Treasurer*

The industry average is 7%, so we think for the year having 9% to 11% growth is probably not in the cards. It may be, but as the year progresses, we think that given the average at 7% we probably won't hit that end -- that range.

Jason Deleeuw - Piper Jaffray - Analyst

Okay. And then the EBITDA addition from Coldwell Banker United, could you help us understand how material that would be for the full year?

Tony Hull - Realogy Holdings Corporation - EVP, CFO & Treasurer

Sure. It will be about \$10 million; half of it at RFG, half of it at NRT.

Jason Deleeuw - Piper Jaffray - Analyst

Good. And then you guys grew a little bit slower than the industry this quarter. Do you think it is simply -- in terms of volume -- do you think it's simply that the NAR estimates maybe just need to be adjusted, might be a little too high, or do you think maybe there was a little bit of share loss in the quarter?

Tony Hull - Realogy Holdings Corporation - EVP, CFO & Treasurer

No, no, no. We didn't have share loss in the quarter. The first quarter is -- the NAR numbers -- our comparison and the NAR numbers are all over the place. If you compare -- if you look at the first quarter of 2014, we grew RFGs, in particular, which has a national footprint, grew 9% in volume and NAR was up 2%. So we exceeded their volume by 7% and we ended up exceeding them by 2% or 3% at the end of the year. And this year, they are making up for it a little bit, so it's really hard -- it's hard with their SAR adjustments in the first quarter to get any good pattern. You really have to go out more quarters than that. You need the full year, you definitely need second and third quarter under your belt to get a true sense of how we are doing, but marketshare loss is not on the list of our concerns.

Jason Deleeuw - Piper Jaffray - Analyst

Great. Thank you for the update.

Operator

Steve Kent, Goldman Sachs.

Steve Kent - Goldman Sachs - Analyst

So can you just talk a little bit about -- you talked a little bit about the owned business moving into some of the Sunbelt states and where the average home prices are lower. Can you just talk about how that could affect more of your operational leverage and give us some more guidance on that? And then you did talk a little bit about how many people or operators you are rolling Zip out to, but you didn't tell us which specific markets. I'm not sure if you are able to tell us that.

And then my third question is just on the regional side. You gave us some color on inventory, but, for California, Florida, New York, your key, key markets, Texas too, what kinds of things are you hearing on the ground there from just a volume perspective?

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

Let me just address (inaudible). It's fairly broad. We have about 500 franchisees in the queue, so they've actually said put me on the list, which is remarkable given the number of franchisees we have. We start with 50 and then we should get up to a deployment schedule of 100 a month and



they literally are broad. They are in virtually every market in the country, so there is no market concentration at all, which is the way you would want it. So we are very encouraged by that. It looks good. We are anxious to get started and we will in June. So news at 11, but it looks -- it is exactly as we had indicated previously.

Tony Hull - *Realogy Holdings Corporation - EVP, CFO & Treasurer*

I think, Steve, the bigger distinction is that we are first going after the smaller franchisees because they are less likely to have an entrenched system that we have to replace. So I think it's more we are starting with the smaller franchisees who can benefit from this system quicker and it's easier to implement. So that's really where the prioritization lies as opposed to geography.

I think on the operational leverage question for the CB United, as Richard mentioned earlier in the call, the biggest opportunity for that acquisition is that we are in markets that we think we can consolidate and grow with tuck-in acquisitions now that we have a presence in those markets. So in Austin, Texas or Charlotte, we've never been in those markets from a brokerage standpoint and now there's opportunity to make brokerage tuck-in acquisitions in those markets. So I think that's where the leverage -- a lot of leverage and synergies are going to come from in those markets, so in those new markets for us and we have many examples of where we bought a small operation in a market like in Philadelphia and then we tripled its size through very small tuck-in acquisitions and that's where we got the leverage in those markets.

And then on your regional question you had, I think, for NRT specifically, I think where we're seeing some good growth is in the Midwest is strong; Southern California is strong. The tri-state area once it got out of its weather doldrums really picked up. So we are seeing pretty good volume growth across different regions.

The other thing that's interesting about this market is that we are seeing a combination of good demand and low inventory, but there is enough inventory -- there seems to be enough inventory to satisfy some of the demand, but you are seeing price increase, pretty strong price increases, as well as sides increase at the same time. So that's a little different than we expected the market to pan out. We expected higher sides and a little more pressure on price, but we are really seeing the best of both worlds, which is good demand and good price increases this year. It's a little different than we expected.

Steve Kent - *Goldman Sachs - Analyst*

Okay, thank you.

Operator

Brandon Dobell, William Blair.

Brandon Dobell - *William Blair - Analyst*

Maybe if you could comment on agent recruiting in NRT. Maybe even franchise sales over at RFG in the US. How is the momentum going and especially in franchise sales, are you seeing people change their decision process based on your communication of timing for technology initiatives?

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

No, not yet. As I indicated, in the first quarter, we sold about \$70 million in GCI, gross commission income. Our goal for the year is \$300 million. We believe that is an achievable goal. We expect to outperform that, or at least we hope we will. We don't see anything has changed -- no material change as to how people determine whether or not they want to affiliate with one of our brands. Technology is starting to enter the discussion in a very meaningful way, primarily because of the announcement and now it is part of our value proposition. People are anxious to see what it might do to enhance their business. So we went from an environment where the prospective franchisee had to deal with technology on their own to,



gee, how can my franchisor enhance that and improve it and is it an important part of the value proposition. All that is clearly stated in the Zip acquisition and it's becoming a bigger part of the dialogue.

Now it is going to become more relevant as our existing franchisees start rolling over into the Zip platform and I think that is going to be a very important event for us because that is going to make it clear in the marketplace that, to be meaningful as a franchisor in this industry, you have to provide an important technology platform as part of the value proposition. Those who are not are going to be substantially disadvantaged and that's our goal at the end of the day.

So we are encouraged by what we have seen and the dialogue and I think it's going to show up in our franchise sales numbers. As to agent recruiting, it's pretty much -- we are experts at that. We have been doing it a long time. We are not focused on headcount. We really don't care about headcount. We care about production in NRT and the NRT management team does an excellent job at recruiting, producing agents and our franchisees do the same. So there is no material change as to how we recruit or what the recruiting numbers look like.

Brandon Dobell - *William Blair - Analyst*

And maybe taking that segue for a second into acquisitions. How important is technology when you are discussing a deal with a potential target and has that conversation changed since the Zip deal? Does it make people more or less likely to initiate or even to continue a conversation?

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

I think what especially independent operators have come to realize is that technology and the capital necessary to invest in technology is an increasingly important part of the business. Some are ill-equipped to deal with that, so it may, in many instances, result in the acceleration of the decision to exit the business and align with someone like us. We certainly think that's the case and it's becoming more and more obvious that to be in this business, technology -- now it is transactional. It can be technology that makes you a better marketer. It can be technology that makes you run the business better and more efficiently than you would have otherwise and Zip helps accomplish both of those. So it's an important part of the dialogue and that will continue to be the case. So we bought great tools. It's a great asset and we expect to fully capitalize on it and we are.

Brandon Dobell - *William Blair - Analyst*

Okay. Thanks a lot.

Operator

Will Randow, Citigroup.

Will Randow - *Citigroup - Analyst*

Good morning and congrats on the quarter. In regards to, I guess, number one, recent acquisitions, and I apologize if I missed it, but how additive to that EBITDA was that? I imagine you paid your typical range around, I'll call it 5 times EBITDA and really how do you get to that calculation? Is that on next year's EBITDA, or how should we think about that?

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

It is generally the seller's trailing 12-month EBITDA. There wasn't much impact in the first quarter from acquisitions. Most of the impact we are going to see -- the CB United acquisition is going to have the major impact, more of a significant impact as the year progresses.



Will Randow - Citigroup - Analyst

And can you talk about how that impacted sides around the two segments going forward in particular?

Tony Hull - Realogy Holdings Corporation - EVP, CFO & Treasurer

Sure. We put a pro forma in -- I think it's table 11, slide 11, so that should show you that -- you can see it has a modest impact in RFG. If we had owned it as of January 1, 2014, it took -- it takes sides down about 2% at RFG versus what they did. At NRT, you can see it take sides up about 8% versus their 2014 numbers without the pro forma, but it dilutes price by about 4% because of their location. They have a lower average sales price. So net net, it would have increased NRT's volume about 4% had we owned it as of Jan. 1, 2014.

Alicia Swift - Realogy Holdings Corporation - SVP, IR

We thank you for taking the time to join us on the call. Thank you.

Operator

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

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