Realogy Holdings Corp.

2022 Investor Day

May 12, 2022

CORPORATE PARTICIPANTS

Alicia Swift, *Senior Vice President, Financial Planning & Analysis, and Investor Relations*

Ryan Schneider, *Chief Executive Officer and President*

Melissa McSherry, *Executive Vice President and Chief Operating Officer*

Charlotte Simonelli, *Executive Vice President, Chief Financial Officer and Treasurer*

CONFERENCE CALL PARTICIPANTS

Anthony Paolone, *JPMorgan*

Kwaku Abrokwah, *Goldman Sachs & Co. LLC*

Matthew Bouley, *Barclays*

A.J. Hayes, *Stephens, Inc.*

PRESENTATION

Male Speaker

Please welcome Realogy's Senior Vice President, Investor Relations and FP&A, Alicia Swift.

Alicia Swift

Good morning, and welcome to Realogy's 2022 Investor Day. Thank you all for coming, for those in person and for those on the webcast.

A few introductory remarks.

As noted in the introductory slides to the presentation, the Company will be making statements about its future results, and other forward-looking statements, during this presentation. These statements are based on the current expectations and the current economic environment. Forward-looking statements and projections are inherently subject to significant economic, competitive, and other contingencies and uncertainties, many of which are beyond the control of Management, including, among others, constrained inventory levels, rising inflation and mortgage rates, and uncertainties related to the continued strength of the housing market, and the ongoing COVID crisis. 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 are as of today, May 12, and have not been updated subsequent to such date.

Please refer to our annual and quarterly SEC filings for other assumptions and factors that could cause our actual results to differ materially from those in the forward-looking statements, and in our appendix for information regarding non-GAAP financial measures referenced in this presentation.

Last, as noted in the introductory slides, Ryan will also discuss estimates of the financial performance of certain aspects of our business at levels for which we do not maintain discrete financial information. We believe these alternative strategic views are useful to our stakeholders to understand other views of our business, but note they do not include cost allocations and other assumptions. These views also address various aspects of our business and should not be viewed in the aggregate.

Now, let me talk a little about our presentation today. Our presenters, first, will be Ryan Schneider, CEO, then Melissa McSherry, COO. We will take a short break, and following the break, Charlotte Simonelli, our CFO, will present. At the end, we will have a short Q&A session.

We will take questions both in live and on the web. For those on the web, you will see a box where you can submit any questions you want to put in the chat for us to take virtually.

With that, thank you again for joining us this morning. Let's get on to the live presentation.

(video presentation)

Male Speaker

Please welcome Realogy President and CEO, Ryan Schneider.

Ryan Schneider

Well, thank you, everybody, and welcome to Next Now. Whether you're here in-person or whether you are on the webcast, we are incredibly excited to have you with us. Whether you've known Realogy for a long or you're new to the Company, thanks for coming on this journey with us this morning. We've got over 700 people tuned in on the webcast, along with all of you here in person, and that level of interest in our Company is incredibly exciting.

Now, let me start off with the following: Who in the audience, whether you're in-person or on the webcast has either personally or had a family member buy or sell a home in the past few years? We've got some hands up, we've got some hands up, a lot of hands here in the room. I bet there's a lot out on the webcast. Well, congratulations, you're a real estate expert now, you're in this business.

You know, real estate is an elusive business. Residential, it's fascinating, it's complex, it can be maddening, it's exciting, and the headlines are all over the map, right, bidding wars, scarce supply, affordability debates, and if you go outside of real estate, there's a lot going on in the world right now, right? Rates are rising, there's global issues happening, there's volatile equity markets. It's a bit crazy. But, today, we're going to push through all that. We're not going to focus on the near term. Today's an important day as we go to look past these headlines and try to look to the future, where we are as a company, where we're going as a company, and what we're going to do to get there.

Now, for the past few years, we've been incredibly focused on delivering better operating performance and strengthening our balance sheet, and I and my team are both excited and proud of our accomplishments on those dimensions, but this is not a time to be satisfied. In fact, our recent success has given us the opportunity to think more expansively about our Company and about the future.

We've transformed this Company with better operating performance and a stronger balance sheet, but now's the time to move from that transformation to greater growth. In a world of disruption, and where I think every company needs to be asking itself every day how is it positioned for the long term, we've got the opportunity to build on our strong foundation today, not just to sustain what we've got, but to actually future-proof our business and win even bigger in tomorrow. To do that, we're going to build on our current business, but try to lead the way solving that consumer problem, that the real estate transaction is too complex.

Yes, we're a brokerage firm talking a lot about solving the consumer problem, something our agents want us to do, but we're actually in an advantaged position to do that, and we can do it across the broad market, not just a narrow segment, with the number of transactions we're in the middle of and the assets we bring to them. There's a lot of money to made on that for the people who succeed down the road in doing that, both on the top line and the bottom line.

So, now, let's get into this day and let's actually have some fun here.

I want to start by sharing with you where we want to go financially. We are putting out a series of bold, but achievable, financial targets that we strongly believe in for 2026, and it starts with really attractive top line growth. We believe we can move from our $8 billion of revenue today to about $11.5 billion of revenue, anchored in growing our market share and achieving a 20% market share by that point in time, powerful top line growth across multiple businesses in our portfolio.

We also believe we can translate that into very strong bottom line results for our Company and for our owners. We think we can build over $1 billion of operating EBITDA—around $1.2 billion, in fact—with about 20% of that coming from new and different consumer economics than we're actually capturing today, and then we hope, obviously, beyond that, that 20% grows even more

We think we can do it at stable margins. We're in a business that has some margin pressure, but the combination of going for some attractive new growth at higher margins, combined with the continued relentless focus on costs, including $300 million of planned costs takeout, we think can offset some of the inflation and other market pressures that we have out there, so that we can deliver the stable kind of strong margins that we've had and delivered for you in the past few years.

Then, finally, we are a powerful free cash flow generating machine. We're targeting generating about $2 billion of free cash flow over these five years, and you're going to hear more from Charlotte today that we are going to be leaning into a different approach on capital allocation, focusing much more on the combination of investing for growth and returning capital to shareholders, even more than we've announced publicly so far, especially as we are able to move away from the deleveraging approach that we've had given the strength that we've got on the balance sheet.

Again, we think these are both bold, but achievable, goals to go through, and I'm really excited to share the story of how we want to get there, and how we want to get there starts with our current business.

We believe we have a very strong business with some real strategic advantages, especially the power of our franchise business, our leadership in luxury, and a few other things that I'll dive deeper into, and that's a powerful business. It generates a lot of free cash flow that we believe has continued growth opportunity in it, and we're excited to take on that challenge and continue some of the momentum we've had for the past few years.

So, we like our core business, we think it's got power and we're going to continue to grow it, but I don't think that's going to be enough, right? The world is changing and there is more and more opportunities for the people trying to change real estate, and the people trying to change real estate, of which we can and should be a leader of, are all trying to make that consumer experience better. I don't think brokerages are doing enough on this, and, frankly, I want a different competitive set going forward. I want, in 2026, for you to consider Realogy with a different competitive set, potentially, than you do today. But, we think we can have, starting from our advantaged position, the ability to make that transaction for consumers simpler anywhere in the journey, and we're both inspired by and excited by the competition from others who are trying to do this at scale, whether it's iBuyer or super apps, or others. That's the world that we need to be moving to, to really future-proof our Company, both strategically and financially, for where the world is going.

So, I've got a huge amount of heart for our core business and upside and opportunity from it, but I don't think that can just be enough. If we're going to go beyond where we've been, even financially, to achieve the kind of targets that we put out, we are going to need to be one of the leaders in changing how people buy and sell homes, and we think we've got some advantaged ways to do that, that we'll get into over the course of today.

So, that's where we're going, and those are the two components of how we want to get to the financial targets we just shared with you for 2026.

Now, before we go into that in detail, let me just talk about where we've actually been recently. I think if you go out into the world four or five years ago and asked people about Realogy, whether it's in the industry or our Board or employees or agents, or whatever, you'd hear some consistent messages:

- Let's get this Company back to growth. We drive profitable growth, but we need more growth. We've got to be back to being a more of a growth Company.

- The Company's got a tough balance sheet. We need to do something to fortify that, change that.

- The question of how is this Company going to be a leader in technology and data given how the world is evolving in that area?

- And what does the Company need to do from a culture and talent standpoint to set up not just the first couple of years, but the future?

Those four things has been a huge piece of our focus as a company over the past four years, and, like I said in my opening, I'm proud and excited by our results.

You've seen our numbers. We're back to more growth, we're back to market share gains. We actually continue to drive profitable growth at good double-digit margins as a company.

Our balance sheet is in a fundamentally different and better place. We literally have $1 billion less debt than we did four years ago. Charlotte and her team have made other moves, she'll talk about, that even further strengthen and fortify our balance sheet.

We really like where we are on the technology and data leadership side. We've put out the first open ecosystem in this industry that's industry-leading, and we are really out there trying to provide the best technology and products to our agents and franchisees, whether it's ours or whether it's from third parties, but we're out there to make them more successful. I'll get into the meeting later about how some of our high-impact technology and products are actually driving agent productivity, driving agent retention, and we continue to deploy more and more to help support them to be successful.

Then, finally, we have, by far, the most data in the industry, and we've had more success, especially, the last few years, using it to run our Company better and to provide insights to drive some of the growth that you've seen in our numbers. So, we're really proud of this and excited by this part of the transformation.

Then, finally, as a company, we've tried to build a team that has a combination of really deep real estate subject matter expertise, but also a lot of outside perspectives, given how the world is changing and where it's going. This is true not just at our Executive Committee level, but among our executive population. We used to have about 300 leaders, we're down to 200 executives, as I strongly believe you put your biggest and best talented people in the biggest jobs, and you do that so you can move faster and be more agile. Because, the point of this is to be moving faster as a company, being more agile as we transition from operating like a holding company to actually being an operating company. So, we've been on that journey over the years, and we feel good about it.

In the past couple of earnings calls, I've talked about completing this first phase of our transformation, and it encompasses all the pieces of what I just discussed. So, that feels great.

So, let's talk about where we're going and how we actually get to some bold and different economic zip codes in 2026.

First off, it starts with our advantaged position today with the businesses we've got. We think we've got four competitive advantages that are making a huge difference in the market today, that are actually going to be able to be the core of how we drive more growth top and bottom line, leveraging, again, the core business we've got today, and it starts with, potentially, the most powerful, which is this incredible franchise power that we have.

We go to market as a franchisor with six different franchise brands. We love all of them. Every one of them has their own story and each of them has their own power out there in the market. We do it as what we think is not just one of the best franchisors in real estate, but one of the best franchisors period. We surround these brands, with their national and global recognition, with great value propositions of technology, of product, of marketing, that helps make those franchisees and their agents much more successful. We do things like build referral networks, that generate more transactions than, frankly, a lot of companies actually do, and we use that as part of building this strong network and creating value there.

Then, we're also, every single day, aggressive about helping our franchisees grow. We've helped franchisees bring in about $15 billion of volume last year, by helping them find the next acquisition target that they should be buying to grow their business, by helping them with the next geographic expansion after they've had success in one place, by helping them bring in new capital into their business. So, we take a "we've got to be an awesome franchisor" approach to what we're doing here.

For all the talk of disruption out there in the world, we actually are having the most success we've ever had bringing new companies into us as a franchise network since we've gone public. In the last two years, we've brought in more new business with franchise sales than we have in any other period since we've gone public. That speaks to the power of what we provide, especially what we can differentiately provide that other small or less national or less technology-heavy or product-heavy competitors cannot. We bring these companies, they tend to be smaller ones, and then we help them grow, right? We tend to dominate the large franchisee lists out there. They all started by coming in to our Company, embracing our value proposition, and growing, and we continue to do that and there's momentum there.

One of the better and newer and more strategic examples of that is what we've done with Corcoran, this amazing kind of high-end luxury, upscale brand, that has had real power for our Company, 20 years, as part of our own brokerage area. Two years ago, we got to the point of, "Hey, we're going to launch this as a franchise brand. We're going to surround it with great marketing and technology and training, value proposition," and the world liked it. In two years, it's gone from nothing to—I think it's now Number 11 among franchise brands in real estate, and that was during one of the craziest times to launch anything new out there. The power of it is great. There's been strong demand domestically and internationally. It shows you that we're incredibly committed to growing this business. I used the adverb—no, I think it's a verb—I used the verb, we love our franchise business all the time, and we're very committed to growing it and making it as big a part of our Company as we can.

But, we don't just do the things you see in public to do that. Under the water, what you can't see, necessarily, we're actually out there trying to bring new capital into our franchise system. I and Charlotte, and others, talk regularly with private equity and other companies who are intrigued by residential real estate, and we've actually had success bringing that capital into our ecosystem, invest it in franchisees to help drive growth, purchasing franchisees to run them in a different, maybe more scalable, way in some scenarios, helping franchisees out who need different capital, and we've liked the success that we've had with that. Some of our increasingly larger franchisees are coming from different places than they used to because of that.

We also think it's powerful that we're in the business, right? We run a large, owned brokerage business here in the U.S., and it's good to be an owned broker, because you can tell your franchisees, "We're in the business with you."

But, franchisees can be special, right? There's a select group of franchisees, with their entrepreneurship and their growth mindset, that when you find the right one, will clearly do a better job of running and growing a business than any corporation, including us, even for all our pride in how we do things. So, we've also been willing to lean into where the opportunities are there to actually refranchise part of our owned operations. In a few select cases, we've helped franchisees grow by selling our owned business into their dreams and making it part of their company, as they want to go forward, another tool in our quiver—or another tool in our toolbox, I guess is the better analogy—to actually drive more growth in this business.

Then, finally, we've strategically tried to be aggressive on the pricing side. That doesn't mean we cut price, right? We go to market with the same pricing approach for almost all of our brands. We have a royalty rate, that's off the top of revenue, it's unlimited, we like that model, but there are models out there in the market that use what we would call a capped fee approach, and we don't have an offering that competes with that. A few years ago, we took Better Homes and Gardens Real Estate and moved it to a capped fee model, so we had something to compete with those franchise offerings. We knew it would be a step back for us financially, but we took the leap because we have the clearest strategic hypothesis that would help us drive more growth in the longer term and drive more bottom line, and having done it now for about three years, that's exactly what happened. We made less money for a couple years, the brand drove more growth, and we've got better bottom line economics than we would have predicted if we had stayed with our old model. Because, again, we now have something that let's us compete in parts of the market that we were shut out from before.

The reason we love this is just the financial power, right? When you've got a business that we can operate it around a 70% margin and generates the kind of revenue and EBITDA that you've seen from us, it's a very easy business to like, and we really like it a lot. Now, you know we charge ourselves a royalty, but even if you take that out, the revenues and the EBITDA still look fantastic. Without all the intercompany royalty stuff, you've still got a business with great revenue growth, great earnings growth, and an economic profile we really like.

The, the final reason to say that we love this is this business has a stability that most businesses don't, and this is, I think, true across franchises, in general, but when we're in kind of 10-year average contracts with people, it helps substantially, and you can see that. Most of our franchisees, on average, have been with us for more than 20 years, and that includes the average of all the people that we have who have only been with us for a few days or weeks or months, or whatever. So, that combination of stability and economics makes this kind of an anchor advantage for us as a company, both strategically to drive growth, but also to generate good bottom line economics and good free cash flow.

So, start with that as an advantage as part of the growth for our future.

The second strategic advantage I'd want to call out is our leadership in luxury. We serve the whole market, right? That franchise business I just talked to you about does about 1.1 million, 1.2 million transactions across every geography, every price point, but across our owned brokerage and our franchise business, we lead this nation in luxury; and, in fact, in many ways, we lead globally with luxury. Our luxury leadership is anchored in our Sotheby's International Realty brand and that powerful up-scale leisure brand that we call Corcoran. Those two, together, anchor our luxury leadership.

We really like luxury real estate, and we've been leaning into this for the last three or four years even more disproportionately, as you can see with our Corcoran franchise launch and some of the investments we've made with Sotheby's International Realty, and it shouldn't be a surprise, right? Across industries, luxury, frankly, is, I think, the most attractive thing. There's a reason luxury companies trade at a premium to non-luxury companies out there in the market. The luxury consumer is incredibly attractive, and that's true in our business. The unit economics are better on luxury transactions. The growth has been the highest in luxury in both good times and challenging markets. Our Sotheby's International Realty's team reminds me regularly that luxury has always led real estate out of any downturns that happen. Then, you also just get the most repeat business, because of the customer type and kind of the economics and the number of homes that they purchase. We have doubled down on our investment in luxury over the last number of years, and it's clearly paid off, and we really like our results, and we think it's a big advantage for us in the future.

Like I said, this starts with these powerful brands of Sotheby's International Realty and Corcoran, but it's not just the brand, it's what we surround the brand with and the competitive advantages that creates. We do unique things in luxury, because that's what you need to serve that customer segment. It is very different selling a $1.5 million or $10 million property—or in our case sometimes a $100 million property or $200 million property—than it is selling a $400,000 home, right? Whether it's some of the phenomenal kind of marketing and curation that we do on the Corcoran side, the leading kind of referral platform that Sotheby's has built globally, or even our purchase of Concierge Auctions, the company to give those agents who need bespoke solutions for their customers another option to potentially transact that house, we have surrounded these brands with competitive advantages that we think lead to some enduring benefits, and we see those, actually, out there in the market.

Our agent retention in our luxury areas is incredibly high, higher than any other part of our Company, and part of that is because the needs of the customers are just different. They are more bespoke needs, right, you need to have a different approach there. The combination of what we provide and the power of the agents we get means if you're with us on the luxury side, you tend to stay with us for a very long time. People don't see these numbers out in the industry very much, but you see them in our leading luxury brands.

It's not actually just Sotheby's International Realty and Corcoran. Our Coldwell Banker global luxury alliance is its own powerful thing that actually generates a lot of business, and if you look across our Company, we lead the industry in luxury and it's not real close, right, we sell more $1 million homes than anyone. For Corcoran and Sotheby's International Realty, their average price point is above $1 million. The leadership only gets bigger the more you go up the price point. At $2 million homes, we have an even bigger lead in; at $5 million homes, it's even bigger, and I'm sure I could continue this and you would see that continuation. So, we really like this business, we've over-invested in it, and we're going to continue to do so.

You can see it in the results, right? Our economics, of increasing our focus here, have grown substantially both top line and bottom line, and is actually now, basically, about a third of our economics as a company is coming from luxury, whether you're looking at our owned brokerage portfolio or our franchise portfolio, and there's a lot of power in that and we're excited about it, and it's one of the things we want to continue to invest in and focus on for the future.

Our third advantage I want to talk about is our national, truly integrated, full-service brokerage. There's a lot of words there, but two of them really matter, one is national and one is integrated, because if you want to get the true full power out of a brokerage business, you actually want to have those two descriptions in your title. We think about this as we look at our Coldwell Banker brokerage, which was effectively national, our title business and our guaranteed rate Affinity joint venture for mortgage.

The economics of this business has been very helpful to us, this is before we charge ourselves a royalty, but we've had revenue growth, but we've had more earnings growth than we've actually had revenue growth, which is an interesting thing, and the reason comes back to that combination of national and integrated, which is with our focus on the integration side, we have increasingly been able to drive more economics in this business from the title and mortgage part of it. It's one thing to run a profitable brokerage business, which we do, and we've actually been able to actually increase its profitability even with some of the margin pressures and headwinds that are coming, but it shouldn't be lost on you that a lot of the bottom line growth is coming from the integrated part of this, not just the actual brokerage business by itself.

The revenue drivers in this business have stayed pretty darn strong. We've actually grown agents about seven quarters in a row now. Our retention's about 94% in this business. Nowhere near as good as luxury, but that's, I believe the second highest number we've had since we've gone public. We've doubled our number of loan officers, and we continue to geographically expand our great title business. So, we like those revenue drivers. But, this is the business that has two issues we do need to stop and talk about.

One of them is this is the business where we carry the lion's share of our expenses, especially our fixed expenses. We ran this business in 2018 with $750 million of operating expense. It's a big number. This business is capital-intense, right? There's a reason the margins in this business are much different than they are on the franchise side. But, we've had to be pretty relentlessly focused on costs in this area. We've taken out about $140 million of gross costs. We've reinvested about $100 million of that for growth, for our value proposition, to kind of make sure we've got a strong, sustainable business going forward. But, today, we're operating this kind of integrated owned brokerage business, actually, at about $30 million, $40 million less costs than we were three or four years ago, and we're putting a lot more through it, whether you look at that as revenue, the number of units of transactions, or even the number of agents we're supporting. So, we have had, and will need to keep having, a relentless focus on costs, both because this is where the costs typically reside, but also because that's one of the things we need to do in a world with some margin pressure. We think there's $300 million of additional costs we need to be taking out of our whole company over the next four or five years, and we're committed to doing that, in part, for these reasons.

The other challenge in this direct business, that we should just confront head-on, is this is where the margin pressures come from. We've absorbed 600 basis points of agent commission pressure in this business over the last four years, right, and that's a lot, okay? Now, when that commission pressure comes with volume, as Charlotte eloquently talks about, that's not a bad thing. It's actually not, right? When we have more volume, even with higher commissions, that can be great, and that's a reason we are not stopping our investments to grow our agent base, to be competitive out there, to recruit great agents, and we've had some successes that we're incredibly excited about on that dimension. But, when the agent commission costs comes from just market forces or kind of competitive behavior that makes us scratch our head a little bit, that's a lot tougher, right, and with that kind of margin pressure out there in the industry, it's just another reason we've got to be really disciplined on the operating cost side, and we've got to be really deliberate on our growth choices, right? We like growth when it's profitable, but if it's going to be unprofitable, boy, we don't want to absorb those higher commission costs just for unprofitable growth.

So, it's been an interesting journey here. At the end of the day, we actually, even with that 600 basis points, do make more money in the core business, even without title and mortgage, than we used to, and we've been able to keep our margins flat, but part of the reason I want some of that higher margin consumer opportunity, and some of the reason I'd love more of that higher margin franchise business, is because this one has some challenges to it. We're all in on meeting them, and hopefully you've seen our results when we take that challenge and deliver on it, but it's part of the reason you see something like a big cost target in our targets for the future, or my emphasis on the franchise business as a leading part of the Company.

Final advantage, agents they're critical. We've got the best network. The topic of agents going away has been talked about ad nauseum for, like, 30 years. My favorite story today is, literally, the line of people outside my virtual office wanting to partner with us to use our agent network in some way, every single company I can find, and I've had our team looking at this, that's come into real estate saying they're going to do things without agents, eventually realizes they need to build an agent network, and then they come talk to us. I think, in a world of high-dollar infrequent transactions, the trusted advisor matters, and I think they will continue to matter, we actually believe that, and we really like the network of agents we have, the quality I showed you on the luxury side, but also serving all price points out there, whether it's in our owned brokerage business or our franchise business.

We like our agents, in part, because of what we do to help them. In our owned brokerage, the agents who really use our technology and our products are about three-plus times more productive than the ones who kind of go it on their own. The agents who are deeply embedded in our ecosystem and are kind of everyday interacting with the products and services we provide, versus going on their own, have a retention rate that's way above that 94% that I showed in that kind of core business. So, we like what we do, just like on the franchise side, to surround our agents and make them successful.

To give you a more specific example of that, to go also back to the data side of things, I talked to you, I think, three years ago about our first machine learning model was let's use our national scale data to show how we can recruit the best agents, not agents who are successful today, but ones who will be successful tomorrow. When you throw a lot of data at it, you've got machine learning, what we have found is that the agents we recruited with that targeting in our ecosystem with our value proposition are actually 80% more productive in terms of their driving business than, effectively, the comparable group, basically, the other agents. We like what we're doing, both for what it says about our ability to make people successful, but also our ability to use our industry-leading data to run our business differently and better.

Finally, before I go to the consumer side, let's just talk housing for a little bit. I'm sure there'll be a bunch of questions about the near term on housing, and you probably have a lot of insights on that yourselves, but it's hard to kind of have a conversation about a business like ours for five years and not talk about the long-term trends in housing. There's two things I want you to know.

The first is, in our financial model, which Charlotte will show you clearly, we have 5% volume growth per year, total volume size times price, 5% volume growth built into the model, and Charlotte will show you explicitly how much revenue we get from that, 5%. Now, that's lower than the historical number, and it's lower what I believe in my gut, but we think it's a reasonable assumption. We just put it out there, you should make your own assumption, but we have 5% volume growth built into the financials that we showed you, and, again, Charlotte will be very clear about it. But, I believe, over the next decade, the outlook for housing is actually quite good and we are in a strong position just to be a positive beneficiary of it from our existing position and our future growth position.

The demographics are pretty clear. We've got the biggest generation entering their prime homebuying years. You may not know this, but the five biggest birth years of Millennials are turning 35, I believe, in the next six years. So, the biggest wave of people hitting the true prime homebuying time is still in front of us, among that largest generation.

I don't think any of us could have predicted the social changes that have happened with remote work and people wanting to live in different geographies. That's clearly been a benefit.

Then, frankly, the fact that our country hasn't built enough homes and we're undersupplied for homes has given some price upside to this business, right? We've already seen it in our numbers. Consumers have pretty good balance sheets these days, compared to what they did, say, 15 years ago, the last time housing went into a challenging time.

We don't have a better crystal ball on this than you do, but I want you to know what our assumptions are, including the fact that (a) we think we are going to be a positive beneficiary of some good trends here, but (b) we put 5% into the model. Keep that in mind, and, again, Charlotte will show that to you.

Now, let's shift over and let's talk about the future, and I think we have to have this conversation and Realogy has to go do more, and differently, directly with the consumer, for two reasons.

One reason is, look at our Company. We feel good about the improving operating results that we've had and the progress we've made there. We also have a better balance sheet. But, it's totally undeniable that that hasn't translated into our enterprise value, period, whether you look today or you even look a month ago or six months. When I look at a company that's had improving operating performance and a much better balance sheet, but it's not translating into their enterprise value, one of the conclusions I draw is there's a clear question about the long-term sustainability of what the company is doing, and I think that's a great push, because I think there is disruption out there in the world and I think there are opportunities, and as a brokerage industry, I don't think the industry's doing enough. I think our industry has left these windows open in the past, like even the creation of a couple of competitors in the portal area, that shame on our industry for not getting ahead of that. So, I think we need to actually move in the direction of where this world is going, and that is more helping the consumer with a simpler experience here.

But, the other reason to do it is you've got to do that future-proof your company, strategically and financially. If we only stay with the playbook that we're on, it just leaves too many opportunities for someone else to make changes that are going to be to our negative. So, I want to push from what we think is an advantaged position—there's other advantaged positions, by the way, from other people, but we think we have an advantaged position to actually make this transaction much more simple for the customer in a way that's good for the customer, good for the agent and good for our economics.

Look, I had people raise their hand at the start of this meeting. Every single one of you who bought or sold a home, or had a family member do it, can tell me that this transaction is still too complex. I sold my mother-in-law's home in the fall. I'm in this business. I probably get a little bit more tender love and care from some of the people involved in the transaction, and it's still too complex, okay? People have been saying this thing's too complex for 30 years, and so why can't it get solved, in a world where everything else is getting solved? Well, look, it's a hard problem.

The biggest part of it, I think, starts with the fact that everything's so unique, right, every house is truly unique. It's not even just that the house is unique, but that your opinion on the house is different than yours. You have unique opinions on these houses, unique requirements, and even the fact that in different geographies how you buy and sell a house, with government regulations and stuff different, creates a uniqueness to this transaction that doesn't exist in almost anything else in commerce.

Second is they're big, they're just big dollar things, right, and people tend to be a little more cautious when you're putting big dollars, especially for people who this is the biggest transaction of their life.

Then, finally, and probably the biggest reason that this transaction remains so complex is it's just so infrequent. The average household purchases a home every eight to ten years, or sells a home every eight to ten years. It's something most people only do a few times in their life, and people's willingness to tolerate complexity in something that's incredibly rate is higher, but it also makes people more nervous to do something that big, that infrequent, they're not familiar with. By the way, that's part of the reason, even in today's hot market, people are using agents more than ever to both buy and sell homes. The trusted advisor thing, I think is real, partly because of how hard this problem is.

What I'm struck by, for all the people talking about solving this problem in the market, and it's not a new problem, it's been talked about four years, is how many people are tying to solve the problem but don't actually have the assets, and I find that to be strange, because if you really want to make it simpler for the consumer, and if they want insurance stapled to the house or they want a mortgage stapled to the house, it's pretty hard to do if you don't actually have an insurance offering or a mortgage offering. Some people have been hypothesizing—and I love this vision—is actually helping people with the moving part of getting to their next house can be part of the future. That's great, but you may want to actually have some exposure or be in the moving business. One of the things I'll talk about is that we have some—we have built over time a set of assets that touch, effectively, every part of what people talk about when they say simplify this transaction.

Now, I'm very inspired by the iBuyer approach to try to solve this problem, very inspired. I think that is the one group of people out there who are doing the most to try to solve and simplify the consumer problem, but I've been on record with earnings calls and other conversations for multiple years that I don't think that's a good use of Realogy's capital, because I'm scared of the business model. I am not convinced that model, as structured, of buying and flipping houses is going to work, but I absolutely want to compete with what they're trying to do from a vision standpoint. I want to compete with iBuyer, I want to compete power buyers, I want to compete with super apps, because I think that is where the disruption will happen. I think we actually have a chance to do it in a way that can cover a lot of the market and actually make a lot of money, and we're going to give you some proof points on that, too. So, while I'm really inspired by the way a select group of people are approaching this thing, and there's some learnings we've taken as we've gone down our RealSure and other paths, I don't think this is the right approach for our Company or for our balance sheet.

Because, the realty is, when you look at that infrequency of this transaction, the size, and everything, my belief is that there are going to be multiple ways people buy and sell a house down the road, right? The future is going to be spectrum, frankly, and it will not surprise me at all if, basically, in the next 10 years there's a huge amount of people still doing the transaction pretty similarly to the way it happens today, and that'd be great, we're good with that, but in that world—and this can cover the whole market—we've got to get more of the friction out of the transaction. We've had some success on that, we'll show that to you, but there's a big opportunity, even in today's world, to get the friction out of the transaction in a way that's good for customers, agents and for our bottom line.

But, I do believe that over time there are going to be more and more people, especially if we can bring them the innovation, who are going to want a much easier and more integrated experience as they try to get to their next move, and whether that includes the title part, the mortgage part, the moving part, the insurance part, or even just the physical process of making it easier, there's going to be demand for that. It's not going to be the whole market. I don't actually know how fast consumers are going to change on this spectrum here, but we better be ready to meet them where they're going to be, and we actually think we can do this, and, again, we'll show you some examples.

Then, finally, I do want to keep taking this challenge of just reimagining how this works, right, and how do you make something that could, for a subset of people who are comfortable doing it, have a transaction that feels much more kind of push-button simple. Instead of selling your house and buying your house, can that be one transaction instead of two? Can you make it just simply much simpler than we've envisioned in brokerage, or even other disrupters that out there today, and we've planted a few seeds on that already.

I've talked a bit about the fact that I think we've got the ability to solve this problem. I think there's multiple starting places that can succeed on this, by the way, but I think we've got two big advantages.

One is we are in the arena, we are in the sandbox, with 1.5 million customers every year doing these transactions, and we do it nationally and we do it at scale, and that gives us the ability to try new things, deploy them, test them and see what works. Some of the proof points we have are only covering at the moment 6% of Realogy or 20% of Realogy, but those proof points are because we can be out there in the sandbox, because we're in it.

The other thing is we've got the assets. We actually have all the pieces people envision. Go to some of the people I want as future competitors and listen to how they talk about what the future transaction should entail. We actually participate and own and are part of all pieces of that already, and you can see us making some progress bringing that financially into our ecosystem already, but as we think about reimagining this thing, we've got more opportunities, and I don't just say this theoretically. Part of the reason we believe we can do this is we actually have the proof points that we both can do it and the economics are good.

So, we're going to give you a few examples of things we've literally rolled out, in some cases to 5% of the ecosystem, in some cases to 20%, whatever, that actually are trying to take on these three different challenges that I laid out, so we can meet consumers everywhere, and show you not only can we actually do this, but show you what we've learned economically, financially, agent experience, customer experience, and I'm so excited for you to get some exposure to that when Melissa comes up here and talks about those things.

What we've learned is we can make money on these kind of things. If we can meet customers down this simplification journey, we've seen that it can help us win more listings and drive more agent productivity. That's going to be contribution to share growth, alongside what we do in our core business. We've seen that we can get better unit economics, a step-function change in mortgage and title capture, far beyond anything that's driven the good results that I showed, but we also actually can show we help consumers sell their home for more money, which is good for the agents and which is good for us.

By doing some of these things, it helps on our cost reinvention side. Many of these things that take friction out of the transaction for the customer take friction out of the transaction for how we operate, helping to drive some of the cost progress that we need to make, and every time we do something that tends to be good for the customer and agent, that gives us something that can help moderate those agent commission cost pressures a bit.

We have a strong belief that this is really accretive to our value proposition on both the owned and the franchise side. We just don't do this for our own agents, we do these things, or try to do these things across our own and franchise network, and in a world where we can deliver these in the brokerage industry that we're lumped in with today, which I don't think is doing enough on this, doesn't have these things, you risk getting left behind out there, if this is how the world increasingly evolves, and so we're excited about it.

Again, this is about this focus on—more focus on the consumer, and the economics of that is really part of future-proofing our business. We like our powerful financial targets for the future, but we want to make sure that we, down the road in five years, have a strong company both strategically and financially, and while we love our current business and think there's a lot of potential in it, we're not willing to go it alone there, when we think that the world actually has some disruption opportunities that someone should seize around the customer, and we are as well positioned to do it as anybody. I think there can be more than one winner in doing that. I want us to be one of them.

I'm going to wrap up with this, right? We're putting out these—we're hanging our shingle out there to hold ourselves accountable to it. We think we can build off the success we've had to have an attractive top line growing company over the next five years, revenue and market share. We think we can deliver better bottom line results through that growth, and keep our margins stable, in part, by being relentlessly focused on costs and, in part, by going after some of the higher margin opportunities in our franchise business, in some of these new consumer areas.

Then, we have got a lot of power. We're a company that generates good free cash flow in good times and bad, right? There are—and we're never rooting for bad housing markets, but we like the power of our Company from a tax generation standpoint. We have strong goals to generate a couple billion of free cash flow over this next five years. Then, we're really excited to be here today to make it clear that we are at an inflection point, where we can shift even more to invest in the business and returning capital to shareholders, even more than we've talked to you about in recent earnings calls, and I'm looking forward to you hearing about that from Charlotte.

So, I want to thank all of you for letting me open this up. You're going to get to hear a lot more details and specifics on the financials from Charlotte, including the balance sheet progress, the revenue forecast, the EBITDA forecast, and what it means for our Company going forward, as well as the capital allocation future that we're setting out here today.

But, next, you're going to get to hear from Melissa McSherry. She's new to our Company. She's our Chief Operating Officer, running product, technology and marketing, we're really excited to have her, and she's going to take what I just talked about and focus on the consumer aspect of it in a way that will hopefully prove out not just what we want to do, but we've already done, that may inspire confidence that we're going to get to these powerful financial targets that we've laid out.

So, with that, thank you and welcome to Melissa McSherry.

Male Speaker

Please welcome Realogy Chief Operating Officer, Melissa McSherry.

Melissa McSherry

Thank you, guys, so much for coming today, those of you who are here in person and those of you who are here online.

I think some of you know that I've been here for a little bit less than three months, and I'm even more excited than I was on day one. Today, I have the opportunity to—really, the privilege—to talk to you about how we're going to win in the transformation in residential real estate by relentlessly, relentlessly working backwards from the consumer, and I hope that by the end of today you're going to share my excitement and you're going to be interested in coming on this journey with us.

All right. Since I'm new to Realogy, I wanted just to start with some—and, actually the industry—I wanted to start with some observations I have about the Company and the industry.

The first one is, as I think about the consumer journey from deciding that you want to move to finding a house, to getting to a contract, to getting to closing, to actually moving, I am struck by the scale of the assets that Realogy has in this space in terms of agents, brokerage, mortgage, title, closing, and when you add in things like the relocation business and our insurance business, we literally have the opportunity to support consumers at every step along the way. But I'm also struck that we play in markets that are so large and so fragmented that we still have a lot of headroom. We have the best assets, but that doesn't put the kind of ceiling on us that I've seen leaders in other industries struggle with.

Second, consumers say over and over and over again that agents are the most valued and most important part of the home buying and home selling experience. They also say that trust is the single most important thing in selecting an agent. This is probably why about 60% of buyers and about 70% of sellers actually use an agent that they already know or one that has been personally referred to them. What's interesting to me is not only sort of the great network of agents, that Ryan talked about, that we already have, but, also, we have some really helpful foundational assets as it relates to trust. Not only do we win awards like the World's Most Ethical Company list for the last 11 years in a row, we also have brands like Century 21 and Coldwell Banker, which score number one and number two in terms of trust being associated with the brand, and we also have a business model that does not rely at all on advertising. That means that we can make very strong claims to consumers about the level of control that they have over their data and why they can be especially confident in trusting us in how we work with them, and I think that's going to be important as we move closer to the top of the funnel.

The last thing that I want to point out is the progress that Realogy has made in modernizing the tech stack. Typically, the challenge that a company with this many assets and this much history would encounter is basically they either can't or it won't modernize its tech stack and, therefore, ultimately cannot compete with smaller venture-backed startups. Realogy's financial strength is such that it actually has made the investment so that all new capabilities are being built on a modern tech stack. We use AWS and Azure for infrastructure. This is important not only for speed to market, but also for attracting younger and career engineering and data science talent. We use a mean stack for new applications. We built CI/CD pipelines for automated deployment for some of the new products. As Ryan said, we have a petabyte scale data lake with hundreds of thousands of updates a minute, 500 integrations, 520 integrations to MLSs, over 100 developer integrations through our developer portal, so great connectivity. From a scalability standpoint, we did over 1 billion API calls through our Apigee gateway last year and we're on track to do 2 billion this year.

Obviously, given our deep history, we still have a lot of work to do. I'm not going to play past that, right. But, I didn't totally know what I was going to find when I got here, and I have to say I am pleased at the progress—the level of investment and the progress with that level of investment that the Company has made in this very strategic area.

All right. So, we have these great assets, but as Ryan has pointed out, there's this transformation underway in residential real estate. My experience is that transformations create winners and they create losers. I am here because I firmly believe that we are going to be a winner. I've had the privilege of a front row seat to transformations in telecommunications, consumer banking and payments, and from that comes some observations on what we need to do to thrive and, therefore, what we will do to thrive.

First, until you crack the code on consumer behavior, it is so slow to get them to move, and once you crack the code, it is really fast. We saw in country after country after country in payments that they were just stubbornly attached to cash and once they cracked the code on digital wallets, huge numbers of consumers moved. I mean, in the course of like three to four years, you got huge changes in consumer behavior from cash into digital wallets. Of course, I think we've all seen over the past few years the impact of the pandemic on ecommerce. I mean, there are changes that people declared were unlikely to happen in the next 10 years that transpired in less than 10 weeks in the first half of 2020.

What that means is, as Ryan said, we may not know exactly when the big shifts are going to come in consumer behavior, but we're going to be relentlessly focused on meeting consumers where they are on that journey. If the only thing that they want is a little bit of help fixing up their home, that's fine, we've got it, and if they want a fully modern digital experience entirely deployed on their mobile phone, well, we can help them with that, too. That's why we're focusing both on improving pieces of the transaction, but also fundamentally reimagining the transaction. So, when the large shift in consumers comes, when that arrives, we're going to be ready for it.

Second, what matters to consumers wins, and stress and effort and time matter quite a lot. When I was working many, many, many years ago in store-based credit cards, we consistently found that the credit profile of online applicants was worse than the credit profile of in-store applicants, but at that point we also knew that the online shoppers tended to be more wealthy than the in-store shoppers, and this is kind of perplexing, like, what's going on with that? What we eventually came to understand was that people who had basically good credit, but weren't necessarily confident in it, were concerned. They were anxious about the idea of applying for a card and then being turned down in front of a store clerk. Once they didn't have to deal with that anxiety, they could apply online, they were actually perfectly happy to do it because they were quite loyal to the store and they wanted the benefits that came from the card. Taking away that piece of anxiety ended up being a great way to include more people in the program, people who actually had very good credit, but weren't necessarily confident in that.

This drives the focus that Ryan highlighted of really integrating and restructuring the transaction, because that is a great way to take complexity off the table and take stress off the table for consumers. Almost no one else in the industry can do this, because eventually they run into a step where they just don't have the assets to deliver the consumer the specific thing that they need. Now, we always provide options, but we do have the foundational pieces to integrate the transaction, from finding the agent to finding the house, to getting the contract, to getting a contingency free offer, to actually getting the sale closed digitally.

Finally, all else equal, consumers do actually want to pay less, so unit costs do actually matter. High cost does not necessarily mean better service. Because of that, it's been my experience that disruptive technology can actually create opportunities for platforms to emerge, because one thing that platforms do exceptionally well, if they are well implemented, is they take a lot of unit cost—they take complexity out and, therefore, take a lot of unit cost out of the specific step in the value chain that they are focused on. Back in Fresno in 1958, Visa actually started out as a way to lower the complexity and lower the cost of small merchants who were basically maintaining individual credit accounts for each of the consumers that were coming into their store regularly.

I believe that we actually have some structural advantages in building platforms, because we benefit not only from the platform, but we also benefit from the impact of the platform being successful in our core business. We are one of those ecosystem participants that actually would benefit from the complexity being taken out of the system by the platform, and I'm going to talk a little bit more about this later. So, we're going to capture platform opportunities sustainably.

Having explained how our focus on consumers relates to the real estate industry, I'm now going to walk through a bunch of examples to try to illustrate how we get from specifically a consumer insight to an implication, to a product, to an economic impact.

All right. So, let's start with consumer needs. These are just a couple of consumer observations. This is obviously not everything we know about consumers, but it's some of the more intuitive and fundamental.

First, consumers tell us again and again and again that a trusted advisor, the agent, is the most important, most valued part of the largest and most complicated transaction of their lives, and what that means to us is the way to win here is to have the best agents., right? We do that by providing our agents with best-in-class tools that enable them to do the things that only humans can do. Now, I am fundamentally an optimist as it comes to technology and I love a good recursive neural network just as much as the next girl, but there is no app, not even in the medium term, that is going to be able to sit down with you and say, "I have worked with five families over the last 10 years that were trying to balance the trade-off between access to this school district and access to elder care. This is who was happy. This is why. This is basically from the choice that they made." To meet that consumer need requires that we actually have the best agents, and it requires them to be able to spend their time doing the things that only humans can do. That's why we have invested heavily, and we'll continue to invest in this area.

Second, sellers want to sell high and buyers want to buy low. These two goals would seem to be at odds, until we remember that there are a lot of other aspects of the transaction beyond price. As we work to empower consumers across, basically the full set of aspects of the transaction and using the full network that we have, we think that we can move the conversation from being just about optimizing and price to really optimizing on value. In a minute, I'm going to walk through some examples of how we do that for buyers and how we do that for sellers.

Finally, for me, coming from the outside, real estate transactions are kind of odd, because the two parties who are least equipped to sort of evaluate and manage transaction risk, the buyer and the seller, I mean, they're the least experienced people in the room, right? They're the ones that are actually saddled with most of the risk. If you think about it, for example, a seller accepting a mortgage contingency, which is a very common practice in a normal market, so the seller is accepting the risk that some other consumer's mortgage company is going to evaluate the value of their house differently than they do, right? I mean, it's odd to me that the seller is the one that's taking on that risk as opposed to someone who's actually closer to the mortgage company and how they think about assessing value. We see the opportunity to use information and our insight about the whole transaction and the whole process to take risk off the table without taking on the principle risk of buying and selling homes.

Across all of these insights, as I said before, we're working to meet consumers where they are on the transaction journey—on that transformation journey, and what that means is we may end up with multiple ways, for instance, to take stress and uncertainty off the table, some of which just affect a particular step in the transaction and some of which stem from fundamentally reimagining the whole transaction.

So, let's get to the examples. The examples that we're going to go through range from about 6% to about a third rolled out across the entire system, and I just invite people to think about what the impact might be when they are all fully rolled out.

For our first example, I want to walk through how we help sellers optimize the value of their house. Now, what we're looking at here is what consumers—sellers who are working with either a full-service agent or more of an MLS-only—think of it like a discount agent—what they're looking for, what their priorities are, and what you can see is they're pretty common across certain things like pricing competitively, marketing the home, selling the home in a particular timeframe, but where there's a big difference is in finding ways to basically optimize the value of the home, fix up the home in order to make it more attractive.

The way to think about this is this is the way that the full-service agents, our agents, who are full-service agents, differentiate relative to more discount agents, and it makes sense that sellers would be interested in this, because if we look at the buyer's side, buyers who are buying existing homes compromise on the condition of the home almost as often as they compromise on price. As a seller, you would like the buyer to always compromise on price, right? So, we have a product that directly addresses this consumer need. This is called RealVitalize. We provide sellers with a project consultant, access to vetted contractors, coordination for the various repairs that they need, all the way through to staging, but the seller does not actually have to have any out-of-pocket expenses for this, we basically front the money to the contractors to cover this. And then we are compensated out of proceeds from the actual sale. So, very seamless for the seller, but they still get the benefits that come from it.

At the end of the day, consumers win because the sellers get, on average, higher prices, and they get those higher prices more frequently than sellers who do not use this product. Agents win because they benefit from the better economics from the actual sale, but they also benefit from fewer cancellations when this product is used, to the tune of 63% fewer. We win, because in markets where the seller controls the selection of the title and closing agent, we actually capture title and closing 87% of the time, right? Now, this compares to the baseline of 34% for those same markets when this product is not used. So, this is a win across the board.

All right. Our next example—we just talked about how we help sellers bring more value to the transaction by improving the condition of their home. For our next example, we're going to go through how we help buyers bring more value to the transaction. In this case, we're talking about RealSure Buy, which is effectively a way that we turn a buyer who is using a mortgage into a cash buyer that does not have any mortgage or appraisal contingencies in the offer that they're making. Because the product is delivered through the mortgage, mortgage capture is basically built into this product.

So, how does this work? Well, the first step is the consumer applies for—from one of our RealSure mortgage partners--they apply for and they get approved from the lender. Second, they work with an agent to identify the houses that they're interested in and the agents submits those basically for—think of it as preapproval to the lender, to make sure that they can put in a cash-based offer. Then, they get the preapproval back. They make a cash-based offer that doesn't have any of these contingencies.

To illustrate this, I actually want to introduce you to the Turnbow family. The Turnbow family had recently relocated to Fort Collins, Colorado, with their totally adorable one-year-old son, and they were renting a home with a short-term lease. They had lost out on multiple properties that they had bid for to other offers that were comparable on other terms, but were cash-based offers. The clock was ticking on that short-term lease, they were running out of time, and so their agent suggested to them RealSure Buy. They prequalified for the program. RealSure actually approved offers on houses that they were going to visit in the coming weekend. So, they went to these houses knowing with the confidence that they were going to be able to submit cash-based offers on them. That following weekend, they found the property, the one that they wanted. They submitted a bid for it. It was cash based, no mortgage or appraisal contingencies. They beat out 17 other offers, including one for $10,000 more that had a mortgage contingency, right? This led to a happy family, because they got the house; it led to a happy agent, because they got the sale; and GRA, our mortgage JV got the mortgage, so they were pretty happy, too.

Consumers win here because they can basically produce the best overall offer without necessarily offering a higher price, but, also, they're able to do this without the risk of contingencies. It's just not—there's a set of risk that, by the time you get to the contract, has already been taken off the table by reordering the activities in the transaction. Agents win because it takes fewer offers to get to a win and that means less time to get to a contract, less time to get to a close and less time to get paid. It also means that they're likely to have happy consumers who are going to be more loyal in the future and more likely to refer them. We win because mortgage capture is built into the product and we're providing the mortgage—like, we are the ones providing the mortgage without contingencies from our mortgage partner.

RealSure Buy is one way of bringing more value—basically, enabling buyers to bring more value to the transaction by taking some risk off the table. But, anybody who's bought or sold a house, frankly, anybody who raised their hand earlier when Ryan did the poll, knows that there are just a lot of things to worry about, just a lot of sources of risk. The National Association of Realtors has said that 75% of transactions close on time. That means that 25% of the time they do not close on time. So, if you think about that for a minute, it means one in four transactions have an issue that's big enough that it actually impacts the close. You think about the difficulty of something as basic as scheduling movers. I mean, if your transaction is delayed, rescheduling your movers is your best-case scenario, right? There's a lot of things that can go sideways. I mean, the typical contingencies in a contract include home inspection, appraisal, financing, prior home sale and title. Then, there's the risk of wire fraud, which doesn't really affect us because the controls that we have, but is a very real issue for buyers. Then, there's just a lot of other activities that have to come together. To address these risks, I want to talk about two last products, RealSure Sell and our HomePlace app.

RealSure Sell reduces risk by providing certainty to sellers on the sale of their home. The way the product works is the seller gets a firm offer from us for their home, or from RealSure for their home, but they can still work with the agent to see if they can get a better price on the market, and in 99% of the time, they do, the house is actually sold to somebody other than us. Now, this is great for consumers, because, as sellers, they can actually shop for their next house with certainty about what they can afford and with certainty about timing, right, because the offer, they know that they're going to get it at a particular time. But, they don't have to worry that they're not getting the best offer or they're getting something that's below market because they're selling to an iBuyer. It's great for agents who offer this. The data is still fairly early, but so far, we're quite pleased with the win rates on the agents who are incorporating this into their listing presentations, and this is good for us, because our agents win more and in the very rare cases where we actually buy the house, we get the title and closing fees, which contribute to the economics.

Last, but definitely not least, I'd like to talk about the HomePlace app. This is an app that we provide to consumers, and there are a number of aspects of the app that I think are especially relevant to simplifying the experience and removing stress for consumers.

First, consumers get a timeline and checklist of activities between contract and close. It's maybe a little hard to see, but hopefully you see it in your book. You'll note that there are actual dates here, because this is integrated with our transaction management system, so we know when the close is scheduled to happen and we're able to help people understand for their particular transaction the specific activities that need to happen and when those activities need to happen backing up from the date of the close. Because of this, we're also able to give them their very specific tasks, in essence, that sort of as the consumer they need to do, and because, again, this is linked in with the transaction management system, this isn't sort of them working with a generic list where they're saying, "Well I'm not sure if I'm done, but maybe I'll check myself off." This is actually sort of our view of whether or not the activity is done.

Second, consumers can actually see their documents, and, again, the integration with the transaction management system is helpful here. They can view actual documents, like their contract, their appraisal, the inspection reports, mortgage information if they're doing their mortgage through GRA.

Third, we make service providers available directly to the consumer through the app. For instance, in the case of mortgage, they have the opportunity to apply directly for a mortgage through the app, and if they already have a mortgage or they've already been approved from GRA, we have the ability to go find that and bring not only the sort of the documents, like the contract documents, back, but also things like estimates of closing costs, which as they are updated by GRA, are updated, basically, we bring those back real-time, so we get the most up to date view of that.

Again, this is a win for consumers, because they have real-time visibility into what's happening, and so not only can they make sure that things are on track, they can be confident that things are on track. There is a consumer that said, "It's my money, but I don't know what's going on." They know what's going on with this. Agents win because they can focus their time on updates that are more meaningful as opposed to process updates. You think for a minute, as an agent, about being able to talk to somebody about what actually matters in their inspection report, as opposed to who is going to do it, when it's going to happen, and where to find a copy of it, right? And we win, because we have the ability to put our mortgage, title and insurance properties in front of consumers earlier in the process.

Now, this is a new product, but we had a 65% open rate on marketing emails in March, and about two-thirds of the registered users open the app more than two times, which I can tell you from personal experience, for sort of early versions of novel use cases in mobile, it's a very good rate of getting people to come back.

All right. So, I have provided some examples of ways in which we're solving for these consumer issues, these consumer needs, and in everything that we do making sure that we're winning for consumers, we're winning with agents and we're winning for Realogy, but beyond these examples, there is so much more that we're doing. We have over 20 different areas in which we are just working to remove specific areas—basically, working to remove friction in specific areas of the transaction, and we have additional initiatives underway across the innovation spectrum, because as I said before, when that shift in consumer behavior comes, we want to be positioned to win.

I want to make a final comment about platforms. I mentioned that often in transformations there's an opportunity for platforms to emerge, because one thing that they do exceptionally well, if they're built sustainably, is lower cost because they take a lot of complexity out. The best platforms, in my opinion, connect a diverse, fragmented, large number of customers to a diverse, fragmented large number of service providers, and they use not only technology, like APIs, but also standards, business rules, certifications, guarantees to remove not only the technical complexity, but also the operational complexity of all of those integrations, and removing the complexity is actually how the cost comes out. The very best platforms can return most of the value to the ecosystem and still generate very, very attractive returns.

So, as we think about how we turn the market fragmentation, that's finding so many new entrants into this market, into an advantage in building platforms, I think we see three areas, in particular. One is MLS integrations, one is the contract to close process for brokers, and one is in the hand-off between basically brokerages and title and closing agencies. Now, there is a reason that platforms have not emerged in these areas, or there are specific reasons for each one, but we do see opportunities, and I think we have two very specific advantages.

The first one is the existence of scale platforms in these places would be helpful to our core business, because our core business is one of the ecosystem participants that I mentioned who would benefit from the platform, and, therefore, we can make money without necessarily having to extract all of it from others in the ecosystem, we just benefit from the fact that our own complexity went down, which I believe will ultimately be helpful to us in driving platform adoption.

The second is we have a bunch of the foundational elements in place already. We're absolutely working to integrate the transaction where we have all the pieces, but over 50% of our title and closing business actually comes from outside brokerages, right? We have a vision of one-click title, and we're actually implementing one-click title for our brokerages to our title agencies, but we absolutely have a vision of one-click title for all the brokers in the industry.

We process just over 10% of our transactions, leveraging outside document management integrations in our core processing system, so we clearly know how to integrate things into our core processing system, and we have a vision to make that platform broadly available not just to our own brokerage, but also to franchisees. We have over 500 MLS integrations, as I said before, and over 100 developers who are integrated using our APIs. So, we have the fundamental bone structure for platform plays that, again, remove complexity for others in the real estate journey.

I do want to acknowledge our platform ideas are much earlier in their stage than consumer plays, but I have seen firsthand how attractive and sustainable well-designed tech driven platforms can be, and I'm really excited about the opportunity here.

All right, bringing it all together. We are exceptionally well positioned to win and to lead the transformation in this industry, have line of sight to innovation where consumers win, where agents win and where we win, and we will be disciplined in going forward to ensure that we are serving all three groups. But, as we move beyond the immediate line of sight, I think that I'm just really excited about some of the structural advantages that we have. I mean, Realogy has a great cash generation capacity, which means that we're well positioned to make wise investments when they become available, and we're also well positioned to weather uncertainty. Second, there has been an enormous amount of investment, venture investment, into prop tech, and as public markets tighten and investors look to pull back on subsequent rounds, I reasonably expect attractive investment opportunities to become available to us.

Finally, Ryan talked about this. The Company has been on a journey from functioning as a holding company to functioning as an operating company, really, since he got here, and we are continuing that journey. For the first time in the history of the Company, we've actually integrated product across the Company, which means for the first time in the history of the Company, we are in the position to build and deliver on a truly integrated product roadmap, and there are transformational possibilities in that.

To finish up, I am really excited about—I hope it's really clear at this point that I'm really excited about what's ahead of us at Realogy, and I imagine a world and what I have described is just the beginning. I imagine a world in which the joys and privileges of living in a place that are right for your family are available to a much broader range of people, because complexity and risk just aren't barriers. I imagine a world in which consumers have a trusted advisor in agents and agents can focus on what only humans do, because technology takes care of the rest. I imagine a world where not only are closings always on time, they're also simple and completed either from the convenience of your old home or your new home, and no one ever worries about them, because they're exciting for the new doors that are being opened, but they're not stressful because of what could go wrong. I imagine a world in which consumers, frankly, cannot fathom that we used to do it the way that we do it today. At the center of that are agents and brokers who, with every single choice, earn the ongoing trust of their consumers, and technology that makes life easier for every single participant in the transaction.

Thank you guys very much for coming. We're about to go to a break, but to give a little bit more life to what I just described, we'd like to share something, and then, like I said, we will go to break.

(video presentation)

Male Speaker

We will now take a brief break. The event continues in 15 minutes.

(short break)

Male Speaker

Please welcome Realogy Chief Financial Officer Charlotte Simonelli.

Charlotte Simonelli

Good morning. I'm excited to be here today to share with you Realogy's financial future through 2026.

Our future includes, and builds on what we believe we are today, a compelling investment. We generate robust free cash flow, and that starts with our consistent EBITDA delivery, and we have delivered over $500 million of free cash flow in each of the past two years. We've proven we can grow our business profitably. We've had $2 billion in revenue growth since 2018, and we delivered over $900 million of EBITDA last year, and we've driven consistent, double-digit EBITDA margin over the past five years.

We've transformed our balance sheet and we have a significantly lower cost of capital. We've lengthened our debt maturity stack. We've had upgrades from the rating agencies, and these have been driven by our consistent performance and sound financial strategies, and we have tech leadership, and this drives best-in-class agent productivity. Our open ecosystem is an advantage, and not every agent wants the same thing, flexibility matters in this industry, and our immense data scale has real and tangible value. We have demonstrated our ability to drive growth and generate free cash flow from our advantaged position today.

We have a track record of delivering. We are the market leader, and we are continuing to grow. We've increased our profitability over the past few years. Our balance sheet is in the best position it's ever been, and I'm really proud of our consistent, incremental cost savings delivery over the past few years, with more to come.

Realogy is a different Company today than five years ago, and we're transforming, as Ryan and Melissa laid out, to lead our industry to what's next. Our team is disciplined, adaptive and innovative, and we deliver great results today, while working to capture long-term growth opportunities for the future.

We have gone from an average of $6.5 billion in revenue over the past few years to $8 billion in revenue last year, and our average operating EBITDA was just over $700 million, and we delivered over $900 million last year—our 2022 EBITDA guidance for this year is $750 million to $800 million, but that's impacted by the 70% sale of our underwriter business to Centerbridge and a little bit of mortgage market pressure—our free cash flow, up from an average of just over $400 million to well over $500 million in 2021, and all of this comes with improving market share, from 15.8% to 16.4%, and growing, and we believe we will grow ahead of the market in 2022.

Our business model generates exceptional cash flow, and this is a real differentiator in this industry. This gives us significant financial flexibility to continue to invest in our business, which we've been doing, and will do more so going forward, to further strengthen our competitive position, and then we will return any excess free cash flow to our shareholders.

Let's focus on the balance sheet for a second.

We have driven over $1 billion in net debt reduction, that's 30%, since 2018. Our leverage at 2.4 times at the end of 2021 is the lowest it's ever been, and our weighted average cost of fixed rate debt is now 4.6% versus over 7% in 2020. We've lengthened our maturity stack, with 80% of our debt not due until 2026, or later, and 90% of our debt is now unsecured. We have transformed our debt stack.

When I joined Realogy in 2019, the balance sheet was a little bit daunting, and there were two big walls of debt that were coming due in 2023 and 2025, and we took advantage of our exceptional business performance and market conditions to refinance the vast majority of our debt at a lower cost. We now only have $407 million due in 2023, and we've committed to repay that on or before its maturity. This gives us significant financial flexibility.

And we have ample liquidity. On average, we've generated over $400 million of free cash flow in each year between 2018 and 2021. We also have access to an untapped $1.4 billion revolver, which is further evidence of our financial flexibility through any housing cycle. With this, we can be, and will be, on the offense and we do not need to access capital markets to fuel our growth. Investing for growth is critical to future-proof our business.

Now, we've also had some favorable rating agency actions, and our track record of delivery enabled those; also our simplified capital structure, our proven consistency of profitability and free cash flow generation. These happened in steady progression, and I'm optimistic for the future with more room for improvement here.

So, our path to 2026. We believe we're a great investment today. Our core business has delivered, having returned to above-market growth and increased profitability. Ryan spoke about the business mix that we have today, and I want to spend a minute on this, because it's a big driver of our success.

We have chosen to be overweight in certain markets in our owned brokerage business, like luxury and premium, and this is benefiting us today, as the lower part of the market has seen inventory constraints and impacts from rising mortgage rates. We believe our business mix, our national franchise business, our advantaged owned brokerage business, our nationally-scaled title business, mortgage and relocation businesses are, and will be, a key component of our success for the future and as a differentiator for Realogy. Our strong presence in franchise, our ability to leverage our significant agent and data scale to drive transactions both on a national level, as well as key geographies as things ebb and flow, drive consistent revenue and profitability.

Our financial targets for 2026 are bold, but achievable, and we will build on our solid foundation with additional growth strategies that we think are critical to the industry and critical for Realogy, and this will lead to over $1.2 billion in operating EBITDA, with stable margins, and 20% of this will come from the focus on the consumer. This drives over $600 million in free cash flow; cumulatively, about $2 billion throughout this current time period through 2026, and we'll have further market leadership, we expect to be at 20% a share. This is a bright future for Realogy, for consumers, for our agents and for our shareholders.

Now, this is probably the slide you're all waiting for. This is a little bit of a breakdown on our revenue growth and what we think will drive it going forward.

As I've shown, we delivered $6.5 billion in revenue, on average, over the past few years, $8 billion last year, and we're targeting over $11 billion in 2026. This is driven, as Ryan pointed out, by mid-single-digit market volume growth. So, that's one component, the market. We would expect to grow on top of the market, and share gains will come in luxury, the agent investments that we are making today and will continue to make in the future, the M&A that we have done and will selectively do more of where it strategically fits, and that growth will then be supplemented by the consumer focus, and that comes at above-average margin.

As Melissa pointed out, some of this comes from higher agent productivity, the higher list prices that our products and services offer to our consumers and to agents, and we all benefit from that, and these direct-to-consumer initiatives, like I said, they come from product and tech. You saw some of those real-life examples from Melissa, things that we already have today and we'll build more of going forward.

The other thing that Melissa showed you is in some of these products, we get significantly higher capture rates on title and mortgage, significantly, and that is a very big driver of not only the profit, but the margin, because in some of those joint ventures, like in mortgage, we only capture profit and not revenue.

We will also have a significantly lower cost base. We've already delivered around $300 million in cost saves in the past four years, and we're targeting another $300 million through 2026. There are still plenty of opportunities to continue to take costs out of the system, even after all the progress that we've already made.

We continue to re-imagine our brand footprint—branch footprint. We provide exceptional experiences for our agents today with our innovated and efficient branch environment, but we will further automate, digitize and integrate the real estate transaction that's both brokerage and title, and that will lead to improved and efficient agent support and services.

We also continue to streamline and leverage our administrative support cost structure, and some of this comes from the increased use of business analytics and technology tools like Power BI, hyperion (phon), advanced analytics, so a lot of this is enabled by tech, but we've been very intentional so far about balancing the implementation of these improvements, also while supporting the business and driving outsized growth. We need to maintain our high levels of service to our agents and customers. It's a bit of a balance on timing, but there still really is a ton of opportunity here.

The revenue drivers I spoke about, married with the cost savings I just spoke about, that's how we get to $1.2 billion in operating EBITDA by 2026. The growth is driven by a stable housing market at 5%-ish growth; our market share gains, as well as a bit of M&A that I talked about, and then the strong EBITDA contribution we get from our joint ventures. Now, this will be offset, in part, by moderating commission split pressure and a little bit of nominal inflation. So, all-in, we believe that the growth is going to come from our very strong business model today, as well as the enhanced focus on the consumer coming in at above-average margin.

Again, one of our big differentiators is our strong free cash flow. It's really an incredible yield regardless of what's going on in the macro environment, and we expect continued strong free cash flow generation from both the core business, as well as from accretive acquisitions and the consumer focus. This all drives incremental EBITDA, which turns into free cash flow.

We've shown that the investments we've already made from new strategic ventures are driving returns, and you've seen the early proof points of what our product and tech platforms can deliver going forward. Again, a very, very healthy balance sheet. We've already made great progress here, and we believe that the powerful free cash flow that we will deliver will actually enable us to exceed our 3 times leverage target, even after satisfying our 2023 maturities.

So, we expect to deliver about $2 billion in free cash flow through 2026, and after we pay down the notes from 2023, that leaves us with $1.6 billion. For capital allocation, we expect about a third of this will be used to drive growth in both the core business, as well as the consumer-facing initiatives that you've heard about earlier today. The next one third will be in capital returns to shareholders, and that leaves one-third to be flexible, either for investments, for capital returns or further de-leveraging, and this will depend on the quality of the investments we're seeing, as well as a bit of the macro.

We're unlocking substantial value with unparalleled free cash flow and profitability. We have consistently delivered, and we are going after an expanding addressable market. We have demonstrated profitable growth. We have de-risked our balance sheet. We are a strong free cash flow generating business with a clear vision for our future, which is to leverage our strong foundation while simplifying the transaction for the consumer. We are investing to drive growth and enhanced profitability, and we are leading residential real estate to what's next.

Thank you.

Male Speaker

Please welcome back Ryan Schneider.

Ryan Schneider

All right. Well, thank you for being here for Next Now. Before we move to Q&A, let me just share a few closing thoughts.

Having improved our operating performance and fortified our balance sheet, it feels great to have a powerful business we can build on and think more expansively about, and I'm excited to embrace the opportunity to simplify the consumer experience buying and selling homes, taking on a new competitive set, and future-proofing our Company both strategically and financially, and as part of doing that, we are ready to go after a set of bold and achievable financial targets, top line growth power above and beyond what we've already delivered, anchored in growing our market share, continued bottom-line growth, with more and more of it over time coming from some of the new consumer opportunities that we're seeing, and a continued track record of generating free cash flow in good markets and challenging markets, with an increasing lean into both reinvesting in the business and returning capital to shareholders.

For those of you who've been with the Company a long time, thank you, and for those of you who are new to the story, we hope you're excited to come on this journey with us, but this journey isn't just a strategic and financial journey. For us, really, it's a cultural journey also, and what I'll be sharing, beyond what we talked about today, with our employees, with our agents, and with others, will also include how we need to keep operating differently if we really want to empower people's next moves. We've got some deep beliefs and we're inspired by, frankly, excellence and doing the right thing and making people's dreams come true, and I'm excited to challenge myself, my leaders, and our teams to operate even more differently than we used to, to be bolder, to be more relentless, more obsessive, and frankly, that's going to be an important part of delivering great outcomes that we're shooting for, and that's how we become even better than we are today and win even more tomorrow.

So, I'm so excited about this: a powerful existing business with great free cash flow generation; a new focus on the consumer, meeting home buyers and sellers anywhere in their real estate journey from just starting the search to that incredible keys in hand moment; future-proofing our Company; and driving cultural change to deliver that future. So, I'm all-in on it, right? I'm actually—I'm so committed to this that I want to signal this broader change to the world, as our current brand and identity have not kept up with our Company's transformation, so now's the time to move our brand to what's next, and I'm excited to announce Realogy soon will become anywhere real estate.

With that, thank you, and we will now go to Q&A.

Male Speaker

Joining Ryan on stage, please welcome back Melissa McSherry and Charlotte Simonelli.

Alicia Swift

As a reminder for those in person and on the web, we will be taking live Q&A. For those in person, we have people with microphones. If you want to raise your hand if you have a question, they'll come over to you. When they do, could you please wait for the microphone and give your name and firm? For those on the web, I want to remind you that you can insert questions on the web.

Ryan Schneider

Hi, Tony.

Anthony Paolone

Great, thanks, hi. Thanks for taking my question. Tony Paolone, JPMorgan. Nice job, everybody.

My first question relates to just the outlook on financials. It seems like about 5% from the market and 5% a year from share. Can you talk about to get to the 5% share, what you have to do on the recruiting side versus just making your agents more productive, and just more specifically, how you achieve that piece of it?

Ryan Schneider

Yes. So, I think if we do the math, I think it's about 400 basis points more than the market on the share gain over time, and we think that's bold, but achievable, from where we are. We, frankly, think the mix is going to be about 50/50, in my head, at least, at this point, between how much we can do with more productivity with our existing agents, especially with some of the newer consumer things that we think will be very helpful to them, that they will be excited about, and then the other 50% from the recruiting side, and again, that's not just agent recruiting, that's growth on the franchise side, too, and you saw some of our momentum on that. So, we'll see how it goes and, obviously, we'll keep you posted, as we do on those things. But, in my head, it's about 50% from each of those two, and we're excited to go down that journey.

Charlotte Simonelli

There's also opportunity on the luxury side too, because we've had a lot of share gains on the luxury side, so think of that as being a little overweight, as well.

Ryan Schneider

Thank you, Tony.

Kwaku Abrokwah

Hi. This is Kwaku Abrokwah from Goldman Sachs, and congrats on the presentation, by the way.

Can you walk us through the puts and takes on the 11% operating EBITDA margin, and if there's upside to that?

Charlotte Simonelli

Yes, sure, absolutely. So, we tried to be pretty specific, how much was coming from revenue, how much was coming from cost saves. There is a bit of an offset that's coming from the commission split pressure, which you can see. The 600 basis points that Ryan quoted was actually just Coldwell Banker, so you know what our numbers are, it's less than that at a national scale. So, it's slightly less than that, but we definitely believe there will still be commission split pressure over the next four years, and then just the normal inflation that you would expect for this business. There's a bit of an overweight from luxury, which comes at a higher margin. The new sort of consumer focus, we've already said, comes at a higher margin. If we could capture the capture rates of 87% on a greater piece of our portfolio, that can drive a lot of margin. Then, mortgage, right? Where we sit with mortgage today, it's kind of a tight market. The more that mortgage grows and our JVs grow, that all comes at profit without revenue, so that drives margin, too.

Ryan Schneider

One thing I should be really clear about, and I meant to do it in my presentation and I'm excited to have the chance to do it now, is when we talk about stable margin, one thing you should take away from Charlotte's numbers is we have yet to forecast a fundamentally different change in our business mix. Now, that doesn't mean we're either not open to it or we might not try to achieve it, but if our franchise business growth outpaces our owned business growth, getting back to Tony's question, then there's obviously margin upside in that, as an example. Because we've actually had growth across our different businesses, as we look to the future, the targets we put out really have kind of our business mix about the same. That doesn't mean that's what's going to happen or even what we're going to strategically end up with, but it is how we've done the math of it. Charlotte, I think, did cover all the puts and takes, and then you will see how our business mix evolves. The luxury part's already in that, but remember, luxury's both owned and franchise, so we don't have ...

Charlotte Simonelli

(Inaudible).

Ryan Schneider

... that's just FYI.

Charlotte Simonelli

If we assume a 5% market, you saw what happened with our margin when we grew even 20%, so we feel like it's a balanced target that we're giving you because there still is room for upside with greater sort of market growth or greater market share gains.

Kwaku Abrokwah

All right, thank you both for that insight here, and that's a great segue to my second question, which is given the really strong free cash flow generation, would you consider significant M&A acquisitions along the way?

Ryan Schneider

Most of the M&A ...

Kwaku Abrokwah

Just to expand the business mix.

Ryan Schneider

Look, you never say no to anything. I would say most of the M&A that we (inaudible) and complicated, for us, feels more like kind of small to medium tuck-in acquisitions. In part, because just with our size, what can look like a pretty big transaction to somebody else is kind of a small or medium-sized thing for us. In the last six months, we've done multiple different deals in brokerage and adjacent to brokerage and with technology that are pretty meaningful from a dollar standpoint, but again, in our size, definitely don't fit anything new or transformational area. Strategically, we're mostly focused on luxury and great economic deals that we can do in brokerage, we're strategically focused on adjacencies that will help our value proposition, like Concierge Auctions and some select technology investments. Most of those are probably going to be $25 million and less kind of range. We never say never on something more transformational, but it has to really—it would have to make real sense, obviously, and we're excited to be able to use that lever in a way we haven't really in the past. You can see a little bit of our growth, we think, will come from that, but it'll be pretty selective, and I'd think about it more in that small to medium-sized world versus anything utilizing up all of our flexible money, or something like that.

Is there a question over on the left?

Matthew Bouley

Thank you. Hey, everyone. Matt Bouley, Barclays.

Ryan Schneider

Matt.

Matthew Bouley

Thank you for the questions and for all the detail today.

I wanted to ask on the $1.2 billion target, the 20% coming from the new consumer focus. Obviously, that's a pretty meaningful number. I guess, just factually, number one, should we expect most of that to be coming through the JV line'; and number two, just title, mortgage, RealSure, etc., just any more kind of detail or elaboration on how you get to that number?

Melissa McSherry

Yes. So, it's a little bit of both, right? It comes on the JV line with mortgage capture, because that's going to come through, but the title capture is not going to come through on the JV line. That's just our core business, it's just higher capture. So, it's a little bit of both. Some of it will flow through to the segments that you see today. Some of it will come from the JV. Part of it, as you mentioned briefly, attracts higher list prices, so that flows through the whole ecosystem. So, it's a little bit of both. You'll see, I would think, the majority—like, two-thirds of it probably comes through the normal ecosystem and, like, maybe one-third through the JVs, rough math.

Matthew Bouley

Got it, no, that's helpful, and then on RealSure Buy, you've positioned that, I guess, the furthest along the spectrum of reimagining real estate. Could you speak a little bit to the hurdles of getting to that piece of the model, and sort of how you think about—how agents think about that model, to the extent you continue to grow it?

Ryan Schneider

Well, a couple of things. Like I said in my commentary, while I'm inspired by it, I just don't believe it's the right choice for our Company to get into the home buying and flipping business, basically, and so we're not going to do that, but the part that's inspiring is how do you actually help customers get to their next home in a much more simple way, and that's one of what we hope our multiple examples of meeting customers where they are, and this one we've been on for a couple of years. We've been working on this thing and it's now kind of really hitting its stride out there in the market, and we find there's two things.

One is agents like it, right? Every company trying to do things without agents, including iBuyers and others, are all trying to build agent networks, like I talked about. Agents are in the middle of all these models that are trying to help consumers in different ways buy and sell their house, and for agents, it's another thing they can take to their listing presentation to differentiate themselves. That's part of why we're winning more listings with the product. But, remember, we're also, as part of that, going direct to consumer and generating high intent to buy or sell consumers, that we actually link up with our agents. They love that, obviously. It helps us a bit on the commission pressure side, also, and helps us bring incremental transactions to the ecosystem. I think agents are operating in a world where a lot of companies would like to use them in these areas, and if we have a great offering for our agents, it's going to be really, really helpful to us.

But, all these things just at some level have a scale challenge, right? For RealSure Sell, we're in 25 cities, RealSure Buy, we're in seven. We were in three at the start of the year kind of thing. So, it is going to take time to scale these, because you want to be really thoughtful about it. We don't really buy houses. We buy one house for every hundred offers we make, is the latest number kind of I have it stuck in my head. So, we're not here to take the balance sheet risk, but even doing that, we want to be really thoughtful about it and really smart about it. None of these are going to happen overnight, but as consumers change how they're willing to operate, we've got to be ready for them, and I think we're going to build a foundation of these things in different parts of that spectrum Melissa and I talked about, and that's one that we have an example of already, but it's not our only idea that we want to do, and so the fact that we have a little bit of a proof point makes us feel good and it makes us committed, and again, we're seeing the winning listings to take share, we're seeing the better unit economics and those things, of 100% mortgage capture on the RealSure Buy kind of thing, so we just—we think we've got something there that are greenshoots enough to show you and use that to show you why we're both putting our focus on the consumer side and being willing to hang out our shingle on some financial targets.

Thank you, Matt.

Alicia Swift

Great. We have a couple of questions from the web.

Ryan Schneider

Great.

Alicia Swift

A two-part question regarding platform opportunities, "Should we think of HomePlace as the central hub bringing together online and offline aspects and the various pieces of the transaction beyond the way you currently integrate the pieces?"

Melissa McSherry

Yes, I think that's a great way to think about it. I think that if you think about the future of HomePlace, that's the—really would be the consumer—I hesitate to use the word portal, but the consumer interface for all of those different things that—all the different steps in the life of the transaction, and as we move more towards platforms, having them in a fully electronic environment will certainly help the development and the adoption of the platform. So, it's a great way to think about it.

Alicia Swift

Great. There's a second part to that question. "The platform slide also referenced the fragmented nature of the service providers across the industry. Should we think that HomePlace can provide incremental ancillary and referral opportunities by helping the consumer connect with service providers above and beyond the pieces of the transaction you currently own and operate, and if so, are these considerations contemplated in the 2026 views?"

Melissa McSherry

There's absolutely part of the product vision. Again, with a great platform, you're not only putting forward your properties, right? With a great platform, you're making a wide variety of properties or opportunities available to consumers. I think that the broader consumer opportunity here is absolutely part of what we talked about in the 2026 financials. We have not explicitly modeled in any of the platform opportunities, because, as I said, these are much earlier in their development. I think that we should think of those as upside to what we've talked about, the platform economics, in particular.

Alicia Swift

Great.

Male Speaker

Hi. Thanks. You talked at the beginning about sort of just all the distractions for the consumer right now and that some of our guesses on housing might be as good as any, but maybe you could just spend a second on, to the extent we do see a pause in the market for whatever reason, move-in rates, inflation, do you think that impacts your business more on the franchise size or the owned side, and do you think it would affect you, maybe, on the luxury side more or it would be down market? Where do you think you would see it sort of the most immediately?

Ryan Schneider

It's a great question. In general, we're more focused on the long term than the near term bit. Look, we're in a very strange environment, right? You've got rising rates, but you've got supply constraints, and it has been very interesting to watch consumers kind of continue to power through. I was looking last night, mortgage applications, I think, are either flat or up for the second week in a row, though people are shifting to more adjustable rate mortgages than fixed, but it is interesting to watch the different dynamics of how higher rates are affecting housing in a supply-constrained environment versus in other environments. So, that's the first thing I'd say.

Second, in terms of where any sort of slowdown in housing kind of affects us the most, it's going to be pretty much across the board. I mean, we're effectively national in both of our businesses. At the moment, we're seeing the biggest effect in the under $500,000 area, in particular, in the first-time homebuyer, because that's the place where the supply issues are the most acute. It's the place where close to 100% of buyers are using mortgages, and it's also where the single-family rental folks who are buying houses are taking a lot of inventory off the market. That part of our market, even today, I think I said last month, we're seeing our listings go down, right? North of $500,000, our listings are actually up versus a year ago. So, we're likely to get hit probably equally in both businesses from any slowdown, but then the dynamics will be a little bit more driven by what's happening in the different customer segment than anything kind of specific to us. That is what we're seeing right now.

That said, again, we have a positive view on housing over a decade kind of time period. We have a positive view on luxury, hence the investment and the focus there, and then we want to continue to architect our owned and franchised to be as powerful as we can. Sometimes that's a geographic choice, sometimes that's a refranchising choice, sometimes that's some other choices. But, that's kind of our view.

But, look, the nice thing about us, and I think we've got the track record on it, we're not rooting—we don't root for downturns, clearly, but when they do happen, we still tend to be doing pretty well from having actually bottom line results and some free cash flow generation in a world where a lot of the competition, both existing and consumer-focused competition, probably has to go to capital markets to fund future things. We feel like we're in a somewhat advantaged position if the world gets into a little bit of a rough time, even though, again, we're not rooting for that and, clearly, are not excited about it.

Male Speaker

Hi. Thanks. Just first a clarifying question. The 20% of EBITDA from the consumers, or call it $240 million, what's the starting point? How do we think about the baseline, or is that all incremental?

Melissa McSherry

It's negligible. There might be a little something in the base, but mostly, that's outside it.

Male Speaker

Okay, and then second question. Ryan, you mentioned at the beginning a line of folks out your door trying to get assets through the network. How do you incent agents to sell all these other things and do it under the sort of legal-constrained and regulatory constraints?

Ryan Schneider

Great question. So, the first answer is I say no to everybody. Like, our agents are an asset, they're powerful, and why I would want to help somebody else, I think is crazy. That doesn't mean they don't come ask, and good for them, but we don't say yes to that, is the first thing. But again, to me, it's the signal of the mortgage company that, oh, we need your agents to help us, or the power buyer who's come to us and said, "We want to partner with you," or the iBuyer who's come and said, "We need to partner with you to do this," I see why that would be good for them. I don't think it's going to be good for us, so we don't do it.

Look, in general, we want our agents to stay focused on helping customers buy and sell homes, period, because the track record and the ability of our industry in any scenario to use agents to sell other things is really, basically, just a long record of pretty much failure, and part of it's because as that core transaction is both so complex, but also so valuable, that it's incredibly hard, I think, to incent people, legal stuff aside, to sell something that's small or sell the security system, or whatever kind of thing that you might envision on that dimension. So, we are very focused on doing everything we can to have our agents focused on selling the customer's home and getting them through this experience, which is why if we're going to capture more of the consumer economics, we can't do it by asking the agent to capture it for us, we have to embed it in the product, right?

The HomePlace app that's going to our buyers of properties in our ecosystem, Melissa showed you, it's the consumer who can touch—directly touch the mortgage and touch the title and touch the insurance. RealVitalize has title capture embedded in the product. We're not asking an agent to sell or help us capture title. We're giving our agents something that's good for the consumer and it's good for them, but has that embedded. We're here to support our agents with great marketing and technology and bespoke products everywhere we can, but we're not counting on or planning to use our agents as a sell other things force. We've got to go more to the consumer directly on those kind of things, which is part of the simplification vision, but also opportunity that we've seen.

So, that's how I'd answer the question, and a little more context on what I say when people come to us wanting to partner so that they can access our agents.

Alicia Swift

All right, great. We have more questions from the web. "In addition to consumer-facing technology expansion, what other technology expansion areas do you see as critical to support future growth targets?"

Melissa McSherry

Well, you know, I think I talked at the beginning about the importance—the degree to which we invest in agents and broker technology, and the fact that we're going to continue to invest in that. I mean, Ryan talked about we have very impressive statistics on the productivity of agents who use our technology versus productivity of agents who don't. We have very impressive statistics on the retention of agents who use our technology versus agents who don't. We have sort of that more baseline levels of technology and with specific products. So, we absolutely intend to continue to invest in making our agents and our brokers, and ultimately our franchisees, more productive and more—for the franchisees, more profitable, in addition to the consumer focus.

Alicia Swift

All right, great, thank you. "Given your stock price is trading at an exceptionally low free cash flow multiple, why wouldn't you aggressively repurchase your stock and prioritize it over repaying debt in 2022?"

Charlotte Simonelli

I'll take that one.

Ryan Schneider

Sure.

Charlotte Simonelli

I try to be pretty clear. We're rebalancing our priorities here, so we will—the numbers I gave you throughout the horizon are a third of our free cash flow we'll go to capital returns. It's not lost on us where our stock price is today, and I think that we're constantly evaluating our opportunities, so I would say stay tuned, but what's really important for us is to invest in the business, and if there's one thing that we leave you with here is that there really is a lot of potential to further invest in this business to drive long-term growth and sustainability. It's definitely a balance and we're constantly evaluating our opportunities.

Matthew Bouley

Hey, thanks. Matt Bouley, Barclays, again. You had, Ryan, at the beginning an interesting comment around refranchising, and I think, obviously, we've seen more recently, you've done a couple of deals acquiring franchises and bringing them into brokerage, and I'm just curious if you could expand a little on that and how you think about refranchising versus bringing on brokerages over the next few years?

Ryan Schneider

Yes, and part of it is every individual case is a little bit of a different situation. We're going to be very selective on the acquisitions we're doing. The one thing that we did in April was kind of the one hole in our ecosystem on the owned side. We had no presence in kind of the Seattle kind of markets. It skews very luxury, it skews very high growth. We had a franchisee who'd exited to a title company and then they wanted to divest the business. It was not a hard call to want to actually grab that kind of really good company at what we think is a really attractive price. So, that one was pretty easy.

The broader thing is, again, we like all of our businesses, but I use the word "love" on our franchise business a lot, and we would want to grow that as much as possible. Refranchising is one lever to do that. Unlike some other industries, it's been a little harder to do it in this industry. We've probably swung at that more times with a lower batting average than our quick-service restaurant friends. It doesn't mean we're going to stop trying. We did our kind of first material one, I think it was last year, either late 2020 or early 2021, but every one is kind of a situation of strategically do you have the right franchisee and the right market, and then, frankly, part of the new capital thing goes with that, which is part of the reason to bring in new capital, that we've done, is to open up people who have the capital to do it. Because, unlike hotels and QSRs and stuff, there aren't the pools of capital out there to do refranchise in our industry, the way they are and some others. We're not giving up on it, but it's got to be the right situation both in terms of you've got to have the right person on the other side who you know is going to do a better job with the business than you're doing because of their entrepreneurship, etc., but also, strategically, you don't want to give away things that are more valuable when you do own them, and there are some luxury places—let's be clear, there are some luxury parts of the business where the unit economics for us on the owned side are incredibly good and it would be a shame to not keep those in the family, where appropriate.

So, it's a little more complex, I think, than maybe in some other industries. We spend a lot of time on it, but we haven't spent that much time talking about it publicly just because we haven't done as much, but it's absolutely one of the growth levers over the next five years, and again, we have a few proof points of what we've done, so we just thought we should share them with you today and talk about that for the future.

Matthew Bouley

Got it. No, thank you for that. The other one I wanted to ask was just back on the business mix, which you were speaking to. To the extent the $240 million or so is largely incremental, and then the $300 million cost takeout presumably is more weighted to brokerage, given that's where the fixed costs are, is it fair to say that in 2026 the mix of business will be some—I don't know if meaningful is the right word, but will be different, if brokerage will be a smaller piece of the pie, or at the end of the day, the market growth is still in that part of the business, as well? So, just curious on your thoughts around the mix.

Melissa McSherry

Yes, it's more of the latter. I think the mix will stay relatively stable over time. I think you saw in the earlier part of the presentation, like Ryan showed, $140 million of the $300 million we've delivered came out of just CB alone, but you're right, it's heavier weight towards owned brokerage, for sure, but that doesn't mean we don't have opportunities in title and in relocation and corporate. There's a lot of savings that we can drive on the corporate P&L line, as well.

Ryan Schneider

Thank you, Matt.

Alicia Swift

All right, great. We have some more questions from the web.

Ryan Schneider

Great.

Alicia Swift

"Can you break out Realogy's commission split pressure since 2019 into two buckets, the amount driven by agents moving down their split tables as a result of higher volumes, and two, the amount attributable to competitive pressure for agents?"

Melissa McSherry

It doesn't actually move down the table when there's—it's moving up. As the volume goes up, it's moving up the table. We can break it out, we don't choose to break it out that way, but I think what you've seen in all of the quarterly earnings releases, and how I've shared it, it's kind of like two-thirds of the pressure, on average, has been through all of those things. The volume, the agent mix, recruiting, retention, that kind of has driven sort of two-thirds. We have other business mix things, whether it's coming from our new development business, there's sales of businesses that we've had that have drove pressure up even though it has nothing to do with splits, it's just revenue without a split. So, all of those things ebb and flow.

When the volume is significantly overweight, sure, that has an impact, but what we're seeing in the most recent time horizon, because of the constrained inventory situation, is that agent mix is actually what's driving it, not recruiting or retention. There's some of that, recruiting and retention, but the agents that are doing these transactions in a constrained environment are the ones with the higher split, because they're more seasoned and they're getting sort of the listings.

So, it ebbs and flows and it's not one answer over any—you can't really generalize over a longer period of time.

Ryan Schneider

I want to give you a different—another way you can think about it, which echoes a little bit of what I said before, which is—and thank you, by the way, for the question, because the way you framed it helps. Look, the agent commission pressure we saw, I would say, as an industry and as a Company in 2018 and 2019 was both unhealthy, and there's not a lot of good that I can say about it, because it mostly came from competitive forces and it didn't come with the volume or the share gain or the other benefits that we've demonstrated.

The agent commission pressure we've had in the last few years, for all the different reasons Charlotte's talked, about has come with volume, has come with share gain, has come with revenue growth, has come with more title mortgage integration, etc., and so while it's absolutely a force out there in the world and it does put some margin pressure on the business, if you're in my seat, you feel fundamentally different about it in that latter world than the former. We're not going to hide from this one, right? We've clearly told you that we expect agent commissions to increase, but we also think there's some moderation there both based off what's happening in the market, but also based off some of the things we think we're doing with actual proof points that help the agents that could help us on this dimension as we go forward on the consumer side.

The market environment matters a lot on this, and it's a market force, just like other industries have market forces, but there's versions of it that are more healthy than others, and we're here to confront it directly, whether it's with our aggressive focus on the operating fixed cost side, the value proposition, or even how we end up changing our business mix over time, to be either less exposed to that, potentially, over time.

So, that's just another way you can think about it given how you framed the question. Good question. Thank you.

Male Speaker

Hey, over here. This is A.J. Hayes with Stephens, Inc. Hey, guys. Maybe a question for Melissa here. Can you just talk about the rollout of the three platforms discussed today, RealVitalize, RealSure and HomePlace? Can you just talk about the rollout of this, how many markets this is in, how many states this is in, how many agents have access to these platforms, and maybe talk about the rollout over the next year or so?

Melissa McSherry

Yes. So, just to be clear, we think of those as individual products, they may not evolve into platforms—something like RealVitalize is sort of handling a specific vertical—and they vary in terms of their availability. Something like RealVitalize would be available broadly to our owned—our CB owned brokerage, what Ryan described as our sort of national integrated brokerage market, and I think our goal for that would be to make that available broadly to the rest of our owned brokerage, so sort of more of the luxury side, as well as the franchisees. We've started the process of educating franchisees on how that works. There are some modest changes to the product that we would need to make in order to make that work for franchisees, but we're sort of in the process of doing that. That example would be sort of one end of the spectrum. You could think of that as it's got pretty good national coverage, but it's in sort of one part of the business and expansion is in the other parts of the business.

The other products that we talked about, they're not yet in all of the markets. For instance, something like HomePlace, we've done some amount of testing in markets that cover, probably, just in the zip code of about 50% of our markets, but even within that, that's quite new, if that makes sense, that's just where we've done testing. So far, we've primarily been focused on our Coldwell Banker business, and so that has sort of a longer—maybe a longer burn to it, in terms of you would want both the geographic expansion, as well as kind of across businesses.

Alicia Swift

Great, thank you, and with that, we are at time. I want to thank you all in person and on the web for all of your questions. If you have any other follow-ups, please contact me or Danielle in Investor Relations.

With that, I will turn it back to Ryan for closing remarks.

Ryan Schneider

All right. Thank you, everybody, for coming here to Next Now. We really appreciate the investment, again, both in person and on the web. We're going to wrap up today. For those of you in person, thank you for coming, we have lunch for you, as well as a lot of our leaders and products around here. For those of you on the webcast, please watch our Investor Relations micro site, we'll be posting some video and other things to show you some of the products and experiences that we had highlighted in the building today, and with that, we're going to wrap up.

Thank you again, everybody. Have a great afternoon. Take care. Okay.