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# Anywhere Real Estate, Inc. (HOUS)

Q3 2023 Earnings Call

## CORPORATE PARTICIPANTS

### Ryan M. Schneider

Director, Chief Executive Officer & President, Anywhere Real Estate, Inc.

### Charlotte C. Simonelli

Executive Vice President & Chief Financial Officer, Anywhere Real Estate, Inc.

### Alicia Swift

Senior Vice President-Investor Relations, Anywhere Real Estate, Inc.

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## OTHER PARTICIPANTS

### Soham Bhonsle

Analyst, BTIG LLC

### Anika Dholakia

Analyst, Barclays Capital, Inc.

### Anthony Paolone

Analyst, JPMorgan Securities LLC

### John Campbell

Analyst, Stephens, Inc.

### Thomas McJoynt-Griffith

Analyst, Keefe, Bruyette & Woods, Inc.

### Ryan McKeveny

Analyst, Zelman & Associates

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good morning and welcome to the Anywhere Real Estate Third Quarter 2023 Earnings Conference Call via Webcast. Today's call is being recorded and a written transcript will be made available in the Investor Information section of the company's website tomorrow. A webcast replay will also be made available on the company's website.

At this time, I'd like to turn the conference over to Anywhere's Senior Vice President, Alicia Swift. Please go ahead, Alicia.

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### Alicia Swift

Senior Vice President-Investor Relations, Anywhere Real Estate, Inc.

Thank you, Chris. Good morning and welcome to the third quarter 2023 earnings conference call for Anywhere Real Estate, Inc. On the call with me today are Anywhere's CEO and President, Ryan Schneider, and Chief Financial Officer, Charlotte Simonelli.

As shown on slide 3 of the presentation, the company will be making statements about its future results and other forward-looking statements during this call. These statements are based on the current expectations and the current economic environment. Forward-looking statements, estimates and projections are inherently subject to significant, economic, competitive, litigation, regulatory and other uncertainties and contingencies, many of which are beyond the control of management, including, among others, industry and macroeconomic developments.

Actual results may differ materially from those expressed or implied in the forward-looking statements. Important assumptions and other factors that could cause actual results to differ materially from those in the forward-looking statements are specified in our earnings release issued today, as well as in our annual and quarterly SEC filings. For those who listen to the rebroadcast of this presentation, we remind you that the remarks made herein are, as of today, October 24th, and have not been updated subsequent to the initial earnings call.

Now, I will turn the call over to our CEO and President, Ryan Schneider.

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## Ryan M. Schneider

Director, Chief Executive Officer & President, Anywhere Real Estate, Inc.

Thank you, Alicia. Anywhere demonstrated our continued ability to lead through the tough housing market, even as it worsened in the third quarter with higher mortgage rates. We push forward on our strategic agenda, expanding our high-margin franchise business, strengthening our balance sheet, completing additional cost reductions, and removing litigation uncertainty, all setting us up for powerful momentum as the housing market improves.

During the third quarter, we delivered \$1.6 billion of revenue and generated \$107 million of operating EBITDA, which includes a small top-up to our legal reserves. We reduced our debt by nearly \$300 million. We realized \$60 million of cost savings in the quarter and completed the actions to deliver our \$200 million cost target for the year. And we settled our seller antitrust class action litigation on a nationwide basis.

Our quarterly transaction volume was down 13% year-over-year, which looks to be in-line with, or even a bit better than, the overall market's performance. Volumes were softer than we expected in the back half of the quarter, primarily driven by higher mortgage rates, that approached 8%. Home prices continue to be resilient, with more than 80% of the country seeing price gains in our portfolio, as supply limits remain the biggest issue in the market. Looking at our year-over-year volume results, we see variations across both geographies and market segments.

Geographies like Florida and Colorado outperformed the market. The luxury segment, especially million dollar plus homes, had the best performance in our portfolio, with our Sotheby's International Realty brand being close to flat versus last year. We remain very excited by our leading position in luxury, and as we've talked about many times, it is one of our most important strategic vectors.

Now, conversely, there are geographies out there like California and New York that are underperforming the market. And from a segment perspective, the lower end of the market has the biggest challenges from that combination of limited supply and higher mortgage rates.

Here at Anywhere Real Estate, we are clear eyed about the challenges of the current housing market--And remember, we recognized the downturn early and have been very aggressive moving quickly on critical vectors like cost reduction and debt paydown. We are proactively executing on what we can control, laying the groundwork for substantial success, especially when the market rebounds.

So, first, we are excited by our progress simplifying, automating, and streamlining our operations. And we have already completed the actions that will deliver our \$200 million cost savings target, and we are cautiously optimistic that we may over deliver on this number. We like the opportunities to further drive permanent efficiencies in our business and how those opportunities can enhance our margins and better housing markets.

Second, we remain laser focused on debt reduction. I am so proud that we were able to reduce our debt by nearly \$300 million in the quarter, as we completed our bond exchange, repurchased bonds in the open market and repaid a portion of our revolver. This builds on the tremendous work we've done over the past years to reduce our debt by nearly \$900 million. Continuing debt reduction is critical and remains a top capital allocation priority.

Third, we are differentiating ourselves and taking advantage of the better competitive environment. Our margin focus and commitment to profitability remains unchanged. We were excited to see our market share results in the quarter hold steady versus the latest overall NAR data, and we may actually have been a share gainer. We are recruiting agents at both better margins and with less cash out the door than we did in 2022, and we are achieving the same better results in our franchise sales and renewals.

Fourth, we are pleased to have reached a nationwide settlement in the seller antitrust class action litigation. While the settlement still needs court approvals, this enables us to move past the distraction, uncertainty in expense that comes with complex and protracted litigation.

Looking forward, we are investing substantially in our future--enabled by our scale, profitability, and free cash flow generation, unlike many of our competitors--and we like our strategic progress.

We love the power of our franchise business. Even in this tough market, we see its high margin resiliency, its reliable profit generation, and the benefits of its long-term contract structure. We continue to enhance our value proposition to attract new franchisees and strengthen our existing franchise portfolio.

Anywhere is helping franchisees access new economics through our national scale title business, with the launch of our Upward Title Joint ventures. We already have 19 franchise partners across three states with multiple states to follow, and we're seeing strong demand, especially from some of our bigger franchisees, including luxury franchisees.

Anywhere is using our technology to deliver more cost-effective solutions to franchisees. One example is our new Listings Direct technology, which integrates our franchisee with MLSs and reduces their need to purchase separate solutions and/or hire additional staff for MLS related back office work. We already have over 100 franchisees using or in the pipeline to use Listings Direct.

And we continue to invest in our luxury franchise power. For example, Corcoran has expanded or launched in 10 key markets this year across the Northeast, the West and internationally, and I'm excited to announce today its latest market expansion into Houston.

Now, second, we're integrating our support services across brokerage and title to digitally assist agents and consumers from contract to close. This is a win for our agents as we can provide them with high-value transaction coordination services as part of our value proposition, saving them the time and hassle of either managing this

work themselves or paying hundreds of dollars per transaction for someone else to handle it, so that they can focus on earning new business. It's a win for consumers as we create a simpler transaction experience and a faster, more seamless closing process. And it's a win for Anywhere as this makes it easier for us to capture title, mortgage and insurance economics and allows us to aggressively simplify, standardize, and automate our operations.

We're in the beginning stages of rolling this out, and we like our early results. We're live in four markets with several others to be added by year-end and a broader rollout in 2024. Agent satisfaction is 97% and our net promoter score here is 84%.

Finally, like I shared with you last quarter, I'm excited by how we're using our industry leading data scale and generative AI to build powerful proof of concepts. For example, we have large language model proof-of-concepts that are improving a wide range of marketing activities around both copywriting and image generation. This area has tremendous potential given both our spend and our agents' spend on marketing activities.

And by their nature, our title and brokerage operations have significant documentation requirements. We have two pilots underway to test generative AI's ability to create, assemble, and audit those documents. And given our significant spend in these areas, we're optimistic about its potential.

And we see use cases from generative AI coming from everywhere. We recently launched a safe way for people in our ecosystem to access GPT-4, while protecting confidential information. And we're pleased with the number of people experimenting with these tools and their early innovation excitement.

And really the challenge from here is not just building more of these exciting use cases, but most importantly, scaling them up to deliver real value.

Now, I'm going to come back later with a few closing thoughts. But for now, let me turn over to Charlotte to discuss our results in more detail.

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## Charlotte C. Simonelli

Executive Vice President & Chief Financial Officer, Anywhere Real Estate, Inc.

Good morning, everyone. I am proud of our third quarter results delivery, as we continue to generate meaningful operating EBITDA, execute cost savings, improve our capital structure, and prudently manage our cash. We remain focused on what we can control and are well-equipped to navigate this tough housing environment to drive differentiated results now and in the future.

Now, I will highlight our third quarter financial results. Q3 revenue was \$1.6 billion, down 12% versus prior year, and in line with our transaction volume decline, which we saw worsen in the latter half of the quarter due to rising mortgage rates.

Q3 operating EBITDA was \$107 million, down versus prior year due to lower transaction volume, slightly higher agent commission costs, and timing on employee incentive accruals, offset in part by cost savings across the enterprise. We also had a slight top-up to our legal reserves in the quarter.

Q3 free cash flow was \$95 million, which was consistent with our free cash flow in Q3 of last year, despite significantly lower market volumes. This strong free cash flow demonstrates our continued prudent cash

management discipline, and we used our free cash flow in line with our capital allocation priorities to invest in the business and pay down debt. As Ryan mentioned, we entered into a settlement on our seller antitrust litigation...

[Technical Difficulty]

**Operator:** Ladies and gentlemen, this is the operator. Looks like we're just having a slight technical issue. Please stand by.

## Charlotte C. Simonelli

Executive Vice President & Chief Financial Officer, Anywhere Real Estate, Inc.

I'll repeat myself, and sorry if there's a duplication.

We reduced debt by \$281 million in the third quarter through successful bond exchanges, open market repurchases, and repaying a portion of our revolver balance.

In August, we had full participation and successfully exchanged about \$800 million of our 2029 and 2030 notes for about \$640 million of new 7% second lien 2030 secured notes. This transaction reduced debt by \$160 million, while incurring minimal incremental interest expense and retaining our flexibility and long-dated maturities.

During the quarter, we also completed about \$70 million in opportunistic open market debt repurchases across our 2029 and 2030 unsecured notes. The weighted average purchase price was about \$71.50, allowing us to capture \$20 million of discount.

In addition, we used our free cash flow generation to further reduce our revolver borrowings by \$50 million and end the quarter at \$300 million.

Since I joined the company in 2019, we have drastically improved our capital structure, with longer dated maturities, lower interest rates, and more unsecured debt. We have reduced our net debt by almost \$900 million, with only about \$200 million due before 2026. We remain focused on reducing debt and are always evaluating ways to achieve this goal. With our improved debt stack and ample liquidity, I feel good about our ability to weather the current market conditions, while also investing to drive future results.

Now, let me go into more detail on our business segment performance.

Our Anywhere Brands business, which includes leads and relocation, generated \$155 million in operating EBITDA, even in one of the worst housing markets we've seen in about 15 years. Operating EBITDA declined \$47 million year-over-year, primarily due to lower revenue related to transaction volume declines, partially offset by decreases in operating and marketing costs. While down versus prior year, we love the recurring royalty stream and high margins of our franchise business and its relative stability over time.

Our Q3 Anywhere Advisors operating EBITDA was negative \$8 million, down \$7 million versus prior year due to lower volume and slightly higher agent commission costs, also offset in part by lower operating and marketing expenses.

Our split rate in Q3 was 80.2%, which is up 55 basis points year-over-year, and in line with where splits were in Q1 and Q2 of this year. And there continue to be parts of our business, especially in luxury, where our splits are actually lower year-over-year. We continue to like the moderation we see in splits, which is driven by lower volumes, more stable agent mix, better recruiting economics, and other proactive actions we have taken.

Anywhere Integrated Services was \$2 million in operating EBITDA in Q3. Operating EBITDA declined \$7 million year-over-year due to lower purchase and refinance volumes, which was partially offset by lower operating expenses due to cost savings initiatives and \$4 million of improved GRA JV performance.

We are relentlessly focused on changing how we operate to drive efficiencies in our business and set ourselves up for higher margins when the market returns. We delivered \$60 million of cost savings in the quarter and north of \$160 million year-to-date. We have already completed the actions that will deliver \$200 million of realized cost savings this year and are cautiously optimistic that we'll deliver above that number.

Looking at our year-to-date cost structure, our total operating, marketing, and G&A expenses totaled \$1.36 billion through Q3. This is down from \$1.57 billion a year ago, or a decline of approximately \$215 million year-over-year. A clear indication of the realized savings we have achieved with our steadfast focus to help offset the weaker housing market, litigation expenses, and inflation.

And as you'll see on slide 21 of our earnings presentation, we provided details on the segment makeup of our operating, marketing, and G&A expenses for the last 12 months. Our operating expenses are primarily comprised of employees and offices. We have made a lot of progress in driving efficiency in these areas by simplifying, automating, and streamlining our operations. But we still believe there are opportunities ahead of us across all of our expenses, as we continue to re-imagine how we operate. And I will be back in our year-end earnings release to provide more details on our savings expectations for 2024.

Now, onto our updated estimates for 2023. For full-year 2023, we still expect transaction volumes to decline about 15% to 20% year-over-year. And with the weaker market and higher mortgage rates in the latter part of Q3, we now think this will end up towards the worst part of that range. Second, based on the year-to-date split trends, we are now narrowing our range and expect full-year split pressure of about 50 to 60 basis points. We really like our actions in this area and the better recruiting margins this year.

Estimates that remain the same as the last call. We still expect transaction volumes will improve sequentially year-over-year throughout the year. We expect our operating free cash flow to be modestly positive as favorable working capital, robust savings programs, and our cash management discipline will counterbalance this tough year in housing. This excludes the impact of cash expenses from the debt exchange transactions and any other nonrecurring items.

Finally, we are on track to realize \$200 million of P&L cost savings in 2023. And as I said earlier, we may outperform this number. While 2023 has been challenging and the outlook for 2024 remains uncertain, we have proven our ability to navigate this tough market. We generate consistent earnings and free cash flow to invest in growth and continue to be focused on reducing debt, which will position us for an even stronger future.

Let me now turn the call back to Ryan for some closing remarks.

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**Ryan M. Schneider**

Director, Chief Executive Officer & President, Anywhere Real Estate, Inc.

Thank you, Charlotte. I'm incredibly proud of how the Anywhere team has led through the tough housing environment. Even with the headwinds higher mortgage rates this quarter, we delivered meaningful profitability and free cash flow, reduced our debt, over-delivered on our cost savings agenda, and mitigated risk by reaching a nationwide settlement in our antitrust litigation.

And I'm excited by the strategic progress we made in the quarter--enhancing our financially powerful franchise business, integrating our brokerage and title operations with wins and benefits for agents, consumers, and Anywhere, taking advantage of the improved competitive environment, and creating some exciting generative AI use cases and focusing on how we scale them.

Now, looking ahead, while the housing market outlook for 2024 remains uncertain, our proven results delivery combined with our strategic progress, positions Anywhere Real Estate to drive differentiated results going forward, especially as the housing market strengthens.

With that, we will take your questions.

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## QUESTION AND ANSWER SECTION

**Operator:** [Operator Instructions] Our first question is from Soham Bhonsle with BTIG. Your line is open.

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Soham Bhonsle

Analyst, BTIG LLC

Hey, good morning, everyone.

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Charlotte C. Simonelli

Executive Vice President & Chief Financial Officer, Anywhere Real Estate, Inc.

Good morning.

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Soham Bhonsle

Analyst, BTIG LLC

Ryan, maybe just a big picture one to start. I think with all the headlines today, investors are really trying to understand, digest, what all the headlines can mean for the industry over the next few years. So, would love for you to just maybe step back and give us your thoughts on, what this could mean for industry structure, whether

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that's the number of agents in the business or market share for players like yourself versus others, however you sort of want to frame it?

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## Ryan M. Schneider

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Director, Chief Executive Officer & President, Anywhere Real Estate, Inc.

Well, look, the biggest headline and the biggest thing impacting our industry bluntly is just where the housing market is at. I mean, we're trending to, what, 4.1 million or 4.2 million unit transactions this year. That's either the lowest number in 15 years or 30 years, depending on how you count apartments and stuff like that in those kind of metrics. But that's a rough year, right, and we saw a little worsening at the end of the third quarter as mortgage rates either approached or in some cases hit 8%. And so, that's the thing that's really the most challenging right now.

We like the fact that a lot of the actions we're still able to do, whether they're proactive investments or cost or debt things, if you remodel our company in a normal housing environment, like we're printing money. We're still printing money today, but we're printing a lot of money and those kind of things. And then, I still live in the world where if you think about the US housing market over a 5 to 10-year period, it should be pretty strong. If you just think about the demographics in the supply and demand and one of our competitors has been out there saying 60 million units over 10 years, which averages about 6 million units, that wouldn't be unreasonable given the demographics.

So, it's really going through this valley and how deep and long it's going to be is the near-term issue. But you think about kind of like the economics and the power we've got with our size and scale and our profitability and our ability to keep investing through those sites, and there is a competitive differentiator happy here. I mean, look, I talk about the competitive market being different. I mean, we're recruiting agents with better margins than we did last year. We used less cash out the door, hence the free cash flow Charlotte was talking about, because the market is different and a lot of players in our industry aren't investing either because they're smaller or they don't have the profitability. And we think, over the medium term, that's a good thing for us.

And so, we're excited that we can still deliver profitability and free cash flow and make progress on debt and keep getting more efficient as a company. And then, what we always do is say, how will our company be in a normal housing market. And we really like the moves we're making. If you just model that cost reduction in a normal market, or you model even a little bit of what looks like maybe a little bit of market share gain this quarter in normal market.

So, that is the macro issue obviously. It affects everybody, but in a level playing field where it affects everybody, we think we're making some progress on a relative basis here that's going to really pay off in more normal markets.

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## Soham Bhonsle

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Analyst, BTIG LLC

Okay, great. Charlotte, on costs, wondering if you could give us some insight into how you're approaching your plans for next year? Is there any sort of framework that you can share, just given volumes are probably going to

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be challenged next year as well, given where rates are today currently, which will make the cost side an important lever for next year?

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Charlotte C. Simonelli

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Executive Vice President & Chief Financial Officer, Anywhere Real Estate, Inc.

Yeah. So, like I said on the call, I'll be out next quarter with more specificity on the numbers we're targeting. But basically, it's not lost on us where the housing market is today. And so, I'm very optimistic that we'll be able to have some meaningful number for next year. It's two years in a row of this type of a market makes it even more important for us to focus on that. And so, you can definitely expect that we are laser focused on it right now and we'll have something meaningful to share with you next quarter.

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Soham Bhonsle

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Analyst, BTIG LLC

Okay.

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Ryan M. Schneider

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Director, Chief Executive Officer & President, Anywhere Real Estate, Inc.

And our continued potential on the cost side, I mean, I mentioned in my script even a couple of the AI things that I talked about, we're doing with generative AI. Like, if we can scale them up, a lot of the benefits is on the cost side. And so, I don't think we're done on that journey. I think Charlotte has been a great captain of steering our ship there and will show up more for you next quarter.

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Soham Bhonsle

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Analyst, BTIG LLC

Thanks, Ryan.

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**Operator:** The next question is from Matthew Bouley with Barclays Capital. Your line is open.

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Anika Dholakia

Analyst, Barclays Capital, Inc.

Good morning. This is Anika Dholakia on for Matt. Thanks for taking my question. I'm wondering if you can elaborate on the practice changes that you outlined from the settlement. And overall, how you think this could affect commission rates for agents? Thank you.

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Ryan M. Schneider

Director, Chief Executive Officer &amp; President, Anywhere Real Estate, Inc.

Yeah. So, look, we're these are all out there in the public. We agreed to about eight practice changes. Some of them are things that NAR in the DOJ agreed on three or four years ago that we supported then. And we actually, in some cases, we hadn't already implemented them.

In others, there are places where we had already been on the record if we wanted to, we thought that was a good change for the industry. And so, for us, they all lean into kind of the power of transparency and our belief that both buyer and seller agents add a lot of value. I'm not going to speculate too much on kind of what's going to happen with the industry. But there are a lot of places in the US that have moved away from some of the mandatory rules and move more toward this transparency of disclosure that we agreed to, and we think those markets operate well. We're going to be here supporting our buyer and our seller agents through the future here.

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Anika Dholakia

Analyst, Barclays Capital, Inc.

Great. Thank you. And I guess for my second question, are you starting to see any more attrition amongst real estate agents? Are you seeing them leave the industry, given the difficult macro backdrop? And what do you think this means overall for the competitive environment, for the top producing agents? Thanks.

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Ryan M. Schneider

Director, Chief Executive Officer &amp; President, Anywhere Real Estate, Inc.

Yeah. So, look, great question. A couple of things. So, absolutely, we're definitely seeing agents leave the industry. It's typically the low or no productivity agents. And when you even see our agent count, you'll see it actually go down a bit in part because there's some of those people leaving the industry and sometimes, we're kind of help them shoo them out the door a little bit, because they're not free to support. And if they're not really going to be producers, then, it's probably not good for them or for us. And look, this is not a new phenomenon. When COVID hit, a lot of agents left in Q2 of 2020 because Q2 is also a time when a lot of people had to pay their state real estate fees and things like that.

And so, the trend, the top 20% of agents doing 80% or 90% of the business is not a new one, but it is continuing. And so, we always look at things on kind of who's producing and our retention on our producing agents is phenomenally good. We're able to do the better recruiting that I talked about, while producing agents that we're not talking about low or no producers and those, when we talk about those kind of numbers.

But you are right that there's definitely some movement out of the industry, but it's really not concentrated in people doing a lot of business. And that's not a bad thing, but it's cyclical, right? The market gets hot. I think agent count will go back up as more people enter the industry. And we, of late, take a lot of new agents and make them really successful and partner with them. And we're for that, but we are in that shrinkage time as an industry right now.

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Anika Dholakia

Analyst, Barclays Capital, Inc.

Great. Thank you. I'll pass it on.

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**Operator:** The next question is from Anthony Paolone with JPMorgan. Your line is open.

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Anthony Paolone

Analyst, JPMorgan Securities LLC

Thanks. Good morning. I guess, first one just on splits. How much of just the moderating growth in the splits is from, I guess, mix? I'm trying to just understand that, if, like California rebounds and you get back to more normalized distribution of activity around the country, like what the splits look like?

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Charlotte C. Simonelli

Executive Vice President & Chief Financial Officer, Anywhere Real Estate, Inc.

Yeah. So, the geography doesn't normally play a big role. It actually did play a little bit of a role in the quarter. It was less than 10 basis points. So, I wouldn't say, it's the most material impact. There was another impact I didn't call out from some timing on our new development business as well.

So, if you kind of back out the non-core split movements, it would have been sort of less than half or about half of what I reported of an increase. So, geography was an impact this quarter. I don't normally call it out because it isn't normally, it was, but I would say it was still relatively minor.

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Anthony Paolone

Analyst, JPMorgan Securities LLC

Okay. But you sense that like, on a go forward basis, if a lot of these bigger regions kind of normalize, we shouldn't expect like, I don't know, 100, 200 basis point pick up or something like...

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Charlotte C. Simonelli

Executive Vice President & Chief Financial Officer, Anywhere Real Estate, Inc.

No.

A

Anthony Paolone

Analyst, JPMorgan Securities LLC

...not Like that?

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Charlotte C. Simonelli

Executive Vice President & Chief Financial Officer, Anywhere Real Estate, Inc.

Keep in mind like, right now, we have counterbalancing things between California and New York. Florida remains one of the stronger markets and Florida is also one of the higher split markets, too. So, it's interesting how California and New York tend to kind of counterbalance each other for the long haul in the most part.

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Anthony Paolone

Analyst, JPMorgan Securities LLC

Okay. Got it. And then, Ryan, you talked about just demographics and positive things looking forward. I mean, what's your sense for what, for lack of a better term, a clearing rate might be for interest rates? Or what point are these higher interest rates socialized enough that, you start to see people just act? I mean, is there a number in your mind or some level that you think would prompt like a bounce in activity?

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Ryan M. Schneider

Director, Chief Executive Officer & President, Anywhere Real Estate, Inc.

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Yeah, there is. And you may not like it, but I'll just give it to you because I'll tell you the truth. Like, I think it's 5.5% to 6% for mortgage rates and we're a bit away from that right now. But the evidence for me there is, all the homebuilders who moved a lot of product, but they did it by buy in or home built rates down to 5.5%, basically.

I mean, I talked to a homebuilder CEO in the past, kind of, couple of months. They'll buy down to 4.99% for homes to be delivered in the first 60 days, and then, they buy down to 5.5% for other stuff. And that's changed recently, right, in the last month or so. Now, they've been hit because, at 8% mortgage rates, I think their ability to buy down that far is crimped. I can't really speak for them, but that's what I see from the outside.

But there'll be a little bit of relief, as some of the people who have ARM mortgages kind of roll off over time, but I think that's going to be pretty slow in a world where 80% of Americans have a rate below 5%. But I think if you look at consumer survey data, I've seen some good data from John Burns consulting on that, and then, you look at what homebuilders are doing. Between 5.5% and 6%, people are willing to give up the mortgage they've got for a better/different house, it does move product with new homes.

And so, that's the level that I think kind of unlocks the inventory problem because again, prices are up in 80% of our portfolio, I mean, even with all the affordability issues of high mortgage rates, the demand is still greater than supply. If we had more homes, we could sell them, more than 50% of our homes have been like, in Coldwell Banker selling within 14 days, I mean. So, I think it's going to take a mortgage rate in that ZIP code to unlock those. ,

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Anthony Paolone

Analyst, JPMorgan Securities LLC

Okay. Thank you. And then, just maybe last one for me. There's a lot of just chatter and articles about DOJ risk in the industry, maybe for non-lawyers or non-experts on how that works. Like, what can you tell us about that risk or you know where that might be just anything to level set there would be great?

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Ryan M. Schneider

Director, Chief Executive Officer & President, Anywhere Real Estate, Inc.

Look, I mean, we watch all the risk, but you're going to have to go ask the DOJ about that. I haven't spoken with the DOJ, and they've got their thing going with NAR, but that's for those guys to talk about.

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Anthony Paolone

Analyst, JPMorgan Securities LLC

Okay. Thanks for the color.

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Ryan M. Schneider

Director, Chief Executive Officer & President, Anywhere Real Estate, Inc.

Thank you, Tony.

**Operator:** The next question is from John Campbell with Stephens. Your line is open.

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John Campbell

Analyst, Stephens, Inc.

Hey, guys. Good morning. Thanks for taking our questions. With the settlement now in the works, Ryan, I'm hoping or maybe Charlotte, hoping you guys could provide the all-in legal spend kind of tied to these suits, maybe since inception, or maybe just kind of what you spent year-to-date? Just trying to get a sense for what that profit lift might look like from the lower legal spend?

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Charlotte C. Simonelli

Executive Vice President & Chief Financial Officer, Anywhere Real Estate, Inc.

Yeah, we're not going to disclose that. But I can tell you, there will be a little bit of a tailwind next year. I wouldn't, there was, obviously, we started taking these expenses in Q3 of last year. So, it's kind of like phased out over two years. So, you're not going to see like a one-time huge benefit because part of it hits this year and part of it will hit next year. We're just really pleased that we're done with it, and we can experience the tailwinds from having lower litigation expenses. So...

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Ryan M. Schneider

Director, Chief Executive Officer & President, Anywhere Real Estate, Inc.

And John, one of the factors that went into the settlement decision was just that the ongoing expense for this kind of complex and prolonged litigation. And so, we'll have the tailwind that Charlotte talked about, but I think ever getting into the nitty gritty of how much we're spending on a specific matter and things like that is a bridge too far. But we've tried to be transparent about when we're taking big reserves, which we did like three quarters in a row, we'll top-up this quarter. And then, that will roll-off on a last 12-month basis and some of our reporting that you see. But we're going to lower litigation expenses and that's what we're going to have subject to these things all being approved.

John Campbell

Analyst, Stephens, Inc.

Okay. That's helpful. And then, just to clarify, you guys were not hiding that back to your adjusted EBITDA?

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Charlotte C. Simonelli

Executive Vice President & Chief Financial Officer, Anywhere Real Estate, Inc.

No, we did not exclude it.

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Ryan M. Schneider

Director, Chief Executive Officer & President, Anywhere Real Estate, Inc.

No. I mean, look, that it's funny you say that because there are people who say, hey, you should have always added back all this legal stuff to your EBITDA, but that's historically not been our approach, so, we didn't change it. But we have tried to be clear that the numbers we report would have been bigger, obviously, if we had, if we had not done some of the legal reserving and everything else, but it served us well. And we think we've got a good, the fact that our business has more octane than some of the numbers we printed is...

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Charlotte C. Simonelli

Executive Vice President & Chief Financial Officer, Anywhere Real Estate, Inc.

Including this quarter.

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Ryan M. Schneider

Director, Chief Executive Officer & President, Anywhere Real Estate, Inc.

...including this quarter is a good thing.

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John Campbell

Analyst, Stephens, Inc.

Absolutely. Last question. On the price side of things, I mean, that was a lot higher than we expected this quarter. I think also probably a lot of investors were expecting as well. Ryan, you mentioned that 80% of the markets are

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experiencing price gains, and does seem like it's fairly broad based. I'm curious about your take on home price gains as we approach the new year. And if you feel like there's enough momentum or if that can continue into the next year, it just feels like there's a lot of moving parts there, where if we get the inventory, maybe the price cools off. So, I know there's a lot of moving parts, but just your best guess.

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Ryan M. Schneider

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Director, Chief Executive Officer & President, Anywhere Real Estate, Inc.

Yeah, look, I mean, we tend to not model a lot of price gains, right, because we'd rather have the gains on the unit side. So, we're actually rooting for what you just said, which is let's have the unit world unlock, let's get some more transactions there and then we're happy with whatever happens kind of on the price side. So, the price numbers, I think in the quarter, probably were a little bit higher than we thought they would be.

But when you put the even higher mortgage rates and then what that does on the supply side and then the fact that there is still demand out there, we're not that surprised by it, right. But there's a few markets where prices did drop, but not some of the bigger markets, but when you see markets up 2% or 3% in price or others, 5%, 6%, 10%, it's really I think that back to this great supply demand thing.

And so, we're going to, when we model next year, and we'll probably talk to you about this on the next. Like Charlotte talked about on the cost side, I think you'll see us like not, we don't want to bet on price, right. And we also think the market's healthier with as many units as possible, no matter what happens for us. So, that's what we'll be rooting for, but we're going to use all this trend data to be clear eyed about it, but that's just a little more color on kind of how we think about it.

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John Campbell

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Analyst, Stephens, Inc.

Yeah, that's very helpful. I appreciate all that. Thanks, Ryan.

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Ryan M. Schneider

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Director, Chief Executive Officer & President, Anywhere Real Estate, Inc.

Thanks, John.

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**Operator:** The next question is from Tommy McJoynt with KBW. Your line is open.

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Thomas McJoynt-Griffith

Analyst, Keefe, Bruyette &amp; Woods, Inc.

Hey, good morning, guys. Thanks for taking my questions. The first one is, could you help me frame what the average commission split of maybe, say, the top 20% versus the bottom 50% of agents is? Just really kind of thinking of how big that difference is. Basically, I just want to know, is it a small difference where the top agents get maybe 85% on average and the bottom gets 75%, or is the gap a lot wider than that?

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Ryan M. Schneider

Director, Chief Executive Officer &amp; President, Anywhere Real Estate, Inc.

I mean, it's probably more in your first kind of the bucket, to be honest. I mean, it's real, I mean, we have 50,000 agents in our own brokerage, right. And the range can be quite wide and depend on how many years we contract for and all these other kind of things. But assuming that the top agents have a, above our average split and assuming that the second and third quartile ones have below, it's a pretty good assumption, and it's kind of how the ecosystem works. And I think most of our competitors would probably have something similar with everybody being at different price points obviously.

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Thomas McJoynt-Griffith

Analyst, Keefe, Bruyette &amp; Woods, Inc.

Okay. That makes sense. And then, my second question, given your presumably pretty constant communication with your agents and franchisees with boots on the ground, given the ongoing class action litigation seemingly getting a bit more mainstream news attention, have you heard anecdotally from those agents that more buyers and even perhaps more sellers are starting to ask more about commissions, perhaps negotiate a bit more or maybe seek out more rebates, anything like that?

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Ryan M. Schneider

Director, Chief Executive Officer &amp; President, Anywhere Real Estate, Inc.

Well, a couple of things. So, I was down at Gen Blue in Atlanta. We had thousands of agents and franchisees there for the Coldwell Banker brand. Awesome week. We really had a good time. And I was just, I got tons of face time with agents and franchisees. I guess, I would say a couple of things. One is, like, these agents are in the middle of commission negotiations with their sellers all the time, right. And like, so that's not a new thing. And we were, I was meeting with an agent from Florida, and she and I were talking about just some of the negotiating tactics that some of the competitors down there were using versus her approach and all those kind of things. And how you think about price and value and these discussions kind of thing.

And so like, negotiating with sellers is not a new thing, and there's a lot of that going on out there. So, there are not a lot of question about that. No, one is kind of telling me that they're hearing something different from buyers

or something like that. And so, I think, again, I think, the class action stuff is more mainstream in the real estate press than the general press. But we like the value both the seller and buyer agents provide. And we think that we're lucky to have settled the litigation.

And remember, we settled the litigation and it covers our franchisees and it covers our agents. And so, that was actually the starting point of a lot of this conversation, which is kind of, thank you and remind me how I'm covered and why kind of thing. But the discussion of our customers' negotiation was not any different than the Sotheby's International Realty Conference I went to in April. So, because that's a big part of the ecosystem already today and I think some people don't realize that as much as they should out there in the world.

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### Thomas McJoynt-Griffith

Analyst, Keefe, Bruyette & Woods, Inc.

Got it. Thanks. And then just my last question is, looking at over the next couple of quarters, given the existing cash balance, typically, the fourth quarter and the first quarter are slower seasonal quarters. And we're obviously facing a low home sale market already. Can you talk about the kind of trajectory of your kind of cash balance and how you guys might need to kind of tap into your available revolver credit facility to the extent that's needed?

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### Charlotte C. Simonelli

Executive Vice President & Chief Financial Officer, Anywhere Real Estate, Inc.

Yeah. So, the cash balance doesn't really change dramatically quarter-over-quarter. We manage, especially, when we're borrowing, we manage to hold the amount of cash that we need to hold and keep the revolver as low as possible. In the fourth quarter, we tend to still generate positive free cash flow. It's really the quarter where the seasonality and the timing of our expenses hits us.

So, we normally borrow in the first quarter in a good housing market, so, you can anticipate we'll probably be borrowing in this housing market in the first quarter as well, but that's very common. So, I'm excited that we were able to pay down \$50 million of the revolver in the quarter despite and on top of doing open market repurchases and having expenses out the door for some of the debt exchanges. I'm very proud of our cash flow delivery this year.

We are being ruthlessly focused on it and making very specific choices with how we deploy our cash, and we have tons of liquidity. So, proud of the steps we took on our debt over the past five years and this is not the thing that keeps me up at night for sure.

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### Thomas McJoynt-Griffith

Analyst, Keefe, Bruyette & Woods, Inc.

Got it. Thank you.

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**Operator:** Our final question today will be from Ryan McKeveny with Zelman & Associates. Your line is open.

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Ryan McKeveny

Analyst, Zelman & Associates

Hey, thanks very much. Charlotte, when the audio cut out earlier, you had just started mentioning the litigation. So, maybe you've already touched on what was expected to be said in the Q&A. But I don't know, it might be worth reading any of those comments from the prepared remarks. You kind of came back at the cost talking about the cost, but it was right around that litigation comment that the audio cut out.

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Charlotte C. Simonelli

Executive Vice President & Chief Financial Officer, Anywhere Real Estate, Inc.

Sure.

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Ryan McKeveny

Analyst, Zelman & Associates

So, yeah, maybe start there. Sure.

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Charlotte C. Simonelli

Executive Vice President & Chief Financial Officer, Anywhere Real Estate, Inc.

Yeah. The exact comment I made was that we entered into a settlement on our seller antitrust litigation on a nationwide basis for \$83.5 million, of which we expect to pay \$10 million this year, the remainder in 2024. That's the comment.

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Ryan McKeveny

Analyst, Zelman & Associates

Okay. Perfect. Thank you for that. And then, second, Ryan. So, I hear you on the pricing trends. I guess maybe just square a couple of comments. So, you mentioned the incremental slowing in the back half of the quarter, which makes sense with what rates have done, assumingly that comment is mainly about transaction sides. But I

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guess, I'm just curious, with rates continuing to move higher, are you seeing any change in the pricing dynamics at all or is the kind of ASP growth just seemingly kind of remaining in place and it's more of a transaction side issue?

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## Ryan M. Schneider

Director, Chief Executive Officer & President, Anywhere Real Estate, Inc.

Yeah. In our book, it's a units issue, it's a transaction side, and I just think it gets back to the, even at the higher rates, there is still more demand than supply for the houses that are out there which is strange, obviously, given the affordability issues of 8% mortgage rates, but it is the reality. And so, even in the back half of the year, we didn't see like, when I look at September prices, they didn't behave differently than the quarterly prices.

What was different in September was more pressure on the unit side, and that drove a little bit worse results volume wise in the quarter than we thought. And a little bit about why we're at the worse end of the volume guidance that we think for the year. So, it really was a unit story, not a price story.

And again, we're not going to sit here and bet our future that prices are going to go in a certain direction. We're really focused on what's happening on the unit front and what we can do for our agents and franchisees there, what we can do on our cost base in a lower unit environment, et cetera, but we didn't say anything in the end of the quarter that changes the price unit dynamics that we saw for the full quarter.

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## Ryan McKeveny

Analyst, Zelman & Associates

Got it. Okay. Thank you very much.

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**Operator:** We have no further questions at this time and this will conclude today's conference call. Thank you, everyone, for participating. You may now disconnect.

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