



Realogy Holdings Corporation

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Anthony Paolone: Good afternoon everybody. Welcome to the fireside chat with Realogy. My name is Tony Paolone, and along with my colleague, Arjun Chandar. We're pleased to have the management team here. We have Ryan Schneider, who is the CEO of Realogy, and we have Charlotte Simonelli, who is Chief Financial Officer.

This session, as the other ones have been today, is about 30 minutes. Given the limited amount of time, I think we should jump right into things here.

The first item we'd love to talk about is to start from a bigger picture point of view on the housing side. I'll throw it at you, Ryan. Perfect day to do this. 6.85 million existing home sale, print this morning. What's behind the demand? Who's behind this demand right now?

Ryan Schneider: Look, we love the number. Thank you for having us here today. 6.85 million, I know that's an annualized number. Don't take all of it to the bank yet. The fact that that number starts with a six is incredibly powerful.

US housing has been stuck around five million resale transactions for most of the last decade. If you go back in history, it's often been above that. With household formation, population growth, GDP growth, it definitely should be a bigger number. It's great to see that it is.

The reality is I've been asked the question for years of what will unlock more housing growth. The thing that has been unlocking it is the combination of low mortgage rates right now, historically low, and the fact that they're going to continue for a while combined with the social shifts that we're seeing with COVID.

We are just seeing people move from urban to suburban environments. We're seeing people pick and move among different suburban houses to better fit their needs, especially among the work-from-home population. Then the already existing flight of people to attractive tax and weather destinations has accelerated recently, both for first and second home purchases.

All of those trends, we saw over the summer, thought they might be some pent-up demand there. They have not only continued through the summer but then very strong here in the fall.

Even in October, we told the world how our October preliminary numbers were about 55 percent up on volume, more than half of that units compared to the year before. That's very consistent with the kind of industry numbers that NAR printed today, again, on an annualized basis.

Anthony: Thanks. We might want to go back to that 55 percent number that you all talked about. I think you did it on your third quarter call. It was a great number. Maybe I'd like to go back to that.

In the meantime, one of the narratives you brought up was just some of the changes in moving to suburbs and things we're seeing there. How do you think about just the legs that that trend might have?

Ryan: If we've learned anything, it's 2020 is a tough year to make too many predictions. We saw that trend over the summer.

There were hypotheses that it was a one-time bubble and if you were going to do it, you did it then, but it's continued. It's rolled into those October numbers that we just talked about for us, where, again, the fact that it's more units than price shows there is more actual people moving.

We're seeing it in the local transaction data, all the trends that I just talked about. This conference probably isn't the perfect focus group to do, but literally, throughout this day, I've had multiple people interacting with us who have either they've moved out of New York and they're renting, looking to buy, or they already have plans to move out in 2021 and be a buyer down there.

I hear it anecdotally from both agents and brokers, that there's more of it to come. Then I see it in the data. The school situation is also, frankly, contributing to people making some different choices around lifestyle and location. We'll see how long it runs. At minimum, we're going to have a strong end of the year and enter '21 quite strong with these trends.

That, combined with low rates, could last for longer and would be a healthier housing market if we have six-plus million transactions happening plus the real exciting news that builders are building more.

Anthony: That's interesting. I was going to get to inventory. That is something that, as part of

just the broader housing narrative, comes up as an item that might be a limiting factor. How are you thinking about inventory and keeping this all moving ahead?

Ryan: I look at it differently. There's a lot of confusion out there in the world between inventory and supply. Sometimes, they're the same thing, but sometimes, they're not. Right at the moment, they're actually different.

Inventory has been historically low for, really, the last two or three years. It's historically low right now. As you can see from the actual unit transaction numbers that NAR is publishing nationally and that we're printing here in the third quarter and the fourth quarter, units are clearly going up.

There is actually a lot more supply coming onto the market. It's moving quickly. It's not sittin' around in inventory for three or six months or something like that. Some of the supply coming to market's never getting captured in the inventory measurements because it's coming onto the market and selling within 30 days.

Look. More inventory is typically a better thing for housing. Nothing but good in that. It's why I like the fact that builders are building more, now, wealth for the future, but the reality is the market is showing us that there is more supply right now. Again, that's the velocity of transactions is faster.

I wish inventory was higher so there were more choices, but the fact that supply is actually up is what is happening in the market.

We're real excited by that, especially, again, whether it's our data or industry data, the fact that most of the recent volume increase is not coming from price, it's coming from units -- that's a sign of a healthier housing market than if we were getting all the growth on the price side.

Anthony: Maybe shift this a little bit more to Realogy specifically. As we think about the competition for agents and how that's playing out in this market, can you give us an update on the state of play there? What is happening out in the field?

Ryan: The competition for agents out there in the market is intense, and we're part of that intensity. We like our results. Our agent count has grown every quarter for I think the last six quarters. Our agent retention has improved every quarter for the last four quarters.

We think both those things are part of the reason we actually gained some share in Q3 after fighting some share headwinds for multiple quarters. This is a competitive industry by definition.

There was some increasingly intense competition in '18 and most of 2019.

That has gone down a little bit post-the WeWork thing about a year ago and has kind of held steady since then, but steady at an intense level. It's not easy. It's a fight every single day.

Whether it's the value proposition we're offering with some of our new products, technologies, marketing things, etc., newer lead generation programs, or frankly, just having to sometimes be economically -- step up a little bit, as you can see in our agents' lit clause -- all those go into the competition, but we like our results.

The market, while intense, is better on that dimension than it was one or two years ago. We obviously are rooting for that to continue.

Anthony: Maybe let's dig a little bit into that further. Because you have been pretty successful in the past year or so, it's really moving the agent count up. What do you think in the changes you made or the initiatives you took on have had the greatest impact in the market in either retaining folks or bringing new people into the system?

Ryan: I think over the last five years globally, Realogy's been on a journey to get its economics a little more at-market in some places. You've seen that in some of our economic headwinds on that stuff.

More importantly, recently, I think it's been the combination of two things. One is that menu of different offerings, whether it's RealSure, RealVitalize, Social Add Engine, conversion boost -- a spectrum of either technology or product or marketing tools that are helping agents be more successful. They care about their bottom line. We want them taking share, gaining share, and we think we saw, again, a little bit of that in the report.

The other thing we like that's happening is our growth on the franchise side. Not just growth in the business, but the success of launching our corporate franchise. Very iconic, upscale leisure brand, well-known in Long Island and New York City and Palm Beach, but it's now gone to a lot of cities nationally. It continues to expand.

Our first franchisee has now crossed over a thousand agents. We like the fact that we're investing for growth in the franchise business also, and with some orthogonal things to the core brands that we remain excited about their growth.

Putting those kind of things together, a lot came together in the third quarter -- the good housing market but also the series of our initiatives on agent growth, agent retention, franchise growth, and you saw what happened on the results side, as well as the title and mortgage results, which was another strategic area that we're very excited about making a difference in the future.

Anthony: I want to get back to title because I think some of the things you've done in that business with your mortgage provider is to round out some of the competitive landscape with your own initiatives.

Do you think, since splits have been such a pressure point, do you think there's a point at which the tech initiatives, the ability to make your agents more productive, that that could turn that tide and that everyone can come away stronger with perhaps the splits going the other way, you all making more money, agents being more productive?

Ryan: Our real goal on that bluntly is to create stability. Those things, whether it's technology, lead generation, marketing, because again people care about their bottom line, not the input. If we can help agents drive a better bottom line, we'd like to get to more stability on that.

It's been hard in this industry to have agent commission costs go down if you look back 50 years, but because that is the headwind that it is to this industry, Charlotte and I have to be relentlessly focused on two things.

One is every other piece of the cost picture. I really like the both 2020 and '21 actions and plans that Charlotte has laid out and then helped us deliver as a company on the non-agent costs, which is an important thing when you got a little bit of margin headwind in the agent side.

The second thing is growth. Forget third quarter. Go back to the first quarter where we actually demonstrated we can drive growth in the market for us that can actually overwhelm the agent commission cost given the fixed versus variable nature of the business.

Whether we're growing by hopefully taking some more share, whether we're growing because the market's growing, whether we're growing because of franchise expansion, if we can drive growth and we can continue to stay really focused on the other cost things, those alone really help vis-à-vis whatever pressure there is on the agent commission thing.

We're not giving up on getting that to a more stable place, but that one is the one that has the most exposure to market forces. Those other two, we gotta drive, and control, and succeed on as

a management team. I like our 2020 progress on both of those, and it's showing up in our results.

Anthony: Shifting away from the traditional transaction, you've been very successful this year on the guaranteed rate mortgage joint venture. Can you talk about how you're thinking about that in the future?

Ryan: Yeah. With the margin pressure and challenges you were just talking about on the agent commission side in the core brokerage business, it is absolutely critical to grab margin and expand margin in other parts of the value chain. That includes capturing more title mortgage.

When you look at us versus many of our competitors, we have an incredibly advantageous position in both title with our national title footprint and mortgage with our new joint venture.

What we've really liked in 2020 is how some of the strategic initiatives we've been investing in have actually come to fruition and shown up in our economics.

On the mortgage side, we started a whole new mortgage JV two years ago. We lost money in '18. I had to eat a lot of dirt over it, but we kept investing. We kept recruiting loan officers, and getting better penetration, and building the relationships.

This year we got the benefit of a strong mortgage market, but we've also got the benefits of two years of strategic investment and the expansion that we did so we were well-positioned to capture it. We really like that, and we think there's more strategic room in the future.

On title, and actually in mortgage, we made investments in digital technology for virtual closings, which bluntly up until April of this year didn't get a lot of traction. The title stuff wasn't even legal in 35 states.

We really benefited from those strategic investments so that in the last six months we've been able to offer our virtual title closing and our flash closed product for mortgage that lets people get these deals done with no human interaction. It's really helped accelerate the business.

In title, we're much more strategically set up for success, but we're still doing some geographic expansion, probably not as much opportunity as the mortgage strategy option in front of it, but we like what we've set up for both. We got some benefit here from the digitization acceleration of the world.

Both need to be important parts of the future to really help preserve/grow margin given that the core business has had margin headwind for the last 5 to 10 years.

Anthony: Are there parts of the real estate transaction that you feel that you could play a role in to also add to that picture?

Ryan: If there are, they're smaller. Title and mortgage are the big dogs. We have an insurance brokerage effectively. We can help people get home insurance as part of their transaction. We do some of that today. We actually just changed the brand of it from something you would never identify with us to the Realogy Insurance Agency.

We can and do a few things around warranty and other things that relate to the time of the home transaction. They tend to be smaller, but they are out there. We probably haven't invested as much in those as we have in the core title and mortgage thing, but you see how it can pay off. You probably will see us looking at some other avenues.

We have more to go in both title and mortgage. Those will be most of the focus, but there are a couple others out there, and we're excited about them.

Anthony: I want bring Charlotte more into this conversation. Maybe I'll kick it over to you, Arjun. Maybe start talking a bit about the balance sheets, and then I think we can get some Q&A and probably get back to some of the other items as well.

Arjun Chandar: Sounds good. Thank you guys again for your attendance. We made tremendous strides with the balance sheet over the course of the year. Wanted to dig in a little bit more with regards to the revolver.

I know you paid down the balance of your revolver by the end of October. Now as we head into this seasonally slower part of your calendar, how do you anticipate revolver needs over the next six months as you think about the terrific operating environment that we currently are in?

Charlotte Simonelli: That's a great question. As you pointed out, Q1 is a seasonally slower quarter for us. We'll see what happens with volumes. It's highly likely that we will draw down on the revolver for some piece of Q1 as we normally would. There's a lot of other timing on expenses that happen in Q1 as well.

We feel really good about the extra cash flow that we're generating in Q3, Q4, etc. If you think

about it from that lens, while we still likely will draw down in Q1, likely to be less than in the past, and certainly if the trends continue, we'll likely be able to get out of that sooner than we had in previous years.

Arjun: Thank you. Given your expected free cash generation for fiscal '20, as you get closer to the four-times dividend stopper in your 2027 notes, now how do you think about capital allocation as senior net leverage drops potentially below four times by the end of this year?

Charlotte: Our total net leverage was down to 4.2 times in the quarter, senior secured leverage ratio was 2.29 times, which we feel great about. The four measure that you're referring to, we were pretty darn close to it in the third quarter, and certainly looking to go below four.

We've been pretty clear at least on the earnings call, we reiterated our priorities definitely remain investing in the business, which we've been doing as you can hear from some of the things that Ryan has highlighted. We're definitely still in debt paydown mode as well. The priorities are same now. When they change in the future, we'll definitely let you know.

Arjun: Great. Thank you. We do have a question from an investor in the audience. I'm going to pass that along as well.

While the current crisis has caused a number of changes to or maybe accelerations of consumer home buying behavior, partially or completely online, how much of these behaviors do you think will persist, or do you anticipate new behaviors that will emerge that you guys as a company must adjust to?

Ryan: That's a great question. I definitely think some of the behaviors will change. If you think about them, while there's been a little bit of talk about it, almost nobody buys their home sight unseen. It's always happened in life and happened some during the pandemic, too.

The biggest change has been how people have gone through the process. For example, we put out a virtual tour product and a lot of people used it not to make a home buying decision but to actually widen the funnel of houses they were going to look at, and effectively go do more tours than you would have done if you were in person doing them on a Saturday kind of thing.

Similarly, our virtual open house product has helped get more people into virtual open houses so that sellers could only bring in the few serious buyers, especially in a time of health and safety concerns through the process.

Some of these things where people are getting more comfortable using virtual tours will continue. People like the virtual closings for the convenience factor, frankly. That will continue. The whole world has got this digital acceleration in the last six months.

Nothing will be different about our industry. We will be subject to that like every other industry. A lot of our focus in investment early in the pandemic was to move quickly to make sure we were able to operate in a more virtual environment.

As I mentioned on the title and mortgage side, and even the brokerage side, we benefited from a bunch of technology stuff we'd invested in that people hadn't used very much. We had a virtual staging product for Sotheby's that was really awesome I thought that didn't get a lot of use. The pandemic hit and, boom, it's phenomenally popular kind of thing.

We like how we were positioned. It actually helped accelerate tech adoption for a lot of stuff we've been doing. We think that's more and more the future. We like our position in the industry to help customers and agents on that.

Anthony: That's great. I just want to take one minute to remind those in the audience if you have any questions, go ahead and put those in the chat. We'll try to get to as many of those as we can.

One thing I wanted to jump in, and then we'll see if there's some other questions with, is going back, you'd talked about it on your call, you had great volume in October. I think 35 percent was the number. You talked about opens being up about 55 percent.

That's the number that's a little bit tougher for us to get maybe our arms around. We get a lot of questions on that sometimes. How do we translate that number into what volume is going to look like on a forward basis?

Ryan: The 35 percent closed volume preliminary to whatever it was, October 20, whatever, when we'd cut it off before giving the earnings call, love the number. We like that number because it was equally mixed between units and price.

The other thing that happened in October, that it was equally mixed between our owned and franchised business, which was a change because our owned business has been carrying around the New York City challenge and had been lagging the franchise business in this. We were really excited about that.

The 55 percent growth in open volume preliminary for October, those are the new contracts that got signed up until October 20, whatever that date was. The volume compared to the year before, we really like what that signals for the future. Those contracts will turn into closings anywhere from one day after they got signed to six months after they got signed.

The average, it's around 50 days on average, but it's a distribution and it's a pretty wide distribution. Any of you who've gone through house closings know whether they can go quick or they can go fast, depending on both sides' circumstances.

Open volume helps us predict what's happening from there. That's why when we spoke to the world in August, we gave them our July open volume, which was looking pretty good, and then that came to fruition mostly third quarter. That October open volume will mostly come to fruition in November, December, January, and some into February.

We'll have our November open volume that will have the same lag on it. The 35 percent closed volume in a month, that's in the books. The fact that the open volume is stronger than the closed is always a nice future signal. We were pretty excited about it. It's a lot of the social trends I talked about, frankly, continuing to play out, we believe.

Anthony: That's great. Arjun, anything else coming in in the queue?

Arjun: We got one more question from the audience. Does high-velocity selling like in this market create pressures on agent value? Small but growing portion of the home sales in this gentleman's area sold without a broker while MLS-listed were buyer-to-seller direct exchanges. It's a question on agent value.

Ryan: I actually have been saying the opposite because agents have been, frankly, kicking ass during this time. Two examples I'll give you. One is a bunch of models that don't have agents involved had to shut down during this pandemic and aren't even fully restarted to date, whereas agents, even in the midst of April, May, June, July got a lot of deals done for a lot of customers very safely.

I'll bet when the data is pulled, we'll see agents being involved in even more transactions going forward. Second, there's always a few off-market deals of the type you talk about. I have not seen any data in our ecosystem or anecdotal that says it's new or different.

What I have seen is a lot of our agents doing what you talked about and actually getting both sides of the transaction because, frankly, they're doing deals before they come to the market. They're actually making marriages. They're helping family A and B either swap houses or do trades on houses when their needs are pretty different in this work from home thing.

[inaudible] will emerge on the phenomenon you're talking about will be different. Overall, we've seen agents have a really good run here. Agents are the ones driving the high-velocity selling on things that aren't listed. There's almost always an agent. We see a ton of agents who are involved in those, getting both sides of the transaction.

Full disclosure, when I moved to Realty, I got my house because two Coldwell Banker agents connected before the house came on the market. If you move quickly and your agents motivate it for you, a lot of deals get done that way.

Those deals get done without agents is usually a much rarer bird. I haven't seen anything to change my view on that. We'll obviously be looking at the data as the whole year gets behind us on that.

Anthony: I'd like to jump in on a couple of the geographic distinctions. I know New York City has been a challenged market in all of this. You have a big exposure here. What do you think the outlook is for this metro and when you might see that start to be a bigger positive contributor?

Ryan: New York City was down about 80 percent in volume in Q2. That's our number, but I guess also probably about the market numbers that I've seen from some private reports. It was better in Q3, but also down. California, especially Northern California, was down in Q2. It was better in Q3 but not as good as the rest of the country. Those are a little bit of headwinds, especially the New York one.

On the flip side, we are incredibly well-positioned to capture the places that are on fire. We're very large player in Long Island, New Jersey, Westchester, Connecticut. We're capturing the other side of the New York thing. Florida is just phenomenally doing well, especially as the acceleration of people wanting to live there happens. That's our third biggest area. Texas is another one.

On the franchise side, we're seeing a ton of growth in places like Colorado, Utah, Oregon, Arizona as there is a bit of a California access. Idaho is also having that happen. We really like our results. Our results do exist with a New York City market that is tough and a New York City

market that's a big piece of our business.

We're better on New York City. We bet on it as a company right after 9/11. We're betting on it again for the future. We're excited to be able to achieve what we're achieving even with one of our big market's having a tough time, but getting better every month but definitely not anywhere near back to the contribution we're getting in the other parts of the business.

Anthony: With some of the COVID cases spiking and some of the restrictions emerging again, do you think that that poses as much risk this go-round in stopping deal volume?

Ryan: Probably a little bit less because all of us actually now have figured out how to handle things. Some of the things like I talked about title, remote notarization wasn't legal in more than 15 states in March. It's legal in a ton of states now because of a lot of emergency orders that have actually enabled that so you don't have to go through that change period.

Agents in particular and brokers did a very nice job of taking care of clients safely and have shown they can do that. Real estate will be subject to some of these macro forces, of course. We've seen what it looks like in the depths. Even then, there were hundreds of thousands of transactions getting done.

When we've seen some of the local spikes in non-New York City areas in the last three or four months, that hasn't slowed things down very much as you can see from our data. I don't think anybody in the business community is excited about that. We think we have a pretty good handle on how to do business.

Again, we'll see, it might slow down the closings in the short term, but it might also accelerate the social trends that the first wave did kick off of.

Anthony: Great. Thank you.

Arjun: Just real quick before we wrap up. One last question for Charlotte in the balance sheet. As you look at your next few maturities, you have the 2023 bullet bonds and the term loan A and B. As you prioritize those instruments in debt reduction strategies, how do you think about the bullet nature of the bonds versus the pre-payability of the term loan?

Charlotte: It's a great question. I'm certainly mindful of all of it, whether it's expiring in 2023 or beyond. I'm in active dialogue with the banks every single quarter. What I've learned since I've

been here is that the maturities are what they are, but what's the right thing to do in the market, it maybe volatile quarter versus quarter.

Having a plan against all of those is important, which I do, but it's not just one plan. It's multiple plans depending on market circumstances. I feel good about the cash flow generation.

That's certainly going to help a piece of it, but don't discount the fact that we're always in dialogue with their banks about how to think about the term loan and the revolver coming due on 2023.

Anthony: Well, team, I think we're up on time here. Want to thank you, Ryan, and Charlotte for joining us this afternoon. Appreciate the time and of course, thank everybody that joined in on the call, with Arjun and I to present the fireside chat. Have a good rest of the day, everybody.

Ryan: Thank you for having us.

Charlotte: Thank you.

Ryan: Welcome.

Arjun: Thank you.



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