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# Realogy Holdings Corp. (RLGY)

Q4 2019 Earnings Call

### CORPORATE PARTICIPANTS

#### Alicia Swift

Senior Vice President-Financial Planning & Analysis and Investor Relations, Realogy Holdings Corp.

#### Ryan M. Schneider

Director, Chief Executive Officer & President, Realogy Holdings Corp.

#### Charlotte C. Simonelli

Executive Vice President & Chief Financial Officer, Realogy Holdings Corp.

### OTHER PARTICIPANTS

Ryan McKeveny

Analyst, Zelman & Associates

**Carter Trent** 

Analyst, Stephens, Inc.

Stephen Kim

Analyst, Evercore ISI

**Anthony Paolone** 

Analyst, JPMorgan Securities LLC

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### MANAGEMENT DISCUSSION SECTION

**Operator**: Good morning, and welcome to the Realogy Holdings Corporation Fourth Quarter and Full-Year 2019's Earnings Conference Call and Webcast. Today's call is being recorded, and a written transcript will be made available in the Investor Information section of the company's website later today. A webcast replay will also be made available on the company's website.

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

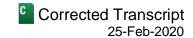
### **Alicia Swift**

Senior Vice President-Financial Planning & Analysis and Investor Relations, Realogy Holdings Corp.

Thank you, Marcella. Good morning and welcome to Realogy's fourth quarter and full-year 2019 earnings conference call. On the call with me today are Realogy'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 and projections are inherently subject to significant economic, competitive, and other uncertainties and contingencies, many of which are beyond the control of management.

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Actual results may differ materially from those expressed or implied in the forward-looking statements. For those who listen to the rebroadcast of this presentation, we remind you that the remarks made herein are as of today, February 25, and have not been updated subsequent to the initial earnings call. Important assumptions and other important factors that could cause actual results to differ materially from those in the forward-looking statements are specified in our earnings release issued today as well as our annual and quarterly SEC filings.

Also, certain non-GAAP financial measures will be discussed on this call, and per SEC rules, important information regarding these non-GAAP financial measures is included in our earnings press release.

Before turning the call over to Ryan, you will have noticed in today's earnings release as part of our continuing efforts at simplification and in light of the pending sale of the relocation business, we have renamed our operating segments, the Realogy Franchise Group or Franchise, the Realogy Brokerage Group or Brokerage which is formerly NRT, the Realogy Title Group or Title, which was formerly TRG, and the Realogy Leads Group or Leads is the affinity and broker-to-broker business at Cartus that we will retain.

The relocation business is now reported as discontinued operations. For consistency, we have revised prior period financial discussions to reflect these changes. We expect that the Realogy Leads Group will be included within the Realogy Franchise Group upon transaction closing given that the majority of the leads are distributed to our franchisees.

The Realogy Brokerage Group will also continue to receive leads as well. To better assist you, we have included a hierarchy of these changes in the presentation that accompanies today's 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, Realogy Holdings Corp.

Good morning. As you may have seen in some of my public remarks in December and January, I've never been more excited about Realogy than I am right now. While the past few years have been pretty challenging for the industry and Realogy as we stand here today, I feel very good about our leadership position in the sector and our potential for future growth.

And my excitement and optimism about Realogy, which is increasingly shared by people inside and outside of our industry is anchored in what happened in the fourth quarter that we are discussing today. First, we accelerated our delivery of new products and partnerships to enhance our agent and franchisee value propositions setting the stage for greater growth in the future. We are operating with agility and moving fast.

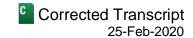
Second, we made a series of well-received capital allocation changes and business mix decisions such as the pending relocation sale to strengthen our balance sheet and simplify our company. Third, the better competitor environment we start to see in September and October has definitely continued. Q4 and the start of 2020 are showing a more rational competitive environment, which is helping us drive better recruiting and retention results.

Fourth and finally, we like our results delivery in Q4. Our transaction volume was solidly positive and we earned \$20 million more in operating EBITDA, including discontinued operations than we did in 2018, even with cost headwinds from agent commission splits and our investments for future growth.

These positive trends have continued. Our January transaction volume was up 13% as our retention and recruiting results and the housing market both continued to improve. And we delivered even more strategic



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initiatives like signing and launching our first Corcoran franchisees in the quarter, with more new Corcoran franchisees planned to be announced later in the quarter.

[indiscernible] (04:49) even with all the challenges in the last two years, we remain the leading player in both franchise and owned brokerage with a strong brand portfolio. We have the technology and data scale to drive innovation in this industry. And most importantly, we generate substantial operating EBITDA. That foundation, combined with our fourth quarter actions and results, fuels my optimism for the future.

So let me turn to Q4 and the full year. We had good volume growth in Q4, up 6% year-over-year with franchise brokerage up 7% and owned brokerage up 4%. In Q4, we earned \$126 million of operating EBITDA, including discontinued operations, \$20 million above Q4 2018.

For the full year, we had minus 1% transaction volumes. Our transaction volume improved every quarter throughout the year, ending with the solidly positive Q4. And Q4 benefited from our increased recruiting and retention success and the more rational competitive environment. We delivered \$590 million of full-year operating EBITDA and \$226 million of free cash flow, both including discontinued operations.

Throughout the course of 2019, we aggressively delivered to enhance our value proposition for our agents and our franchisees. We organically grew the number of agents in our owned brokerage business by 4%. We delivered differentiated marketing, technology, and data products while also launching multiple new high-quality lead generation programs. Products like Listing Concierge and Social Ad Engine are now national. We have new technology products available to both agents and franchisees nationally and in pilots. Our new Realogy Military Rewards program is already driving good growth and we're launching our AARP lead generation program this quarter.

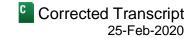
We move closer to the consumer by providing our agents and franchisees with unique solutions that improve the customer experience. Our RealVitalize program in partnership with HomeAdvisor has expanded to over half the country. And our RealSure iBuying alternative with Home Partners of America is driving thousands of cash offer requests in its 10 markets after only a few months. Both consumer products help agents win more listings and make Realogy a more attractive destination for agents and franchisees.

And finally, we demonstrated the willingness to change our business mix to optimize our capital deployment. In November, we announced the \$400 million sale of our relocation business, which generated \$28 million in operating EBITDA in 2019. This positions Realogy for greater simplification and allows us to reduce our debt. The sale has received the antitrust clearance and we expect to close in the next of couple months.

The divestiture will also deliver a big simplification dividend. The relocation business has global operations, a large supplier network, incurs approximately \$10 million in annual CapEx, has its own securitization facilities, and drive swings in working capital.

So as we look forward to 2020 with optimism, let me address a few strategic issues. First, let's talk about market share and growth. As we've discussed in previous calls, our market share declined in 2019 split equally across our brokerage and franchise businesses. We're very focused on preserving and growing our market share. But in 2019, for most of the year, our industry faced aggressive private capital pursuing market share without regard to profitability. And as I told you throughout the year, we are not making the choice to go negative on profitability just to retain market share. But with the recent return to quality across industries in the whole economy and the increased scrutiny of unprofitable companies, Q4 felt different because the competitive environment was more rational and our recruiting and retention results were better. We liked our Q4. We had 6% volume growth in Q4,

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we had better agent retention, we had substantial recruiting success, and we saw more agents returning to our brands.

So as we enter 2020, I'm really excited about our potential growth of volume. We expect solid transaction volume growth across both our owned brokerage and franchise business, with franchise a bit ahead of owned brokerage just like in Q4 of 2019.

Our January transaction volume is up substantially, our recruitment retention results continue to improve and we've delivered even more strategic growth initiatives like the Corcoran franchise business. But we don't want you to run away too much with our excitement. We don't expect 2020 volume growth or market share trends to be easy. We still expect competitive intensity, even in a more rational competitive environment. And when looking at share, we still have the headwinds from agent losses in earlier parts of 2019, when the competitive environment was less rational.

And there's also the loss of an important number of transactions from the discontinuation of our USAA affinity program. So overall, we are optimistic about volume growth, but don't want you to run away too much with our excitement, including our January results.

Second, let me discuss capital allocation and business mix. Our capital allocation story is pretty simple. Our priorities remain invested in the business and paying down debt. As we demonstrated with our pending relocation sale, we will continue to opportunistically look at different business mix options to better utilize our capital.

Third, let me provide some detail on our remaining Cartus business, including implications of the discontinuation of the USAA affinity program. Our Cartus affinity and broker-to-broker business made \$53 million in operating EBITDA in 2019, while generating about 68,000 referrals. We previously disclosed that we'll realize the material decline in 2020 operating EBITDA in this business due to the loss of the USAA affinity program, as USAA was our largest partner by a substantial margin.

We also previously disclosed we'll have an equivalent operating EBITDA decline across our brokerage and franchise businesses, driven by the downstream impact of the reduction in referrals .We will be investing in both new and existing lead generation programs to offset the USAA loss over time.

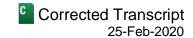
We'll be making launch and marketing investments in new high-quality lead generation programs including AARP and Realogy Military Rewards, as well as investing in select and existing affinity programs.

Finally, along with liking our outlook for 2020, delivery on our efforts to drive growth, more rational competitive environment, continued focus on our business mix, continued progress on debt pay down, and our volume and recruiting momentum for Q4, we also like the macro for 2020. We're seeing improving fundamentals across the housing market.

Mortgage rates remain at all-time lows and are expected to remain a tailwind for the industry throughout 2020. We're seeing transaction volume improve in coastal markets that struggled in 2019. The West is exhibiting more strength and the Northeast is showing growth. While inventory and affordability challenges remain large concerns and our tax changes affect select markets, especially New York City still bear watching, overall 2020 looks to be the best year of the macro for housing since I joined Realogy.

So in closing, I'm optimistic about our future given our leadership position in the industry, our Q4 delivery, the improved competitive environment, and our early results in Q1.

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Let me turn over to Charlotte to discuss the financials in more detail.

#### Charlotte C. Simonelli

Executive Vice President & Chief Financial Officer, Realogy Holdings Corp.

Thank you, Ryan. Good morning, everyone. The fourth quarter marked a strong close to the year, driven by improved performance both financially and operationally across the business. We are benefiting from a more rational competitive environment, a better housing market, and consistent execution on our strategy. We remain thoughtful and deliberate in our approach to simplify, innovate, and leverage our scale and strong value proposition to drive profitable growth and an improving balance sheet.

I want to briefly recap some highlights before diving into the details. In 2019, we achieved operating EBITDA of \$590 million, including discontinued operations. We grew our agent base by 4%, while showing ongoing split moderation in our owned brokerage business. We exited the year with Q4 transaction volume growth of 6%. We improved the cost structure of our business and realized \$73 million of gross savings. We increased operating margin in the fourth quarter at Realogy as well as within the owned brokerage group despite cost headwinds and Q4 commissions split pressure of approximately 100 basis points on a like-for-like basis.

We generated \$226 million in free cash flow including discontinued operations and reduced net debt by \$78 million. We opportunistically repurchased \$93 million of bonds at a \$10 million discount. And finally, we announced a value-creating divestiture of our relocation business for \$400 million, enabling us to both delever and further simplify our business. All in, we exited 2019 on an improving financial and operating trajectory, and I am pleased with the progress we made.

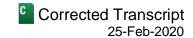
Now, let's move into our consolidated financial results on slide 6. In the fourth quarter, net revenue was \$1.3 billion, up \$45 million versus the prior year, primarily due to the positive transaction volume at both Realogy Brokerage and Realogy Franchise Groups as well as strong revenue growth in Realogy Title. We are pleased with the revenue increase and 6% transaction volume growth in the quarter. Realogy Q4 operating EBITDA including discontinued operations was \$126 million, up \$20 million year-over-year. Net loss attributable to Realogy was \$45 million in the quarter versus a loss of \$22 million last year driven primarily by the fair value adjustment on the assets being sold as well as tax expense associated with the taxable gain on the sale.

The tax impact of the pending relocation sale is reported as discontinued operations within our financial statements. Q4 earnings per share was negative \$0.39 compared to negative \$0.19 in the prior year. Total net leverage ratio was unchanged at 5.2 times as discontinued relocation earnings are now excluded from covenant EBITDA ahead of the receipt of sale proceeds. Including the 2019 relocation earnings in covenant EBITDA, the net leverage ratio would have declined to 5.0 times.

Now let's move on to a year-over-year comparison of segment performance on slide 7 and 8. In Q4, Realogy Franchise Group revenue was \$190 million, up \$4 million due to an increase in royalty revenue driven by 7% transaction volume growth. Franchise revenue includes intercompany royalties and marketing fees from brokerage at \$69 million in the quarter. Operating EBITDA was \$129 million, also up \$4 million due predominantly to the increase in revenue as operating expenses were flat year-over-year.

Realogy Brokerage Group revenue was \$1 billion, up \$26 million due to a 4% increase in transaction volume. The transaction volume increase was aided by better retention and solid recruiting success in the back half of the year, which we expect will further drive volume growth in 2020. Operating EBITDA was negative \$12 million, up \$3 million versus prior year driven by lower operating expenses associated with our cost savings programs.

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Realogy Title Group revenue was \$152 million, up \$16 million due to higher revenue across the business. Operating EBITDA was \$14 million, up \$10 million, also due to higher revenue and the GRA mortgage JV.

For full-year 2019, the GRA mortgage JV performed well, contributing approximately \$15 million in operating EBITDA, an increase of approximately \$20 million from full-year 2018. Realogy Leads Group, the former non-relocation-related Cartus business, which includes both affinity and broker-to-broker delivered \$17 million in Q4 revenue, \$11 million in Q4 operating EBITDA, both relatively flat to the prior year.

Now, I will address the relocation business specific items in the financials. The relocation business that we are divesting, which generated \$272 million of revenue, \$28 million in operating EBITDA and \$18 million of free cash flow in 2019 for Realogy are now reported in discontinued operations pending the sale.

The discontinued operations loss of \$60 million is due to the fair value adjustment on the assets being sold, as well as tax expense associated with the tax gain on the sale. The tax adjustment will be trued up when the sale is finalized. The majority of which will be offset by NOLs at the Realogy level and will mitigate the majority of cash taxes at the time of sale.

Ryan has talked about improving volumes in Q4. Let me highlight a few of the other positive impacts to the P&L. Our 2019 cost savings program has been fully implemented with cumulative realized growth savings of \$73 million. In the fourth quarter, we realized approximately \$30 million in savings, driven primarily by both workforce and office optimization. Royalty per side was \$338 in Q4 and \$327 in the full year, an increase of \$21 and \$4 versus prior year, respectively, driven predominantly by higher price.

In full-year 2019, commission splits were up 49 basis points or 70 basis points on a like-for-like basis, which compares to an increase of 181 basis points in 2018 and 173 basis points in 2017. Commission splits were up 81 basis points in the fourth quarter or 104 basis points on a like-for-like basis as we saw improving recruiting, retention, and transaction volumes. We are encouraged by the financial proof points we delivered in Q4.

As we look forward to 2020 with optimism, let me address some of the bigger tailwinds and headwinds for the business. And as a reminder, we operate in a seasonal business, and we expect 2020 seasonality to be in line with 2019. We plan to deliver meaningful cost savings in 2020. We are on track to achieve \$70 million to \$90 million in gross savings in 2020, and approximately \$52 million of these 2020 cost savings have already been actioned. These savings are lower than previously discussed on the Q3 earnings call as we have now adjusted for the Cartus relocation saving that will be part of that transaction. As in 2019, the majority of these savings will be driven by office optimization and simplification efforts across the enterprise. Restructuring costs associated with these programs were \$42 million in 2019, and I anticipate a modest decline in the run rate in 2020.

However, we do have some headwinds in 2020. While it might be obvious, the biggest financial resets for 2020 compared to 2019 will be the loss of the Cartus relocation earnings and the USAA impact, both of which Ryan discussed. We expect the upward trend on commission split to continue in 2020 similar to what we experienced in Q4. The majority of which comes from continued competition to recruit and retain agents, albeit more rational at the end of 2019, and the improving housing market. Remember, the more agents produced, the higher the split they can achieve.

We are investing in marketing and G&A dollars to support strategic investments, including the launch of the Corcoran franchise, launching the AARP program, growing our Realogy Military Rewards program, and growing other select affinity partners. We are pushing for greater franchise growth through different strategic approaches, including transitioning additional BH&G companies to a capped fee model this year and providing capital to

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franchisees to support M&A, conversion to our brands, and other franchise growth efforts. These strategic growth choices and the use of incentives combined with the competitive environment will put downward pressure on our royalty per side. We like these investments for growth and the early returns on the BH&G capped fee model are really exciting for us.

Now wrapping up, we executed steady progress across our financial priorities throughout 2019. We delivered volume growth and operating margin improvement in Q4. Realogy has an industry-leading position driven by size, scale, brand equity and partnerships unlike our competitors. We will continue to leverage these attributes and even more effective and compelling ways in 2020 as we build in stronger overall financial profile for our business. We are off to a solid start to the year.

With that, I'll turn the call back to Ryan for some closing remarks.

#### Charlotte C. Simonelli

Executive Vice President & Chief Financial Officer, Realogy Holdings Corp.

Thank you, Charlotte. Let me close the call on a personal note. I've been very blessed to have held multiple senior operating roles over the years. And by my count, I've been involved in preparing for around 60 earnings calls over that time. And once in a while, you realize something feels different, like there's a change in the air, and that's how I feel today. For the past few years, it's felt like the headwinds for Realogy have outnumbered the tailwinds.

With our accomplishments throughout the year, especially in Q4, combined with the change in the competitive environment, we began to feel more positive energy. The excitement for the future is higher. The optimism is higher. And I feel that from our employees, from industry insiders, and for many who watch our industry closely, I'm not saying the road ahead is easy, and I share some of the headwinds with you during the call, but it does feel different to me.

As I said in my opening remarks, I've never been more excited about Realogy than I am right now. Emerging from a couple of very challenging industry years, we enter 2020 with substantial momentum, including accelerated product and partnership delivery, positive changes to our business mix and capital allocation, a better competitive environment, and return to volume growth, all combined with our substantial operating EBITDA and our industry leadership position. Our first quarter is off to a good start, and I'm excited about the year ahead.

And with that, I'll turn it over to the operator.

### QUESTION AND ANSWER SECTION

**Operator**: [Operator Instructions] Your first question comes from the line of Ryan McKeveny from Zelman & Associates. Your line is open.

#### Ryan McKeveny

Analyst, Zelman & Associates

Hi. Thanks very much and good morning. So, a two-parter on the competitive environment and the value prop really both at the agent level, but also at the franchisee level. So, you called out the more rational competitive environment, the press release and your comments, you said substantially enhancing your value proposition with new marketing tech data, consumer products, lead gen, et cetera.

So can you can you elaborate a bit more on what you're seeing in terms of the competitive environment beginning at the agent level? But then also, we've obviously seen some of the headlines around some pretty sizable franchise renewal, so maybe also touch on the competitive environment with your franchisees? And with all of this, would love to hear some elaboration just on how you feel you're doing in terms of the progress with your value proposition somewhere regardless of what others might be doing in the industry.

#### Ryan M. Schneider

Director, Chief Executive Officer & President, Realogy Holdings Corp.

Yeah. So thank you, Ryan. I appreciate it. So first-off, look, we're pretty excited about what we saw in Q4 on both the agent and the franchise side. We saw better agent recruiting. We saw better agent retentions. We saw a bunch of agents returning to our brands, but we also saw a lot of really positive franchise renewals that we're very excited about and those trends have all continued into the early part of Q1.

And I think a lot of that is the stuff that we're doing, right? More partnerships, more products on the tech market or data side, both RealVitalize and RealSure are consumer focused products that we've launched within the last kind of four months that are really interesting I think innovative for our agents and our franchisees. And so that I think a lot of what we're doing is driving the success I'm talking about, but some of it also has come from the competitive environment, right?

I talked to you on the last call that we saw kind of the early indications of a more rational environment in September and October and that's definitely continued since then and we see that when we look at the agent migration data and the offers out there in the market and how different companies are going to market and that benefits us, it benefits our franchisees.

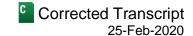
And so the combination of a more rational competitive environment with a lot of delivery focused on agents of our value proposition is something that we're really excited about. And then finally, this quarter, we've already launched Corcoran with our first franchisees there. We have some more of those planned. Another example of us bringing something new to the market that we think is starting to resonate that can help drive future growth.

#### Ryan McKeveny

Analyst, Zelman & Associates

That's very helpful. Thank you, Ryan. And second question on Cartus and some of the moving pieces. So within the release, it calls out \$28 million of earnings from the relocation business. So is it fair to think of that kind of

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relative to the \$400 million sale price, we're talking about that business being sold for something like a 14 times multiple? And then a bit higher level on the Cartus business and the referral business underlying it.

I guess can you can you just talk about some of the moving pieces, as far as we all know kind of the USAA is coming out of things, but you've got AARP, but there's always this question of kind of the downstream impact of how big USAA could be? So maybe just talk about how you're feeling about whether it's your Military Rewards Program, whether it's Navy Federal or some of the other affinity channels somewhat capturing that business that might have otherwise gone through USAA? Just a bit more on the puts and takes of how things could play out for 2020?

Ryan M. Schneider

Director, Chief Executive Officer & President, Realogy Holdings Corp.

Sure, absolutely. So [ph] first off (27:53), yeah. The relocation business earned \$28 million in 2019, and we did a \$400 million sale though – sale for that. And look, we really like the multiple on that. In part if you look, you kind of try to be good stewards of capital, we think it's a very good capital allocation decision. Whether you look at kind of our trading multiple or our leverage ratio, we like the \$14 million kind of relative to those numbers and think it's a value accretive thing for our shareholders and obviously we're going to use the lion's share of those proceeds to delever as part of the company.

Going from there, right, I talked about and Charlotte mentioned, we're investing in new lead generation programs like AARP and Realogy Military Rewards. That latter one actually is already off to a pretty good start. I'm pretty excited about it. But we're also going to invest in some of our existing ones and you called out a couple of those, because our goal is over time, to kind of replace the USAA volume and capture some of that share. Over time, it's not going to be a one-year phenomenon or anything like that, because these are long programs that take time to build. But we're going to stay very focused on delivering that high-quality lead generation.

And look, at the USAA thing, as we try to disclose, that's going to be a material decline in that segment EBITDA in 2020, and there's going to be an equal decline downstream. To go a little farther on that, the leads from our affinity business go about 80% to the Franchise Group and about 20% to our owned brokerage group. But the economics of the downstream hit is kind of the opposite of that. Most of the downstream hit for your modeling is in the brokerage group just because of the – how much money we make on an owned transaction versus a franchise one, and so we're going to keep being clear that there is going to be that equivalent downstream hit and – but look, we're really excited about the partnerships that we've got launched in including AARP and its 38 million members this quarter and the early growth we're getting from Realogy Military Rewards.

Ryan McKeveny  Analyst, Zelman & Associates	Q
That's helpful. Thank you.	
Operator: Your next question comes from the line of John Campbell from Stephens. Your line is open.	
Carter Trent Analyst, Stephens, Inc.	Q
Hey, guys. This is Carter on for John. Real quick I want to touch on split. How much of the growth in the quar was driven by geographic mix, and what kind of impact did the California have on split?	ter

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#### Charlotte C. Simonelli

Executive Vice President & Chief Financial Officer, Realogy Holdings Corp.

Yeah. So, California definitely had an impact as we saw some improving growth trends in California versus the prior year. There is a big chunk of the increase that's just due to a relatively low base last year on the commissions. But there are other drivers as well like the improved recruiting and retention, but geography was definitely a piece of it.

**Carter Trent** 

Analyst, Stephens, Inc.

Got it. Thanks, Charlotte. And real quick on capital allocation. So, you mentioned that a majority of the \$400 million received from the Cartus sale will be used to pay down debt. Is there a specific debt number that you're targeting to really start to entertain paying out the dividend again or buying back shares?

Charlotte C. Simonelli

Executive Vice President & Chief Financial Officer, Realogy Holdings Corp.

No. I think our focus remains investing in the business and de-levering, so we're going to focus on that. I would like to remind you that of the \$400 million, initially we received \$375 million, which will also be trued up versus some closing costs that we have. The remaining \$25 million will happen at a later date. I just want to be clear about that as well. But we do remain focused on investing in the business and de-levering right now.

**Carter Trent** 

Analyst, Stephens, Inc.

Got it.

Ryan M. Schneider

Director, Chief Executive Officer & President, Realogy Holdings Corp.

And to be incredibly clear, until we get our leverage ratio below 4 times, we're not even considering those other topics. And even then, we'll have to decide what we wanted to do. But you should assume we're going to focus on invest in the business and paying down debt until we're below 4 times leverage.

**Carter Trent** 

Analyst, Stephens, Inc.

Okay. Got it. Thanks, guys.

Ryan M. Schneider

Director, Chief Executive Officer & President, Realogy Holdings Corp.

Thanks, Carter.

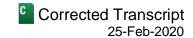
**Operator**: Your next question comes from the line of Stephen Kim from Realogy (sic) [Evercore ISI] (31:57). Your line is open.

Stephen Kim

Analyst, Evercore ISI

Well, not yet. But guys, good quarter, strong results in many ways. And it's encouraging to hear what you were saying about the competitive environment. I just did want to start with the cost save Charlotte. You were good to

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sort of give us an idea of what we can expect next year. But it would be really helpful to have a quarterly cadence some sense or how that's going to flow through the year, that \$90 million. And then sorry, the \$79 million. And how much of that would show up in NRT versus RFG?

#### Charlotte C. Simonelli

Executive Vice President & Chief Financial Officer, Realogy Holdings Corp.

Sure. So what you can think about is the \$52 million that we've said is already actioned is pretty relatively evenly split quarter-by-quarter. The remainder of that is probably going to be more heavily weighted to the back half. There is a substantial piece of this that is going to show up through the Realogy Brokerage Group as it relates to – if you can even look into the fourth quarter, some of the things were already actioned in the fourth quarter and you can sort of kind of get a feel for the split therein. It just comes down to whatever the remainder of the savings that haven't been identified or actioned yet. That can be a little bit more variable between those two pieces as well as corporate.

Stephen Kim

Analyst, Evercore ISI

Okay. That's volume.

Charlotte C. Simonelli

Executive Vice President & Chief Financial Officer, Realogy Holdings Corp.

So the \$52 million evenly split by quarter, the remainder so approximately \$20 million to \$30 million will be more heavily weighted towards the back half.

Stephen Kim

Analyst, Evercore ISI

Got it. Yeah. That's helpful. Okay. And then I guess if we could talk a little bit about the transaction volume in January, obviously, that's good to see. You did pretty well here in 4Q. The housing market certainly showing a lot of strength. If you – can you talk a little bit though about the comparison a year ago because obviously the 1Q was a pretty easy comp, but within that quarter from a monthly cadence, is there any reason to think that the January figure faced a particularly easy comp relative to February and March for you?

Ryan M. Schneider

Director, Chief Executive Officer & President, Realogy Holdings Corp.

Yeah. Look, when I talked about it, you shouldn't run away with our excitement including the January result, I wouldn't use January to forecast our year or our quarter and some of it gets to the kind of thing of how January, February, March of last year looked versus before. And then March is 40%, 45% of the quarter, so the reality is the quarter is a lot more driven by March than by either January or February.

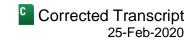
So look, we think it's a really good start to the year both for us and for the market, right. We like the delivery of products and things like our Corcoran franchise is powerful early on in the year. We like the better competitive environment. We think it kind of paid off here in January with some really good results. We're excited about growth over the course of the year, but for the reasons I said, January wouldn't be the – I wouldn't extrapolate the whole year or the quarter from January, but we're having the good feeling that let us start the call the way I did.

Stephen Kim

Analyst, Evercore ISI



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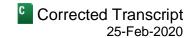


I guess I'm wondering whether or not if we look at the cadence within 1Q, there would be reasonably to sort of look at the existing homes of the NAR type numbers, or if you could provide us with maybe a more discrete company-specific sense of how that quarter look?

Ryan M. Schneider Director, Chief Executive Officer & President, Realogy Holdings Corp.	A
Yeah. You're talking for 2020?	
Stephen Kim  Analyst, Evercore ISI  Yeah. The 1Q 2020, because the January is the big number	Q
	Λ
Ryan M. Schneider  Director, Chief Executive Officer & President, Realogy Holdings Corp.	A
Yeah. Look	
Stephen Kim	Ω
Analyst, Evercore ISIand March matters so much more.	Q
and ivial of matters so much more.	
Ryan M. Schneider  Director, Chief Executive Officer & President, Realogy Holdings Corp.	A
we're not going to give quarterly guidance for this stuff. I mean – on NAR's view of tour January number, but I think NAR's you have January within the same ZIP Code of So like – again, I – we're probably going a little bit far by just giving you January. But earnings call so late in the quarter, because of the K, it's the one earnings call we act And so, I think actually, this is now two years in a row, we've just kind of shared with y January.	or so of our January number. it's because we do this ually have a full month data.
So – but we like the January, we like the trends, we like what we're seeing for Q1 and pretty far out of my way to tell you not to run away with the excitement, including the don't let that temper my optimism too much.	-
Stephen Kim Analyst, Evercore ISI	Q
Okay. Fair enough. Thanks.	
Operator: Your next question comes from the line of Anthony Paolone from JPMorg	an. Your line is open.
Anthony Paolone  Analyst, JPMorgan Securities LLC	Q
Yeah. Thanks. Good morning. So on splits, you mentioned order of magnitude in 202 so if I just look at those numbers, it would suggest up about 80 bps year-over-year. S the – I don't know [ph] 73.75 (36:54) range for 2020? Does that – I mean should we to	o just that would put you in

ZIP Code of where you feel comfortable?

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#### Charlotte C. Simonelli

Executive Vice President & Chief Financial Officer, Realogy Holdings Corp.

Yeah. That's the right ZIP Code. I mean there's a lot of variability and that depends on our ability to recruit and retain agents. The volume growth is very big. We do have some – two things I want to point out, there's some volatility in our new development business and it's episodic and there's a much lower split on that. So depending on how the new business – the new development business falls, we'll also have an impact on splits. And also USAA, just keep in mind the downstream impact from that. There's a much lower split on those transactions. So, that's part of why we're giving the guidance of sort of like in the 80 bps ballpark because all of those things play a role and why the number would be higher than it was in 2019.

#### Anthony Paolone

Analyst, JPMorgan Securities LLC

Okay. And on USAA, I mean, you guys shared \$53 million of EBITDA from leads. I mean, how much of that was from USAA?

#### Charlotte C. Simonelli

Executive Vice President & Chief Financial Officer, Realogy Holdings Corp.

Well, we didn't disclose that specifically. I mean, we have said it's a substantial piece of it. So – and I think there's other guidance we've given over time that enables people to sort of get in the right ballpark. And it's important to recognize the downstream transactions as well.

#### Ryan M. Schneider

Director, Chief Executive Officer & President, Realogy Holdings Corp.

Yeah. Look, on that, Anthony, to be honest, I think, look, we've never given data on individual partners, we've never given data on individual franchisees, no matter how large they are, and we've never given data on how much we earn in a specific geography, for example, in the owned brokerage side. So, in the USAA case, we try to be clear from the start that this is our largest partner kind of in that group. And with this call, we're now giving a lot more information about that business, its margin, its referrals. And I just tried to give you some more information earlier about where the leads go and where the economics of them are.

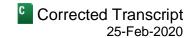
So, I know everybody is going to want a number. I don't think you're not going to get a number on that as much as kind of everything that we've given you up to this point plus the additional stuff we're trying to give you here. And we try to be pretty clear from day one. It's a material hit both in that part of the P&L and on that downstream. And then like I said, the downstream hit will be bigger on the brokerage side versus franchise just given how the economics of those leads with bluntly the split issues Charlotte talked about being a piece of that. So that's a little bit more on it. And I think some people have done a really good job modeling it already. And we're going to be focused on investing in the new programs bluntly to offset that volume over time and get some of those economics back.

#### Anthony Paolone

Analyst, JPMorgan Securities LLC

Okay. And just if I can sneak one more and may not want to give a number on this. But I'm just interested in New York. How big of a drag have the variety of regulatory changes and prospective regulatory changes has had on your business here?

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#### Ryan M. Schneider

Director, Chief Executive Officer & President, Realogy Holdings Corp.

Yeah. It's a great question. So let me take it in two parts. So look, the [ph] mansion (40:06) tax clearly that came in at kind of the end of Q2 clearly was a headwind in New York for Q3 and Q4. And we saw that in our results and we even – I think we've talked about that on the last call a little bit.

Now New York in January has been off to a much better start. And that's anecdotal because we don't have the MLS data there. But when you look at our business, but I've talked to some top agents in other brokerages in New York here in the first quarter and they were very bullish on kind of what's happening in New York is at the start of the year. So maybe there's a little bit of that coming back. But it was definitely an issue for Q3 and Q4 when it looked like New York may have been like negative on those two quarters from a volume basis is kind of my view of the market. But again, there's less data there.

And then, look, the Department of State kind of coming out with the rental fee ban kind of nine months or whatever after the law was passed, that was a surprise to everybody including us. Obviously, there's an injunction in place and we got to see how that and any more interpretation plays out. But New York is a – I bet on New York for the long term as a market, but New York has got – it's been tough on the [ph] mansion (41:26) tax, that rent thing while it's not a big thing for us. It's not zero. So, we've got to watch it. And then Charlotte talked about new development. For those of you who live in New York, there's a lot of new development happening in New York City.

And when it comes to market, it makes a big difference in the P&L of that business for us. So, of all the geographies, it's probably the one with the most volatility around it from kind of those type of outside forces, Anthony. And so, we're watching it pretty closely, and even my tax comment, I called out New York in my script just because stuff like the [ph] mansion (42:09) tax has had an impact.

Anthony Paolone	
Analyst, JPMorgan Securities LLC	
Okay. Thank you.	

Operator: Your next question comes from the line of Jack Micenko from SIG. Your line is open.

#### Jack Micenko

Analyst, Susquehanna International Group, LLP (SIG)

Hi. Good morning, everybody. Ryan, I wanted to square some of the commentary around competition. You've obviously been pretty constructive on it going back a few months both on these calls and in some industry presentations, that sort of thing. But the split numbers – looking at the split numbers by quarter year-to-year, it looks like fourth quarter was actually the high watermark on split pressure for the year. And I'm trying to understand timing as the year progresses. And you also talked about agent count, and agents up 4%. I'm wondering if you could give us that number, that year-over-year growth number by quarter as well, then kind of just talk about what the trends you're seeing as the year went on relative to some of the comments you made.

#### Ryan M. Schneider

Director, Chief Executive Officer & President, Realogy Holdings Corp.

Yes. Let me let me start with your last question because it's easier, so look, we effectively started pivoting to positive agent growth in about the middle of the year. And if you kind of go back to our calls, we call that our agent

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growth, I think, in like two of the calls that we did in 2019. And we kind of got some momentum and then it felt like in Q4, it accelerated. So that was a good thing. The second thing you didn't ask about it, but as we talked about all the market share stuff and retention, our retention numbers were getting worse throughout the year because of the competitive environment and in the fourth quarter, our retention numbers got better, right.

Because again part of the competitive environment part because I think of what we're now delivering out there and we saw that on the agent side and then as one of your colleagues – one of your competitors talked about, we've got a bunch of big franchise renewal, so we're seeing it there too. So that kind of felt – so that feels pretty good, right, both our delivery but also the environment and shows up in recruiting and retention. And even the point I made you can see both in our data and even at some of the press, there's a lot more agents actually returning to our brands in the fourth quarter and here at the start of the year, which is just kind of correlated with our recruiting success and our retention success.

On agent commission splits, we absolutely – we're at a higher Q4. I'm not just troubled by it in the sense that we've got a lot more growth in the quarter, which is part of it, but also remember the higher volume you get from people, the higher they move up the split tables, so that's a piece of it. But the other thing if you look compared to 2018, right, the Q4 of last year was our smallest increase year-over-year. So it's a little bit of a lower comparison than some of the 200-ish basis point year-over-year comparisons earlier in the year.

But, if we step back bluntly, we came into the year and I think I told you, you should expect about 100 basis points of split increase for the year, right. And it turned out the number was – on a like-to-like basis turned out to be 70 basis points. It was 49 basis points on the face of the financials, which includes the fees that we're now getting, which is a real thing. And so I actually think the 49 basis points is a real number we should all be excited about. But the more we have and drive from growth, the more there is a little bit of inflation in this thing. And so that's something to keep in mind.

The other thing that I would keep in mind is, when you do a year-over-year comparison, you are capturing the things that happened in multiple other quarters, including the first two quarters say of 2019 where the competitive environment was a lot crazier. And so – so anyway, so we were not as troubled probably by the uptick, given the volume that kind of came with it, with all those different pieces.

But again, just step back, we used to be in the 200 basis points plus kind of increase or 100 basis points – 200 basis points plus kind of increase. We came into this year thinking we were back into the 100 basis points or below ZIP Code. We did better than that. And then next year, it'll kind of be a volume thing. But we feel better about the place we're at. But I can't tell you that we're at a steady state, which I want to be able to do someday. But that's a lot – and hopefully, I kind of got to your question in there somewhere.

#### Jack Micenko

Analyst, Susquehanna International Group, LLP (SIG)

Okay. Great. And then on the model on the cost saves, I mean can – Charlotte, maybe you can talk about cost inflation, some of the costs that are going to go into growing Military Rewards and some of these other avenues? I think there's some spending going on at the franchise level?

And then, of that \$70 million to \$90 million, what percent of that do you think ends up – factoring all that in, what percent or piece of that drops to the bottom line as net savings for 2020?

#### Charlotte C. Simonelli

Executive Vice President & Chief Financial Officer, Realogy Holdings Corp.

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Yeah. It's a great question. I can tell you this, the things that you mentioned are the sort of offsets to the cost saves. And the cost saves should be enough to combat those. I think where we have a lot of variability is in the commission split pressure. And so it's very hard for me – I'd love to give you a net number today, but I don't feel comfortable doing that just yet because I want to see how a few of the months play out on the commissions. But that's the biggest bogey for us. But in total, of the cost saves that we have, those should be enough to more than offset the things that you talked about, the strategic investments, the inflation, et cetera, that we have in the business.

#### Jack Micenko

Analyst, Susquehanna International Group, LLP (SIG)

Okay. And in the past you've given 1Q guide on the 4Q call and you've talked about the reasons why not. As we get through that transaction and get more clarity on what USAA is, I mean do you expect when we roll into the next call that we're going to be talking about some 2020 EBITDA targets or are you just sort of backing off of guidance altogether at this point?

#### Ryan M. Schneider

Director, Chief Executive Officer & President, Realogy Holdings Corp.

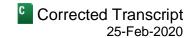
Well, look, historically, before I joined the company I think the practice is kind of wait till about the middle of the year to give EBITDA guidance. And just partly because of the volatility of the housing market splits and all the other kind of stuff. For the last couple of years, we've given a little bit of guidance in part because kind of bluntly how Q1 was degrading compared to previous years. And you can infer whatever you want from that, but we don't think that's the right thing to give any right now. And we're definitely not in a position to give full year guidance.

So what I would say is we're probably going to take the guidance thing kind of quarter-to-quarter, right. It's in all of our interest for us to all kind of feel the same about the company. And so I think we're probably going to take it kind of quarter-to-quarter. And so we haven't even made a decision about that yet. But we've tried to give you with USAA a lot of the information to do some good modeling, which again a lot of people I think have already done a very good job on that thing. And with the splits up today and a few of the other pieces, we're hoping there. One of the piece of advice I got from kind of the person, who I worked for, for a long time who founded his own company and incredibly successful was, to never let the perception of your company get too far away from the reality.

So you should know it's in all of our interest for us to kind of be in the same ZIP Code, but like there's also a lot of downside in a very volatile cyclical business to giving you information that we then can't either guarantee we can deliver on. But look I'm excited about the momentum we've got to entering the year here, Jack, both on the volume side and the value prop side, the capital allocation side and the transaction. And so we'll play the guidance kind of quarter-to-quarter and go from there.

Jack Micenko  Analyst, Susquehanna International Group, LLP (SIG)	Q	
All right. Thanks for taking my questions.		
Operator: Your next question comes from the line of Tommy McJoynt from KBW. Your line is open.		
Thomas McJoynt-Griffith	$\bigcirc$	

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Hey, guys. Thanks for taking my question. I wanted to ask about the kind of relative underperformance relative to NAR. It seemed like that gaps narrowed a bit this quarter relative to last quarter. Do you think the sense of that was more geographically driven or do you feel like there was some market share gains, just any comment there?

#### Ryan M. Schneider

Director, Chief Executive Officer & President, Realogy Holdings Corp.

Look, we think we had – we really liked our quarter and our January and so we put more of it on the things that we've been doing and the competitive environment. It's really when we've looked the geographic mix, there may be a little bit in there, but it's not very much bluntly; so we're pretty excited about it. We don't think NAR is the be all, end all because we do have a different geographic mix and they use surveys and we tend to – we just have our – we just kind of print our actual type of stuff, but it's a good benchmark to look at, but we don't over obsess about it.

And so what we get excited about is that shift to positive volume that we had in Q4, a good start to the year in January on volume, Corcoran franchise turned into reality to generate more earnings for us. And some of the things I've talked on product, partnership and better agent recruiting, better agent retention, agents returning to our brand. And so the fact that the gap to NAR is less, that's great. But we're more excited about the things behind it that drove that.

#### **Thomas McJoynt-Griffith**

Analyst, Keefe, Bruyette & Woods, Inc.

Got it. Thanks. And then just touching back again on sort of the competitive landscape kind of your comments about using the word rational describe the marketplace. I mean is that more applying to I guess the financial incentives that competitors are offering to like new recruits in the space or trying to poach agents from Realogy or other, your competitors? Just kind of how do you define I guess the improvement in becoming more rational?

#### Ryan M. Schneider

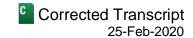
Director, Chief Executive Officer & President, Realogy Holdings Corp.

Yeah. So I look at it in two ways. So one is I'm looking at kind of Asia migration reports across 240 MLS' kind of every single month and kind of see in who's doing what recruiting and et cetera. But then we're also looking at the offers, right. What are the offers that are out there for agents? How they're structured? We saw some offers to agents change from being upfront cash bonus to we'll pay you X every week for two years. And that's a little more of a cash flow positive offer than the first one. And so the fact that someone would make that change like, huh, that's a little more of a rational kind of thing out there.

And so, look, more rational doesn't mean it's not still intense to be blunt. It's an intense business. But you know as an industry, we've been competing against private capital that's been going after market share at all costs without regard to profitability for a couple of years. And to see that the scrutiny of those kind of companies be stronger has definitely helped on the competitive environment. And three of the six biggest players in our owned brokerage industry lose money.

So the fact that it's – if people are more focused on companies that make profitability kind of a return to quality and that our agents care about that too, that's all helpful to us. We've seen lower sign-on bonuses out there and things like that. But it – overall, the – it looks a lot more rational. It doesn't mean it's not still intense, but there's a big difference between rational and what we've been – felt like it was dealing with in the first parts of 2019.

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#### Thomas McJoynt-Griffith

Analyst, Keefe, Bruyette & Woods, Inc.

Got it. Thank you.

**Operator**: [Operator Instructions] Your next question comes from line of Matthew Bouley from Barclays. Your line is open.

**Matthew Bouley** 

Analyst, Barclays Capital, Inc.

Good morning. Thank you for taking my questions. I really just had a couple of follow-ups to some of the earlier questions. So on the improved competitive environments, I guess my follow-up would be, just be curious to hear how it applies across the markets and kind of how broad based it is? And it sounds like you're seeing it relatively broad based. I guess what are you seeing and hearing in those certain markets, where you had referred to the competition being a little more acute, I guess versus the wider range of markets where that competitor may still be looking to scale? Thank you.

Ryan M. Schneider

Director, Chief Executive Officer & President, Realogy Holdings Corp.

Yeah. And look – and there's always more than one competitor that we talked about, but definitely one or two has been the bigger challenge. Look, I think it's been more of a broad based kind of thing. And again, it doesn't mean the competition has gone away or is zero or isn't still difficult, it's just – there's a – but there's a big difference between what feels rational or irrational on a profitability side.

But it felt more broad based and then there's a lot of geographies, especially that our franchisees play in, where the competitive environment didn't get as intense as it did in Chicago or Northern or Southern California kind of thing. But it's more of a broad-based kind of thing, but it's not zero for anybody and we're an intense competitor, and it will continue to be an intense industry. But we really like the more rational environment. And it just showed up in our Q4 numbers, right.

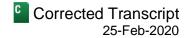
And again, some of it what we're doing with product and partnership and delivery of the value proposition, but some of the environment – and together it, led to positive transaction volume, and we had better agent recruiting and better agent retention, more agents returning to the brand, bunch of franchise renewals as one of the folks mentioned, and then receptivity to our new franchise out there in the market. So, we're pretty excited.

Matthew Bouley

Analyst, Barclays Capital, Inc.

Okay. I appreciate that. And then I also wanted to follow-up on, I guess, specifically, our RFG versus the NAR data, but just focusing more about going forward, and you just mentioned some of the successful renewals, and you've got the strategy to continue investing in volume, incentives, et cetera. So, I guess I'd like to hear kind of your thoughts on what it's actually going to take to kind of bring that performance more in line with the market. I understand you're saying it's not necessarily always going to be apples to apples. But is the goal to bring those volumes sort of back in line with market growth? Do you actually want to grow share or should we think – as we think about 2020 is kind of more of a measured improvement in RFG volumes but maybe not quite where the market growth is? Thank you.

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#### Ryan M. Schneider

Director, Chief Executive Officer & President, Realogy Holdings Corp.

Yeah. Well, look, we're excited to grow RFG as much as we can, right. And the – we've got the Corcoran launch is kind of a new vector of doing that. We talked about our investment in the Better Homes and Gardens capped fee model to give us something to compete with the capped fee companies and Better Homes and Gardens had a couple of it now, in 2019 had a really good year on both agent and franchise sales growth because of that capped fee model so we're excited about that.

And then look some of the competitive dynamic we talked about hits our franchisees, especially Sotheby's is a prime recruiting target for people and so the better competitive environment will help on that. But we're excited to get as much growth as we can there and some of the value propositions things are driving that, some of the new franchise things.

And again, we're always going to be focused on profitable share, right. This business doesn't have the stickiness that some others do that would make you want to be unprofitable just to hold share. So we're going to be focused on profitable share at RFG. We really like the margins in the business. That's why we're investing in Corcoran, investing in Better Homes and Gardens, investing in Sotheby's International Realty on the franchise side.

And we think we're doing more with our size and scale to bring benefits to them that others can't whether it's the new high quality lead generation partnerships, our RealSure iBuying alternative is not just for our own business, it's also for franchisees in those markets and that's something that most of our competitors can't replicate.

So we're excited to drive more growth there and the same factors that bluntly make us more optimistic on the competitive environment in our owned brokerage business that we spend most of our time talking about on these calls, it does apply in that world too.

Matthew Bouley Analyst, Barclays Capital, Inc.	C
Okay. I appreciate all that color. Thank you, Ryan.	
Ryan M. Schneider	Λ
Director, Chief Executive Officer & President, Realogy Holdings Corp.	
All right. Thank you, Matt.	

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

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