Corrected Transcript

30-May-2019

Realogy Holdings Corp. (RLGY)

Keefe, Bruyette, & Woods Mortgage Finance & Asset Management Conference

CORPORATE PARTICIPANTS

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

Thomas McJoynt-Griffith
Analyst, Keefe, Bruyette & Woods, Inc.

MANAGEMENT DISCUSSION SECTION

Thomas McJoynt-Griffith
Analyst, Keefe, Bruyette & Woods, Inc.

Okay, guys. We're going to go ahead and get started here. Next up we have Realogy. Realogy is the largest residential real estate broker in the U.S. involved with approximately 16% of existing homesale transaction volume. The company has both company-owned brokerages through its NRT segment, and a Real Estate Franchise Group or RFG, as well as Relocation and Title and Settlement Services. You've surely seen some of their brands including CENTURY 21, Coldwell Banker, ERA, and Better Homes and Gardens.

Now joining us from Realogy today is Ryan Schneider to my left, CEO and President; and next to him is Charlotte Simonelli, CFO. Thanks for joining us, guys.

Ryan M. Schneider
Director, Chief Executive Officer & President, Realogy Holdings Corp.

Great to be here, Tommy.

QUESTION AND ANSWER SECTION

Thomas McJoynt-Griffith
Analyst, Keefe, Bruyette & Woods, Inc.
Q

Now, Ryan, I actually want to start with you. You actually recently made a large purchase of Realogy stock, and I want to get kind of the reaction from you in terms of what was the reason for that vote of confidence, and what do you think the equity markets have wrong about Realogy at this time?

Ryan M. Schneider
Director, Chief Executive Officer & President, Realogy Holdings Corp.
A

Well, Tommy, I really appreciate the question. I think Realogy is a very good company and a very interesting industry that's got a lot of change potential in it, and we did our Q1 call and the equity market reaction to the call was definitely more severe than I had predicted going in. And when I talked to people who do your job, and I talked to close to a double-digit number almost to a person, they all thought the reaction was much more severe than they had expected, given the guidance we'd already given about Q1 volumes and Q1 earnings and stuff like that.

And so a day or two after the call, I mean, I tried to just step back and actually just look at the underlying fundamentals of the company for like a free cash flow and a yield perspective, and try to contrast that with our view of the future that we talked about on the call and what people must be assuming, I just thought there must be some disconnect going on there, and I thought that given where the price was, that it was a good decision for me and my family, and so went ahead and pulled the trigger on it, both because I believe in a lot of the good things that we're doing, some of which have, some of which have not yet shown up in our results, but also because I thought the future valuation of the company and the fundamentals of it may be stronger than some people think. So, I feel good.

Thomas McJoynt-Griffith
Analyst, Keefe, Bruyette & Woods, Inc.
Q

Interesting. Now you've closed the first quarter call with a kind of a big picture focus on reinventing the transaction processing. I think you guys are calling it the Fast Track, and obviously it's still early in that process, but could you kind of give us a sense of sort of what that entails, what efforts are currently underway, and I guess longer term, what are the changes to the industry from that?

Ryan M. Schneider
Director, Chief Executive Officer & President, Realogy Holdings Corp.
A

Sure. If I step back a notch, Tommy, the residential real estate industry and the transaction experience is – got a lot of opportunities. It's still done today the way it was done years and years and years ago, and the amount of technology and data innovation in this industry has been a lot less than in a lot of other industries. And in fact, when you look at a lot of the "disruption" in our industry, you can actually see a bunch of financial disruption that people are trying to do, but you don't actually see that much disruption that's making the consumer experience better or is changing the agent and franchise experience.

And so a lot of the things that we're trying to do, using kind of our industry-leading scale not just in agents and brands but in technology and data, is find what are things we could do differently to help our agents and franchisees be more productive or efficient with tech and data, and/or what can we do to help change that consumer experience.

So Fast Track is an example of something we announced to about 10,000 of our agents and franchisees in March, and the concept, which we're piloting starting in June, is today, the average kind of home takes about 70 days to close effectively, and we have a title business, we have a mortgage business, a lot of people talk about making money from those things, we already do, but we envision that we could actually do a bunch of the pre-work on both title and mortgage on a listing we have, so that when the buyer is there, that person could step in to a bunch of post-contract work already being done, and we envision, hey, let's take that 70-day thing and try to shorten it to one week or two weeks or three weeks to help the seller get their money faster and get the deal closed quicker, to help the buyer get this thing closed quicker, and that's one of like five examples of the type of thing we can and should be doing with our size and scale to try to make a better customer experience or make a better agent and franchisee experience.

At the same conference, we announced a partnership thing and we had Facebook on stage with us, where us and Facebook and an AI company together are actually doing a new marketing campaign approach that leverages all three of our strengths to provide higher quality leads to our agents than they get through most of the massive lead generation channels that are out there. And so bringing AI into this industry is something that's important for us, we think, in the future. And so there's a whole theme of transformation potential in this industry, that there's no reason Realogy, with its scale, cash flow, ability to invest and massive amounts of data, shouldn't be a bigger player in, and we're now starting to articulate some of those examples and even in the example of Facebook and OJO case, delivering those examples to our agents and franchisees. So we're excited about it, it's part of what we think the future of this industry needs to be, and we think we've got a real role to play in driving that change.

Thomas McJoynt-Griffith Q
Analyst, Keefe, Bruyette & Woods, Inc.

Is this something that's unique to Realogy in the sense that you guys have TRG and you have the partnership with Home Partners of America, is that what makes it unique...?

Ryan M. Schneider A
Director, Chief Executive Officer & President, Realogy Holdings Corp.

I think a number of the things that we're doing are actually unique to Realogy, sometimes because of the businesses we have. A lot of people talk about making money in the title business. We already have a title business that's national and we make money in it, so that's a bit of a head start. But the other advantage that we've got is, we are actually truly a national player, both in our own business and with our franchise network. And so when someone wants to do something nationally, which is what a lot of partners want to do, we're one of the few companies in this industry that can legitimately deliver their product nationally.

And so we think we've got some different kind of advantages that we haven't fully leveraged yet in the world but that are out there to be leveraged, and some of that will be in lead generation, some of that will be in technology products, some of that could be in things like a better customer transaction experience, and we want to do more on that. And we think we've got some advantages against the competition on that.

Thomas McJoynt-Griffith Q
Analyst, Keefe, Bruyette & Woods, Inc.

And that's the pilot program that you said is going to roll out in June sometime...?

Ryan M. Schneider
Director, Chief Executive Officer & President, Realogy Holdings Corp.
A

Yeah, yeah, we're doing our first rollout in June on that specific one. And like the Facebook, OJO kind of AI-driven Facebook marketing thing, that's already live. We had thousands of agents sign up for it in March, when we first launched it at our conference, and thousands more have kind of connected with the program already since then. So we need to put more of these in the market. These are all part of what you need to be doing to make your agent more productive and efficient that helps drive volume, that helps drive agent retention, agent recruiting, and in a world where there's a lot of competition, that's an increasingly important thing. We are a big company, but I feel like we're a diesel engine kind of building momentum with these things, and we look forward to getting up to a very fast speed.

Thomas McJoynt-Griffith
Analyst, Keefe, Bruyette & Woods, Inc.
Q

That's great. Yeah, I'm sure we'll look to get more color on that pilot program come the 2Q call. I want to switch over to some of the cost initiatives that you guys have mentioned. Now, Charlotte, you guys are targeting about $70 million in cost saves in 2019. Now how much of that is done so far and how much remains? And then also, you talked about how there's potential for the $70 million to kind of be a floor number, and there would be more beyond that. So could you walk through how you're identifying those kind of coming in with a new set of eyes?

Charlotte C. Simonelli
Executive Vice President & Chief Financial Officer, Realogy Holdings Corp.
A

Sure. Thanks for the questions. So what I can tell you is, we're trending ahead of the time elapsed. So of the $70 million, we're slightly ahead of where we should be at this point in the year, which is great. The types of savings that we're getting are coming from a few areas. So our storefronts are a big expense for us, which is basically our brokerage offices. We also have other back office costs to support those storefronts, and those are the predominant areas that we're getting savings from this year.

There's a little bit of procurement, a little bit on the marketing side, but predominantly, it's more of the storefronts and the back office costs. As far as being new coming in, my background is in consumer packaged goods, and just visually, you can see the difference of how this business is run versus how consumer packaged goods companies are run, and some of the things that were low-hanging fruit to them 20 years ago have not yet happened in this industry, so – and specifically at Realogy.

So to me, it feels like there's any number of opportunities, we just have to prioritize the ones that are going to have the biggest return both from a cost savings perspective but also delivering like a better value proposition to the agent with – when you apply automation technology, they're going to get their commissions faster. There's things that will be doubly beneficial because they'll be happier but we're also going to save money in the process. So I feel good about the $70 million, I feel good about what's next. We'll get some of that probably this year and then more to come in 2020 and beyond.

Thomas McJoynt-Griffith
Analyst, Keefe, Bruyette & Woods, Inc.
Q

It's still early, but any sense of given some – any sort of dollar range on how – the magnitude of [where that kind of above $70 million could go?

Charlotte C. Simonelli
Executive Vice President & Chief Financial Officer, Realogy Holdings Corp. A

Yeah, internally, we're still working to align on timing and things, so I don't want to put the cart before the horse, but it's not a small number, it's just how do we phase it in.

Thomas McJoynt-Griffith
Analyst, Keefe, Bruyette & Woods, Inc. Q

And you mentioned, so some of these cost cuts are things that they did in other industries 20 years ago, and now they're finally catching up. So is it just a matter of Realogy hasn't gotten around to doing them yet, or – so what's unique about these opportunities...?

Charlotte C. Simonelli
Executive Vice President & Chief Financial Officer, Realogy Holdings Corp. A

Yeah, it's a good question. So let's talk about procurement, for example, in consumer packaged goods, we would have leveraged your scale to consolidate your vendor base and then have better pricing. You actually improve your working capital, because usually you can get slightly longer terms with them as well. I don't know if it's because of the fragmentation of the industry or how this business was built through acquisition. Those are usually some reasons why people wouldn't have gone to that in the past. You just have to sort of then put your foot down and say, we're all going to do things in a more common way and then leverage our scale. That's a big piece of it.

I think also on the back office side of things, the same thing, as you have multiple different systems and how businesses operate that way, it's very inefficient, and then you have multiple people that have to do the same work. If you can strive for sort of simplification on the back office as well, that can be a huge saving. And so that's still an area of opportunity.

Ryan M. Schneider
Director, Chief Executive Officer & President, Realogy Holdings Corp. A

Tommy, I'll give you a real one that I saw [indiscernible] (00:11:13) about I come out of the financial service industry in about, I would say, four or five years ago, in the part that I worked in, we started using robotics process automation to take a lot of very high-volume tasks and get the humans out of them and actually effectively build the bots that could actually do them, including the system checks and going out and getting data and filling in forms, et cetera.

And yesterday, I saw the launch of our first robotics process automation thing at Realogy, where one of our big processes in our title business that requires nine different checks, both of internal systems and our core title processing system but requires you to go outside the company and do an OFAC check, requires you to go to local geographies and make a request for information and then generate letters, that it has been done manually both at Realogy and I believe in the industry for years. We've actually recently now built and now launched and is now live, it's 100% robotic process automation, it can run 24/7, we have the – obviously the quality checks and everything behind it, but it all runs on an automated basis now.

And that's one process out of a large number of processes that exist in our industry, but actually taking those on both to make life better for the agents and franchisees we work with, that we can help them, but also making our own company more efficient on those kind of things is, to me, a nice example of something that wasn't 20 years ago, but within some industries was three or four years ago, that partly because of the fragmentation, partly because there aren't as many big companies in this industry hasn't made the way to it, in the way that it has in, say, big financial services companies. And so I got to see that yesterday live and in production, and it really excited me to know that we could do something like that, because if we can do it once, then we can do it 100 times. So it's doing it the first time is when you got to prove you can do something as a company, and that's going to be one of the big keys, I think, to what we do beyond the things we've talked about publicly from a efficiency standpoint.

Thomas McJoynt-Griffith Q
Analyst, Keefe, Bruyette & Woods, Inc.

Now the challenge is when you do these initiatives, sort of balancing them with reinvesting back in the business is one thing, but it sounds like some of these are more about just doing things smarter necessarily than taking them out completely?

Charlotte C. Simonelli A
Executive Vice President & Chief Financial Officer, Realogy Holdings Corp.

Yeah, I see it more like the savings will be an opportunity to spend then more on reinvesting if it comes down to technology and things, so that part of it will drop to the bottom line for sure, but then also on top of that, we can just reallocate spending that we do today because we're spending less, like licenses across multiple systems. If you have less systems, you have less licenses, just redirecting sort of today's spend at both.

Thomas McJoynt-Griffith Q
Analyst, Keefe, Bruyette & Woods, Inc.

Because from an agent perspective, reinvesting back into the business is very important from the retention and the recruiting standpoint.

Charlotte C. Simonelli A
Executive Vice President & Chief Financial Officer, Realogy Holdings Corp.

Yeah. And that's another space actually is on sort of marketing and marketing mix analysis and trying to drive more ROI for the spend that we have in that space. Again, other industries, I think, are a little bit more sophisticated than this. And so I think there's even further opportunity, you may not spend less, but you'd have a better ROI driving sort of better top line.

Ryan M. Schneider A
Director, Chief Executive Officer & President, Realogy Holdings Corp.

But I don't have, Tommy, any examples of where we're trying to take something away from our agents or franchisees to save us money. I mean, our opportunity to be more efficient as a company is actually so we can do more for our agents and franchisees, either us being able to do it faster, because we operate as a more automated, more efficient company, or to free up money that we can reinvest in our agents, as we've been doing in both 2018 and 2019, as well as our franchisees.

So, when we talk about some of the cost efforts that Charlotte described in our last call, we often use the words explicitly, non-agent facing, because a lot of it is about us as a company, and staying focused on making our agents and franchisees successful is an important thing. And so even some of the office work that we're doing to change our office footprint over time is about creating better, more modern, more kind of attractive offices for our agents, sometimes that means we take two offices and we consolidate to one that's even a much better office, but maybe half a square foot of the other two combined, et cetera, et cetera, but we keep that agent and franchise-first mindset when we're trying to be more efficient, so we can put more money into supporting them.

Thomas McJoynt-Griffith
Analyst, Keefe, Bruyette & Woods, Inc.

Q

That's right. It all does come back down to the agents, and that sort of takes me to the next topic. It's obviously a key point in the level of competition in the space. In terms of – I just want to get your general views on the competitive pressures and what you're seeing competitors do from their recruiting front, is it a matter of simply trying to lure agents through generous splits and financial incentives, or what else are they offering?

Ryan M. Schneider
Director, Chief Executive Officer & President, Realogy Holdings Corp.

A

Well, everybody's got a different value proposition out there, right? We have a different one than some other people have. And at the end of the day, I think agents go with what's best for their business. Sometimes an over-the-top financial offer can kind of trump everything, but I think they also care about the value proposition and do they want to be – have a lot of support, do they want to be more of an independent operator. So there's always a lot of choices out there, and there've been a lot of choices for years.

It is a very competitive environment out there, and part of that is we've been in a low inventory world for a while. So there just have been fewer listings out there for people, so the agents who have them are increasingly valuable. A part of it also is some of the disruptive stuff we talked about, and again, the amount of technology disruption in this industry, which is what's changing most of the world, is actually not very large in my personal view, and there's a real opportunity there. There is some financial disruption going on that can show up in really aggressive agent recruiting, and that's out there in the world and we just deal with it and got to stay focused on trying to drive our results to be better. But the more good things we can all do for our agents to make them more productive or efficient, the more likely they are to want to be as part of our team, but you can't ignore any of the competitive trends that you talked about.

Thomas McJoynt-Griffith
Analyst, Keefe, Bruyette & Woods, Inc.

Q

And you mentioned on the first quarter call that there were really four MSAs where things got ultracompetitive. Can you talk about specifically like what's happening in those markets?

Ryan M. Schneider
Director, Chief Executive Officer & President, Realogy Holdings Corp.

A

Yeah. I mean, the four markets I talked about on the call, I would just say that the competition for agents, from a recruiting standpoint and a financial offer standpoint, went to a ZIP code that was even more intense than I thought than it had been earlier in 2018, in a way that I didn't even think could get any higher. And so, sometimes you're faced with a choice in life of do you want to lose money to hold on to market share, or are you going to kind of stay focused on your bottom line choices and occasionally that means you have a little bit of market share violence or somebody who's going to leave you.

There are some industries where, I think, losing money temporarily can be the right thing for the long term. In this industry, given agent mobility, it is hard, I think, to make you an offer, Tommy, that has you losing money for three or four years under the theory I'm going to make it back from you in years five, six, seven and eight. And so I don't make that choice. And in a few of these markets, the competition has got to such a point where it did actually show up in a negative way in our results, and we just try to be transparent about it and still have to compete and deal with it. But I want you to know the choices that we are and aren't making.

Thomas McJoynt-Griffith
Analyst, Keefe, Bruyette & Woods, Inc.
Q

And you mentioned agent mobility. Has that sort of changed over the years, or is that kind of a new...

Ryan M. Schneider
Director, Chief Executive Officer & President, Realogy Holdings Corp.
A

It's not – it's funny, if you contrast our franchise business and our owned business, they're so polar opposites, and we love all our children equally, but the franchise business in general has just – it has been and is, and I predict will – in general, it's just incredibly stable. And it's incredibly stable because you've got 10-year contracts, you're providing a brand, technology, marketing, lead generation, you're providing things that are valuable and are not free to replace. And so there's a stickiness there between those two things that actually leads to a good amount of stability in your individual franchisee relationships. And so there's a steadiness there that I think we all benefit from if you're in the franchise business.

When you're in the owned brokerage business, which we also are, we lead the market in both, it's much more of a volatile business because the agent is a free agent, right? And the stickiness of the agent is not something that you can – you have in the same way you have with the franchise side. And it's always been that way. Competition for agents kind of, I think, ebbs and flows, depending on how good the housing market is, how good inventory is, what the financial situation of different companies are, but those two businesses have just pretty different dynamics around that. And so we got to be focused on supporting our agents every single day, because in the owned business, they are truly free agents for the whole industry, and that's partly why if I want to lose money on you for the next four years as an agent, I can't guarantee I'm going to get it back in years five through eight, because there's no guarantee you're going to be with me in years five through eight, no matter what I did in year one to four, because we get to reset our relationship every single day.

So it's a very interesting contrast, and it leads to some of the volatility both in good times and bad times. In the weaker housing market we've had recently, you've seen the volatility on the downward side in our owned brokerage business. But if you go back years and look at our results, there were years where there was real upside in the owned business because of the housing market for example, and you didn't get as much upside in a franchise business, it's the steady thing versus the volatile thing, but it does come back to that agent relationship, which is why a lot of what we do with both agents and franchisees is just try to be maniacal on how do we deliver the most value in both price and the product that we provide them on a kind of holistic basis, and you got to earn that every day. And you can't take the franchise thing for granted just because you have a 1-year contract, you got to earn that one every day, too, because you want to renew, you want to have those be long-term relationships, and that's typically what happens with us.

Thomas McJoynt-Griffith
Analyst, Keefe, Bruyette & Woods, Inc.
Q

Yeah, you mentioned the stability of the franchise business, and I think that's something that investors really do place a premium on. Now, in 1Q, the RFG's transaction volume underperformed NAR a little bit and some of that was due to the overweight in California similar to NRT, and there was also a decline in the net effective royalty rate.

Ryan M. Schneider
Director, Chief Executive Officer & President, Realogy Holdings Corp.
A

Yeah.

Thomas McJoynt-Griffith
Analyst, Keefe, Bruyette & Woods, Inc. Q

So could you guys help us think about the future of...

Ryan M. Schneider
Director, Chief Executive Officer & President, Realogy Holdings Corp. A

Sure.

Thomas McJoynt-Griffith
Analyst, Keefe, Bruyette & Woods, Inc. Q

...kind of the RFG franchise...

Ryan M. Schneider
Director, Chief Executive Officer & President, Realogy Holdings Corp. A

Yeah.

Thomas McJoynt-Griffith
Analyst, Keefe, Bruyette & Woods, Inc. Q

...and that rate in particular?

Ryan M. Schneider
Director, Chief Executive Officer & President, Realogy Holdings Corp. A

Yeah, we like the future, we don't see a lot of difference in the rate, we look at the health of our franchisees on a lot of metrics, including like days sales outstanding kind of things in there – in the zip code we like them to be. The big thing on the NERR, there's, I think, two things I'd probably say on that. One is that metric has been trending down 1 basis point or 2 a year, kind of year-over-year, and we fully expect that kind of trend to continue, and part of that is just the phenomenon with all the pressure in the industry, there is real consolidation happening among our franchisees. And we're in a real estate market, brokerage market, where the top 10 players on an owned basis only have 15% of the market. This is an incredibly unconsolidated industry. We used to have 3,000 franchisees, we now have 2,500, and the lion's share of that is stronger franchisees absorbing other franchisees.

Now what that does do is it makes those bigger franchisees have a lower net effective royalty rate, because as you get bigger, you move down our royalty tables, you get bigger rebates. So our top 250 used to be 57 or 8% of our business, that's now our top 250 is 66%. So that's been driving it down. We're going to have about 3 extra basis points of net effective royalty rate pressure down this year beyond that phenomenon, because we're in the midst of changing our Better Homes and Gardens model from a traditional 6% headline price, franchise fee, 2% brand marketing fund contribution, to actually what looks more like a capped fee model, because it's funny, we go to market with multiple franchise brands and they all have that same price structure. We actually don't have a brand that competes with the capped fee franchise models that are out there.

So last year, we actually experimented with some Better Homes and Gardens companies, implemented that, we like the growth that we got from that incremental growth both in franchise sales and in new agents. And so we're going to – we were actually, and this is all public because we filed the FDDs, we're making that change for our Better Homes and Gardens network over the next couple years, and that's going to put 3 points pressure downward on NER this year, which we hope to obviously make up with the growth in that business, because now we've got an offering to target franchisees who want a capped fee model. And so that will be a little bit of a one-off in terms of it. But the biggest thing is the increasing consolidation has been driving the net effective royalty rate down a 1 point or 2 a year on a year-over-year basis.

Thomas McJoynt-Griffith
Analyst, Keefe, Bruyette & Woods, Inc.

Q

And there's no signs of that consolidation slowing, is that something that's continuing, obviously...

Ryan M. Schneider
Director, Chief Executive Officer & President, Realogy Holdings Corp.

A

I haven't seen any signs of it slowing, in that march from 58% to 66% of our top 250, it's been a pretty steady march to that. And so I can't predict the future on it, but it's been a pretty steady kind of phenomenon, which is why the kind of year-over-year net effective royalty rate declines have been relatively steady when you look back over time.

Thomas McJoynt-Griffith
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Thanks. And now I want to switch gears into looking at obviously you guys have a nice peak into the spring selling season and how that's going, so any trends that you've seen in April and May that you can share?

Ryan M. Schneider
Director, Chief Executive Officer & President, Realogy Holdings Corp.

A

So April was definitely better than March in Q1, so we like that, that was good, the opens in April were good. We talked about that a little bit before. California is a big focus, we're pretty heavily weighted to California, especially in our owned business, it's over 25% of our revenue, but our franchise business is also over weighted there. I spoke to the California Association of Realtors' President last week, and he was a little disappointed by the April results for California. He thinks May was going to be better than April. And I like hearing that obviously given our exposure there.

But we'll kind of have a better view of the May data here in four to five days. We did just have some of the biggest closing days of the year. So like last Friday was one of the biggest closing days in the kind of selling season, the Friday before Memorial Day weekend, and that data's kind of still trickling in. So, we still think we're on the trend of both the market improving in terms of volume and our volume improving, we still think we'll be negative year-over-year in Q2 but less than Q1, and the California thing will be a big piece of that, but we like the improving trends we see. We like the lower mortgage rates. We're not ready to – we don't really try to forecast the industry per se, so we're not ready to pound the table and declare an awesome year for housing, but we sure like the trajectory compared to the last seven or nine months that we've dealt with.

Thomas McJoynt-Griffith
Analyst, Keefe, Bruyette & Woods, Inc.

Q

And still sticking with the second half of 2019 rebounding and showing some growth since?

Ryan M. Schneider
Director, Chief Executive Officer & President, Realogy Holdings Corp.

A

Yeah, absolutely. We think that's definitely true on the market and for us, even if we have some of the headwinds that we saw in Q1, that's kind of our general belief still. And so both because of the market but also because a number of the things that I talked about to you that we were trying to accomplish out in the world will actually be national by the second half of the year. So we have different things, whether they're commission plans, new products that are having positive either ABCR or volume effects for us in certain markets that today only cover a piece of the country. The majority of those things will then be fully covering the country in the second half of the year, so we hope to get some Realogy upside on those things.

You got to wait and see what actually comes in and what other headwinds you have to deal with, but we are more optimistic on the housing market second half of the year, and we're more optimistic on us second half of the year compared to the first half, and we try to be consistent with that in our public statements up to this point.

Thomas McJoynt-Griffith
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Okay. And then just last one for me and then I'll open it up to the audience. Last week, the Justice Department, it was announced that they opened an investigative probe looking at compensation of brokers and restrictions to access listings, and that came on the heels of some class action lawsuits filed over the past couple months against NAR and some of its members. And this seems like a similar story that we've seen in prior years, and the industry has been able to really successfully defend itself. Is there anything different about this probe in this investigation, and how do you expect it to play out?

Ryan M. Schneider
Director, Chief Executive Officer & President, Realogy Holdings Corp.

A

Look, there's nothing good for either of us comes from commenting on legal matters beyond basically saying, we don't think the class actions have merit. We filed a motion to dismiss along with our other corporate defendants, that motion is public, everyone could look at it. And if you look into the newspaper, even the plaintiff's lawyer said this will take 5 to 10 years to play out. So, we feel good about our position. You can look to NAR for a number of statements they've made that address the question that you're asking, and we'll let our legal filings kind of speak for ourselves on that.

Thomas McJoynt-Griffith
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Okay. Are there any questions out there? Yeah. Go ahead.

Q

[indiscernible] (00:29:46).

Thomas McJoynt-Griffith
Analyst, Keefe, Bruyette & Woods, Inc.

Q

I'll repeat it.

Q

Okay.

Thomas McJoynt-Griffith
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Yeah.

Q

[indiscernible] (00:29:49-00:29:58)?

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

A

Sure. So the Q1 leverage was at 5.2, which was slightly higher. It is our smallest quarter seasonality-wise, and so lowest cash flow generation. What we've said is, we're targeting to be at about a 4 times leverage. And so we're going to work on that towards the balance of this year and into next year.

Q

And will that come through [indiscernible] (00:30:21-00:30:26)?

Ryan M. Schneider
Director, Chief Executive Officer & President, Realogy Holdings Corp.

A

Yeah.

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

A

We won't be doing any buybacks for the rest of this year.

Thomas McJoynt-Griffith
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Yeah. And you had that...

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

A

Yeah.

Thomas McJoynt-Griffith
Analyst, Keefe, Bruyette & Woods, Inc.

Q

...you had that communicated out previously. Yeah. Anything else? Okay. And then just, I guess, last one, you guys have started to introduce some fee-based products for agents. Now how should we think about the impact on the top line, and then I guess the margin impact, or is it still very kind of a small piece of the story right now?

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

A

So what happened in the first quarter is on a like-for-like basis, we had a split impact of a negative 80 basis points, which was normalized to 45 basis points because of these fees. It's a big delta between 80 and 45 basis points that's also driven by the fact that Q1 is such a small quarter. And so when you get out broader into the larger quarters, the delta between that is much smaller. And materiality-wise, we've had fees in the past, these are [ph] small (00:31:20) fees. They're not largely material to our business, but the impact was larger in the first quarter because of the fact that Q1 is so small.

Thomas McJoynt-Griffith
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Okay. Yeah. One more.

Q

[indiscernible] (00:31:31-00:31:52)...

Ryan M. Schneider
Director, Chief Executive Officer & President, Realogy Holdings Corp.

A

Yeah.

Q

... [indiscernible] (00:31:54-00:32:05)?

Ryan M. Schneider
Director, Chief Executive Officer & President, Realogy Holdings Corp.

A

I think there's two different questions, and it's a great question for those on the webcast, the first part of the question, I think correctly was, given how the marketing has changed in the world, there may be less need for the actual brands that agents affiliate with basically kind of thing. And what does that – and so do agents still need to be affiliated with broker to the same question.

So, let me take your second question first, I think agents need to be affiliated with a broker by law, but they can always choose to go to a non-branded one if they want. On the first question, you're totally right, the marketing that gets done both by the agents and at the brand level has really shifted from even 10 years ago, right, in the industry. And so I mentioned earlier in our franchise pricing, all of our franchisees pay into a brand marketing fund to market and support the brand.

Back when your dad was an agent, to your question, that was billboards in town or national, right? Today, what our franchisees are looking for is actually to use that money more to market the CENTURY 21 brand along with their own brand, right, as well as some national marketing, but that national marketing has really moved online off of billboards and things like that. And so I still think the power of brand matters. It doesn't matter for the consumer, it matters just for legitimacy, right? They know CENTURY 21, part of the reason they'll trust your dad on the first meeting is he's with a brand they know.

But the other is, each brand actually has a different identity for its agents basically, and offers some different things to it. And so, I predict everybody is going to still live in a world of wanting good brands in real estate, and even some of the newer companies to the industry are trying to build their brands and invest in making sure people or consumers and agents know their brand, but to your point, I think the days of kind of billboard marketing about CENTURY 21 or any other brand in the industry are pretty much behind us, it's much more targeted at how the – how you want a brand not just the CENTURY 21 brand but the franchisee's brand along with that, and in that list of things that we provide franchisees that they value along with technology and having a brand and lead generation things like that, the marketing is actually something that if we didn't help drive with the scale that we've got, they probably could not do at the same economics that we can do some of it for them. So, it is – you're totally right, it's changed, but I don't think it means that it's not going to be part of the future in terms of marketing for brands.

Q

[indiscernible] (00:34:48-00:34:53)?

Ryan M. Schneider
Director, Chief Executive Officer & President, Realogy Holdings Corp.

A

Yes.

Q

[indiscernible] (00:34:54-00:35:10)?

Ryan M. Schneider
Director, Chief Executive Officer & President, Realogy Holdings Corp.

A

Right. So two things there. So we're actually incredibly – we're actually very, very profitable in the owned business. We make over $300 million in our owned business, some of that shows up in our franchise revenue because we charge ourselves a franchise fee, but our owned business makes a lot of money, and then your assumption that startups are profitable is an assumption that if you were in my chair and saw the data that I saw, you would not believe necessarily in our industry, and that's true, by the way, for public company start-ups in our industry that you can go look at also if you'd like.

But, look, I think everybody needs and will try to build brand. And part of what you can't do as a longstanding brand, whether it's CENTURY 21 or Corcoran here in New York City or something like that is you actually can't rest on your laurels, because someone else will come along, and either with better service or their own marketing will diminish the quality of your brand. But you are totally right, the way branding supported this industry when your dad was an agent is totally debt, right? And so part of it is supporting, helping the franchisee build their brand as much as helping the franchise network build its brand, and those two things are increasingly linked and is part of why it's hard actually for franchisees to go to leave and go off on their own, because then they have to start over building a brand in some ways. So, there's a lot in your question. Those are three or four different thoughts, and it's a great one.

Thomas McJoynt-Griffith
Analyst, Keefe, Bruyette & Woods, Inc.

Okay. I think we're out of time. So I appreciate you guys taking the time.

Ryan M. Schneider
Director, Chief Executive Officer & President, Realogy Holdings Corp.

Great. Thank you, Tommy.

Charlotte C. Simonelli

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

Thank you.

Ryan M. Schneider

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

Thank you, Charlotte. No golf plan. Thank you, all.