

**Realogy Corporation**  
**Full Year 2009 Financial Results**  
**Webcast Transcript**  
**February 16, 2010**

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**Note:** *This is a verbatim transcription of the Realogy Corporation Full-Year 2009 financial results conference call via webcast.*

**OPERATOR:** Good morning and welcome to the Realogy Corporation year end 2009 earnings conference call via Webcast. Today's call is being recorded, and a written transcript will be made available in the Investor Information section of the Company's Web site tomorrow morning. A webcast replay will also be made available on the Company's Web site. At this time, I would like to turn the conference over to Alicia Swift, Senior Vice President of Financial Planning. Please go ahead, Alicia.

**ALICIA SWIFT:** Thank you, Emily. Good morning and welcome to Realogy's full year 2009 earnings conference call. On the call with me today are Realogy's President & CEO, Richard Smith; and Chief Financial Officer, Tony Hull.

I would like to call your attention to three items.

First, you should have all reviewed a copy of our financial results press release issued earlier today, February 16, 2010, and our full year 2009 Form 10-K filed today with the Securities and Exchange Commission.

Second, the Company will be making statements about its future results and other forward-looking statements during this call. Statements about future results made during the call constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on 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. The Company cautions that these statements are not guarantees of future performance. Actual results may differ materially from those expressed or implied in the forward-looking statements.

Important assumptions and other important factors that could cause actual results to differ materially from those in the forward-looking statements and projections are set forth under the headings "Forward-Looking Statements" and "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2009.

Third, we will be referring to certain non-GAAP financial measures during the call. Today's press release, which is posted on the investor information section of our Web site, contains definitions of these terms, a reconciliation of these terms to their most comparable GAAP measure, and a discussion of why we believe these non-GAAP financial measures are useful to our investors. We will be referring to EBITDA before restructuring and other items on this call. These restructuring and other items – which refer to merger, impairment, gain on debt extinguishment and legacy items – are detailed by business unit in the press release on Tables 4a and 4b, and on a consolidated basis on Table 6.

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Let me briefly review the headlines from our release issued today regarding Realogy's full year 2009 results. Specifically for the year ended December 31, 2009, we reported:

- Revenue of \$3.9 billion,
- EBITDA of \$465 million, which includes \$71 million in restructuring costs, a \$75 million gain on debt extinguishment as well as a \$34 million benefit from legacy costs primarily due to the prepayment of a receivable from Wright Express; and
- A Net Loss of \$262 million – which is after \$583 million of interest expense and \$194 million of depreciation and amortization, partially offset by \$50 million in income tax benefit.

Now, I'd like to turn the call over to Realogy's President and CEO, Richard Smith.

**RICHARD SMITH:** Thank you, Alicia. Good morning and thank you for joining our Webcast.

As is our practice, I will review the business and operating environment, followed by Tony's review of our financial results.

The fourth quarter of 2009 marked a continuation of the positive trends that we experienced in the third quarter, which is reflected in the year-over-year improvements in our operating results. Homesale volume improved meaningfully in the fourth quarter of 2009, in part because the first-time homebuyer tax credit worked as intended and, as expected, stimulated transaction volume in many markets nationwide. And as you may recall, the fourth quarter of 2008 was particularly weak, so by contrast, the fourth quarter of 2009 was much improved.

Considering our key business drivers of homesale sides and average sales price, on a sales volume basis, in the fourth quarter of 2009 the Realogy Franchise Group (RFG) experienced a 12% net increase. Homesale sides at RFG were up 18% and the average sales price was down 5% in Q4. NRT, our company-owned brokerage segment, was up 16% on sales volume during the fourth quarter. This net gain for NRT was achieved through a 20% improvement in transaction sides, which more than offset a 3% decline in the average sales price in Q4.

This net improvement in sides and price drove an 11% year-over-year increase in Realogy's revenue for the quarter. The \$70 million improvement in EBITDA before restructuring and other items for the fourth quarter compared to 2008 was due to the increase in revenue, and our cost-reduction efforts over the past year. As a reminder, the impact of cost reductions on our bottom line is most apparent, given our seasonality, in the first and fourth quarters of any year.

For the full-year 2009, our EBITDA before restructuring and other items increased \$16 million to \$427 million versus 2008, despite revenue declines of \$793 million, or 17%.

All considered, we think the fourth quarter and full-year 2009 results clearly demonstrate the resiliency of our business model. Our ability to increase earnings in the face of declining revenues is a significant accomplishment, one that is a direct result of senior

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management's expert knowledge of our business model and the superb execution of our cost-reduction plans.

For the full year 2009, we reduced our annualized fixed costs by more than \$100 million, bringing our total cost reductions to approximately \$480 million over the past four years. We believe that a high percentage of our cost reductions will be retained when the housing market recovers and thus the expected recurring favorable impact on EBITDA.

On a full-year basis, RFG sides were down 1%, and price was down 11%, which was in line with NAR's full-year results. NRT's transaction sides in 2009 were flat compared to 2008, and its average homesale price declined 18% year over year, from approximately \$480,000 to \$390,000.

There were many different factors that caused the price declines in 2009. In the first half of the year there was a significant shift in homesales to the low- and mid-price points of the housing market. This is in contrast to 2008 when the low- and mid-priced homesales declined more significantly than the high end. The net effect of this shift caused a more pronounced reduction in the year-over-year average homesale price, particularly at NRT, during that period. In the second half of 2009, predominantly in the fourth quarter, an increase in first-time buyers put pressure on the average sales price. In the fourth quarter, NRT experienced an increase in sales in the mid and higher price points, and less REO activity, thereby improving its average sales price to \$406,000 relative to its \$390,000 overall average price for the year.

On a regional basis, NRT's operations along the East Coast, such as New Jersey, Connecticut, and New England experienced unit increases of 30 percent or more with mid single digit declines in average sales price in the fourth quarter. New York City experienced unit increases of nearly 30% and a price decline of 10%. NRT's operations in Florida had a 26% increase in closed sides in the quarter, which offset the 11% decline in the average sales price.

By contrast, NRT's closed sides in Northern California were flat and price was up 14% in the fourth quarter. In Southern California, our company-owned operations had a 5% increase in closed sides and a 7% increase in average sales price.

Within the Realty Franchise Group segment, all regions experienced homesale increases of 10% or more, and the Northeast performed exceptionally well with a greater than 30 percent increase in homesale transactions. All regions experienced single-digit price declines.

Clearly the fourth quarter results are much improved. The housing tax credit significantly contributed to the quarter and will presumably continue to contribute -- at least in the near term -- to what appears to be the early stages of a housing recovery.

Let's briefly review the operating highlights of our business units, followed by some comments on our visibility into 2010, including a look at our January revenue drivers.

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The Realogy Franchise Group reduced its operating expenses in 2009 by \$62 million principally through a reduction in bad debt expense and within the quarter we completely reorganized the franchise sales department to accelerate the growth of our five leading franchise brands.

Our newest brand, Better Homes and Gardens Real Estate, more than doubled its agent count in December 2009 with the franchise affiliation of Metro Brokers, an Atlanta-based firm that was ranked by *REALTOR Magazine* in the Top 50 nationally by transaction sides and the Top 80 by closed sales volume in 2008. The largest real estate brokerage firm in the state of Georgia, Metro Brokers added its 28 offices and more than 2,300 agents to the Better Homes and Gardens Real Estate network, which now has more than 100 offices and 4,300 sales associates across 13 states.

As we've discussed on previous calls, the Franchise Group created a strategic development team in late 2007 in order to proactively assist brokers who have been adversely affected by the housing downturn. Since inception, this team has helped RFG retain approximately \$363 million in franchisee gross commission income, or GCI, of which \$153 million is attributed to 2009. Our multi-brand portfolio uniquely positions us to craft solutions not available to our single-brand competitors.

On the international front, our brands continued their global expansion during the fourth quarter. Notably, we signed new master franchise agreements for Coldwell Banker and Coldwell Banker Commercial in Greece; for CENTURY 21 in Slovakia; and for Sotheby's International Realty in Germany. Collectively, the Realogy brands are now represented in 93 countries and territories around the world.

Also of note on the international front, IFM Investments, the company that licenses the master franchise rights for our CENTURY 21 brand in China, recently completed an initial public offering on the New York Stock Exchange, the proceeds of which for the most part will be used to grow its business – as well as our brand – in China.

In the fourth quarter, NRT, our company-owned brokerage segment, continued the task of reducing fixed costs. For the full year 2009, NRT management reduced operating expenses by \$175 million while simultaneously staying very focused on the operating fundamentals.

NRT's sales associate retention rate was at an all-time high in the fourth quarter of 2009, with the company retaining approximately 93% of the production from its first- and second-quartile sales associates. This was, by any standard, an outstanding achievement given the fierce competition for top-producing sales associates.

The strong performance of NRT's REO, or foreclosure business, in the first half was tempered in the second half of the year as lenders and servicers responded to the government's pressure to delay, avoid and/or work out troubled mortgage loans. This lower level of activity is expected to continue at least through the first half of the year.

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Enhanced volume and margin improvements at NRT's joint mortgage venture with PHH Home Loans LLC resulted in a \$21 million increase in EBITDA in 2009 – excluding our JV partner's 2008 impairment. In 2010, NRT management expects mortgage capture rates to improve over prior periods.

Turning to relocation services, we announced Cartus' acquisition of Primacy Relocation in mid-January. Primacy is a prominent relocation and global assignment management services company based in Memphis, Tenn. This is a strategic acquisition that we expect will enhance Cartus' domestic operations, substantially broaden its global capabilities, and firmly position it as the leading relocation services provider to the government sector.

For the full year 2009, initiations at Cartus were down 14% and referrals decreased by 9% as some corporate clients reduced costs through a reduction in the relocation of key personnel. In response to this lower volume, Cartus reduced its operating costs by \$38 million in 2009.

Lastly, the Cartus Asset Recovery business, which was launched in 2009, began to pick up momentum in the fourth quarter and is expected to generate a profit in 2010. We believe it is a unique offering that capitalizes on the Cartus infrastructure and expertise to assist lenders and servicers in avoiding costly foreclosures through short-sale services. The early pilot program results are encouraging.

Moving on to our title and settlement services company, TRG had an outstanding year in 2009. Increased volume from its growing lender channel and the favorable mortgage rate environment were material contributors. TRG managed a 94% increase in refinance title and closing units for the year, going from approximately 36,000 units in 2008 to 70,000 units in 2009, which more than offset its 5% year-over-year decline in purchase title and closing units.

TRG's underwriter, Title Resources Guaranty Company, grew its net underwriting premiums 32% in Q4 2009 versus Q4 2008 and for the full year, net premiums increased 3%. The third and fourth quarters of 2009 were the highest quarterly net premium quarters in the 25-year history of the company. TRG's claims experience continued to be highly favorable in the fourth quarter of 2009, and the company's claims loss ratio of approximately 1% of gross premiums is significantly below the industry average of 9%.

Now as to 2010, there are a number of factors that we believe will contribute to a comparatively strong first half of the year. While still relatively low, the Consumer Confidence Index rose for the third straight month and is now at its highest level since September 2008. What is most important is the anticipated impact of the extended and expanded homebuyer tax credit, which should be reflected in the second quarter of 2010 as qualified buyers beat the deadline and get under contract by April 30 and close the sale by June 30. And if the Fed stops purchasing mortgage-backed securities at the end of March, as it has stated, the potential of higher mortgage rates will likely encourage fence-sitters to act in advance of the expected rate increases.

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For the first time in recent memory, the Fannie Mae and NAR unit forecasts at the start of the year are in agreement. These entities are expecting existing home sales to increase 9% to 10% this year to 5.7 million units in 2010, with the bulk of the increase in the first half. Both expect a less robust second half. As to price, Fannie Mae is conservatively predicting that median homesale prices will be down 2% to \$171,000, while NAR is forecasting a median price of \$179,800, a 3% increase. We think the direction on price could be influenced by the often referenced "shadow inventory" of pending foreclosures that would keep pricing under pressure in a number of key markets, if the inventory actually materializes.

NAR's latest Pending Home Sales Index, released at the beginning of February, indicates that purchase contracts signed in December 2009 increased 1% over November 2009, but on a year-over-year basis the index is 11% above the December 2008 figures. According to NAR, December 2009 was the fifth-highest monthly Pending Home Sales Index in the past two years.

Looking at our own January results, NRT's combined sides and price were up 35%, with price up 22% and sides up 13%, against a particularly weak January 2009. It is encouraging to see the increased activity in the higher end of several key NRT markets. RFG's January 2010 combined sides and price were up 9% compared to 2009.

Our sense is that the data support the notion that housing is beginning to stabilize:

- NAR reported existing homesale unit volume increased 8 out of 12 months from January to December 2009, on a seasonally adjusted month-over-month basis.
- Also according to NAR, the median price of existing homes increased 1.5% in December 2009 from the prior year, and this December 2009 increase followed six consecutive months of moderating year over year declines in median price.
- The inventory level of existing homes, after having been as high as 11 months of supply in November 2008, has decreased to 7.2 months in December 2009. Although we expect another increase in the first half, it is encouraging that inventories are declining.
- Interest rates continue to be at historically low levels. According to Freddie Mac, interest rates on commitments for 30-year fixed-rate first mortgages have decreased from 6.0% in 2008 to 4.9% for the month of December 2009. And despite the Fed's planned March cessation of its mortgage-backed securities purchasing program, mortgage rates stayed stable in January and so far in February at approximately 5%.
- The Housing Affordability Index continues to be favorable. The index has increased from 116 in 2007 to 135 in 2008, and to 167 in 2009.

Combine these favorable industry trends with the expected improvement in the macroeconomics and the first half of 2010 should be much improved over the same period in 2009. That said, for the full year, if the economy at large does not improve, then the expected housing recovery could be delayed.

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With that, I'll turn the call over to Tony.

**TONY HULL:** Thanks, Richard.

In discussing the financial results I will be referring to the tables in the press release as well as pages F-5 and F-6 in the 10-K. Let me begin with some financial highlights for Realogy in the fourth quarter.

- Q4 2009 net revenue totaled \$1 billion and reported EBITDA was \$89 million.
- Realogy ended the quarter with strong liquidity. We had \$219 million of readily available cash on December 31st. In addition, at December 31st we did not have any outstanding balance on our revolving credit facility. With the senior secured leverage ratio at 4.66, we could have borrowed an additional \$210 million and remained in compliance with the 5 to 1 maximum leverage ratio.

On a consolidated basis, EBITDA in the fourth quarter of 2009 was \$104 million excluding restructuring and other items of \$15 million. EBITDA on that basis in the fourth quarter increased \$70 million over comparable 2008 results primarily due to the realization of cost efficiencies put in place over time. The impact of cost savings increased our EBITDA margin by 600 basis points – from 4 percent in Q4 2008 to 10 percent in the fourth quarter of 2009.

For the full year, Realogy's reported EBITDA of \$465 million was positively affected by a \$75 million gain on debt extinguishment and \$49 million from the prepayment of a receivable from Wright Express, partially offset by \$86 million of restructuring and other legacy charges.

Looking at Table 1 of the press release, total net revenue in 2009 was \$3.9 billion. The breakdown by revenue category is as follows:

- Gross commission income totaled \$2.9 billion at NRT.
- Service revenues totaled \$621 million, primarily from Cartus activities, and the remainder is TRG revenue relating to purchase and refinance closing activity as well as title underwriting revenue.
- Third-party franchise fees totaled \$273 million which consists of both upfront and on-going RFG domestic and international franchisee fees, and
- Other revenue was \$152 million, which includes marketing fees that RFG collects from its franchisees and management fee revenue from NRT's REO asset management business.

In terms of expense reductions, comparing 2009 results to 2008:

- Total commission expense of \$1.85 billion decreased 19% or \$425 million year over year, as one would expect due to lower transaction volume.
- Operating, marketing and general and administrative expenses of \$1.67 billion declined \$376 million or 18% year over year as we realized the benefits of storefront and other proactive cost reduction initiatives that management executed throughout the past year.

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Next, we turn to our key business drivers for the full year 2009 shown on Table 3 of the press release.

On a full year basis, RFG home sale sides decreased 1% and NRT home sale sides were flat as compared to 2008. On the price side, RFG average sale price decreased 11% and NRT average price decreased 18%. NRT average price was negatively affected by increased REO activity in 2009 which represented 13% of NRT sides and negatively effected price by 8 percentage points. This compared to 2008 when REO represented 10% of NRT sides and negatively affected average sales price by 7 percentage points. One thing to note in 2009 – REO activity was weighted more toward the first half of 2009 and slowed in the second half of the year.

For the full year at Cartus, we experienced a 14% decrease in initiations due mostly to lower domestic relocation activity. At TRG, purchase title and closing units decreased 5% compared to 2008, which was consistent with the NRT unit activity, but lower-margin refinance unit volume increased 94%.

I will now review revenue and EBITDA before restructuring and other items by business unit for the years ended December 31, 2008 and 2009 shown on Tables 4a and 4b of the press release.

Total revenue at RFG was \$538 million in 2009 compared to \$642 million in 2008. The 16% revenue reduction was due to the decline in average price shown on the driver table along with lower intercompany royalties from NRT. Domestic royalties from our third party affiliates were aided by a 3 basis point increase in the average broker commission rate charged by our franchisees to their customers. This was offset slightly by a 2 basis point decline in the net effective royalty rate.

As indicated in footnote (b) on the tables, EBITDA at RFG before restructuring and other items was \$326 million in 2009 compared with \$358 million in 2008 due to the 16% decline in revenue that was partially offset by \$62 million in lower expenses. These reductions included a \$21 million decrease in bad debt, as collection activity improved and a \$32 million reduction in employee related costs and operating expenses. As a result of the cost reductions, EBITDA margins before restructuring and other items increased 5 percentage points to 61 percent for the full year.

At NRT, 2009 EBITDA was \$53 million before restructuring and other items, up \$51 million compared to 2008. Revenue declines of \$602 million due to lower price levels at NRT and reduced REO asset management activity were more than offset by lower commissions and royalties, improved gross margins, reduced marketing and operating expenses, and an increase in PHH Home Loans results.

EBITDA before restructuring and other items at Cartus was \$77 million, down from \$82 million in 2008. Revenue declines of \$131 million primarily from our exit from the government at-risk relocation activity and lower referral volume resulted in the overall reduction in EBITDA. Mitigating the revenue decline were \$77 million of lower costs related to the exit, \$41 million of reduced operating expenses and \$9 million of favorable

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foreign exchange movement positively impacting the year. Cartus' EBITDA margin before restructuring and other items increased 6 percentage points to 24 percent for the full year.

At TRG, revenue increased 2 percent as a result of higher overall unit volume and EBITDA increased \$15 million to \$23 million before restructuring and other items. The increase in EBITDA was due to the increase in revenue aided by \$22 million of cost reductions. Margin on EBITDA before restructuring and other items increased 5 percentage points to 7 percent for the full year.

Corporate expense before restructuring and other items increased \$13 million, due to the \$14 million write-off of a non-strategic investment. This relates to a \$4 million investment we made in 2006, which was revalued in connection with the Apollo acquisition.

Turning to the balance sheet on page F-5 of the 10-K, we ended the quarter with a cash balance of \$255 million which includes \$219 million of available cash and \$36 million of statutory cash required for our title business. We had no outstanding balance on our revolver at year end. Looking at Relocation receivables at December 31st, these assets have dropped over 50% since 2008. Consequently, the Securitization obligations also have declined from \$703 million at December 31<sup>st</sup>, 2008 to \$305 million at December 31<sup>st</sup>, 2009. As you can see from the balance sheet, the relocation properties held for sale line is at zero, as all government "at-risk" assets have been liquidated. With the Primacy acquisition, however, a few things will change:

- First, properties held for sale will increase as we get back into the government business;
- Second, we can service mortgages on these homes, which will help reduce working capital requirements related to increased relocation activity;
- And finally, we obtained \$40 million of unsecured financing for the Primacy business.

Also on the balance sheet, the \$505 million balance Due to Former Parent fell by \$49 million compared to the December 2008 balance. The decline was directly related to the resolution of the Credentials legacy litigation last summer. This balance may be affected in 2010 pending resolution of the IRS audit of Cendant's taxable years 2003 through 2006.

Turning to cash flow on page F-6 of the 10-K, in 2009 Realogy generated \$341 million of cash from operating activities compared with \$109 million in 2008. The majority of the \$232 million increase in cash from operations was generated by the reduction of relocation receivables. Capital expenditures in 2009 were \$40 million versus \$52 million in 2008.

Let me provide you with expectations for certain cash flow items for the full year 2010:

- Corporate cash interest is expected to be approximately \$500 to \$520 million this year – up from 2009 due to higher expected LIBOR rates and the second lien financing completed late last year;

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- Capital expenditures are expected to be approximately \$50 million for the full year;
- Working capital, net of restructuring costs, is forecasted to be a source of cash of between \$20 and \$30 million; and
- Net funding of legacy issues is expected to total about \$30 to \$50 million for the full year, which excludes any potential resolution of the legacy tax issue.

On Table 5 of the press release, we present the senior secured leverage ratio calculation. Adjusted EBITDA is calculated based on reported EBITDA for the last 12 months ended December 31, 2009. At December 31, 2009, total Senior Secured Debt as defined in our credit agreement totaled \$2.89 billion. That divided by Adjusted EBITDA of \$619 million for the 12 months ended December 31st, results in the senior secured net debt to Adjusted EBITDA ratio of 4.66 to 1, maintaining compliance with our credit agreement.

In conclusion, let me leave you with a few closing remarks:

- We were pleased with our 2009 performance and the third and fourth quarters in particular. In Q3 2009 we exceeded Q3 2008 EBITDA before restructuring and other items by \$9 million despite revenue declines of \$172 million. In Q4 2009, we tripled our EBITDA before restructuring and other items compared to Q4 2008. Clearly our cost savings efforts are paying dividends.
- With the strong liquidity position at year end, we started 2010 with no borrowing on our revolving credit line and \$219 million of available cash.
- For 2010, while we continue to monitor costs, we have renewed our focus on growth, both organically and through strategic acquisitions.
- NAR and Fannie Mae's forecasts for 2010 point to 9% to 10% growth in home sale units. With that said, both forecasts predict a strong first half while the second half of 2010 remains relatively flat.
- With our leaner cost structure, future growth in the top line -- however achieved -- will enhance our EBITDA in a meaningful way.
- Finally, we remain cautiously optimistic about 2010, although a fragile economic recovery and stubborn unemployment levels could make this another challenging year.

With that, I'll turn it over to Alicia for some concluding remarks.

**SWIFT:** Thank you, Richard and Tony. Two quick points of information before we conclude today's call:

- First, a transcript of this Webcast will be available on the Investor Information section of the Realogy.com Web site tomorrow morning, February 17th.
- Second, we anticipate announcing our first quarter 2010 results in mid-May, with the exact date still to be determined.

We thank you for taking the time to join us on the call, and we look forward to speaking with you in May. Thank you.

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