Realogy Corporation
Third Quarter 2011 Financial Results Webcast Transcript
November 1, 2011

SLIDE 1

OPERATOR: Good afternoon and welcome to the Realogy Corporation third quarter 2011 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 later today. 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 Realogy Senior Vice President Alicia Swift. Please go ahead, Alicia.

SLIDE 2

SWIFT:
Thank you, Robin. Good afternoon and welcome to Realogy's third quarter 2011 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.

SLIDE 3

First, you should have access to a copy of our financial results press release and our Form 10-Q for the quarter ended September 30, 2011, which we have filed with the Securities and Exchange Commission. Both documents are available on the investor information section of our website, as well as a copy of today's webcast slides.

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. For those who listen to the rebroadcast of this presentation, we remind you that the remarks made herein are as of today, November 1, 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 and projections are set forth under the headings "Forward-Looking Statements", "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Prospectus dated June 16, 2011, and our Quarterly Report on Form 10-Q for the quarter ended September 30, 2011 and in our other periodic reports.

Third, we will be referring to certain non-GAAP financial measures during the call. Today's press release 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.

In terms of industry data we use the National Association of Realtors (N-A-R) and Fannie Mae as benchmarks of the direction of the residential housing market. We believe changes in Realogy's homesale statistics will continue to vary from those reported by NAR because they use survey data as the basis of their historical reports whereas we use data based on actual reported results. While we believe this industry data is derived from the most widely recognized sources for reporting U.S. residential housing market statistical data, we do not endorse or suggest reliance on this data alone.

Let me briefly review the headlines from our release issued today regarding Realogy's third quarter 2011 results.

SLIDE 4

Specifically for the quarter ended September 30, 2011, we reported:

- Revenue of $1.2 billion,
- EBITDA before restructuring and other items of $187 million;
- Maintained covenant compliance with a ratio of 4.15 to 1;and
- Net loss attributable to Realogy of $28 million.

Now I will turn the call over to Realogy's CEO and president, Richard Smith.

SMITH:
Thank you, Alicia, and thank you all for joining us on our third quarter call.

Let me start by saying that despite the difficult macroeconomic issues, our third quarter produced 10% revenue growth year-over-year and growth in EBITDA before restructuring and other items of 8%. Although the Company recorded a net loss for the quarter, it should be noted that this was a 15% improvement over the third quarter of 2010.

Our net loss for the quarter is almost entirely attributable to interest expense as a result of our current debt load. That said, we remain well under the maximum leverage ratio required by our debt covenant.

Clearly our leverage is high, but as a result of our refinancing efforts at the end of 2010 and the beginning of this year, we believe that we are well positioned for the future. When circumstances support such an action, our largest investors – the holders of our convertible debt -- have the mechanism in place to remove a considerable amount of debt from our balance sheet. At their option, the convertible note holders can convert $2.1 billion of debt into equity which would reduce Realogy's leverage by approximately 30% percent, as well as interest expense by one-third.

Given the macroeconomic headwinds facing the housing market, our operating performance has shown resilience. We are fortunate to have market-leading brands, a more streamlined cost structure, a talented workforce and a stable and results-oriented management team committed to the long-term success and growth of our business. We believe these are strategic advantages that should not be underestimated.

As we had anticipated, the third quarter of 2011 was stronger than the third quarter of 2010, but not nearly as robust as the macro industry forecasts previously indicated. This is largely the result of a much weaker than expected economic recovery.

SLIDE 5

For both the Realogy Franchise Group (RFG) and NRT, our company-owned brokerage operations, transaction sides increased by double digits in the third quarter. Specifically, RFG had a 10% increase in transaction sides and NRT was up 16% year-over-year. The National Association of Realtors (NAR) reported a 17% increase in transactions for third quarter 2011, which was partially offset by a 4% decline in national median sales price.

In terms of average sales price, RFG was down 1% on price year-over-year while NRT's price fell by 5% in the third quarter of 2011, largely due to mix of business. In both cases, our decrease in average sales price was more than offset by the strong results in transaction sides.

Thus, the net result on a combined basis (meaning sides times price) is that RFG and NRT sales volume both increased 10% in the third quarter of 2011 compared to the same quarter a year ago. NAR reported a 12% year-over-year increase in sales volume for third quarter 2011.

The variance between NAR's reported results and ours is attributable to a variety of factors. For instance, RFG's year-over-year sides increase in the third quarter of 2011 was not as great as NAR's because RFG outperformed NAR's results by 2% in the third quarter of last year. Furthermore, we believe that our company-owned operations and our franchisees do not transact nearly as many distressed sales as reported by NAR, which reported approximately one-third of the existing homesale market as being distressed sales during the third quarter of 2011. In addition, our results will vary from NAR's survey results in part due to NAR's reporting methodologies and our geographic market concentrations versus NAR's broader U.S. footprint.

NAR is currently engaged in a review of how it reports national home sales, the result of which we believe will be a downward revision to their past housing metric reports. It is important to note that the revisions will <u>not</u> have any impact on Realogy's reported financial results or reported key business drivers.

Now, let's review the third quarter operational highlights of our businesses.

SLIDE 6

In terms of domestic franchise sales, the **Realogy Franchise Group** added new franchisees and sales associates with approximately $100 million in franchisee gross commission income (or GCI) during the third quarter of 2011, bringing the year-to-date total to $220 million through September 30th. Franchise sales growth comprises new franchise agreements as well as growth acquired by existing franchisees with our assistance. For the full year, we expect to add new companies and agents that recorded $300 million of GCI in the prior 12 months.

On the global front, Better Homes and Gardens Real Estate entered its first international market with the signing of a 25-year master franchise agreement for Canada.

At **NRT**, our company-owned brokerage, management continues to deliver solid organic growth. During the last 12 months, the company recruited new sales associates who collectively generated approximately $60 million in annualized gross commission income. During the past two years, NRT has consistently retained over 93% of the production from its first- and second-quartile sales associates, the top-producing segments of its sales force. Mergers and acquisitions over the past 12 months have also added about $70 million of GCI. Thus between organic and non-organic growth, NRT has added approximately $130 million of GCI to its revenue base.

SLIDE 7

Cartus, our relocation company, successfully won the business of 38 new clients in the third quarter of 2011, representing an estimated $4.9 million in annualized revenue, and expanded domestic and international services with 94 of its existing clients.

At a recent awards event hosted by the Forum for Expatriate Management, the Cartus-GE relationship was honored as the "Best Vendor Partnership." This is the second consecutive year that Cartus has taken home the Best Vendor Partnership award, having won the awards last year with Textron in the U.S. and with Citi in the U.K.

In the third quarter, **Title Resource Group** (TRG) entered into an agreement to provide title services to a top-15 ranked mortgage lender, bringing its total lender channel client count to 108.

Year-to-date, TRG’s underwriter, Title Resources Guarantee Company reported an underwriting claims loss ratio of less than 2%, which continues to substantially outperform the industry average loss ratio of about 6%.

Now, let’s take a look at the current operating environment …

SLIDE 8

We believe that there are signs of a stabilizing housing market, although at depressed levels both in terms of transaction sides and price. That said, the housing market is fragile, and is further complicated by the lack of a coherent national housing policy from the highest levels of our government. With every opportunity, we continue to sound the call for leadership from this Administration.

Most recently in the third quarter, we testified at a Senate subcommittee hearing on housing and presented at a national housing policy conference sponsored by the Progressive Policy Institute in Washington, D.C. We continue to spend a great deal of time making our voice heard on a long list of pending legislative, regulatory and economic issues that are likely to impact our industry.

For the fourth quarter of 2011, both NAR and Fannie Mae are forecasting modest increases in the Seasonally Adjusted Annual Rate (SAAR) of homesale units of 5% and 2%, respectively. NAR projects a 5.0 million rate while Fannie's estimate is 4.8 million in the fourth quarter. In its most recent release NAR reported a "contract failure" rate of 18%, which was flat to August 2011 and twice the rate reported in September 2010. Contract failures are cancellations caused by various factors such as inspection issues and lower than required appraised values.

Cancellation rates at Realogy's company-owned operations for July, August and September remained in the low to mid-teens, which is normal for NRT. To be clear, we did not see any unusual cancellation activity during this period.

NAR's current full-year 2011 forecast is 5.0 million unit sales and Fannie Mae is close behind at 4.9 million units, both of which round up to a 1% year-over-year increase. As modest as these forecasts appear to be, if the economy doesn't start improving, the current forecasts may be optimistic.

Looking at median sales price, the NAR and Fannie Mae forecasts have held relatively steady during the past six months, with anticipated decreases of 4% for the full-year 2011. The expected high proportion of distressed sales in the mix of overall homesales will continue to depress national median price forecasts.

Looking ahead to 2012, NAR is forecasting existing homesale increases of 4% and median price increases of 3%. The Fannie Mae outlook is more conservative with homesales up 1% and average sales price down 1% compared to 2011. On a net basis, that puts the anticipated range for 2012 at flat to possibly up 7% on a combined sales volume basis.

The long-term industry outlook for the housing market will be driven by the economy – specifically jobs and consumer confidence. The housing fundamentals are in place – affordability is high, mortgage rates are historically low and there is a strong pent-up demand for housing backed by the demographics -- but the U.S. has an <u>under</u>employment rate of more than 16%, which equates to about 25 million people unable to buy a home, and somewhere around 25% of all homeowners with mortgages either have little or no equity in their homes.

We are encouraged by the recently announced revision to the Home Affordable Refinance Program, known as HARP, which is intended to streamline loan modifications for underwater homeowners who have remained current with their mortgage payments. This is a constructive step toward stabilizing the housing market.

We continue to monitor a myriad of economic, legislative and regulatory risk factors, any or all of which could impede a housing recovery. We believe that the best thing our government can do -- besides articulating a coherent national housing policy and offering a clear strategy that would calm the markets -- would be to do no harm. Unfortunately, that is just not happening.

As an example, Congress allowed the conforming mortgage loan limits to expire as of September 30th, but it is now considering a two-year extension of the higher loan limits. The Senate already has voted in favor of such an extension, and House action is pending.

We continue to proactively work to make sure that the housing industry's point of view is included in the dialogue in Washington, D.C. We recognize that it is a difficult political climate, and we believe that many meaningful decisions will be delayed until after the 2012 elections.

In closing, despite the near-term challenges that we and everyone in our industry are facing, we remain bullish on the long-term outlook for housing. Homeownership remains a strong aspirational goal for most Americans. The demographics that were relevant and compelling when we bought into this industry in 1995 continue to be just as relevant and just as compelling, if not more so.

Now, I'll turn the call over to Tony Hull, our CFO.

HULL:

Thank you, Richard.

In discussing the financial results I will be referring to the webcast slides. Looking at **SLIDE 9,** the breakdown by category of the third quarter $1.2 billion of total net revenue was as follows:

- Gross commission income totaled $831 million at NRT, a increase of 11% from 2010,
- Service revenues principally from Cartus and Title Resource Group increased to $211 million up 7% from Q3 2010
- The Realogy Franchise Group's third-party domestic franchise fees increased $6 million to $73 million for the quarter.

On **SLIDE 10**, we compare expenses during third quarter 2011 versus 2010:

- Total commission and other related costs of $547 million increased 12% year over year, in line with gross commission income increases.
- Operating expenses of $324 million increased $9 million or 3% year over year.
- Marketing costs increased by $3 million or 7%.

- General & administrative costs increased $17 million due to the absence of an $18 million reversal of employee incentive accruals in the third quarter of 2010.

EBITDA before restructuring and other items for the third quarter was $187 million, an 8% increase from Q3 2010.

Next I would like to discuss our key revenue drivers shown on **SLIDE 11.**

In the third quarter of 2011, RFG homesale sides increased 10% while average price decreased 1% compared to 2010 to $201,000. The year-over-year increase in homesale sides was primarily caused by a weak third quarter of 2010 due to the pull forward impact of the Homebuyer Tax Credit in the second quarter of 2010. However, RFG's average sales price decreased 1% largely as a result of more unit sales at lower price points.

At NRT, homesale sides increased 16% in the third quarter compared to 2010 and average price decreased by 5% to $433,000. The average price decline in the third quarter of 2011 was due to a shift in the mix of business to more lower-priced properties compared to higher priced properties in Q3 2010 because first-time buyers are more active in the market. Unit sales of homes at NRT below $300,000 increased to 57% of total sales in 2011 from 53% of total sales in the third quarter of 2010.

Moving from an overall perspective, here is a look at select regional performance data for the third quarter of 2011:

The influence that greater unit sales in the lower price ranges had on NRT's average sale price was seen in its regional results. NRT's Midwestern operations performed well with a 23% increase in homesales sides offset by average sales price decreases of 8%. The average sales price in that region was $247,000. The Northeast experienced price declines of 7%, but sides increased by 21%. NRT's Northern California operations continued to perform strongly in the third quarter of 2011 with homesale side increases of 18% and average sales price increases of 3% compared to third quarter 2010. Of note, NRT's Florida operations had a 6% increase in homesale sides accompanied by a 6% increase in average sales price. Weaker areas of performance included the Mid-Atlantic region, which had homesale side increases of 4% and average price increases of 4%. NRT's Southern California operations reported a 3% decrease in homesale sides and a 3% decrease in average home price.

From a longer term perspective, for the nine months ended September 30th, 2011, RFG home sale sides decreased 3% and average sales price increased 1% compared to the same period in 2010. For NRT, closed home sales for the same 9-month period decreased 1% and average sales price was flat. This year-to-date look removes some of the distortions caused by the impact of the tax credit in the second and third quarters of 2010.

Looking at what we are seeing for the fourth quarter, preliminary closed homesale sides combined for RFG and NRT increased approximately 8% in October, while average price decreased 6% versus 2010 – that's a net 2% gain in volume. For the fourth quarter, we anticipate more modest net volume gains, consistent with NAR's fourth quarter forecast.

Moving on, average broker commission rates in the third quarter of 2011 increased 2 basis points at NRT to 2.49% while RFG average broker commission rate increased 3 basis points to 2.56% in Q3. Also, the Realogy Franchise Group's net effective royalty rate declined 7 basis points to 4.88% as its larger affiliates continue to achieve higher volume levels.

Cartus relocation initiations in the third quarter increased 2% and referrals increased 13% for the period.

At TRG, third quarter 2011 purchase unit volume increased 14% which was consistent with the NRT unit sale gains. The company's refinance title and closing units decreased 19% in the third quarter compared to 2010, but average price per closing unit increased by 5% due to the higher mix of purchase units in the quarter.

For the nine months ended September 30th, 2011 TRG purchase title units decreased 2% -- again consistent with NRT unit sales -- while refinance units increased 5%. Average price per closing unit for September YTD increased 3%.

Now let's review revenue and EBITDA before restructuring and other items by business unit for the third quarters ended September 30, 2011 and 2010 shown on **SLIDE 12.**

Total revenue at RFG was $151 million in third quarter 2011 compared to $138 million in 2010. The 9% revenue increase was due to the increase in homesale volumes and higher NRT royalties, partially offset by the decrease in the net effective royalty rate.

EBITDA before restructuring and other items at RFG was $92 million in the third quarter 2011 compared with $90 million in 2010. The $2 million EBITDA increase was due to the $13 million revenue increase partially offset by the absence of the bonus reversal in 2010 of $5 million, higher marketing expenses of $3 million and $2 million of incremental legal expenses.

Revenue at NRT increased $79 million or 10% due to the increase in homesale volumes. NRT EBITDA before restructuring and other items in third quarter 2011 was $50 million. This was $17 million above 2010. The revenue increases were partially offset by higher commission expense and intercompany royalties.

At Cartus, revenue increases of 3% or $4 million were largely driven by increased international transaction volume. EBITDA before restructuring and other items was $50 million in 2011, down from $51 million in 2010. Revenue increases were offset by higher international expenses due to volume increases and $5 million of higher employee related costs due to the absence of the bonus reversal in 2010.

At TRG, revenue increased 13% or $11 million as a result of increased underwriting and purchase closing revenue partially offset by lower refinance volume. EBITDA before restructuring and other items was flat as a result of revenue increases partially offset by a $10 million increase in variable operating costs. The bulk of that increase is from geography shifts on the income statement due to the fact that more of our business was generated by third party agents rather than TRG's title agents.

Turning to the balance sheet on **SLIDE 13,** we ended the quarter with a cash balance of $102 million which includes $62 million of readily available cash and $40 million of statutory cash required for our title business. We had $50 million of borrowings on our revolving credit facility at September 30, 2011 which was significantly reduced from $180 million at the end of the second quarter. The strong free cash flow generated in the third quarter enabled most of the $130 million pay down on the revolver. At October 31st, our revolver balance increased to $300 million due to the payment of semi-annual interest in mid-October. We expect approximately half of the revolver balance to be repaid by the end of December due to positive free cash flow generation in the last 2 months of the fourth quarter.

Relocation receivables increased from $386 million at December 31, 2010 to $449 at September 30th, due to seasonality of the relocation business.

Looking at **SLIDE 14** … At September 30th, the Company had $332 million of secured obligations through Apple Ridge Funding LLC, a securitization program with a five-year term that expires in April 2012. The Company is in the process of refinancing Apple Ridge and expects to complete the transaction prior to its April 2012 expiration.

Accrued expenses and other liabilities increased to $621 million from $525 million at December 31st. The bulk of the increase since year end was due to the accrual of semiannual interest, the payment of which was made on October 15th.

Our covenant compliance ratio improved from what we reported at June 30, 2011. At September 30, our senior secured net debt to Adjusted EBITDA ratio was 4.15 to 1, which was in compliance with our credit agreement. This was a quarter turn improvement from the senior secured leverage ratio at June 30, 2011. We forecast being in compliance with our leverage ratio for the foreseeable future.

Let me provide you with expectations for certain cash flow items for the full year 2011 as shown on **SLIDE 15**:

- Corporate cash interest is expected to be approximately $605 to $615 million for the year;
- Capital expenditures are expected to be approximately $45 million for the full year;
- Working capital inclusive of cash restructuring costs is forecasted to be a use of cash between $50 and $60 million; and
- Net funding of legacy issues is expected to total approximately $15 million for the full year.

We anticipate fourth quarter homesales to increase, although at a slower pace than we saw in Q3 and average sales price to be down as indicated by our preliminary October results. This is consistent with NAR's November forecast for the fourth quarter of 2011. The trend we are currently seeing is that in many of our markets we have a higher amount of sales to first-time buyers. This has the impact of increasing unit volume while putting pressure on price. We expect that this trend will continue into 2012. Our unique capital structure with $2.1 billion of convertible debt, combined with our leaner, highly variable cost model, continued growth initiatives and the strong support from our investors should allow us to weather whatever happens in the housing market, and benefit our bottom line when the market begins to recover.

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

SWIFT:

Thank you, Richard and Tony. A few 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 website tomorrow.
- Second, we anticipate announcing our Full Year 2011 results at the end of February, 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 February. Thank you.