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PRESENTATION

Operator

Good morning and welcome to the Realogy Holdings Corporation full-year 2016 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 website later today. A webcast replay will also be made available on the Company's website.

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

Alicia Swift - *Realogy Holdings Corp - SVP, IR*

Thank you. Good morning and welcome to Realogy's full year 2016 earnings conference call. On the call with me today are Realogy's Chairman, CEO and President, Richard Smith, and Chief Financial Officer, Tony Hull. As shown on slide 3 of the presentation, the Company will be making statements about its future results and other forward-looking statements during this call.

These statements are based on 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. Actual results may differ materially from those expressed or implied in the forward-looking statements. For those who listen to the rebroadcast of this presentation, we remind you that the remarks made herein are as of today, February 24, and have not been updated subsequent to the initial earnings call.

Important assumptions and other important factors that could cause actual results to differ materially from those in the forward-looking statements are specified in our earnings release issued today as well as in our annual and quarterly SEC filings. Also, certain non-GAAP financial measures will be discussed on this call and, per SEC rules, important information regarding these non-GAAP measures is included in our earnings press release.

Now we'll turn the call over to our Chairman, CEO and President, Richard Smith.

Richard Smith - *Realogy Holdings Corp - Chairman, CEO & President*

Thank you, Alicia, and good morning, everyone. Today I'm going to highlight our important accomplishments in 2016 and provide you with an update on our strategic priorities for this year and beyond. So turning to slide 4, in 2016, we achieved revenue of $5.8 billion and operating EBITDA of $770 million. Our results continue to reflect the operating challenges of strong competition for sales agents and soft demand at the high end of the housing market for NRT. While we still have work to do, we are making good progress.

We continue to execute on our commitment to delivering value to shareholders, returning a total of total of $240 million through a combination of share repurchases and dividends as of yesterday. Thus far, we have repurchased 5% of our outstanding shares to date. Based on the strong free cash flow characteristics of our business, our Board has authorized a new share repurchase program of $300 million. This is in addition to the $61 million remaining under our existing 275 million share repurchase authorization, which as you know, we announced in February of last year.

Our strategic priorities are to continue strengthening our core businesses while further investing capital to drive future growth. We are confident that over the long-term we are well-positioned to capitalize unfavorable demand conditions and existing home sale volume growth. As we have previously indicated, US housing in 2016 was a tale of two markets with the dividing line drawn between the lower and mid-priced home segments versus the high end price segment.

Demand in entry and move-up levels continues to be healthy and inventory continues to be low by historic standards. By contrast, in higher-priced markets in 2016, a pronounced gap developed between sellers' asking price and what buyers were willing to pay, leading to a softening of transaction volume and a growing inventory of unsold properties. This presented some near-term challenges for Realogy during the year, particularly at NRT because of its geographic concentration in the higher-priced coastal markets. And, as we discussed over the last several quarters, it continues to be a very competitive market for productive agents.

As we look forward, we are focused on strengthening our core businesses while making strategic investments to drive future growth. To that end, in the second half of 2016, we developed and launched new programs at NRT designed to increase our recruitment of productive, independent sales agents and to increase the productivity of its existing agents. This new program is intended to complement NRT's existing agent retention and productivity initiatives. Peter Sobeck, our recently appointed Chief Recruiting Officer, and NRT management are executing on an aggressive campaign to increase our recruitment of productive, independent sales agents and agent teams.

As a result of this new initiative, the program has recruited agents who generated about $120 million in revenue during the last 12 months for brokerage firms with which they were previously affiliated. Based on the metrics we monitor to evaluate the effectiveness of these initiatives, we are seeing encouraging signs of improvement at NRT. Specifically, the stabilization of the first and second quartile agent retention rate, which increased to 93%, an increase of 100 basis points through 2016. And as indicated on prior calls, while our investments in these initiatives will result in near-term moderate pressure on margins, we anticipate that over the medium-term, this will be mitigated by revenue and earnings at NRT as well as other Realty business units that benefit directly from NRT's transaction volume.

To attract and retain the best talent in the industry we are constantly evaluating and enhancing our agent value proposition. Earlier this year, we formalized plans for an integrated learning institute aimed at increasing sales agent, office manager and broker productivity. This institute will offer customized learning opportunities to new and experienced sales agents as well as brokerage managers, both at NRT and RFG.

Last week, Realogy agreed to form a new mortgage origination joint venture with Guaranteed Rate, one of the largest independent retail mortgage companies in the United States. Mortgage financing is a service that we provided for more than 20 years and we are delighted to embark on this new relationship that will enhance our NRT sales agent value proposition and strengthen our service offerings to our home buyers. We believe Guaranteed Rate is the right strategic partner to help our company-owned brokerage business and its sales agents offer an innovative and streamlined mortgage process, built on best in class technology.

As the franchisor of five of the most prominent brands in our industry, we are continually evaluating and enhancing our value proposition to both our franchisees and prospective franchisees. Our Zap technology platform is proving to be one of the strongest enhancements to our franchisee value proposition. By year end 2016, RFG deployed our Zap technology platform to 1500 franchisees and we are well on our way to reaching the majority of our remaining franchisees this year.

With respect to productivity gains related to Zap, agents who use the platform even moderately are outperforming NAR's 4% existing home sales growth rate for 2016. We are encouraged by these early results and look forward to reporting the relevant performance metrics later this year when the platform is substantially deployed. As a result of these and related efforts, RFG achieved a second straight year of strong franchise sales growth adding $378 million in new franchisee and sales production gross commission income in 2016.

Yesterday we announced our leadership succession plans for RFG with the promotion of John Peyton to President and CEO effective April of this year. John joined RFG last October as President and Chief Operating Officer and has brought a fresh perspective to our Company, leveraging his tenure as a global branding leader in the hospitality industry. During his nearly two decades with Starwood Hotels & Resorts Worldwide, where he most recently served as Chief Marketing Officer, he applied his expertise in global operations and brand building to drive innovation and build loyalty for the company's leading hotel brands. We're confident that John is the right business leader to focus our efforts and execute our plans for continued strategic growth and innovation at RFG.

Alex Perriello will now serve in a senior advisory capacity at the Company, as role as Chairman Emeritus of the Realogy Franchise Group. Over the long-term, we maintain a positive view of the housing market. We believe that the housing recovery will continue as the demographics and characteristics of housing are compelling. The industry continues to benefit from attractive mortgage rates and healthy demand at the entry and move-up segments. More importantly, we believe that the actions we are taking to improve our performance are on a very positive track.

In 2017, we will continue to measure ourselves against our strategic objectives to improve our competitive position, optimize and streamline our business and deploy our capital to the best and highest use to enhance shareholder value. We are confident that as we continue to successfully execute our strategy, we are well positioned to capitalize on long-term strength of the housing market and, of course, with one primary objective, to create value for our shareholders.

So with that I'll turn this call over to Tony. Tony?

Tony Hull - *Realogy Holdings Corp - EVP, CFO & Treasurer*

Thanks, Richard. In 2016, Realogy generated strong free cash flow of $457 million, a $14 million increase from full-year 2015 and slightly above the guidance we gave in November. We also reduced our run rate annual corporate interest expense to $165 million in early 2017, pushed out the staging of the maturities on our debt to 2023 and increased our revolver capacity to $1,000,000,050. With strong cash flow generation and an optimized capital structure, we were able to commence a meaningful stock repurchase program in 2016 and commence paying a dividend.

Our leverage at the end of the year was 3.8 times and our goal remains to achieve a three times net debt to EBITDA leverage ratio, which we believe is the optimal long-term level to run the business based on our weighted average cost of capital and the cyclical nature of housing. We will continue to maintain a disciplined approach to capital allocation, balanced between returning cash to shareholders, deleveraging and the ability to invest in strategic opportunities to drive growth.

In 2016 we initiated a host of business optimization improvements targeted at savings across the organization. In the end, we expect to realize approximately $70 million in annualized savings, of which about half is reflected in our 2016 results. We expect most of the remainder to be realized this year. The initiatives include creating centers of excellence at both NRT and RFG. Specifically at NRT, these actions were aimed at centralizing back-office functions and enabling brokerage office managers to focus more on recruiting and retaining agents. We also streamlined and consolidated a number of common functions across the organization to leverage our size and scale with the goal of achieving better customer service.

With that backdrop let's turn to slide 5 to review our full-year 2016 results in greater detail. Revenue of $5.8 billion was up 2% compared to 2015. Operating EBITDA was $770 million, a $1 million increase from the prior year and at the high end of the guidance range we gave in November. As a reminder, operating EBITDA is EBITDA before restructuring costs, early extinguishment of debt and former parent legacy items.

Adjusted basic earnings per share was $1.65 an increase of 9% over the prior year. Before the mark-to-market adjustments for our interest rate swaps, book interest expense decreased by $43 million to $168 million in 2016 as a result of a reduction in total outstanding indebtedness and a lower weighted average interest rate. At year end, our NOL, net operating loss, was $1.3 billion, which we expect will allow us to continue to pay minimal cash taxes in 2018.

Turning to slide 6 for a discussion of the drivers of our business, our overall home sale transaction volume growth was approximately 4% year-over-year, which was at the high end of the guidance range of 3% to 4% that we provided in November. RFG's transaction volume increased by 6% with half of the increase coming from higher transaction sides and the remainder from greater average sales price. NRT finished the year flat year-over-year on both sides and price because of the macro high-end housing trends in some of its markets as well as competitive pressures we experienced throughout the year which Richard just reviewed and that we are addressing.

Average broker commission rate, ABCR, at RFG was down one basis point to 2.50% and ABCR at NRT was flat at 2.46%. We are frequently asked about the resiliency of the average broker commission rate. A real estate transaction is complicated, inefficient from a price discovery and liquidity standpoint and highly emotional. Human interaction and professional expertise is critical in a real estate transaction. As such, the ABCR has been remarkably strong and stable over time and, given the valuations provided to their customers, we continue to believe that any decline will be limited to a few basis points per year.

We've added a slide in the appendix to show a steady this metric has been over time. The net effective royalty rate fluctuates by quarter at RFG. On a quarter to quarter basis but for the full year, this figure was 4.46% down 2 basis points from 2015. This is primarily due to the effect of the strength of our largest franchisees who earn larger volume rebates. Our aim is to maintain a relatively steady royalty rate on the franchisee portfolio. NRT commission split increased 48 basis points in 2016, which is about 10 basis points higher than we expected during our last call due to our ongoing campaign to more aggressively recruit and retain a select group of strong agents.

The increase is the partial year impact of these efforts, so in 2017, aggregate splits will be higher than the 68.9% for the full year in 2016. Our current estimate for 2017 is that splits will be in the range of 69.5% to 70%. While we expect this increase will put near-term pressure on NRT's margins, the benefit of these growth initiatives will be immediately realized in RFG's results due to the expected higher resulting royalty revenue it will learn from NRT.

Now turning to slide 7, let's talk about performance by business unit for the year. At RFG, revenue increased $26 million and was driven by a $19 million increase in domestic royalty revenue due to RFG's 6% increase in transaction volume. Excluding restructuring costs, RFG's operating EBITDA increased $25 million. NRT revenue was flat in 2016 due to $109 million or 2.5% decrease in organic revenue. That was offset by $109 million earned in revenues from acquisitions. Base revenues were negatively impacted by factors we discussed earlier as well as inventory shortages in the mid and lower-priced homes in many of the markets served by NRT.

Excluding restructuring costs, NRT's operating EBITDA decreased $45 million primarily due to the lower base revenue I just mentioned, a net $14 million increase in commission expense primarily driven by acquisitions, the addition of $25 million of costs associated with acquisitions and a $6 million decrease in earnings from our mortgage joint venture.

Getting more granular on NRT's revenue in 2016, total sales volume for transactions completed by NRT was down less than 1% from 2015. In NRT's highest priced segments, Sotheby's and Corcoran, total sales volume was down 7%. This decline was driven by softness at the high end of the market. Turning to our NRT Coldwell Banker operations in our Western region, which is heavily influenced by California, NRT experienced a 2% decline in sales volume which was a combination of market share attrition and, to a lesser degree, high end softness.

The Southeast, which is largely driven by Florida, saw a 2% reduction in sales volume from the same combination of factors. The NRT Coldwell Banker Midwest and Northeast regions saw mid-single digit increases in sales volume. Cartus revenue decreased $10 million and operating EBITDA decreased $6 million in 2016. The decline in revenue is due to fewer broker to broker referrals, the absence of a large group move which occurred in 2015 and lower relocation referral volume.

TRG's revenue increased $86 million and operating EBITDA increased $15 million in 2016. Half of the operating EBITDA improvement was due to higher purchase refinancing and underwriting volume and the remainder from its acquisitions of TitleOne and Independence Title. Based on current market conditions we expect a slowdown in refinance volume to be a headwind for TRG in 2017, but we should see overall growth in our Title and Settlement Services Segment.

Corporate expense in 2017 is expected to be approximately $22 million per quarter compared to $18 million per quarter in 2016. The 2016 quarterly corporate expense was lower than normal due to the Company not achieving certain performance compensation goals during the year. In 2017, if performance goals are achieved, quarterly corporate expense is expected to be consistent with 2015 levels.

As you are aware, since November, mortgage rates have increased about 75 basis points. So far this year, however, we have not seen a discernible impact on home sales. While mortgage rate increases impact housing demand, overall home affordability remains at attractive levels relative to historical data. And based on industry forecast from NAR and others, 2017 home sale transaction volume is expected to increase between 5% and 7%.

Turning to slide 8, looking at our expectation for the first quarter of 2017, we forecast that Realogy's combined home sale transaction volume will increase in the range of 2% to 5% year-over-year, with sides contributing between 0% and 2% of that increase and 2% to 3% of the increase coming from average -- higher average sales price. Broken down by business unit we expect 4% to 6% transaction volume growth at RFG and 1% to 3% growth at NRT.

Despite higher revenue in the period relative to last year, first-quarter operating EBITDA is likely to be down year-over-year due to our actions at NRT resulting in higher agent commission splits and the impact on operating costs of acquisitions completed after Q1 of last year along with unfavorable comparisons at Cartus. It is important to note that the first-quarter results are not indicative of our full-year earnings given that it is our smallest quarter in terms of revenue generation and transaction volume against a fixed cost base that is spread rapidly throughout the year.

On our next call, we will have better visibility into the spring selling season which will be reflected in our transaction volume guidance for the second quarter. Slide 9 provides guidance for specific cash flow items below operating EBITDA for 2017. In particular, corporate cash interest expense for the year is expected to be approximately $165 million which incorporates the effect of lower interest costs due to our recent Term Loan B refinancing and that our debt is approximately 85% protected against increases in LIBOR.

Capital expenditures for the years are forecasted to be between $90 million and $100 million. M&A investment is forecasted at approximately $75 million which includes $25 million of expected earnouts due in 2017 from prior year acquisitions. In addition, once the mortgage JV transactions are complete, the Company expects to realize approximately $30 million of net cash.

In summary, in 2016 we continued to make progress on our key strategic initiatives and executed decisive actions to enhance our competitive position in the marketplace. We also undertook a holistic and extensive review of our operations implementing process improvements while realizing significant savings. Ultimately, Realogy achieved important milestones as we returned substantial capital to shareholders with the initiation of a share repurchase program and the establishment of a quarterly cash dividend. With that we will open up the lines for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) John Campbell, Stephens.

John Campbell - *Stephens Inc - Analyst*

Hey, guys. Good morning. Congrats on a great quarter. Just want to dig in a little bit on the retention efforts. You guys said 100 bps improvement in retention and I think you might have said a mix between Tier 1 and Tier 2. Can you break that -- give a little bit more color as to where you are seeing the better improvement across Tier 1 and Tier 2?

Richard Smith - *Realogy Holdings Corp - Chairman, CEO & President*

Sure, it's literally across-the-board. I mean as you know, Tier 1 and Tier 2 -- we call them quartile one and quartile two -- represent the lion's share of our revenues so it was incumbent upon us to stabilize that group in its entirety and we've done that fairly well. It continues to improve. We don't think 100 basis points alone is the complete upside. We think there's a lot more there to be achieved, but again, we -- our focus is on both the first and second quartile.

John Campbell - *Stephens Inc - Analyst*

Okay, and then we dug in a good deal on the -- I guess some of the attrition that you guys have seen in some of the larger scale markets but can you help us identify maybe what the run rate of attrition run is going to be for 2017 versus what you guys have already seen?

Richard Smith - *Realogy Holdings Corp - Chairman, CEO & President*

I think I would take our lead at the 93% sort of range and we expect to improve that.

John Campbell - *Stephens Inc - Analyst*

Okay, that's helpful. And then as you think about some M&A, it looks like you guys have done a handful -- I guess you had from Climb from San Francisco and then I saw the DelMar acquisition you guys did where you are back in that market. But can you talk about what you are expecting for the year and maybe to fill some of the holes of some of the attrition that you guys saw already?

Richard Smith - *Realogy Holdings Corp - Chairman, CEO & President*

The size and scale of the Company makes it very attractive to us to focus on tuck-in acquisitions. I would not expect that we're going to do anything sizable this year. So I think for your purposes, you should think about these very accretive, fairly small by comparison, tuck-in acquisitions in the markets where we currently operate. A lot of -- they are very synergistic, very attractive and readily available. So the key is to be strategic in that regard and we are, but I would not expect to see sizable acquisitions in 2017.

John Campbell - *Stephens Inc - Analyst*

Okay, and then last one for me. It looks like January existing home sales were pretty good. What are you guys seeing thus far in February? Is it kind of modestly up and to the right?

Richard Smith - *Realogy Holdings Corp - Chairman, CEO & President*

We very much appreciated what we heard from NAR for January and as you know, we're reluctant to say where we are now. Actually, February is not the month you should think about when you think about the quarter. Most of the production occurs in March. So most of the closings occur in March. So news at 11 as they say but the NAR January data was very encouraging.

John Campbell - *Stephens Inc - Analyst*

Okay, excellent. Thanks again, guys.

Operator

Bose George, KBW.

Bose George - *KBW - Analyst*

Hey, good morning. Can you remind us of your target for leverage, given the likely buybacks this year do you see that number changing much from the 3.8 at year end?

Tony Hull - *Realogy Holdings Corp - EVP, CFO & Treasurer*

Our goal is to get to three times leverage, even with returning capital to shareholders. The timing of that is going to be dependent on how much we do in terms of return of capital, how much debt we repay and what our EBITDA growth looks like, which is, obviously, tough to predict all those things. But our goal was always to get to -- has always been since the IPO to get to three times leverage.

The one thing that has definitely changed since the IPO is our -- the interest coverage is much higher because of all the refinancing we been able to do. Our interest coverage is much higher than we ever anticipated, so although we could live with a higher leverage level, our goal is still to get to three times.

Bose George - *KBW - Analyst*

Okay, no, that makes sense. Thanks. And then actually just going back to the acquisition question, just a little more -- can you give color on trends there? Are you seeing any increased competition in terms of acquisitions or pretty similar to what you have seen over the last year?

Richard Smith - *Realogy Holdings Corp - Chairman, CEO & President*

This is Richard. No, it's fairly similar. I mean we're very selective, as you know. We target markets where -- markets that are attractive to us for a variety of reasons. We rarely enter a new market where we have no presence; those are not as synergistic. But, listen, there is a wealth of opportunity. The key is to be strategic and selective and to buy them at our price. And we've been doing that for a long time and we expect to continue doing that in 2017.

Bose George - *KBW - Analyst*

Okay, great. Thanks.

Operator

Jason Deleeuw, Piper Jaffray.

Jason Deleeuw - *Piper Jaffray - Analyst*

Thank you and good morning. Question with the commission splits expected to step up to 69.5% to 70%. Just wondering, when can we see the volume growth at NRT improve? Is there any sense you can help us -- you can give us on when we think we're going to see an inflection in the volume growth at NRT?

Tony Hull - *Realogy Holdings Corp - EVP, CFO & Treasurer*

Yes, it really is going to depend on how the year shapes up, how volume for the year shapes up and so it's a little early to call that. I do -- to the extent that we see the benefits of -- from the enhanced recruiting efforts and from better retention of the first and second quartile. I think we will immediately, as I said in the script, we will immediately see the benefits of that at RFG for the 6% that's paid over to -- that is reflected in the RFG segments.

So, for instance, on the $120 million of production that Richard mentioned that we've gotten to date on our enhanced recruiting program, there will be $7 million or $8 million of the benefit of that shown at RFG on the 6% of that gross number. But to whether it filters through to NRT in terms of margins and overall profitability improvement will depend on really the macro -- what's going on in the macro, what's going on in the high end, etc. So that's sort of out of our control, but we -- I think we are well-positioned to benefit immediately and you will see those results at RFG.

Jason Deleeuw - *Piper Jaffray - Analyst*

Got it. And if you could just breakout how much of the NRT performance versus industry average right now is the high-end market trends versus the agent retention? And then last quarter you gave us high-end inventory days. If you could just kind of update us on some of the key metrics you are seeing on the high-end homes -- I think you had $2.5 million price plus price point. Just any sense for are things really improving there? Are there any metrics you can give us? That would be helpful.

Richard Smith - *Realogy Holdings Corp - Chairman, CEO & President*

The high-end inventory levels continue to be an issue. We pointed that out last year. The media routinely points that out this year. It's too early to tell, certainly not in the first quarter are you going to see much of a change in the high-end inventory. Although I will say this, as the high -- we don't think the high inventory levels are going to get worse; we think they get better and there are a lot of reasons to believe that. It has an outsized impact on NRT given its geographic concentration in the coastal markets which happen to be the highest priced markets in the country, which would include Florida.

So we were watching it very carefully. We expect it to improve over time and, again, it has a pretty big impact on NRT's results. I don't -- it's too early now to say whether that $2.5 million price-up inventory level is materially changing. Once we get into the second quarter, which as you know is beginning of our season, we'll have a better view of what's happening to the highest priced markets.

Tony Hull - *Realogy Holdings Corp - EVP, CFO & Treasurer*

I would just add to that that the change we're seeing, and actually in the Wall Street Journal today, they highlight this, and this is more at the ultra high-end, not at the sort of everyday high-end but you can see that one of the things that was slowing down the high-end last year was sellers not realizing that it was a buyers' market. And I think is the chosen the Wall Street Journal today, they are finally realizing that and they are cutting their prices to be more realistic about the environment. So I think that's probably the most positive thing that's starting to resonate within the high-end.

But, Jason, just in terms of specific -- for NRT at $2.5 million and above, for 2016 it was 17% of their volume and it was 19% in 2015, so that was kind of a high watermark. But, we think -- and then on a quarterly basis, it was only down a point, so in the fourth quarter of 2015, it was 18%. In the fourth quarter of 2016, it was 17%, so I think that it's narrowing, so we're feeling okay about the high-end. But it still, obviously, with five years of inventory, it's still a buyers' market, so it's very different than the rest of the market.

Jason Deleeuw - *Piper Jaffray - Analyst*

Okay. Thank you very much.

Operator

Will Randow, Citigroup.

Will Randow - *Citigroup - Analyst*

Hey, good morning, guys, and thanks for taking my questions. Could you discuss some of the regional trends you're seeing, particularly in California, Florida and New York City as well as whether you believe you're tracking, I I'll call it in line from a share position, feel like you are picking up a little bit overall, in those three markets in particular?

Richard Smith - *Realogy Holdings Corp - Chairman, CEO & President*

Well, as I mentioned in the script, the -- in terms of the high-end which Corcoran and Sotheby's, that was obviously under pressure last year. Their volume was down 7%. For Corcoran specifically, they maintain a very -- that was clearly market-driven; they maintain a very strong market share, particularly in New York City and Long Island where they serve. So there -- that's all about the high-end.

Florida was soft last year for us. From a Coldwell Banker standpoint on the owned operations, but I think that was driven by a combination of attrition issues and -- which we're addressing and the high-end softness and obviously the foreign buyer was sort of still shocked in 2016 by the dollar improvement that occurred at the end of 2015. So I think as that consumer gets used to where the dollar is and -- and we feel good that will firm up the high-end there. So -- and California is a combination of the two, but again it's hard to predict where that's going -- this early in the year where that's going to go, but we're much better positioned than we were.

Will Randow - *Citigroup - Analyst*

Thanks for that. And then in terms of your guidance for 2% transaction volume growth for the first quarter of 2017, I was hoping you could provide a little bit more detail in terms of -- do you think with that level of growth you should see EBITDA flat or improve? And will that be the case for 2017 as well if we get some level of transaction volume growth?

Tony Hull - *Realogy Holdings Corp - EVP, CFO & Treasurer*

You're talking about the first quarter guidance?

Will Randow - *Citigroup - Analyst*

Correct.

Tony Hull - *Realogy Holdings Corp - EVP, CFO & Treasurer*

Yes, again the first quarter is not going to be indicative of the year; we'll have much better visibility on that in May. So it's really hard to speculate on that at this point.

Will Randow - *Citigroup - Analyst*

But specifically, should we see EBITDA kind of flattish for the first quarter of 2017 with this type of transaction volume growth or improvement?

Tony Hull - *Realogy Holdings Corp - EVP, CFO & Treasurer*

Well, as we mentioned, we think revenue will be up, but there are some headwinds on expenses. So as I mentioned in the script, we think that first-quarter EBITDA could be a little softer than last year.

Will Randow - *Citigroup - Analyst*

Got it. Thanks.

Tony Hull - *Realogy Holdings Corp - EVP, CFO & Treasurer*

But again, that's like very small percentage of our overall annual EBITDA, so it doesn't really move the needle.

Will Randow - *Citigroup - Analyst*

I apologize -- the implication for 2017? There is none or -- is what you are saying?

Tony Hull - *Realogy Holdings Corp - EVP, CFO & Treasurer*

It will be very difficult to extrapolate from the first quarter what the year is going to look like.

Will Randow - *Citigroup - Analyst*

Okay, all right. Thanks, guys.

Operator

Anthony Paolone, JPMorgan.

Anthony Paolone - *JPMorgan - Analyst*

Thanks. Good morning. On the splits, the 69.5% to 70%, does that reflect like mostly having gone through and adjusted them already and just seeing the full year impact or is there still a lot to go in terms of working that through the system and the adjustments you all are making there?

Tony Hull - *Realogy Holdings Corp - EVP, CFO & Treasurer*

We've pretty much -- I think we've pretty much right-sized the commissions and we're competitive in the markets that we serve. Some of -- in terms of the recruiting efforts, that's going to put a little bit of pressure on splits and that's built into that forecast.

Anthony Paolone - *JPMorgan - Analyst*

Okay, and then in terms of just those recruiting initiatives, should we expect additional costs outside of the split impact, like whether it's new marketing or office cost or anything else you might be doing in 2017?

Richard Smith - *Realogy Holdings Corp - Chairman, CEO & President*

No, I wouldn't view it that way. Hiring an agent, adding that agent to an office, there are de minimis, if any, incremental costs related to that. So our office space can be even more efficient than it is today, and so I wouldn't view it that way. But I also think that there is a start and finish to our recruiting efforts; this is going to continue. We're turning this Company into a recording machine and that's not going to stop. But Tony was right in his assessment of the splits and the impact on the year.

Anthony Paolone - *JPMorgan - Analyst*

Okay, so then outside of that then just cost-wise, I think there was like another $16 million left on your savings initiatives that I guess happened in 2017, and then is there anything else like on that -- on the learning offering that you are uppng there? Just trying to understand (multiple speakers) we should be watching cost-wise?

Tony Hull - *Realogy Holdings Corp - EVP, CFO & Treasurer*

No, the learning is really just a reprocessing or rejiggering of what we have today. So the cost -- the money will be better spent than it was in the past.

Anthony Paolone - *JPMorgan - Analyst*

Okay, got it. And then, Richard, with the change in Washington, any items you are particularly watching as it relates to housing that we should be thinking about the next 12 months?

Richard Smith - *Realogy Holdings Corp - Chairman, CEO & President*

Well, if I've learned anything recently, it's not to speculate about what may be happening in Washington, DC. That said, any change to the regulatory environment that would be helpful to housing, we strongly support. Obviously, the ones we pay attention to are generally Dodd-Frank related but they also pertain to the governance of FHA and Fannie and Freddie. But listen, we are actively involved and we look forward to a better regulatory environment for housing.

Anthony Paolone - *JPMorgan - Analyst*

Okay. And then last question, just more nuanced. On interest expense, did something unwind or anything happen in the fourth quarter, to just look at the prior three quarters, reported interest expense versus the year? It would have seemed to drop.

Tony Hull - *Realogy Holdings Corp - EVP, CFO & Treasurer*

Yes, the mark-to-market went way in our favor in the fourth quarter. So I think our net interest expense is like $5 million on the books. But it was really the fact that the 10-year treasury popped, whatever it was, 50 basis points, 60 basis points, caused a positive mark-to-market on our swaps. So that reduced the interest expense on the GAAP savings, which is why we sort of negate those effects when we show adjusted net income and that's why we do that because we want to show it without those fluctuations.

Anthony Paolone - *JPMorgan - Analyst*

Got it. Okay, thank you.

Operator

David Ridley-Lane, Bank of America Merrill Lynch.

David Ridley-Lane - *BofA Merrill Lynch - Analyst*

Sure, so as you've gone through the process of adjusting commission splits market by market and agent by agent, have you just moved to the current market rate for splits? I guess said differently, has market-wide commission splits really increased about 200 basis points over the last two years?

Richard Smith - *Realogy Holdings Corp - Chairman, CEO & President*

Yes, I think it's not quite as black and white as that; it's much more nuanced and it's based on local customs and practices and it depends on what the broker offers. We offer a full service value proposition, where as some of our competitors offer more a la carte pricing, so it's really what the agent is comfortable with and thinks they can be most productive, which program they can be most productive under. So again it's pretty nuanced in how it's managed by our 800 managers and senior management NRT. So it's just -- we're just very aware that -- we're just very aware that we want to be competitive in the market and we want to encourage agents to take advantage of all that we offer so that they can be more productive.

David Ridley-Lane - *BofA Merrill Lynch - Analyst*

Okay. And in the franchise segment, the $378 million of added gross commission income, that's a pretty healthy increase overall, essentially most of your growth in that franchise segment is the hard work you are doing in adding franchises. If you look to 2017, would you expect the Zap rollout to start meaningfully increasing the underlying trends among your franchisees?

Richard Smith - *Realogy Holdings Corp - Chairman, CEO & President*

We believe that has already begun, so it has proven to be a particularly attractive enhancement to the franchise to prospective franchisees, and we expect that to continue. We believe it's a very important enhancement -- performance enhancement to our existing franchisees. It's just a little early to look at those operating metrics in the public format. We're working hard to make sure that the metrics we follow will demonstrate the value that we have created through this platform.

So as I indicated, sometime later this year we're going to have a full set of metrics that we'll start reporting on a public basis but we're very encouraged by what we see right now and our franchisees are also very encouraged by what they are seeing.

David Ridley-Lane - *BofA Merrill Lynch - Analyst*

All right. Thank you very much.

Operator

Ryan McKeveny, Zelman & Associates.

Ryan McKeveny - *Zelman & Associates - Analyst*

Hi, thank you and good morning. On the guidance, the RFG for 4% to 6%, that would be a slight deceleration from the 8% you did this quarter, and you mentioned you are not seeing much of an impact of rates thus far which we're not seeing as well. So just curious if you can give any color on the trends you are seeing you there and, maybe specifically the breakdown of what you are expecting for sides versus price within that piece of the business.

Richard Smith - *Realogy Holdings Corp - Chairman, CEO & President*

I think -- forgetting RFG for a second, just looking at the NAR report, we were looking at this -- we were analyzing this and they were up 6%. The sides were up 6% in the January -- actual sides were up 6% in January 2017. We looked back at what happened back in 2013 and 2014, so obviously in 2013, rates went up about 100 basis points, and it turned out that January of 2014 was down like 5% on volumes so again we're encouraged that because of overall favorable affordability metrics that the housing market is not being negatively impacted by higher mortgage rates this time around like it was back in 2013. And obviously 2014, which was a flat year for the industry.

But our guidance ranges -- what we see today based on our closes and our opens and that's one factor. The other thing is when you look back, we still had some TRID impact in the first quarter of 2016 which we don't have today because there was a lot of catch-up ball being played from stuff that didn't close in the fourth quarter because of TRID or the last six weeks of the fourth quarter because of TRID. So I think those two things are impacting our volume range for RFG.

Ryan McKeveny - *Zelman & Associates - Analyst*

Got it, thanks. And on the acquisition side, any breakdown you are thinking about between brokerage versus title acquisitions? and it does seem like the amount you've alluded to, the $75 million, is a little below what you've been running at so is that just a function of, Richard, what you were talking about where it is more tuck-ins, maybe less of the bigger guys out there? Any comments on that?

Richard Smith - *Realogy Holdings Corp - Chairman, CEO & President*

Nothing really enhances what I said previously. We'll continue to focus on tuck-in acquisitions were it makes sense. TRG has done a terrific job of acquiring very attractive companies. They are really working hard to ensure that the acquisitions that have occurred up to this point are synergized, fully operating within the guidelines that we've established for that type of acquisition and, they will be very selective as well. But there is no particular breakdown in that $75 million between the two business units.

Ryan McKeveny - *Zelman & Associates - Analyst*

Okay, thank you. Got it. Thanks.

Operator

Kevin McVeigh, Deutsche Bank.

Kevin McVeigh - *Deutsche Bank - Analyst*

Great, thank you. Hey, is there any way to think about on the higher-end as the shift in sentiment goes from sellers to buyers' kind of market? How quickly that price equilibrium should happen?

Richard Smith - *Realogy Holdings Corp - Chairman, CEO & President*

What -- it's very nuanced discussion and what's interesting and encouraging to us is that the buyers are there. But as Tony pointed out, it's a buyers' market. We know the sellers are there, given the inventory levels. There's just a disconnect between what the seller believes she needs and what the buyer believes he is willing to pay. We do see, when they come together, the transactions are occuring, so that's a good sign. The demand is there but there's much discussion about the price.

So, listen, over time, that will -- they will figure that out and there will be a coming together of the price-value proposition and we see that as an encouraging sign. We just don't know when it's actually going to break and become more robust.

Kevin McVeigh - *Deutsche Bank - Analyst*

Got it. And the market rally, has that spurred any demand as well?

Richard Smith - *Realogy Holdings Corp - Chairman, CEO & President*

It's hard to say. Certainly one would think that that's been helpful as certainly is not a negative; it should be, by any standard, a positive.

Tony Hull - *Realogy Holdings Corp - EVP, CFO & Treasurer*

Yes, it definitely helps confidence across the spectrum, so it's not a bad -- it's better than the alternative.

Will Randow - *Citigroup - Analyst*

Yes, for sure. Then just real quick on the buyback, the $300 million any way to think about the cadence on that over the course of 2017?

Tony Hull - *Realogy Holdings Corp - EVP, CFO & Treasurer*

We're at a cadence of $60 million to $65 million a quarter.

Kevin McVeigh - *Deutsche Bank - Analyst*

Thank you.

Operator

Brandon Dobell, William Blair.

Brandon Dobell - *William Blair - Analyst*

Thanks. Focusing on NRT, the recruitment and retention efforts, any noticeable, I guess, gap between maybe people that are returning to one of the brands that you guys run versus people that have never been a part of NRT? I guess I'm just trying to get a sense of how many people you are re-attracting versus recruiting greenfield?

Richard Smith - *Realogy Holdings Corp - Chairman, CEO & President*

It's a great question. The majority of the newly recruited agents through the NRT initiative are from independent brokers. They are literally from Richard Smith Realty somewhere. Second to that would be competing brands, certainly not from our own brands, just to be very straightforward. The bulk are coming from independent brokers; that's a good sign. Then the next level is from competing brands and rarely does NRT recruit from our own franchisees; it is extremely rare.

Brandon Dobell - *William Blair - Analyst*

Okay. Is there any, I guess, regional concentration or market type concentration where you are seeing more success or less success?

Richard Smith - *Realogy Holdings Corp - Chairman, CEO & President*

No, the NRT program is -- I won't call it ingenious, but it's very smart and we literally recruit individual agents we know. We know her production, we know how long she's been in the business. Our access to data is terrific, so we use that to our advantage and it generally is across-the-board in every market.

Brandon Dobell - *William Blair - Analyst*

Okay, and then just a quick one on Cartus. I know it's been a little bit of a tough run here the last couple, three quarters. How do you view the -- I guess the progress internally on getting that business to turn the corner? How should we think about the cadence of that for 2017?

Tony Hull - *Realogy Holdings Corp - EVP, CFO & Treasurer*

Well, Cartus earns about $100 million a year and is an incredibly integral to the rest of the Company in terms of feeding title business to TRG. It's about 100,000 leads it feeds to the family at RFG and NRT. So it's earning a lot of cash and EBITDA for us. At the same time it serving a very important purpose. I think on a strategic basis they've done a lot on the cost side. They've really done some reprocessing on costs that are going to be helpful over time. And I think they are starting to look at investments in technology that will make them a more compelling competitive choice in the industry. So I think that will play out over the next several years. So I think a lot of potential there but in the meantime, they are obviously serving a very critical purpose for the Company.

Richard Smith - *Realogy Holdings Corp - Chairman, CEO & President*

Yes, let me just add to Tony's comments. Cartus -- the Cartus lead generation -- these are highly qualified real estate transaction leads that are generated to both NRT, our Company operations, and our franchisees are extremely important to the franchise community, very important to NRT. Now that said, they have to be very good at relocation, which they are. The corporate clients are tending to move fewer and fewer employees; we don't know if that is bottomed yet, but at some point it well.

The affinity program that Cartus is developing is one we've had for a number of years. We're expanding it, that will increase the highly valued the generation back to our franchisees as well as our NRT operations. So as Tony points out, we consistently produce about $100 million in EBITDA so it's a good cash generator and it's in a very important generator of incremental business to our franchisees and NRT.

Brandon Dobell - *William Blair - Analyst*

Okay, and then final one for me. With the new Guaranteed Rate agreement, how do we -- I guess more from a presentation and accounting perspective, how is it going to look going forward relative to what you've presented historically with the PHH joint venture?

Tony Hull - *Realogy Holdings Corp - EVP, CFO & Treasurer*

Well, let me just emphasize one thing is from the wind down of the PHH JV and the reinvestment in the new JV, we expect to generate $30 million of net cash from that in 2017, so that's very helpful for us. We can deploy that capital, obviously, to repurchase shares, etc., so that's a great thing. I think right now it's a segment within -- it's part of NRT's earnings, just the JV part of it. It's in their earnings, so I don't -- that could change in the future but right now I don't see that changing.

I think 2017 is going to be a transition year. This transition is going to take -- pretty much it's going to be done region by region over the year and it's going to take a while to execute. But we are highly confident that when the dust settles, it's going to be a great partnership for the next 10 years or longer if we hit the milestones that are in our agreement. So we're really, really excited about being in business with Guaranteed Rate.

Brandon Dobell - *William Blair - Analyst*

Okay, great. Thank you.

Operator

Stephen Kim, Evercore ISI.

Stephen Kim - *Barclays Capital - Analyst*

Thanks very much, guys, and thanks for taking my questions. I guess my first question was related to your productivity -- your business optimization. I think you talked about $33 million realized in savings in 2016. I was curious as to how those savings broke down over the years? How much was in the fourth quarter, for example? And is there a way of telling us roughly what the benefit was in RFG versus NRT from those business optimization programs?

Tony Hull - *Realogy Holdings Corp - EVP, CFO & Treasurer*

Well, most of it is -- most of the entire savings is an NRT. That is sort of number one. Number two is Cartus, number, three is RFG and number four is TRG. And in the fourth quarter, I don't know specifically what the number was, but again we expect about half of the savings were embedded in the 2016 results, and another half will be in the 2017 results.

Stephen Kim - *Barclays Capital - Analyst*

Is it fair to say, though, it was probably a fair amount -- maybe half of it was in the fourth quarter? Would that be a crazy (multiple speakers) --?

Tony Hull - *Realogy Holdings Corp - EVP, CFO & Treasurer*

No, no, it was probably -- it wasn't -- it was probably more like 30% or something like that.

Stephen Kim - *Barclays Capital - Analyst*

30%? Okay, that's fine. It's still a good number. And the reason that I was particularly interested in that was because we noticed, obviously, that your splits picked up in the fourth quarter and yet it looked like the impact to adjusted EBITDA was insulated by the productivity you generated in the quarter and some of these savings which, obviously, was great to see. And so I was -- I'm thinking about your split range of 69.5% to 70% as you go forward. I'm curious as to how you are thinking about whether you see more potential to drive margin improvement or just greater profitability through cost-cutting? Or if the productivity opportunities you see are more skewed towards programs that are about leveraging volume.

So in other words, if it turns out that you have to pay higher splits to get the agents or to retain the agents or to achieve the volume growth you are targeting, is it looking like you're going to have to pay a higher split level then you really wanted to, are you more inclined to stay within your split range? Maybe have some lower revenue growth but implement a more aggressive cost program? Or alternatively would you see it as an investment you just have to make but it would quickly pay you back because you have all these productivity initiatives that are dependent on volume? Is that clear?

Tony Hull - *Realogy Holdings Corp - EVP, CFO & Treasurer*

We take -- well, we're always managing costs carefully so -- and I think the optimization programs -- there are still some things that we have on the docket for that. I think they will be less significant than what we did in 2016 going forward and I think where we're positioning the Company is much more of a sales focused organization where we want to up the number of agents and up the productivity of our agents and invest whatever it takes to do that. So that overall our profitability will improve because of revenue not because of cost savings in the future.

Stephen Kim - *Barclays Capital - Analyst*

Yes, that's exactly what I was thinking, particularly since you did such a great job cutting costs several years back. Okay, and then your royalty rate, you mentioned that you expect it to be stable going forward. You talked about the fact that it was driven this quarter by the fact you had a fair amount of large franchisees who obviously pay a lower rate, but we really didn't see that number move a lot in the last few quarters.

This was the first quarter that we saw particularly noticeable drop in that royalty rate and I was curious if you could just tell us, was there anything unusual that happened this quarter? Were any deferred payments or anything like that that drove that? And when you mean stable going forward did you mean the rate for the whole year that you averaged or did you mean what you are doing in the fourth quarter?

Tony Hull - *Realogy Holdings Corp - EVP, CFO & Treasurer*

It's really hard to look at it on a quarterly basis. In the fourth quarter, there was some outperformance by our larger franchisee so we had some catch up to do on -- because of the mix of business and so that was kind of a one-time event in the quarter. You've got to look at it -- you don't have to, but we look at it on an annual basis and make sure we're staying within the metrics we're comfortable with and that's how we manage the business.

It's not in the fourth quarter you are going to get some true-ups and that sort of thing and you can't really predict those. But we look at it for the year because it's -- that's how we manage through the -- manage that number.

Richard Smith - *Realogy Holdings Corp - Chairman, CEO & President*

Yes, I agree with Tony. It's not really -- the quarter is not a good predictive index for that net effect of royalty rate. It's better to look at it on the year.

Stephen Kim - *Barclays Capital - Analyst*

Yes, that makes sense. The last question for me is on the RFG Zap commentary. You said that the agents were closing more than the agents that were non-Zap or not using Zap. I was curious as to if you could give us a sense for -- as you've been rolling this out, did you see that the productivity improved with time? So the ones that were early adopters they showed greater improvements than ones that have been picking it up more recently?

Is it more productive in certain geographies? Are there certain types of brokerages where it works better than others as far as you can tell right now?

Richard Smith - *Realogy Holdings Corp - Chairman, CEO & President*

It improves with usage, so --.

Tony Hull - *Realogy Holdings Corp - EVP, CFO & Treasurer*

Yes, it's all about usage. And engagement.

Richard Smith - *Realogy Holdings Corp - Chairman, CEO & President*

It's synonymous -- engagement, it's engagement, engagement, engagement. So it's like any new productivity tool because that's what this is. With usage you get more proficient and more productive. So that's why we need more time to mature this to prove our thesis, but literally it's all about engagement.

Stephen Kim - *Barclays Capital - Analyst*

Got it. That's very helpful. Thanks very much, guys.

Operator

Mike Dahl, Barclays.

Anthony Trainor - *Credit Suisse - Analyst*

Hi, this is Anthony Trainor filling in for Mike this morning. Thanks for taking my question. So first, a couple of quick follow-up questions on the NRT agent commission splits. First, how does the incremental competition compare regionally or by price point?

Richard Smith - *Realogy Holdings Corp - Chairman, CEO & President*

You know, it just -- recruiting an agent is often very nuanced, it's very peculiar to the circumstances, to the geography, to the market. In New York City it could be the distance between one block and another. So our goal is not to go head-to-head with the competition. We don't believe the competition offers the value proposition we do. Our very strong and compelling value proposition is complemented by what we believe is a market sensitive rate discussion.

So we take it agent by agent, so the competition may or may not be able to compete against us based on our value proposition. We think in overwhelming instances they can't. If you are just throwing dollar at the agent relationship, that's not sustainable. We elected to do both, so we're going to offer compensation that we think is in keeping with our goals and we also believe that's in keeping with the agent's goals, but our value proposition is what's also most important.

Anthony Trainor - *Credit Suisse - Analyst*

Appreciate that. And then second on the commission splits, I was wondering if you could comment on if the incremental agent costs are also being felt by your franchisees as well? And to the extent if -- I mean the broader thing I'm trying to understand is was NRT trying to catch up to the market or is this a broader market issue and if competitors have been responding to your actions on the NRT side in recent quarters.

Richard Smith - *Realogy Holdings Corp - Chairman, CEO & President*

Well, NRT is reacting to the markets in which it operates. Our franchisees have a much broader perspective. They also have to deal with similar issues in the markets in which they operate. They have a great deal more flexibility. They can be far more nimble and reactive and we believe they follow a very similar format, a strong value proposition with a competitive split relationship with the agent.

Anthony Trainor - *Credit Suisse - Analyst*

Great, thanks. And then one last quick one. In the past I think you bucketed out what part of -- how much of your operating costs are going to be impacted by inflation. Do you have that figure for 2016 and how should we be thinking about the inflation here in 2017?

Tony Hull - *Realogy Holdings Corp - EVP, CFO & Treasurer*

Well a good chunk of the inflationary cost pressures were offset by our cost improvements in 2016 and we expect that to occur in 2017, maybe to a little lesser degree because it's more of the tail end of some of these savings but we're looking at others that we're going to initiate. But overall we've mitigated a lot of the inflation in 2016 and we are going to keep looking for mitigation in the future.

Anthony Trainor - *Credit Suisse - Analyst*

Great, thanks.

Operator

And there are no further questions in the queue.

Alicia Swift - *Realogy Holdings Corp - SVP, IR*

Thank you for joining us on the call today. We look forward to talking with you over the quarter.

Richard Smith - *Realogy Holdings Corp - Chairman, CEO & President*

Thank you, everybody. Bye-bye.

Operator

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