

07-May-2024

The Real Brokerage, Inc. (REAX.CA)

Q1 2024 Earnings Call



MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen, and welcome to The Real Brokerage First Quarter 2024 Earnings Call. At this time, all participants have been placed on a listen-only mode, and we will open the floor for your questions and comments after the presentation.

I will now turn the call over to Ravi Jani, Vice President of Investor Relations and Financial Planning & Analysis at The Real Brokerage. Sir, the floor is yours.

Unverified Participant

Thanks and good morning. Thank you for standing by, and welcome to The Real Brokerage conference call and webcast for the first quarter ended March 31, 2024. We appreciate everyone for joining us today. With me on the call today are Tamir Poleg, our Chairman and Chief Executive Officer; Sharran Srivatsaa, President; and Michelle Ressler, our Chief Financial Officer. This morning, Real published an earnings press release, including our results for the first quarter ended March 31, 2024. The press release, along with the unaudited consolidated financial statements and related management's discussion and analysis for the quarter, have been filed with the US Securities and Exchange Commission on EDGAR and with the Canadian Securities Regulators on SEDAR.

Before we get started, I'd like to remind everyone that statements made in this conference call that are not historical facts, including statements about future time periods, may be deemed to constitute forward-looking statements. Our actual results may differ materially from these forward-looking statements, and the risk factors that could cause these differences are detailed in our Canadian continuous disclosure documents and SEC reports. Real disclaims any intent or obligation to update these forward-looking statements. except as expressly required by law.

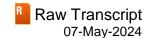
With that, I'd like to turn the call over to our Chairman and Chief Executive Officer, Tamir Poleg. Tamir, please proceed.

Unverified Participant

Good morning and thank you, Ravi. I will start with an overview of our strategy and some recent business highlights. Sharran will provide an update on actions we are taking to drive agent growth and improve agent experience, and Michelle will provide a more in-depth discussion of our financial results this quarter. I'll then provide a few closing remarks before opening up the call for Q&A.

To begin, Real is a real estate technology company that is differentiated in our industry. Unlike traditional real estate brokerage firms, we provide real estate agents with an unmatched combination of financial incentives, a proprietary software-based technology platform which eliminate the need for physical office space, and a collaborative culture that we believe is unique in our industry. Our vision is to simplify life's most complex transaction, that is, a purchase or sale of a home by providing agents with the tools, technology, and resources they need to grow both their businesses and as individuals, all while delivering a seamless experience for home buyers and sellers.

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In the short term, this vision includes the rollout of our One Real consumer-facing mobile app, which streamlines the client experience and enhances attachment of our higher margin ancillary services. In the long term, we expect our platform to encompass a holistic ecosystem of financial technology products, payments, and investment planning tools, providing agents with an avenue to build generational wealth. Ultimately, as the platform matures, we believe home buyers and sellers could also benefit from the breadth of services offering.

Our goal is to redefine the role of a real estate brokerage in the lives of our agents and in the broader housing industry. Importantly, just like our institutional investors, many of our agents are also shareholders in our company, and that is why everything we do is with the intent to grow long-term shareholder value.

Turning to the quarter, this morning, Real reported record first quarter results with revenue in the first quarter of 2024 increasing by 86% versus the prior year to \$201 million, driven by a 74% increase in the number of transactions closed combined with a 7% increase in average revenue per transaction. This compares favorably to the 3% decline in overall industry transactions during the quarter.

Gross profit in the first quarter of 2024 was a record \$20.8 million and contributed to adjusted EBITDA of \$3.6 million, also a quarterly record, and a significant improvement from negative \$0.8 million of adjusted EBITDA in the first quarter of 2023. This marks our fourth straight quarter of positive adjusted EBITDA and is particularly encouraging given the first quarter is traditionally the lowest of the year for the industry.

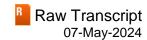
We ended the first quarter with 16,680 agents, up 67% versus the prior year, and an increase of over 3,000 agents from the end of 2023. As Sharran will discuss, the acceleration in growth this year has been driven in part by our recently launched Private Label and ProTeams Initiative, which make it easier than ever for high-performing teams and independent brokerages to align with Real.

In addition to our impressive brokerage results, our ancillary mortgage and title business lines grew by a combined 104% versus the prior year. Notably, our mortgage business alone expanded by over 400% year-over-year, all organic. These ancillary businesses typically command gross margins that are 6 to 8 times higher than our average brokerage gross margin, and we are pleased that the growth initiatives we have implemented are becoming more apparent in our results. Importantly, based on the strength we are seeing in both business lines, we continue to expect overall ancillary revenue growth to significantly outpace growth in our core brokerage business in 2024.

With respect to broader industry backdrop, obviously, the interest rate environment remains volatile, and the timing of potential Fed rate cuts continues to be delayed. However, at Real, we are charging full steam ahead. Our results this quarter, and indeed over the past three years, demonstrate our ability to grow rapidly irrespective of the broader macro environment, thanks to our differentiated business model and unique agent value proposition. As we enter the peak selling season, we remain enthusiastic about the outlook for the balance of the year based on the strong momentum we are seeing in our open transaction pipeline, which is currently at an all-time high and up over 75% versus the prior year.

On the products front, we continue to make upgrades to our One Real consumer-facing app, including a completely redesigned client interface, and we expect further enhancement to be rolled out in the coming quarters. Regarding the Real wallet, although we remain on track for our initial product launch in 2024, we expect a delay in our launch as we establish the necessary regulatory and compliance protocols required for such a novel product with our primary banking partner. We still look forward to rolling out the wallet to our agents base this year as soon as we and our partner finalize the crucial work.

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With that, I'll turn it over to Sharran for an update on our growth initiatives.

Unverified Participant

Thank you, Tamir. Today, I'm excited to try something a little different and share our agent growth update in a simple top five format. So, let's dive in. Number one, how did we do on agent growth? As Tamir mentioned, we ended the first quarter with a record 16,680 agents, an increase of 3,000 agents since the start of the year. I'm thrilled to report that this momentum has continued so far in the second quarter, and as of today, Real now supports 18,000 agents across US and Canada.

So, number two, so the big question is why? Why are so many agents joining Real? I spend a lot of my time speaking with our agents, and from my conversations, their reasons for joining typically fall in the following buckets. Number one, culture. They ask the question, where can I go that there are no physical- or cloud-based silos that offers a true sense of belonging and a focus on excelling in real estate sales? Number two, the economic model. Where can I plug into an economically efficient model that boosts my earnings potential, creates wealth, and builds a secure financial future for my family? Number three, the platform. Where can I receive the technology, the tools and training to power my business that I can immediately plug and play without having a huge learning curve? In essence, how can I run my business from an easy-to-use software application? And number four, this is a concept I like to call time on brand. Tamir and I are fortunate to be personally connected to over 75% of the agents in North America, either through our social media platforms, our e-mail distribution list, and through various industry events and associations.

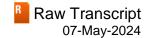
This network has been built over the last 15 years with some of the most successful agents, teams, and brokerages in the country. These relationships put us in a unique position and often on the receiving end of calls and messages when agents are considering a move or even just looking for help, guidance, or mentoring. This is a privilege and responsibility that we hold in high regard. It also gives Real a distinct competitive advantage, especially given the current dynamics in the housing market.

Number three, what about Private Label and Pro Teams offerings you announced in January? So, let me recap these initiatives for you. Private label allows independent brokerages to keep the brands that they have built and still partner with Real. This is a no-brainer solution for independent brokerages who have built great brands over the years and don't have to lose them when they join Real.

ProTeams is a special software solution that allows brokerages and teams joining Real to port over their unique commission and agent compensation model seamlessly. Whereas Private Label allows brokerages to keep their brands, ProTeams allows teams or groups of agents to integrate their individual team economics onto Real's platform.

It's easy to think that everyone can do this, but in fact, it's really hard. We know this because in 2023, we piloted five private label groups and realized that it was incredibly challenging because each had its own unique team structure and economic model. That is why we spent an entire year building the ProTeams software that allows for the integration and portability of these business models without affecting agents. While some companies may think that they can just offer a white label solution for brokerages, there are actually a lot of complexities. In essence, what I'm trying to say is that without ProTeams, Private Label is like an uncooked steak. It has potential, but it still needs further expertise and finesse to make it truly sizzle.

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Number four. So you must be wondering, is it working and what is the impact? Well, in this launch quarter alone, over 200 agents joined Real under the Private Label program, and we expect this number to more than double in the second quarter as more brokerages seek to capitalize on the tools, support, and opportunities that Real provides. Now, we didn't have any visibility into what the NAR settlement would mean for the industry when we were designing Private Label. But what we have found is that numerous independent brokerages are concerned about a potential liability and regulatory impact ahead. And many have approached us to explore conversations about coming onboard. These are independent brokerages like Modern Broker with over 200 agents in California or Village Premier collection with over 400 agents across three states, who would have never considered Real before Private Label and ProTeams. Consequently, our pipeline of 100-agent-plus teams considering making the leap to Real is at an all-time high, and we have high expectations for Private Label, along with our ProTeams infrastructure, to be a differentiating factor in converting this pipeline.

Number five. That brings me to how does the NAR settlement affect Real's outlook for agent growth and retention? The NAR settlement requires some mechanical changes to the industry practices, which are entirely driven by training. And when it comes to our agents, we are a training-first company. That means, we believe that a skilled agent will outperform an unskilled agent 10 to 1. So, for over a year now, we've been training our agents on our proprietary buyer mastery program, equipping them with the skills, tools, and materials they need to help serve clients in the post-NAR settlement world.

In fact, later today, I'm going to be hosting a special Buyer Mastery Live Virtual Workshop, where I'm going to compress a two-day seminar into four hours. We expect to have thousands of agents on the training and have opened up this training as a gift to the entire industry for free. Not only am I going to be personally teaching the playbook for how to serve buyers in the shifting market, but we will also give our agents a sneak peek at a new product-based solution that we're launching for agents and their clients. So if you have 4 hours to spare this afternoon, we'd love to have you join us.

With that, I'd like to personally thank our onboarding and operations teams who have worked tirelessly to manage the influx of new agents who have joined us this year, and our transactions teams who are setting records in processing and selling transactions at a pace that is unparalleled in this industry, aided by our leading technology platform. The pipeline is robust, and we expect to welcome many more agents, brokerages, and mega teams in the quarters ahead.

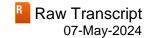
With that, I'll turn the call over to Michelle.

Unverified Participant

Thank you, Sharran, and thank you, everyone, for joining us. Revenue in the first quarter of 2024 rose to \$201 million, an increase of 86% versus the first quarter of 2023. This was primarily driven by an 86% increase in brokerage revenue, which saw a 74% increase in the number of transactions closed, which topped 19,000 in the quarter, and a 7% increase in average revenue per transaction. Revenue from our ancillary businesses totaled \$1.5 million during the first quarter of 2024, an increase of 104% versus the first quarter of 2023, driven by 427% growth in our One Real Mortgage business and 33% growth in one Real Title revenue.

Gross profit for the first quarter of 2024 was \$20.8 million, an increase of 92% from \$10.8 million in the first quarter of 2023 and reached a new quarterly record. Gross margin of 10.3% in the first quarter of 2024 represents a 30

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basis point year-over-year improvement from the prior year. The increase is attributed to both strategic actions taken to increase margins, combined with a higher contribution from our ancillary business lines.

As a reminder, our cost of goods sold include stock-based compensation tied to our agent stock purchase program, where agents can opt to receive part of their commissions in real equity subject to certain vesting requirements. This amount totaled \$5.2 million in the quarter and is excluded from our adjusted EBITDA calculation in the stock-based compensation line. Additionally, there's always quarterly seasonality in our gross margin percentage rate influenced by the proportion of revenue generated by agents who have reached their annual commission cap. Typically, fewer agents reach this cap during the first quarter with the number increasing during the second and third quarters of the year. With that said, we remain acutely focused on driving year-over-year gross margin improvement on an annual basis, particularly as our ancillary business lines continue to scale.

Total operating expenses, which include general and administrative, marketing, R&D, and litigation-related expenses, was \$36.5 million or 18.2% of revenue in the first quarter of 2024, compared to \$17.8 million or 16.5% of revenue during the first quarter of 2023. Operating expenses this quarter include \$9.9 million of litigation expenses incurred in connection with our recently announced class action settlement. Excluding these litigation expenses, total operating expense as a percentage of revenue would have improved by over 300 basis points from the prior year first quarter, demonstrating the operating leverage inherent in our platform.

Revenue share expense, which is included in marketing expense, was \$9.1 million in the first quarter of 2024, an increase from \$5.4 million in the first quarter of 2023. As a percentage of revenue, revenue share declined to 4.5% in the first quarter of 2024 and 5% in the first quarter of 2023, in part due to revenue share model changes we announced in the second half of last year. Note that revenue share expense is entirely variable and reflects the portion of Real's commission split that is paid to agents who recruit new agents to the brokerage.

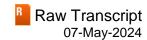
Adjusted operating expense, which reflects total operating expenses less revenue share, stock-based compensation, depreciation, and other unique or noncash items totaled \$13.6 million in the first quarter of 2024, or 6.8% of revenue, a roughly 200 basis point improvement from 8.8% in the prior year. Adjusted operating expense is a non-IFRS metric that is intended to help investors understand the makeup of our non variable ongoing fixed cash operating expenses.

Real's net loss was \$16.1 million in the first quarter of 2024, including \$9.9 million of litigation expenses compared to a net loss of \$7.4 million in the first quarter of 2023. Adjusted EBITDA improved to \$3.6 million in the first quarter of 2024, a significant improvement from negative \$800,000 in the first quarter of 2023. The increase was driven by our strong revenue and gross profit growth, which outpaced growth in our cash operating expenses.

Turning to our balance sheet and cash flow, we ended the quarter with unrestricted cash and investments of approximately \$34.5 million, an increase of \$5.6 million from the end of 2023. Free cash flow from operating activities was \$21.5 million in the first quarter of 2024 compared to \$9.3 million in the first quarter of 2023. During the quarter, we allocated \$4.6 million to share repurchases. We remain well capitalized with ample liquidity to fund our continued growth while continuing to return capital to shareholders. As always, we will continue to diligently manage costs and allocate capital effectively, along with a focus on long-term shareholder value creation.

To close, I'll recap a few KPIs we are commonly asked about. The total value of homes transacted over our platform increased to \$7.5 billion in the first quarter of 2024, an 88% year-over-year increase. The median sale price of properties sold by our agents was \$372,000 in the first quarter of 2024, which represents a 6% year-over-

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year increase. Adjusted operating expense per transaction was \$715 and declined 18% year-over-year from \$870, a testament to the efficiencies enabled by our technology platform.

As of the end of the first quarter of 2024, 7.7% of agents had exceeded their annual commission cap, down slightly from 8.2% during the first quarter of 2023. This cohort represented approximately 40% of commission revenue during the quarter. Canada accounted for 13% of commission revenue in the first quarter of 2024 compared to 11% in the first quarter of 2023. Our head count efficiency ratio, which we define as full-time employees, excluding One Real Title and One Real Mortgage employees, divided by the number of agents on our platform reached a record of 1 to 143 at the end of the first quarter, a significant improvement from 1 to 114 at the end of the first quarter of 2023, and demonstrates our ability to add new agents to the platform without adding significant new full-time head count.

With that said, given the significant growth in agent count, which has well exceeded our expectations, we are making select strategic hires for onboarding and agent experience teams to ensure all Real agents receive the necessary training and support they require to be their most productive. Lastly, while we are not providing formal guidance, we continue to expect to deliver significant year-over-year improvements in revenue, gross profit, and adjusted EBITDA in 2024.

This concludes my financial remarks. More details on our results and key operating metrics can be found in the earnings press release and investor presentation that accompany this call. I will now turn it back to Tamir.

Unverified Participant

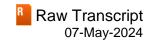
Thank you, Michelle. In April, we entered into a settlement agreement to resolve a pending class action litigation lawsuit agreeing to pay \$9.25 million. We believe this decision was in the best interest of our company and our shareholders, allowing us to focus our time and resources on building the future. While the impending practice changes resulting from the NAR settlement have sparked much speculation about their impact on the brokerage industry, I want to reassure everyone that we view these developments not as challenges, but instead as an opportunity for Real to emerge even stronger.

We believe this for several reasons. First and foremost, we firmly believe in the valuable role real estate agents play in the home buying and selling process, which often represents the biggest and most complex transaction in our clients' lives. We know agents will continue to play a significant role on both sides of a real estate transaction, and if less productive agents were to leave the industry, this would leave more transactions available for high-producing agents like the ones affiliated with Real.

Second, Real offers best-in-class agent economics. By our math, in 2023, we paid out the highest percentage of revenue in commission splits in revenue share than any of our direct public peers. Given that agents are economically motivated business owners, those concerned about future commission rates would find that affiliating with any brokerage other than Real could mean missing out on significant earnings. As such, we anticipate the trend of agents migrating from traditional high-cost brokerages to more efficient, high-value models like ours will likely accelerate in the years ahead. We're already seeing this thesis play out in our robust agent growth numbers.

Third, our proprietary technology will continue to be a driver of competitive advantage. On the agent-facing side, our recent software allows us to scale rapidly and efficiently by automating the vast majority of traditional transaction management processes. This provides us with a significant cost advantage over traditional

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brokerages who predominantly rely on physical office space and human intensive operations, and who would need to invest significant time and resources in order to catch up with our technology.

Meanwhile, on the consumer front, we have been investing in technology to enhance the client experience for years. Our One Real app was built on the principle that clients deserve a seamless, modern digital experience that streamlines the transaction process and enriches the client journey. As we complete our user interface overhaul in the coming months, we will be introducing additional digital innovations such as automating the process of executing by a broker agency agreement. Moreover, in scenarios where clients are concerned about the potential of out-of-pocket cost of retaining a buy-side agent, our One Real Mortgage company is already working on programs with its lending partners that could significantly decrease the closing costs of those homebuyers who opt to use One Real Mortgage. This not only provides tangible value to clients, but also drive increased attachment of this high-margin business line.

Lastly, we anticipate the disruptions within traditional brokerages will drive greater consolidation across the industry. Real is ideally positioned to be a share consolidator, either organically or via strategic M&A, rather than being consolidated. We have seen an increasing number of inbound inquiries from traditional brokerages looking to secure their future by aligning with innovative players like Real. As always, we will be extremely disciplined in evaluating such opportunities, applying a high hurdle rate in our buy-versus-build decisions.

In conclusion, I'm extremely pleased with our results this quarter and look forward to navigating the changes ahead from a position of strength. Thank you to our agents, employees, and industry partners who continue to propel us forward on our journey.

Now, let's move to the Q&A session.

QUESTION AND ANSWER SECTION

Operator : Certainly. Everyone, at this time, we'll be conducting a question-and-answer so [Operator Instructions] Your first question is coming from Darren Aftahi from ROTH MKM.	•
	Q
Yeah. Great. Thanks. Can you hear me?	
	A
Yes.	
	Q

Great. Good morning. Nice job on the results. I have a question regarding kind of the impact on the – from the NAR settlement Sharran touched a little bit on. Just – I'm trying to kind of handicap the impact on perspective pipeline of new agents and teams, like, how big of an opportunity really is this. I appreciate it's very early in the cause-and-effects cycle, but just trying to understand what this means in terms of your conversations. You've touched a little bit on it, but just love to give a little bit more color.

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Sharran, you want to take this one?

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Yeah, Absolutely. Hi, Darren. Thank you so much for that. So, at a very high level, several of the brokerages that are seeing the headwinds are – have this inbound conversations with us on the future regulatory impact of what's happening. This is early for one main reason, Darren, because of two things. One, the exact implementation of what is happening with the NAR settlement is – has not been fully baked out. The NAR has given us until August 17 to have all these baked out. So I think over the next quarter, we'll have a lot more visibility into where these independent brokerages and inbound inquiries are happening, but they're all happening for one major reason, which is this Private Label and ProTeams offering, so all the independents that have built something feel like they can have a better home.

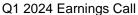
So, on one end, they're trying to figure out what is happening in the landscape. On the other end, we are the – we feel like we are the destination for at least the early conversations. So, looking forward to kind of sharing more with you as this bakes in over the next quarter.

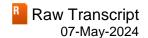
Great. Thank you for that. Just one more, if I could. It looks like revenue churn was, I think, one of the lowest levels it's been in the last nine quarters. Obviously, you guys had a material amount of agents join and there's expected to be agent churn. But I'm just kind of curious, it seems like the highest producing teams and agents are sticking around and for a longer time [indiscernible]. Maybe get a sense for, one, on the KPI; and then, two, if you could talk about some of the more productive teams that have been on your platform for a longer time. Just trying to understand some of those cohorts with longer vintages what they kind of look like and what your projection is for that going forward. Thanks.

А

Sure. So, yeah, revenue churn was 1.9% for the quarter, which is extremely low. I think it's the lowest rate that we've seen in years. And what we typically see is that teams rarely leave Real. It's extremely rare for a team to leave. What we are seeing is that individual agents sometimes leave the platform. We are very pleased with the 1.9%. Historically, it's been a little bit higher than that. We also expect that number to fluctuate in the future. But overall, we're doing a good job at retaining our productive agents, retaining our most productive teams, and I think that this is a testament to the fact that the platform that we have built and all the embedded economics into the model really work well in the case of large teams.

Bear in mind the fact that also, A, there are not enough compelling alternatives out there, especially for high-performing teams; and second, typically, teams takes a while to change brokerages. So, the ones that are here and enjoy all of the benefits in the platform would need a really compelling opportunity outside in order to make a switch, and that opportunity currently does not exist. So, we do a good job at retention.



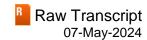


Great. Thank you. Congrats again. Thank you. **Operator:** Thank you. Your next question is coming from Stephen Sheldon from William Blair. Your line is live. Hey. Good morning, and really nice results here. Starting with Tamir, how confident are you about the value proposition of the Real wallet to your agent pay today? I think you had started testing, it sounds like – with at least a few agents back in March. It sounds like you're pushing out a full launch, some to ensure you're squared away on the regulatory side. But has your thinking changed at all about how impactful this could be to agent recruiting and retention, along with being another source of monetization gross profit? How are you thinking about it? Hi, Stephen. As I've mentioned earlier, we have somewhat of a delay with launching and testing of the wallet due to some delays on our banking partner side. We do expect to start testing maybe even at the end of this quarter, if not the beginning of the next one. Our view has not changed, maybe even reinforced. So, we had more conversations with agents, more conversations with teams. A lot of the teams that are now in the pipeline or the ones that have joined recently are extremely excited about the wallet. So we are even more bullish than before. I think that we're just scratching the surface of the possibilities that we can build around the wallet. But, again, we haven't started testing it yet. It's all kind of in theory. But we do see the wallet as a huge attraction point, both for individual agents and teams, and an attraction point for teams to attract agent to their own team. So everybody is looking forward to receiving that product and starting to use it, and it will take a couple more months. Got it. That's helpful. And maybe for Sharran, great to hear about the pipeline of large hundred-plus teams looking to join Real. Any context on how large that pipeline is and what it could take to get some of those teams to switch over? And just generally, as we think about agent trend, how is the team thinking about agent additions over the rest of the year given the momentum you're seeing and where pipeline is currently set?

Yeah. Thank you, Stephen. These – the pipeline varies, and as Tamir was sharing, just as the fact you have teams at Real and the process of moving a team takes a minute, it's the same for inbound operations, especially if they are independent brokerages or teams. So the opportunities is very varied, and it is probably the highest

inbound that we have seen in kind of the last two years, especially given this offering.

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Now, what I will say is that a big part of this offering is driven by by the two things: one on the one side of Private Label, which is they can keep their brands, but most importantly is this idea getting the ProTeams, which is teams that have – brokers and teams that have their existing models, they can integrate them onto Real. So we don't – I don't have exactly the conversion metric of what's happening in the pipeline, but there's two sets of folks; one where we've had a lot of conversations and who are extremely serious about the move, but we're just figuring out their timeline on this move. So I think, as Tamir and I mentioned, the Private Label and ProTeams offerings are still super early, and by the time these teams come onboard, learn the offerings, figure out what's the right fit for them, it takes a good quarter or two for it to kind of bake in, so that's where we are in this entire process.

A

Hey, Stephen. Also just want to mention, you know, as you're probably aware, there's seasonality, so typically, Q4 and Q1 or like the end of Q4 and Q1 are the highest, you know, movement quarters. And then when the busy selling season starts, the, you know, the agent movement sort of slow down a bit.

Good. Got it. Makes sense. Thank you very much.

Operator: Thank you. [Operator Instructions] Your next question is coming from Matthew Erdner from JonesTrading. Your line is live.

Hey. Good morning, guys. Thanks for taking the question. Following up a little bit on the ProTeams and just the pipeline, you know, and I know a lot of teams vary, but what is your average timeline, you know, from inquiry to onboarding, you know, how long, I guess, does it take for some of these teams to switch over and fully get onboarded?

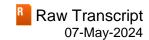
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I'll take that. So, great question, Matthew. It can be as fast or as slow as the teams want. So, the only delay that we see when these teams move over is the Private Label offering, which is, if we have to do the regulatory things necessary in that state for them to keep their brand, that is what takes time. However, when a team wants to move over to Real, it's probably from the time that they have made a decision, it's almost always on their end, because we can – if we wanted a team to turn on today with, say, 100-plus agents, we could turn on 100-plus agents in 24 hours if we wanted to.

So, most of the time, it's on the team's side of getting it right, and it's a good thing because what the team does is they plan, they communicate well so that the transition works well. So, I'd say from the time generally when a team says yes and they're ready to go to the time they're actually onboarded, it's probably a two-week period for them, a one-day period for us. So, that's the – that's kind of the timeline, generally speaking. But most teams, from the time they start a conversation till the time they're onboarded, you're probably – depending on the size of the team, you're talking somewhere between a 45- and 90-day period.

	S.
Got you. Yeah. That's helpful. And then, you know, as you guys bring on additional teams, does that put you gat risk for a further settlement charge?	uys
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No. No. You mean are you related to the NAR settlement?	
Yeah. The NAR.	
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No. Tamir, you could	
	Q
Yeah.	
	Α
Tamir, you could take that one.	
	Д
Yeah. No, the — it does not. Whatever they did at their prior brokerage has to do with their prior brokerage. As whether their prior brokerage has reached a settlement or not, that will determine whether they're covered or not they join Real, obviously, from that moment on, they're covered under our settlement. And, obviously, the NA settlement also covered all agents individually regardless of their brokerage affiliation. So there's no risk in add more agents over or more teams.	ot. AR
	Q
Okay. Got you. And then turning to the mortgage business, do you guys know what percentage of the transactions you guys capture or, you know, I guess get through into your mortgage business? And then, you know, as you – as that capture rate grows, is there going to be a head count lift that needs to happen there?	
	Λ

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Yeah. So, we are extremely pleased with the progress on One Real Mortgage. As I mentioned, it grew over 400% year-over-year, still small numbers, but we do anticipate that they will make a meaningful contribution to our gross profit this year. And obviously, next year. In terms of attach rates, they're still below 2% in the states that they're operating in, but the numbers are growing very impressively. And, obviously, as we scale those businesses, we will need to invest more in hiring, but at the end of the day, we are looking to scale both One Real Mortgage and One Real Title very responsibly. So, we want both those companies to breakeven very, very soon and turning to profit later this year.

I'll jump on. Congrats on the growth.

А

Thank you.

Operator: Thank you. There are no further questions from analysts in the queue.

Д

Great. Now that we've concluded the analyst portion of the call, we will address some of the questions we received from shareholders on the Safe Technologies' Q&A portal that was opened last week. We received a number of excellent questions, and so, thank you to all who participated. First question. While attracting new agents is certainly important, what priority and efforts do you allocate towards retaining agents who are already onboard? Sharran, do you want to take that one?

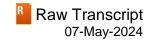
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Yeah. Sure. Thank you, Ravi. So, I will say the – we should probably change our broader thinking around, you know, recruiting and retention to attraction and connection because those words are important, but agent connection is obviously very important for us as an organization and for me personally. And that's why we continuously are innovating to ensure our agents feel supported and valued, and they have essentially the tools and resources that they need to succeed in the real estate business, because connection is all about rapport and results. When we have great relationship and they get good results, they stay with us longer.

Through the investments we've made in reZEN, which is technology platform Leo, which is our Al platform, a numerous agent education and specialized training programs like the Buyer Mastery Seminar that we're doing today, platforms like REALx where we're doing the virtual summit, and our in-person events, which we've done just over the last four months, you know, hundreds of them, it's — we're focused on building and strengthening and uplifting our agent community and providing all of our agents with the tools that they need to thrive in this current market. So, we're really focused on both kind of attraction and the connection piece.

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Great. We had several questions about our Title business all grouped together, that includes whether Sharran and Pritesh Damani, our CTO, could do a podcast about our title strategy. So, Tamir, do you want to just spend a moment discussing our Title business, the growth strategy, how the JV structures work, and also the potential cost-savings opportunity from automating a title – title services?

A

Sure. So, Title is a really exciting story as we're just in the early innings of what we call Title 2.0 growth strategy. What it means is that we are inviting some of our most productive teams. Think about those teams that are closing 300 transactions per year or more to form titles joint ventures with us in the states that – where one retailer operates. So, in each JV, one Real Title will hold a majority stake and provide the infrastructure, regulatory compliance and employees required to manage the title transaction flow while allowing our most productive agents to benefit from JV distributions as minority owners once the venture begins generating positive income.

As a result, we have numerous JVs across the country, and each has a different level of earnings and distributions tied to that specific JV's income stream. As it relates to automation, we have to keep in mind the fact that Title is already a high-margin business with over 80%-plus gross margins. So, cost-savings opportunity is likely in the range of a couple of hundreds of dollars per transaction, which is meaningful to the bottom line, but still represents – I mean, it's a meaningful opportunity on a per transaction basis, especially when we're talking about large scales. And as I said previously, I think that both One Real Mortgage and One Real Title will provide meaningful contribution to our gross margin and our bottom line later this year and obviously in 2025.

A

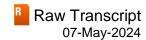
Great. Similar question on the Mortgage business, Michelle, could you just talk about the impact of the expansion of One Real Mortgage and what it could mean for a bottom line?

А

Sure. So, One Real Mortgage is currently operating in 20 states. Our strategy hasn't really – is not really focused on going nationwide, but it's focused on going deeper into the states where we already operate. So, Tamir, who's the CEO of One Real Mortgage, and the team are having tremendous success, as you can tell, by the 400% growth this quarter. And that's really driven by bringing on more productive loan officers and getting in front of more and more of our real agents to show how One Real Mortgage can add value to the client transaction experience. Similar to our Title business, gross margins for Mortgage are significantly higher than our company average, today, they're around 50%. And, obviously, as we close more mortgage transactions, that results in more profits to our bottom line.

A

Great. Next question for Sharran. With the customizable nature of the Private Label and ProTeams offerings, have you identified any attractive alternative compensation structures within the Private Label and/or ProTeams sandbox?



A

It's definitely interesting to see these different permutations of team dynamics and economics work their way to our Private Label and ProTeams offerings. It's truly like an entrepreneur-centric approach because we see a lot of these offerings out there. But to be honest, we've been doing this for a long term, and so far, there's nothing that we've seen that we haven't seen before just how to integrate it. But we will, of course, keep looking. And if we identify ways to improve our model that benefits our agents, we will certainly explore them. But for now, we're just happy with the trends – with the traction of both Private Label and ProTeams, and we are still in the early days.

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Great. We had one question about Real wallet that Tamir addressed in his answer to Stephen Sheldon, so we'll just go to the last question for Tamir. What are our plans to attract more institutional investors?

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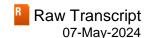
Well, Michelle and our IR team and myself spend a lot of time with investors. And the reality is that the key to attracting more of them is by doing exactly what we did this quarter, delivering exceptional results, significantly growing our top line and bottom line while still investing in our agents, employees, and technology platform. So, I think that as long as we continue executing our strategy to build an innovative and resilient company that sustainably compounds earnings and cash flow per share, then we will create substantial long-term value for our shareholders. And so, that's what we're focusing on at the moment. This is what we've been focusing on for years, and that's what we'll continue doing day-after-day, quarter-after-quarter.

Unverified Participant

Great. I think that's a great way to wrap it up. If you have any additional questions on today's earnings release, please feel free to contact me directly. Matthew, would you please give the conference call replay instructions once again? Thank you.

Operator: Certainly. Today's conference will be available for replay. The replay phone number is 877-481-4010. The replay code is 50322. Once again, the replay phone number is 877-481-4010, and the replay code is 50322. You may disconnect your phone lines at this time, and have a wonderful day. Thank you for your participation.

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