Transcript of
The Real Brokerage, Inc.
The Real Brokerage Third Quarter 2023 Earnings Call
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Participants

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Darren Aftahi - Roth Capital Partners
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David Marsh - Singular Research

Presentation

Operator

Good morning, ladies and gentlemen, and welcome to The Real Brokerage Third Quarter 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, Financial Planning and Analysis at The Real Brokerage. Sir, the floor is yours.

Ravi Jani - Vice President, Investor Relations and Financial Planning & Analysis, The Real Brokerage, Inc.

Thanks, and good morning. Thank you for standing by, and welcome to the Real Brokerage conference call and webcast for the third quarter ended September 30th, 2023. We appreciate everyone 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 filed its financial statements and management discussion and analysis for the third quarter. These documents, along with the accompanying earnings press release can be found on both SEDAR and EDGAR. 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.

Tamir Poleg - CEO & Co-founder, The Real Brokerage, Inc.

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 our brokerage operations and actions we are taking to drive further agent growth and retention and Michelle will provide a more in-depth discussion on our financial results in the quarter. I'll then provide a few closing remarks before opening up the call for Q&A.

So to begin, Real is a real estate experience company that is differentiated in our industry. Unlike traditional brokerage models, we provide real estate agents with an unmatched combination of attractive financial incentives a proprietary software-based technology platform that eliminates the need for expensive 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 a 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 clients.

In the short term, this includes the rollout of our consumer-facing mobile app, which will streamline the client experience and ultimately improve attachment of our higher-margin ancillary services. In the long term, we expect our platform to provide holistic ecosystem encompassing financial services, payments and investment planning tools, providing agents with an avenue to build generational wealth.

Ultimately, as the platform matures, we believe clients and consumers could benefit from the depth of our service offering. Our goal is to redefine the role of the real estate brokerage in the lives of our agents and in the broader housing industry. Just like our institutional investors, agents are owners of our business, 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 third quarter results with revenue in the third quarter of 2023 increasing 92% versus the prior year to $215 million, driven by an 82% increase in the number of transactions closed, which topped 20,000 in the quarter and a 5% increase in average commission revenue per transaction.

We ended the quarter with a record 12,175 agents, an 81% increase versus the prior year and a 6% sequential increase from the end of the second quarter. Adjusted EBITDA in the third quarter was positive $3.5 million, a $3 million improvement from the third quarter of 2022 and our second consecutive quarter of positive adjusted EBITDA. The improvement reflects our robust revenue and gross profit growth, which outpaced growth in operating expenses and demonstrate the scalability of our platform, combined with the benefits of actions taken earlier this year to improve margins and optimize discretionary spend.

Based on the strength of our performance year-to-date, we expect that we will be adjusted EBITDA profitable for the full-year 2023. While our performance this quarter would be phenomenal in any market environment, it is particularly notable given the current housing backdrop in which 30-year mortgage rates are at a multi-decade high, and existing home sales are down mid-teens versus last year and nearly minus 35% from two years ago.

As such, our results this quarter are a testament to the strength of our business model, our unique agent value proposition, the advanced capabilities of our technology platform and the culture we've built over the past decade all of which have enabled us to thrive during this challenging time for the industry. Perhaps no word was this more apparent than our second annual RISE 2023 Agent Conference in San Diego last month, where over 1,300 real agents gathered both to celebrate our achievements from the past year and to learn about innovative products tools and technologies we're building to further strengthen their businesses in the years ahead.

One of the significant highlights from RISE was the official launch of our One Real Mobile app. This consumer-facing portal equips agents with the ability to invite clients to be preapproved for a home mortgage from the palm of their hands. Once preapproved, a consumer can confidently shop for a home and easily complete the mortgage application process within a matter of minutes directly from the app. The One Real app also allows the consumer to communicate directly with a loan officer, provide necessary documents and track the progress of their loan application from start to close. Through the app, any eligible consumer in one of the 20 states in which One Real mortgage operates can be approved and clear to close on a home loan in as little as 14 days.

The launch of One Real marks an important milestone in our vision to create a simple solution that combines every touch point in the home buying and selling process into a single seamless experience. The capabilities of One Real app will continue to improve in subsequent updates, but we are excited to now have it in the hands of agents and consumers and we invite you all to download the app from App Store for iOS and Google Play Store for Android and try it out.

At Rise, we also unveiled an exciting new product called the Real Wallet, a first of its kind fintech product designed specifically for Real gents. To Real Wallet centralizes the functionality of a debit card, credit card, reward points and an area of perks to provide agents a new way of unlocking financial sources that were not previously available to them. The Real Wallet represents a significant step towards our vision of a future where agents enjoy a transparent, reliable and predictive way to manage a substantial portion of their finances.

We believe, over time, the Real Wallet could be a game changer for the company by putting us at the intersection of fintech and real estate and by opening up exciting opportunities for Real in the payment space. Initial testing for the Real Wallet is scheduled for the first half of 2024, and we will provide additional details as we approach the launch date.

On the technology front, we rolled out a major update to our first-to-market AI-powered virtual concierge called Leo 2.0. Beyond its existing capability to provide real-time responses using our vast proprietary data, Leo now boasts predictive functionalities. It can anticipate agents' questions based on historical interactions and even anticipate future questions by analyzing patterns across our entire agent network.

In essence, Leo has evolved into a proactive assistance adapt at foreseeing questions and addressing issues before agents even think to ask them. Currently, Leo answers over 700 agent questions a day, reducing the needs for three additional full-time support staff. We are excited about Leo's potential to significantly enhance our agent productivity by saving them valuable time and allowing them to focus on what they do best, serving their clients and growing their businesses.

With regard to our ancillary titled mortgage businesses, we are actively working to increase attachments. While we continue to outperform the broader market, these businesses remain subscale and we are making necessary adjustments to our business model in order to accelerate their growth. We also welcomed Christian Wallace as Chief of Integrated Home Services last month to lead this important endeavor. Christian brings a wealth of experience to Real. Joining us from Rocket Mortgage, where she was responsible for a number of initiatives designed prove the customer experience. and her expertise will be instrumental in scaling these businesses.

We are excited by the opportunity to expand our titled mortgage businesses, giving these business lines typically command gross margins that are 6x to 8x higher than our traditional brokerage margin. This represents a significant opportunity to enhance our overall margin structure in the future. As always, we will be thoughtful in how we integrate and expand these operations into our existing platform.

Lastly, we announced that as of October 2023, Real is now operational in all 50 states as well as four Canadian provinces. While this marks an important achievement in our company's history, we still represent less than 1% of the entire real estate agent population in North America, and we see ample opportunity to further expand our share in each state and province.

With that, I'll turn it over to Sharon for an introduction and update on our exciting agent initiatives. Sharon.

Sharran Srivatsaa - President, The Real Brokerage, Inc.

Thank you, Tamir. For those of you on the call who don't know me, I joined Real as President last year. Although most recently, I was a principal for a private investment firm and spent my earlier career at Goldman Sachs and Credit Suisse, I am an entrepreneur at heart having built scaled and exited numerous businesses across the real estate and technology sectors over the past two decades. My journey has been driven by a quest for innovation and the desire to create robust platforms that empower companies and professionals to achieve their utmost potential.

As Real's President, I'm responsible for all aspects of Real's growth, including agent attraction, training and education, retention and also as the sales leader for firm-wide sales performance, meaning it's my job to whip our agents into shape to sell a lot more homes. I'm excited to contribute to Real's efforts to revolutionize the real estate brokerage industry, and I firmly believe that we've built a business that is truly differentiated, and we're just getting started.

As highlighted by Tamir, in the third quarter, our agent count rose to a record 12,175 agents, up 81% versus the third quarter of 2022. This growth underscores the significant investments we have made in our business, technology, culture and agent resources in order to establish real as the destination brokerage for all real estate agents. We know that if we can provide an unparalleled value proposition and a deep sense of community, we can become a brokerage that agents will never want to leave.

During the RISE conference in October, we introduced a slate of new tools to enhance agency's marketing and lead generation efforts. This includes our end-to-end agent listing toolkit a suite of listing presentation tools, digital and video marketing assets and a step-by-step coaching resources. Furthermore, we launched our digital asset management system, a centralized hub for all of Real's creative materials, facilitating easy discovery and distribution of content while preserving brand consistency. Additionally, we have developed a new relationship with luxury presence as a preferred vendor to assist our agents in developing AI-enhanced websites optimized for lead generation. All of these were designed for agents to run a smooth and profitable business, all from their phones in the palm of their hands.

Also at RISE, we introduced several new initiatives designed to provide agents even more opportunities to generate income, build wealth and support their families. First, we made a significant adjustment to our revenue sharing model, reducing the threshold for unlocking the second tier of revenue share from 10 to five agents attracted to Real, allowing more agents to participate in additional tiers of revenue sharing much sooner. Second, we announced that all real agents will have access to health care benefits consultation resources, allowing real agents to benefit from our large group purchasing power. We were also proud to announce the creation of real retirement a program allowing agents the ability to continue earning income even after stepping back from actively selling real estate.

Under the program beginning January 1, 2024, and agents who have been producing with Real for at least the last three years, will be eligible to continue to collect their monthly revenue share payments after they're no longer actively representing clients provided they maintain an active real estate license with Real. Extending our support of agents' financial stability and long-term wealth generation, we introduced a new suite of tools that we call the wealth plan, emphasizing education, planning and accountability wealth plan helps agents design and realize their wealth goals and allows them to share their wealth plan with team leaders, coaches and advisers, ensuring that there is a support system to monitor progress and help them maintain accountability towards achieving their goals. Wealth Plan embodies our belief in a collaborative growth, providing the necessary resources and community support to navigate their financial journey.

Lastly, last month, we also announced the One Real Impact fund designed to provide tax-free financial assistance to agents during times of hardship. In closing, the advancements and innovative programs we've rolled out underscore our dedication to fostering a supportive environment for our agents at Real. Our journey is more than transactions. It's about building a community where agents can thrive, where selling real estate is not about counting transactions, but is actually a rewarding career. The growth, the tools and the financial security initiatives we've introduced our all-in at fostering such an environment for our agents. I'm honored to be part of the team excited for the future and look forward to engaging with many of you as we continue this journey together.

With that, I'll turn it over to Michelle.

Michelle Ressler - Chief Financial Officer, The Real Brokerage, Inc.

Thank you, Sharon, and thank you, everyone, for joining us. I'll start by reviewing some of our key financial results for the third quarter. More details on our results and key operating metrics can be found in the earnings press release and investor presentation that accompany this call. Revenue in the September 2023 quarter was $215 million, an increase of 92% versus the prior year and a 16% increase sequentially. Growth was driven by a 91% increase in commission revenue, which benefited from an 82% increase in transactions closed, which grew to $20,400 in the quarter combined with a 5% increase in commission revenue per transaction. Recall, our primary economic unit is an individual transaction as we recognize revenue at the time the transaction closes.

Fee income and other revenue totaled $3.1 million during the quarter -- and 45% versus the prior year, reflecting increased agent and transaction count as well as adjustments to our fee structure implemented earlier this year. Title and mortgage revenue was $1.3 million in the quarter, an increase of 173% versus the prior year. Excluding the contribution from one real mortgage, which we did not own in the prior year period, organic growth for these ancillary services would have been approximately 100%.

Gross profit in the quarter was $18.8 million, a 119% increase versus the prior year third quarter. Gross margin at 8.7% increased approximately 100 basis points versus the prior year, with the increase driven primarily by higher fee and other revenue, which effectively drops through to the bottom line.

On a sequential basis, gross margin declined from 9.5% in the second quarter as expected due to the seasonality in our business, given the higher percentage of agents typically reach their commission caps in the third quarter. And as a reminder, our cost of goods sold include stock-based compensation related to our agent stock purchase program. This program allows agents to receive a portion of their commissions in the form of real equity, subject to certain vesting requirements. This amount is excluded from adjusted EBITDA in the stock-based compensation line.

Total operating expenses for the quarter were $22.7 million or 10.6% of revenue. This reflects a roughly 100 basis point improvement, both year-over-year and sequentially. The improvement is attributed to operating leverage with our fixed costs growing at a slower rate than both revenue and gross profit. Revenue share expense, which is our largest operating expense was $7.9 million or 3.7% of revenue, up from $3.9 million or 3.5% of revenue in the prior year period. This cost is entirely variable and reflects real commission share paid to agents for recruiting new agents to the brokerage. We categorize revenue share as a marketing expense as our sponsorship structure aids in attracting and retaining new agents while enhancing productivity across our platform.

This quarter, we introduced a new non-IFRS financial measure called adjusted operating expense, minus revenue share, stock-based compensation, depreciation and other unique or noncash items. It is designed to help investors better understand the composition of our non-variable ongoing cash operating expenses. This quarter, our adjusted operating expense totaled $11.4 million or 5.3% of revenue, marking an 80 basis point improvement from 6.1% and further illustrating the scalability of our business model.

Real's net loss for the quarter narrowed to $3.9 million compared to a $5.2 million net loss in the third quarter of 2022. This translates to a loss per share of $0.02 compared to a loss per share of $0.03 in the comparable prior year period. Adjusted EBITDA improved to $3.5 million compared to $0.5 million for the third quarter of 2022, with the increase driven by higher revenue and gross profit, which outpaced growth in operating expenses. As Tamir stated at the top, although the fourth quarter is always seasonally lighter than the third quarter, we are on track to be adjusted EBITDA profitable for the full-year 2023 and expect to remain profitable on a full-year basis going forward.

Turning to our balance sheet and cash flow. Although cash flow from operations was an outflow of $8 million in the quarter, this was primarily due to a $13 million reduction in customer deposits, which are reflected as restricted cash on the asset side of our balance sheet, and consist of cash held in escrow on behalf of real estate buyers. The sequential reduction from the second quarter reflects typical seasonality in our business.

Importantly, our unrestricted cash and investments balance increased approximately $5 million to $33 million as of September 30, up from $28.1 million as of June 30. This consists of $19 million of unrestricted cash and $14 million in short-term investments. We remain well capitalized and believe we have ample liquidity, both to fund our business while continuing to invest in high returning growth opportunities such as Real Wallet and One Real mobile app.

To close, I'll recap the few KPIs we are commonly asked about before turning it back to Tamir. The total value of homes transacted over our platform increased to $8.1 billion in the third quarter, a 91% year-over-year increase. The median sale price of properties sold by our agents was roughly unchanged from last quarter at $370,000, which represents a 2.8% increase compared to the same quarter in 2022 and is in line with the broader market trend.

Total operating expense per transaction, excluding revenue share, continued its downward trajectory and was $725 in the quarter, a 10% year-over-year improvement. As of the end of the third quarter, 12.5% of our engines had exceeded their commission cap, up from 10.2% at the end of the second quarter and essentially in line with the end of the third quarter in 2022. This cohort represented approximately 51% of commission revenue during the quarter.

Canada accounted for 21% of commission revenue in the third quarter compared to 20% in the prior year period. Our head count efficiency ratio, which we define as full-time employees, excluding Real Title and One real mortgage employees divided by the number of agents that are on our platform was one to 101 at the end of the quarter. This compares to one to 77 at the end of the third quarter of 2022.

This concludes my financial remarks. I will now turn it back to Tamir.

Tamir Poleg - CEO & Co-founder, The Real Brokerage, Inc.

Thank you, Michelle. Before opening up the line for Q&A, I want to address a few topics of investor interest. First, on the market environment. Although we take great pride in this quarter's results, we recognize the extremely difficult landscape that our agents and the industry at large are navigating amidst the current housing downturn. During the third quarter, the annualized rate for existing home sales dipped below $4 million for the first time since 2010 as both potential buyers and sellers grapple with the impact of mortgage rates that are now around 8%. We expect the current combination of higher rates, affordability challenges and curse inventory to persist for the next several quarters, if not longer.

While we believe our business is uniquely positioned relative to peers in this type of environment, we do expect less productive agents will leave the industry. and that weaker competitors will find it difficult to sustain, which brings me to the second topic, agent churn. As it's typical during periods of housing market weakness, we did see a number of agents churn this past quarter with the vast majority due to agents who led their real estate licenses expire or who left the industry altogether. Importantly, revenue churn, which we define as revenue generated by churn agents over the last two quarters was only 4.5% in the third quarter, relatively consistent with the first half of the year. This suggests that the agent churn is predominantly driven by those agents with low or no production, whereas our more prolific agent remains dedicated to our platform.

Lastly, regarding the current class action legal matters in our sector, we'd like to clarify that we have not been identified as a defendant in any of these cases, and it's not our place to comment. Our approach has always been rooted in transparency and we've taken measures to ensure our agents engage with clients in a clear, consistent and transparent matter.

We firmly believe in the vital role that real estate agents play in transactions, both for sellers and buyers. Should we envision a scenario where an increasing number of virus agents are paid directly by their clients, we hold a strong belief that: one, our long-standing investment in consumer-facing platform positions real agents to provide an exceptional experience that tends to set them apart from the competition; two, in such market evolution, large brokerages like ours are likely to benefit disproportionately as our scale and resources afford the ability to offer a comprehensive suite of buyer solutions that smaller players may not be able to match.

And lastly, will stand in a favorable position when compared to many of our peers. Given our industry-leading commission splits and low-cost structure, we believe we face less potential economic risk should the overall commission pool diminish. Nevertheless, we hope for a balanced resolution so that our entire industry can move forward, and we can continuously provide value to our agents and their clients.

In closing, let me emphasize our unwavering commitment to navigating the obstacles and the opportunities before us. While the housing landscape is undoubtedly challenging, we have proven that our model strives even in the most adverse conditions. Our innovative tools and technology, robust financial performance and dedication to our agents are the cornerstone of our resilience. Together, we will weather the storm and emerge stronger, ready to shape the future of real estate.

Thank you for your continued support, and I look forward to our journey ahead. Now let's move to the Q&A session.

Operator

Certainly. Ladies and gentlemen the floor is now open for analyst questions. [Operator Instructions]. Your first question is coming from Darren Aftahi from ROTH MKM. Your line is live.

Q: Hey guys. Good morning. Thanks for taking my question. Nice job in the quarter. Question Tamir on your comments about churn. I know in the past, there was some voluntary churn. You guys have kind of pushed the churn we saw in the quarter on the agents, was that all involuntary?

Tamir Poleg - CEO & Co-founder, The Real Brokerage, Inc.

Hi, Darren. Thank you. Yes, the churn this quarter came from agents who predominantly decided to leave the industry. What happens in many MLSs is that agents have to pay their dues twice a year, once in January, once in July. So a lot of agents had to pay their dues in July, and they just decided that instead of paying their dues, they were just giving away their licenses and they left the industry. So fortunately, the vast majority of those agents were nonproductive. But yes, we did not proactively terminate agents this quarter.

Q: Got it. And then your productivity for an agent seems like it seems to rise quarter-on-quarter this year. I'm curious about your thoughts with the introduction of Leo 2.0 and the app platform on the impact of productivity, meaning do you think that you're able to grow your business more efficiently with more agents just given this platform can automate a lot of these back-end processes?

Tamir Poleg - CEO & Co-founder, The Real Brokerage, Inc.

Sure. So two things. One, I think that it's a little bit early to say that the per agent productivity increase is attributed to Leo. As we said -- as we communicated, we announced Leo 2.0, which is Leo being proactive in helping agents close deals and close them faster and get them paid faster. So the two different things is how Leo helps us in the back office and operations in support of the agents, and we're already seeing that Leo, as we said, is answering 700 questions a day, and that number continues to increase, which means that we are saving some cost of hiring new people to serve those questions that are now served by Leo. And agents are happier because they get instantaneous answers instead of waiting a few minutes for a support person to get back to them. So that's one thing.

The second thing is how Leo helps them with productivity, and this is something that we're just now starting to see with Leo 2.0, and I do expect to see some impact on production per agent coming from Leo, and we will track it and communicate that in the future.

Q: Great. Just last one for me. The mortgage and title business, I appreciate how impactful that could be on your bottom line. Can you just speak to some of the adjustments you mentioned earlier with hiring that new individual from Rocket Mortgage and kind of how the One Real app kind of plays into scaling that business longer term? Thanks.

Tamir Poleg - CEO & Co-founder, The Real Brokerage, Inc.

Sure. So on the mortgage side, One Real mortgage now uses the consumer-facing app, the One Real app to take clients through the mortgage application process. So just earlier this week, they started taking 100% of their clients through that process. And we think that it will be very successful. At the same time, title, we're now looking at the geographies in which title has expanded to. We're looking at some JVs that we've done with different teams. We're trying to analyze what's working, what's not working -- as great. We're seeing a lot of traction in California, and we think that California could be a huge profit center for real title moving forward.

So we're trying to concentrate our efforts on those geographies and those teams and JVs that are actually working. And Christian came from Rocket Homes or Rapid Mortgage. And she knows those businesses very well. She's on top of everything. I think that we're doing great efforts when it comes to better planning, both on projecting revenue and on how we spend our dollars. So I think that 2024 is going to be an instrumental year for both Real Title and One Real Mortgage.

Q: Great. Thank you.

Operator

Thank you. Your next question is coming from Stephen Sheldon from William Blair. Your line is live.

Q: Hey, team. This is Matt Filek on for Stephen Sheldon. Congrats on the launch of your consumer-facing application, had the opportunity to download the app and thought the user interface was excellent. Now the app is currently focused on processing mortgage applications. But wondering if you can elaborate on what functionalities you plan to roll out over the next year and then longer term?

Tamir Poleg - CEO & Co-founder, The Real Brokerage, Inc.

Sure. Thank you. We see the app as being and holistic journey for homebuyers from the very first moment that they think about buying a home and until they actually close on a home. So if you try to break it down to different segments, it comes with home discovery, so just the ability to look at listings and then schedule showing directly with the agents of applying for a mortgage of having a checklist of what needs to be done before you're actually starting to look at homes with buyer education of what does it mean to buy a home and what does it mean to own a home, some sort of a tracker, transaction tracker that shows them exactly where they are and what's expected next and what's expected from them. There should be a document cabinet that stores all of the documents that they have signed. There is the ability to choose the closing date and all of the different updates obviously communicating with the agent and the loan officer.

So we have a holistic view on the home buying experience. And in the next year, we will be adding more and more features. I think that for the app to be fully operational with all of the elements that I just described in more, by the way, including purchasing a home insurance as well, it will probably take another 18 to 24 months.

Q: Got it. That's very helpful. Thank you for that. And I know this may be tougher to call, but if we assume housing market conditions remain consistent with the current environment, should we expect a similar pace of quarterly agent additions looking ahead?

Tamir Poleg - CEO & Co-founder, The Real Brokerage, Inc.

To be honest, we were a little bit disappointed with the net agent growth and I think that it was mainly attributed to those agents who decided to leave the industry and those were non-productive agents. I can tell you that we're almost halfway through the fourth quarter, and we have seen an uptick in new agents joining. So I think that the remainder of the year and moving forward, we'll probably -- we will probably see stronger growth numbers when it comes to agent growth.

Q: Great. Thank you very much.

Operator

Thank you. Your next question is coming from Matt Erdner from Jones Trading. Your line is live.

Q: Hey, guys. Thanks for taking the question. And sticking with the agents at the moment, how have these new products and services kind of attracted either new agents or agent interest since you guys have announced these products?

Tamir Poleg - CEO & Co-founder, The Real Brokerage, Inc.

Thanks, Matt. I think that what we're seeing is a lot of energy around the company. So existing agents just very enthusiastic about everything we're rolling out and all of those tools that help them in their day-to-day and with their clients. And I think that, that creates an energy that's addictive. And it makes others wonder, okay, what's going on at real and maybe we should check it out. And once they have those conversations, they're also able to articulate what is it exactly that our technology provides them and how we're differentiated and what it can actually do for them.

So it may not be a direct effect, but definitely, there's a lot of energy and buzz around the company right now in the marketplace, and it's driven by our agents that are extremely happy about all of the technological advancements.

Q: Yes, I got you. That's helpful. And then I guess, once these products are rolled out, what impact do you think that it's going to have on revenue margins, EBITDA margins just going forward, thinking about that. Thanks.

Tamir Poleg - CEO & Co-founder, The Real Brokerage, Inc.

Yes. I think that longer term, if we think about our title business and mortgage business and some of the fintech product that we will be rolling out next year. I think that our kind of longer-term gross margin target would be at around 20% and EBITDA margins at around 10%. It will probably take five years or so to get there, but that's our plan.

Q: That's helpful. Thank you guys.

Operator

Thank you. Your next question is coming from David Marsh from Singular Research. Your line is live.

Q: Hey guys. Congratulations on the quarter. Really impressed of especially what's going on in with mortgage rates at this time. Just wanted to start by touching on the finance expense line, really, really low in the quarter. Could you talk about change -- what changed there? And is that a sustainable level going forward? Is there -- have you made some kind of a change there that you're just not going to require any kind of payments for financing expenses?

Michelle Ressler - Chief Financial Officer, The Real Brokerage, Inc.

Hi, great to hear from you today. Finance expenses is generally related to foreign currency translation. So that will fluctuate as we see fluctuations in the strengthening or weakening of our foreign operations.

Q: Got it. Got it. And I know you guys aren't really in the business of providing guidance and there's a lot of moving parts here, but especially in light of market conditions. But as we think about seasonal patterns in real estate, in residential real estate transactions. Typically, we see a dip towards the end of the year and in the first quarter and then kind of strength in the second and third quarter. But obviously still growing agents pretty rapidly. I mean we kind of are in the business of modeling. So can you give us some idea of how to think about things. I mean, we're part of -- a good solid halfway through the fourth quarter here. I mean, should we think about a sequential decline? Or is the agent growth still such that you're not going to -- you're going to have some immediate effect of that seasonal factors?

Tamir Poleg - CEO & Co-founder, The Real Brokerage, Inc.

Sure. I can take this one. Hi, David. So typically, Q4 is a decline of 20% to 30% over Q3 just because of seasonality. I think that what we have seen in the third quarter is interest mortgage rates reaching 8%, which probably will affect the backlog of transactions that are scheduled to close in the fourth quarter in the industry in general, and it will probably apply additional pressure on the volume of transactions closed in the fourth quarter. We think that given the fact that we are continuing to grow our agent count, the fourth quarter will obviously be a much higher one compared to the fourth quarter of 2022, but we do think that seasonality plays a role here. So sequentially over the third quarter, the fourth quarter will probably be weaker in terms of transactions and revenue. Internally, we also think that the first quarter is going to be challenging. Obviously, it's very interest rate dependent, but we do think that the spring will probably bring some energy and a lot of new transactions into the market. So we're optimistic as to March and on, but we do think that it's going to be quite a cold winter for real estate.

Q: Well, the good news is if we do actually get a pause or a flat out stop in rate hikes that could really help things. I mean, the 10-year as we sit here today is down to $456 and I think I start to see some headlines of mortgage rates dipping back down into the 7.5 ballpark. So that should probably help a little bit. I guess just lastly for me, it's kind of like my favorite thing to talk about because I think it's kind of the most exciting part of your story just the vertical integration opportunity that you have with title and mortgage, I mean, could you just let us know on the mortgage side it sounds like things are really picking up. Could you just talk about how many states you're doing mortgage business in and kind of what that looks like in terms of rollout?

Tamir Poleg - CEO & Co-founder, The Real Brokerage, Inc.

Sure. I think that one thing that -- is starting to change here is that we're trying to focus on fewer markets and create a playbook that we can then duplicate to additional markets instead of just chasing the transaction here and that transaction there. So that's part of the strategy for the remainder of the year and for 2024. We're now really doing business in, I would say, less than 10 states, and I mean significant volume. And I think that we will continue to focus on those less than 10 states on the mortgage side. And once we have like a model that works and we know exactly how to start a business in that state and getting momentum going and engage all of our agents, we can duplicate that to additional territories. So that's currently the plan.

As Michelle said, Real mortgage is up about 100% year-over-year. This is still small numbers. So we do expect those businesses, both mortgage and titled to grow at a faster pace, even though 100% is impressive, we have much bigger plans for both of those businesses.

Q: That sounds like a very, very fiscally and operationally responsible path or there. And I think that speaks very highly of your stewardship of the company, Tamir. So I wish you guys the best and just hang in there. Hopefully, rates will come down and things are really going to take off.

Tamir Poleg - CEO & Co-founder, The Real Brokerage, Inc.

Thank you, David.

Operator

Thank you. [Operator Instructions]. Your next question is coming from Tom White from D.A. Davidson. Your line is live.

Q: Hi, this is Wyatt on for Tom. Thanks for taking our questions. So I have one on -- there's been some chatter about some of the smaller independent brokerages out there faced with the prospect that's another year of low total sales turnover who may finally decide to move their businesses over to some of the virtual or lower-cost offerings like Real and others. So how do you guys make sure that Real Brokerage maximizes its capture of these smaller independents or teams if, in fact, this does happen?

<u>Tamir Poleg - CEO & Co-founder, The Real Brokerage, Inc.</u>

Thank you, Wyatt. We are in constant conversations with a lot of existing smaller brokerages as well as large teams in the country. I think that we are becoming a household name in the industry and more and more people hear about us, and it's all about execution at the end of the day, if they see that we provide value, and we also build products that are a little bit more tailored to what they need, which is something that we're doing right now, by the way.

We're trying to build our systems in a way that will provide more flexibility to teams and brokerages and coming over and not changing their entire backbone system or the way they interact with their agents from a financial perspective, it will just make the transition smoother for them. So this is something that we're now building, and we will communicate that to them.

But I think that it's all about creating more and more conversations and also educating our agents on how to have those conversations because at the end of the day, there is so much we can do as a company, but we can also rely on our agents to go and attract and just put the word out there about the company. But yes, I agree with you that if the current conditions will remain a lot of smaller brokerages, independent brokerages, will not be able to sustain that, and they will be looking to make some sort of a change. And obviously, I mean, as the only company in the industry that's currently growing, I think that we will be able to attract many of them just based on the fact that they see that there is momentum happening here, and they will want to be a part of it.

Q: Got it. I appreciate the detail.

<u>Operator</u>

Thank you very much. Mr. Jani, there are no further questions.

<u>Ravi Jani - Vice President, Investor Relations and Financial Planning & Analysis, The Real Brokerage, Inc.</u>

Great. Now that we've concluded the analyst portion of the call, we wanted to address some of the questions received from shareholders on the Say Technologies Q&A platform that was launched last week. We received a number of excellent questions, and so thank you to all who participated. So the first question, which kind of dovetails with David's question is, how impactful of an effect to ancillary services such as One Real Mortgage, Real Title and in the near future Real Insurance tab on the value of Real Brokerage. Tamir, do you want to take that one?

Tamir Poleg - CEO & Co-founder, The Real Brokerage, Inc.

Yes, sure. And I feel like we touched on that a little bit, but thank you for the question. This is actually a great question because these businesses, both Title and Mortgage have the opportunity to truly transform our margin profile and long-term earnings trajectory. When we look at Mortgage and Title, these are business lines that typically carry gross margins between 60% and 80%, so super high. And so when we look at the profit potential of an individual transaction that includes both brokerage, title and mortgage, we can potentially see 7x the gross profit per transaction relative to just a brokerage-only transaction. So that's meaningful.

Regarding how much of an impact these businesses will have in the near future, is really a function of how quickly we can scale them, which is something that we are acutely focused on, as I mentioned. But to give you a rough order of magnitude, every five percentage point of attachment for Mortgage and Title would translate into approximately two percentage points of gross margin on a total company basis. And so that's why when we look out over the long-term, we see a path to gross margin approaching the 20% and EBITDA margin nearing 10%, as I mentioned. But to summarize, while today, those businesses are small, we expect them to have a profound impact on the value of the business in the future.

Ravi Jani - Vice President, Investor Relations and Financial Planning & Analysis, The Real Brokerage, Inc.

Next question, what part of the business is giving you the most trouble now?

Tamir Poleg - CEO & Co-founder, The Real Brokerage, Inc.

Well, our rapid growth over the past three years has certainly represented us with a variety of challenges across the company, which is common for organizations that are scaling at our pace. I wouldn't characterize any of these as troubled per se. But because we're actively managing these challenges with strategies in place, I wouldn't call them trouble. That said, the main area of focus and perhaps my greatest source of impatience is the pace at which we can roll out our innovative ideas and technological developments. We have an exciting road map, and I'm eager to bring these advancements to fruition. We're moving as fast as we can, but quality can be rushed. And ensuring we do things right as a priority. In essence, we're racing against our own high expectations to deliver exceptional value, and that's kind of a good challenge to have.

Ravi Jani - Vice President, Investor Relations and Financial Planning & Analysis, The Real Brokerage, Inc.

Next question for Michelle. How much of the company's stock is owned by agents?

Michelle Ressler - Chief Financial Officer, The Real Brokerage, Inc.

So we don't know how many shares agents hold in their personal trading account. But based on the shares that we attribute to agents, we estimate it to be around 15% of our company. And for us, this is important because agents are truly aligned with our management and our shareholders in making sure the company is profitable, they're partners in the business. And so this way they're invested in helping it continue to grow.

Ravi Jani - Vice President, Investor Relations and Financial Planning & Analysis, The Real Brokerage, Inc.

Great. One question was about the app and Tamir, you addressed this a little bit earlier in the future of the app. But can agents have an app that clients can use to see if they've completed certain tasks for their buy-sell process and what next steps are?

Tamir Poleg - CEO & Co-founder, The Real Brokerage, Inc.

Sure. And I touched on that briefly, but the One Real app, which is our first consumer-facing app is really our initial product to address just that. While One Real today is built for homebuyers to get preapproved and have greater certainty of closing. Over time, this app will be the solution, including everything from a closing checklist that you just mentioned to an entire mobile home management system. So yes, it's in the pipeline in the works, just stay tuned as the product evolves, but rest assured that we are working to give agents the tools to make sure that their clients receive the best and most differentiated experience.

Ravi Jani - Vice President, Investor Relations and Financial Planning & Analysis, The Real Brokerage, Inc.

Sharran, next question, what can agents do successfully today that can change their business 12 months from now?

Sharran Srivatsaa - President, The Real Brokerage, Inc.

Hey, Ravi, thank you for this. I think this goes to the heart of how we actually run the real estate business because this has been a quite challenging market environment where most agents businesses where you are in the marketplace in North America is down about on average 30-ish percent. But there's something super important to note here, right, because just in the last three years, we've moved from what I like to call a momentum-based market to a skills-based market, meaning during the time when we were in and coming out of the pandemic, the market was moving so fast and the agents and consumers are just managing momentum of the transactions that were happening. But over the last 12 months, the skill of an individual agent is what -- is setting each of them apart.

So if we think about kind of the focus of what agents should do, I think there's three things that I've been sharing with all our agents to position themselves to win over the next 12 months. And let me walk you through what those three things are. So number one is to capture attention. Agents who have a massive focus on what I call the front end of the funnel with the idea of building the interest risk list will win market -- as market conditions change because most consumers are in the waiting and watching to pull the trigger on.

We -- even on the interest rate environment, we had seven consecutive periods of interest rates increasing and the consumer was actually getting used to what the new normal was. And as soon as they see a one-term pullback, now they're like, wait a minute, I'm just going to wait. So that's actually caused more disruption because now it's changed the way of this watching and waiting. So for us, it is capturing and building the interest list on the front end of the funnel.

The second is the days of kind of churning and burning are over because we need to implement what I call lifetime nurture. This means that building the interest list is not enough, we have to both build the list and serve the list, meaning agents who take a lifetime nurture approach as opposed to a churn and burn approach, we'll win in this market because the lifetime nurture approach says, "Hey, I'm always in the right place. Mr., Ms. Client, I'll wait for your right time to happen. And the last but not least, I really hope that everybody in our industry learns this is that today is the time where an upgraded skill will completely set us apart.

So consumers need sound advice now more than ever. Over the last 20-ish years, the utilization of working with an agent is up 31%, even though there's more data and more tools available to the consumer. So I'd say this is because the transaction is becoming more and more complex. So understanding new contracts, understanding pricing strategies, understanding negotiation skills with all that's happening in our landscape is what's going to be important for agents to win as they capture attention on the front end of the funnel, implement lifetime nurture and really work on upgrading skills.

Ravi Jani - Vice President, Investor Relations and Financial Planning & Analysis, The Real Brokerage, Inc.

Thanks, Sharran. Tamir, next question, what are the current projections as an overall percentage of profit that the venture into fintech is expected to make? Specifically, how much of an impact are you expecting the rollout of the Real credit card to make as a percentage of overall profits?

Tamir Poleg - CEO & Co-founder, The Real Brokerage, Inc.

I have to say that we're incredibly excited about the Real world and its potential to really transform the role of brokerage within an agent's life and in the financial ecosystem. The Real world allows agents to monetize all of their assets accumulated at Real. While it's really too early to give specific financial projections, we've clearly studied the impact of loyalty card programs on other industries, whether it's the Costco card program or any of the major airline programs. And that's why we're so excited about how it's transformative it could be for Real. And our agents given it gives agents a unique opportunity to monetize their wealth and earn rewards from spending that they would have done otherwise on someone else's platform, which they can now use to reinvest into their business.

Secondarily, it gives us an opportunity to potentially monetize the significant amount of GMV and pass-through revenue that flows through our ecosystem and our income statement, which for which we don't really receive any economic benefit. For example, this quarter, our agents sold $8.1 billion worth of homes. And yet, as a company, we generated only $3.5 million of adjusted EBITDA. It's easy to see how capturing even a few basis points of such an enormous sum could really impact our bottom line in a way that's beneficial for agents and shareholders. So it's a little bit too early to say, but we do think that this can have a very profound impact on our financial statements in the future.

Ravi Jani - Vice President, Investor Relations and Financial Planning & Analysis, The Real Brokerage, Inc.

Great. And last question we'll take from the Safe portal. What is Real doing to attract outside investment from institutional and retail investors that will want to see the stock price grow in the coming years?

Tamir Poleg - CEO & Co-founder, The Real Brokerage, Inc.

It's a great question, and I wish people knew how much we -- how much time and effort we're actually investing in that product that's called the Stock Price. But obviously, we are fully committed to maintaining an active dialog with our shareholders, and we recognize that your engagement is vital to our success. To that end, we've harnessed innovative platforms like the very portal that we're using right now to receive this question to foster open communication and transparency with our investor community.

In parallel, we're diligently broadening our outreach by participating in more investor conferences and road shows and cultivating relationships with new investors and research analysts. These initiatives are designed to improve the market's understanding of our business and our strategic vision.

With that being said, we know that ultimately, a stock price reflects two things, an earnings number and a multiple. We don't control the multiple. That's impacted by things like interest rates, market expectations and on any given day could be the result of host of other factors. Instead, we focus on what we actually can control, and that's steering our business effectively and investing prudently and driving profitable growth that can enhance our earnings and cash flows. And our goal is pretty clear. We want to build a resilient company that delivers sustained long-term value for our shareholders. We are steadfast in our commitment to this objective. And believe our strategic efforts and execution will be reflected in our stock performance over time.

Ravi Jani - Vice President, Investor Relations and Financial Planning & Analysis, The Real Brokerage, Inc.

Great. A great way to end. 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

Absolutely. In order to access the replay, you need to call (877) 481-4010 with a confirmation code of 49221. Once again, the phone number is (877) 481-4010 and the confirmation code 49221. The replay will be available at 2:00 p.m. Eastern today. Ladies and gentlemen, this does conclude the conference call. You may disconnect your phone lines at this time and have a wonderful day. Thank you for your participation.