Transcript of
The Real Brokerage, Inc.
Fourth Quarter and Full Year 2022 Earnings Call
March 16, 2023

Participants

Jason Lee - Vice President, Capital Markets & Investor Relations, The Real Brokerage, Inc.
Tamir Poleg - CEO & Co-Founder, The Real Brokerage, Inc.
Michelle Ressler - Chief Financial Officer, The Real Brokerage, Inc.

Analysts

Darren Aftahi - ROTH Capital Partners, LLC
Wyatt Swanson - D. A. Davidson & Co.
Chris Sakai - Singular Research
Brian Kinstlinger - Alliance Global Partners

Presentation

Operator
Good morning, ladies and gentlemen, and welcome to The Real Brokerage Fourth Quarter and Full Year 2022 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 Jason Lee, Vice President of Capital Markets and Investor Relations at The Real Brokerage. Sir, the floor is yours.

Jason Lee - Vice President, Capital Markets & Investor Relations, The Real Brokerage, Inc.
Good morning, everyone, and thank you for joining us today for Real's Fourth Quarter and Full Year 2022 Earnings Call. With me on the call today are Tamir Poleg, our Chairman and Chief Executive Officer; and Michelle Ressler, our Chief Financial Officer. This morning, Real filed its financial statements and management discussion and analysis for the fourth quarter and full year ended December 31, 2022, on SEDAR and EDGAR. These documents along with the accompanying earnings press release can be found on both SEDAR and EDGAR.

Before I turn the call over to Tamir, I would like to remind everyone that the company will be making statements about its future results and other forward-looking statements during this call. 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.

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

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

Good morning and thank you, Jason. 2022 was a challenging year for the housing market with Q4 as the weakest quarter across the industry. A key driver was the tighter policy implemented by the Federal Reserve in response to the persistent inflationary pressures, which resulted in 7 increases to the policy interest rate during the year, pushing average 30-year mortgage rates above 6% for the first time since 2008.

The corresponding hit to buyer affordability and seller incentive to give up their lower existing mortgage rates resulted in a significant downturn, particularly to transaction volumes. In 2022, U.S. existing home sales declined 18% compared to 2021, although, the average home price still rose 10%. In Q4 alone, home sale volume in the U.S. decreased 36% year-over-year, albeit with moderate price declines. Despite the residential real estate market headwinds, we are optimistic that we have witnessed the bottom in Q4, given the strength in what we have witnessed so far in this quarter.

Our growth remains strong and we continue to accelerate our market share gain. Our growth in agent share resulted in a 90% year-over-year rise in revenue and 100% year-over-year increase in gross profit in Q4, despite the drop in transaction volume in the broader market over that period.

Most companies in our industry have reported year-over-year declines in revenue against this challenging backdrop, and many have seen their agent bases shrink as agents leave the industry. Although, we are not immune to these market forces, we continue to offer an amazing value proposition for agents and as a result have been able to grow our agent base significantly.

We entered 2022 with 3,850 agents at Real and ended the year with over 8,200, a 113% increase. Subsequent to the end of the quarter, we announced in February, we surpassed the 9,000 agent mark, a further 10% increase from year end, and we are witnessing an acceleration in our agent growth since we hit that milestone.

In December, we announced the addition of Sharran Srivatsaa as President of the company focused on all aspects of growth, including agent attraction and education. Sharran is a highly respected leader in the real estate industry with decades of experience and a deep understanding of the residential real estate market and what it takes for agents to build a successful business.

Furthermore, our revenue churn, which we define as the dollar amount generated by churned agents over the prior 2 quarters, declined to 2.4% in Q4 from 2.5% in the prior quarter. Meanwhile, our agent churn fell to 4.4% from 7.3% in Q3. The lower churn helped drive our highest net agent addition in company history with nearly 1,500 net new agents joining in Q4.

Earlier this year, we announced a number of revenue enhancing and agent attraction initiatives and tweaks to our model that we expect to impact our 2023 results and help us scale profitably, which Michelle will touch on shortly. These changes are very meaningful.

One aspect that I'm particularly excited about is our new co-sponsored revenue share feature. This exciting new feature allows agents to select 2 sponsors, who split 90% of their revenue share stream equally while paying the remaining 10% back to Real. This offering underscores our belief that agents are a primary source for attracting new agent talent to our platform, and to our knowledge, we are the only brokerage to offer this capability.

We believe 2023 is also the year in which the higher margin ancillary title and mortgage services will begin to contribute to our financial results. However, our full consumer vision will take several years to fully implement as we not only build systems that streamline our mortgage and title businesses, but we also plan to build a layer of experience that will seamlessly connect brokerage services with mortgage and title services.

In December, we closed on our previously announced acquisition of LemonBrew Lending, adding mortgage capabilities to our platform and moving us one step closer to our goal of providing consumers an end-to-end frictionless home buying experience.

As we have previously mentioned, we expect to release the first iteration of the consumer experience in late Q2. This early version will take customers through the preapproval process with a conversational UI, and we plan to rapidly iterate based on our community feedback.

In 2023, our top priorities remain building an industry changing consumer experience, continued acceleration of platform growth and market share, executing on additional monetization opportunities on our growing platform, and maintaining a cost effective structure with strong cash management.

We remain on track to become adjusted EBITDA positive in the second half of 2023. Although we of course hope that the real estate market will be a win at our back towards this goal, we are on track to achieve this milestone even under current market forecast for further double-digit declines to sales volumes and easing prices.

As the housing industry eventually turns, we are incredibly excited to roll back with intensity, which will be amplified by an even larger agent core and an augmented agent incentive model that sets us up to deliver a significant compounding effect.

And with that, I'll turn it over to Michelle for the financial update. Michelle?

Michelle Ressler - Chief Financial Officer, The Real Brokerage, Inc.
Thank you, Tamir. And thank you, everyone, for joining us. I'll start by reviewing some of our key financial results for the full year and fourth quarter. As Tamir touched on, it was a particularly challenging second half of 2022 for our industry, but our significant growth on a year-over-year basis more than offset the market headwinds. For the full year 2022, the total volume of homes sold was $14.4 billion, which represents a 226% increase compared to 2021. The total number of transactions on our platform during the year increased to over 37,500, a 181% increase.

In Q4 alone, despite the drop in market volumes, Real completed 9,745 transactions, an 85% year-over-year increase. This corresponds to a total value of homes sold in Q4 of $3.5 billion, a 109% year-over-year increase. Meanwhile, the median sale price of properties sold by our agents declined 3.3% quarter-over-quarter to $348,000, roughly in line with 4.3% decline in the average price of existing home sales in the U.S. between September and December.

For the full year, 2022 revenue increased to $382 million, a 214% increase compared with 2021. Meanwhile, gross profit increased 188% year-over-year to $32 million. Fourth quarter revenue was $96.1 million, a 90% year-over-year increase, while fourth quarter gross profit increased 100% year-over-year to $8.2 million.

Our gross margin expanded to 8.6%, up from 8.1% in Q4 2021. The increase from prior periods is driven by the slowdown in the market that resulted in fewer agents exceeding their respective commission caps. As of December 31, 8.9% of our agents had exceeded their caps versus 12.4% at the end of Q3, as the lower market transaction volume made reaching the cap more difficult. 8.5% of our U.S. agents ended the quarter with capped status down from 11.4% in Q3, while 14.1% of our Canadian agents were capped, down from 24.6% in Q3.

As a result, the capped cohort represented 44% of commission revenue in Q4 compared to 57% in Q3. Our highest earning Elite Agents at the end of the quarter continue to represent the top 1% of our agent base, unchanged from the prior quarter, but are responsible for generating 12.7% of total commission revenue, a slight drop from 13.6% in Q3. This cohort in particular has remained impressively resilient to the challenging market conditions. Overall, we believe Real continues to be the winning solution for productive agents looking to be as efficient as possible even during a market downshift.

In Q4, 56% of commission revenue was generated by our agents representing the buy side, 34% was on the sell side and 6% was from dual agency representation. This is essentially unchanged from the same quarter in 2021 and does not include revenue that we book related to agent referrals, which accounts for approximately 4% of the total. Commission revenue per productive agent, a core measure of agent productivity moderated to $27,200 in Q4 from $34,900 in Q3 and $32,600 from Q4 in 2021.

To strip out the effect of new agents joining, we also tracked the commission revenue per productive agent already on our platform at the beginning of the quarter. This is similar to same-store sales figures reported by the retail industry. For these agents, the average commission revenue in Q4 was $30,300, which is higher than the overall agent productivity previously mentioned, but a 19% year-over-year decline and 14% quarter-over-quarter decline due to softer housing market conditions and seasonality.

The number of transactions closed by this cohort declined to 3.1 in Q4 from 3.9 in both the prior quarter and the same quarter in 2021. We are excited by our accelerating agent count growth, as Tamir mentioned, and look forward to seeing strong contributions from newly onboarded agents begin to be reflected in subsequent quarterly financials. Note that in 2022 it took 74 days on average for newly onboarded agents to close their first deal. We are continuously working to improve upon this number with the rollout of our sharing program, which we kicked off in the back half of 2022.

Turning to our geographic expansion, we grew our presence significantly in 2022, opening brokerage operations in 7 new states and provinces. In Q4, we began operating in Alabama in the U.S. and British Columbia in Canada. Earlier in the year, we launched in Arkansas, Mississippi, Maine, New Mexico and Ontario. In 2023, we plan to fill out the rest of the map in the U.S. and continue our progress in Canada, with Manitoba as our next target.

Regarding Canada, our business in the country represented 14% of commission revenue in Q4, a decline compared to 20% in Q3, but up significantly from 3% in Q4 2021. The large year-over-year increase reflects our expansion in the country during 2022, while the quarter-over-quarter drop reflects the larger slowdown in the Canadian residential market compared to the U.S.

Shifting over to OpEx. Our total operating costs for the quarter, including revenue share was $15.2 million, which represents 15.8% of revenue. Our operating expenses per transaction, excluding revenue share, which is a core component of our agent incentives, increased narrowly by 6% year-over-year to $1,146. We continue to be laser focused on optimizing our already efficient cost structure, given industry headwinds and in line with our goal of reaching positive adjusted EBITDA in the second half of the year.

Our headcount efficiency ratio, which we define as full time brokerage employees, excluding Real Title and LemonBrew employees divided by the number of agents that are currently on our platform continued to improve, rising to around 1 to 98 from 1 to 77 as of Q3.

The ratio of the number of employees on our transaction processing team to transactions processed over the quarter dipped to 1 to 1,083 from 1 to 1,404 over the quarter due to the lower transaction volume. Only 9 employees support this function, and we did not shrink the team in response to the slower volumes, which drove the lower ratio.

Lastly, the ratio of support staff employees to agents improved 1 to 1,368, up from 1 to 1,119 the prior quarter as we continue to see operating leverage in our efficient support model as our agent base grows. We believe these metrics best highlight the headcount efficiency and scalability of our platform that is made possible by the strength of our tech stock. We believe this is ultimately one of our biggest competitive advantages for the business, and this will become even more apparent as we continue to scale.

Our net loss for the quarter was $6.8 million, compared to $3.8 million in Q4 of 2021, translating to a loss per share of $0.04 compared to a $0.02 loss per share for the same period of prior year. For the full year 2022, our net loss was $20.6 million from $11.7 million in 2021.

Adjusted EBITDA loss for the quarter was recorded at $3 million, unchanged from a $3 million loss in Q4 2021. On a full year basis, the adjusted EBITDA loss was $8.9 million, compared to a $5.1 million loss in 2021. We believe that adjusted EBITDA provides useful information about our financial performance, most importantly by excluding non-cash stock-based compensation that we offer to our agents and employees.

To reiterate, we expect to be adjusted EBITDA positive in the back half of this year due to the contribution from changes to our agent incentive model that I'll touch on shortly, as well as the pickup in activity we've witnessed so far this year. We are on track to achieve this even in a very conservative scenario, in which industry transaction volumes drop an additional 15% to 25% and prices fall 7% to 12% in 2023 compared to 2022, our agent base only increases to 12,500 by year end, compared to 9,000 at the beginning of February, and full year revenue only rises modestly to end the year in the $480 million to $490 million range. Note that this scenario does not represent our expectation for 2023 performance, which is meaningfully higher, but rather a reasonably achievable scenario that will result in us getting over the positive adjusted EBITDA threshold.

Turning to our financial position, we had $10.8 million in unrestricted cash on the balance sheet and an additional $7.9 million in investments in financial assets to bring our total liquidity to $18.7 million as of December 31, 2022. Note that beginning last quarter; we have begun to separate the amount of cash that we hold in escrow for home buyers and are now reporting that amount as restricted cash. We believe this increased transparency reflects our truer cash position and is in line with how others in the industry report it. We continue to have no debt and no need to raise debt in the near-term, which we consider an important highlight given the prospects for interest rates to remain higher for some time.

Our total cash and investments in financial assets, excluding the restricted cash held in escrow totaled $18.7 million. This represents a decline of $3 million during the quarter of which $800,000 was attributable to the purchase consideration for LemonBrew Lending.

Subsequent to the end of the quarter, we announced a number of changes to our U.S. agent pricing and fee model that make it more sustainable while still offering industry-beating incentives for our agents. In 2023, we are implementing the following new fees: a $30 fee on each transaction to cover broker review, E&O insurance, and processing expenses; a $175 annual fee to participate in our revenue sharing program; and a 1.2% fee on all revenue share payments. Additionally, we increased the subsequent fees as follows: a $100 increase of the joining fee to $249; a $250 increase of the annual brokerage fee to $750; a $60 increase of the post-capping transaction fee to $285; and a $29 increase to the Elite Agent transaction fee to $129. These changes went into effect for new U.S. agents that joined after January 31, 2023 and will go into effect for all U.S. agents beginning April 1, 2023.

We expect these changes in aggregate to contribute over $5 million directly to our bottom line in 2023 with an even more significant full year effect in 2024. These changes are important and help set the company on a clear path to profitability and we believe these changes will yield an even greater effect in the years to come as we continue to scale. Again, we will begin to see these effects in earnest in Q2 of 2023 and are excited for the path ahead.

In conclusion, we continue to cautiously monitor economic trends, while applying conservative cost conscious planning in the event that 2023 is another difficult year. In 2022, we focused on taking market share, while investing in our business and making the necessary adjustments to our agent model to drive our next phase of growth. We have caused for optimism in 2023 as our pipeline of transactions that have not yet closed, has climbed steadily year-to-date, and is currently at the highest point in our company's history. Additionally, March sales trends are looking incredibly promising and suggest that the worst may be behind us.

This concludes my financial remarks. I will now ask the operator to open up the line for Q&A. Operator, can you please poll for questions?

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

Q: Hi, guys. Good morning. Thanks for taking my questions. There's a lot to unpack here on some of the comments you said. I'm just trying to make heads and tails. So it sounds like you're seeing improved traction year-to-date in your business. I guess, you didn't give guidance, but you mentioned that $480 million to $490 million revenue scenario. What gives you kind of confidence in that? And, I guess, as we think about your commentary around adjusted EBITDA beyond the $5 million benefit this year, is there any underlying assumption about ancillary services benefiting your business?

Tamir Poleg - CEO & Co-Founder, The Real Brokerage, Inc.
Yeah. Hi, Dan, thank you. So those assumptions rely mainly on the brokerage business. We think that this year there will be somewhat of a modest contribution by the ancillary businesses that we own. What we've seen since the beginning of the year or the first week of January is just a very significant uptick in activity and new contracts signed. So we have a pretty good visibility into the next 2 months. And what we're seeing is extremely encouraging. March so far is shaping up to be probably our best month ever. And also the backlog moving forward is looking very promising.

So the figures that Michelle mentioned of $480 million to $490 million in top-line revenue, this is what we need in order to get to adjusted EBITDA positive in the second half of the year. I mean, those numbers are for the full year, and we are very confident that we are going to do much better than this. So, at this point, we have good visibility. We are much more optimistic than we were 3 months ago about the market. And we have a very significant backlog to rely on.

Q: That's helpful. Thanks, Tamir. And then just as we think about 2023, you guys had really nice growth in agents and a lot of this stuff is just attracting people to your platform. How do we think about maybe inorganic or whether you consider it organic attraction of agents? And, I guess, big picture, what is your general view in terms of your theoretical ceiling for agents on this platform long-term? Is it 50,000, 100,000?

Tamir Poleg - CEO & Co-Founder, The Real Brokerage, Inc.
Sure. We believe that if you build value then people will be attracted to this value. And this is what we've been focused since day one of the company. We were trying to build the most amazing platform for agents, and we are now starting to see the signs of agents actually joining because of that value that we offer. So we don't really see any ceiling at this point. We think that there's a long runway for us as a company. I mean, we are very confident that we will get to tens of thousands of agents within a couple of years. And I also believe that we will get to 6 digits.

I think that the question here is not only about the number of agents, it's about how do you build something meaningful that will differentiate our agents compared to other agents in the industry, and how do we equip them with a way to serve their clients in a different way? Because I believe that buyers and sellers are demanding a different kind of service, and this is what we're trying to build.

So at the end of the day, it's not only about the number of agents, it's also about the value that you're creating for the agents and their clients, and how do you monetize all of those transactions that are generated by those agents, and this is what we're now focusing on. We are heavily focusing on monetization through technology. And I think that in the next couple of years, we will see the effect of that on our financial statements.

Q: And, I guess, just last one for me, your productivity per agent on a transaction basis is very impressive. I'm just curious if you scale to tens of thousands, if not hundreds of thousands can that metric stay at that level or do we assume at some point it starts to get diluted?

Tamir Poleg - CEO & Co-Founder, The Real Brokerage, Inc.
Well, I believe that this is sustainable. At the end of the day, it's about the focus of the company. So as a company, we're not focused on the vanity number of – the number of agents on the platform. We want to focus on production, and we want to help agents that are serious about practicing real estate. So at the end of the day, we're not trying to attract only any agent. We're trying to attract the agents that want to succeed and want to close transactions and want to focus on real estate. And I think that this is why we're seeing such impressive per agent productivity numbers. And I believe that we will continue to attract those agents that are more focused on production rather than other things. So I believe that this is sustainable.

Michelle Ressler - Chief Financial Officer, The Real Brokerage, Inc.
Yeah. And I also think we should highlight that this is a challenging market. So we expect that those metrics will only go up from here.

Q: That's helpful. Thanks, Michelle.

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

Q: Hey, this is Wyatt Swanson on for Tom. Thanks for taking our questions. I've got a few here. My first one is just kind of on the changes to the agent fee structure. Could you talk a little bit more about what the rationale was for implementing those changes now? And then how does your current revenue share offering differ versus some of the other similar models in the space?

Tamir Poleg - CEO & Co-Founder, The Real Brokerage, Inc.
Sure. The changes in fees has been a collaborative process and effort with our agents. At the end of the day, our agents are shareholders in the company. So they're both the clients of the company, but they also own an equity stake in the company. So they want to see the company succeed and grow and become profitable. So we had very long discussions with groups of agents. We explained the situation and our costs went up because of inflation, but our model is such that it's capped at some point.

So when agents close more deals, they pay us the same, because there we stop participating in the commission split with them. So when we explained all of this and we thought about how to minimize the impact, the negative impact to the average agent, we came up with all of those different fees. So the joining fee for agents who want to join it really doesn't make a big difference if they pay $149 or $249. This is why we increased this fee. We implemented a very modest transaction fee of $30. We wanted to stay competitive compared to other brokerages out there. But at the end of the day, we wanted to make sure that our agents would be as lightly impacted as possible. And I think that we came to a solution that everybody was somewhat happy with.

Regarding revenue share, different revenue share in the fact that, our revenue share is very generous, let's say, again the average agent. So we are generous on the first year. We believe that most agents will be attracting 1, 2, 3, 4, 5 agents to the company versus those agents that attract hundreds of agents into the company. So we wanted to be generous with the, let's say, every day average agent, and this is why we are generous there. And we also announced a co-sponsored revenue share, which I will spend a minute on. When we looked at our 9,000 agent base, we realized that only about 1,500 of them are actually attracting other agents. And when we ask them why is that? Why are the rest of the agents not really engaged in attraction?

We realized that many of them are interested in building a revenue share, revenue stream, but they don't really know how to have those conversations. So we decided that we are going to allow every agent to name 2 sponsors, and this provides a chance to every agent to team up with other agents who are maybe more experienced in agent attraction and just cooperate in attracting agents to the company. And if they're successful, then they split the revenue share.

We also believe that from a cultural perspective this prevents from turning into a very siloed company. So it just creates more collaboration within the company. So it was right move, and we announced it a few weeks ago. We are currently seeing that about 13% of all new agents joining are coming through co-sponsored revenue share. So we are seeing an uptick in attraction activity because of that.

Q: That's great. Thank you. And then could you share your current expectations as it relates to gross margins for this year, given some of the moving pieces there with fewer agents capping, but the fee structure changes and so on?

Tamir Poleg - CEO & Co-Founder, The Real Brokerage, Inc.
Sure. And Michelle can touch more on that, again, we're not providing guidance, but I think that given the new fees and also the market conditions, I think that the margins this year will be more favorable than last year. Michelle, if you have anything to add please do.

Michelle Ressler - Chief Financial Officer, The Real Brokerage, Inc.
Yeah. I mean, as Tamir mentioned, we're not providing guidance, but we are optimistic about 2023. And I think that you can see the early effects of the fact that within our business model, we planned for downturn in the market. So our business model only strengthens in a challenging environment. And should 2023 continue to be difficult, this will only further benefit the company.

Q: Got it. Thank you both.

Operator
Thank you. Your next question is coming from Chris Sakai from Singular Research. Your line is live.

Q: Hi, I'm in for Dave Marsh. Can you provide an update on Title company operations? How many states is it operating in and what is the plan to roll out in additional states?

<u>Tamir Poleg - CEO & Co-Founder, The Real Brokerage, Inc.</u>
Sure. Hi, Chris. So currently Title is focused on 2 main states Texas and Florida. And we also have an operation in Georgia as well. We are licensed in many more states, but we are now expanding into Colorado, Nevada, Arizona, and California. In February, we had a record month in terms of revenue in Title. We've communicated before that we created JVs. So we are now inviting our agents to become owners in the Title companies that we own, and this way they can actually make money out of Title services, not only out of commissions.

And what we're seeing in those JVs, we have 2 main JVs. One is targeted at cappers, so agents that are more productive, and one is targeted at non-cappers. We have about 65 agents in the cappers JV in Texas and Florida, and about 120 in the non-cappers JV. What we're seeing in terms of attach rates on those JVs is north of 70% of capturable transactions are going to those JVs. So this is encouraging in terms of attach rates, and now we are expanding the JVs to additional states. So this is still very early stages, but again we've seen some record months and I think that we got it right with the JVs. So we're seeing a lot of engagement from our agents.

Q: Okay. Sounds good. And then the same questions for the acquired mortgage operations. How many states is it operating in and what is the plan for additional rollout?

<u>Tamir Poleg - CEO & Co-Founder, The Real Brokerage, Inc.</u>
LemonBrew is licensed as a mortgage brokerage in 20 states and is operating in 20 states. And as a mortgage lender in 12 states, we currently operate only as a mortgage broker. We concluded the acquisition just a couple of months ago. We are now immersing LemonBrew into our business. They're doing a lot of work with our agents. So it'll take a little bit of a ramp up time to get meaningful revenue from them. But we are working on a few very interesting offerings to our agents.

Aside from everything that we're building on the consumer facing gap, we are working on a concept that will enable LemonBrew to guarantee closing and guarantee the date of closing within 14 days of loan application for our agent's clients. So we believe that with this program, we will see much more engagement from our agents and their clients. But, again, it takes a little bit of time to ramp up ancillary services revenue.

Q: Okay. Thanks. And last, what's your general tenor of the real estate market with rising rates and especially with recent bank sellers?

<u>Tamir Poleg - CEO & Co-Founder, The Real Brokerage, Inc.</u>
I think what we've witnessed in the past 9 months is the fastest pace of increasing interest rates in history, and at the same time, the most leveraged economy ever. So debt to GDP is at all-time high. And what we're now starting to see is that things are starting to break--what we've witnessed with the banking industry in the past week or 10 days. I believe that there's a chance that lending standards will tighten, because of everything that's going on.

On the other hand, we are seeing very robust job market and very solid demand for housing. So, I think that there are a lot of conflicting trends right now within market. We are very optimistic about housing. I can tell you that at the beginning of this year, we've seen the same type of phenomenon that that we have seen in the first half of 2022, meaning bidding wars and people who bidding over asking price on homes. And when rates went again above 6.5% that subsided a little bit, but we are seeing, and we are hearing our agents reporting a lot of activity with buyers. So I think that as long as the economy will not break drastically, we are very optimistic about the real estate market.

And regardless of that, I think that us as a company, we are definitely an outlier just because of our fast growth and the fact that we are adding agents so rapidly our performance is not going to be very connected to the market performance. We are going to do much, much, much better.

Q: Okay. Thanks for the answers, Tamir.

Operator

Thank you. [Operator Instructions] Your next question is coming from Brian Kinstlinger from Alliance Global Partners. Your line is live.

Q: Great. Thanks. 2 questions. First is a follow-up from the bank crisis question. I just want to understand from your answer, your goal of $480 million to $490 million in revenue that does not include a negative impact from the bank crisis on volumes. Is that how I read that answer?

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

Hi, Brian, not exactly; what we said is that our assumptions for the year is that transaction volume will drop 15% to 20% and home prices will drop 7% to 12%. And even with those assumptions that are quite severe we expect to be adjusted EBITDA positive in the second half of the year. And in order to achieve that, we need to have about $480 million to $490 million in top-line revenue, which we believe we will do much, much better than those figures. So I think that's – yeah.

Q: And then my follow-up is, can you touch on and maybe I missed it, your M&A plans. I know the goal long-term is to add ancillary services, and you've got a few to your business, so maybe talk about that given they'll probably have higher contribution margins.

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

Sure. What we're seeing on the Title side is that gross margins are in the range of 80% to 85%. On the mortgage side, we're seeing gross margins of about 60%, 65%. We have a short-term strategy on Title, which is again creating those JVs and inviting our agents to participate in those JVs. And this is how we secure those transactions that our agents are processing, because they have an incentive to send them to the JV. Long-term, again, we want to embed Title into the consumer experience on the app, and it will be part of the seamless experience that we're building for our agents' clients.

On the mortgage side, what we are now doing is just introducing our mortgage business to our agents, having a lot of events, a lot of interactions with the agents, asking them to try the services, highlighting the success stories. As I mentioned, we are working on an offering that will allow our agents' clients to close within 14 days with a 100% certainty that the loan will close. So this is something that doesn't really exist in the industry. So we're trying a lot of things. But it takes time, as I mentioned, to ramp up ancillary services revenue. I believe that this year we will start seeing more meaningful revenue coming from Title, and probably towards the back half of the year, we will see more significant revenue coming from mortgage.

But at the end of the day, long-term if we think 5 years ahead, 10 years ahead, everything lies in the consumer experience that that we're building. And, again, Title mortgage services will be embedded into that experience.

Q: Okay. Thank you.

<u>Operator</u>
Thank you very much. Mr. Lee, there appears to be no further questions.

<u>Jason Lee - Vice President, Capital Markets & Investor Relations, The Real Brokerage, Inc.</u>
Thank you. And if you have any additional questions for today's earnings release, please feel free to contact me directly. Operator, would you please give the conference call replay instructions once again. Thanks.

<u>Operator</u>
Absolutely. In order to access the replay, you need to call 877-481-4010 with a confirmation code of 47478. Once again, the replay phone number is 877-481-4010 and the confirmation code 47478. The replay will be available today at 2:00 PM Eastern. 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.