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The Real Brokerage, Inc. (REAX.CA)

Q4 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen. And welcome to The Real Brokerage Fourth 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 and Financial Planning and Analysis at The Real Brokerage. Sir, the floor is yours.

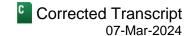
Ravi Jani

Vice President-Investor Relations, 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 fourth quarter and full year ended December 31, 2023. We appreciate everyone for joining us today. With me on the call 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 release including results for the fourth quarter and full year ended December 31, 2023. Real expects to file in March 2024 audited, consolidated financial statements and related notes for the period ended December 31, 2023 and 2022. The related MD&A for the year ended December 31, 2023 and its annual information form for the year ended December 31, 2023, with the US SEC and its Annual Report on form 40-F 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 those forward-looking statements, and the risk factors that could cause these differences are detailed in our Canadian continuous disclosure documents and SEC

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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 Chairman and Chief Executive Officer, Tamir Poleg. Tamir, please proceed.

Tamir Poleg

Chairman, Chief Executive Officer & 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 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 in the 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 eliminates the need for physical office space and a collaborative culture we believe is unique in our industry. Our vision is to simplify life's most complex transaction that is a purchase or sale of the home by providing agents with the tools, technology, and resources they need to grow both their businesses and its individuals, all while delivering a seamless experience for homebuyers and sellers.

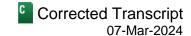
In the short-term, this vision includes the rollout of our One Real consumer-facing mobile app, which streamlines the client experience and enhances attachment of our higher margin ancillary services. In the long-term, we expect our platform to encompass a holistic ecosystem of financial technology products,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

Ultimately, as the platform matures, we believe homebuyers and sellers could also benefit from the breadth of our service offering. Our goal is to redefine the role of real estate brokerage in the lives of our agents and in the broader housing industry. Importantly, 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 fourth quarter results with revenue in the fourth quarter of 2023, increasing by 89% versus the prior year to \$181 million, driven by an 82% increase in the number of transactions closed combined with a 4% increase in average revenue per transaction.

For the full year, revenue grew to a record \$689 million, an increase of 81% versus \$382 million in 2022, which compares favorably to the nearly 20% decline in existing home sales. We ended December with 13,650 agents, up 66% versus the prior year, and up 12% sequentially from the end of the third quarter of 2023. As Sharran will discuss, we're pleased that this momentum has continued and even accelerated so far in 2024. Adjusted EBITDA in the fourth quarter of 2023 was \$8.5 million or \$2.3 million, excluding the impact of non-recurring balance sheet adjustments that was recorded in the quarter. This was a significant improvement from a negative \$0.1 million of adjusted EBITDA in the fourth quarter of 2022 and marked our third straight quarter of positive adjusted EBITDA. The improvement versus the prior year reflects robust revenue and gross profit growth, which outpaced growth in our operating expenses and demonstrates the scalability of our platform combined with the benefits of actions taken earlier in the year to improve margins and optimize discretionary spend. Full year 2023 adjusted EBITDA was \$13.9 million or \$7.6 million excluding the balance sheet adjustment, a significant improvement from the negative \$700,000 in the full year 2022.

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As we look ahead to 2024, there is a clear sense of excitement within Real about the housing market nascent recovery. This optimism is bolstered by the momentum we're seeing in our pipeline, highlighted by both the surge in new agents joining our platform and the significant uptick in open transaction volume. That said, the rate environment remains volatile and warrants close monitoring. Nevertheless, although we are not providing explicit financial guidance for 2024 at this time, I am confident in our ability to deliver another year of significant revenue and adjusted EBITDA growth regardless of how the end market recovers.

Moreover, we remain enthusiastic about the outlook for our mortgage brokerage and Title business lines. We expect both businesses to grow at a pace faster than our core brokerage business in 2024, aided by the rollout of the One Real consumer-facing app combined with growth initiatives, we have undertaken to drive increased attachment of this high margin ancillary services. We also remain on track for the Q2 2024 launch of our first fintech product known as the Real Wallet, a digital debit and credit card platform specifically designed for Real agents. As a reminder, the Real Wallet will enable agents to consolidate all commission income, revenue share payments and equity earned through Real into one digital platform with the ability to access these funds through a Real-branded debit or credit card. Utilizing the Real card will allow agents to accumulate points that can then be applied towards reducing their brokerage and transaction fees, further enhancing the value proposition for agents who join our platform. This innovation highlights our dedication to improving the agent experience by providing unique tools and services that bolster their business operations and financial flexibility, while positioning Real squarely at the forefront of merging fintech with real estate.

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

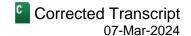
Sharran Srivatsaa

President, The Real Brokerage, Inc.

Thank you, Tamir. In the fourth quarter, our agent count rose to a record of 13,650 agents, up 66% versus the fourth quarter of 2022. I'm thrilled that this momentum has accelerated since the start of the year and today Real now supports 16,000 agents across the US and Canada. This surge in growth has been in part fueled by our recently announced Private Label and ProTeams programs, initiatives designed to make it easier for independent brokerages and team leaders to align with Real, while maintaining their unique brands and compensation structures. The Private Label program allows independent brokerages to leverage Real's technology and leading transaction management platform while maintaining their local brand identity, which often comes with a strong customer base and deep emotional attachment. This initiative has already proven to be a game changer for brokerages like [ph] Globl RED (00:09:16), enabling them to join Real without losing the brand equity they've worked so hard to build. Similarly, our ProTeams program offers unprecedented flexibility for team leaders to customize financial models for their individual team members, ensuring that the structure that has fueled their success at other firms can continue under the Real umbrella. This level of customization and support represent a significant advancement in how we support the growth and profitability of our agents and teams. These programs, along with our continuous focus on agent-centric benefits such as access to healthcare, revenue sharing, and the Real retirement program highlight our dedication to not just growing our agent count, but ensuring that each Real agent has the support and resources that they need to succeed. We're often asked by investors, why do agents choose Real? And that's clear there's no singular reason, but a combination that sets us apart.

First, our approach starts with freedom and flexibility. Recognizing agents are entrepreneurs who know their clients and businesses best. We empower them with the tools and autonomy to operate as they see fit. Financially, Real stands out with an extremely compelling economic model. Our agents enjoy industry-leading commission splits, a low annual cap, revenue sharing and equity opportunities making Real, a platform for significant wealth generation. Many agents who join Real find themselves retaining substantially more of their commission dollars when compared to other brokerages. The backbone of our advantage is our technology. Real

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is unique in the industry for our proprietary reZEN software used daily by our agents. This not only enhances efficiency, but also ensures that we maintain full control over our operations and support services without relying on numerous disparate third-party systems. Culture is another important pillar of our identity. Our Work Hard Be Kind philosophy fosters a culture of collaboration over competition. Maintaining this culture is a responsibility that we do not take lightly, and we will continue to nurture it in order to create a community that agents are so proud to be a part of.

Lastly, Real represents a platform of opportunity. We are a forward-looking organization in a rapidly evolving industry where we are attracting agents who want to be at the forefront of change. The recent influx of top producers and teams from both cloud-based and traditional brokerages further validates our approach. As we look ahead, our focus remains on enhancing our offerings and continuing to build a community where our agents can thrive. I'm incredibly proud of what we've accomplished together and even more excited about the future.

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

Michelle Ressler

Chief Financial Officer & Secretary, The Real Brokerage, Inc.

Thank you, Sharran, and thank you, everyone, for joining us. Before diving into our results for the fourth quarter, I want to highlight the remarkable year of performance across our business. We closed over 66,000 transactions in 2023, an increase of 78% in 2022. While the total value of transactions closed reached a new record of \$25.9 billion, up 80% from 2022. These results would be impressive in any market, but are even more so when considering the nearly 20% decline in the existing home sales market in 2023.

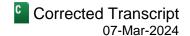
Full year 2023 revenue of \$689 million increased 81% from \$382 million in 2022, while gross profit of [ph] \$63 (00:13:18) million grew even faster, up 97%, compared to \$32 million in 2022. Importantly, growth in gross profit outpaced growth in our cash operating expenses and resulted in our first ever full year of positive annual adjusted EBITDA, which was \$13.9 million for the full year 2023 and \$7.6 million for the full year 2023, excluding the impact of a \$6.2 million non-recurring balance sheet adjustment related to stock-based compensation expenses recorded within cost of goods sold. This marked a significant increase from the negative \$700,000 adjusted EBITDA in 2022.

For the full year, we generated \$19.9 million of cash flow from operations and allocated \$2.9 million to share repurchases, including \$1.1 million in the fourth quarter of 2023. As Tamir mentioned in his remarks, we're not providing formal guidance for 2024 at this time. However, given the strong growth in agent count throughout 2023 and thus far in 2024, we do expect to deliver continued year-over-year improvement in revenue, gross profit, and adjusted EBITDA in 2024.

Moving on to the quarter. Revenue in the fourth quarter of 2023 rose to \$181 million, an increase of 89% versus the fourth quarter of 2022. Growth was driven by an 89% increase in commission revenue, which benefited from an 82% increase in transaction close and reached approximately \$17,750 in the quarter, combined with a 4% increase in brokerage revenue per transaction. Recall our primary economic unit is an individual transaction as we recognize revenue at the time the transaction closes. Title and mortgage revenue totaled \$900,000 in the fourth quarter of 2023, an increase of 86% versus the fourth quarter of 2022.

Given we closed on the acquisition of One Real Mortgage in December 2022, the prior year, fourth quarter only reflected a partial contribution from the acquisition. Gross profit in the fourth quarter of 2023 was \$15.5 million, up 89% from \$8.2 million in the fourth quarter of 2022. Gross margin of 8.6% was approximately flat in the fourth quarter of 2023 relative to the prior year and down slightly sequentially from 8.7% in the third quarter of 2023. As

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a reminder, our cost of goods sold includes 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 and the stock-based compensation line. While we had anticipated a modest and controlled improvement in gross margin relative to the third quarter of 2023, we saw some margin pressure in the fourth quarter, primarily from revenue mix. As commission revenue was much stronger than expected, a high cost problem. While revenue from our higher margin ancillary services line was lower.

For the full year 2023, gross margin was 9.1%, an increase of 75 basis points versus 2022, reflecting both the benefit of actions taken to increase margins and a higher contribution from our ancillary business line. While quarterly gross margins can fluctuate based on mix and natural seasonality in our business, we remain focused on continually driving year-over-year gross margin improvement, particularly as our higher margin ancillary business lines continue to scale. Total operating expenses, which include general and administrative, marketing and R&D, were \$26.8 million or 14.8% of revenue in the fourth quarter of 2023. This reflects the roughly 100 basis point improvement from the fourth quarter of 2022.

Notably, operating expenses this quarter include a \$5.1 million out-of-period adjustment in stock-based compensation expense that was recorded in the fourth quarter. Excluding this catch up, total operating expenses as a percent of revenue would have improved by approximately 400 basis points year-over-year, demonstrating the operating leverage in our platforms. Revenue share expense was \$6.8 million in the fourth quarter of 2023, up from \$4 million in the prior year period and improved as a percentage of sales to 3.8%, down 40 basis points from 4.2% in the prior-year period. This cost is entirely variable and reflects Real commission shares paid to agents for recruiting new agents to the brokerage. Revenue share categorized as a marketing expense of our sponsorship structure aids in attracting and retaining new agents while also enhancing productivity across our platforms.

Adjusted operating expense which reflects total operating expenses, less revenue share, stock-based compensation, depreciation, and other unique or non-cash items totaled \$11.2 million in the fourth quarter of 2023, or 6.2% of revenue, a roughly 180 basis point improvement from 8% in the prior year, further illustrating the scalability of our business model. Adjusted operating expense is a metric provided in our press release to help investors better understand the composition of our non-variable ongoing fixed cash operating expenses.

Real's net loss was \$12 million in the fourth quarter of 2023, compared to a loss of \$6.8 million in the fourth quarter of 2022. Adjusted EBITDA was \$8.5 million in the quarter. However, this amount reflects the non-recurring balance sheet adjustment described earlier. Excluding the impact of this adjustment, adjusted EBITDA improved to \$2.3 million in the fourth quarter of 2023, a significant improvement from the negative \$100,000 in the fourth quarter of 2022. The increase was driven by higher revenue and gross profit which outpaced growth in our cash operating expenses.

Turning to our balance sheet and cash flow, we ended the year with unrestricted cash and investments of approximately \$29 million, an increase of \$10.2 million from the end of 2022. Our cash balance consists of \$14.7 million of unrestricted cash and \$14.2 million in short-term investments. We remain well-capitalized and believe we have ample liquidity to fund our continued growth while continuing to return capital to shareholders. We will remain opportunistic with respect to M&A with a focus on maximizing long-term shareholder value.

To close, I'll recap a few KPIs that are commonly asked about. The total value of homes transacted over our platform increased to \$6.8 billion in the fourth quarter of 2023. A 92% year-over-year increase. The median sale price of properties sold by our agents was \$355,000 in the fourth quarter of 2023, which represents a 2% increase compared to the fourth quarter of 2022.

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Total operating expense per transaction excluding revenue share was \$1,124 in the fourth quarter of 2023, a 2% year-over-year improvement. However, adjusted operating expense per transaction of \$632 in the fourth quarter of 2023 improved by 20% compared to the fourth quarter of 2022, a testament to the efficiencies enabled by our technology platform. As of the end of the fourth quarter of 2023, 10% of agents had exceeded their annual commission cap, up from 9% during the fourth quarter of 2022. This cohort represented approximately 43% of commission revenue during the quarter. Canada accounted for 18% of commission revenue in the fourth quarter of 2023, compared to 14% in the fourth quarter of 2022.

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 1 to 116 at the end of the fourth quarter. This compares to 1 to 98 at the end of the fourth quarter of 2022. 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.

Tamir Poleg

Chairman, Chief Executive Officer & Co-Founder, The Real Brokerage, Inc.

Thank you, Michelle. Reflecting on the entirety of 2023, it's clear that Real has not only navigated but excelled in what has been an extremely challenging market environment, one in which the market for existing home sales declined by nearly 20%. Our success is a powerful endorsement of our differentiated business model, the unparalleled value we offer to our agents, the cutting edge technology that underpins our operations, and most importantly, the collaborative culture we've nurtured since our inception. These pillars have not only sustained us, but have propelled us forward even when the industry at large faces headwinds.

Before going to Q&A, I want to take a moment to talk about our proprietary software based technology platform known as reZEN. Now, technology is a common buzzword in our industry, but I believe what distinguishes reZEN from other platforms is its universal adoption across our agent base. Unlike other brokerages, where maybe 10% or 20% of agents use the in-house technology offering, at Real, every agent leverages reZEN. This 100% utilization rate reflects our philosophy that technology should be integral to a brokerage, not optional. The power of reZEN lies in its ability to leverage software to automate what are traditionally human intensive processes on the back end of a real estate transaction, enabling us to close the transaction in minutes something that could take hours, if not days at traditional brokerages. This automation allows agents to spend less time on paperwork and administrative tasks and more time on what they do best selling real estate.

Meanwhile, the benefits to Real are evident in the fact that our transaction processing team head count has remained flat at just nine employees for the past two years while our annual transaction count has effectively quadrupled from 17,000 in 2021 to over 66,000 in 2023. Importantly, reZEN isn't just a transaction management tool. It's a comprehensive real estate agent operating system, a hub for accessing marketing tools, training materials, collaborating with other agents, as well as managing day-to-day brokerage operations. With the Real wallet on the horizon, reZEN will evolve even further into a wealth building fintech platform, something that is truly unprecedented in the real estate space. With all of our transaction data housed on one single system, our inhouse AI assistant, Leo, become smarter with every transaction, anticipating steps that must be taken, recommending appropriate actions, and extracting the key data insight to help agents run their businesses more efficiently.

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With Leo, we believe Real is one of, if not the only major real estate brokerage utilizing AI to improve transaction efficiencies. And we are still just scratching the surface of its potential. With that, I want to express my deepest gratitude to our agents, employees, and industry partners who have supported Real, both in 2023 and throughout our journey. Your unwavering commitment and belief in our vision has been instrumental and continue to be the cornerstone of our success.

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 session for analysts. [Operator Instructions] Your first question is coming from Darren Aftahi from ROTH MKM. Your line is live.

Darren Aftahi

Analyst, ROTH Capital Partners, LLC.

Hi, guys. Good morning. Thanks for taking my questions. Nice job on the results. Tamir, I think you mentioned in your prepared remarks comment about acceleration of agents into 2024. And I'm curious if you could kind of dovetail those comments next to the launch of ProTeams and Private Label, and how much of an impact that initiative is kind of having on that acceleration?

Tamir Poleg

Chairman, Chief Executive Officer & Co-Founder, The Real Brokerage, Inc.

Hi, Darren. Thank you. Yeah, we have felt an acceleration since the beginning of the year. So, we added more than 1,000 agents in January, more than 1,000 agents in February. We expect onboarding more than 1,000 agents in March, and we have about 2,000 agents who signed ICAs, but have not onboarded yet. So, we have a strong pipeline of agents waiting to join. I think that the ProTeams and Private Label discussions are probably still not fully reflected in the growth yet. So, those are discussions that we started towards the end of 2023 and the beginning of 2024. Those are large teams and independent brokerages that do not make the switch overnight. We do have a very strong pipeline of categories of ProTeams and Private Label that are looking to join in the next few months. So, I think that despite of the fact that growth has been extremely strong, it might be even stronger when the full effect of ProTeams and Private Label kicks in over the next few weeks.

Darren Aftahi

Analyst, ROTH Capital Partners, LLC.

Great. Another one, if I may. Could you maybe list out your top two or three strategic priorities for the team in 2024? Maybe not financial per se, but just strategic priorities?

Tamir Poleg

Chairman, Chief Executive Officer & Co-Founder, The Real Brokerage, Inc.

Sure. I would say three main things. One, continuing to – four. One, continuing to improve efficiency. This has been a focus of the company since we actually started. Our ability to process transactions very efficiently, quickly, and without any human labor involved is key for us and we continue to evolve and improve on that. Second, obviously, growth, we expect to bring a large number of agents on board this year, and that puts a lot of pressure on our onboarding team and an overall operation and support team. The third, the Real Wallet, there's a lot of excitement internally around the wallet and how the wallet can evolve. So obviously, we are starting off the testing

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within a couple of weeks with a small group of agents and then we will roll it out to the entire agent population. So, that's a huge focus for the company and obviously the consumer-facing app, The One Real app which now we are building the building blocks in the background. We're also kind of back to the drawing board when it comes to the user interface and just planning the additional steps and evolution of The One Real app. So, all of those four would be the main focus for 2024.

Darren Aftahi

Analyst, ROTH Capital Partners, LLC.

Great. If I could just sneak one last one in, your comments about reZEN. I'm curious, would you ever license out that technology or is that something you don't want to keep in-house?

Tamir Poleg

Chairman, Chief Executive Officer & Co-Founder, The Real Brokerage, Inc.

This is something that we would want to keep in-house. This is a huge competitive advantage that we have built and continue to build. I think that if you think about potential M&As, if in the past you had seen brokerages acquiring tech companies in order to maybe integrate their technology within their operation, I think that with reZEN, we can actually flip that picture. So, as a tech company that has built a very robust operating system through a brokerage and operating system for agent businesses that can – you can instill efficiency both in our operation and in the agents' operation and also monetize transactions in a better way. I think that that allows us to leverage that technology in order to potentially acquire transactions. And when I say acquire transactions, I mean acquiring other brokerages in order to leverage their transactions and leverage our technology in their operation.

Darren Aftahi

Analyst, ROTH Capital Partners, LLC.

Great. Thank you. Appreciate it.

Tamir Poleg

Chairman, Chief Executive Officer & Co-Founder, The Real Brokerage, Inc.

Thank you.

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

Stephen Sheldon

Analyst, William Blair & Co. LLC

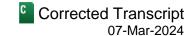
Hey, thanks for taking my questions and great job all around here. First one, just generally wanted to ask how much visibility you have into the agent recruiting pipeline and how do you monitor or track the recruiting efforts of your existing team – agents and team, I guess to bring others to Real. Sounds like you have maybe some more visibility given some of these new initiatives that are bringing over bigger teams. But do you also get visibility into yeah, smaller, smaller, maybe agent teams that are working to add an agent or two? We just love any detail on the visibility if you get?

Tamir Poleg

Chairman, Chief Executive Officer & Co-Founder, The Real Brokerage, Inc.

Sure. Thanks, Stephen. So yeah, as you distinguish between large teams and maybe solo agents or small teams, this is probably the same for us. We don't have a CRM that organize the data from all of the agents. I think that at this point, growth, especially when we're talking about fellow agents, is pretty predictable for us. Just because we

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can look at patterns, we can look at seasonality, we can quite accurately estimate what would be the number of solo agents or small teams that will be joining us. I explained that what we're seeing is that more and more large teams are joining in independent brokerages. So, for example, last year, a team or a brokerage of 100, 150 agents will be a large team for us to onboard. Right now, we're talking to team and brokerages of 400, 500, 600, 700 agents. So obviously, in those discussions, we're very active, we track the pipeline. But I think that again on the solo agents, it's pretty predictable without us having any visibility into what's happening on the large teams and independent brokerages, we do have full visibility.

Stephen Sheldon

Analyst, William Blair & Co. LLC

Got it. That's really helpful. As a follow-up, just curious how the One Real consumer app build out is going relative to what you would have expected? When you think it could start to have an impact on attach rates for ancillary solutions like Mortgage and down the road, but eventually Title what – what are some of the important milestones that we should be thinking about?

Tamir Poleg

Chairman, Chief Executive Officer & Co-Founder, The Real Brokerage, Inc.

Sure. So obviously, we're putting a lot of focus on The One Real app. The challenge there is that nobody has tried it before. So, we are doing everything from scratch. We're designing everything from scratch. We're building all of the internal building blocks, all of the integration between Title, Mortgage and Brokerage. Those things take time. I think that on the back end, we're doing good progress. On the front end, which is the user interface, we have not released the new version of the app just because, as I said before, we are somewhat back to the drawing board and trying to design the additional building blocks of the consumer or the user interface. So, home search collaboration with the agent paperwork, all of those things. I expect that process to complete in about eight weeks. I would say I think we will see more progress on The One Real app in the second half of the year.

When it comes to attaching ancillary services this year, both Title and Mortgage will grow – their growth will outpace the growth of Brokerage. So, I expect those two companies to grow at a minimum of 200% year-over-year. I can tell you that Mortgage has had the best month ever in February, so this is a good sign. February is typically a very slow month for real estate, so we are seeing attach rates going in a very positive and promising direction.

On top of that, we have some of our biggest teams already committing to using Real Title. So, we will probably see the effect of that starting in Q2, and then for the remainder of the year. But as we said before, we are very bullish on those two businesses and I think that 2024, their impact on our financials will become much more significant.

Stephen Sheldon

Analyst, William Blair & Co. LLC

Great to hear. Appreciate the detail. Thanks.

Tamir Poleg

Chairman, Chief Executive Officer & Co-Founder, The Real Brokerage, Inc.

Thanks.

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



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Matthew Erdner

Analyst, JonesTrading Institutional Services LLC

Hey, good morning, guys. Thanks for taking the questions. Could you talk about the commission splits that you guys are seeing with your agents and how the recent suits have had kind of an effect on those operations?

Tamir Poleg

Chairman, Chief Executive Officer & Co-Founder, The Real Brokerage, Inc.

Hi Matt. Thanks. It's interesting because we've been trying to monitor and look at some patterns in the market. I can say that we have not seen any change thus far. So, we actually have seen a little bit of a decline in commission rates in Canada, which was surprising because it has nothing to do with the antitrust lawsuit. But in the US, for our agents, business as usual when it comes to commission rate. So, we're not seeing that pressure. Also reports from our agents suggest that they're not feeling that pressure from their clients. Maybe yes, maybe it wouldn't come at all, but it's still not being felt in the business or by the agents.

Matthew Erdner

Analyst, JonesTrading Institutional Services LLC

Yeah. That's good to know. And then turning to the Real Wallet, when do you expect this to kind of be fully scaled? What impact is this going to have on your guys' margins overall as a whole? And then could you talk a little bit about the banking partners behind it?

Tamir Poleg

Chairman, Chief Executive Officer & Co-Founder, The Real Brokerage, Inc.

Could you repeat the first half of the question, please?

Matthew Erdner

Analyst, JonesTrading Institutional Services LLC

Yeah. When do you expect the Real Wallet to kind of be fully scaled up adoption rate? What's the impact on the margins going to be, when you do get it fully scaled, and then the banking partners as well?

Tamir Poleg

Chairman, Chief Executive Officer & Co-Founder, The Real Brokerage, Inc.

Sure. So, the banking partner, the banking-as-a-service partner we work with is a company called Unit. They have banks that they work with, which are kind of behind the scenes. We are going to go somewhat slow with the Wallet. As I said, we're starting alpha testing within a couple of weeks, and then we will roll it out to more and more agents. The question is not how many agents will use it, is how much credit do we feel comfortable giving to our agents. So, at the beginning we will be ultra conservative with our underwriting and then as we get more and more experience with the wallet and patterns around that, we can offer more credit to the agent. So, I think that probably that will evolve over time. I think that 2024 is going to be somewhat of a test year for the wallet, even though it will have a positive effect on our financials. In 2024, long-term, I think that it's a little bit early to predict because the Wallet can evolve in so many different directions and it can go even into the consumer realm as well. So, offering Wallet related products to our agents clients I think that on a gross margin basis, the Wallet can have an impact of 1% to 2% in total gross margin.

Matthew Erdner

Analyst, JonesTrading Institutional Services LLC



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Yeah. That's good to note. And then as a follow-up to that, as you kind of get this thing off the ground, are there any frontloaded expenses that you guys are expecting to incur or just expenses going forward that we should kind of put into the model for the Wallet?

Tamir Poleg

Chairman, Chief Executive Officer & Co-Founder, The Real Brokerage, Inc.

The only expenses right now are dev related. And I mean, it's part of our dev budget. We have – we started working on everything in 2023. We will continue to work on it in 2024. I don't think there are any outstanding or extraordinary expenses related to the Wallet that you should factor in the model.

Matthew Erdner

Analyst, JonesTrading Institutional Services LLC

Awesome. Thank you, guys.

Tamir Poleg

Chairman, Chief Executive Officer & Co-Founder, The Real Brokerage, Inc.

Thank you.

Operator: Thank you. Your next question is coming from Soham Bhonsle from BTIG. Your line is live.

Soham Bhonsle

Analyst, BTIG LLC

Hey, good morning, everyone. Hope you're all doing well. Tamir, I guess just stepping back for a second, historically, the Brokerage business has been, call it, high single-digit sort of 10% EBITDA margin business. Now, obviously, your margin profile is going to be a little different given your business model. But, as you sort of put together some of the innovative things that you're doing on the fintech side and then just that mortgage and title ancillary attach, how should we think about sort of normalized margins right in normal market, right. Call it \$5 million existing home sales, long-term?

Tamir Poleg

Chairman, Chief Executive Officer & Co-Founder, The Real Brokerage, Inc.

I think that if you factor in the Wallet, Title, Mortgage and some additional services that we will be adding later on, we're looking at gross margins in the mid-teens, which I think we will get to within a couple of years and EBITDA margins of, high single-digit, I would say that's our target.

Soham Bhonsle

Analyst, BTIG LLC

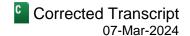
Got it. Okay. And second one, you talked a lot about sort of productivity on the operations side, which I think is certainly unique. But, I wanted to ask you about sort of levers that you have to pull to improve productivity on the agent side. Right. Because I think we can all debate what happens to agent count long-term. But as long as you can sort of keep your agents productive and keep taking share that way, that feels more sustainable to me. So, can you just talk about that piece a little bit? Thanks.

Tamir Poleg

Chairman, Chief Executive Officer & Co-Founder, The Real Brokerage, Inc.



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Sure. It's probably a combination of both technology and human initiatives. So, on the technology side, I think that the technology that we're building that allows agents more visibility into their businesses and just streamlines a lot of processes, just saves up a lot of time, which kind of opens up the opportunity of serving more clients at the end of the day. So, they can they can handle more transactions in a given day or month versus before joining Real. So, that's technology piece of it.

The human piece of it we're taking a lot of action towards educating our agents, both on the listing side and on the buy side, just with kind of very tactical information on how to source leads, how to generate and source leads, how to nurture leads, how to do weekly tasks, weekly emails, deal of the week. Sharran is doing a lot of work around educating the agents on how to improve their productivity. And the last piece of it, I think that because of the very collaborative community that we built, there is so much happening on a daily basis, both online and offline, that successful agents are just educating newly licensed agents or agents that are now closing three transactions a year and want to take their business to the next level, which is six transactions a year. There's a lot of collaboration and sharing of information. And I think that this is extremely unique and that's going to help a lot of agents and can overall improve the pro-agent productivity within the company.

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Analyst, BTIG LLC

Got it. Thanks for the thoughts.

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

Wyatt Swanson

Analyst, D. A. Davidson & Co.

Hey, this is Wyatt Swanson on for Tom. Thanks for taking our questions. It seems like you guys have had some really nice momentum with high productivity teams joining Real since the start of the year. Can you talk a bit about how the agent recruiting or agent attraction landscape may have changed for you guys in recent months? And then, any specific parts of the overall Real brokerage value prop for agents that you're finding are really starting to resonate more with agents at the moment? Thanks.

Tamir Poleg

Chairman, Chief Executive Officer & Co-Founder, The Real Brokerage, Inc.

Hi, Wyatt. So, yes, the momentum has accelerated for us, and I think that now this momentum is starting to translate into transactions. So, our pipeline of open transactions is about 100% – almost 100% higher than it was at the same date last year. So, this is translating into revenue. I think that maybe what's fueled that is the fact that we are becoming a household name for – first of all, I think it also has a human component, whereas some high producing teams in different areas are joining us and then a lot of other agents within the area are asking themselves, okay, why did that team join Real? Maybe we should look into it. I think that the model itself is so sticky and the fact that every agent that joins us is an opportunity to add another two, three, four, five other agents just because of the revenue share. It creates a snowball effect. And I think that we are now starting to feel the effect of that snowball effect, which is great.

When – I think that some of the initiatives that really excite those agents and teams that are now joining us. First of all, Private Label and ProTeams are huge. So, just as a reminder, Private Label allows independent brokerages to switch over to Real without changing anything in their branding, without investing in rebranding, without spending any money, just keeping their brand, their local brand that they do for so many years, which is extremely

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valuable for them, and joined on – join under our platform without changing the name or anything like that. ProTeams is essentially a dashboard that allows team leaders and brokerage owners to configure a different plan for each and every agent within their team. So, think about having 100 agents. One agent can be on a 70-30 split, another agent on a 50-50. Some agents pay a monthly fee. Some agents pay a closing fee. It's an accounting nightmare for brokerages and teams. So, ProTeams just takes care of all of this in the background automatically for them. Those two initiatives makes the switchover to Real seamless, extremely seamless, and it just eliminates a lot of the concerns that they have. So, those two things obviously have a positive impact on growth.

The other thing I would mention, there's a lot of excitement around the Wallet, just the ability to earn points in order to offset fees and the ability to have a credit line attached to your business, which is something they cannot do right now at their current bank. This is something that they're excited about. And also, for example, for a team leader to be able to offer credit cards, branded credit cards to the team members. This is huge. This is something that nobody else offers. So, they see the vision around the financial ecosystem that we're trying to build together with them.

Wyatt Swanson

Analyst, D. A. Davidson & Co.

Got it. That's really helpful. I appreciate the color. And then just a follow-up. Could you give any more detail or color just on overall agent growth expectations for the next few quarters or for calendar 2024 overall?

Tamir Poleg

Chairman, Chief Executive Officer & Co-Founder, The Real Brokerage, Inc.

Yeah, we're not providing a full year guidance. But as I said, a 1,000 agents join in January. A 1,000 in February, we're expecting over 1,000 in March, probably another 1,000 in April. I don't know if that pace is sustainable or maybe it will even increase. But at this point in time, it seems like this is going to be a very, very strong growth year for us.

Wyatt Swanson

Analyst, D. A. Davidson & Co.

Okay. Understood. Thank you.

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Chairman, Chief Executive Officer & Co-Founder, The Real Brokerage, Inc.

Thank you.

Tamir Poleg

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

Ravi Jani

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

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. First question, for Tamir, are the agent incentives, including the 85-15 split sustainable?

Tamir Poleg

Chairman, Chief Executive Officer & Co-Founder, The Real Brokerage, Inc.



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Yeah. The 85-15 commission split in favor of our agents is core to our value proposition and something we have no plans to change. No plans to change in the future. The split is one of the most generous in the industry, as you probably know, especially when factoring in the \$12,000 cap. But it is also one of the reasons why we're focused on driving growth of our ancillary business lines, such as Title and Mortgage as well as the Real Wallet, where gross margin could be five to eight times higher than our traditional Brokerage margin.

Ravi Jani

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

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Great. Next question for Sharran. What is the strategy to recruit and retain top agents? And how do you plan to retain top talent as the brokerage grows?

Sharran Srivatsaa

President, The Real Brokerage, Inc.

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Awesome. Thanks, Ravi. You know, for us, the growth is not just about great numbers, right? It's about attracting great people. And then building a great community that actually create great numbers. So, conceptually speaking, our approach is quite simple. We believe the top agent of today is actually looking for a completely different platform, and we call it an entrepreneur-centric platform. Now, what does that mean? Agents today want to design and build and run their businesses the way they see fit in their market to their skills with their own business models. And traditionally, it's been where an agent has to plug into a brokerages model. But we have changed this approach where we say it's our job to create these entrepreneur-centric Lego block. A Lego block that an independent brokerage would want is completely different than what a team would want, is completely different than what the individual agent would want. So, our focus is to build more of these Lego blocks to help agents build their businesses on the Real platform, which gives us a true partnership with the agent.

Ravi Jani

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



Got it. Tamir, next question. Have there been any concerns about Real's infrastructure with respect to the rapid growth we're experiencing?

Tamir Poleg

Chairman, Chief Executive Officer & Co-Founder, The Real Brokerage, Inc.

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On the contrary, we're very excited about the growth. Given the scalability of our tech platform we're not concerned about the ability of our systems to handle the significant growth we're experiencing. In fact, just this week, our transactions team set an all-time record by closing 500 transactions in a single day. This is something that we have never done before. Of course, we are making select head count additions where necessary to ensure the agent onboarding and support teams remain well-equipped to support our agents whenever and wherever they need. But with that said, this is another reason why we're excited about Leo AI, which effectively functions as a virtual assistant for every agent on our platform and reduces our need to hire the same amount of full time employees as the traditional brokerage model would.

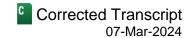
Ravi Jani

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



Great. Next question for Sharran. And we talked about this a little bit in the analyst Q&A, but could you just expand on the vision for Private Label? And how is this a unique value proposition for some agents?

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Sharran Srivatsaa

President, The Real Brokerage, Inc.

Yeah. For sure. So, this goes to our entire company's philosophy of test and invest. And we've been working on this Private Label offering for, about the last 12 months. In 2023, we ran a pilot of this program in five different markets, and that's what actually allowed us to say this could be adopted really well. So, what Private Label really mean, just Tamir talked about is an independent brokerage that has built a brand in the local market, could keep their brand while partnering with Real. This is important because in every other instance, these independent

brokerages would have to give up their brands that they've built to actually join the company. So, to give, for some broad context, there are over 100,000 independent brokerages in our country. And these independent brands and owners have spent years building brand equity in their local markets.

In fact, from personal experience in my previous brokerage at Teles, we built a leading brand in across 22 offices in Southern California that was acquired and combined with the national brokerage. And we lost that brand overnight. If we had this option it would have been a much more scalable option for us. So, with Private Label, independents can join Real, keep all their branding exactly the same. And effectively that creates – it makes Real a brokerage-as-a-service provider powering independent brokerages with our back-end technology in systems and support.

So, I'm super excited about the potential of Private Label to offer this value to independent brokers and teams because it shows and goes to the scalability of our platform overall. So, it's also worth mentioning that this is not done across industry. There are few players in our industry like [indiscernible] (00:52:03), who have provided somewhat of a similar offering to independent brokerages, and their equity valuations are in the billions of dollars. So, we actually feel pretty good about the potential for Private Label to help shine light on this tremendous value that we offer and the Lego blocks that we give to independent brokerages.

Ravi Jani

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

Great. Next question for Michelle. When Real grants stock awards, where does the stock come from? Does the company go out in the open market to purchase the shares or is there a float of treasury stock that the company is hoping to issue the stock awards?

Michelle Ressler

Chief Financial Officer & Secretary, The Real Brokerage, Inc.

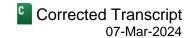
Yes, the answer is both. We have the ability to issue stock as necessary in order to satisfy the various stock awards. However, we're also active purchasers of our stock on the open market, and that enables us to issue shares from trust. So, the buyback was initially put in place to satisfy the agent awards. And so, as long as we continue to buyback our stock, which we feel is undervalued and a good use of our strong cash flow in order to offset dilution, then we can issue those shares from trust.

Ravi Jani

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

Got it. Tamir, what is the strategy to increase the amount of mortgage providers participating in the One Real Mortgage platform? And are there any opportunities to automate the Mortgage and Title processes? It's a combination of two questions.

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Tamir Poleg

Chairman, Chief Executive Officer & Co-Founder, The Real Brokerage, Inc.

Yeah. I mean, obviously the rate environment has been volatile, but we are actively recruiting more mortgage loan officers. So, if anyone in the crowd is an MLO, please, and you're interested in joining One Real Mortgage, please reach out to us and apply. Regarding the efficiency of those two businesses, yes, I think that the same things we have done in the Brokerage business can be done for Mortgage and Title, and we are now working on it. So, we think that those two businesses will not only grow revenue, but become more efficient in their operation. For example, we are building now a system which essentially will replace a system called Qualia for Title. So, kind of powering the overall operation of Title ourselves instead of using a third-party system. And what we're building, I believe, is going to be superior and we are going to own it. And we are — One Real Title is going to be the only company that is using it. So, there are a lot of opportunities to also streamline Title processes and Mortgage processes using technology, and we are working on it.

Ravi Jani

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

Great. And last question for Tamir. Where do you see the stock market going for Real in the next two to three years?

Tamir Poleg

Chairman, Chief Executive Officer & Co-Founder, The Real Brokerage, Inc.

Obviously, we don't control the stock market or stock prices any more than we control the weather. But we do know that over the long-term, the stock price ultimately reflects the intrinsic value of the business. And so, what that means for us, for Real, is that as we continue to execute on our strategy, rapidly grow revenue and sustainably compound our earnings and free cash flow per share, our stock price will ultimately reflect the significant value that we know we can and will create for our shareholders. So, we just need to continue and execute, build a great business, working on growth and profitability, and I expect the stock price to react accordingly.

Ravi Jani

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

Great. Well, we'll end it there. If anyone has 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?

Operator: Thank you. Ladies and gentlemen, as mentioned, today's conference will be available for replay. The replay phone number is 877-481-4010, and the replay code is 49884. Once again, the replay phone number is 877-481-4010 and the replay code is 49884. You may disconnect your phone lines at this time and have a wonderful day. Thank you for your participation.

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