Transcript of
The Real Brokerage Inc.
First Quarter Conference Call
May 09, 2022

Participants

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Tamir Poleg - Chairman and Chief Executive Officer, The Real Brokerage Inc.
Michelle Ressler - Chief Financial Officer, The Real Brokerage Inc.

Analysts

Darren Aftahi - Roth Capital Partners
Tom White - D.A. Davidson

Presentation

Operator

Good day, ladies and gentlemen, and welcome to The Real Brokerage's First Quarter 2022 Earnings Call. At this time, all participants have been placed on a listen-only mode and the floor will be open for your questions and comments after the presentation.

It is now my pleasure to turn the floor over to your host, Jason Lee. 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 first quarter 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 results as well as its management discussion and analysis for its first quarter ended March 31, 2022 on SEDAR and EDGAR. These documents, along with the accompanying press release, can be found on both SEDAR and EDGAR.

Before I turn the call over to Tamir, I'd like to remind everyone that statements in this earnings call, which are not historical facts, may be forward-looking. 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. We'll 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 - Chairman and Chief Executive Officer, The Real Brokerage Inc.

Thanks, Jason and thanks, everyone, for joining today. I would like to start by thanking the hundreds of agents and large teams who joined Real in the past few months and to our community of agents who have contributed to the growth we are experiencing. I will now continue by highlighting some top level financial results, then I will provide some operational updates from before turning it over to our Chief Financial Officer, Michelle Ressler, to dive deeper into our financials.

Let's start with the first quarter financial results. Q1 revenue was 61.6 million, an increase of 562% year-over-year. Driving that growth was 140% increase in real estate agents joining Real as well as the 176% increase in the revenue per agent to nearly $14,000.

Now, turning to operating highlights. In terms of geographical expansion, during the first quarter, we announced Real's expansion into New Mexico, Arkansas, and Maine. And in Canada, we launched in Ontario. Subsequent to the end of the quarter, we announced our expansion into Mississippi bring our tally of states to 43 states, the District of Columbia, and two provinces in Canada. We are pleased with our expansion efforts and plan to focus on growing deeper within our existing areas in North America.

Moving to agent referrals, a principal factor driving our growth. We believe we appeal to agents by providing the best tools, incentives, and, more importantly, culture. I'd like to reiterate that agents are highly social individuals and they're attracted to like minded people. They're attracted to our culture. We managed to build a culture of working hard and being kind and collaborating. We have events across the countries throughout the year to develop this culture. We also have Director of Culture who is rolling out programming to maintaining these important values. We feel that this is attracting a lot of agents who not only see the opportunity, they also see the opportunity of belonging to something greater that resonates with their values.

Just as an example, this is what attracted Invidiata, a team of 35 years of success in real estate, onto our platform in February. With a focus on luxury homes Invidiata has sold more than $4 billion in residential real estate since 1985 and has been named the number one Re/Max Team in Canada 15 times. It is also what attracted the North Group, which continues to expand its network of over 40,000 clients, investors, and realtors in early March. Additionally, our platform attracted The Perry Group this quarter, which ranks as the top team in Utah on RealTrends Magazine's list for 2021. We are proud to say that Invidiata, the North Group and The Perry Group are now part of The Real team and look forward to having them play an important role in our growth.

Moving to retention. Agents enjoy the benefits of Real; it's an element of why they come and why they stay. These benefits include equity incentives, most often to our equity benefit. I am pleased to share that consistency in retention continues as agents are enjoying taking advantage of everything we have to offer.

Now turning to product focus. I'm glad to update that in Q1 we continue to increasing the product offering of Instant Payments to more and more agents. As you may recall, this is a product we launched last October, and this is progressively increasing in adoption, providing an increased benefit to agents.

Other product highlights include the acquisition of Expetitle, Inc. in January of this year, which in April has been rebranded as Real Title. Real Title simplifies the paper intensive and time intensive title and escrow process, reducing errors and saving time. Tools such as title orders, and ranking, title information, contracts and documents storage that were a part of the original Expetitle app will now be integrated into Real's app. Full integration is expected to be completed in a few short months. In terms of Q1, March was the highest revenue month for Real Title since the company started, so we are seeing progress in revenue growth monthly.

Finally, in terms of product, development continues on our consumer facing technology. As I've previously mentioned, this will enable Real to grow beyond traditional brokerage into a large online real estate company that aims to change the way people buy and sell homes, fixing an outdated and broken process.

Finally, moving on to the efficiency of our team, we continue to grow headcount and real estate transactions efficiently. In fact, at Mach 31, 2022, our efficiency ratio, which is the full time employees divided by the number of agents that are currently on our team, remains high right around 1:55. We believe this continues to be a competitive advantage.

To conclude, Q1 was another successful period for the company. We are growing rapidly and adding ancillary services to our core brokerage offerings. We are operating sustainably with a steady balance sheet and positive cash flow.

At this point, I will now turn it to Michelle for more in depth view of our financial. Michelle?

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

Thank you, Tamir, and thank you, everyone, for joining us. I'll start by assessing some of our key financial results for the first quarter.
We experienced another quarter of phenomenal growth. Our Q1 revenues grew 562% year-over-year to 61.6 million. This increase was mostly driven by agent growth, which was up 140% year-over-year and revenue per agent, which grew 176% year-over-year. This growth is further supported by proprietary technology platforms which allow us to continue expanding our agent count and geographic footprint at an accelerated pace. Real completed 6291 transactions in Q1 2022, which was an increase of 369% compared to Q1 2021.

Our gross profit grew 374% year-over-year to 5.9 million in Q1 2022. Our gross profit margins are affected by the increase of number of agents to cap, the increase in volume, and rising unit prices. We seek to offset downward gross margin pressure from higher producing agents by increasing margins through the introduction of financial services, such as our newly launched Instant Payments program that Tamir touched on previously and by adding other ancillary services. We have now added our first ancillary service with the acquisition of Expetitle, now called Real Title.

Our net operating loss for the quarter was 4.3 million, compared to 3.7 million in Q1 of 2021. This change was primarily the result of investments related to our growth, including building our team of agents, key management employee personnel, as well as our technology infrastructure. As a percentage of revenue, total losses were 7% in Q1 2022 versus 41% in Q1 2021, thus demonstrating our ability to monitor spend and execute responsibly. Adjusted a bit of loss for the quarter was recorded at 1.9 million in comparison 0.9 million in Q1 2021. As a percentage of revenue, adjusted EBITDA losses were 3% in Q1 2022 compared to 10% in Q1 2021. We believe that adjusted EBITDA provides useful information about our financial performance and also helps identify underlying trends in our business that otherwise could be masked by the effect of expenses that we exclude in the calculation. In particular, we believe exclusion of stock-based compensation expenses provides a useful supplemental measure in evaluating the performance of our operations and also provides better transparency.

Overall, our operating expenses were 10.1 million in Q1 in comparison to 4.9 million in Q1 of last year. The change is primarily due to increases in our revenue sharing program, as we onboard highly productive agents, as well as expenses related to being a public company, increased headcount that further support our growth, and the acquisition of Expetitle, now called Real Title. The growth in the number of full time employees is attributable to Real's commitment to better serve our agents and to further expand the company. These investments in key management and employee personnel allow us to offer best-in-class service to our agents and our agents customers. With year-over-year revenue growth of 562%, we believe we have proven our ability to scale in a highly efficient manner and with minimal impact on operational costs.

As Tamir mentioned, Real's full time employee to agent ratio as of March 31, 2022, is 1:55, compared to 1:56 in March 31, 2021, as we invest in new talent to fuel the next wave of growth. Note that this calculation does not include the Real Title team as they're focused on driving revenue through their title business and are not in the direct support of the brokerage side of the business that supports agents.

General and administrative costs were 5.4 million in comparison to 2.3 million in Q1 of last year. That increase is mostly driven by the costs related to being a public company, increases in consulting as we expand our geographic footprint, and increases in headcount that further support our growth. G&A expenses are expected to increase going forward as we continue to scale rapidly. However, as mentioned, we actively monitor spending and the impact on our bottom line.

Marketing costs grew to 3.7 million from 0.6 million in Q1 of last year. That change is primarily due to the revenue share program paid to agents as well as stock-based compensation related to the equity program. Agents earn revenue share for new agents that they personally refer to Real and are eligible for the equity incentive programs based on certain attraction and performance criteria. We expect to see the costs associated with our agent incentive programs to contribute to the long-term goals and success of the company.

Research and development costs were 1 million in comparison to 2 million in Q1 of last year. The decrease was primarily due to the acquisition of RealtyCrunch in 2021, which is now the foundation of our tech stock. Additionally, in Q1 2022, we began to capitalize costs associated with developing our cloud-based residential real estate transaction program.

As a percentage of revenue, sales, general, and administrative costs were 9% and in Q1 last year, they were 25%. This is highly representative of our level of efficiency and ability to scale. As mentioned, we have a technology infrastructure that's able to support us on the path forward to 100,000 agents with minimal impact on our operational costs.

We ended Q1 with a strong balance sheet holding 37.5 million in cash and investments compared to the total cash balance of 37.9 million in Q1 of last year. Cash flows from operations increased by 2269% in comparison to Q1 last year, and the company holds no debt. During the quarter, the company repurchased 1.5 million common shares for a total of $4.5 million pursuant to the terms of its normal course issuer bid. The company continues to strengthen its balance sheet and market share, as well as demonstrate significant year-over-year growth.

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

[Operator Instructions] And the first question is coming from Darren Aftahi from Roth Capital Partners. Darren, your line of live.

Q: Hey guys, good morning. Thanks for taking my questions. Couple if I May. First is, could you speak about maybe the agents that you've brought on in the last, I don't know, 12 to 18 months and what their comparable productivity has been Q1 of last year versus Q1 of this year?

Tamir Poleg - Chairman and Chief Executive Officer, The Real Brokerage Inc.

Hey, Darren, how are you? So I think that's looking at the agents that we brought on in 18 months ago, what we're seeing is a fast increase in the number of agents, so typically the high producing agents that joined us recently have joined in the past nine months or so but, overall, I think that there are two factors that we need to take into account. One is the fact that the overall real estate market was stronger this year or this quarter compared to 12 months ago, just because of the increase in home prices. I think what we're seeing is that we have somewhat of information about agents who joined us about their past productivity, I mean, and trying to apply to today is a little bit tricky. What happens is, if somebody joined us in Q1 of 2021, we only saw their production around the second quarter, because it takes a little bit of time. What I'm trying to say here is that if we look on a case by case basis, we see a little bit of improvement. But I'm not sure what to attribute that to. I mean, we can attribute that to the market, we can attribute that to our platform. At the end of the day, I think that, overall, it's a little bit too early to determine what effect does our platform have over the agent productivity just because we grew so rapidly over the past 12 months.

Q: Great. And then I'm just curious sort of post the quarter, maybe April and May. Obviously, interest rates in the housing market have moved a little bit. I'm just kind of curious what you've seen in terms of kind of 2Q to date, anything you'd kind of call out?

Tamir Poleg - Chairman and Chief Executive Officer, The Real Brokerage Inc.

Sure, well, obviously we do not provides guidance, however, I will try to be cautious in how I phrase it. Like everybody else, we are starting to see signs of the market softening in different areas. Last week, I spent a couple of days in Orlando, Florida and in San Antonio, Texas, when talking to agents over there and asking them about the market the reaction was, the market is still strong, we're not seeing any slowdown. Every now and then you hear about a buyer that all of a sudden just paused their search just because it's becoming less and less affordable. I think that we are seeing a little bit of signs of softening on the West Coast but, overall, the market is still strong. As I said before, some sort of a downturn in the market is an opportunity for us, an opportunity for a platform like Real to gather more agents and attract new agents and just showing this alternative. So, I think we are very well prepared for that. We've been talking about a shift in the market for a few months internally, so we started preparing for that. I think if that happens, that will not be a surprise to all of us but the fundamentals are that we have a strong job market. We still have low real estate inventory out there. We have rising grades, so it will be interesting to see how that plays out.

Q: Great. Two more if I may. You spoke about the Title business, I think you said March is the strongest quarter. How do you plan to sort of integrate Title into your 43 states that you have live right now, just kind of talk about the strategy? And this may be a last one for Michelle. It looks like other payables ramped pretty significantly in the quarter, I'm just kind of curious what that was about. Thanks.

Tamir Poleg - Chairman and Chief Executive Officer, The Real Brokerage Inc.

Sure. Expetitle, that was rebranded into Real Title. When we acquired them, they were licensed in three states, we now expanded to additional states. We are still not operating in those states. What we want to do and what we are working on is doing things, one, making sure that we have a proof of concept in one specific market and, if we are successful, then expanding it to more. And the second is completely integrating the Real Title into our consumer facing app. So I will elaborate on each. We chose Texas as a place to focus on for proof of concept. It means that we are out there, we are talking to our agents, we're having events with our agents, we're explaining them about the benefits of using our Title company. At the same time, we will likely set up a JV with some of our top producing agents that will ensure that they use the Title company because they will become part owners in that and they will be also attracting other agents or asking other agents to funnel their transactions into the JV. So we believe that this JV structure will probably result in a massive adoption of the Real Title amongst our agents. That's one thing. The longer term approach is completely integrate Real Title into our consumer facing app, so whenever our agents are starting to work with a potential buyer, one of the documents that that buyer will be signing is an authorization to use the Real Title. Again, today, most buyers do not really care which Title company to work with, so we are going to offer them our own service says and it will be pretty seamless if they choose to use as our Title company, it will probably result in a smoother and faster closing, more visibility for them. So it's going to be a win-win for the client, for agents, and us. And we are targeting October for that proof of concept, so we have a few more months of development work to do.

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

Hey, Darren.

Q: Great. Thank you. Hi, Michelle.

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

So I'll just quickly answer your last question around the accounts payable jump. So, Real launched in Canada for the second half of last year, and we've seen a significant increase in the business in Canada in the first quarter of this year. The way that business works in Canada is a little bit different than the way the transaction is processed in the United States. So, in Canada, funds are required to be held in escrow before the deal closes and so that represents the payable on the books until that point in time. So, the balance between cash and accounts payable will increase accordingly.

Q: Great. That's helpful. Thanks, guys.

Tamir Poleg - Chairman and Chief Executive Officer, The Real Brokerage Inc.

Thank you.

Operator

[Operator Instructions] And the next question is coming from Tom White from D.A. Davidson. Tom, your line is live.

Q: Great. Good morning, guys. Thanks for taking my questions. A few if I could. One, was hoping you can maybe just give us your updated thoughts on kind of what gross margins might kind of look like for CY '22? When it's all said and done, realized there are a bunch of moving pieces and unknowns there around just the market and an agent capping and home price appreciation and an Instant Payments but kind of any updated thoughts on how we should think about gross margins for the year?

Tamir Poleg - Chairman and Chief Executive Officer, The Real Brokerage Inc.

Sure. What we are seeing is that gross margin is starting to stabilize around 9.5%, it actually increase a little bit this quarter and increased a little bit on the previous quarter. We knew that gross margin is going to be affected by the fact that we are attracting higher producing agents and those high producing agents are capping. And therefore they're keeping 100% of their commission and only paying us a fee. So, going into the second half of 2021 and into 2022, we knew that this will be affecting gross margin and, at the same time, we thought about ways to optimize gross margin. So it comes in different forms. One would be an optimization of the model, we are talking to our agents about the fact that our agents are both the clients of the company, but they're also shareholders in the company, so they need to wear both hats, how can we create a model where gross margin is less affected by higher producing agents. That's one thing. Second thing is all of those additional financial services such as Instant Payments, interest payments currently is on is on track to contribute a couple of hundreds of thousands of dollars this year. That will have a small effect on gross margin. We think that with time Instant Payments will have a meaningful effect on gross margin. Going into -- talking about the Real Title, we believe that Real Title in 2023 will have a meaningful impact on gross margin. So I think that all in all, we're at a point in time where gross margin is, at its minimum, at least when we think about the future. And I'll just add one more thing, obviously, we are thinking about adding additional ancillary services. So Title was the first, obviously we're looking at mortgage, we're looking at insurance as well. So I think that as we add those services later this year, and obviously in 2023, we will start seeing gross margins moving up. The target for us in a couple of years is getting to above 20% gross margin.

Q: Got it. That's helpful, maybe just to follow up on Instant Payments. If you do look out two, three, four years out, any idea of like kind of what percentage of your transactions you think are related to Instant Payments?

Tamir Poleg - Chairman and Chief Executive Officer, The Real Brokerage Inc.

Yeah. What we're seeing now is that we are processing about four new instant payment requests per day. So that's roughly about 100 per month. I think that moving forward, I would assume that probably 20% of the transactions will have Instant Payments embedded in them. It has to do with the fact that we will be opening it up for teams and team leaders and that will probably drive adoption up.

Q: Okay. That's helpful. And then I guess maybe an agent count, curious whether you're seeing any changes in kind of gross add versus net add trends. And I guess specifically, I'm thinking about some headlines that I've that I've seen recently around you had this big swell up in just total agents in the US during the pandemic, but there might be some folks kind of leaving the industry or retiring. Just curious whether you're seeing anything like that in your business? And how maybe you might be exposed there if that does become a trend, if the market slows down?

Tamir Poleg - Chairman and Chief Executive Officer, The Real Brokerage Inc.

Yeah, it's actually an interesting question, because over the past five, six weeks, what we've seen is that agents that were coming up on renewals of their boards or their licenses, and they were not productive, just gave up their licenses. So, that's an interesting trends, because it seems like the market is starting to eliminate those agents that were non-productive. So we are starting to see that in our roster as well. I think that this is a healthy process that happens every now and then. By the way, in the past, we were doing that ourselves and we still do that periodically, just cleaning up the roster or reaching out to agents that are non-performing and just asking if they have any real intentions of practicing real estate. What we are now seeing is that those agents are starting to fall out of the market. It's still not in huge numbers, but since you asked the question, I think that it's important to say that we are seeing the same trends.

Q: Okay. That was it. Thanks, guys. Appreciate it.

Tamir Poleg - Chairman and Chief Executive Officer, The Real Brokerage Inc.

Thanks, Tom.

Operator

Thank you. And I see there are no further questions in queue. And ladies and gentlemen, that concludes today's conference call. Thank you for all joining today. You may now disconnect your lines.