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# RE/MAX Holdings, Inc. (RMAX)

Q4 2022 Earnings Call

## CORPORATE PARTICIPANTS

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good morning, and welcome to the RE/MAX Holdings' Fourth Quarter 2022 Earnings Conference Call and Webcast. My name is Audra and I will be facilitating the audio portion of today's call.

At this time, I would like to turn the call over to Andy Schulz, Senior Vice President of Investor Relations. Mr. Schulz?

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### Unverified Participant

Thank you, operator. Good morning, everyone, and welcome to RE/MAX Holdings' fourth quarter and full year 2022 earnings conference call.

Please visit the Investor Relations section of [www.remaxholdings.com](http://www.remaxholdings.com) for all earnings-related materials and to access the live webcast and the replay of the call today. If you are participating through the webcast, please note that you will need to advance the slides as we move through the presentation.

Turning to slide 2, our prepared remarks and answers to your questions on today's call may contain forward-looking statements. Forward-looking statements include those related to agent count, franchise sales, financial measures and outlook, brand expansion, competition, technology, housing and mortgage market conditions, capital allocation, dividends, share repurchases, strategic and operational plans and business models.

Forward-looking statements represent management's current estimates. RE/MAX Holdings assumes no obligation to update any forward-looking statements in the future. Forward-looking statements address matters that are subject to risks and uncertainties that may cause actual results to differ materially from those projected in forward-looking statements. These are discussed in our fourth quarter 2022 financial results press release and other SEC filings.

Also, we will refer to certain non-GAAP measures on today's call. Please see the definitions and reconciliations of non-GAAP measures contained in our most recent quarterly financial results press release, which is available on our website.

Joining me on our call today are Steve Joyce, our Chief Executive Officer; Karri Callahan, our Chief Financial Officer, and the Presidents and CEOs of our brands, Nick Bailey and Ward Morrison.

With that, I'd like to turn the call over to RE/MAX Holdings CEO, Steve Joyce. Steve?

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## Stephen P. Joyce

*Chief Executive Officer & Director, RE/MAX Holdings, Inc.*

Thank you, Andy, and thanks to everyone for joining our call today. Looking at slide 3. Our business showed great resilience during the fourth quarter, while facing the strongest industry headwinds we've seen in more than a decade. The strength of our diversified franchise model was on full display during this period of market contraction. On a year-over-year basis, our Q4 revenue fell by under 10% a relatively small amount in the face of a nearly 35% decline in US existing home sales. Some of our notable quarterly highlights included RE/MAX Holdings total revenue was \$81.3 million, down only 8.9% compared to last year as our recurring revenue model and growing mortgage business helped counterbalance the impact from the softening housing markets in both the US and Canada.

We generated an adjusted EBITDA of \$26.5 million and our adjusted EBITDA margin was a healthy 32.7%. Our adjusted EPS was \$0.41. We modestly accelerated our stock buyback program and repurchased more than a 0.5 half a million shares during the quarter. Overall, RE/MAX agent count grew by over 2,000 agents to 144,000 agents worldwide, and our model mortgage presence continued to grow as we added to our open office club during the quarter. The rapid decline in housing market activity during Q4 was highly unusual, and although we expect headwinds to persist, we'd also see cause for optimism as we enter the spring selling season. One thing the company has learned over the past five decades is the importance of distinguishing between what we can and cannot control. We cannot control the macroeconomic swings that impact the industry, but we can prepare for them and control our reaction to them. And right now, our 50 years of experience, highlighted by five decades of consecutive growth, is telling us to stay focused on supporting our two networks with the tools, technology and training they need to thrive in any environment. We continue to reinvest in our brands and execute on our strategic growth initiatives, positioning us for profitable growth in the future.

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

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## Unverified Participant

Thank you, Steve. Turning to slide 4. This is an exciting year for RE/MAX as we are celebrating 50 years. Over the past five decades, this network has grown to more than 144,000 agents in over 9,000 offices and a presence in more than 110 countries and territories. And our model has proven to be successful in virtually any market, regardless of the economic environment, because people buy and sell houses every year. With the most productive, most experienced agents, RE/MAX is the best choice for consumers who want to buy or sell a home, which is the biggest investment in most people's lifetimes. RE/MAX is built on more than an economic model. It's the combination of the model, the tools, the education, marketing, the network and all the resources that we provide. And these are the true advantages that help real estate professionals to succeed. Although there has been recent contraction in both the US net agent count and the overall real estate market, we are thrilled that we had thousands of agents join RE/MAX last year nearly 10,000 agents in the US, almost 4,000 in Canada and over 27,000 agents in the rest of the world joined throughout 2022. And the continuation of this type of activity combined with our strategic initiatives, will be key to our growth prospects in 2023. We're capitalizing on the market changes and driving innovation, such as our initiatives around teams and mergers and acquisitions and conversions of brokerages. Both programs are showing early signs of success, and we're optimistic that the momentum we've built will help strengthen our agent count this year. In addition, it's important to note the structure of our marketing fund. This is a 100% recurring revenue, so we think we're able to continue to invest in advertising and marketing at a much greater level than the market fluctuations dictate for many of our

competitors. As we start the year, there's also great confidence throughout the network. Demand for housing remains strong and buyers who have been on the sidelines are jumping back into the game. So we're optimistic to see what the spring market will do. Consumers are looking for three things in an agent trust, knowledge and experience. And RE/MAX agents are leaders in all of these categories. Our agents have been voted number one, most trusted in the US and Canada. They average twice the experience and production of other US agents and they hold the most professional designations in the United States. In less than two weeks, we'll be celebrating 50 years of RE/MAX at our largest annual event, the R4 convention. We believe it will draw more than 9,000 attendees from more than 70 countries, making it the highest R4 attendance in almost two decades. An engagement like this shows firsthand the confidence and optimism our agents have for the market ahead. RE/MAX was founded on the principle of attracting the best agents and making good agents great and great agents succeed in virtually any market. When asked if the market will rebound. My response is you can't have a rebound without a crash. And we certainly did not have a crash. What we're experiencing is simply a rebalance, putting both buyers and sellers in a more even position. And although not without rebalanced pain points, it's overall positive for the industry. The real estate market is about timing, but not about the timing the people think it's not timing the rates, inflation, the economy or headlines, but it's timing based on the personal needs and life events for people, marriage, kids, divorce, jobs. That will be what the 2023 market is all about. And that's what we've seen drive the market for five decades. We also believe the agent is and will continue to be the most valuable part of the real estate transaction. Technology won't replace an agent, but an agent who doesn't adopt tech will get replaced. And last year we announced and launched Max Tech, powered by kvCORE. It's a world-class technology partnership, providing agents with a full suite of products to maximize lead generation, their presentations, their marketing, and, more importantly, A.I. and automation. Two key items that will impact the industry in a much larger way moving forward. Roll out started in Canada late last year and we are pleased to report that over 90% of agents there have already onboarded. And because of this success, we accelerated the US launch to the first week in January, which was two months earlier than anticipated, and this is something rarely seen with tech rollouts. A significant competitive advantage is our scale on the retail market. This suite of products can cost agents thousands of dollars annually, and we can offer this tech to agents and teams in the US and Canada at no additional charge, which is a major win, any significant enhancement to our value proposition. And now as we look ahead, we continue to solve for gaps in the business and provide the right tools to narrow these gaps. Real estate is a dynamic, changing industry, which means you must adapt and adapt quickly, especially in market shifts like this. I believe the outlook for 2023 is bright and this is our market to win, just as we've done for 50 years.

Ward over to you.

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## Ward Morrison

*President & Chief Executive Officer - Motto Mortgage and wemlo, RE/MAX Holdings, Inc.*

Looking at slide 5, while we experience our growth in open offices during the fourth quarter, our overall business has been sluggish due to the current macro environment. That said, the two marketing events for potential model franchisees we held in January were among the best attended we've had in recent memory and long-term we believe our prospects remain as bright as ever.

The mortgage industry had been hit particularly hard by the Fed's moves to cool inflation by raising interest rates, which has in turn put a chill on the housing market. And like RE/MAX while we believe modest franchise models insulated us from broader industry gyrations better than most, they're not totally immune. We've seen a tight correlation between the rise in interest rates and the slowdown in our franchise sales since Q2 of last year. Importantly, model sales have continued, but at slower pace. We saw 40 franchises last year, a very respectable number in today's business climate but still, after 60 to 70 unit sales pace we experienced in the past few years. The news regarding our model office openings is better, as 2022 was our best year ever in terms of the number of

offices opened. This help accelerate our growth rate during Q4 and we ended the year with over 230 open model offices with more in the pipeline.

We remain focused on improving our growth opportunities. Each model office that has been open for more than one year should bring in roughly the same amount of annual revenue as a 20 Agent RE/MAX office in a company owned region. It is a meaningful sum, and it is why we continue to invest in our mortgage business by ramping up our model franchise sales and retail sales teams and we aim to be at full capacity by the end of Q2. We believe this sets us up to return to our normal sales cadence within a matter of months and positions us to capitalize on the demand we expect to see as inflation retreats and mortgage rates stabilize. We also recently added to our mainstream as a long time colleague has come over from RE/MAX's successful regional development team to join Motto as VP of Franchise Growth and Development. We believe the growth, success and long-term potential of our mortgage business is due to the unique and compelling value proposition Motto, wemlo each offer. Ancillary services like mortgage provide real estate entrepreneurs with attractive opportunities to diversify their revenue and earnings something that is very important during shifting market conditions. Over 70% of Motto sales been to real estate professionals, were close to the real estate transactions mainly purchased originations. And that proximity is the key to success for many of our franchisees. Looking ahead, our future is bright and we expect our mortgage business to continue to grow and our sales to reaccelerate as conditions improve. With that, I'd like to turn the call over to Karri.

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## Karri R. Callahan

*Chief Financial Officer, RE/MAX Holdings, Inc.*

Thank you, Ward. Good morning, everyone. Moving to slide 6. Fourth quarter revenue declined approximately 9% to \$81.3 million. Excluding the marketing funds, revenue was just shy of \$60 million, a decrease of approximately 10% compared to the same period last year. This decrease was driven by negative 9.1% organic growth and adverse foreign currency movements of 1.1%.

Organic growth decreased largely due to lower broker fee revenue. Higher interest rates have adversely impacted housing affordability, and weaken housing demand resulting in fewer transactions and by extension lower broker fee revenue.

One of the highlights of our 100% franchise model is that it is primarily comprised of recurring revenue streams like continuing franchise fees and in models, which helps lessen the financial impact from turbulent market conditions. For example, excluding broker fee and marketing fund revenue, our organic growth rate was only down about 2%. In Q4, recurring revenue accounted for almost 70% excluding the marketing funds.

Turning to slide 7. Our Q4 selling, operating and administrative expenses decreased 24.5% to \$35 million, due primarily to lower personnel costs, principally in the form of reduced equity based compensation, lower bonus expense and decreased head count as well as lower acquisition related expenses.

Recall that we substantially completed a restructuring primarily of the RE/MAX technology department during the third quarter of 2022. Our fourth quarter SO&A expenses were more favorable than expected due to a handful of reasons, including lower legal expenses. Importantly, we still anticipate reinvesting virtually all the savings from this restructuring back into our business. Also on the expense front, we recorded a \$7.1 million goodwill impairment related to the wind down of the Gadberry Group in Q4.

Moving to slide 8, before I get to our outlook, there are a couple of items I want to briefly mentioned. We modestly accelerated our buyback activity during the fourth quarter, repurchasing over 500,000 shares. Throughout 2022, we repurchased just over 1.5 million shares in total, returning over \$34 million to shareholders. Combined with our

dividends, we returned more than \$50 million to our Class A shareholders last year, which was over 80% of our adjusted free cash flow.

Returning capital to shareholders remains a top priority for us in 2023. However, given the contraction underway within the industry, we expect to slow down the pace of our buyback in the near term. Second, I want to call out the impact of today's increasing interest rate environment is expected to have on our earnings. Specifically, we expect rising interest rates will increase our Q1 net interest expense by approximately \$3.5 million to \$3.7 million compared to the first quarter of last year. That estimate includes the 25 basis point rate by the Fed that was announced earlier this month.

Turning to guidance, this may be the most challenging environment in which to forecast future results that I have seen in my seven years of CFO. Consequently, we have brought in the annual guidance ranges to help account for the heightened uncertainty. The company's first quarter and full year 2023 outlook assumes no further currency movements, acquisitions or divestitures.

For the first quarter of 2023, we expect agent counts to increase 0% to 1% over first quarter 2022, revenue in a range of \$84 million to \$87 million, including revenue from the marketing funds in a range of \$20.5 million to \$22.5 million and adjusted EBITDA in a range of \$18.5 million to \$21.5 million. For the full year 2023, we expect agent count to change negative 1% to 1% over full year 2022, revenue in a range of \$315 million to \$335 million, including revenue from the marketing funds in a range of \$83.5 million to \$87.5 million and adjusted EBITDA in a range of \$95 million to \$105 million.

Now I'll turn the call over to Steve for closing comments.

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## Stephen P. Joyce

*Chief Executive Officer & Director, RE/MAX Holdings, Inc.*

Thanks, Karri. Looking at slide 9, we continue to invest meaningfully in our future. We have faced similar circumstances over the past five decades and performed well, and we believe we are positioned to do so again. With a scaled global business, unmatched brands, strong financials, and a proven track record of success, we remain optimistic about and confident in our future.

With that operator, let's open it up for questions.

## QUESTION AND ANSWER SECTION

**Operator:** Thank you. [Operator Instructions] We'll go to our first question from Anthony Paolone at JPMorgan.

Q

Thank you and good morning. First, I guess on your revenue expectations for 2023, down about 9% excluding marketing and that's on flattish agent counts. So maybe can you help us just understand a bit better where you think the biggest draw down is going to be maybe order of magnitude, you're thinking on broker fees and just what the impact may or may not be on continuing franchise fees?

A

Yes. So I'll let Karri put the color to this, but our forecast is showing where we are now, which is sort of in that fourth quarter continuation of a 20 some percent decline in transaction activity. And so, as we look at the year, we have not built in upside to the year. So, to the extent that you believe and we are seeing some reasons that maybe things will improve, if things improve, then we've got significant upside to the forecast that we got. However, at this point, what we're seeing is a steady continuation of the deterioration that occurred last year. And so, we are setting a baseline number that we feel very confident about. And at the same time, our view is if we get any uptick, then we will significantly benefit from that because we are putting ourselves in a position to capture that upside opportunity. The bulk of the impact is in broker fees, but let me – I'll let the Karri give you more color. Karri?

A

Sure. Thanks Steve. So Tony, Steve is right. I think when I look at the guide on the top line, I'd really break it down into three categories. The first is broker fee. So as Steve noted, we've taken a pretty pragmatic look. When we look across kind of the collective of third parties who are predicting existing home sales for next year, kind of ranging between five and 20% down. And as Steve said, we're on the more conservative end, about 20% down. For this – for purposes of here and we'll obviously continue to watch where things go going forward. The second bucket is really on the recurring revenue lines. So agent count kind of flattish, similar trajectory to what we saw in the back half of the year and assuming that the initiatives are really going to take hold later in the year. But from a financial contribution perspective, it's just going to be a little bit less. And on that note, I just want to make sure that we're clear in terms of some of those investments that we're making across team, mergers, conversions, acquisitions. We think that that's going to be kind of a \$3 million to \$4 million headwind and the net investment into next year. And then the last bucket I would call out is in our other revenue with the wind down of the [indiscernible] legacy business as well as the Gadberry business. Also expecting that's going to be kind of a \$2 million to \$3 million headwind year-over-year.

Q

Okay. Thanks. That's all helpful. Second question is, as it relates to your capital priorities, you mentioned dialing back on buying back stock. Can you give us a sense as to what you think CapEx might be for 2023 and also just how you're thinking about the dividend versus paying down debt given the higher rates and so forth.

A

Yeah. So let me – I'll start and then Karri you can continue. So on the – so our number one priority number one is return of capital shareholders. We gave – we distributed back over 80% of our free cash flow last year.

we distributed back over 80% of our key free cash flow last year. We are not changing from that model at all. We are simply looking at where the market's going getting – getting a real sense of, okay, we know exactly where we are and where we think we're going to end up. And then, we're going to continue to aggressively go after both the stock and continue to pay the dividend. The dividend is absolute. If you look at our financial position, we are in a rock solid business and balance sheet with a very stable cash flow. So our view is that as soon as we see where the market is going to bottom and then begin to come back, then we will be as aggressive as we've been. And so, that is our number one priority. But then we are investing back in the business because we think we've got significant upside to that. So, Karri, do you want to talk a little bit about CapEx.

A

Sure. Yeah. So, from a CapEx perspective, with the shift in the technology strategy that we made, we do expect that to come down a little bit probably in the \$8 million to \$10 million range. A lot of that is coming on the mortgage side. So continuing really to be a point to invest in the Winslow product and the technology offerings there. And then, a little bit on the RE/MAX side as well as we continue to reinvest in some of the consumer facing things that we're still doing internally. And a lot of that is, we're very excited about as we think about 2023 and beyond.

Q

Okay. Thanks for [[indiscernible]]

**Operator:** We'll go next to Tommy McJoynt with KBW.

Q

Hey. Good morning, guys. Thanks for taking my question.

A

Good morning.

Q

[indiscernible] you're walking through some of the three categories of the headlines there. And I just want to clarify one of those. I think you called out \$3 million to \$4 million of headwinds related to something like 00:23:43 keys for pilot program. Just want to confirm that that's like the only program that applies. And then just if you guys would just give us your latest thoughts on the teen pilot program and its impact on the top and bottom line?

A

Sure. So, yeah.

A

Karri?

A

So the majority of that – yeah, the majority of that is that \$3 million to \$4 million is related to the team's program a little bit, also coming from our mergers and conversions program. Both of those we're seeing some early success on and we're happy with. And I'll let Nick jump in here as well. But a lot of it is just pretty early on, especially given the macro. But Nick, you want to add to that?

A

Yeah, sure. The teams initiative is still new. It was announced August of last year. However, early indications show that we've added more teams and the teams that we have added more agents. And so early indications we like what we're seeing within the pilot, but it is only halfway through that pilot. And so more to come as we move into the first half of this year.

Q

Great. Thanks. And then just my second question is can talk a little bit about the health of some of your franchisees, so I was just kind of somewhat of a tough stretch here in terms of housing volumes. So just broadly, if you could talk about the health there.

A

Yeah. So, it's a combination of – we consistently are monitoring how everyone's doing. Obviously, collections is top of mind. And so the net news is good news that our folks are in good shape. They are going through the toughest cash flow part of the year for them. But as they come out, we are not seeing any significant change in any pattern of payment or of financial health of the franchisees and Nick and his team spent an enormous amount of time checking in and making sure that we know that. So Karri or Nick, I don't know if you want to add to that.

A

No, Steve, I think you summed it up well.

Q

Great. Thank you.

**Operator:** We'll go next to Ronald Kamdem at Morgan Stanley.

Q

Hey, just a couple quick ones. Just going back to the guidance for 2023. The adjusted EBITDA is helpful. I'm trying to get a sense of what the flow through is going to be like to operating cash flow. Because if I look at 2022 and I look at sort of the 122 adjusted EBITDA down to \$71 million operating cash flow. I get to like a 58% flow through. I'm just trying to get a sense, how are you guys thinking about that – about operating cash flow for 2023?

A

Karri?

A

Sure. Yeah. So I think that really highlights, Ron, the strength of the business model and even with the trying economic times, the favorable position that we're in. And so I think as we look to 2023, that conversion rate is, it looks pretty consistent, it might go down a couple of percentage points just because of a full year, a little bit higher interest expense expectations. But kind of in that 50% to 55% range is reasonable as we look ahead to 2023.

Q

Okay.

A

Yeah. I think the other part to keep in mind is, depending on if we get upside, as that upside comes in, that flow through is at a high margin.

Q

Right. And then the other question I had just I'm on – I think I'm on slide 24 and I'm just looking at sort of the model mortgage piece of it.

You guys have revenues and sort of EBITDA. Can you just talk a little bit more about that sort of adjusted EBITDA, what's driving that negative number, how do we think about that changing as you go from 225 to over a 1,000 just trying to get a sense of the trends there.

A

Karri?

A

Yeah. So, I think the mortgage business is something that we continue to be extremely excited about. Obviously, rising interest rates had a direct correlation to the pace of our franchise sales, as Ward noted. We're continuing to invest in it. A lot of that is coming on wemlo, on the wemlo side, and so that put a little bit of pressure from a profitability perspective. But I think it's important to note that once those offices get up and running, they're contributing about what 20 agents are in a company owned region. And as we look out over time, we still think it's a \$100 million revenue opportunity for us with margins that are comparable to what we see on the RE/MAX side at scale across the marketing funds. And so we are still continuing to invest right now. We think that once we get to kind of that 300, 350 open model offices, we can get to profitability across the segment and still think that we just need to position ourselves through this headwind, which is why we're investing and we'll continue to be bullish on the growth opportunity there.

Q

Great. That's helpful. That's it for me. Thanks so much.

**Operator:** We'll move next to John Campbell with Stephens, Inc.

Q

Hey, guys. Good morning. How are you doing?

A

Good, John. How are you?

Q

Doing well. Great. Thanks. So I want to start off with maybe one comment that this made kind of in the prepared remarks. You mentioned the word strengthen shrinking the agent base are on the new initiatives. So I wanted to see if you could maybe clarify that and maybe unpack that. Is that an expectation for better growth, is that better attention, is that more productivity out of agents? Maybe all the above. Just curious about that comment there.

A

Nick?

A

Yeah. Hi John. Great question. It is around growth. I comment on the number of new agents that joined RE/MAX, not only in the US, Canada, but around the world. And when you look at then that compared to overall our net gain or loss in each one of those areas, we think that when we look at the initiatives that we're investing in, it is all

about strengthening the growth and assisting the franchisees on how we do that. And that's all based on the initiatives that we started last year and that we're investing in that we believe is key to our growth moving forward, even with the rebalance of the market.

Q

Okay. That's helpful. And then – go ahead. Sorry Steve.

A

Yeah. So I was just going to add to, I think, I've met – I'd meet with Nick and his folks. The relative positioning that they're feeling at this point is the most positive I've seen since I've been here. And the pipe that they're building and then the expected upside of bringing the technology platform to the US and its impact not only on attracting everybody, but particularly teens, because it's got an important teams component to it. Just gives – it just gives you a lot of room for optimism. So notwithstanding the current macro environment, we just think we're really well-positioned, the things that we're going to do are going to make a real difference in terms of the overall numbers. When they turn positive is when the environment lets us do it.

Q

Yeah. Makes sense. And you guys talked about the strength of the franchisees. I mean, you've mentioned that a couple of different parts of the call.

And then back to Tommy's question around the – just general update around franchisees. I was curious if you could maybe go down the path of renewals, how that's looking. Obviously, there's a difference – there can be a difference in the health of your franchisees and whether they stay with you. So curious about how that retention rate has been looking over the last year or so? And then also on the franchisees sales pipeline curious about how impacted that is by the macro as well.

A

Karri and then Nick.

A

Sure. I mean, it's a great question, John. As we look at renewals on the RE/MAX side of the house, we haven't seen significant deviation or variability from that perspective, at least from a numbers perspective. I think Nick and his team have done really an outstanding job there, he could probably provide more color as well.

A

Yeah. When we look at, the way our franchise agreements are structured with renewals and the intent to renew and the timeframe prior to expiration, pretty safe to say that we're around 99% that we renew and we're well in front of those changes. And in the event that there is a change in the market or a non-renewal, for whatever

reason, we are not taken by surprise. And that's where our sales team, and especially with what's happening with our mergers, conversions and acquisitions initiative, it's bringing in what we've seen and experienced thus far last year and even great results early this year is independent companies that are marrying, if you will, RE/MAX companies and depending on if there is succession planning or any type of merger, it's just a nice way for us to be able to marry [ph] people, which also helps drive the really positive and low rates.

Q

Okay. That's a great update. Thanks guys.

**Operator:** Next, we'll go to Ryan McKeveny at Zelman & Associates.

Q

Hey, good morning. Thank you. Karri, so a follow-up on the economics with Motto. I think the detail you gave us was very helpful. But so I guess it sounds like wemlo is part of extensive growth going forward. I guess if we think about maybe the core motto, ex-wemlo is that reaching kind of a point where the expense base is becoming more of that kind of fixed franchise expense base where whereas revenue ramps you gets more leverage there. So that would be part one. And then, part two, just specific to wemlo, I guess I'm just curious if you can remind us the economics there either kind of per loan processed or even more generally, if you can share qualitatively or quantitatively how much wemlo is contributing either on the revenue or EBITDA side of mortgage. And I assume we'll get to the segment level breakout within the K, but I don't think wemlo is necessarily specified. So just any thoughts there would be very helpful. Thank you.

A

Sure. Thanks, Ryan. Great. Great question. And like I said, we continue to be really excited about, about the mortgage opportunity. We are starting to see, better, better leverage and flow through all kind of on the on what I would call the legacy model business on the franchise sales business, now that we do have over just over 230 offices open. So we are starting to see some of that, but we really I think Ward and the team have done a nice job of really pulling the value proposition together holistically between motto and wemlo. So it's a little bit harder for us to kind of say, but I think generally speaking, we're starting to see a little bit a little bit more of that leverage. We will – we will provide all of the additional kind of segment level detail in the K when that gets when that gets out. But what I'll turn it over to you to talk a little bit about the additional breakout.

A

Yeah. So Ryan, on the economics, it's basically we offer some level a discount of about 725 of file to models directly whereas the open general public that we also sell to within wemlo is anywhere from 850 to like 1,199 a file depending on which state. And on that basis, so really is trying to drive overall loan processing growth on a per transaction basis, right. So our key there is was in model, we made some changes to our FTD last year to mandate with one exception that they start using our service, our new franchisees. We can't go back on the existing ones until they renew. This year, we'll be making somewhat of a similar change and trying to drive more models to use wemlo. And then one of the thing we've done is also trying to support margin growth within our franchisees as we've hired some of their processors into our wemlo system and sell that service back to them. So

we think there's a lot of upside in 2023 and beyond. It's just getting that particular entity revenues growing by getting the loan process count up. And we had a great team in place to support the models and everybody else. We just have to keep pushing the top line.

Q

Great. Very helpful.

A

And Ryan, just one other thing. Hey, Ryan, one other thing to quickly clarify. We did actually included in our updated investor presentation that's posted on the website. We did post the breakout kind of the segment information. So you can kind of see that in terms of the total segment revenue top line a little over 12 and then the net investment of about 6.

A

Yeah. Ryan, it's the Y remarks deck our main investor presentation that was posted this morning at slide 24 slide that Ron referred to earlier on this call.

Q

Perfect. Okay. Thank you very much.

**Operator:** And next, I'll move to Matthew – Matthew Filek at William Blair.

Q

Hey everyone. This is Matt Filek on for Steven. Thanks for taking my questions. Could you provide some more color on how the rollout of kvCORE is progressing? I know the rollout just started, but curious on how many agents are currently leveraging the kvCORE platform and if any agents have pushed back on the Sunset of Boosh happening sometime down the road?

A

Yeah. I'll let Nick answer that. But I will tell you, rarely do you see franchisees applaud a technology program. And the one that Nick has selected is actually getting applause lines in our conferences, which I have never seen in 40 years of franchising. Nick?

A

Well, thanks, Steve. Well said. I will tell you, it's a home run. When we look at the rollout in Canada, we have over 90% onboarded total agent count right now, even though we have four phases that started in the US, where

around 35,000 agents of the 85,000 agents between the US and Canada are onboarded. But the US obviously is a big chunk of that that just started the first week in January. That rollout was not initially anticipated to begin until the end of Q1 and we're thrilled at the fact that we were able to push it two months earlier. So it absolutely is welcomed. People are applauding it. To your question of is there pushback on the Boosh sunset? The answer is no. I think any pushback that we see is the fact that new tech means that you have to learn something. And so, it's – we're investing in the training and the resources to make sure that people have a seamless experience. But the early success stories are pretty incredible, and I'll note two of them. One came up that an agent that had never used a database put their contacts in the system within 14 days, we've got a listing that went under contract within 24 hours. We had never experienced that. One of the testimonials we'll be showing at the upcoming are four convention I saw yesterday is one of the teams said, thank you, RE/MAX. You're now saving me \$24,000 a year that they were spending with kv that we're now offering for free. And so, as this continues to roll out, we believe it's going to continue to be very positive and get us – give us a very big recruiting and retention advantage.

Q

That's very helpful and super encouraging to hear as well. I just had one more question on the alternative fee structure. No, it came up a little bit ago, but just wanted to clarify something. What's current adoption for that program like? I think it's offered in five states, if I recall correctly. And then what do you think adoption could look like over the course of 2023? I suppose, said another way do you expect adoption of that program to ramp up over?

A

Nick?

A

Yeah. So I mentioned it's still a little early. We announced that pilot in the five states in August. And so, what we're seeing is there are two ways to grow from this initiative. It's not only recruiting new teams in which we have seen that happen of teams of six agents and larger. But it's also existing teams that we have that are anywhere from one to five agents that now have incentive to grow their teams. We are seeing positive results in both categories. I'm not prepared at this point to give any type of forecast on the numbers because it did just launch in August. But it's very encouraging. And I will say outside of the data that we're looking at, the network is applauding us, saying that RE/MAX is absolutely adopting the wave of the future and where larger teams are going. And so the franchisees are very, very supportive.

And the initial data shows that it's going in the right direction. Still early, more to come and likely as we move through this year, we'll have better numbers to share.

Q

Sounds great. Thank you, team.

**Operator:** There are no further questions at this time and I will turn the conference back over to Andy Schulz for any closing remarks.

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## Andy Schulz

*Senior Vice President-Investor Relations, RE/MAX Holdings, Inc.*

Thank you, operator. And thanks to everyone for joining the call today. This does conclude today's event. Have a great weekend.

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**Operator:** And again, that does conclude today's conference call. You may now disconnect.

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