Southeastern Asset Management

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As of December 31, 2021, Realogy represented 7.2% of the Longleaf Partners Small-Cap Fund.

Gwin Myerberg:	00:06	Hello, and welcome to the Price-to-Value Podcast with Southeastern Asset Management, where our global investment team discuss the topics that are most top of mind for our clients from a business, people, price point of view. We at Southeastern are long-term, concentrated, engaged value investors, and we seek to own high quality businesses, run by capable people at a discounted price to intrinsic value or P/V. I'm Gwin Myerberg, Global Head of Client Relations and Communications, and on today's podcast, Southeastern's Vice Chairman, Staley Cates, interviews Ryan Schneider, CEO and President of Realogy, which we own in our U.S. Small Cap strategy. They discuss Ryan's view of the housing market and the impact of macro and societal shifts, including rising interest rates, millennials, COVID, working from home, iBuying and the

interplay between the human agent and technology. Ryan also discusses how Realogy has transformed under his leadership, how he thinks about capital allocation and Realogy's commitment to creating a diverse organization that operates in a socially and ethically responsible way. We hope you'll enjoy the discussion.

Staley Cates:	01:11	Hello everybody, and thanks for joining us. Today, we're fortunate to have with us Ryan Schneider, CEO of Realogy Holdings. Realogy is the U.S. leader in residential real estate services through well-known brands, including Better Homes & Gardens, Century 21, Coldwell Banker, Corcoran, ERA, Sotheby's and others. Besides brokerage, Realogy also includes relocation, mortgage, and title. Realogy has been a holding in our small cap fund for several years, about the same amount of time that Ryan has been with the company. So, to begin with his more official bio, Ryan joined Realogy at the end of 2017 after nearly 15 years of senior leadership experience at Capital One Financial. From 2007 to 2016, Ryan was president of Capital One's card division, its largest business, where he managed the staff of more than 10,000 employees. He joined Capital One in 2002, and held a variety of leadership positions through 2007, including EVP and President of Auto Finance and EVP of U.S. Card.
Staley Cates:	02:28	He also currently serves on the Anthem board. Anthem is the very large managed care company. And previously he was a partner at McKinsey & Company where he specialized in financial services. He received a BA in economics from Williams and his PhD in economics from Yale, where his thesis advisor was Robert Shiller, who won a Nobel Prize partially about housing, so Ryan will nail for us the exact number of housing transactions coming up over the next 10 years and where the long treasury will be. No, sorry. That's not right. And regulators and lawyers, that's a joke. So Ryan, thank you very much for being here today.
Ryan Schneider:	03:12	It's awesome to be here, Staley. Thank you for having me.

Staley Cates:	03:15	Well, I think the place to start kind of within that bio is that we never have owned Capital One, but we've always admired the company from a distance and especially what the card division accomplished, and consider your tenure at Capital One to be a pretty big business success story, although very under the radar. And it made us excited about your taking the Realogy job. So, can you talk about that history at Capital One a little bit, and then related to that, what made you take the Realogy job when you had plenty of other offers at the time?
Ryan Schneider:	03:47	Well, Staley I'm incredibly fond of Capital One. What Rich Fairbank accomplished there as a founder who's now built a top 10 bank here in the U.S., I think is phenomenal. And Capital One gave me the chance, not just to kind of enter operating roles from consulting, but to actually run businesses. I got to run the Auto Finance business, I got to run the card business for almost a decade, and I really just learned the power of the combination of great strategy, great talent, and probably most importantly, how to differentiate a business with technology and data. And, I think those three things are what drove a huge amount of Capital One success. I was really excited to be a part of it and very, very proud of both my time there, but also of being part of what they've accomplished.
Staley Cates:	04:38	And then how about... I mean, that was coming out with that kind of resume and success, I know that you had a lot of different offers, a lot of different kinds of companies in public and private and whatnot, what kind of won the day for Realogy in that decision?
Ryan Schneider:	04:54	Well, I thought Realogy, and still think Realogy, is a phenomenal company because I think its bone structure is great. You're talking about a market-leading company with great brands, that's sitting on a huge amount of technology and data potential, and generates a lot of free cashflow, but also a company that has the potential to lead into the disruption that's happening in real estate. Real estate's a very cool market, I think. It's got a good mission component to it,

it’s very entrepreneurial. And when I looked at different industries and different markets, I thought Realogy just had some great assets that if unlocked and leveraged, could really accelerate where the world's going with real estate and accelerate where the company goes. And, that combination of its great assets, but the potential for disruption that it could do, I found it to be pretty attractive. I like the scale. That's what I've been excited to work on in the last four years. This full-service model we've got opens up real opportunities to better integrate the transaction. We get some unique opportunities from being the one true national player in both brokerage and franchise.

Ryan Schneider: 06:07 And I just think it has some competitive differentiation that can be part of building sustainable and long term competitive advantage even as we go through disruption in this industry, which we're trying to lead.

Staley Cates: 06:22 Well, speaking of the disruption word, since we have bought the stock, and since you arrived, the role of human realtors has been questioned, but amid COVID, we've seen the power of the agent really shine. How do you think about the agent and the interplay of technology?

Ryan Schneider: 06:39 Well, Staley, we're really excited about what our agents are doing, but this is a business where we strongly believe that the human component has to be augmented by great technology and data. And I think we've seen that evolution over time as the agent's role has not disappeared, but it's evolved to have to be much more value-added as we bring more technology and data to the transaction process. And, because the real estate transaction is both very infrequent and because it's such a large dollar amount on both an absolute and a relative basis for people, I don't think the destiny of real estate is to be fully automated the way buying shoes or clothes, or other things can be, but it does mean the agent has to keep adding value in different ways. And, that we have to keep adding great technology and data insights to help our agents deliver more and more value to customers.

Ryan Schneider:	07:36	And I think the proof of this has been what’s happened in the last few years even as technologies rolled out more and we've delivered more technology and data insights to our agents, agents keep getting used at even higher percentages by people to navigate through this very rare, infrequent transaction. And so, we're actually optimistic about both the role of agents, but that it's got to be really augmented by great technology, something we think we can differentiate ourselves on, including the data side.
Staley Cates:	08:05	Yeah. To pile onto that, those numbers really are incredible and they've meant a lot to us and our research team about the percentage participation by the human realtor, where I think sometimes the hype about automating this is so big that people don't realize that. Can you talk a little more about, to us, it's kind of the lack of standardization, like so many things that are going to just go online and cut out the human, they really kind of need to be standardized. They need to have that sort-ability and houses being different and streets being different and neighborhoods being different seems to be a pretty big deal here. But, can you talk about that also a little bit?
Ryan Schneider:	08:51	I do believe that the difference in housing and the lack of standardization is the biggest barrier, not just to agents going away, but even something that troubles me about some of the new models of real estate that people are trying. And so, I think that is a huge piece of why agents add real value, but there's an opportunity in that for Realogy, which is while the houses are not standardized, I have a vision that we can do much more to standardize the process for the customer through our agents around parts of the transaction, including the title and the mortgage side, that because we have national presence, because we have the amount of agents that you talked about earlier, that there's an opportunity to simplify the transaction for the customer even if the underlying transaction is a very unique asset that's being traded.

Ryan Schneider:	09:46	And we think that's a competitive differentiator because, if you don't have a title business or a mortgage business, you can't try to do that kind of simplification. If you can't do it nationally, you're going to run into kind of customer service differences and even from partner standpoint, if you don't have a national platform like we do, you can't make those kind of partnerships or commitments that would help do that. So, the uniqueness of the asset is actually something that's probably good for an agent-built model, but just because it's an agent-built model, it doesn't mean we can't do more to standardize the customer experience of it because the transaction is more than just the house – it’s the insurance, it's the title, it's the mortgage, it's the inspection, the appraisal. And those are pieces where I think we can do more standardization and is part of how we can capture more economics in the future.
Staley Cates:	10:42	And then taking that a little bit further on the iBuyers, they have made a lot of noise and until the recent hiccup at Zillow, that seemed to get the most attention in the industry. So, can you talk about the pros and cons of iBuying, which we've already talked about some of that. So, I guess the better way to ask it would be Realogy's approach to how to participate in it, but avoiding pitfalls.
Ryan Schneider:	11:06	Yeah. Well, look, I've been on record for a few years now of being skeptical, Staley, about committing Realogy either as a company or with massive amounts of capital to buying houses to then resell them at a higher price later, in part, because of the challenge of the unique asset we just talked about, but in part, because of the capital heavy nature of that, and coming from financial services, having lived through cycles, you can envision building a pretty big balance sheet that you're then stuck with. And there've been a few hiccups in the market to that effect that you just kind of cited. So, I'm skeptical on the underlying model working for those reasons, but between the amount of capital people are putting into it and what I think is a real consumer

insight that those models have is, I believe the desire to simplify the house transaction is a good thing.

Ryan Schneider:	12:03	And the approach we've gone down, which is more capital-light, is the insight that the customer wants the guarantee that their house will sell. And so, instead of buying the house to flip it, what we're doing, in partnership with Home Partners of America, is giving customers a guaranteed offer on the house, but actually using our agent base for a short period of time to try to sell the house the more traditional way and letting the customer keep all the upside of it because the iBuying model has a pretty steep discount, I believe, for the customers in it. And what we find is most people who want that backstop offer, do want to take the chance to sell their house at a higher price, and it shortens the time on market because again, they can always hit the bid that we've given them, but it's a different dynamic than trying to build a model about buying and selling houses. It's more of a model of trying to generate leads and sell houses that way with a backstop of occasionally having to step in to buy a house. And, it's more capital light than iBuying.
Ryan Schneider:	13:12	And then we also partnered with Home Partners of America because they bought and sold about 20,000 houses. We have amazing distribution. We think our two companies together are more powerful than either of us. So, we like the challenge of simplifying the consumer transaction, whether it's on the title mortgage side I mentioned earlier, or on the simplicity of a guaranteed offer for your house, but we want to do it in a way that gets more money in the consumer's pocket, leverages our great agent network, and bluntly doesn't have us using massive amounts of capital to basically turn into a house flipping business.
Staley Cates:	13:50	How about opportunities that Realogy has in the luxury space, especially considering the Concierge Auctions acquisition?
Ryan Schneider:	13:59	Yeah, we're incredibly excited, Staley, about our progress in the luxury area. We've got the number one

luxury presence, especially when you look across our Sotheby's International Realty, Corcoran and Coldwell Banker brands, not to mention some luxury stuff we do in other brands. And we've been investing a lot there to drive growth. And, our luxury growth has been substantially above our company's growth for the last couple of years, and our company's growth has been substantially above the market's growth for the last couple of years. And some of that is the power of our luxury brands and the technology and data that we're using to expand Corcoran into franchising, to expand Sotheby's both domestically and internationally, to leverage the Coldwell Banker Global Luxury Alliance to sell more homes. But some of that is also, that we're making newer strategic investments to set up the future.

Ryan Schneider:	14:50	So, we purchased Concierge Auctions, 80% of it, but we didn't do it alone, we did it with Sotheby's and that's a niche luxury business that we have a massive distribution scaling opportunity as Realogy, but we bought it with the best auction house in the planet who we have deep relationships with. And we think together, this may be something that we can unlock and do business pretty differently than they've done to date. And we like how they've done business to date. So, we are going to keep over-investing in luxury, both because of our success, but also, we have a belief that the kind of premium and luxury part of the economy is going to continue to differentially perform well. People talk about the K-shaped recovery often, I believe there's truth to that. And we like what we're seeing across that premium luxury segment for now and into the future. Great to already be the market leader on it, but we'd love to expand it and it's really driving a disproportionate part of our growth.
Staley Cates:	15:56	So, zooming out to some macro questions, although we will zoom back in later to some Realogy specifics, but I bet you do not go 10 minutes in your life without being asked, what is your view of the housing market? So, we'll go ahead and ask that too.

Ryan Schneider: 16:11 Yeah, it's a great question. And, actually, I have beliefs on it. I don't know if they're going to be right or not, but I have beliefs on it because one of the great things about Realogy is we are seeing and touching more housing market data than anybody on a daily basis. Not just the transactions we're doing, but the new listings that we're getting and even the new customers that we're getting who haven't even got to go look at houses yet, but they're now in our system. We can touch housing in a way that almost nobody else in this economy can. And we're pretty optimistic about it. Demand is just incredibly strong right now. And the remote work phenomena, I think cannot be underestimated. The number of people who are moving from different geographies, but still doing their same job, is a good size number.

Ryan Schneider: 17:03 And then the number of people who realized their current house is not the right fit for them in a world where they may be working from home much more often is also spurring a lot. But beyond that, we are now seeing the millennial generation do what everyone predicted, which is really enter their prime home buying years. We watch that data closely. They are doing the exact same behaviors in terms of becoming homeowners, Staley, that our generation did. They're just four or five years behind us on the curve, but it's going up. They're the biggest growth acceleration in the last 18 months around home ownership. And those two forces we think are incredibly powerful tailwinds. Low mortgage rates have been helpful, but even if they tick up those two tailwinds, we think are really strong out there.

Ryan Schneider: 17:51 And look, we spent a whole decade having about 5 to 5.5 million resale home transactions a year. And that was below some of the last decade and the builders weren't building as much. We're going to be around 6 million resale home transactions this year. And whether that stays there, goes up a bit, down a little bit, we're still looking at a housing market this decade that is much stronger than the one from the past decade. So, we see the demand up pretty substantially. We don't have enough supply, which is why it's not just unit demand that's up, but price is up. And we think that's good for us, especially as the market leader. And we're really rooting for as much new housing to be built as possible because if there was more housing available, we absolutely could sell.

Staley Cates: 18:42 So, a couple of follow-ups to that answer you mentioned. Everyone would be curious to hear your thought on taking it a little bit further on the future of work. Like, everyone has viewed their home differently through this pandemic, but how much of that sticks, how much of that goes back to pre-pandemic? Just kind of your opinion on that. And then second, on the millennials part that you were talking about, can you put really rough numbers on that like what the millennial percentage is now roughly versus if it did go to our generation's number? What would that look like, roughly?

Ryan Schneider: 19:16 Yeah, absolutely. Look, everyone can have a different view, but I have a strong belief that it's hard to turn back the clock on some of the benefits we've seen around productivity with remote work, especially again in that kind of upper half of the economy and more of the white-collar world. And I think there's a lot of advantages there, not just for people's productivity, but their satisfaction. I think there's a lot of advantages for companies to be able to recruit and source people much more broadly. And while I think you have to work really hard to keep your company's culture, I really believe that both employees' requirements and employers' realizations in this, will lead to a world with a lot more remote work. We're leaning into this really heavy as Realogy. We've got half of our employees out in the field every single day, supporting our agents and our customers and our franchisees, but our corporate headquarters has gone from 1,000 people coming into the building to basically remote work with only collaborative things happening in our headquarters.

Ryan Schneider: 20:21 And in fact, we're subleasing two of the three floors of our headquarters. We're only keeping one floor, and

		we're redoing that as a brand showcase and a tech showcase and a collaboration space only because we think the future of in-person work is collaboration. But we also think the future of a lot of kind of corporate work is hybrid between home and those collaborative times. So I think over time, the world will lean into that pretty hard and it will continue to support the housing trends. On the millennial front, if you look at our generations, or the baby boomer generation, you usually get about two-thirds of people who are homeowners over time. It kind of builds up to about two-thirds. And millennials are about five points behind where my generation was at the same point in their cohort. So they're climbing that curve to 64%, 65%, 66% home ownership just like my generation did, and the baby boomer generation did, but they're doing it five years later than us. But it's happening and it's accelerated a bit in these last couple of years.
Ryan Schneider:	21:30	And so, because the millennial generation is bigger than these previous generations, there's just a lot of housing demand even still pent up in that group, is our belief. And so, we think there's a nice kind of tenured demographic thing. Now, the demographics may turn the other way in 20 years as these kind of dynamics start to change, but for the next decade or so, we think that millennial data is pretty positive and exciting for housing demand.
Staley Cates:	22:05	Got it. And then on another hugely important macro thing, what kind of long-term interest rate assumptions do you build into how you run the company?
Ryan Schneider:	22:16	Well, that's a great question, and at the risk of outing ourselves a little bit, we actually don't use a single long-term rate view to run the company Staley, to be blunt, because the reality is we're watching it all the time. This is a cyclical business, right? Now, the cyclicality isn't all or even mostly driven by rates. It's actually driven by some of the macro and even some of these demographic things we talk about, but because it's cyclical, we try to look at how rates go through the cycle, and we focus more on the change in rates, than having

a specific rate forecast from a long-term standpoint, because a stopped clock will be right twice a day. Our long-term forecast will be right as the cycle goes up or down past it. But we're never going to be at a time when we're always at our long-term forecast.

Ryan Schneider:	23:14	So, what we look a lot at is the movement, right? And what we've seen historically is when you get 100 basis points move in rates in either direction, it's either bad for housing if rates are up or good for housing if they go down, and it takes then about six to 12 months later to be in an adjustment period and for that positivity or negativity to kind of wash out. And so, we more focus again on the through cycle changes in rates than having a long-term forecast for rates. We've obviously been excited by how low rates have been right now. It is amazing, if you've refinanced your home, your costs are way down and your home value is up. The balance sheet stuff we're seeing right now is really powerful for the consumer, which we like.
Ryan Schneider:	24:11	So, there's a lot in that answer, but the core point is we actually don't have a long-term rate target to share and we're more watching the change in rates through what we always assume is a pretty cyclical business, which by the way is why we got to be taking costs out of the business even in good times, because we know the cyclicality is there in the future at some point.
Staley Cates:	24:34	And then how about any differences of note that you are seeing in the residential market by region?
Ryan Schneider:	24:41	Wow, Staley, that's a great question and the differences are massive. It is amazing to see what's happening especially because of remote work, I believe, but it's a trend that had already started, as you well know, in the attractive tax and weather geographies. The housing markets in Florida, Texas, Utah, Idaho, Arizona are just incredibly strong from a demand standpoint, for sure, as people migrate there. I think the builders have done even more in those geographies which is a helpful thing. And you can just see it in the numbers, even if we don't disclose them at the state level, of just how

powerfully those geographies are driving housing in this country. The outflows from the New Jerseys, the Chicagos, the Connecticuts have only accelerated in the last couple of years.

Ryan Schneider: 25:49 Those geographies have benefitted a little bit from some of the rotation within their suburbs or people fleeing the cities a little bit, for say Westchester or Southern Connecticut, but the strength of these other markets compared to some of the weakness in some of the New England or Mid-Atlantic, or Chicago area stuff is quite striking. And then California remains this incredible tale of two cities, right? It's got massive migration out, but it's actually seen a rebound in its core, high-end affluent cities from some of the COVID impacts and New York City had the same phenomenon, massive outflows, but in the past six months, actually improving with demand coming back for that market. And so, I believe there's a true resorting going on here in the U.S., and your state of Tennessee, Nashville is maybe the hottest housing market in the country right now. The outflows from Chicago to Nashville, I need a super computer to count those.

Ryan Schneider: 27:04 And so, watching these regions is an incredibly interesting thing. And again, our national presence, both on our own and franchise, has us well-positioned to capture movement is how we end up getting paid. So, we're agnostic about the how, but it is quite interesting to watch the strength differ in these geographies and all this, by the way, with no international buyers. The international buyers are not back yet. The visa restrictions, the travel restrictions, and some of the stuff imposed in international countries, we've had a lot less international buyers in 2021 than we did in 2019. So, there's a little tailwind there, but even when they relaxed the travel restrictions a month or so ago, we saw some pickup in Miami. So, it's fascinating to watch the different geographies and those are some of the general trends we're seeing. And we don't see them stopping either, we think these regional effects are likely to continue.

Staley Cates:	28:06	How big, if that international thing did come back to pre-pandemic, how big is that? What would that look like?
Ryan Schneider:	28:16	I don't have a real size for it for the company, but just to give you an example, Corcoran does about a third of its New York City business usually with international buyers. And we've had that and that's been away, basically. And so, that's an example in one business and one geography where it's meaningful, clearly a much smaller piece nationally, but New York City, Miami, San Francisco, Seattle, other parts of California, there's some untapped demand there.
Staley Cates:	28:46	And then getting back to Realogy specific, and these are really more kind of the financial and capital allocation flavor of questions, but can you start out explaining for our listeners that have not studied the financials, can you explain the difference between your owned segment and your franchise segment with realtors and then how that intercompany royalty assumption works?
Ryan Schneider:	29:11	Sure. Yeah. So look, we have the number one market share in owned brokerage. And that's a business where we run the brokerage, it's our real estate, it's our managers, we license the agents. It's a more capital heavy industry, but we also capture a greater share of the economics and we get it off the bottom line in that scenario. But we also obviously have the number one market share in franchise in real estate. And there it's different, right? We're helping entrepreneurs be successful. We get paid as a percentage of revenue. So we get paid off the top there. And then it's a much more capital light, kind of higher margin business. One strategic choice the company has made, which confuses many people in our financials, is we actually charge our own brokerage a franchise fee.
Ryan Schneider:	30:02	So we charge ourselves a 6% franchise fee, which is our kind of rack rate franchise price out there to an independent owner of a franchise. And we've done that historically for both competitive reasons to make sure that when we're selling franchises, we can say, "Look,

we don't advantage ourselves. We charge ourselves the same thing we're going to charge you." But we also do it because of the market discipline of what's the true cost of having a franchise business. And even if we own the business, we are getting a brand and we're getting technology, et cetera.

Ryan Schneider:	30:38	Now, what that does is it makes our franchise economics look like almost all of our EBITDA comes from franchise, but we do report out in our [Form 10-]Q and everything, the economics without that royalty. And you can see that our own brokerage business, without that franchise fee being paid, makes hundreds of millions of dollars. And our franchise business makes hundreds of millions of dollars, but we put that intentional intercompany allocation ourselves primarily for the market reasons that I mentioned, and it can confuse the economics a little bit to someone new to the company, but we're always trying to do our best to explain the what and the why of that choice.
Staley Cates:	31:23	So, long-term shareholders of Longleaf will remember that we had multiyear ownership of both Yum! and Marriott. And those were companies that in their respective restaurant and hotel worlds, they did a lot of refranchising while we owned them, i.e they moved from a overwhelmingly owned model to more of a franchisor model. And in doing that, they ended up with better operations at the franchisee part, and then being more of a pure fee stream as a franchisor, which we loved on the business quality front. But Ryan, can you just talk about, is there any refranchising opportunity here considering where you are on the mix of owned and franchised?
Ryan Schneider:	32:10	Well, Staley look, I think the examples out there in the world of people succeeding with refranchising are awesome and I want to say thank you to you because you and your team have been a good partner in helping us think about this topic as a management team. And in fact, I think as you know I've actually talked to David Novak from Yum! Brands, and I talked to Arne Sorenson at Marriot to learn about their journey, right? And we're

interested in this, we remain interested in this. Now, we love our franchise business. We like the long-term contracts and the consistent royalty stream. And it has been a little more insulated from some of the competitive impacts of owning brokerages. And so, we're going to do everything we can to grow that business, launching our Corcoran franchise, some of the Sotheby's International Realty things I mentioned earlier, both domestic and internationally.

Ryan Schneider: 33:00 Now, we did do one refranchising deal in 2021, right? We took one of our Coldwell Banker geographies and sold it to one of our franchisees who then merged it with another franchise and we really liked that because it was going to open up a lot more growth than we thought we could achieve with it. And we are open to doing more of this and in the right situations, and you may have seen that we're willing to do other strategic opportunities that change our normal way of operating. We just did a title underwriting 30/70 joint venture with Centerbridge to try to really turbocharge the growth of that business. Now, the one issue though in real estate that is challenging if you go down the refranchising path, is given where the competitive and margin pressures have been, one of the biggest opportunities to capture more dollars in this business is around things like title and mortgage as you simplify that transaction for the consumer.

Ryan Schneider: 34:00 And if you're going to simplify the transaction for the consumer, you actually have to be in the owned brokerage business, because as a franchisor, you're just too removed from it and small franchisees don't have some of the scale I talked about to do those things. So, we believe we can do more than one thing at a time and so as this world evolves, we would like to use our powerful position in owned brokerage to change how the transaction is done and capture more economics and we're excited to have that position, but as our actions have demonstrated, we find the refranchising thing interesting. We've actually done it at least once. And it is not something that we're excluding from our strategic playbook.

Staley Cates: 34:46 It'd be interesting to recap all the different balance sheet improvements that have happened since you got there in terms of the raw amount of debt, the ratios, the structure, divestitures along the way. Can you just talk about the balance sheet?

Ryan Schneider: 35:00 Yeah. Improving our balance sheet is such a critical thing both to enable more growth as a company, but also to show progress and confidence for you and for other investors. And I think we've unleashed a lot of flexibility on the balance sheet in the last few years to drive growth. If you look back since the end of 2019, Staley, we've reduced our net debt by almost $900 million, we've repaid all of our outstanding Term Loan B and most of our Term Loan A this past September. Our debt mix now is almost all unsecured and we've really linked in the maturity profile. We only have $400 million of debt due before 2025. And it's been nice to get some rating agency recognition. We've got upgrades because of this progress, including a recent upgrade to BB- from S&P. And look, we're going to continue to be opportunistic in the capital markets to enhance our balance sheet and we think we'll get ourselves to an even healthier position by mid-2022.

Ryan Schneider: 36:00 We obviously have a good amount of cash on hand to reinvest in the business, as well as satisfy our near term maturities. And we're committed to debt reduction. We've got our leverage ratio down to 2.5 times, which is a lot of progress from when it was north of five. And we're excited by the progress we've done here just like we're excited about a lot of our strategic and operational progress in the core business.

Staley Cates: 36:28 So, within that tool kit of things you've done to address the balance sheet, you issued some convertible notes earlier this year and can you talk about the logic of that, but even more specifically, it was extremely interesting that you had a capped call component within that. And that's also kind of a vote of confidence, but can you talk about that logic?

Ryan Schneider:	36:51	Yeah, so we're always looking at the different options as we're improving our balance sheet. And earlier this year, we thought a convertible was the right approach, frankly, given the terms at which we were able to get it. And so we were excited to do that, but we made a really explicit decision as a leadership team that we were going to put a capped call component on the transaction, and we ended up setting it at about a little over $30. And we did that for two reasons. One is, it's what we believe, right? We believe we're underappreciated in the market today and we wanted to make sure it was clear to people that this is how we think about the value of our company and where we wanted to protect dilution from. But the second reason to do it is we have good long-term shareholders, Longleaf being a great example of that.
Ryan Schneider:	37:40	And while we can improve our balance sheet, we don't want to just do that on the backs of our equity holders through dilution. And we thought you deserve the protection for this company up to that kind of $30+ stock price that we believed was appropriate. So, we were excited about it. We think it's a good signal, but it's also a good reminder to me every single day that it's my job to convince people that they may be missing some of the innovation disruption we're doing along with the really strong economics we're generating. And I'm excited to do that, and this is something we're committed to, and that was another vote of commitment from the management team.
Staley Cates:	38:27	Well, we love the logic of that capped call transaction and really applaud you doing it and it is a real dollar vote on an undervaluation that our shareholders sure know that we already believe is there, but if we take that logic and flip it over, and if Realogy is indeed undervalued the way our math believes it is, that would kind of flip it over to why then is Realogy not going the other way and not buying back stock?
Ryan Schneider:	38:53	That's a great question. And obviously as we've talked about before, look, our first priority has got to be invest in the business, right? Products, luxury, technology, title,

mortgage, and RealSure and on our last earnings call, I was pretty clear with folks that we're going to be having some investments here in Q4 that were bigger than both we've been doing and bigger than the previous year, right? And so, that is the most important thing. I think the thing that has kept us from pushing as hard into buying back stock as some of our investors would like goes back to the interest rate discussion. This is a cyclical business and we really want to make sure that both the balance sheet progress I just shared with you, and our leverage ratio, which is now at about two and a half times when it used to be at like five times, is sustainable.

Ryan Schneider:	39:48	Now, it's been that now for a few quarters, right? So we like that. And so for us, it's really making sure it's sustainable before we start to move toward that buying back stock trigger. But look, we think share repurchase is an important consideration around capital allocation and it's a topic that the board and management is revisiting every single quarter. So that's a little bit of kind of how we are where we are, but is a little bit also how we're thinking about it going forward.
Staley Cates:	40:21	So, as we switch to an ESG filter, we do a lot of our own work on this and on our scorecard, you get very high marks. You've had America's Best Employers For Diversity, you've won one of World's Most Ethical Companies, but can you discuss all things ESG, including environmental footprint?
Ryan Schneider:	40:42	Absolutely. So, I'm a huge believer of the importance of ESG, not because of the noise it gets in the community these days, but because I believe the right way to run the company is, set a standard of excellence and do the right thing. And a lot of “do the right thing” lines up well with ESG. So for example, I'm really proud of our corporate governance and what our Chairman or our Comp Committee Chairman do with kind of lead investor outreach and the way we incorporate that into our thinking and in our planning and what we do there. On the social side, I believe having great talent is the most important thing. I got to have great talent and

create an environment where they can be great. And the fact that LinkedIn recognized us as a Top Workplace for 2021, one of just 50 out of the blue, we didn't apply for that. They just did it. Incredibly proud of that.

Ryan Schneider: 41:40 Forbes World's Best Employers for 2021 list, Forbes Top Female-Friendly Employers for 2021, Great Place to Work for the fourth consecutive year. I love the external recognition we're getting. We don't do it for the awards. We do it because it's the right thing to do to build a great company that's going to take good care of our agents and our franchisees, et cetera. That said, on the social side of ESG, we're trying to be a leader in our industry, right? In terms of what we do with helping different groups of agents better represent their communities because we think it's a big business opportunity. We've launched an inclusive ownership franchise program across all of our brands now to bring in more different type of owners into real estate, again, because we think it's good for the business.

Ryan Schneider: 42:30 And then finally, we focus on diversity. At the top, we got a lot of gender diversity in our company. We've got a reasonable amount of minority diversity, but we can always do more. And I do a strategy for this for the board every year and we report on it regularly with them. And then finally, of the last three of the ESG, environmental is the one where we actually, I'd say have the least impact out in the world of those three. We are a broker business effectively. We're watching things closely like what's going to happen to coastal communities and what will that mean for our business? But we have a pretty small carbon footprint. We do some things around work from home and our building design and things like that to make a difference where we can. But in ESG, we mostly focus on having great governance and being a leader on the social talent side and we love the recognition we get, but our journey's not done on any of these.

Staley Cates: 43:35 Well, it's great to see the work you're doing here, especially on the S and on the G. And we look forward to continuing the conversation on this topic. I guess we can end with a sum it all up question of how has Realogy transformed under your leadership and what is next for Realogy?

Ryan Schneider: 43:51 Well, look, Staley, we're changing the company here strategically, operationally and financially, right? We're really trying to lean in with technology and data as well as some consumer products to really improve the value proposition for our agents and brokers to drive growth, doing the same with using title and mortgage more to drive growth. And a lot of the things that we invested in in 2018 and 2019 have really paid off in the market in 2020, whether it's technology usage, market share gains, franchise expansion, luxury expansion, et cetera. And so, we like the initial steps we've taken to be faster, to be leaner, to be more innovative. We also obviously have made a lot of progress financially with the balance sheet improvements I talked about earlier, substantially stronger EBITDA and continued cost discipline every single year, right?

Ryan Schneider: 44:49 Going forward, we are getting near the point where it's going to be time for us to feel good about what we've done, but articulate and be clear of the next chapter of our company, Staley, for you and for other owners of the place, right? Our growth investment in direct to consumer products like RealSure has to get larger. Our franchise expansion in luxury has to get larger. Our marketing technology and data products, we have to go to the next generation of those. We've got to utilize the open technology architecture we've built to really make agents more efficient and more productive. We've got to integrate that title and mortgage. And then finally, in a world where our earnings and free cash flow are in a different ZIP code than they've been in the past, we’ve got to be really clear to you and everybody, how we're going to use them from a free cash flow deployment standpoint, whether it's what we do to invest in the business, what we do to return capital, what we do to pay down debt.

Ryan Schneider: 45:51 And I'm excited for the transformation we've done in the last few years, but in a lot of ways, we're just getting started. Real estate transforms slower than most other industries in part because of how infrequent and large the transaction is. And we're in it for the long-term here to not just be a strong player in the market, but to lead into the future. And I'm excited about what we've done, but even more excited about what we still can do.

Staley Cates:	46:20	Well, we certainly are too. We've been there a few years, but our most recent filings, as of just a few weeks ago, show us adding to the positions. So, our votes are certainly there and we're really grateful to you and for the work. And so, thanks also very much for doing this today and great to talk to you.
Ryan Schneider:	46:37	Well, thank you, Staley. Have a good rest of your day.
Staley Cates:	46:40	You too, take care.
Gwin Myerberg:	46:43	Many thanks to Staley and to Ryan Schneider for joining us today. And thank you as always to all of our listeners for tuning into the Price-to-Value Podcast with Southeastern Asset Management. If you have any questions or would like to share topics you'd like to see us cover in future episodes, please feel free to send us an email at podcast@SEasset.com.