

CoStar Group

Homes.com is a likely beneficiary of the NAR settlement

Reiterate Rating: BUY | PO: 111.00 USD | Price: 95.18 USD

We are incrementally bullish on Homes.com and CSGP

On Friday, shares were up 8% (vs. S&P (1%)) on the back of an announcement that the National Association of Realtors (NAR) agreed to settle a series of anti-trust lawsuits. The NAR will pay \$418mn in damages and eliminate its rules on commissions, which could result in lower fees for US buyers' agents. We think this is an incremental tailwind for CSGP's Homes.com revenues, and also helps validate its residential strategy with some sceptics. We're raising our PO to \$111 (from \$97) with refinements to our forecast and updated valuation assumptions. We're raising our 2025E EV/EBITDA multiple on the commercial business to 28x (from 25.5x prior) as post our 2024 Info & Business Services conference we think there's room for upside to 2024 guidance. We also lift our exit multiple on our DCF for its Residential business to 26x (vs. 23x prior) given our increased confidence in its growth path following the NAR settlement. We reiterate Buy.

Settlement could reshape the US resi brokerage industry

Effective mid-July, the NAR will no longer require brokers advertising homes for sale on MLS (a database of homes for sale in a particular geography) to offer any upfront compensation to a buyer's agent. This is a material change from the ways agents have operated since the 1990s. Today, agents working with a buyer and seller typically split a commission of ~5-6% that's paid by the seller. This change opens up the possibility for home sellers to negotiate with a buyer's agent outside of the MLS platforms. Some industry experts expect this to lead to lower commissions for buyers' agents. Notably, in many countries outside the US, commission rates are generally in the 1-3% range.

CSGP management is ready for this moment

Given the terms of the settlement, we assume that US realtors will shift some of their focus and marketing dollars away from buyside work and towards sellside work (ie. listings). CSGP's Homes.com is modeled off of international residential marketplaces and built for agents looking to advertise listings, while its US competitors' businesses largely focus on finding leads for buyside agents. Consequently, we think Homes.com is especially well positioned to benefit from the new commission structures. Management at CSGP acknowledges that it is important for them to be in front of agents amid this announcement and thinks its marketing plan into the year will enable them to do that.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	1.27	1.22	0.58	1.04	1.88
GAAP EPS	0.93	0.92	0.30	0.76	1.60
EPS Change (YoY)	11.4%	-3.9%	-52.5%	79.3%	80.8%
Consensus EPS (Bloomberg)			0.60	1.28	2.11
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	74.9x	78.0x	164.1x	91.5x	50.6x
GAAP P/E	102.3x	103.5x	317.3x	125.2x	59.5x
EV / EBITDA*	51.7x	70.6x	193.4x	67.9x	32.7x
Free Cash Flow Yield*	1.0%	0.9%	-0.6%	0.1%	2.3%

* For full definitions of *IQmethod*SM measures, see page 4.

18 March 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	97.00	111.00
2026E Rev (m)	3,870.3	3,898.2
2025E EPS	1.03	1.04
2026E EPS	1.78	1.88

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Stock Data

Price	95.18 USD
Price Objective	111.00 USD
Date Established	18-Mar-2024
Investment Opinion	B-1-9
52-Week Range	65.12 USD - 95.83 USD
Mkt Val (mn) / Shares Out (mn)	37,552 USD / 394.5
Free Float	98.8%
Average Daily Value (mn)	244.81 USD
BofA Ticker / Exchange	CSGP / NAS
Bloomberg / Reuters	CSGP US / CSGP.OQ
ROE (2024E)	3.2%
Net Dbt to Eqty (Dec-2023A)	-57.6%

CSGP- CoStar Group

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Refer to important disclosures on page 5 to 7. Analyst Certification on page 3. Price Objective Basis/Risk on page 3.

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iQprofileSM CoStar Group

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	5.1%	4.8%	1.6%	3.7%	6.9%
Return on Equity	8.0%	7.0%	3.2%	5.4%	8.9%
Operating Margin	20.7%	11.5%	-1.1%	8.5%	20.3%
Free Cash Flow	385	347	(224)	50	855

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.9x	1.0x	2.4x	1.5x	1.3x
Asset Replacement Ratio	0.7x	0.9x	5.4x	3.2x	0.7x
Tax Rate	24.1%	25.3%	26.0%	26.0%	26.0%
Net Debt-to-Equity Ratio	-57.9%	-57.6%	-51.9%	-49.1%	-53.4%
Interest Cover	5.6x	9.2x	-1.2x	8.5x	24.3x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	2,182	2,455	2,770	3,252	3,898
% Change	12.3%	12.5%	12.8%	17.4%	19.9%
Gross Profit	1,768	1,964	2,215	2,600	3,117
% Change	11.4%	11.0%	12.8%	17.4%	19.9%
EBITDA	672	492	179	511	1,061
% Change	3.8%	-26.8%	-63.5%	185.0%	107.5%
Net Interest & Other Income	169	391	354	306	270
Net Income (Adjusted)	506	498	239	431	786
% Change	13.1%	-1.6%	-52.1%	80.8%	82.3%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	369	375	122	314	667
Depreciation & Amortization	216	205	184	206	241
Change in Working Capital	(206)	(200)	70	(59)	(73)
Deferred Taxation Charge	(31)	(37)	37	0	0
Other Adjustments, Net	130	147	164	174	185
Capital Expenditure	(94)	(143)	(800)	(585)	(166)
Free Cash Flow	385	347	-224	50	855
% Change	37.1%	-9.9%	NM	NM	NM
Share / Issue Repurchase	736	(3)	20	22	24
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(2)	0	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	4,968	5,216	5,012	5,084	5,963
Trade Receivables	154	190	214	269	323
Other Current Assets	64	70	79	93	111
Property, Plant & Equipment	321	472	1,219	1,728	1,785
Other Non-Current Assets	2,895	2,971	2,923	2,904	2,904
Total Assets	8,402	8,920	9,447	10,078	11,087
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	373	456	569	611	652
Long-Term Debt	989	991	992	993	994
Other Non-Current Liabilities	171	135	135	135	135
Total Liabilities	1,532	1,581	1,696	1,738	1,781
Total Equity	6,870	7,339	7,751	8,340	9,307
Total Equity & Liabilities	8,402	8,920	9,447	10,078	11,087

* For full definitions of iQmethodSM measures, see page 4.

Company Sector

Business Services

Company Description

CoStar Group provides commercial real estate information, analytics and online marketplaces. Key brands include CoStar, Apartments.com, LoopNet, Land.com, Ten-X, Homesnap and Homes.com. The company has nearly doubled its web traffic since 2019 through development, insight and acquisitions.

Investment Rationale

We rate CSGP a Buy because of its industry dominance, recession resiliency and strong balance sheet. CoStar is a diversified commercial real estate (CRE) data, analytics and marketplace company. It provides critical real estate data, maintains a 90% average renewals and sustained pricing power in the market. CoStar has six business segments that can power CSGP's outsized and defensive compounding growth potential.

Stock Data

Average Daily Volume 2,572,046

Quarterly Earnings Estimates

	2023	2024
Q1	0.29A	0.07E
Q2	0.31A	0.08E
Q3	0.30A	0.18E
Q4	0.33A	0.26E

Price objective basis & risk

CoStar Group (CSGP)

We base our \$111 price objective on a sum-of-the-parts methodology. We value the core commercial real estate business (ie. ex Residential) with a 28x 2025E EV/EBITDA multiple. This multiple is a premium to peers to reflect CSGP's outsized mid-term sales/free cash flow CAGRs. We then value the Residential business separately using a DCF method based on 10.5% WACC and EBITDA multiple (2-year forward) of 26x based on an Info Services peer average.

Downside risks to our price objective are: (1) larger than expected macro downturns pressuring clients send and CoStar's revenue, (2) declining margins due to investments and investment timing, (3) execution challenges as it rolls out LoopNet internationally and its US residential market and (4) any antitrust regulations and challenges that restrict CoStar's ability to grow through acquisitions.

Upside risks to our price objective are: (1) increased gains and adoption across CoStar's multifamily, LoopNet and Residential segments, (2) successful integration of data sets across CoStar's brands deepening its depth and breadth, (3) ability to source incremental and transformational acquisitions and (4) better than expected market conditions in the commercial real estate market increasing transaction and leasing volumes.

Analyst Certification

I, Heather Balsky, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Business, Education & Professional Services Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Alight Inc	ALIT	ALIT US	Heather Balsky
	APi Group	APG	APG US	Heather Balsky
	Aramark	ARMK	ARMK US	Heather Balsky
	Cintas	CTAS	CTAS US	Heather Balsky
	CoStar Group	CSGP	CSGP US	Heather Balsky
	Driven Brands	DRVN	DRVN US	Robert F. Ohmes, CFA
	Dun & Bradstreet Holdings, Inc.	DNB	DNB US	Heather Balsky
	Equifax	EFX	EFX US	Heather Balsky
	Gartner	IT	IT US	Heather Balsky
	Moody's Corp.	MCO	MCO US	Heather Balsky
	Petco	WOOF	WOOF US	Kendall Toscano
	Rollins Inc.	ROL	ROL US	Heather Balsky
	S&P Global	SPGI	SPGI US	Heather Balsky
	Strategic Education	STRA	STRA US	Heather Balsky
	Thomson Reuters	YTRI	TRI CN	Heather Balsky
	Thomson Reuters	TRI	TRI US	Heather Balsky
NEUTRAL				
	AutoZone Inc.	AZO	AZO US	Robert F. Ohmes, CFA
	FactSet Research Systems Inc	FDS	FDS US	Heather Balsky
	First Advantage Corporation	FA	FA US	Heather Balsky
	Verisk Analytics	VRSK	VRSK US	Heather Balsky
UNDERPERFORM				
	ASGN Inc.	ASGN	ASGN US	Heather Balsky
	Clarivate PLC	CLVT	CLVT US	Heather Balsky



US - Business, Education & Professional Services Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	ManpowerGroup	MAN	MAN US	Heather Balsky
	MSCI Inc	MSCI	MSCI US	Heather Balsky
	Robert Half	RHI	RHI US	Heather Balsky
	TransUnion	TRU	TRU US	Heather Balsky

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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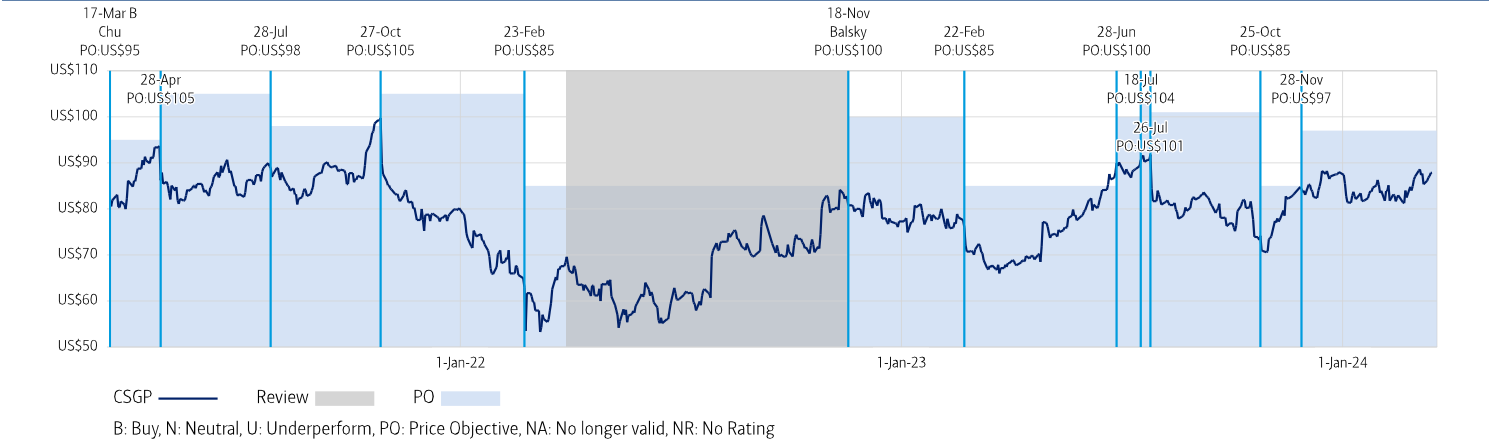
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CoStar (CSGP) Price Chart



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Equity Investment Rating Distribution: Business Services Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	26	55.32%	Buy	17	65.38%
Hold	8	17.02%	Hold	3	37.50%
Sell	13	27.66%	Sell	11	84.62%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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