

CoStar Group

Housing traffic inspection: Jan muted before billion-ish dollar blitz

Reiterate Rating: BUY | PO: 97.00 USD | Price: 83.13 USD

Homes.com traffic growth lags ahead of marketing ramp

Per SimilarWeb, Homes.com's January site traffic fell 6% m/m to ~40mn. For reference, Zillow, Realtor.com, and Redfin site traffic was up +13.7%, +13.5%, and +16.2% m/m (to 315mn, 124mn, and 100mn visitors). (SimilarWeb's data does not include app traffic data.) We're not concerned about current traffic levels, as we think CSGP has pulled back on spend into its February+ marketing blitz. We maintain our Buy rating on CoStar as we think long-term growth is not fully factored into the share price.

2024 preview: we (and Street) are focused on Resi spend

We recently previewed 4Q and 2024 guidance (see our [CSGP preview](#)). We're most focused on how much CSGP will spend on its Residential strategy in 2024 and out years. We're modeling ~\$665mn of 2024 Resi investment, including OnTheMarket...

Resi spend: Go big or go home (pun intended)

...but the debate has gotten heated with a recent Inman article noting that "[CEO Andy] Florance said CoStar is not disclosing the exact amount it's spending this year on the new [Homes.com] campaign, but said it 'rounds up to a billion'". According to the same article he also said that the marketing campaign will be 4x the size of the campaign it ran in recent years for Apartments.com. If that's in dollars (unclear), CoStar spent \$221mn on Apartments.com marketing in 2020 (and guided 2021 spend a bit down from there; we don't have 2021+ datapoints). The company has made investments towards its 2024 marketing campaign in 2H23, and we don't know if Florance was including that spend when he spoke. We look to the call for clarification (and are enjoying the Super Bowl teaser ads recently posted on YouTube in the meantime).

Quiet before the "monster wave" of marketing

Homes.com's traffic peaked in September, but has since fallen off materially. We attribute this to seasonal and strategic factors. The housing market is typically light in 4Q/early 1Q. We infer that CSGP has intentionally pulled back on SEM and SEO (search engine marketing and search engine optimization) spending during the quiet housing season and ahead of a big February+ marketing push and its planned 2Q site monetization. Management hinted to this on the 2Q earnings call, noting that "any period where traffic lulls, it may just be the trough before a monster wave".

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	1.14	1.27	1.22	1.29	1.75
GAAP EPS	0.74	0.93	0.93	1.01	1.48
EPS Change (YoY)	15.2%	11.4%	-3.9%	5.7%	35.7%
Consensus EPS (Bloomberg)			1.21	1.31	1.68
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	72.9x	65.5x	68.1x	64.4x	47.5x
GAAP P/E	112.3x	89.4x	89.4x	82.3x	56.2x
EV / EBITDA*	46.3x	44.6x	61.3x	54.5x	37.0x
Free Cash Flow Yield*	1.2%	1.3%	1.6%	2.3%	2.6%

* For full definitions of *IQmethod*SM measures, see page 5.

12 February 2024

Equity

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Stock Data

Price	83.13 USD
Price Objective	97.00 USD
Date Established	28-Nov-2023
Investment Opinion	B-1-9
52-Week Range	65.12 USD - 92.36 USD
Mkt Val (mn) / Shares Out (mn)	32,797 USD / 394.5
Free Float	98.9%
Average Daily Value (mn)	139.22 USD
BofA Ticker / Exchange	CSGP / NAS
Bloomberg / Reuters	CSGP US / CSGP.OQ
ROE (2023E)	6.9%
Net Dbt to Eqty (Dec-2022A)	-57.9%
ESGMeter™	High

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Refer to important disclosures on page 6 to 8. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.

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Timestamp: 12 February 2024 12:30AM EST

iQprofileSM CoStar Group

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	4.6%	5.1%	4.8%	4.9%	6.5%
Return on Equity	8.1%	8.0%	6.9%	6.8%	8.5%
Operating Margin	22.2%	20.7%	11.8%	12.7%	18.7%
Free Cash Flow	405	420	515	760	841

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.0x	0.9x	1.1x	1.6x	1.3x
Asset Replacement Ratio	0.5x	0.4x	0.2x	0.5x	0.5x
Tax Rate	27.6%	24.1%	24.9%	25.0%	25.0%
Net Debt-to-Equity Ratio	-49.7%	-57.9%	-60.0%	-64.1%	-67.1%
Interest Cover	13.7x	5.6x	9.0x	10.8x	18.7x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	1,944	2,182	2,451	2,791	3,277
% Change	17.2%	12.3%	12.3%	13.9%	17.4%
Gross Profit	1,587	1,768	1,973	2,247	2,638
% Change	17.5%	11.4%	11.6%	13.9%	17.4%
EBITDA	647	672	489	550	809
% Change	17.2%	3.8%	-27.2%	12.4%	47.2%
Net Interest & Other Income	165	169	380	350	357
Net Income (Adjusted)	448	506	495	529	726
% Change	17.9%	13.1%	-2.2%	6.8%	37.3%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	293	369	378	412	611
Depreciation & Amortization	205	216	204	195	201
Change in Working Capital	(155)	(206)	(179)	3	(55)
Deferred Taxation Charge	24	(31)	(13)	63	0
Other Adjustments, Net	102	130	154	162	172
Capital Expenditure	(65)	(59)	(30)	(75)	(88)
Free Cash Flow	405	420	515	760	841
% Change	-7.6%	3.8%	22.5%	47.8%	10.6%
Share / Issue Repurchase	(15)	736	1	19	21
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	0	(2)	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	3,827	4,968	5,422	6,201	7,063
Trade Receivables	125	154	198	225	283
Other Current Assets	36	64	78	89	104
Property, Plant & Equipment	271	321	410	446	489
Other Non-Current Assets	2,997	2,895	2,855	2,807	2,789
Total Assets	7,257	8,402	8,963	9,768	10,728
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	339	373	432	486	535
Long-Term Debt	988	989	990	992	993
Other Non-Current Liabilities	219	171	158	158	158
Total Liabilities	1,545	1,532	1,581	1,636	1,686
Total Equity	5,712	6,870	7,382	8,132	9,041
Total Equity & Liabilities	7,257	8,402	8,963	9,768	10,728

* For full definitions of iQmethodSM measures, see page 5.

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

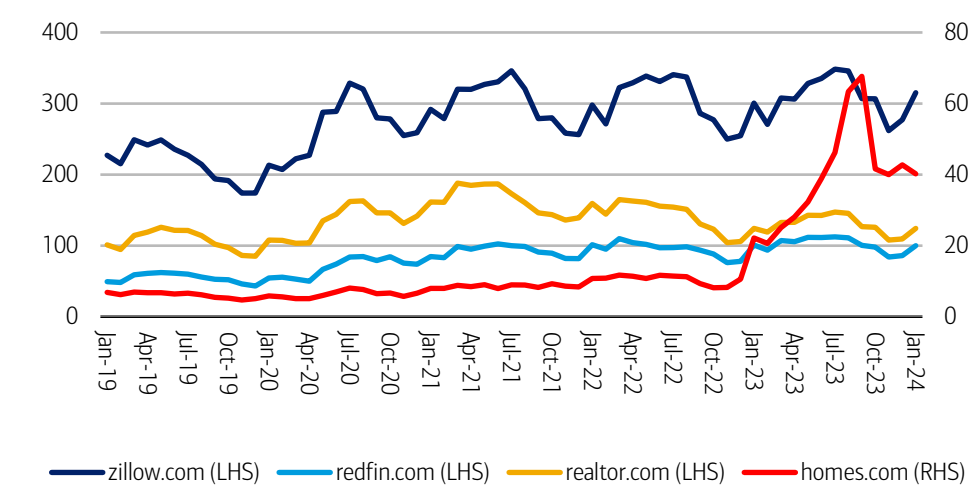
Average Daily Volume 1,674,778

Quarterly Earnings Estimates

	2022	2023
Q1	0.31A	0.29A
Q2	0.28A	0.31A
Q3	0.30A	0.30A
Q4	0.38A	0.32E

Exhibit 1: Residential marketplaces US online monthly web traffic (visits in mn)

Homes.com traffic was at ~40mn visitors in January vs ~43mn in December



Source: SimilarWeb, BofA Global Research

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Price objective basis & risk

CoStar Group (CSGP)

We base our \$97 price objective on a sum-of-the-parts methodology. We value the core commercial real estate business (ie. ex Residential) with a 26.5x 2024E EV/EBITDA multiple (vs. 23x prior). 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 12% WACC and EBITDA multiple (2-year forward) of 23.0x based 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

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US - Business, Education & Professional Services Coverage Cluster

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BUY				
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	Aramark	ARMK	ARMK US	Heather Balsky
	Cintas	CTAS	CTAS US	Heather Balsky
	CoStar Group	CSGP	CSGP US	Heather Balsky
	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
	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				
	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
	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

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

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

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

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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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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^{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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