

## Internet/e-Commerce

# Commission changes coming soon: NAR embraces bold changes for settlement

Price Objective Change

## Suggests rule prohibiting offers of compensation on MLS

On 3/15, The National Association of Realtors (NAR) announced a settlement agreement related to multiple broker commission lawsuits. The settlement, which is still subject to court approval, would resolve claims against NAR, ~1.5mn NAR members, all state/territorial and local relator associations, all association-owned MLSs, and all brokerages with an NAR member as principal that had a residential transaction volume in 2022 of \$2bn or below. Under the proposed settlement, NAR would pay \$418mn over approx. four years. In addition to the financial payment, NAR has also agreed to put in place a new MLS rule prohibiting offers of broker compensation on the MLS. This would mean that offers of broker compensation could not be communicated via the MLS, but they could continue to be an option consumers can pursue off-MLS through negotiation and consultation with real estate professionals. Further, NAR has agreed to enact a rule that would require MLS participants working with buyers to enter into written agreements with their buyers. These changes are expected to go into effect in July'24.

## Proposed settlement should address major DOJ concerns

Major online real estate platforms reacted negatively to the news, with Zillow down 13% and Redfin down 5% (vs S&P 500 down 0.7%). We believe, part of the significant reaction in Zillow and Redfin stock prices stems from investors' initial expectations that the commission lawsuits and subsequent appeal process would extend over several years. However, today's development accelerates this timeline and suggest significant changes to traditional commission sharing practices as soon as this year. The proposed settlement will also face scrutiny from the Department of Justice (DOJ), which intervened in the MLS PIN settlement last month and indicated reluctance to accept any settlement it perceived as lacking sufficient reform for the industry. However, we believe the proposed NAR rule, which prohibits offers of broker compensation on the MLS, directly addresses the key concern raised by the DOJ. Consequently, we anticipate a high likelihood of the DOJ approving the settlement with potential few alterations.

## Lower ZG PO to \$56 on uncertainty over buyside revs.

With potential accelerated timelines for the commission sharing changes, we see some near-term disruption potential for Zillow's buy side lead generation segment (nearly 50% of revenues). We are lowering our PO to \$56 (from \$63) based on slightly lower multiple of 18x (from 20x) and no material changes to our estimates. It remains uncertain on who will bear the buyside commission (proposed rules doesn't prohibit sellers from bearing it) but the shift grants sellers more negotiating power and will likely result in commission compression for buyside agents. Lower commission will also likely lead to reduction in total agents on reduced earning potential. However, Zillow is pursuing several initiatives that should help offset the potential impact of these changes. We believe, the decoupling of commission offerings from the MLS creates additional opportunity for Zillow (largest real estate portal in the US), to further integrate into the workflow of agents and strengthen its position within the industry.....

*(Continued on next page (including PO change on RDFN)...)*

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**Refer to important disclosures on page 4 to 8. Analyst Certification on page 3. Price Objective Basis/Risk on page 2.**

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Equity

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MLS: Multiple Listing Service

PIN: Property Information Network

DOJ: Department of Justice

NAR: National Association of Realtors

## Growth initiatives should likely offset some impact

.....However, the company could also see increasing overlap with Homes.com (now the second largest real estate portal in the US), given the latter's significant ramp in marketing and \$1bn in platform investments. Lower commission should also lead to a consolidation of brokers, with transactions flowing to the best agents. While difficult to measure this could be an offset to a smaller buy side commission pool for Zillow as the company is consolidating its business to the highest productivity agents and real estate teams in the industry. Lastly, Zillow is developing an end-to-end real estate platform (the "housing super app") serving home buyers, sellers and renters. This includes new real time touring capabilities (ShowingTime+), a feature sell side listing service (Listings Showcase), a CRM platform for agents (Follow Up Boss) and Zillow Home Loans (mortgage origination), all integrate into new enhanced markets rolling out this year. With these tools Zillow is targeting to grow its market share to 6% of all real estate transactions by the end of 2025 from 3% now.

## Lowering Redfin PO on potential increased competition

For Redfin, we are lowering our PO to \$5.5 (from \$6) based on slightly lower multiple of 1.2x (vs 1.25x previously) and no material changes to estimates. We believe lower potential buy-side commission and increase in competition will likely bring commissions charged by other brokerages closer to Redfin, which are already below industry average and will likely further impact the company's market share and growth outlook. For Opendoor, we maintain our PO of \$2.75 as commissions changes are a potential positive as it would lower the fees Opendoor pays to buy side agents and could also create opportunity for alternative listing platforms (like Opendoor's platform) if the MLS' are disrupted. However, on the other side, we think it will also compel Opendoor to lower its 5% fixed transaction fees, which is loosely based on agent commission fee rates.

### Stocks mentioned

Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
OPEN	OPEN US	Opendoor	US\$ 2.67	C-3-9
RDFN	RDFN US	Redfin Corp	US\$ 6.01	C-3-9
ZG	ZG US	Zillow A	US\$ 46.22	C-2-9
Z	Z US	Zillow C	US\$ 47.71	C-2-9

## Price objective basis & risk

### Opendoor Technologies (OPEN)

Our \$2.75 price objective is based on 1.75x 2025E EV/gross profit. This is below other low margin online companies including real estate fintech peers. We believe a discount is warranted given much lower gross margins which limits long-term profit potential and the high cyclical nature of OPEN's underlying industry.

Downside risks to our PO are: slower than expected conversion of home inventory, weaker gross margins on slowing home price appreciation and limited home service attachment and a softer than expected recovery in the housing market.

Upside risks to our PO are: greater than expected shares gains as OPEN expands into new markets, better than expected pricing spreads as OPEN improves its pricing models and higher than expected leverage from a recovery in existing home sales.

### Redfin Corp (RDFN)

Our \$5.5 price objective is based on a 1.20x 2025E EV/sales multiple. This is below a historic average multiple of 2.0x. We believe a 1.25x sales multiple is warranted given

significantly lower revenue growth than prior years and ongoing challenges to achieving sustainable EBITDA profitability.

Upside risks: 1) faster than expected new product uptake expanding long term margins, 2) faster market share growth in core markets, 3) new product announcements driving stronger automation, and 4) better than expected housing market recovery.

Downside risks: 1) a slower than expected housing recovery, 2) stronger price competition from traditional brokers, and 3) slower market share growth in core markets.

#### **Zillow (ZG / Z)**

Our \$56 price objective for both Class A (ticker ZG) and Class C (ticker Z) shares is based on a 18x EV/EBITDA estimate, in line with ZG's average historic EBITDA multiple. Our 18x multiple is above the peer lead generation average of 14x given our forecast for double EBITDA margins and growth in 2024-25.

Downside risks are: 1) a slower than expected recovery in the US housing market, 2) potential disruption to buy side revenues from several agent commission lawsuits and 3) execution risk around new growth initiatives and 4) increased competition from Costar's new residential advertising marketplace.

Upside risks are: 1) faster-than-expected growth and S&M leverage, 2) better than expected trends in the US existing home market on lower rates, and 3) faster than expected progress in ZG hitting its long term targets.

### **Analyst Certification**

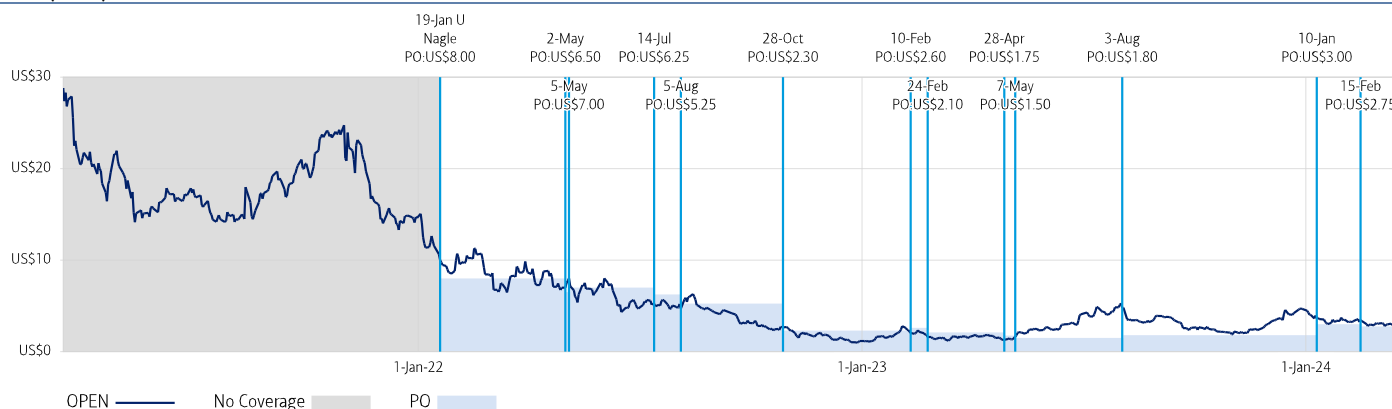
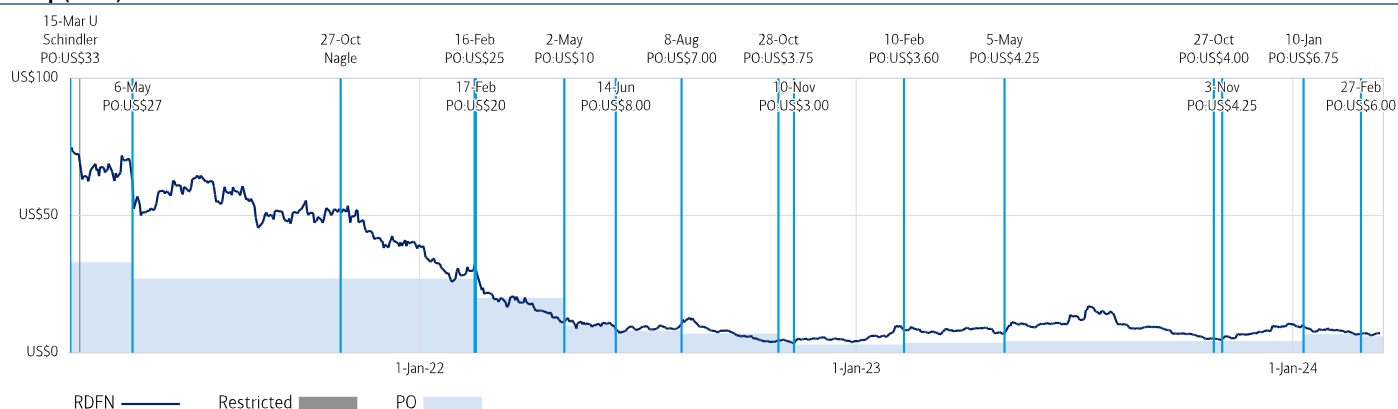
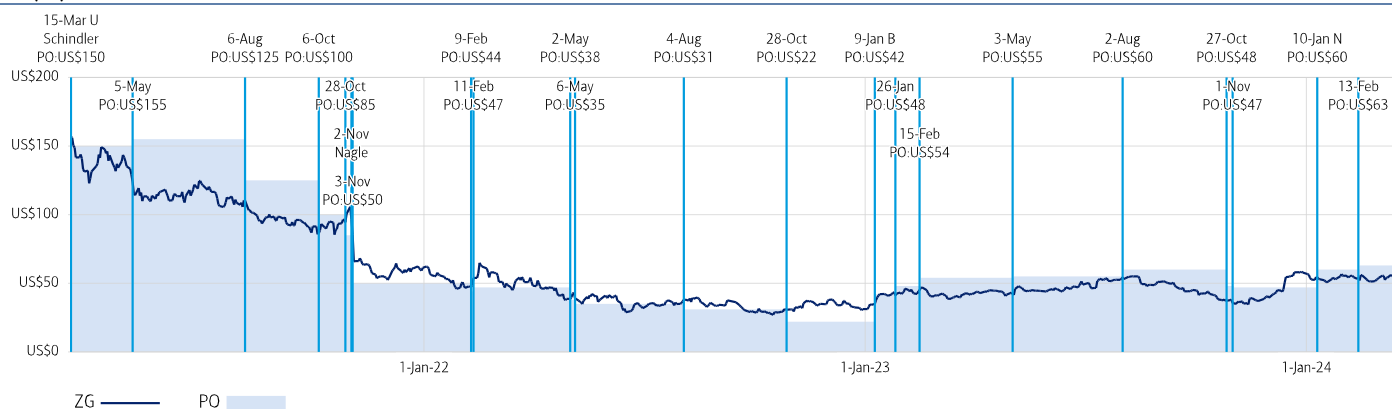
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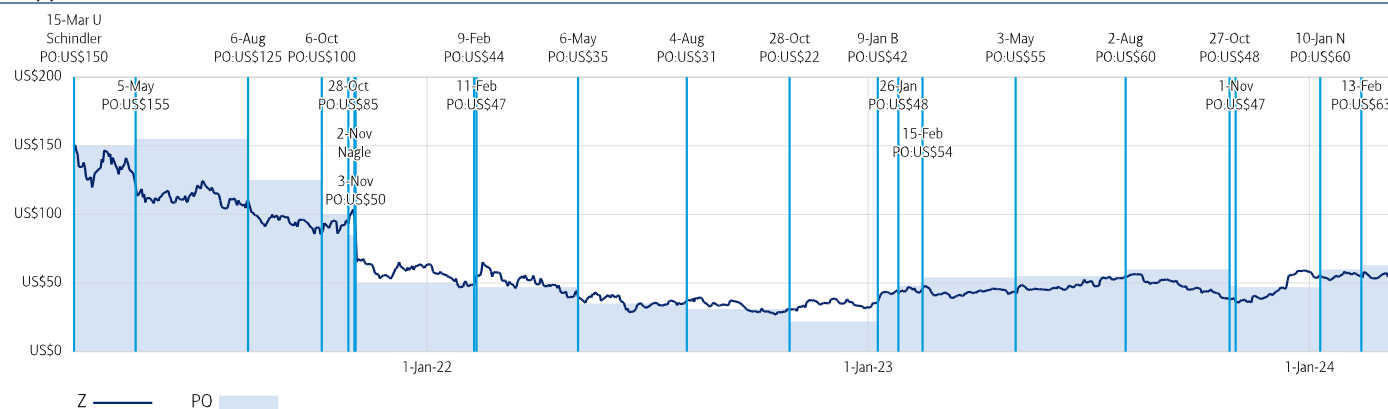
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Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Alphabet	GOOGL	GOOGL US	Justin Post
	Alphabet	GOOG	GOOG US	Justin Post
	Amazon.com	AMZN	AMZN US	Justin Post
	AppLovin	APP	APP US	Omar Dessouky, CFA
	DoorDash	DASH	DASH US	Michael McGovern
	DoubleVerify Holdings, Inc.	DV	DV US	Omar Dessouky, CFA
	Electronic Arts	EA	EA US	Omar Dessouky, CFA
	Integral Ad Science Holding Corp.	IAS	IAS US	Omar Dessouky, CFA
	LegalZoom	LZ	LZ US	Michael McGovern
	Match Group	MTCH	MTCH US	Curtis Nagle, CFA
	Meta Platforms Inc	META	META US	Justin Post
	Pinterest	PINS	PINS US	Justin Post
	RH	RH	RH US	Curtis Nagle, CFA
	Roblox Corp. Class A	RBLX	RBLX US	Omar Dessouky, CFA
	Squarespace, Inc.	SQSP	SQSP US	Michael McGovern
	Uber	UBER	UBER US	Justin Post
	Udemy Inc	UDMY	UDMY US	Curtis Nagle, CFA
	Vivid Seats	SEAT	SEAT US	Curtis Nagle, CFA
	Wayfair	W	W US	Curtis Nagle, CFA
	Wix.com	WIX	WIX US	Michael McGovern
<b>NEUTRAL</b>				
	ACV Auctions	ACVA	ACVA US	Curtis Nagle, CFA
	Airbnb	ABNB	ABNB US	Justin Post
	Beyond Inc	BYON	BYON US	Curtis Nagle, CFA
	Booking Holdings Inc	BKNG	BKNG US	Justin Post
	Bumble	BMBL	BMBL US	Curtis Nagle, CFA
	Digital Turbine, Inc	APPS	APPS US	Omar Dessouky, CFA
	Duolingo	DUOL	DUOL US	Curtis Nagle, CFA
	eBay	EBAY	EBAY US	Justin Post
	Etsy, Inc.	ETSY	ETSY US	Curtis Nagle, CFA
	Expedia	EXPE	EXPE US	Justin Post
	Instacart	CART	CART US	Justin Post
	Magnite, Inc.	MGNI	MGNI US	Omar Dessouky, CFA
	Snap	SNAP	SNAP US	Justin Post
	Take-Two Interactive	TTWO	TTWO US	Omar Dessouky, CFA
	Zillow	ZG	ZG US	Curtis Nagle, CFA
	Zillow	Z	Z US	Curtis Nagle, CFA
<b>UNDERPERFORM</b>				
	Chewy Inc	CHWY	CHWY US	Curtis Nagle, CFA
	Lyft, Inc.	LYFT	LYFT US	Michael McGovern
	Opendoor Technologies	OPEN	OPEN US	Curtis Nagle, CFA
	Peloton	PTON	PTON US	Curtis Nagle, CFA
	Playtika	PLTK	PLTK US	Omar Dessouky, CFA
	Redfin Corp	RDFN	RDFN US	Curtis Nagle, CFA
	Shutterstock	SSTK	SSTK US	Curtis Nagle, CFA

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## Important Disclosures

**Opendoor (OPEN) Price Chart****Redfin Corp (RDFN) Price Chart****Zillow A (ZG) Price Chart**

**Zillow C (Z) Price Chart**

B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
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Sell	807	22.84%	Sell	383	47.46%

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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