

## CoStar Group

# NAR's loss could be CoStar's gain

Maintain Rating: BUY | PO: 85.00 USD | Price: 70.79 USD

## Jury finds NAR guilty of colluding to inflate commissions

According to HOUSINGWIRE, today, a Missouri jury found in favor of the plaintiffs in the Sitzer/Burnett commission trial. The National Association of Realtors (NAR), HomeServices of America, and Keller Williams were found guilty of colluding to inflate or maintain high commission rates through NAR's Clear Cooperation Rule. The defendants were ordered to pay damages of \$1.78bn. The judge in the case still needs to issue his final judgment on the case before the verdict is final, and the verdict's impact on broker commission structures remains to be seen.

## This seems like good news for Homes.com

We think this decision is very good news for CoStar's Residential strategy, as it potentially positions Homes.com to take share from competing residential marketplaces. CoStar intends to monetize Homes.com by generating leads for homes-for-sale/sellers' agents, whereas competitors are focused on buyers' agents. We think this likely boosts the long-term value of its Residential business model. However, this could mean that in the near term CoStar would need to accelerate further its Residential investment spending to capture the share gain opportunity. We maintain our Buy rating.

#### 31 October 2023

## Equity

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### **Stock Data**

FSGMeter™

 Price
 70.79 USD

 Price Objective
 85.00 USD

 Date Established
 25-Oct-2023

 Investment Opinion
 B-1-9

 52-Week Range
 65.12 USD - 92.36 USD

 Mrkt Val (mn) / Shares Out
 27,929 USD / 394.5

 (mn)
 40.79 USD / 394.5

(mn)

Average Daily Value (mn)

BofA Ticker / Exchange

Bloomberg / Reuters

CSGP US / CSGP.OQ

ROE (2023E)

6.9%

Net Dbt to Eqty (Dec-2022A)

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Refer to important disclosures on page 3 to 5. Analyst Certification on page 2. Price Objective Basis/Risk on page 2.

Timestamp: 31 October 2023 03:00PM EDT

## Price objective basis & risk

## CoStar Group (CSGP)

We base our \$85 price objective on a sum-of-the-parts methodology. We value the core commercial real estate business (ie. ex Residential) with a 23.0x 2024E 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 12% WACC and EBITDA multiple (2-year forward) of 20.0x 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 then expected market conditions in the commercial real estate market increasing transaction and leasing volumes.

## **Analyst Certification**

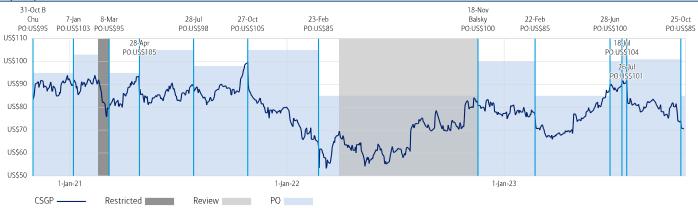
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## **Important Disclosures**

#### CoStar (CSGP) Price Chart



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

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#### Equity Investment Rating Distribution: Business Services Group (as of 30 Sep 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships R1	Count	Percent
Buy	25	55.56%	Buy	17	68.00%
Hold	9	20.00%	Hold	5	55.56%
Sell	11	24.44%	Sell	8	72.73%

#### Equity Investment Rating Distribution: Global Group (as of 30 Sep 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships R1	Count	Percent
Buy	1869	53.48%	Buy	1046	55.97%
Hold	828	23.69%	Hold	461	55.68%
Sell	798	22.83%	Sell	370	46.37%

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# Investment rating Total return expectation (within 12-month period of date of initial rating) Ratings dispersion guidelines for coverage cluster<sup>82</sup>

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

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