

Redfin Corp

4Q miss and 1Q outlook below Street; Lowering PO to \$6.0, Reit. Underperform

Reiterate Rating: UNDERPERFORM | PO: 6.00 USD | Price: 7.16 USD

4Q below Street; Expanding Redfin Next to addl. markets

4Q Rev/EBITDA at \$218mn/\$(13.4mm) was below Street at \$221mn/\$(13mn). Real Estate services revenue at \$133mn declined 9% y/y as brokerage transactions declined 20% y/y offset by 12% y/y increase in avg. revenue per transaction. Rentals/Other revenue at \$49mn/\$36mn were also below Street at \$50mn/\$37mn. In 4Q, Redfin market share declined 4bps y/y (down 6bps q/q) to 0.72%. Management noted Redfin Next (lower agent base salary but higher commission) is showing promising results with higher revenue and breakeven rates in test California markets. The company plans to expand the program to 7 additional market in May, covering one-third of total revenue but traction of the program outside the West Coast test markets remains uncertain.

1Q outlook disappoints; EBITDA breakeven goal delayed

1Q revenue guide of \$214mn-\$223mn and EBITDA of \$(36mn)-\$(29mn) was below Street at \$220mn and \$(23mn). Redfin expressed concern that 2024 might echo the trends seen in 2023, particularly with the recent rise in interest rates in Feb, suggesting potential volatility and uncertainty in the lending landscape. Management also acknowledged that the goal to achieve TTM adjusted EBITDA breakeven by 1H'24 is now less certain due to the trajectory of mortgage rates. We remain skeptical on this goal as we expect tough macro conditions will continue to weigh on company's growth in 2024.

Marginally lowering our below Street 2024/25E estimates

Given high interest rates and expected low transaction volumes, we are marginally lowering our below Street revenue and EBITDA estimates. We also expect higher cost of revenue. For 1Q, we estimate revenues of \$222mn & EBITDA of \$(30mn). For 2024E, we lower revenues by 0.4% to \$1.0bn and EBITDA by \$24mn to \$(30mn). For 2025E metrics, key for valuation, we lower revenues by 1% to \$1.1bn and EBITDA by \$22mn to \$18mn.

Profitability likely to remain challenged; Reit. Underperform

We lower our PO to \$6.0 (from \$6.75) based on lower 2025 core real estate and rental revenue and unchanged 1.25x multiple. We remain cautious on Redfin's ability to consistently generate positive margins and cash flow. We also think ongoing reductions in agent numbers and marketing expenditures may pose challenges in competing against larger brokerages when the housing market rebounds. Given concerns about Redfin's ability to generate sufficient cash flow over next few years, company's convertible and other debt also remain an overhang. Reiterate Underperform.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	(0.64)	(2.30)	(0.52)	(0.85)	(0.63)
GAAP EPS	(1.05)	(2.93)	(1.15)	(1.46)	(1.30)
EPS Change (YoY)	NM	-259.4%	77.4%	-63.5%	25.9%
Consensus EPS (Bloomberg)			(0.98)	(0.89)	(0.55)
DPS	0	0	0	0	0
Valuation (Dec)					
Free Cash Flow Yield*	-38.5%	2.8%	5.2%	0.2%	-2.5%

* For full definitions of *IQmethod*SM measures, see page 6.

27 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	6.75	6.00
2023E Rev (m)	1,094.5	1,088.6
2024E Rev (m)	1,018.6	1,014.5
2025E Rev (m)	1,102.8	1,098.9
2023E EPS	-0.47	-0.52
2024E EPS	-0.67	-0.85
2025E EPS	-0.49	-0.63

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Stock Data

Price	7.16 USD
Price Objective	6.00 USD
Date Established	27-Feb-2024
Investment Opinion	C-3-9
52-Week Range	4.26 USD - 17.68 USD
Mkt Val (mn) / Shares Out (mn)	854 USD / 119.2
Free Float	96.3%
Average Daily Value (mn)	34.59 USD
BofA Ticker / Exchange	RDFN / NAS
Bloomberg / Reuters	RDFN US / RDFN.OQ
ROE (2023E)	-110.4%
Net Dbt to Eqty (Dec-2022A)	-230.9%
ESGMeter TM	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

RE: Real Estate

TTM: Trailing Twelve Months

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Timestamp: 27 February 2024 11:04PM EST

iQprofileSM Redfin Corp

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	-3.2%	-17.2%	-12.9%	-9.1%	-6.6%
Return on Equity	-13.7%	-109.4%	-110.4%	-153.2%	-64.2%
Operating Margin	-2.9%	-12.7%	-13.8%	-8.6%	-5.6%
Free Cash Flow	(329)	24	45	2	(22)

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	NM	NM	NM	NM	NM
Asset Replacement Ratio	0.6x	0.3x	0.2x	0.2x	0.2x
Tax Rate	5.3%	NM	NM	NM	NM
Net Debt-to-Equity Ratio	-111.9%	-230.9%	-350.7%	-120.5%	-125.8%
Interest Cover	NA	NA	NA	NA	NA

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	1,923	2,289	1,089	1,015	1,099
% Change	117.0%	19.1%	-52.5%	-6.8%	8.3%
Gross Profit	414	289	340	365	421
% Change	72.1%	-30.2%	17.6%	7.5%	15.2%
EBITDA	(8)	(225)	(77)	(30)	(4)
% Change	NM	NM	65.7%	61.5%	87.2%
Net Interest & Other Income	(6)	42	92	(12)	(13)
Net Income (Adjusted)	(67)	(248)	(59)	(99)	(74)
% Change	NM	-270.5%	76.3%	-68.9%	25.2%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	(110)	(316)	(130)	(171)	(154)
Depreciation & Amortization	47	65	63	57	57
Change in Working Capital	(307)	245	126	54	6
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	68	52	(2)	72	80
Capital Expenditure	(27)	(22)	(12)	(10)	(11)
Free Cash Flow	-329	24	45	2	-22
% Change	NM	NM	87.2%	-95.5%	NM
Share / Issue Repurchase	23	12	135	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	170	(251)	(39)	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	591	240	150	153	131
Trade Receivables	NA	NA	NA	NA	NA
Other Current Assets	655	537	295	240	246
Property, Plant & Equipment	59	55	46	46	46
Other Non-Current Assets	717	743	662	662	662
Total Assets	2,022	1,574	1,154	1,102	1,086
Short-Term Debt	200	0	0	0	0
Other Current Liabilities	202	355	268	259	267
Long-Term Debt	0	0	0	0	0
Other Non-Current Liabilities	1,270	1,116	843	716	714
Total Liabilities	1,672	1,470	1,111	975	981
Total Equity	350	104	43	127	104
Total Equity & Liabilities	2,022	1,574	1,154	1,102	1,086

* For full definitions of iQmethodSM measures, see page 6.

Company Sector

Internet/e-Commerce

Company Description

Redfin is a digitally focused real estate firm, founded in 2004. Redfin's online platform and unique real estate agent model focus on helping consumers buy and sell homes at a fraction of the cost of a traditional brokerage firm. Redfin operates in over 80 markets across the US, with 10 markets representing more than 50% of revenues.

Investment Rationale

Redfin is a new take on the traditional real estate brokerage business that leverages technology and a management model for real estate agents. While we see the wind down of the iBuying business as a positive for margins and RDN's capital structure, we are concerned on RDN's ability to take share in a very difficult real estate and scale to breakeven profitability.

Stock Data

Average Daily Volume 4,830,424

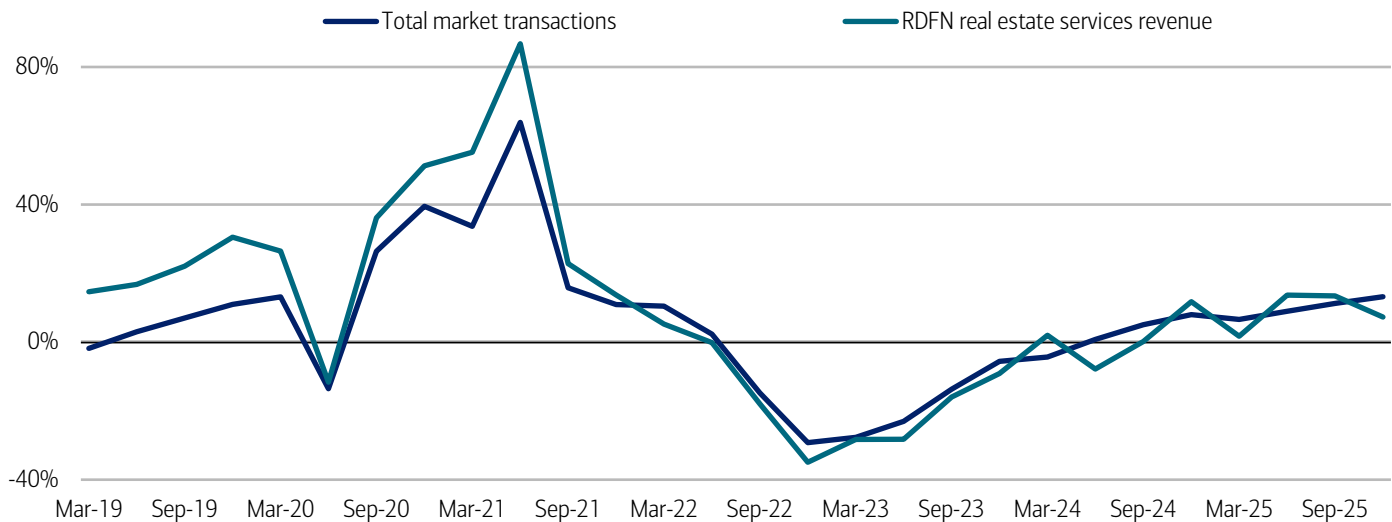
Quarterly Earnings Estimates

	2022	2023
Q1	-0.74A	-0.38A
Q2	-0.57A	-0.08A
Q3	-0.62A	0A
Q4	-0.42A	-0.06E

Redfin vs. Total Transactions

Exhibit 1: Redfin real estate services growth vs US existing home transactions

Redfin real estate services growth (down 9% in 4Q) continues to trail broader RE market (down 6% in 4Q).



Source: Bloomberg, company reports, BofA Global Research

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Actuals vs. Estimates

Exhibit 3: 4Q'23 Actual vs BofA Estimates

4Q Rev/EBITDA at \$218mn/\$13.5mn) was below BofA estimates at \$224mn/\$11.5mn).

Income Statement		4Q23		
Redfin ('\$000 except per share data)		Actual	BofA Ests	Difference
Broker		\$124,342	\$127,179	(\$2,837)
Partner		\$8,551	\$9,321	(\$770)
Real Estate Services		\$132,890	\$136,500	(\$3,610)
RentPath		\$49,176	\$49,527	(\$351)
Other		\$36,011	\$38,000	(\$1,989)
Total Revenue		\$218,077	\$224,027	(\$5,950)
y/y %		(55%)	(53%)	(1%)
q/q %		(19%)	(17%)	(2%)
Cost of revenue		\$142,185	\$144,407	(\$2,222)
As a % of revenue		65%	64%	1%
Gross profit		\$75,892	\$79,619	(\$3,727)
Gross margin		35%	36%	(1%)
Technology and development		\$35,746	\$36,099	(\$353)
% of revenue		16%	20%	(3%)
Marketing		\$19,020	\$20,114	(\$1,094)
% of revenue		9%	10%	(1%)
General and administrative		\$49,058	\$49,892	(\$834)
% of revenue		22%	25%	(2%)
Operating income (loss) (Non-GAAP)		(\$28,700)	(\$26,487)	(\$2,213)
Margin		(13%)	(12%)	(1%)
Adjusted EBITDA		(13,459)	(11,487)	(1,972)
Margin		(6%)	(5%)	(1%)
y/y %		(79%)	(82%)	3%
Non-GAAP Basic EPS		(\$0.06)	(\$0.02)	(\$0.04)
Non-GAAP Diluted EPS		(\$0.06)	(\$0.02)	(\$0.04)

Source: BofA Global Research Estimates, Company Financials

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Estimate Changes

Given high interest rates and expected low transaction volumes, we are marginally lowering our below Street revenue and EBITDA estimates. We also expect higher cost of revenue. For 1Q, we estimate revenues of \$222mn & EBITDA of \$(30mn). For 2024E, we lower revenues by 0.4% to \$1bn and EBITDA by \$24mn to \$(30mn). For 2025E metrics, key for valuation, we lower revenues by 1% to \$1.1bn and EBITDA by \$22mn to \$18mn.

Exhibit 4: Estimate Changes

We lower 2025 revenue estimates, key for valuation, by 1% to \$1.1bn.

Estimate Changes	1Q24E			2024E			2025E		
Redfin ("000 except per share data)	New	Old	Diff	New	Old	Diff	New	Old	Diff
Broker	\$121,837	\$111,443	\$10,395	\$580,877	\$587,657	(\$6,780)	\$636,319	\$644,080	(\$7,761)
Partner	\$7,998	\$7,573	\$425	\$42,040	\$41,991	\$49	\$46,311	\$42,831	\$3,480
Real Estate Services	\$129,835	\$119,015	\$10,820	\$622,917	\$629,648	(\$6,731)	\$682,630	\$686,911	(\$4,281)
RentPath	\$49,729	\$50,158	(\$429)	\$203,120	\$206,471	(\$3,351)	\$215,307	\$218,859	(\$3,553)
Other	\$42,000	\$36,000	\$6,000	\$188,500	\$182,500	\$6,000	\$201,000	\$201,000	\$0
Total Revenue	\$221,565	\$205,173	\$16,391	\$1,014,537	\$1,018,619	(\$4,083)	\$1,098,937	\$1,106,771	(\$7,834)
y/y %	(32%)	(37%)	5%	(7%)	(7%)	0%	8%	9%	(0%)
q/q %	2%	(8%)	10%	0%	0%	0%	0%	0%	0%
Cost of revenue	\$154,326	\$135,548	\$18,777	\$649,158	\$630,002	\$19,156	\$677,912	\$644,678	\$33,234
As a % of revenue	70%	66%	4%	64%	62%	2%	62%	58%	3%
Gross profit	\$67,239	\$69,625	(\$2,386)	\$365,379	\$388,617	(\$23,239)	\$421,024	\$462,093	(\$41,068)
Margin	30%	34%	(4%)	36%	38%	(2%)	38%	42%	(3%)
Technology and development	\$36,863	\$36,145	\$718	\$144,778	\$146,343	(\$1,565)	\$147,869	\$153,444	(\$5,575)
% of revenue	21%	22%	(1%)	14%	14%	(0%)	13%	14%	(0%)
Marketing	\$25,069	\$23,270	\$1,800	\$107,674	\$106,025	\$1,649	\$130,698	\$135,868	(\$5,170)
% of revenue	12%	12%	0%	11%	10%	0%	12%	12%	(0%)
General and administrative	\$49,532	\$50,118	(\$586)	\$200,084	\$201,525	(\$1,441)	\$203,491	\$214,498	(\$11,008)
% of revenue	24%	27%	(3%)	20%	20%	(0%)	19%	19%	(1%)
Non-GAAP Operating Income	(\$44,225)	(\$39,908)	(\$4,317)	(\$87,157)	(\$65,276)	(\$21,881)	(\$61,034)	(\$41,718)	(\$19,316)
Margin	(20%)	(19%)	(1%)	(9%)	(6%)	(2%)	(6%)	(4%)	(2%)
Adjusted EBITDA	(\$29,867)	(\$24,958)	(\$4,909)	(\$29,725)	(\$5,476)	(\$24,249)	(\$3,802)	\$17,882	(\$21,684)
Margin	(13%)	(12%)	(1%)	(3%)	(1%)	(2%)	(0%)	2%	(2%)
y/y %	(55%)	(63%)	7%	(62%)	(93%)	31%	(87%)	(427%)	339%
Non-GAAP Basic EPS	(\$0.41)	(\$0.37)	(\$0.03)	(\$0.85)	(\$0.67)	(\$0.18)	(\$0.63)	(\$0.47)	(\$0.16)
Non-GAAP Diluted EPS	(\$0.41)	(\$0.37)	(\$0.03)	(\$0.85)	(\$0.67)	(\$0.18)	(\$0.63)	(\$0.47)	(\$0.16)

Source: BofA Global Research Estimates

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Price objective basis & risk

Redfin Corp (RDFN)

Our \$6.0 price objective is based on a 1.25x 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.

Analyst Certification

I, Curtis Nagle, CFA, 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 - Internet Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	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
NEUTRAL				
	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



US - Internet Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Zillow	ZG	ZG US	Curtis Nagle, CFA
	Zillow	Z	Z US	Curtis Nagle, CFA
UNDERPERFORM				
	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

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

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

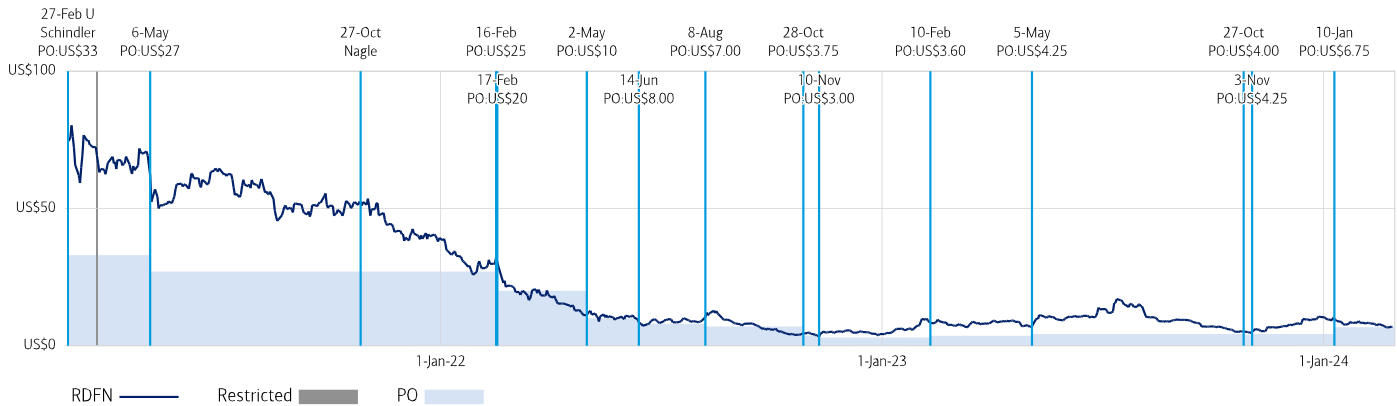
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Disclosures

Important Disclosures

Redfin Corp (RDFN) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

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

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	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%

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.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of both a stock's absolute total return potential as well as its attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). Our investment ratings are: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

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.

INCOME RATINGS, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure), 8 - same/lower (dividend not considered to be secure) and 9 - pays no cash dividend. **Coverage Cluster** is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent BofA Global Research report referencing the stock.

Price Charts for the securities referenced in this research report are available on the [Price Charts website](#), or call 1-800-MERRILL to have them mailed.

BofAS or one of its affiliates acts as a market maker for the equity securities recommended in the report: Redfin Corp.

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