

CoStar Group

4Q EPS preview: 4Q22 déjà vu – we view 2024 guidance as a clearing event

Reiterate Rating: BUY | PO: 97.00 USD | Price: 82.33 USD

All eyes on 2024 Residential spend

CoStar (CSGP) reports 4Q23 EPS on Feb. 20 after the close. In our view, the key debates into the print are: 1) how much CSGP will invest this year in its Residential strategy and 2) how will the stock react to that spend. With 4Q22 earnings, CSGP initially guided 2023 EBITDA to \$500-520mn, 27% below consensus, but the stock fell only 5%. We think another year of significant spending has been well broadcasted and view initial 2024 guidance as a clearing event. We reiterate our Buy rating and our \$97 PO.

Our model assumes \$665mn of Resi opex in 2024

We model a 19.7% 2024 EBITDA margin, vs. 20.0% for 2023E and 2019's 36.2% peak. Buyside expectations fall within a relatively wide range; we have spoken to investors as low as 17% and as high as 19-20%. Our model reflects ~\$665mn of 2024E Residential operating costs, up from \$518mn/\$235E in 2023/22. Our outlook includes the OnTheMarket (OTM) acquisition and planned investments in that business. We assume Homes.com launches marketing in 1Q24 to build consumer awareness (our checks point to a Super Bowl commercial) and monetization starts in early 2Q24. We model 2024E Residential revenue of \$98mn, including \$43mn from OTM.

Other areas of focus for the call

We're interested in an update on Loopnet's turnaround, pricing plans across segments, and management's thoughts about the pace of Apartments.com sales growth in 2025+ as supply wanes (see BofA's REIT team's Oct. 2023 [report](#)).

Our 4Q23 EPS is in line with consensus

We are modeling \$0.32 4Q23 EPS, which is in line with Visible Alpha consensus. Our EPS is driven by 10.9% sales growth and a 20.0% EBITDA margin. The Street is at 10.6% sales growth and a 19.9% EBITDA margin. This compares to implied guidance for 9.9-10.8% 4Q23 sales growth and 19.6-20.2% adjusted EBITDA margin.

We assume margins ex Residential expand in 2024

Our \$1.29E 2024 EPS is roughly in line with the Street's \$1.31. We model 12% revenue growth excluding Residential, in line with 11-12% guidance provided on the 3Q call. We assume EBITDA margins excluding Residential expand 150bp to ~41.5%.

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)			1.22	1.29	1.68
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	72.2x	64.8x	67.5x	63.8x	47.0x
GAAP P/E	111.3x	88.5x	88.5x	81.5x	55.6x
EV / EBITDA*	45.8x	44.1x	60.6x	53.9x	36.6x
Free Cash Flow Yield*	1.2%	1.3%	1.6%	2.3%	2.6%

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

22 January 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E Rev (m)	2,804.9	2,790.8
2025E Rev (m)	3,287.1	3,277.1

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Stock Data

Price	82.33 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)	32,482 USD / 394.5
Free Float	98.9%
Average Daily Value (mn)	158.49 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 TM	High

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Timestamp: 22 January 2024 06:58AM 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 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 1,925,102

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

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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	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
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	First Advantage Corporation	FA	FA US	Heather Balsky
	Verisk Analytics	VRSK	VRSK US	Heather Balsky
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	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



US - Business, Education & Professional Services Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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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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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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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