

CoStar Group

Taking its Residential investment spend up to 11...

Reiterate Rating: BUY | PO: 97.00 USD | Price: 81.24 USD

Fundamental catalysts suggest upside; reiterate Buy

We remain bullish on CoStar's (CSGP) mid-term growth story. 2024's Residential opex was much higher than we anticipated, but we view this as a clearing event. We see upside to shares as Homes.com ramps and CSGP starts to track towards its 2027 targets.

Pushing Residential investment pedal to the metal

Our primary focus for the 4Q print was CSGP's target 2024 Resi spend. \$170-190mn 2024 EBITDA guidance implies ~\$1.05bn of Residential opex. Headlines had hinted at this amount, but it was still a surprise. The good news is that mgmt called the peak. CSGP is frontloading its marketing spend to attract customers and drive consumer traffic.

Focus shifts to Resi sales: a strong (but very early) start

CSGP is targeting \$50-60mn of 2024 Homes.com sales and sees a path to a \$200mn run-rate in a year. We assume CSGP achieves its target and is at \$200mn+ of sales by 2025. It began monetizing Homes.com a quarter earlier than planned and is off to a strong start in its first week. So far, it has generated \$5mn+ in sales across 827+ memberships. Larger agents have signed up for memberships at a price point of several thousand dollars/mo., but pricing goes as low as \$100-200/mo. for "a listing or so".

Commercial business sales guide soft but with upside

CSGP's 2024 sales guide of +12-13% implies ~10%E commercial (sales ex Resi) growth at the mid-pt. We think there's room for upside. On the 3Q call, mgmt guided commercial sales +11-12%. We infer that the new outlook factors in some cushion because CSGP has its entire salesforce cross-selling Homes.com. Guidance assumes sales grow +7-8% for CoStar Suite, 17-18% for Multifamily, and MSD% for LoopNet. LoopNet is still being impacted by 2023's execution issues and leadership changes.

4Q beat on sales and EBITDA firing on all cylinders

4Q's \$0.33 EPS beat us by 1c on higher sales (+11.6% vs. our 10.9%E) and EBITDA margin (20.3% vs. our 20.0%E). We lower our 24/25E EPS to \$0.58/1.03 from \$1.29/1.75 to reflect higher Resi spend. Our \$97 PO is unchanged as we 1) roll forward our valuation to our 2025 estimates, 2) lower our discount rate to 11% on lower rates, and 3) lower our multiple on the commercial segment to 25.5x (from 26.5x) to reflect softer sales.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	1.27	1.22	0.58	1.03	1.78
GAAP EPS	0.93	0.92	0.30	0.74	1.48
EPS Change (YoY)	11.4%	-3.9%	-52.5%	77.6%	72.8%
Consensus EPS (Bloomberg)			1.32	1.68	2.33
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	64.0x	66.6x	140.1x	78.9x	45.6x
GAAP P/E	87.4x	88.3x	270.8x	109.8x	54.9x
EV / EBITDA*	43.5x	59.4x	162.8x	58.0x	29.1x
Free Cash Flow Yield*	1.2%	1.1%	-0.7%	0.1%	2.6%

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

21 February 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E Rev (m)	2,790.8	2,770.0
2025E Rev (m)	3,277.1	3,251.6
2026E Rev (m)	3,970.9	3,870.3
2024E EPS	1.29	0.58
2025E EPS	1.75	1.03
2026E EPS	2.53	1.78

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Stock Data

Price	81.24 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)	32,052 USD / 394.5
Free Float	98.9%
Average Daily Value (mn)	152.34 USD
BofA Ticker / Exchange	CSGP / NAS
Bloomberg / Reuters	CSGP US / CSGP.OQ
ROE (2024E)	3.2%
Net Dbt to Eqty (Dec-2023A)	-57.6%
ESGMeter TM	High

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MSD: Mid-single digit

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iQprofileSM CoStar Group

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	5.1%	4.8%	1.6%	3.6%	6.5%
Return on Equity	8.0%	7.0%	3.2%	5.3%	8.5%
Operating Margin	20.7%	11.5%	-1.1%	8.1%	18.7%
Free Cash Flow	385	347	(224)	48	825

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.9x	1.0x	2.4x	1.5x	1.3x
Asset Replacement Ratio	0.7x	0.9x	5.4x	3.2x	0.7x
Tax Rate	24.1%	25.3%	26.0%	26.0%	26.0%
Net Debt-to-Equity Ratio	-57.9%	-57.6%	-51.9%	-49.1%	-53.3%
Interest Cover	5.6x	9.2x	-1.2x	8.1x	22.2x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	2,182	2,455	2,770	3,252	3,870
% Change	12.3%	12.5%	12.8%	17.4%	19.0%
Gross Profit	1,768	1,964	2,215	2,600	3,095
% Change	11.4%	11.0%	12.8%	17.4%	19.0%
EBITDA	672	492	179	503	1,005
% Change	3.8%	-26.8%	-63.5%	180.4%	99.8%
Net Interest & Other Income	169	391	354	311	282
Net Income (Adjusted)	506	498	239	425	745
% Change	13.1%	-1.6%	-52.1%	78.3%	75.1%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	369	375	122	304	617
Depreciation & Amortization	216	205	184	206	241
Change in Working Capital	(206)	(200)	70	(57)	(64)
Deferred Taxation Charge	(31)	(37)	37	0	0
Other Adjustments, Net	130	147	164	179	196
Capital Expenditure	(94)	(143)	(800)	(585)	(164)
Free Cash Flow	385	347	-224	48	825
% Change	37.1%	-9.9%	NM	NM	NM
Share / Issue Repurchase	736	(3)	20	23	26
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(2)	0	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	4,968	5,216	5,012	5,083	5,934
Trade Receivables	154	190	214	269	321
Other Current Assets	64	70	79	93	111
Property, Plant & Equipment	321	472	1,219	1,728	1,784
Other Non-Current Assets	2,895	2,971	2,923	2,904	2,902
Total Assets	8,402	8,920	9,447	10,077	11,052
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	373	456	569	613	657
Long-Term Debt	989	991	992	993	994
Other Non-Current Liabilities	171	135	135	135	135
Total Liabilities	1,532	1,581	1,696	1,740	1,786
Total Equity	6,870	7,339	7,751	8,336	9,266
Total Equity & Liabilities	8,402	8,920	9,447	10,077	11,052

* 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 CS GP 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 CS GP's outsized and defensive compounding growth potential.

Stock Data

Average Daily Volume

1,875,227

Quarterly Earnings Estimates

	2023	2024
Q1	0.29A	0.07E
Q2	0.31A	0.08E
Q3	0.30A	0.18E
Q4	0.33A	0.26E



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 25.5x 2025E 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 11% 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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	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



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

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: 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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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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