

## CoStar Group

# Housing traffic inspection: Momentum kicks off with Super Bowl marketing push

Reiterate Rating: BUY | PO: 97.00 USD | Price: 87.00 USD

## Homes.com traffic steps up after the Super Bowl jolt

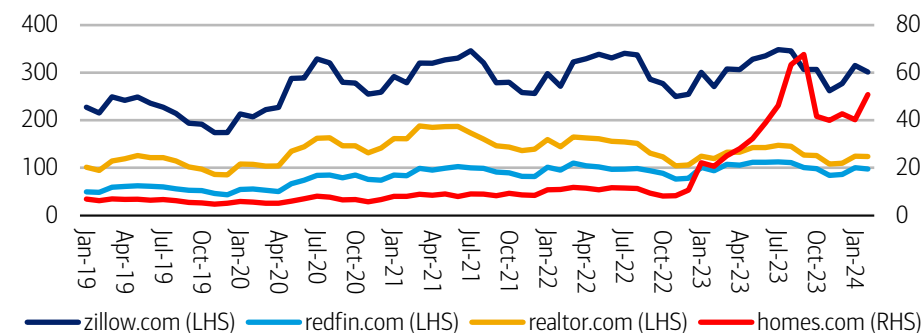
Homes.com's traffic gained positive momentum in February, likely benefitting from its marketing push during the Super Bowl (2/11). According to SimilarWeb, its monthly site traffic reached 51mn in February (+26% m/m and +19% vs. 4Q end). In comparison, Zillow, Realtor.com, and Redfin had 301mn, 124mn, and 98mn visitors in February ((4.4)%, (0.5)%, (2.5)% m/m, respectively). On a y/y basis, Homes.com's February site traffic rose 147% y/y (albeit off a small base), vs. Zillow, Realtor.com, and Redfin's 11.4%, 3.7%, and 4.3% increases. (SimilarWeb's data does not include app traffic data). We think CSGP has an opportunity to quickly narrow the gap to Redfin and Realtor.com on the back of its multi-hundred-million-dollar 2024 marketing blitz. We reiterate our Buy on CoStar; we don't think valuation reflects its long-term growth potential.

## Traffic bringing monetization earlier than expected

CSGP began monetizing Homes.com a quarter earlier than planned with site traffic off to a strong start. In its first week, Homes.com generated \$5mn+ in sales across 827+ memberships post its Super Bowl push. CoStar is presenting at our Business & Information Services conference on March 14<sup>th</sup> in NYC, and we look forward to hearing more about their progress.

### Exhibit 1: Residential marketplaces US online monthly web traffic (visits in mn)

Homes.com traffic was at ~51mn visitors in February, +147% y/y



Source: SimilarWeb, BofA Global Research

BofA GLOBAL RESEARCH

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)			0.60	1.28	2.11
DPS	0	0	0	0	0
<b>Valuation (Dec)</b>					
P/E	68.5x	71.3x	150.0x	84.5x	48.9x
GAAP P/E	93.5x	94.6x	290.0x	117.6x	58.8x
EV / EBITDA*	46.9x	64.0x	175.4x	62.6x	31.3x
Free Cash Flow Yield*	1.1%	1.0%	-0.7%	0.1%	2.4%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 5.

06 March 2024

### Equity

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### Stock Data

Price	87.00 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
Mrkt Val (mn) / Shares Out (mn)	34,324 USD / 394.5
Free Float	98.9%
Average Daily Value (mn)	191.24 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 <sup>TM</sup>	High

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"](#).

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Refer to important disclosures on page 6 to 8. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.

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Timestamp: 06 March 2024 12:10PM EST

# iQprofile<sup>SM</sup> CoStar Group

## iQmethod<sup>SM</sup> – 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

## iQmethod<sup>SM</sup> – 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
<b>Net Income (Adjusted)</b>	<b>506</b>	<b>498</b>	<b>239</b>	<b>425</b>	<b>745</b>
<b>% Change</b>	<b>13.1%</b>	<b>-1.6%</b>	<b>-52.1%</b>	<b>78.3%</b>	<b>75.1%</b>

## 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)
<b>Free Cash Flow</b>	<b>385</b>	<b>347</b>	<b>-224</b>	<b>48</b>	<b>825</b>
<b>% Change</b>	<b>37.1%</b>	<b>-9.9%</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>
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
<b>Total Assets</b>	<b>8,402</b>	<b>8,920</b>	<b>9,447</b>	<b>10,077</b>	<b>11,052</b>
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
<b>Total Liabilities</b>	<b>1,532</b>	<b>1,581</b>	<b>1,696</b>	<b>1,740</b>	<b>1,786</b>
<b>Total Equity</b>	<b>6,870</b>	<b>7,339</b>	<b>7,751</b>	<b>8,336</b>	<b>9,266</b>
<b>Total Equity &amp; Liabilities</b>	<b>8,402</b>	<b>8,920</b>	<b>9,447</b>	<b>10,077</b>	<b>11,052</b>

\* For full definitions of iQmethod<sup>SM</sup> 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 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 2,198,218

## 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

I, Heather Balsky, 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.

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Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Alight Inc.	ALIT	ALIT US	Heather Balsky
	APi Group	APG	APG US	Heather Balsky
	Aramark	ARMK	ARMK US	Heather Balsky
	Cintas	CTAS	CTAS US	Heather Balsky
	CoStar Group	CSGP	CSGP US	Heather Balsky
	Driven Brands	DRVN	DRVN US	Robert F. Ohmes, CFA
	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
	Petco	WOOF	WOOF US	Kendall Toscano
	Rollins Inc.	ROL	ROL 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
<b>NEUTRAL</b>				
	AutoZone Inc.	AZO	AZO US	Robert F. Ohmes, CFA
	FactSet Research Systems Inc	FDS	FDS US	Heather Balsky
	First Advantage Corporation	FA	FA US	Heather Balsky
	Verisk Analytics	VRSK	VRSK US	Heather Balsky
<b>UNDERPERFORM</b>				
	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

## US - Business, Education &amp; Professional Services Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	TransUnion	TRU	TRU US	Heather Balsky

**iQmethod<sup>SM</sup> 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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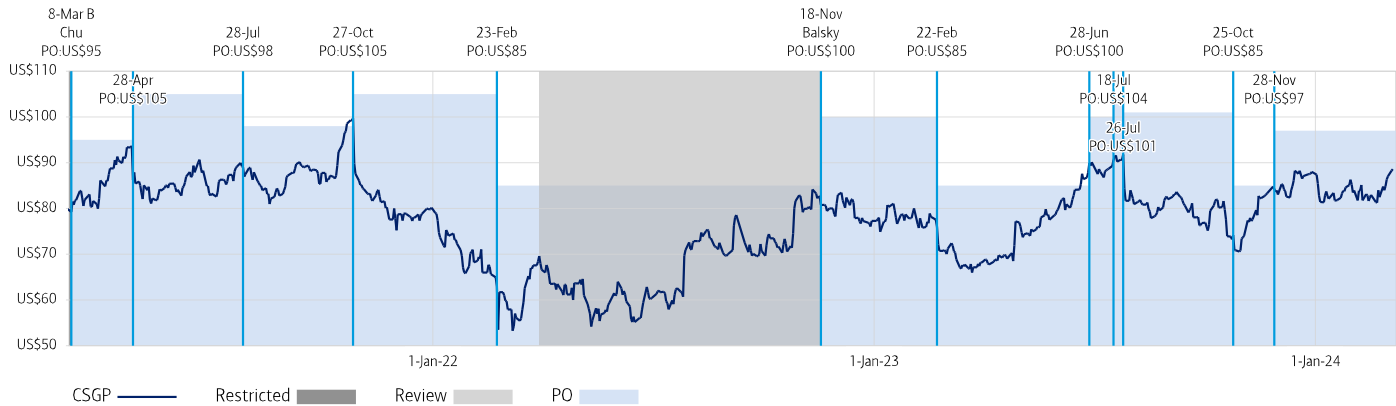
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B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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 <sup>R1</sup>	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 <sup>R1</sup>	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%

<sup>R1</sup> 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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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
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Neutral	≥ 0%	≤ 30%
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<sup>R2</sup> 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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