

Internet/e-Commerce

DOJ intervention in MLS PIN settlement adds to uncertain RE regulatory landscape

Industry Overview

DOJ suggests prohibiting sellers from offering commission

On 2/15, DOJ filed its statement of interest in the MLS PIN (Nosalek lawsuit) settlement agreement and provided suggestions to address its concerns. One proposal was an injunction that would prohibit (but does not make a judgement on banning) sellers from making commission offers to buyer brokers. In pushing for a prohibition of listing agents offering a commission to buyer agents, the DOJ argued that this change would promote greater price competition and innovation. According to the DOJ filing, "If buyers set the compensation for their own brokers directly, some buyer brokers might choose to offer flat fees or hourly rates in lieu of percentage commissions, since the amount of time and effort required by a buyer broker has a weak correlation, if any, to the ultimate sales price of the house". The DOJ also suggested, "While some buyers might choose to pay their buyer brokers out of pocket, other buyers might request in an offer that the seller pay a specified amount to the buyer broker from the proceeds of the home sale." Major online real estate stocks reacted negatively to news with ZG down ~5%, RDFN down ~8% and OPEN down ~12% (reaction also amplified by earnings, see our note: [OPEN 4Q'23 earnings](#)) vs S&P down 0.5%.

DOJ had expressed dissatisfaction with the settlement

The Nosalek lawsuit was filed in 2020 and is one of several ongoing cases contesting the existing structure of buyer-broker commissions. Defendants in the case include MLS PIN, Anywhere Real Estate, HomeServices of America, RE/MAX and Keller Williams. The initial settlement required MLS PIN (which serves much of Massachusetts) to pay \$3mn and revise its rules surrounding buyer-broker compensation, including 1) eliminating a mandatory offer of compensation from the seller to the buyer-broker, 2) requiring listing agents to notify their sellers that such compensation is not required, and 3) making it clear that any compensation offered by the seller to the buyer-broker can be negotiated among all parties. However, the DOJ had expressed dissatisfaction with the settlement and in Dec'23, had informed the US District Court in Massachusetts of its intention to advocate for further changes to commission compensation practices.

Federal judge to decide on DOJ's suggestions

As next step, a federal judge will decide whether to approve or overturn the Nosalek settlement. If a prohibition of offering commissions to buy-side agents was put in place, we think it will most likely result in some degree of commission compression, impacting buy-side agents compensation. The uncertainty surrounding the outcome stems from the potential influence of this case on numerous pending commission lawsuits, including the Sitzer case, where a final decision is expected in mid-April. Additionally, there is also a possibility that DOJ might reopen its case against NAR but that would likely take years to play out and would occur during an election year. We think it is possible the DOJ forces greater disruption than any of the consumer-led commission lawsuits on their own and adds more uncertainty to the already unpredictable real estate regulatory environment.

(Continued on next page.....)

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MLS: Multiple Listing Service

PIN: Property Information Network

DOJ: Department of Justice

NAR: National Association of Realtors

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Timestamp: 16 February 2024 04:27PM EST

Commission lawsuits drive uncertainty for ZG buyside revs

If commission sharing is prohibited, then in the near to intermediate term, we see some disruption potential for Zillow's buy side lead generation segment (nearly 50% of revenues). Risks are 1) a reduction in total agents on lower earning potential and 2) lower commission dollars on increased fee transparency and uncertainty on who will bear the buyside commission, which could impact company's growth outlook and multiple. However, Zillow is pursuing several initiatives that at a minimum would serve to help offset the impact of potential changes including: 1) strong user engagement and usage of the platform (Zillow remains the real estate site in the US); 2) a strategy to shift more business to largest and most productive agents and; 3) the development of an end-to-end real estate platform (the "housing super app") serving home buyers, sellers and renters. This includes new real time touring capabilities (ShowingTime+), a feature sell side listing service (Listings Showcase), a CRM platform for agents (Follow Up Boss) and Zillow Home Loans (mortgage origination), all integrate into new enhanced markets rolling out this year. With these tools Zillow is targeting 6% of all real estate transactions from 3% now.

Redfin also at risk and Opendoor to a lesser extent

For Redfin, the increase in competition will likely bring commissions charged by other brokerages closer to RDFN's, which are already below industry average and will potentially impact's company's market share and growth outlook. For Opendoor, management has called out commissions changes as a potential positive as it would lower the fees Opendoor pays to buy side agents and would also create opportunity for alternative listing platforms (like Opendoor's platform) if the MLS' are disrupted. However, on the other side, we think it will also compel Opendoor to lower it's 5% fixed transaction fees, which is loosely based on agent commission fee rates.

Stocks mentioned

Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
OPEN	OPEN US	Opendoor	US\$ 3.00	C-3-9
RDFN	RDFN US	Redfin Corp	US\$ 7.19	C-3-9
ZG	ZG US	Zillow A	US\$ 52.75	C-2-9
Z	Z US	Zillow C	US\$ 54.80	C-2-9

Price objective basis & risk

Opendoor Technologies (OPEN)

Our \$2.75 price objective is based on 1.75x 2025E EV/gross profit. This is below other low margin online companies including real estate fintech peers. We believe a discount is warranted given much lower gross margins which limits long-term profit potential and the high cyclicity of OPEN's underlying industry.

Downside risks to our PO are: slower than expected conversion of home inventory, weaker gross margins on slowing home price appreciation and limited home service attachment and a softer than expected recovery in the housing market.

Upside risks to our PO are: greater than expected shares gains as OPEN expands into new markets, better than expected pricing spreads as OPEN improves its pricing models and higher than expected leverage from a recovery in existing home sales.

Redfin Corp (RDFN)

Our \$6.75 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.

Zillow (ZG / Z)

Our \$63 price objective for both Class A (ticker ZG) and Class C (ticker Z) shares is based on a 20x EV/EBITDA estimate, in line with ZG's average historic EBITDA multiple. Our 20x multiple is above the peer lead generation average of 14x given our forecast for double EBITDA margins and growth in 2024-25.

Downside risks are: 1) a slower than expected recovery in the US housing market, 2) potential disruption to buy side revenues from several agent commission lawsuits and 3) execution risk around new growth initiatives and 4) increased competition from Costar's new residential advertising marketplace.

Upside risks are: 1) faster-than-expected growth and S&M leverage, 2) better than expected trends in the US existing home market on lower rates, and 3) faster than expected progress in ZG hitting its long term targets.

Analyst Certification

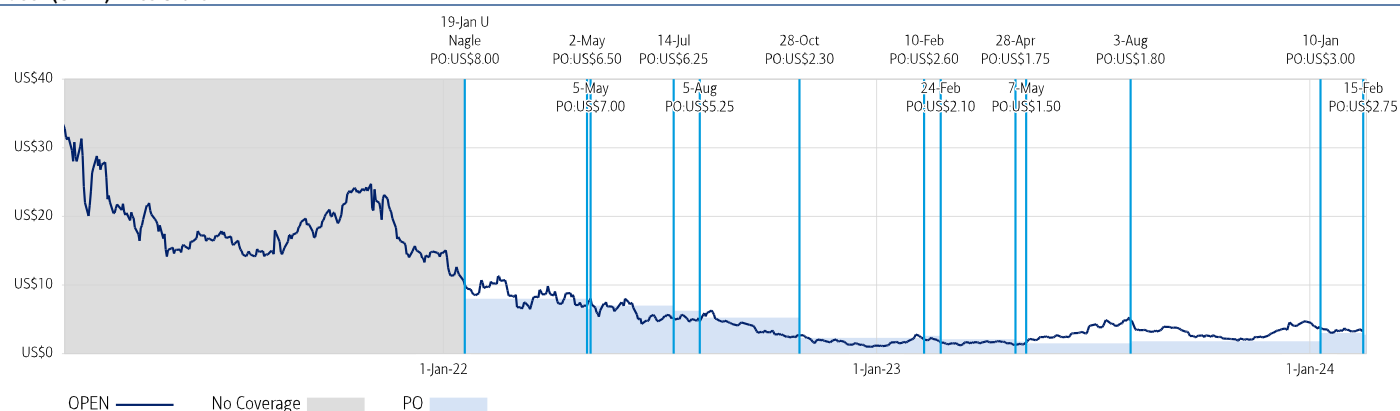
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US - Internet Coverage Cluster

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
	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

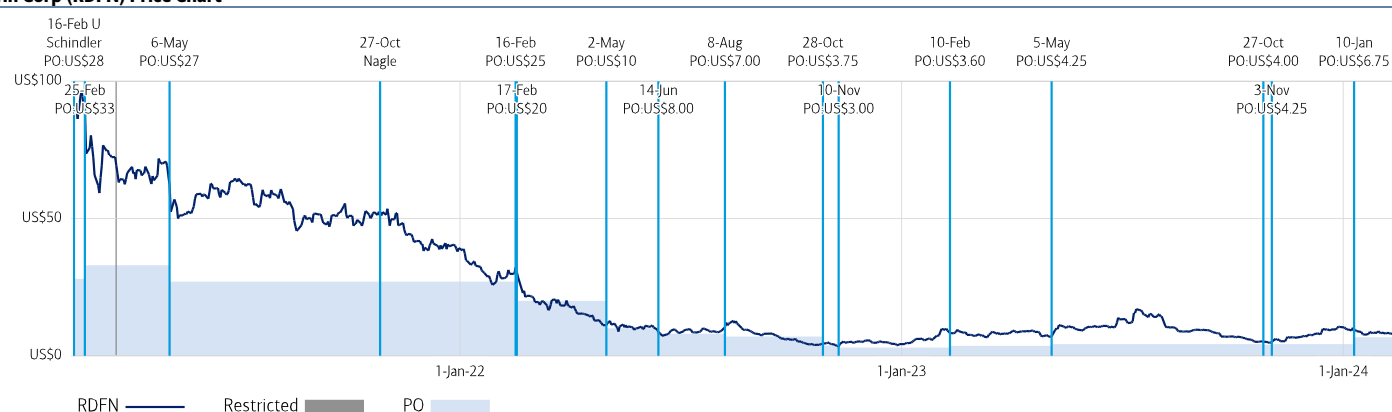
Disclosures

Important Disclosures

Opendoor (OPEN) Price Chart

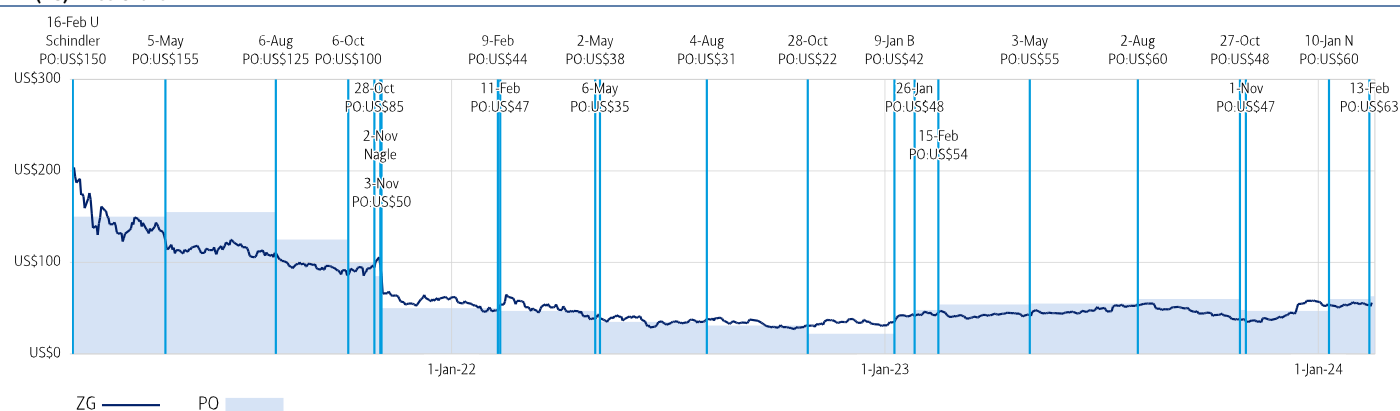
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Redfin Corp (RDFN) Price Chart

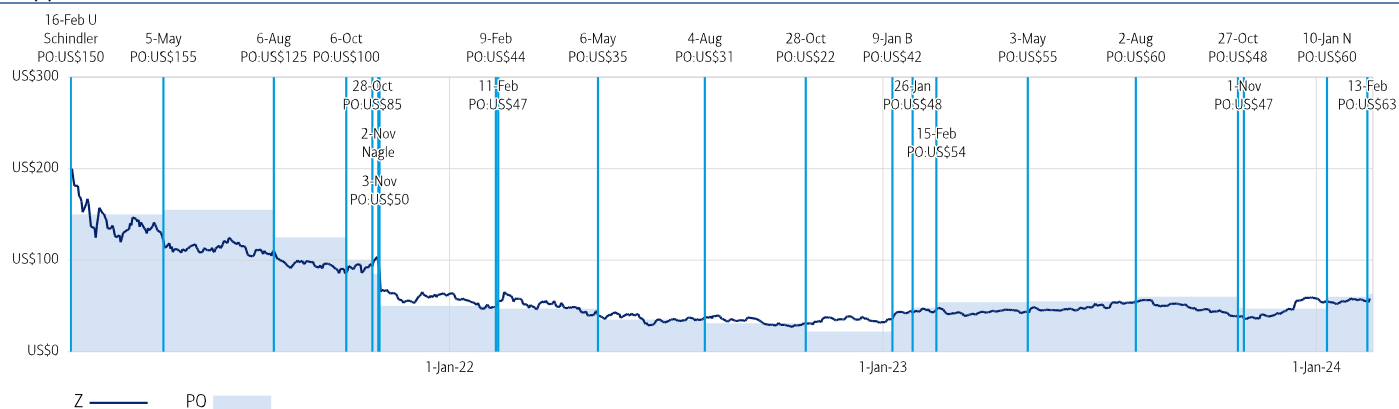
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Zillow A (ZG) Price Chart

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Zillow C (Z) Price Chart

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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.

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Underperform	N/A	≥ 20%

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