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PRESENTATION

Operator

Good day, and welcome to the Redfin Corporation Quarter 4 2020 Earnings Call. Today's conference is being recorded. At the conclusion of today's presentation, we will open the floor for questions. (Operator Instructions)

At this time, I would like to turn the conference over to Head of Investor Relations, Meg Nunnally. Please go ahead, ma'am.

Meg Nunnally

Thanks, Conner. Good afternoon, and welcome to Redfin's financial results conference call for the fourth quarter and full year ended December 31, 2020. I'm Meg Nunnally, Redfin's new Head of Investor Relations. I look forward to getting to know you over the course of 2021 and beyond. Joining me on the call today is Glenn Kelman, our CEO; and Chris Nielsen, our CFO. You can find the press release on our website at investors.redfin.com.

Before we start, note that some of our statements on today's call are forward-looking. We believe our assumptions and expectations related to these forward-looking statements are reasonable, but our actual results may turn out to be materially different. Please read and consider the risk factors in our SEC filings together with the content of today's call. Any forward-looking statements are based on our assumptions today, and we don't undertake to update these statements in light of new information or future events.

During this call, the financial metrics will be presented on a GAAP basis and include stock-based compensation as well as depreciation and amortization expenses. In the event we discuss any non-GAAP measures today, we will post the most comparable GAAP measure and a reconciliation on our website. All comparisons made in the course of this call are against the same period in the prior year, unless otherwise stated.

With that, let me turn the call over to Glenn.

Glenn Kelman - Redfin Corporation - President, CEO & Director

Thanks, Meg, and hi, everyone. Redfin's fourth quarter net income and revenues were better than we projected in our last earnings call. Net income increased from a loss of \$7.8 million in the fourth quarter of 2019 to a gain of \$14 million in the fourth quarter of 2020. Gross profit was \$80 million, up 102% from the fourth quarter of 2019. Fourth quarter gross margins for real estate services increased year-over-year by 880 basis points to 40.9%. Revenue increased 5% from the fourth quarter of 2019 to \$245 million, but our gains were limited by RedfinNow revenues of only \$39 million, a 60% decrease from the fourth quarter of 2019.

Our RedfinNow business of buying and selling homes has an outsized impact on revenues because we have to account for the entire home value in a RedfinNow sale, not just the transaction fees we get from a brokered sale. As we explained on our last earnings call, RedfinNow stopped making offers on homes in the pandemic's first months, limiting the number we had to sell entering the fourth quarter.

In our core business of brokering home sales through Redfin agents and through other firms' agents working as our partners, revenues increased 51% compared to the same quarter last year. After a first-ever year-over-year decline in market share of 1 basis point in the second quarter, our share increased 8 basis points year-over-year in the third quarter and 10 basis points in the fourth quarter to 1.04%. The gain would have been larger had we recruited more agents as Redfin employees or as Redfin partners.

Our main challenge continues to be keeping pace with demand. Comparing the fourth quarters of 2020 and 2019, the number of customers seeking service from our agents and our partner agents increased 54% and would have been higher if we hadn't made changes to our website and mobile applications that discouraged customers from requesting tours when an agent was unlikely to be available. As of December 31, the number of lead agents we employed increased 36% year-over-year, and the number of partner agents in our network increased by 83%. Lead agents are employees who represent customers through the entire sale. Partner agents work for other brokerages and pay us a referral fee for each customer introduction from redfin.com that leads to a sale.

Our recruiting success has improved monetization, broadening the range of customers Redfin can serve. The likelihood that a listing page loaded by redfin.com offered service from a lead agent or a partner agent increased from 91% in the fourth quarter of 2019 to 93% in the fourth quarter of 2020. In the third quarter of 2020, this number had sunk to 84%.

Since we're recruiting partners faster than employees, our website is referring an increasing proportion of customers to partners. We're proud of the service delivered by our partners, but our employees are still more likely to guide a customer to a successful sale. For most houses, employees generate more gross profit from each sale. As we said in our last earnings call, we don't expect to have enough lead agents to meet forecasted levels of demand until June 2021.

We're hiring lead agents faster than ever. Comparing the number of agents recruited in September and October to the number recruited in December and January, our pace has increased by 79% for lead agents and by 39% for partner agents. 13% of January's lead agent recruits and 11% of partner agent recruits came from the digital marketing campaigns that we launched in November 2020. We expect approximately 40% of all the lead agents we hire in the first quarter to come from digital ads.

We've also spent money to increase touring capacity, boosting associate agent pay in January by more than 50% for weekend work. Associate agents are licensed contractors who host tours and open houses when our lead agents are busy. To measure the effect of this pay increase, we can't compare January '21 to January 2020 because the pandemic affected so many associate agents' willingness to tour. Instead, our point of comparison is from our typical peak touring months, July through October in 2020.

Higher pay increased weekend touring capacity per associate agent by 55%. Since we also recruited more associate agents, overall weekend touring capacity increased 66%. By June 2021, we should have enough touring capacity for all tour request channels to be open full blast.

Traffic is the reason we're confident that there will be plenty of demand for the agents we're now recruiting. From the fourth quarter of 2019 to the fourth quarter of 2020, the number of redfin.com visitors grew 44%. Our year-over-year gains were 38% in the third quarter of 2020 and 16% in the second quarter. We estimate that less than half of our late 2020 gains have been market-driven. We're also gaining search share. Some of this has been because we've been getting more visitors from search engine. But it's also true that once we get a new visitor, she's more likely to use redfin.com again and again, with a number of visits per visitor increasing 16% from the fourth quarter of 2019 to the fourth quarter of 2020.

We plan to fortify our traffic growth or machine learning improvement and by localizing the site for midsized cities. We also expect to expand redfin.com to 40 small markets in 2021, increasing the proportion of the U.S. we reach from 80% of the population to 84%.

In late 2022, we'll incorporate rental listings from RentPath as part of the acquisition we announced Friday. Adding listings adds visitors who want to see those listings but also increases redfin.com's stature with anyone searching the web for real estate. Today, we're a top 3 result for a listing such as 18 Oak Street more than half the time, but a top 3 result for a more general search like Fresno real estate less than 1/4 of the time. Much of that gap is because Redfin's authority has been limited to for-sale homes when the website competitor is still ahead of us all feature both for sale and rental listings. As we explained on Friday's call, we're excited about the rentals business itself but also because it lets redfin.com compete at the scale of the largest real estate portals.

We can't win that competition without advertising. Redfin.com isn't our only channel for telling more North Americans about the modern way to buy or sell a home. We're now preparing to film a television ad in Bulgaria. We cut short our ad campaign in 2020, then restarted it with a found-footage ad that ran sporadically because we didn't have enough agents to serve the customers already asking for service. We face the same problem this year, which is why our ad is debuting in April rather than our customary February launch date. Since this will be our seventh year of mass media advertising, we're past the point of being able to say what our sales would have been with or without ads. Our goal is to make everyone in the market for a home aware that Redfin is a company that puts customers first. Our mass media budget of \$52 million is double the 2020 budget and 33% above our previous all-time high from 2019.

Our opportunity is to build the most trusted name in real estate because only Redfin has existed from its inception to redefine real estate in consumers' favor by charging lower fees; by using our technology to create a competitive advantage for our customers, not just ourselves; by employing our agents so we can hold each one to a higher standard of service.

The competitive advantage this year's ad will promote comes from on-demand tours. Using technology and a vast network of employees and contractors, we've organized the entire company around the commitment to getting customers into homes at a moment's notice. With all of North America seemingly moving somewhere new often without knowing a local agent from Adam, more people than ever will turn to the Internet to schedule the tour and often to host the tour, too. This ad will establish Redfin as the passport for seeing any home for sale across the country with just a few taps on a phone.

We're investing in ads to establish long-term market leadership, but the customers already on our website today hardly need encouragement to contact Redfin. More redfin.com visitors are requesting tours through Redfin agent. More of these customers are making an offer. Based on customers' online activity immediately after a tour, the likelihood that a customer who toured a listing in the fourth quarter will go on to buy a home, whether from Redfin or another brokerage, has increased 15% year-over-year, which was 2020's largest gain.

The market-wide increase in homebuying urgency will 1 day fade, which is why we've been piloting a program to improve customer success rate through better service. We've already let our best agents meet more customers while limiting other agents to fewer customers. In 2022, we may also reduce overall the average number of customers and agent support based on promising results from a 6-market pilot that began in January.

If success rates in the pilot markets remain significantly higher than elsewhere through the summer, we'll broaden the pilot to all of Redfin in 2022. Our goal would be to sell more houses and make more gross profit from the same number of customers with minimal margin impacts. Already, we're seeing other financial benefits from better service. From the fourth quarter of 2019 to the fourth quarter of '22 -- 2020, excuse me, the

proportion of sales from repeat and referral customers increased 16%. Over that same time, the proportion of brokerage customers who bought one home from Redfin and sold another increased by 29%. Both of these trends can let us grow even if online traffic growth slows.

To sell our entire suite of products to every customer, we plan to expand our workforce of locally licensed deskbound agents who can answer online inquiries more quickly and reliably than agents already meeting customers in the field. Last fall, we asked these deskbound agents, now known as home sales advisers, to handle inquiries about a RedfinNow instant offer, not just a brokerage sale. Home sales advisers are on the same bonus for any Redfin listing, regardless of whether the listing was first spot by RedfinNow or is still owned by the original customer. This is one reason that the likelihood that RedfinNow inquiry will lead into one -- will lead in one form or another to a Redfin listing increased year-over-year by 12% in the fourth quarter. We think we can get similar benefits in the future, offering our touring customers a Redfin Mortgage pre-approval.

Now has been slow to rebound from the pandemic, with fourth quarter revenues declining 60% year-over-year. The main problem has been the length of the sales cycle. We stopped making offers on homes in mid-March and didn't make a significant number of offers until mid-June. From the point at which a customer asked for an offer on a home, it typically takes 5 months to sell that home. But the RedfinNow team has also taken some time to adapt to the market. With home prices increasing nearly 15% year-over-year in both December and January, more homeowners have accepted RedfinNow offers then balked at repair fees. Increasing scrutiny on offer prices limited our fourth quarter purchases. It also forced us to make stronger offers, assuming the home will appreciate in value by the time we sell it, often while absorbing more repair costs.

The same price appreciation that limited our purchases helped us reach RedfinNow's highest-ever average gain on sale in the fourth quarter. After fourth quarter revenues declined 60% year-over-year, we expect first quarter revenue to be about the same as last year, with strong growth resuming in the second quarter and continuing through the rest of 2021. As we said on nearly every call, demand will swing between instant offers and broker sale, depending on the market. But Redfin believes that offering both services across North America will draw more customers to Redfin overall and let us deliver more value to each one.

Since last October, RedfinNow expanded to Sacramento, Seattle, the San Francisco Bay Area and Phoenix, increasing the number of markets we serve from 14 to 18. These 4 new markets accounted for 20% of Redfin's brokerage listings in 2020, lifting our total coverage to 44%. We expect this expansion to continue throughout 2021. And we remain optimistic that RedfinNow will contribute to 2021 gross profits, especially since Redfin and other iBuyers have lowered how much we pay the agent representing the buyers of our listings.

In Atlanta, where more than 1 in 4 homes is sold by a business rather than a consumer, the typical commission paid by an iBuyer to a buyer's agent fell from 3% in the fourth quarter of 2019 to 2.5% in the fourth quarter of 2020. Now that the Department of Justice lawsuit lets websites like redfin.com publish the commission on each listing, we expect consumers to see what iBuyers are doing and follow suit, creating the price pressure that an efficient broker like Redfin has been banking on all along.

RedfinNow is an important service for the move-up buyer who needs cash to compete and bidding more. But Redfin Mortgage is what will help most of our homebuying customers increase the credibility of their offers and close faster. From the fourth quarter of 2019 to the fourth quarter of 2020, Redfin Mortgage revenue grew 210%, with loan volume up 70% and revenue per loan up 84%. We recorded our second straight quarter of gross profits even as we hired more lenders and production staff to prepare for the 2021 homebuying season.

Low rates and strong demand have improved almost every lender's margins. But our focus is on creating a long-term margin advantage over the competition through improvements to our proprietary loan origination system. Since originating alone is a document driven process that is far more structured than a home search, the margin that can be gained through loan origination software is straightforward. In the fourth quarter, our loan origination system added the ability to import flood certificates and accept borrower payment, saving underwriters and processors approximately 10 to 20 minutes on every loan. We expect to make similar improvements nearly every quarter for years to come, with software tailored to our origination and underwriting processes.

As we grow, we can also improve margins by selling our loans at higher prices to investors. When the credit markets became volatile in April 2020, Redfin stops taking interest rate risk on our loans, accepting a lower price on loans from investors who are willing to absorb that risk. Now the credit markets settled down. Last week, we started selling loans at higher prices with Redfin rather than the investor at risk if the loan value declined after

we lock the rate. We're offsetting the interest rate risk by trading mortgage securities. This change can improve our mortgage gross margin percentage by 5 to 9 points. As we grow, our scale and in-house financial expertise should lead to further margin gains.

The major limit on our growth has been staffing, but onetime bonuses and broader support for remote work has reduced attrition. In the opening months of 2021, we've been hiring mortgage employees faster than ever before. There will be plenty of customers to keep those new hires busy. As of today, Redfin Mortgage still isn't available in markets that account 25% of our brokerage transaction. It still doesn't support many of the loan types our customers need. It's sometimes using high rates to limit demand or is flat out turning away referrals from the brokerage. And it hasn't had the capacity to serve borrowers on redfin.com who didn't use a Redfin agent for a home purchase. Even when rates rise, this is a business that can grow for many years to come.

Before we turn to an overview of the housing market, we want to reflect for a moment on how we emerged from 2020 a different company than when we entered. We learned that the culture of love that united us in our early days of struggle is stronger than ever. We learned how important it is in a crisis to give yourself space to think, sometimes because we did just that and sometimes because we didn't. I hope we learned kindness under pressure.

But we also changed in the most fundamental way, diversifying the company at every level. Even as Redfins scrambled to recruit agents, coordinators and lenders in the midst of an all-out housing boom, we increased the proportion of people of color at Redfin in 2020 by 2 points. At the manager level, this increase was 4 points. When we were turning customers away and losing share for the first time in Redfin's history, we remain committed to diversity, insisting that hiring managers interview at least 1 person of color for roles across the company. Positions took longer to fill, but the sales we lost in the interim were far less important to our long-term competitive position than being a beacon for attracting the real estate industry's most diverse talent.

We still have a long way to go. But what I've concluded from this experience is that you have to pay the most attention to diversity when it feels that you can least afford to do so, when your company is in crisis and has to reduce cost or when you're hiring hand over fist. Those are the moments when people make decisions on instinct, surfacing primordial biases. These are also the moments when diversity at your company can increase or decrease more in 3 months than it will over the ensuing 3 years. Redfin is worth more as a company because of this long-term focus.

Now let's talk about the housing market. Last quarter, we compared it to a space alien that destroyed an Arctic research station and also ate a dog. January sales were up 24% year-over-year. Prices are up 14%. Inventory has hit rock bottom. The housing market is now like a Soviet-era supermarket with most of the shelves empty. The number of homes for sale in January was down 26% year-over-year. In the week leading up to this call, demand slackened for the first time in months, probably because of cross-country snowstorms. But prior to that, the stories we heard from our agents were harrowing, juicy and bizarre. A Redfin listing in Dallas had 154 showings and 32 offers. An L.A. agent reports that more than half her customers are leaving the area. For one customer, lower housing costs let a member of the family stopped working. In Salt Lake City, the waitlist to buy new construction homes was 90 buyers deep. The lines to tour homes in Austin got so long that buyers brought lawn chairs. In our annual survey of nearly 2,000 homebuyers, 63% reported having bid on a home they hadn't seen in person.

These migrations are warping the space time continuum of small town economies. The average housing budget for out of towners moving to Nashville in 2020 was \$719,000, 48% higher than the \$485,000 budget for local buyers. The affordability crisis that flowed like some huge unspent electrical charge from San Francisco to Seattle, to Portland, to Denver, to Boise is now reaching virtually every town in North America, bringing dazzling prosperity but also new anxiety.

An investor called me in the middle of a winter afternoon to report with the touch of ah but also greed that the source of America's miraculous boom was the bounty of the land itself. Redfin in this entire economy have more room to grow than we ever imagined. We just have to make sure that growth benefits everyone.

Take it away, Chris.

Chris Nielsen - Redfin Corporation - CFO

Thanks, Glenn. As we continue to benefit from robust housing market, our fourth quarter results exceeded our revenue and profit projections. Fourth quarter revenue was \$245 million, up 5% from a year ago. Real estate services revenue, which includes our brokerage and partner businesses, increased 51% year-over-year. Brokerage revenue or revenue from home sales closed by our own agents was up 47% on a 29% increase in brokerage transactions. Revenue from our partners was up 120% on a 67% increase in partner transactions.

The property segment, which consists of homes sold through our RedfinNow program, generated \$39 million in revenue, down 60% from 1 year ago. Our other segment, which includes mortgage, title and other services, contributed revenue of \$8.2 million, an increase of 98% year-over-year, primarily driven by growth in our mortgage business. Total gross profit was \$80.1 million, up 102% year-over-year. Real estate services gross margin was 40.9%, up 880 basis points year-over-year. This was driven by a 400 basis point decrease in personnel costs and transaction bonuses, a 250 basis point decrease in home touring and field costs and a 70 basis point decrease in occupancy and office expenses.

Property's gross margin was down 350 basis points year-over-year to minus 4.8%. This was primarily attributable to a 590 basis point increase in personnel costs and transaction bonuses due to lower volume and a 180 basis point increase in home selling expenses. This was partially offset by a 570 basis point decrease in home purchase costs and related capitalized improvements as a percentage of revenue, showing that we're buying homes better.

To get to profit in properties with our current team size, we'll need to get more volume.

Other segment gross margin was 14.1%, up from minus 24.9% a year ago. This was primarily attributable to a 2,080 basis point decrease in personnel costs and transaction bonuses, a 630 basis point decrease in outside services costs, a 270 basis point decrease in dues and fees and a 200 basis point decrease in occupancy and office expenses. All of these changes are the result of scaling these businesses.

Total operating expenses were up 17% year-over-year and represented 22% of revenue, up from 20% of revenue 1 year ago. Technology and development expenses increased by 22% as compared with the same period in 2019. The increase was primarily attributable to a \$3.7 million increase in personnel costs and a \$0.9 million increase in technology infrastructure expenses, primarily hosted services.

Marketing expenses decreased by 10% from last year. The decrease was primarily attributable to a \$1.7 million decrease in outside services costs as we did not produce a new television commercial during the quarter as we had in 2019. The decrease was partially offset by a \$0.8 million increase in marketing media costs.

General and administrative expenses increased by 24% year-over-year primarily attributable to an increase in personnel costs due to increased headcount, contract recruiters and recruiting advertising. Our net income, including stock-based compensation and depreciation, was \$14 million compared to a net loss of \$8 million in the fourth quarter of 2019. Total interest and other expenses of \$12 million includes a \$4.6 million loss on the partial extinguishment of our convertible senior notes due in 2023 and \$6.8 million in noncash interest expense, which was primarily related to our convertible senior notes due in 2023 and 2025. We also recorded a dividend on convertible preferred stock of \$1.6 million. Diluted income per share attributable to common stock was \$0.11 compared with diluted loss of \$0.08 per share 1 year ago.

Before moving to our first quarter outlook, I'd like to briefly summarize our full year 2020 performance. Our customers booked over \$37 billion in real estate transactions. Compared to a 2.5% commission, we saved our brokerage customers over \$185 million. We delivered full year revenue of nearly \$886 million, up 14% year-over-year, with 24% growth in real estate services revenue. Gross profit of \$232 million was up 61% from 2019. Our total operating expenses grew 4%, with decreases in marketing mostly offsetting increases in technology and general and administrative expenses. And net loss for the year was \$19 million in 2020 as compared with \$81 million in 2019.

Now turning to our financial expectations for the first quarter of 2021. Revenue is expected to be between \$249 million and \$255 million, representing year-over-year growth between 30% and 34%. We expect our property segment to account for \$77 million to \$80 million of that revenue, representing a 3% year-over-year decrease to a 1% year-over-year increase. For the first quarter, our net loss is expected to be between \$39 million and \$36 million compared with a \$60 million net loss in the first quarter of 2020. Yet again, this quarter, we expect for real estate services gross margin to increase as compared with the same quarter in 2019.

We should also remind you that we won't be advertising on television during the first quarter, when we did so through the first week of March in 2020. Our guidance includes approximately \$13 million of stock-based compensation, \$4.5 million of depreciation and amortization, and \$1.2 million of interest expense associated with our convertible senior notes and other credit obligations. In addition, we expect to pay a quarterly dividend of 30,640 shares of common stock to a preferred stockholder. This guidance assumes, among other things, that no additional business acquisitions, investments, restructurings or legal settlements are concluded and that there are no further revisions to stock-based compensation estimates.

And with that, we'll open it up for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And we can take our first question. This will come from Ryan McKeveny with Zelman & Associates.

Ryan McKeveny - Zelman & Associates LLC - Director of Research

Congrats on the performance. My first question, I'm curious on the strategy you guys are employing around iBuyer market selection. So the Bay Area and Seattle as examples and even some of the markets you've been in for a while in California before others. I guess there's been a view -- some of these markets like Seattle, for example, less homogeneous housing stock, high transfer taxes. There are sort of reasons you could point to to say this kind of makes sense why it hasn't been a big iBuying market. So I'm curious if you can just talk to kind of the movement that you're having, kind of what gives you the confidence to embark on some of these markets such as Seattle and the Bay Area? And tying that back, I think, Glenn, you mentioned some of this just relates to the general market share and positioning you have within these markets. So is that to suggest that as you go forward, we could expect to see some of your bigger markets kind of next in the queue?

Glenn Kelman - Redfin Corporation - President, CEO & Director

Great question. So you're right. The reason we chose Seattle and San Francisco are because those markets support high traffic, strong brand awareness, and there's no competition there. So it's too early to say whether zigging instead of zagging is going to pay off. One of the markets is doing extremely well and one isn't.

Ryan McKeveny - Zelman & Associates LLC - Director of Research

Got it. That makes sense. And one on the mortgage side, just a clarification. So I guess from an industry standpoint, we're starting to seeing gain on sale margins compress from very strong levels in 2020. I think you're suggesting that there's some opportunity in terms of your kind of structure to capture better economics going forward. But I'm curious if you can expand on what you were saying. So you mentioned getting into trading mortgage securities. I guess, are you just suggesting that you'll be kind of selling forward MBS to hedge the rate locks yourself? And I guess I'm not entirely sure what the previous approach was. So if you can just clarify kind of what's new there, what's changing would be very helpful.

Glenn Kelman - Redfin Corporation - President, CEO & Director

We're shifting from best efforts delivery to mandatory delivery, where we take on more risk, and then we're hedging that risk by trading mortgage-backed securities. So the reason we stopped that hedge is because it didn't work in April of 2020. And the background on that is just that the mortgage market started behaving in very irrational ways after the government flooded those markets with capital. So we now believe that the markets are going to behave rationally, and that's an opportunity to expand margins.

Obviously, we're unlikely to see the kind of rate environment through 2021 that we saw in 2020 where lenders were aggressive about taking profits, but we think this can improve our relative position against other lenders.

Operator

And we can take our next question. This will come from Tom White with D.A. Davidson.

Thomas Cauthorn White - *D.A. Davidson & Co., Research Division - Senior VP & Senior Research Analyst*

Nice quarter, by the way. Two, if I may, just on the topic of agent attraction. It looked like the fourth quarter was one of your better fourth quarters in terms of net adds, but it sounds, Glenn, like you guys weren't able to hire as many folks as you want. So can you maybe just talk a little bit about the value prop of coming to Redfin if you're an agent versus going to kind of a more traditional brokerage in a market like this, where obviously, things are pretty hot?

And then just secondarily, Glenn, your comments on how iBuyers, like yourselves and others, are having success paying less to buyers' agents when you guys resell a home that you've purchased. Can you just kind of elaborate a bit on that? What do you think is driving that? Just some more color there would be interesting on that observation you made.

Glenn Kelman - *Redfin Corporation - President, CEO & Director*

Sure. So first of all, we accelerated our rate of agent hiring. It was exactly in line with expectations or even better. We had told the market that we were unlikely to be able to hire enough agents to handle demand until the second quarter of 2021, and that is still our expectation.

So we have been able to bring in agents hand over fist because we pay, on average, more than any other brokerage. So our agents are 2 to 3x the industry average. They get not only salary but health care benefits and all of their expenses paid. But probably what's most important is the mission of the company. There are so many agents who believe that we can give consumers a better deal, that we can tell everyone, everything about the house, the process and our own performance. And they also know that technology can make that whole process better. So they want to work for a next-generation brand. We're able to recruit from almost every brokerage under the sun, and we have lower attrition than any other brokerage that I know of.

So our challenge is just that we do not have the same elasticity that a traditional brokerage does because we don't have 1,099 contractors. So we make a bet on every single employee that we can keep you busy throughout the year, which means that we run it closer to the bone. We are not having thousands of agents sit around idle hoping for a real estate boom, and that means that it takes us 6 months to adjust to that level of volatility.

Around the commission compression, it's just fascinating, isn't it? So the data we showed is based on the fact that builders are selling more houses than ever before, not as many individual homeowners are listing properties, but the builders are going through a boom. And then the iBuyers have become more active. And the portfolios of both builders and iBuyers are managed by very sharp Wall Street types who look at every cost as an opportunity to improve margin. And so they're being very aggressive about how much they're paying buyers' agents in places like Atlanta and other markets where builders or iBuyers are very prevalent. So we've seen a significant decrease in the commissions the businesses are paying buyers' agents, and we think that consumers are going to follow suit because the Department of Justice lawsuit is allowing a website like redfin.com to publish the commission. So the secret is soon going to be out that you can pay a buyer's agent less and still have plenty of people bidding on the house, especially in an historic seller's market like this.

And the reason that's so important to Redfin is because we have been founded on the proposition that we can give consumers a better deal and that when you do that, more of them will be a path to your door. So finally being able to understand the economics of the real estate transaction and how much a buyer's agent is making should make more consumers price-sensitive, and we think it should favor Redfin because we've already baked into our cost the idea that real estate will get more efficient.

Operator

Our next question will come from Ygal Arounian with Wedbush Securities.

Ygal Arounian - *Wedbush Securities Inc., Research Division - Research Analyst*

I actually want to follow up on the hiring question. And Glenn, just kind of big picture, how do you get comfortable with this idea of hiring kind of 6 months out, especially in a market like today that's hotter than it's been in at least a decade, if not really kind of ever. It's different in that there's uniqueness to it when people are moving around a little bit more and remote work and maybe some uncertainty around how long all this flat rates moving up, inventory being low. So just curious how you think about hiring, thinking that far out. That's the kind of the first question.

Glenn Kelman - *Redfin Corporation - President, CEO & Director*

Well, I don't think I'll ever be entirely comfortable with it. We're in a very up-and-down business, but we try to offer our agents secure life. And so the way that we do that is by sending a significant fraction of our demand to partners so that if the market does have a correction, the partners would lose some business, and our own employees would gain that business.

But I also mentioned that we've been experimenting with lower loads, where we reduce the number of customers that our agents support, and we're seeing that, that leads to higher customer success rates and would offset some of the margin impact. So if we end up rolling that out in 2022, next year, we will have some latitude to see some kind of correction and still have enough demand for the agents who are on board.

But the truth is that every single week, Chris, Scott, other executives here at Redfin, certainly myself, are on the numbers like a hawk, especially as you get into February and March. We're going to be very careful about how many agents we hire to make sure that we're titrating supply with demand.

It's a nice edge to walk on. We're just far away from being anywhere near the amount of supply that we need for the level of demand that we have. We don't even have our website turned on full blast to generate the demand that we couldn't handle.

Ygal Arounian - *Wedbush Securities Inc., Research Division - Research Analyst*

Okay. Really helpful. I'll probably talk about that for a while. It's an interesting topic. But I wanted to also ask about -- last quarter, you talked about having -- moving to having one point of contact for a customer, both on the iBuyer side and the traditional listing side. Can you talk a little bit about what you've learned there? And as iBuying becomes more prevalent, the idea of attaching ancillary revenue streams, especially among the large iBuyers is a really big topic. Can you talk a little bit about what you're seeing there with mortgage and the various pieces? You've touched on it a little bit on the listing to iBuyer side, but just kind of broadly what you guys are seeing there.

Glenn Kelman - *Redfin Corporation - President, CEO & Director*

Well, mostly the pilot program with home sales advisers, which is the single point of contact for a customer who's interested in the cash offer but also wants to compare that to a brokered sale, that pilot has been successful. I think we reported that there was either an 11% or 12% gain in the number of listings that we got from every RedfinNow inquiry.

So we're cautiously pleased with that, but we still think we could do so much better. We're just at the beginning of optimizing the execution on that program. And usually, when we create a new role, it takes us a couple of years to figure out how to respond to customers quickly, how to have the right information, how to empower that agent, in this case, the home sales adviser to be able to answer all the questions.

So I think there's plenty of upside ahead. Most of the people who are going to ask for an instant offer end up choosing a listing instead. That's especially true now because the market is so hot that when people see the instant offer, they just decide to take the upside themselves.

But beyond that, we want to attach mortgage and title to every single sale. I think mortgage attachment is going to depend mostly on your relationships with homebuyers, not with home sellers. So having a big buyer's brokerage, I think, gives us an advantage there. And then with title, it just depends on which side of the country you're on. The buyer chooses title in the East Coast. The seller chooses title on the West Coast. So being able to serve both buyer and seller is going to give Redfin many more attach rate opportunities than the typical iBuyer. And obviously, our goal is to have a high margin on each of those products rather than using one as a loss leader for the other.

Operator

And our next question can come from Edward Yruma with KeyBanc Capital Markets.

Abigail Zvejnieks - *KeyBanc Capital Markets Inc., Research Division - Associate*

This is Abbie Zvejnieks on for Ed. In terms of RedfinNow, can you just talk a little bit about how -- any changes you've been seeing in the ability to acquire inventory? And then do you see yourself competing against other iBuyers in any markets where there's multiple iBuyers in that market?

Chris Nielsen - *Redfin Corporation - CFO*

Sure. So this is Chris. Just commenting on RedfinNow trends, we do think that home sellers are considering even harder than they have in the past. The possibility of putting their home on the open market when we make a RedfinNow offer to the customer, they also can see that their neighbor's house sold quickly across the street. And so that does have them think twice about the price that we're offering directly. And we do think that, that will be a part of the market through at least the first part of this year because inventory levels are so tight. So there's real competition there. But that is part of the reason that we like being in this business so much is that we can easily migrate back and forth for what the customer needs, either on the brokered side of the sale or for RedfinNow.

And then with regard to competition, I do think it's hard to tease apart every price that's offered on every home from our competitors. I generally do think it's a competitive time for iBuyers in this space, but I don't have a lot more detail to add on that.

Operator

We can take our next question. This will come from John Campbell with Stephens Inc.

John Robert Campbell - *Stephens Inc., Research Division - MD*

So it's kind of tough to unpack this from the operating metrics, if you will. But I'm hoping you guys can maybe just talk to this at a higher level. But my question is, how receptive have the sell-side customers been to using you guys on the buy side to get the 1% listing fee? Are you guys seeing a meaningful shift one way or the other?

Glenn Kelman - *Redfin Corporation - President, CEO & Director*

We saw a significant increase, which I think we detailed in the prepared remarks. So now if you list your house and decide to buy with Redfin, you save more. It's 1.5% if you list, and it's 1% if you list and then buy. So we've also cross-trained our agents to be able to handle both sides of the sale. That way, if you've met someone you really like, you just stick with that person for both parts of the move.

Interestingly, since so many people are migrating across the country, being a national brokerage where the platform really delivers consistent pricing, consistent level of service, consistent technology has also helped us because you can sell your home in Los Angeles and move to Salt Lake City and decide to use 2 different Redfin agents but still feel like you're working with the same company who understands every aspect of your move.

So we saw something like a 300 to 500 basis point gain year-over-year in the number of customers who are using Redfin to both buy and sell.

John Robert Campbell - *Stephens Inc., Research Division - MD*

Okay. Perfect. And then a follow-up here, on the market share metric. I think it's pretty clear you guys probably would have done a whole lot higher if you had the right staffing in place. I think that's pretty clear. I'm just curious what you guys think that market share metric might have been, assuming you had the right level of lead agents. I mean you've got really good internal demand metrics. You've got the funnel. You can see there that -- obviously, we cannot, on our end. And I'm just curious about how many customers you might have had to turn down or customers that might have fallen out of the funnel to kick them over to partner agents. Any kind of color out there?

Chris Nielsen - *Redfin Corporation - CFO*

Yes. We can't provide any more detail there, John. I agree with the thesis that there's more market share opportunity. If we had both more agents and more partner agents, we could have gained more, but I don't have a good way to quantify exactly what that looks like.

Operator

Our next question will come from Jason Helfstein with Oppenheimer.

Jason Stuart Helfstein - *Oppenheimer & Co. Inc., Research Division - MD & Senior Internet Analyst*

I think historically, when we've all tried to kind of triangulate real estate gross profit, we thought about agent hiring and agents productivity And just given kind of what you've outlined, do you think maybe the better way that we should all be thinking about it is like a gross profit per transaction? Obviously, understanding there will be fluctuations, whether the house is sold -- the transaction was done by your agents or partner agents. So just maybe a little color there, is that just a better way to think about it?

And then just to follow up on the iBuyer question. I mean I think one of the questions people are trying to understand is it's obviously so early, and iBuyers is such a small percent of what is an enormous market. Should investors worry about competition between iBuyers?

Glenn Kelman - *Redfin Corporation - President, CEO & Director*

Well, first of all, let's talk about how to model Redfin, whether it's based on agent productivity or gross profit per transaction. I think we're in some larval stage between one model and the other because we're still rolling out components of this complete solution. Mortgage covers about 75% of the United States. But RedfinNow, our title business, our concierge service for renovating homes that we sell are all covering less of the United States. So this is still principally a brokerage business, and making sure that we're able to hire good agents, deliver great service to customers and still make a margin is the first way to look at this business. It's just that every quarter, we are getting more and more contribution from our mortgage business, from our title business, from our iBuying business, from these ancillary businesses.

When you talk about iBuying being so early, I'm not sure I entirely agree. There have been many iBuyers in a market like Phoenix for a long time. And they are duking it out. You have customers running auctions at the house where they've invited Opendoor, Zillow, in this case, I think Redfin is coming to Phoenix soon. We certainly see that in other markets. So I do think that iBuyers are competing with one another because it's a commodity service. And the reason where convinced that we can be effective is, first of all, because we can be efficient. That's just the nature of our business.

We've been committed to efficiency for a long, long time. We have low acquisition costs through our website, and we've been running a brokerage for 15 years. But also because we can monetize the customers who say, "I'm not going to accept the instant offer. Instead, I'm going to list my home," and we can list that home through Redfin.

The amount of spillage that you have otherwise is very high, where most of the people you meet end up working with a broker.

Operator

Our next question will come from Brent Thill with Jefferies.

Brent John Thill - *Jefferies LLC, Research Division - Equity Analyst*

Glenn, on the market share, it was flat in the quarter. Obviously, in the market's ripping. When you think about overall share gains over going forward, can you just highlight -- I would assume you obviously believe you can go higher than that, but give us a sense of kind of what you think is happening there on the sequential of flat add?

Glenn Kelman - *Redfin Corporation - President, CEO & Director*

Well, I know this is mind bending, but we measure market share year-over-year because there are seasonal variations in share. For whatever reason, in the fourth quarter, we always have trouble gaining share quarter-over-quarter, which is why the 10 basis point gain Q4 2019 to Q4 2020 is more significant. And this is the way we report it in the good quarters and the bad quarters. There are just some quarters where we always seem to gain share quarter-over-quarter and other quarters where we don't. So I think the year-over-year comparison is the best way to do it.

And our goal is just to gain share every quarter for the rest of time. We are not going to grow 90% or 150% because we can't hire enough agents to deliver fantastic service to every one of our customers through some kind of bozo explosion, where we're hiring every single agent who can fog [them here]. Instead, we're trying to hire the best people, deliver fantastic service to our customers. And that is going to limit our short-term growth but ensure our long-term growth. And what we're trying to do is grow long term by offering a durable value proposition to customers and investors.

Man, that sounded so canned, but I swear, I just made it up on the spot.

Operator

We can take our next question. This will come from Tom Champion with Piper Sandler.

Thomas Steven Champion - *Piper Sandler & Co., Research Division - Director & Senior Research Analyst*

Glenn, I was wondering if you could just expand a little bit on the customer caps or limits. How this is different from maybe what you were employing a couple of years ago? I think -- and ultimately decided to curtail the customer caps with -- could you just go into that a little bit? And then maybe just one more on virtual tours. Obviously, extraordinary growth in that. And I'm just curious how the mix between virtual and in-person has maybe waxed and waned as the pandemic has grown more and less serious. And how much of the long-term mix virtual will account for going forward? Any color on that would be really helpful.

Glenn Kelman - *Redfin Corporation - President, CEO & Director*

Sure. So we've had customer caps for a long time, and the question is just where they are. You can't let an agent meet 50 customers in a single week because there's no way he or she can deliver fantastic service. But I have scars all over my back because I think almost as soon as we went

public, we lowered the average load that an agent has to support, and it affected our gross margins. So we're not about to roll out a new lower cap unless we're sure that it works.

We have been experimenting with this through 2020. We're going to experiment with it through 2021. We weren't even sure whether we'd talk about it today, but it has now been a significant period of time where we have seen very promising results. I think the difference between this pilot and the one that we did 2 or 3 years ago is that we are much more entrepreneurial with our agents. We were trying to tell them exactly how to do every step of the process. At this point, we say, "Just find a way for each customer to win. We're going to judge you on the customer satisfaction and the customer outcome."

And so that freedom and the increasing quality of our agents and the increasing quality of our tools has given us more confidence that we can do really well. We've also just gotten better at qualifying customers. It used to be that you were limiting the number of customers in age you could meet. And the first 5 people toward his cap were total bozos who wanted to see grandma's house. I shouldn't speak of our customers as bozos, but they just weren't taking the process seriously. They wanted to click the button to find out if anybody was actually going to show the property on the other side. We don't ask for a credit card or anything like that. We just try to protect agent safety. So sometimes, we don't get as many serious buyers.

And you may have noticed that we're reporting quarter after quarter on these efforts to qualify customers to measure homebuyer intent, and homebuyer intent has increased significantly, in part because of the market, but in part because of this qualification effort. So that just makes us more confident that we can limit the number of customers and agent needs and still get more gross profit out from the same number of customers at a decent margin.

And then the balance between virtual tours and in-person tours, clearly this year, it shifted toward virtual tours. Some of that is because people are hesitant to meet a real estate agent in person. They don't want to get sick. Some of it's because they've got more comfortable with Zoom. But most of it's because they're shopping for a home that's 500 or 1,000 miles away, and they don't want to get on an airplane. And they realized that you can make an offer, having seen the home virtually and then decide at the inspection stage whether it's something that looked a little weird through the iPhone is actually going to be something you're going to get hung up on.

I think the bigger trend really is that people are just hiring agents over the Internet. Folks are focused on, gosh, you're buying the home over the Internet. But for us, what's really driving sales is that people are hiring the agent over the Internet. And that's because it used to be that, look, I was moving across the street. I'm going to use the same real estate agent I used last time. Change is going to be very slow in the real estate industry because it's all relationship-driven. But now everything's up for grabs because people are moving across the country, and they're turning to Google to find a real estate agent in Austin, Texas or Boise, Idaho. And we just rank very highly for those searches, and we offer push-button convenience.

So people can say, "Look, I just want to see the home. I'm not ready to get married to my real estate agent." And they give us a shot, and that's all we need to win the business.

Operator

Our next question will come from Jack Micenko with SIG.

John Gregory Micenko - *Susquehanna Financial Group, LLLP, Research Division - Deputy Director of Research*

Chris, looking through the guidance a little bit. When you pull out the RedfinNow, when you pull out the partner and the other -- the brokerage number looks like there's some conservatism there around units in terms of where the market -- the early read in the first quarter volume sort of been through January. Just trying to get a sense of -- do you agree with that view? And where are you conservative? Is that partly getting these agents ramped up and it won't hit stride until sort of midyear on the market share numbers? Or how are you thinking about the volume brokerage side of things in the 1Q guide?

Chris Nielsen - Redfin Corporation - CFO

Yes. So we don't give guidance specifically on the brokerage piece of the business. But I think if you were to take a look at revenue, excluding our properties business, it actually looks pretty robust and a meaningful uptick certainly from last year. The way we provide the guidance this quarter is the same way we always do it, which is we take a look at our results from January and February, and then we're making a projection on what closings will look like in March as well.

So the years have gotten off to a good start, and that's what we reflected in our revenue growth.

John Gregory Micenko - Susquehanna Financial Group, LLLP, Research Division - Deputy Director of Research

Okay. Okay. And then on the RedfinNow revenue, there's been a lot of talk, iBuyers have bought a lot less. And Glenn, you made a great point on the call today about, hey, when you're not buying in 2Q, you're not selling them in 4Q. The rebound in your number compared to last year, is that more markets? Or is that better success ratio in the markets you're in to get you sort of back to flat year-over-year on the revenue side?

Chris Nielsen - Redfin Corporation - CFO

Yes. So with regard to the RedfinNow revenue growth, we certainly have expanded the footprint. A number of markets we're in on RedfinNow, and that's a contributor to our overall sales. As we start to look at the picture going forward for the rest of the year, that expansion will also be important. So it's about having a larger footprint for that business across all the U.S. and then hitting our stride just in terms of the presentation of RedfinNow offers to customers.

Operator

Our next question will come from Stephen Sheldon with William Blair.

Stephen Hardy Sheldon - William Blair & Company L.L.C., Research Division - Analyst

Apologies if I missed it, but can you talk about the traction you've seen so far with Redfin Direct and the markets where it's available? And how the trends you've seen have influenced how you'll expand by market and your view of the long-term opportunity with it?

Chris Nielsen - Redfin Corporation - CFO

Glenn, I think you're on -- I think you may have muted your line.

Glenn Kelman - Redfin Corporation - President, CEO & Director

Oh, yes, I muted myself. I was saying that there are 2 components of Redfin Direct. There's a self-service access, which lets people access properties on their own without having to hire a real estate agent. We use that on Redfin listings, and it's been very successful. What's curious to me is that brokers we compete with have been asking us about how they can use Redfin Direct because there is so much pressure from buyers to get into listings. The lines are mile long, as I said, in our overview of the housing market.

In terms of making an offer on a Redfin listing without using a real estate agent, we have not made much progress on that initiative in the past 6 months. And the reason is that we have been so busy. It has been flat out expanding Redfin Mortgage, hiring Redfin agents, getting RedfinNow into more markets. Had we world enough in time, we would do it all. You have no idea how excited I am about that prospect, but we just have to pick our battles.

Operator

Our next question will come from Naved Khan with Truist Securities.

Naved Ahmad Khan - *Truist Securities, Inc., Research Division - Analyst*

Maybe a quick question from me on performance advertising. I think, Glenn, on the last call, you've spoken about how you've kind of crossed some threshold and consistently seeing positive ROI on the performance ad spending. How should we be thinking about your ability to scale up spending on performance channels in 2021? And then I have a follow-up.

Glenn Kelman - *Redfin Corporation - President, CEO & Director*

The limit on our performance ad spending is our capacity. So I was just in a dialogue this morning with the person who runs performance marketing for Redfin, asking him why we were running ads and we didn't have enough agents to be able to handle the demand. And what's interesting about this is that now we have been able to make money running performance marketing ads that generate demand for our partners. That used to be a death zone that we made so much less gross profit on partner referrals that we couldn't run ads against that business. And it just limited our advertising to the capacity of employees, but that has changed some.

So we're also investing in infrastructure to share data with our advertising partners. Because it's such a long sales cycle, you can lose your shirt running ads without realizing that you're bringing people to our website who have no intention of buying or who actually engage a real estate agent that don't end up completing the sale. So we are getting better and better at passing information back to our advertising partners about which customers are really profitable and which ones aren't so that we can optimize the ads in realtime, even though the sales cycle is 6 months long. We just use early signals to identify these profitable customers and then share that quickly with the ad partners.

So performance marketing team is doing a fantastic job, and we've really opened up more opportunity by being able to generate demand for our partners and not just our employees.

Operator

Our last question in queue will come from Clark Lampen with BTIG.

William Lampen - *BTIG, LLC, Research Division - Research Analyst*

Glenn, I wanted to follow up on your comments on mortgage and title to see if you might be willing to articulate what you think the attach rate opportunity could be. It seems like you guys have a lot of levers to pull between things like coverage expansion, adding loan options and eventually preapproving your touring customers. And I'm curious if that sort of net to a specific attach rate percentage you think you could achieve.

And then on the title business, you guys made note of some encumbrances on the last call that I think we're expected to hold that business back a little bit into early '21. I'm curious if we're in a place now or we might be soon where we could see Redfin leaning back into that opportunity.

Glenn Kelman - *Redfin Corporation - President, CEO & Director*

Well, we hired John Roy to run Title Forward. Give the man some time. He just showed up a few weeks ago. But I think we can run the table with that business, achieving an attach rate north of 50%. There is not a strong consumer preference around title. So if we can deliver a better customer experience, where we close on time, we make every step of the process transparent and frictionless, we'll be in a position to recommend title almost every time. And then I think the customer will accept our recommendation quite often.

So having said that, mortgage is more competitive. People are always going to shop the rate. We have been very competitive on rate. Our investments in efficiency and the fact that we don't have any customer acquisition cost should allow us to be ferocious with our rates. It's also just in our blood that we want to give customers a good deal.

So I think there, we can get attach rates at maybe 15% to 25%. But you should remember that that business isn't just captive to our brokerage. It's not just a subset of our brokerage customers. We ran an experiment in 2020, where we let people who are using real estate agents employed by other brokers but using redfin.com to reach out to Redfin Mortgage. And we had to turn it off right away because so many did. So I think lots of people have relationships with the real estate agent but are still open to using rents in mortgage to get a better deal when they borrow money. That is an asset where people are very price-sensitive and where we think we can compete on price.

So if you couple that with the refinancing opportunities off our customer base -- and we think the sky is the limit for mortgage. You don't hear me say that very often, but almost every earnings call, at some point, I will say that we are going to be hiring as many lenders as we can for as far out as we can see with mortgage because we have just not been able to get in front of demand, and we see so much demand ahead of us. Now of course, there could be some massive interest rate shock. But even then, I think we'll be in a good position to grow Redfin Mortgage.

So I think that was the last question. And I got to say, they were such good questions. We had so much fun. I'm going to turn it back over to Meg, but it was great to hear from everyone in the analyst community. Thanks for following along.

Meg Nunnally

Thanks, Glenn, and thanks to all of you for joining us on the call today. We look forward to talking to you all next quarter. Have a good day.

Operator

This concludes today's call. Thank you for your participation. You may now disconnect.

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