

RE/MAX Holdings, Inc.  
Form 10-K  
March 28, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended: December 31, 2013

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-36101

RE/MAX Holdings, Inc.

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of

incorporation or organization)  
5075 South Syracuse Street

Denver, Colorado  
(Address of principal executive offices)

80-0937145  
(I.R.S. Employer

Identification Number)

80237  
(Zip code)

(303) 770-5531

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(Registrants' telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Class A Common Stock, par value \$0.0001 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is well-known seasoned issuers, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, accelerated filer, non-accelerated filer, or smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer  Smaller Reporting Company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of June 28, 2013, the last business day of the registrant's most recently completed second quarter, there was no established public market for the registrant's common stock. The registrant's common stock began trading on the New York Stock Exchange on October 2, 2013. As of December 31, 2013, the aggregate value of the registrant's common stock held by non-affiliates was approximately \$372.3 million, based on the number of shares held by non-affiliates as of December 31, 2013 and the closing price of the registrant's common stock on the New York Stock Exchange on December 31, 2013.

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The number of outstanding shares of the registrant's Class A common stock, par value \$0.0001 per share, and Class B common stock, par value \$0.0001, as of March 28, 2014 was 11,607,971 and 1, respectively.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for the 2014 Annual Meeting of Stockholders are incorporated into Part III of this Annual Report on Form 10-K where indicated. Such proxy statement will be filed with the Securities and Exchange Commission within 120 days of the registrant's fiscal year ended December 31, 2013.

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RE/MAX HOLDINGS, INC.

2013 ANNUAL REPORT ON FORM 10-K

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## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements that are subject to risks and uncertainties. Forward-looking statements give our current expectations and projections relating to our financial condition, results of operations, plans, objectives, future performance and business. You can identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. These statements may include words such as “anticipate,” “estimate,” “expect,” “project,” “plan,” “intend,” “believe,” “may,” “will,” “should,” “likely” and other words and similar meaning in connection with any discussion of the timing or nature of future operating or financial performance or other events. For example, forward-looking statements include statements we make relating to:

- our expectations regarding consumer trends in residential real estate transactions;
- our expectations regarding overall economic and demographic trends, including the continued recovery of the U.S. residential real estate market;
- our expectations regarding our performance during future downturns in the housing sector;
- our growth strategy of increasing our agent count;
- our ability to expand our network of franchises at higher than average rates in both new and existing but underpenetrated markets;
- our expectations regarding agent count and productivity;
- our growth strategy of increasing our number of closed transaction sides and transaction sides per agent;
- our expectations of the effects of the reacquisitions of the regional franchise rights in the Southwest and Central Atlantic regions of the U.S. and in the state of Texas on our results of operations;
- the continued strength of our brand both in the U.S. and Canada and in the rest of the world;
- the pursuit of future reacquisitions of Independent Regions;
- our intention to pay dividends;
- our future financial performance;
- the effects of laws applying to our business;
- our ability to retain our senior management and other key employees;
- our intention to pursue additional intellectual property protections;
- our future compliance with U.S. or state franchise regulations; and
- other plans and objectives for future operations, growth, initiatives or strategies.

These and other forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those that we expected. We derive many of our forward-looking statements from our operating budgets and forecasts, which are based upon many detailed assumptions. While we believe that our assumptions are reasonable, we caution that it is very difficult to predict the impact of known factors and it is impossible for us to anticipate all factors that could affect our actual results. Important factors that could cause actual results to differ materially from our expectations, or cautionary statements, are disclosed in “Item 1A.—Risk Factors” and in “Item 7.—Management’s Discussion and Analysis of Financial Condition and Results of Operations” included elsewhere in this Annual Report on Form 10-K.

We caution you that the important factors referenced above may not contain all of the factors that are important to you. In addition, we cannot assure you that we will realize the results or developments we expect or anticipate or, even if substantially realized, that they will result in the consequences or affect us or our operations in the way we expect. The forward-looking statements included in this Annual Report on Form 10-K are made only as of the date hereof. We undertake no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise, except as otherwise required by law.



PART I

ITEM 1. BUSINESS

Our Company

We are one of the world’s leading franchisors of real estate brokerage services. Our business strategy is to recruit and retain agents and sell franchises. Our franchisees operate under the RE/MAX brand name, which has held the number one market share in the U.S. and Canada since 1999, as measured by total residential transaction sides completed by our agents. Accordingly, our company slogan is “Nobody sells more real estate than RE/MAX.” The RE/MAX brand has the highest level of unaided brand awareness in real estate in the U.S. and Canada according to a 2013 consumer survey by MMR Strategy Group, and our iconic red, white and blue RE/MAX hot air balloon is one of the most recognized real estate logos in the world.

The RE/MAX brand is built on the strength of our global franchise network, which is designed to attract and retain the best-performing and most experienced agents by maximizing their opportunity to retain a larger portion of their commissions. As a result of this agent-centric approach, we believe that our agents are substantially more productive than the industry average. We consider agent count to be a key measure of our business performance as the majority of our revenue is derived from fixed, contractual fees and dues paid to us based on the number of agents in our franchise network.

RE/MAX was founded in 1973 by David and Gail Liniger with an innovative, entrepreneurial culture affording our agents and franchisees the flexibility to operate their businesses with great independence. This business strategy led to a 33-year period of uninterrupted growth, highlighted in the charts below, as RE/MAX added large numbers of franchises and agents in the U.S., Canada and around the world. Today, the RE/MAX brand operates in more countries than any other real estate brokerage brand in the world.

93,228 Agents\*    6,481 Offices\*    97 Countries\*

Number of Agents    Number of Offices    Number of Countries\*

\*As of December 31, 2013.

We grew our total agent count at a CAGR of 30% from our founding to a peak of approximately 120,000 agents in 2006. Our agent count declined approximately 26.8% from 2006 through 2011 as real estate transaction activity declined during the U.S. and global real estate downturn and economic recession. We returned to growth, with a net gain of 1,532 agents during 2012 (of which 651 agents were in the U.S.) and accelerated our growth in 2013 with a net gain of 4,220 agents (of which 2,688 agents were in the U.S.), as the upturn has continued. We expect that our U.S. agent count will continue to increase as we continue to attract productive agents who recognize the strength of the RE/MAX brand and our agent-centric value proposition.

As approximately 78.5% of our 2013 revenue come from the U.S., we believe that we are benefiting from the recovery in the U.S. housing market. Existing home sale transactions in the U.S. rose 9.4% in 2012 and 9.2% in 2013, according to the National Association of Realtors (“NAR”). NAR forecasts that existing home sale transactions will fall by 1.4% in 2014, but rise 5.3% in 2015. With approximately 15.8% of our 2013 revenue coming from Canada, where

RE/MAX has the leading market share among residential brokerage firms, we also expect to benefit from a continuation of generally stable Canadian housing market trends.

The RE/MAX network extends to commercial real estate brokerage as well, with over 2,700 RE/MAX Commercial® practitioners in over 45 countries. With over \$8 billion in 2013 sales and lease volume, RE/MAX Commercial® is perennially named one of the top 25 commercial brokerage networks by National Real Estate Investor magazine.

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As a franchisor with less than 1% owned brokerage offices in the U.S., we maintain a low fixed-cost structure, which enables us to generate high margins and helps us drive significant operating leverage through incremental revenue growth.

(1) Adjusted EBITDA includes adjustments to EBITDA for loss on sale or disposition of assets and sublease, loss on early extinguishment of debt, equity-based compensation, non-cash straight-line rent expense, salaries paid to David Liniger, our Chairman and Co-Founder, and Gail Liniger, our Vice Chair and Co-Founder, that we discontinued subsequent to our initial public offering (the "IPO"), expenses incurred in connection with the IPO and acquisition transaction costs. See "Item 7.—Management's Discussion and Analysis of Financial Condition and Results of Operations" for further discussion of Adjusted EBITDA and a reconciliation of the differences between Adjusted EBITDA and net income.

(2) Excludes adjustments attributable to the non-controlling interest.

#### Market Opportunity

We operate in the real estate brokerage franchise industry in more than 95 countries, including the U.S. and Canada.

U.S. and Canadian Real Estate Brokerage Industry Overview. Based upon U.S. Census Bureau data and existing home sales information from NAR, the U.S. residential real estate industry is an approximately \$1.25 trillion market based on 2013 sales volume. Residential real estate represents the largest single asset class in the U.S. with a value of approximately \$19 trillion, according to the Federal Reserve.

Residential real estate brokerages typically realize revenue by charging a commission based on a percentage of the price of the home sold. The real estate brokerage industry generally benefits in periods of rising home prices and transaction activity (with the number of licensed real estate agents generally increasing during such periods), and is adversely impacted in periods of falling prices and home sale transactions (with the number of licensed real estate agents generally decreasing during such periods).

We believe that the traditional agent-assisted business model compares favorably to alternative channels of the residential brokerage industry, such as discount brokers and "for sale by owner," because full-service brokerages are the best-suited to address many of the key characteristics of real estate transactions, including: (i) the complexity and large monetary value involved in home sale transactions, (ii) the infrequency of home sale transactions, (iii) the high price variability in the home market, (iv) the unique nature of each home and (v) the consumer's need for a high degree of personalized advice and support in light of these factors. For these reasons, we believe that consumers will continue to use the agent-assisted model for residential real estate transactions. In addition, although listings are available for viewing on a wide variety of real estate websites, we believe an agent's local market expertise provides the ability to better understand the inventory of for-sale homes and the interests of potential buyers. This knowledge allows the agent to customize the pool of potential homes they show to a buyer as well as help sellers to professionally present their home to best attract potential buyers. According to NAR, 88% of existing homes were sold using an agent or broker in 2013 compared to 82% in 2004.

Cyclical Nature. The residential real estate industry is cyclical in nature but has shown strong long-term growth. From the second half of 2005 through 2011, the U.S. real estate industry experienced a significant downturn, with existing home sale transactions declining by 40% from 7.1 million in 2005 to 4.3 million in 2011, according to NAR. However, the U.S. real estate industry experienced a rebound in 2012, with 4.7 million existing home sale transactions in 2012 and 5.1 million in 2013, increases of 9.4% and 9.2%, respectively. NAR forecasts 5.0 million existing home sales in 2014.

Similarly, the median home sale price declined by 24% from 2005 to 2011, but increased by 6.4% in 2012 and another 11.5% in 2013, according to NAR. CoreLogic, Inc. estimates that between October 2012 and September 2013, approximately 5.2 million homes returned to positive equity value. We believe a trend toward positive equity value will unlock pent-up market demand for sales of existing homes in 2014 and beyond.

Favorable Long-term Demand. We believe that long-term demand for housing in the U.S. is primarily driven by the economic health of the domestic economy, low interest rates, and local factors such as demand relative to supply. We also believe that the residential real estate market in the U.S. will also benefit from fundamental demographic shifts over the long term. These include an increase in household formations, including as a result of immigration and population growth. According to the 2013 State of the Nation's Housing Report compiled by the Joint Center for Housing Studies, the number of U.S. households is projected to grow by an annual average of 1.2 million for the remainder of the decade. Likewise, the U.S. Census Bureau projects that the U.S. will continue to experience long-term population growth and predicts total net immigration of 39 million individuals between 2015 and 2050. We believe that there is also pent-up selling demand from generational shifts, such as many retirement age homeowners who are likely to take advantage of improving housing market conditions in order to sell their existing residences and retire in new areas of the country or purchase smaller homes. Similarly, we believe there is also pent-up buying demand among adult children, particularly in the large "millennial" generation, currently living in their parents' homes, who are likely to take advantage of more affordable housing prices.

Our Market Position. We attribute our success to our ability to recruit and retain experienced and productive agents and sell franchises. Our approach to sustained agent recruiting and retention and franchise sales depends upon two key elements of our unique business model: (i) creating and maintaining a premier market presence in the real estate brokerage industry worldwide, and (ii) creating and maintaining the unique RE/MAX "growth engine."

Premier Market Presence. The strength of our brand worldwide in the real estate brokerage industry is the result of our ability to successfully create and maintain "Premier Market Presence." We believe that we offer agents and franchisees a compelling market presence in the real estate brokerage industry through the combination of the following six attributes:

- leading unaided brand awareness;
- highly experienced and productive agents;
- leading market share;
- high traffic web presence;
- high level of customer satisfaction; and
- strong community citizenship.

We believe our focus on creating and maintaining Premier Market Presence has led to a sustained growth of our global franchise network and the RE/MAX brand.

RE/MAX “Growth Engine.” The RE/MAX Growth Engine is a virtuous circle whereby all of the key stakeholders in our franchise network—our franchisees, agents and RE/MAX—benefit from mutual investment and participation in the RE/MAX network, or, as we say in RE/MAX, “Everybody wins.” By building our leading brand around an agent-centric model, we believe we are able to attract and retain highly productive agents and motivated franchisees. As a result, our agents and franchisees help to further enhance our brand and market share, expand our franchise network, and ultimately grow our revenue, as illustrated below:

The RE/MAX Growth Engine leads to the following unique benefits for our franchisees and agents and RE/MAX:

RE/MAX Franchisee and Agent Benefits	RE/MAX Benefits
Affiliation with the best brand in the real estate industry	Network effect drives brand awareness
Entrepreneurial culture	Franchise fee structure provides recurring revenue streams
High agent commission split and low franchise fees	Franchise model—highly profitable with low capital requirements—leads to strong cash flow generation and high margins
Access to our lead referral system which is supported by our high traffic websites	
Comprehensive, award-winning training programs	

#### Our Franchise Structure

Franchise Organizational Model. We function under the following franchise organizational model, with nearly all of the RE/MAX branded brokerage office locations being operated by franchisees:

Franchise Tier	Description
RE/MAX	Owns the right to the RE/MAX brand and sells franchises and franchising rights.
Regional Franchise Owner	Owns rights to sell brokerage franchises in a specified region. Current network of 162 regions globally. In the U.S. and Canada, RE/MAX owns 12 of 32 regional franchises, representing 54% of our U.S. and Canada agent count. The remaining 20 regional franchises, representing 46% of our U.S. and Canada agent count, are Independent Regions.
Franchisee (or Broker-Owner)	Owns right to operate a RE/MAX-branded brokerage office, list properties and recruit agents. 6,481 offices globally, as of December 31, 2013.