RE/MAX Holdings, Inc.
Form 10-K
February 22, 2019
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended: December 31, 2018

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)	80-0937145 (I.R.S. Employer Identification Number)
5075 South Syracuse Street Denver, Colorado (Address of principal executive offices)	80237 (Zip code)

(303) 770-5531

(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 every Interactive Data File required to be submitted 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 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, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	Accelerated Filer	Non-Accelerated Filer	Smaller Reporting Company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 30, 2018, the last business day of the registrant's most recently completed second quarter, the aggregate value of the registrant's common stock held by non-affiliates was approximately $927.1 million, based on the number of shares held by non-affiliates as of June 30, 2018 and the closing price of the registrant's common stock on the New York Stock Exchange on June 30, 2018. Shares of common stock held by each executive officer and director have been excluded since those persons may under certain circumstances be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

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 January 31, 2019 was 17,754,416 and 1, respectively.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for the 2018 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, 2018.

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RE/MAX HOLDINGS, INC.

2018 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 are often identified by the use of words such as "believe," "intend," "expect," "estimate," "plan," "outlook," "project," "anticipate," "may," "will," "would" and words and expressions that predict or indicate future events or trends that are not statements of historical matters. Forward-looking statements include statements related to:

- our expectations regarding consumer trends in residential real estate transactions;
- our expectations regarding overall economic and demographic trends, including the health of the United States ("U.S.") and Canadian residential real estate markets, and how they affect our performance;
- our growth strategies of growing our RE/MAX and Motto Mortgage brands, including (a) increasing RE/MAX agent count, increasing the number of closed transaction sides and transaction sides per RE/MAX agent, and (b) increasing the number of open Motto Mortgage offices;
- the anticipated benefits of the acquisition and integration of Active Website, LLC and our other technology initiatives, including our expectation regarding the timing of such initiatives and benefits;
- the continued strength of our brand both in the U.S. and Canada and in the rest of the world;
- the pursuit of future acquisitions of Independent Regions;
- our intention to pay dividends;
- our future financial performance;
- our ability to forecast selling, operating and administrative expenses;
- 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;
- other plans and objectives for future operations, growth, initiatives, acquisitions or strategies, including investments in our technology;
- our ability to effectively implement and account for changes in U.S. tax laws, including the Tax Cuts and Jobs Act.
- the implications of the Special Committee investigation and the impact of the findings and recommendations on us and our operations, including the effect of measures we took in response to the investigation; and
- our Board of Directors and management structure, including the roles of Adam Contos and the senior management team, the roles of David Liniger and of Richard Covey and the independent members of the Board of Directors.

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.

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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 of this report. 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 required by law.

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PART I

ITEM 1. BUSINESS

Overview

We are one of the world's leading franchisors in the real estate industry, franchising real estate brokerages globally under the RE/MAX brand ("RE/MAX") and mortgage brokerages within the U.S. under the Motto Mortgage brand ("Motto"). RE/MAX and Motto are 100% franchised—we do not own any of the brokerages that operate under these brands. We focus on enabling our franchisees' success by providing quality education and training, powerful technology tools and support and valuable marketing to build the strength of the RE/MAX and Motto brands. Although we partner with our franchisees to assist them in growing their brokerages, they fund the cost of developing their brokerages. As a result, we maintain a low fixed-cost structure which, combined with our recurring fee-based models, enables us to capitalize on the economic benefits of the franchising model, yielding high margins and significant cash flow.

Our History. RE/MAX was founded in 1973 with an innovative, entrepreneurial culture affording our franchisees and their agents the flexibility to operate their businesses with great independence. In the early years of our expansion in the U.S. and Canada, we accelerated the brand's growth by selling regional franchise rights to independent owners for certain geographic regions, a practice we still employ in countries outside of the U.S. and Canada. RE/MAX has held the number one market share in the U.S. and Canada combined since 1999, as measured by total residential transaction sides completed by our agents. On June 25, 2013, RE/MAX Holdings, Inc. ("RE/MAX Holdings") was formed as a Delaware corporation, and shares of our Class A common stock began trading on the New York Stock Exchange under the symbol "RMAX" on October 2, 2013. On October 7, 2013, RE/MAX Holdings completed an initial public offering of its shares of Class A common stock. In October 2016, we launched Motto, the first national mortgage brokerage franchise offering in the United States. On February 26, 2018, we acquired Active Website, LLC, ("booj"), a real estate technology company, in order to deliver core technology solutions designed for and with RE/MAX affiliates.

Our Brands. RE/MAX. The RE/MAX strategy is to sell franchises to real estate brokers and help those franchisees recruit and retain the best agents. 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 our unique agent-centric approach, we have established a nearly 50-year track record of helping millions of homebuyers and sellers achieve their goals, creating several competitive advantages in the process:

- Leading agent productivity. We believe that RE/MAX agents are substantially more productive than the industry average. In fact, RE/MAX agents at large brokerages on average outsell competing agents more than two-to-one based on a survey of the largest participating U.S. brokerages per the 2018 REAL Trends 500.

	Transactions Per Agent (Large Brokerages Only) (1)
RE/MAX	17.0
Realty Executives	11.1
Berkshire Hathaway	9.4
ERA Real Estate	8.8

Coldwell Banker	8.2
Century 21	7.8
Better Homes and Gardens	6.8
Sotheby's International Realty	6.6
Keller Williams Realty	6.6
Compass	5.2
HomeSmart	3.9
eXp Realty	3.8

(1) Transaction sides per agent are calculated by RE/MAX based on 2018 REAL Trends 500 data, citing 2017 transaction sides for the 1,752 largest participating U.S.

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brokerages for which agent counts were reported. Coldwell Banker includes NRT. Berkshire does not include HomeServices of America.

- Leading market share. Nobody in the world sells more real estate than RE/MAX, as measured by residential transaction sides.
- Leading brand awareness. The RE/MAX brand has the highest level of unaided brand awareness in real estate in the U.S. and Canada according to a consumer study conducted 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.
- Leading global presence. We have a growing global presence and our agent count outside the U.S. and Canada continues to increase. Today, the RE/MAX brand has over 120,000 agents operating in over 8,000 offices, and a presence in more than 110 countries and territories—a global footprint bigger than any other real estate brokerage brand in the world.

The majority of RE/MAX revenue—67% in 2018—is derived from fixed, contractual fees and dues paid to us based on the number of agents in our franchise network, so agent count, primarily in the U.S. and Canada, is a key measure of our business performance.

124,280 Agents 8,229 Offices 118 Countries and Territories

As of December 31, 2018.

Motto Mortgage. The Motto Mortgage brokerage model offers U.S. real estate brokers access to the mortgage brokerage business, which is highly complementary to our real estate business, and is designed to help Motto franchise owners comply with all applicable mortgage regulations. Motto franchisees offer potential homebuyers an opportunity to find both real estate agents and independent Motto loan originators at offices near each other. Further, Motto loan originators provide homebuyers with financing choices by providing access to a variety of quality loan options from multiple leading wholesale lenders. In addition, Motto provides powerful technology to its franchisees that simplifies the mortgage process. Motto franchisees are mortgage brokers and not mortgage bankers. Likewise, we franchise the Motto system and are not lenders or brokers.

Motto's revenue model consists of fixed, contractual fees paid monthly on a per-office basis by the broker for being a part of the Motto network and for use of the Motto brand, and from sales of individual franchises. We are not compensated based on the volume of loans completed by a franchise. We believe it will generally take 14 to 17 months after the sale of a Motto franchise for a franchisee to ramp up to paying a full set of monthly fees. Approximately 80 Motto franchises were operational as of December 31, 2018. We remain focused on enabling the success of these initial franchises, which we believe will serve as concept validators. Motto franchisees should profit by attracting and retaining professional, highly productive loan originators who provide superior client service and value.

Industry Overview and Trends

We are a franchisor of businesses in two facets of the real estate industry—real estate brokerages and mortgage brokerages. With approximately 95% of our revenue and nearly three-quarters of our RE/MAX agent count coming from

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our franchising operations in the U.S. and Canada, we are significantly affected by the real estate market in the U.S. and Canada.

The U.S. and Canadian Real Estate Industry are Large Markets. The U.S. residential real estate industry is an approximately $1.83 trillion market based on 2018 sales volume, according to U.S. Census Bureau data and existing home sales information from the National Association of Realtors (“NAR”). Canadian home sales totaled approximately CA$222 billion in 2018, according to the Canadian Real Estate Association (“CREA”).

How Brokerages Make Money. Residential real estate brokerages typically realize revenue by charging a commission based on a percentage of the price of the home sold and/or by charging their agents, who are independent contractors, fees for services rendered. 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 typically adversely impacted in periods of falling prices and home sale transactions (with the number of licensed real estate agents generally decreasing during such periods).

Residential mortgage brokerages typically realize revenue by charging fees for their service, which is based on a percentage of the mortgage loan amount. The mortgage brokerage industry generally benefits from periods of increasing home sales activity, as this generally results in increased purchase-money mortgage originations (loans that arise during the initial sale of a house), and periods when homeowners refinance to take advantage of lower interest rates. The mortgage brokerage industry is usually adversely impacted in periods of decreasing home sales activity, as this results in less purchase-money mortgage originations, and periods of less favorable interest rates making homeowners less likely to refinance.

The Residential Real Estate Industry is Cyclical in Nature. The residential real estate industry is cyclical in nature but has shown strong long-term growth. As illustrated below, the number of existing home sales transactions in the U.S. and Canada has generally increased during periods of economic growth:

U.S. Existing Home Sales

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Canadian Existing Home Sales

U.S. Housing Trends. After a decade of expansion following the onset of the Great Recession, the U.S. housing market slowed during the latter part of 2018, particularly in the West. For all of 2018, total existing home sales decreased 3.1 percent, the first annual decline since 2014 according to NAR. Persistent price appreciation, low housing inventory, rising interest rates, and weak wage growth were among the more meaningful contributors to the slowdown in home sales as homebuyers and sellers adapted to a shifting market. In January 2019, NAR's forecast called for stabilizing existing home sales in 2019.

As we entered 2019, the reduction in home sales transactions began to lead to increasing inventory and slowing price appreciation while mortgage rates leveled off after rising during the second half of 2018. The housing market, which has generally favored sellers over the past several years, began to shift more toward greater equilibrium which we believe will be healthy for housing over the longer term.

Additionally, household formation growth has increased demand for housing and this dynamic looks favorable for the future as discussed in more detail below. However, challenges to the housing market remain. According to the 2018 Nation's Housing Report compiled by the Joint Center for Housing Studies of Harvard University (the "Report"), supplies of single-family homes for sale remain relatively scarce, particularly at the lower-cost end of the spectrum. While it is not entirely understood why supplies are so low, the conversion of 3.9 million single-family homes to rental properties between 2006 and 2016, the ongoing decline in residential mobility rates and the low level of single-family construction are likely contributors according to the Report. Additionally, while affordability pressures have eased, the Report notes this issue remains widespread, a long-term trend for which the country has not solved.

Favorable Long-Term Demand. We believe long-term demand for housing in the U.S. is driven by many factors including the economic health of the domestic economy, demographic trends, affordability, interest rates and local factors such as demand relative to supply. We also believe the residential real estate market in the U.S. will benefit from fundamental demographic shifts over the long term, including:

· An increase in demand from rising household formations, including as a result of immigration, population growth and wealth accumulation and wage growth of minorities. According to the Report, U.S. household formations are projected to reach 12.0 million between 2017 and 2027. Although this projection is down from 2016's projection of 13.6 million, it is more in line with increases seen over the past few years. Likewise, the U.S. Census Bureau projects that the U.S. will continue to experience long-term population growth and predicts net immigration of 30 million individuals from 2014 to 2050.
· An increase in demand from generational shifts. We believe there is pent-up selling demand from generational shifts, such as many retirement age homeowners, from the "baby boom" generation, who are likely to take advantage of improved housing market conditions in order to sell their existing residences and retire in new areas of the country or purchase smaller homes. Similarly, we also believe there is pent-up buying demand among adults in the millennial generation, currently the nation's largest living generation. The millennial generation is moving into their prime home-buying years as they form households and are supported by strong employment, relatively low interest rates, and rising consumer confidence.

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Notable Broker and Agent Trends. Notable trends impacting residential real estate brokers and agents include:

- Almost 90% of all U.S. homebuyers and sellers use an agent – About 91% of sellers and 87% of purchasers were represented by a real estate agent in 2018, according to NAR data. These figures have climbed over the last decade and a half—a period of time during which technology has materially changed the typical home-buying or -selling transaction:

Percentage of Home Buyers and Sellers Using an Agent

Source: NAR Profile of Home Buyers and Sellers

- The number of agents entering the industry is increasing – NAR membership continued to grow during 2018 and was approaching its all-time record of 1.37 million members established in 2006. However, the pace of growth slowed and it remains to be seen what impact the decline in existing home sales toward the end of 2018 will have on NAR membership. Typically, during periods of expansion in the housing cycle, the numbers of agents entering the industry increase as the barriers to entry are relatively low. Many of the recent entrants are new to the profession. In fact, NAR reported in 2018 that 22% of its members had been licensed less than one year, a quadrupling of the percentage from just five years ago. In contrast, our U.S. agent count remained essentially flat in 2018. It is not uncommon for our U.S. agent growth rate to lag that of NAR. At RE/MAX, our model is not for everyone. We focus our brokers on the importance of attracting and retaining highly productive agents and those who aspire to learn and produce more.
- Competition for agents and listings remains fierce – Competition for agents, especially highly productive agents, and listings has always been fierce and today is no different. Franchisors and brokers are continually refining and fine-tuning their economic models in order to craft what they believe to be the most compelling value proposition in order to attract and retain the most productive agents and to capture consumer listings. The year 2018 remained heated in this regard as the industry witnessed the continuation of significant capital invested in relatively new entrants to our industry, resulting in many well-financed competitors offering a wide variety of business models. See Competition for additional discussion.
- The importance of technology continues to increase – We believe industry market participants will continue to focus on technology investments as evidenced by increased capital flowing into the industry. We believe mobile platforms, artificial intelligence and predictive analytics are increasingly becoming a point of focus as the industry looks to use technological advancements to simplify and streamline the oftentimes complicated process of buying and selling a home. In response, many established brokers are favoring proprietary technology as opposed to purchasing it from third parties.

Canadian Housing Trends. The housing market in Canada generally stabilized in 2018, after unprecedented increases in average sales prices in 2017. We expect the market to continue to stabilize in 2019 with only modest price increases and as Canadians react to higher interest rates, stricter qualification requirements and economic conditions. According to the 2019 RE/MAX Housing Market Outlook Report, 36% of Canadians are considering buying a property in the next five years, down from 48% from 2018. The decrease is attributed to both the actual and perceived impact of the mortgage stress test and rising interest rates on housing affordability.

The year 2018 continued to see the single-family detached home and condo markets diverge in Canada's two highest-

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priced real estate markets, Greater Vancouver and the Greater Toronto area. The mix of relative affordability for condo units and price appreciation for detached homes in recent years, combined with government policy changes in both markets has helped push an influx of buyers toward condo ownership. The Greater Vancouver condo market experienced reduced foreign buyer activity which opened more opportunity for local buyers; while the number of sales in the residential properties market dropped by 30% with the average home price only increasing approximately 2%. In the Greater Toronto area, the lack of affordability in the single-detached segment made it difficult for entry level buyers to enter the market and, as a result, the relatively affordable condo market now represents approximately 37% of total residential transactions in the Greater Toronto market.

In order to find a balance between desirable home features and affordability, many buyers are continuing to look at real estate markets outside of the country's largest urban centers. CREA projects the average residential sale price for Canada will increase 1.7% in 2019, which indicates that the desire for home ownership remains strong, particularly among Canadian millennials.

The Long-Term Value Proposition for Real Estate Brokerage Services. We believe the traditional agent-assisted business model compares favorably to alternative channels of the residential brokerage industry, such as discount brokers, "for sale by owner" listings, and lower-fee brokerages catering to consumers who use technology for some of the services traditionally provided by brokers, because full-service brokerages are 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 intimate local knowledge necessary to advise clients on neighborhood characteristics,
(v) the unique nature of each particular home, and
(vi) 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 present their home professionally to best attract potential buyers.

The Long-Term Value Proposition for Mortgage Brokerage Services. Likewise, we believe mortgage brokers provide a valuable "concierge" service for consumers. Mortgage brokers are familiar with the latest loan programs and choices available through various wholesale lenders. A professional mortgage broker can introduce consumers to loan programs from several lenders, providing choice and information consumers may be unlikely to locate on their own. In 2017, the percentage of mortgage originations handled by mortgage brokerages was substantially below average historical levels, which we believed showed potential for growth in the mortgage brokerage production channel. In 2018, we began to realize that potential as the percentage of mortgage originations handled by mortgage brokerages became more in line with our expectations and historical averages. We believe there is room for additional growth as the percentage of mortgage originations handled by mortgage brokerages in 2018 has still not reached maximum levels we have seen in the past.

Purchase-money mortgage originations correlate to the overall number of home sales and home prices. Home purchases are driven primarily by the buyer's personal and professional circumstances, whereas refinances depend mainly upon interest rates.

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According to Federal Home Loan Mortgage Corporation (known as “Freddie Mac”), purchase-money originations are expected to increase gradually in the next few years. As compared to competitors, Motto has a significantly higher ratio of purchase-money mortgage originations to refinances. We believe that the expected increase in purchase-money originations will provide a growth opportunity for a Motto franchise.

Our Franchise Model and Offering

Introduction to Franchising. Franchising is a distributed model for licensing the use of the franchisor’s system and brand. In return, the franchisee retains ownership and sole responsibility for the local business, and therefore the substantial portion of the profits it generates and its risks. The successful franchisor provides its franchisees: i) a unique product or service offering; ii) a distinctive brand name, and as the system gains market share, the favorable consumer recognition that brand comes to symbolize; iii) training, productivity tools and technology to help franchisees operate their business effectively, efficiently and successfully and iv) group purchasing power of the franchise system to obtain favorable prices for supplies, advertising, and other tools and services necessary in the operation of the business. Because franchising involves principally the development and licensing of intellectual property, and the costs of retail space and employees are borne by the individual unit owner, it is a low fixed-cost structure typified by high gross margins, allowing the franchisor to focus on innovation, franchisee training and support, and marketing to grow brand reputation.

The RE/MAX “Agent-Centric” Franchise Offering. We believe that our “agent-centric” approach is a compelling offering in the real estate brokerage industry, and it enables us to attract and retain highly effective agents and motivated franchisees to our network and drive growth in our business and profitability. Our model provides the following combination of benefits to our franchisees and agents:

- High Agent Commission Fee Split and Low Franchise Fees. The RE/MAX high commission split concept is a cornerstone of our model and, although not unique, differentiates us in the industry. That differentiation is most evident when our brand advantages and services are factored in as part of the concept. We recommend to our franchisees an agent-favorable commission split of 95%/5%, in exchange for the agent paying fixed fees to share the overhead and other costs of the brokerage. This model allows high-producing agents to earn a higher commission compared to traditional brokerages where the broker typically takes 30% to 40% of the agent’s commission, and it provides brokers with the resources to offer key services and support to their agents.
- Affiliation with the Best Brand in Residential Real Estate. With number one market share in the U.S. and Canada combined as measured by total residential transaction sides completed by RE/MAX agents, and leading unaided brand awareness in the U.S. and Canada, according to a consumer study by MMR Strategy Group, we reinforce brand awareness through marketing and advertising campaigns that are supported by our franchisees’ and agents’ local marketing.
- Entrepreneurial, High-Performance Culture. Our brand and the economics of our model generally attract driven, professional, highly productive franchisees, and we allow them autonomy to run their businesses independently, including, generally, the freedom to set commission rates and oversee local advertising.
- Sophisticated Technology, including High Traffic Websites Supporting Lead Referral Systems. Remax.com was the most visited real estate franchisor website during 2018, according to Hitwise data. When a prospective buyer inquires about a property displayed on our websites, a RE/MAX agent receives this lead through our lead referral system, LeadStreet®, without a referral fee. We believe that no other national real estate brand provides

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their agents comparable access to free leads. In addition, we believe the upcoming booj platform will provide additional powerful technology that will further enhance our franchise offering and enable us to attract and retain highly productive agents.

- RE/MAX University® Training Programs. RE/MAX University® offers on-demand access to industry information and advanced training in areas such as distressed properties, luxury properties, senior clients, buyer agency and many other specialty areas of real estate.
- RE/MAX Approved Supplier Program. Using the collective buying power of our franchise network, a network of preferred suppliers provide group discount prices, marketing materials that have been pre-vetted to comply with RE/MAX brand standards and higher quality materials that may not be cost-effective to procure on an individual office basis. These vendors provide us additional revenue in return for marketing access to our network of franchisees and agents.

We attribute our success to our ability, by providing this unique, agent-centric suite of benefits, to recruit and retain motivated franchisees and their highly productive agents. Our goal is to continue a self-reinforcing cycle that we call "Premier Market Presence," whereby recruiting agents and franchisees helps achieve a network effect to further enhance our brand and market share, expand our franchise network and support offerings, and ultimately grow our revenue, as illustrated below:

RE/MAX Four-Tier Franchise Structure. RE/MAX is a 100% franchised business, with all of the RE/MAX branded brokerage office locations being operated by franchisees. We franchise directly in the U.S. and Canada, in what we call "Company-owned Regions." Brokerage offices, in turn, enter into independent contractor relationships with real estate sales agents who represent real estate buyers and sellers. In the early years of our expansion in the U.S. and Canada, we sold regional franchise rights to independent owners for certain geographic regions ("Independent Regions"), pursuant to which those Independent Regions have the exclusive right to sell franchises in those regions. In recent years, we have pursued a strategy to acquire those regional franchise rights from Independent Regions in the U.S. and Canada.

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The following depicts our franchise structure and the location of our Company-owned versus Independent Regions:

Regional Advertising

Franchise Sales

LLC performs these services.

Tier	Description	Services
Franchisor (RE/MAX, LLC)	Owns the right to the RE/MAX brand and sells franchises and franchising rights.	Brand Equity Market Share Advertising Marketing Strategies Technology
Independent Regional Franchise Owner	Owns rights to sell brokerage franchises in a specified region. Typically, 20-year agreement with up to three renewal options. RE/MAX, LLC franchises directly in Company-owned Regions, in the rest of the U.S. and Canada.	Local Services Regional Advertising Franchise Sales In Company-owned Regions, RE/MAX, LLC performs these services.
Franchisee (Broker-Owner)	Operates a RE/MAX-branded brokerage office, lists properties and recruits agents. Typically, 5-year agreement.	Office Infrastructure Sales Tools / Management Broker of Record
Agent	Branded independent contractors who operate out of local franchise brokerage offices.	Represents real estate buyer or seller Typically sets own commission rate

Company-owned Regions
Independent Regions

In general, the franchisees (or broker-owners) do not receive an exclusive territory except under certain limited circumstances. Prior to opening an office, a franchisee or principal owner is required to attend a four- to five-day training program at our global headquarters.

RE/MAX Marketing and Promotion. We believe the widespread recognition of the RE/MAX brand and our iconic red, white and blue RE/MAX hot air balloon logo and property signs is a key aspect of our value proposition to agents and franchisees. A variety of advertising, marketing and promotion programs build our brand and generate leads for our agents, including leading websites such as remax.com, advertising campaigns using television, digital marketing, social media, print, billboards and signs, and appearances of the well-known RE/MAX hot air balloon.

Event-based marketing programs, sponsorships, sporting activities and other similar functions also promote our brand. These include our support, since 1992 for Children's Miracle Network Hospitals in the U.S. and Children's Miracle Network in Canada, to help sick and injured children. Through the Miracle Home program, participating RE/MAX agents donate to Children's Miracle Network Hospitals once a home sale transaction is complete.

Our franchisees and their agents fund nearly all of the advertising, marketing and promotion supporting the RE/MAX brand, which, in the U.S. and Canada, occurs primarily on two levels:

- Local Campaigns. Our franchisees and agents engage in extensive promotional efforts within their local markets to attract customers and drive agent and brand awareness locally. These programs are subject to our brand guidelines and quality standards for use of the RE/MAX brand, but we allow our franchisees and agents substantial flexibility to create advertising, marketing and promotion programs that are tailored to local market conditions.
- Regional and Pan-Regional Marketing Campaigns. Funds are collected from franchisees by regional advertising fund entities in Company-owned Regions to support both regional and pan-regional marketing campaigns to build brand awareness and to support the Company’s agent and broker technology. The use of the fund balances is restricted by the terms of our franchise agreements. Independent Regions may contribute to national or pan-regional creative and/or media campaigns to achieve economies of scale in the purchase of advertising but are generally responsible for any regional advertising in their respective areas.

Prior to January 1, 2019, the advertising fund entities in Company-owned Regions were owned by our founder and Chairman of the Board of Directors, David Liniger, and therefore, this advertising activity is excluded from our consolidated financial statements. On January 1, 2019, the Company acquired these entities, which were then merged, except for Western Canada, into a new entity called RE/MAX Marketing Fund (with Western Canada, collectively, the “Marketing Funds”). As in the past, we are contractually obligated to use the funds collected to support regional and pan-regional marketing campaigns to build brand awareness and to support our agent and broker technology. Beginning January 1, 2019, the assets and liabilities of the Marketing Funds will be reflected in our consolidated financial statements. We will also begin recognizing revenue from the amounts collected, which substantially increases our revenues. However, because these funds are contractually encumbered for the benefit of franchisees and their agents, we expect to have equal and offsetting expenses such that there is no material impact to overall profitability as a result of this acquisition. See Note 19, Subsequent Events to the consolidated financial statements included elsewhere in this Annual Report on Form 10-K for further information.

The Motto Mortgage Brokerage Model. Through our Motto business, we are a mortgage brokerage franchisor, not a lender or mortgage broker. Our franchisees are brokers, not lenders, and so neither we nor our franchisees fund any loans. As a franchisor, we help our Motto franchisees establish independent mortgage brokerage companies, with a model designed to comply with all applicable regulations. The technology, training, marketing, tools and other services that we provide to Motto franchisees have been designed to enable real estate brokers—both RE/MAX franchisees and other entrepreneurs—to overcome the barriers to enter the mortgage business. When a Motto franchise is in close physical proximity to a real estate brokerage, homebuyers can enjoy an enhanced, coordinated, convenient and simplified experience with a professional real estate agent to find a home and with a Motto loan originator to secure financing from among several quality financing options. Because Motto’s value proposition is based in part on proximity to real estate brokerages and marketing to home-buying customers, we believe our franchisees are well-positioned to benefit from the anticipated gradual increase in purchase-money mortgage origination market. We believe this convenience should be a differentiator for real estate agents, which we believe will result in enhanced customer satisfaction and customer loyalty, which is essential for a successful real estate agent. There are not presently any other national mortgage brokerage franchisors in the United States.

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Our Motto Mortgage brokerage franchise business, Motto Franchising, LLC, offers seven-year agreements with franchisees. Motto sells franchises directly throughout the U.S. as there are no regional franchise rights in the Motto system. Motto Franchising, LLC provides an out-of-the-box franchise model—complete with training, support and technology configuration and implementation that is customized for each office—which allows franchisees to get up and running quickly. Loan originators at Motto franchises are employees of the franchisee and not independent contractors.

Financial Model

As a franchisor, we maintain a low fixed-cost structure. In addition, our stable, fee-based model derives a majority of our revenue from recurring fees paid by our RE/MAX and Motto franchisees, RE/MAX Independent Region franchise owners and RE/MAX agents. This combination helps us drive significant operating leverage through incremental revenue growth, yielding healthy margins and significant cash flow.

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*See Note 3, Revenue for more information.

(1) Adjusted EBITDA is a non-GAAP measure of financial performance that differs from U.S. Generally Accepted Accounting Principles. 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. See "Corporate Structure and Ownership” below.

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Revenue Streams. The chart below illustrates our revenue streams:

Revenue Streams as Percentage of 2018 Total Revenue

The amount of the various RE/MAX fee types will vary significantly depending on whether coming from Company-owned regions, Independent Regions, or global regions, with the greatest amounts in Company-owned regions. See discussion of revenue per agent below.

Continuing Franchise Fees. Continuing franchise fees are fixed contractual fees paid monthly by regional franchise owners in Independent Regions or franchisees in Company-owned Regions to RE/MAX based on their number of agents. Likewise, Motto continuing franchise fees are fixed contractual fees paid monthly by Motto franchisees.

Annual Dues. Annual dues are the membership fees that agents pay directly to us to be a part of the RE/MAX network and use the RE/MAX brand. Annual dues are currently a flat fee per agent paid annually. Motto franchisees do not pay annual dues.

Broker Fees. Broker fees are assessed against real estate commissions paid by customers when a RE/MAX agent sells a home. Generally, the amount paid is 1% of the total commission on the transaction, although the percentage can vary based on the specific terms of the broker fee agreement. The amount of commission collected by brokers is based primarily on the sales volume of RE/MAX agents, home sale prices in such sales and real estate commissions earned by agents on these transactions. Broker fees, therefore, vary based upon the overall health of the real estate industry and the volume of existing home sales. Additionally, agents in Company-owned Regions existing prior to 2004, the year we began assessing broker fees, are generally "grandfathered" and continue to be exempt from paying a broker fee. As of December 31, 2018, grandfathered agents represented approximately 20% of total agents in U.S. Company-owned regions. We expect that over time, exempt agents will be replaced by new agents who will pay broker fees, which will have a positive impact on our broker fee revenue independent of changes in agent count, sales volume and home sale prices. Motto franchisees do not pay any fees based on the number or dollar value of loans brokered.

Franchise Sales and Other Revenue. Franchise sales and other revenue primarily consists of:

- Franchise Sales: Revenue from sales and renewals of individual franchises in RE/MAX Company-owned Regions, Independent Regions, and Motto, as well as RE/MAX regional and country master franchises for Independent Regions in global markets outside of North America ("Global Regions"). We receive only a portion of the revenue from the sales and renewals of individual franchises from Independent and Global Regions. The franchise sale initial fees and commissions related to franchise sales are recognized over the contractual term of the franchise agreement.
- Other Revenue: Revenue from (a) preferred marketing arrangements and approved supplier programs with such revenue being either a flat fee or a percentage of revenue from products and services sold to RE/MAX agents), (b) event-based revenue from training and other programs, including our annual convention in the U.S., and (c) revenue from booj's legacy business of supplying websites and other technology to independent real estate brokerages.

Revenue per Agent in Owned versus Independent RE/MAX Regions. We receive a higher amount of revenue per agent in our Company-owned Regions than in our Independent Regions in the U.S. and Canada, and more in Independent Regions in the U.S. and Canada than in Global Regions. While both Company-owned Regions and Independent Regions in the U.S. and Canada charge relatively similar fees to RE/MAX brokerages and agents, we receive the entire amount of the continuing franchise fee, broker fee and initial franchise and renewal fee in Company-owned Regions, whereas we receive only a portion of these fees in Independent Regions. We generally receive 15%, 20% or 30% of the amount of such fees in Independent Regions, which is a fixed rate in each particular Independent Region established by the terms of the applicable regional franchise agreement. We base our continuing franchise fees, agent dues and broker fees outside the U.S. and Canada on the same structure as our Independent Regions, except that the aggregate level of such fees is substantially lower in these markets. In 2018, the average annual revenue per agent was as follows:

(1) Annual dues are currently a flat fee of US\$410/CA\$410 per agent annually for our U.S. and Canadian agents. The average per agent for the year ended December 31, 2018 in both Independent Regions and Company-owned Regions reflects the impact of foreign currency movements related to revenue received from Canadian agents. The ratio of Canadian agents to U.S. agents in Independent Regions has increased as a result of U.S. Independent Region acquisitions.

Value Creation and Growth Strategy

Our favorable margins generate healthy cash flow, which facilitates our value creation and growth strategy. As a leading franchisor in the residential real estate industry in the U.S. and Canada, we create shareholder value by:

a) growing organically by building on our network of over 8,000 RE/MAX franchisees and 120,000 agents and our network of nearly 80 open Motto mortgage brokerage franchises;
b) catalyzing growth by reacquiring regional RE/MAX franchise rights and acquiring other complementary businesses; and

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c) returning capital to shareholders.
Organic Growth. Our organic growth comes from: a) RE/MAX agent count growth; b) RE/MAX and Motto franchise sales, c) increases in opportunity to monetize the value of our RE/MAX and Motto networks; d) the extent to which we increase the fees paid by RE/MAX or Motto franchisees or RE/MAX agents; and e) growth in agent productivity or higher home prices.

Organic Growth from Agent Count and Franchise Sales. With respect to RE/MAX agent count growth, we experienced agent losses during the downturn, but we returned to a period of net global agent growth in 2012 and our year-over-year growth in agent count continued from 2013 through 2018.

RE/MAX Agent Count

Number of Agents at Quarter-End (1)

(1) Agents that converted from an Independent Region to a Company-owned Region are moved from the Independent Region agent count to the Company-owned Region agent count during the quarter of the acquisition.

As shown in the following table, during the second half of 2018 our agent count growth in U.S. decelerated as U.S. existing home sales decelerated, a correlation we have seen previously. This deceleration may pose future challenges to organic growth from agent count.

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RE/MAX Agent Count Year-Over-Year Growth Rate by Geography

We have several initiatives designed to improve the value proposition offered to both franchisees and agents, which we believe will help recruiting and retention. Two key initiatives in 2019 are:

- Technology – We have several technology initiatives, including developing technology for and by RE/MAX affiliates leveraging the booj platform, which we believe will make our highly productive agents even more efficient and successful and help RE/MAX franchisees recruit and retain agents. Leveraging booj's existing technology stack, we are developing a custom-built, integrated platform with products that interact and evolve with one another. Included in this platform will be a customer-relationship management platform integrated with agent, office and team websites, lead cultivation tools, marketing resources, social integration and more. We will also leverage the capabilities of other strategic partners as we develop advanced technology solutions for the RE/MAX network. We have focused on enhancing and investing in the technology supporting our franchised business model to help RE/MAX brokerages, agents and both RE/MAX and Motto teams grow their businesses, connect with clients, and operate more efficiently and strategically. Providing the best online and offline experience for RE/MAX and Motto affiliates and consumers is one of our primary strategic technology goals and we expect to continue to invest meaningfully in technology as we seek to enhance our overall value proposition. These products are expected to be delivered throughout 2019.
- Service Delivery – In early 2019, RE/MAX announced a new service model designed to deliver more value to our franchisees, as well as support their growth and professional development. We recognize that the needs of a new franchisee are vastly different from the needs of a larger, more established franchisee. This new service model was designed to provide franchisees with a team that will deliver holistic support services that are more dynamic, focused, relevant and impactful, as services will be based on the stage of growth in which the office currently resides. This model will allow us to put more focus on management, training, accountability and business operations.

RE/MAX intends to continue adding franchises in new and existing markets, and as a result, increase our global market share and brand awareness. Each incremental agent leverages our existing infrastructure, allowing us to drive additional revenue at little incremental cost. We are committed to reinvesting in the business to enhance our value proposition through a range of new and existing programs and tools.

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RE/MAX Office Franchise Sales

Motto sold over 100 franchises from inception to December 31, 2018, averaging approximately 50 franchise sales per year during its first two years of operation. We believe the Motto Mortgage brokerage model extends our core competencies of franchising and real estate industry knowledge to the mortgage brokerage business. We believe Motto, with its recurring fee model, complements the RE/MAX franchise model and adds a channel for long-term growth. Success of the Motto brokerage model, we believe, will build brand awareness which, in turn, will lead to increased franchise sales and therefore, increased franchise fees.

Organic Growth from Global Regions. We have a growing global presence with our agent count outside the U.S. and Canada growing almost 15% in 2018. Over the last two decades, the size of the RE/MAX network outside of the U.S. and Canada has grown to represent nearly a third of total RE/MAX agent count. However, we earn substantially more of our revenue in the U.S. than in other countries as a result of the higher average revenue per agent earned in Company-owned Regions than in Independent Regions, and in the U.S. and Canada as compared to the rest of the world:

RE/MAX Agents by Geography	RE/MAX Revenue by Geography (a)
As of Year-end 2018	Percent of 2018 Revenue

(a) Excludes revenues from Motto and booj.

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Pricing. Given the low fixed infrastructure cost of our RE/MAX franchise model, modest increases in aggregate fees per agent should positively affect our profitability. We may occasionally increase our aggregate fees per agent in our Company-owned Regions as we enhance the value we offer to our network. We are judicious with respect to the timing and amount of increases in aggregate fees per agent and our strategic focus remains on growing agent count through franchise sales, recruiting programs and retention initiatives. Following are the annualized average price increases for the previous five years, reflected in the year in which the increase was effective.

	2014	2015	2016	2017	2018
Continuing Franchise Fees					
Company-owned Regions - U.S.	2.4%	-	3.9%	-	-
Company-owned Regions - Canada	-	-	1.9%	1.9%	-
Annual Dues					
Company-owned Regions - U.S.	2.6%	-	-	2.5%	-
Company-owned Regions - Canada	2.6%	-	-	2.5%	-

Growth Catalysts through Acquisitions. We intend to continue to pursue acquisitions of the regional RE/MAX franchise rights in a number of Independent Regions in the U.S. and Canada, as well as other acquisitions in related areas that build on or support our core competencies in franchising and real estate.

Independent Region Acquisitions. The acquisition of an Independent Region franchise substantially increases our revenue per agent and provides an opportunity for us to drive enhanced profitability, as we receive a higher amount of revenue per agent in our Company-owned Regions than in our Independent Regions. While both Company-owned Regions and Independent Regions charge relatively similar fees to their brokerages and agents, we only receive a percentage of the continuing franchise fee, broker fee and initial franchise and renewal fee in Independent Regions. By acquiring regional franchise rights, we can capture 100% of these fees and substantially increase the average revenue per agent for agents in the acquired region, which, as a result of our low fixed-cost structure, further increases our overall margins. In addition, we believe we can establish operational efficiencies and improvements in financial performance of an acquired region by leveraging our existing infrastructure and experience.

Flow through Independent Regions

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The acquisition of regional franchise rights over the past several years has changed the agent count attributable to Company-owned Regions versus Independent Regions.

Recent History of Acquiring Independent Regional Rights	
2012	Texas
2013	Central Atlantic
2013	Southwest
2016	New York
2016	Alaska
2016	New Jersey
2016	Georgia
2016	Kentucky/Tennessee
2016	Southern Ohio
2017	Northern Illinois

RE/MAX Agents (U.S./Canada) As of Year-end 2012	RE/MAX Agents (U.S./Canada) As of Year-end 2018

Other Acquisitions. We may pursue other acquisitions, either of other brands, or of other businesses that we believe can help enhance the value proposition that we provide to the franchisees and their agents in our existing businesses, like our acquisition of booj in February of 2018.

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Return of Capital to Shareholders. We are committed to returning capital to shareholders as part of our value creation strategy. We have paid quarterly dividends since the completion of our first full fiscal quarter as a publicly traded company, or April of 2014. We have annually increased our quarterly dividends since then, as we have deemed appropriate. On February 20, 2019, our Board of Directors announced a quarterly dividend of $0.21 per share.

Quarterly Dividends

Our disciplined approach to allocating capital allows us to return capital to shareholders while investing to drive future organic growth and catalyzing growth through acquisitions.

Competition

RE/MAX. The residential real estate brokerage business is fragmented and highly competitive. We compete against many different types of competitors - traditional real estate brokerages; non-traditional real estate brokerages, including some that offer deeply discounted commissions to consumers, and other newer entrants, including direct buyers. We compete in different ways for franchisees, for agents, and for consumers.

The majority of brokerages are independent, with the best-known being regional players. At the individual office level, oftentimes our most formidable competition is that of a local, independent brokerage. Brokerages affiliated with franchises tend to be larger, on average, than independents and are part of a national network. Our largest national competitors in the U.S. and Canada include the brands operated by Realogy Holdings Corp. (including Century 21, Coldwell Banker, ERA, Sotheby's and Better Homes and Gardens), Berkshire Hathaway Home Services, Keller Williams Realty, Inc. and Royal LePage. Our franchisees also compete to attract and retain agents against real estate franchisors which offer 100% commissions and low fees to agents. These competitors include HomeSmart and Realty ONE Group.

We also compete against non-traditional real estate brokerages such as Purplebricks and Redfin that offer deeply discounted commissions to consumers. Even among competitors with traditional models, there are variations such as the "hybrid" classification of Compass (a tech startup) and the virtual brokerage (no offices) platform of eXp Realty.

Our efforts to target consumers and connect them with a RE/MAX agent via our websites also face competition from major real estate portals, such as Zillow and Realtor.com.

We also compete for home sales against newer entrants, often referred to as direct buyers or iBuyers, which offer to buy homes directly from homeowners at below-market rates in exchange for speed and convenience, and then resell them shortly thereafter at market prices. Our largest national competitors in the U.S. and Canada in this category include Opendoor, Offerpad, Redfin and Zillow.

Likewise, the support services we provide to RE/MAX franchisees and agents also face competition from various providers of training, back office management, marketing, social integration and lead generation services. We believe that competition in the real estate brokerage franchise business is based principally upon the reputational strength of the

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brand, the quality of the services offered to franchisees, and the amount of franchise-related fees to be paid by franchisees.

The ability of our franchisees to compete with other real estate brokerages, both franchised and unaffiliated, is an important aspect of our growth strategy. A franchisee's ability to compete may be affected by a variety of factors, including the number and quality of the franchisee's independent agents and the presence and market span of the franchisee's offices. A franchisee's success may also be affected by general, regional and local housing conditions, as well as overall economic conditions.

Motto. Motto does not originate loans, and therefore does not compete in the mortgage origination business. The mortgage origination business in which Motto franchisees participate is highly competitive. There are several different marketing channels for mortgage origination services, with some originators, like Motto franchisees, marketing significantly to real estate agents and their customers. Other originators are independent mortgage bankers or correspondent lenders, underwriting and funding mortgage loans and then selling the loans to third parties. Retail lenders, both traditional and online-only companies, and both banks and non-bank lenders, typically market their loan products directly to consumers.

While there are no national mortgage brokerage franchisors in the United States at the present time other than Motto, the mortgage origination business is characterized by a variety of business models. While real estate brokerage owners are our core market for the purchase of Motto franchises, such owners may form independent, non-franchised mortgage brokerages. They may enter into joint ventures with lenders for mortgage originations, and they may elect not to enter the mortgage origination business themselves, but instead earn revenue from providing marketing and other services to mortgage lenders.

Intellectual Property

We regard our RE/MAX trademark, balloon logo and yard sign design trademarks as having significant value and as being an important factor in the marketing of our brand. We protect the RE/MAX and Motto brands through a combination of trademarks and copyrights. We have registered "RE/MAX" as a trademark in the U.S., Canada, and over 150 other countries and territories, and have registered various versions of the RE/MAX balloon logo and real estate yard sign design in numerous countries and territories as well. We also are the registered holder of a variety of domain names that include "remax," "motto," and similar variations.

Corporate Structure and Ownership

RE/MAX Holdings, Inc. ("RE/MAX Holdings") is a holding company incorporated in Delaware and its only business is to act as the sole manager of RMCO, LLC, ("RMCO"). In that capacity, RE/MAX Holdings operates and controls all of the business and affairs of RMCO. RMCO is a holding company that is the direct or indirect parent of all of our operating businesses, including RE/MAX, LLC and Motto Franchising, LLC. As of December 31, 2018, RE/MAX Holdings owns 58.57% of the common units in RMCO, while RIHI, Inc. ("RIHI") owns the remaining 41.43% of common units in RMCO. RIHI, Inc. is majority owned and controlled by David Liniger, our Chairman and Co-Founder, and by Gail Liniger, our Vice Chair and Co-Founder.

The diagram below depicts our organizational structure:

The holders of RE/MAX Holdings Class A common stock collectively own 100% of the economic interests in RE/MAX Holdings, while RIHI owns 100% of the outstanding shares of RE/MAX Holdings Class B common stock.

On October 7, 2018, pursuant to the terms of the Company's Certificate of Incorporation, RIHI lost its previous effective control of a majority of the voting power of RE/MAX Holdings common stock. RIHI owns all of RE/MAX Holdings' Class B common stock which, prior to October 7, 2018, entitled RIHI to a number of votes on matters presented to RE/MAX Holdings stockholders equal to two times the number of RMCO common units that RIHI held. Effective October 7, 2018, the voting power of Class B common stock was reduced to equal the number of RMCO common units held, and therefore RIHI lost the controlling vote of RE/MAX Holdings. As a result of this change in the voting rights of the Class B common stock, RIHI no longer controls a majority of the voting power of RE/MAX Holdings' common stock, and RE/MAX Holdings no longer constitutes a "controlled company" under the corporate governance standards of the New York Stock Exchange (the "NYSE"). RIHI remains a significant stockholder of the Company, and through its ownership of the Class B common stock, holds approximately 41% of the voting power of the Company's stock.

RE/MAX Holdings ownership of RMCO and Tax Receivable Agreements

RE/MAX Holdings has twice acquired significant portions of the ownership in RMCO; first in October 2013 at the time of IPO when RE/MAX Holdings acquired its initial 11.5 million common units of RMCO and, second, in November and December 2015 when it acquired 5.2 million additional common units. RE/MAX Holdings sold Class A common stock, which it exchanged for these common units of RMCO. RIHI then sold the Class A common stock to the market.

When RE/MAX Holdings acquired common units in RMCO, it received a step-up in tax basis on the underlying assets held by RMCO. The step-up is principally equivalent to the difference between (1) the fair value of the underlying assets on the date of acquisition of the common units and (2) their tax basis in RMCO, multiplied by the percentage of units acquired. The majority of the step-up in basis relates to intangible assets, primarily franchise agreements and goodwill, and the step-up is often substantial. These assets are amortizable under IRS rules and result in deductions on our tax return for many years and, consequently, RE/MAX Holdings receives a future tax benefit. These future benefits are reflected within deferred tax assets of approximately $53.7 million on our consolidated balance sheets as of December 31, 2018.

If RE/MAX Holdings acquires additional common units of RMCO from RIHI, the percentage of RE/MAX Holdings' ownership of RMCO will increase, and additional deferred tax assets will be created as additional tax basis step-ups occur.

In connection with the initial sale of RMCO common units in October 2013, RE/MAX Holdings entered into Tax Receivable Agreements ("TRAs") which require that RE/MAX Holdings make annual payments to the TRA holders equivalent to 85% of any tax benefits realized on each year's tax return from the additional tax deductions arising from the step-up in tax basis. We believe 85% is common for tax receivable agreements. The TRA holders as of December 31, 2018 are RIHI and Parallaxes Rain Co-Investment, LLC ("Parallaxes"). TRA liabilities were established for the future cash obligations expected to be paid under the TRAs and are not discounted. As of December 31, 2018, this liability was $40.8 million. Similar to the deferred tax assets, the TRA liabilities would increase if RE/MAX Holdings acquires additional common units of RMCO from RIHI.

Employees

As of December 31, 2018, we had approximately 500 employees. Our franchisees are independent businesses. Their employees and independent contractor sales agents are therefore not included in our employee count. None of our employees are represented by a union.

Seasonality

The residential housing market is seasonal, with transactional activity in the U.S. and Canada peaking in the second and third quarter of each year. Our results of operations are somewhat affected by these seasonal trends. Our Adjusted EBITDA margins are often lower in the first and fourth quarters due primarily to the impact of lower broker fees and other revenue as a result of lower overall sales volume, as well as higher selling, operating and administrative expenses in the first quarter for expenses incurred in connection with the RE/MAX annual convention.

Government Regulation

Franchise Regulation. The sale of franchises is regulated by various state laws, as well as by the Federal Trade Commission ("FTC"). The FTC requires that franchisors make extensive disclosures to prospective franchisees but does not require registration. A number of states require registration or disclosure by franchisors in connection with franchise offers and sales. Several states also have "franchise relationship laws" or "business opportunity laws" that limit the ability of the franchisor to terminate franchise agreements or to withhold consent to the renewal or transfer of these agreements. The states with relationship or other statutes governing the termination of franchises include Arkansas, California, Connecticut, Delaware, Hawaii, Illinois, Indiana, Iowa, Michigan, Minnesota, Mississippi, Missouri, Nebraska, New Jersey, Virginia, Washington and Wisconsin. Some franchise relationship statutes require a mandated notice period for termination; some require a notice and cure period; and some require that the franchisor demonstrate good cause for termination. Although we believe that our franchise agreements comply with these statutory requirements, failure to comply with these laws could result in our company incurring civil liability. In addition, while historically our franchising operations have not been materially adversely affected by such regulation, we cannot predict the effect of any future federal or state legislation or regulation.

Real Estate and Mortgage Regulation. The Real Estate Settlement Procedures Act ("RESPA") and state real estate brokerage laws and mortgage regulations restrict payments which real estate brokers, mortgage brokers, and other service providers in the real estate industry may receive or pay in connection with the sales of residences and referral of settlement services, such as real estate brokerage, mortgages, homeowners insurance and title insurance. Such laws affect the terms that we may offer in our franchise agreements with Motto franchisees and may to some extent restrict preferred vendor programs, both for Motto and RE/MAX. Federal, state and local laws, regulations and ordinances related to the origination of mortgages, may affect other aspects of the Motto business, including the extent to which we can obtain data on Motto franchisees' compliance with their franchise agreements. These laws and regulations include (i) the Federal Truth in Lending Act of 1969 ("TILA"), and Regulation Z ("Reg Z") thereunder; (ii) the Federal Equal Credit Opportunity Act ("ECOA") and Regulation B thereunder; (iii) the Federal Fair Credit Reporting Act and Regulation V thereunder; (iv) RESPA, and Regulation X thereunder; (v) the Fair Housing Act; (vi) the Home Mortgage Disclosure Act; (vii) the Gramm-Leach-Bliley Act and its implementing regulations; (viii) the Consumer Financial Protection Act and its implementing regulations; (ix) the Fair and Accurate Credit Transactions Act-FACT ACT and its implementing regulations; and (x) the Do Not Call/Do Not Fax Act and other state and federal laws pertaining to the solicitation of consumers.

Available Information

RE/MAX Holdings, Inc. is a Delaware corporation and its principal executive offices are located at 5075 South Syracuse Street, Denver, Colorado 80237, telephone (303) 770-5531. The Company's Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports are available free of charge through the "Investor Relations" portion of the Company's website, www.remax.com, as soon as reasonably practical after they are filed with the Securities and Exchange Commission ("SEC"). The content of the Company's website is not incorporated into this report. The SEC maintains a website, www.sec.gov, which contains reports, proxy and information statements, and other information filed electronically with the SEC by the Company.

ITEM 1A. RISK FACTORS

RE/MAX Holdings, Inc. and its consolidated subsidiaries (collectively, the "Company," "we," "our" or "us") could be adversely impacted by various risks and uncertainties. An investment in our Class A common stock involves a high degree of risk. You should carefully consider the following risk factors, as well as all of the other information contained in this Annual Report on Form 10-K, including our audited consolidated financial statements and the related notes thereto before making an investment decision. If any of these risks actually occur, our business, financial condition, operating results, cash flow and prospects may be materially and adversely affected. As a result, the trading price of our Class A common stock could decline and you could lose some or all of your investment.

We have grouped our risks according to:

- Risks Related to Our Business and Industry;
- Risks Related to Our Organizational Structure; and
- Risks Related to Ownership of Our Class A Common Stock.

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Risks Related to Our Business and Industry

Our results are tied to the residential real estate market and we may be negatively impacted by downturns in this market and general global economic conditions.

The residential real estate market tends to be cyclical and typically is affected by changes in general economic conditions which are beyond our control. These conditions include short-term and long-term interest rates, inflation, fluctuations in debt and equity capital markets, wage and job growth, levels of unemployment, home affordability, down payment requirements, inventory levels, consumer confidence, demographic changes, local or regional economic conditions and the general condition of the U.S., Canadian and global economies. The residential real estate market also depends upon the strength of financial institutions, which are sensitive to changes in the general macroeconomic and regulatory environment. Lack of available credit or lack of confidence in the financial sector could impact the residential real estate market. The residential real estate market could also be negatively impacted by acts of nature, such as fires, hurricanes, earthquakes, and such events may lead us to waive fees in certain impacted areas. Climate change may negatively affect the residential real estate market. Changes in local, state and federal laws or regulations that affect residential real estate transactions or encourage ownership, including but not limited to changes in tax law in late 2017 that limit the deductibility of certain mortgage interest expenses and increase the standard deduction (thereby potentially decreasing the tax benefits of homeownership) and potential future tax law changes, such as further limiting or eliminating the deductibility of certain mortgage interest expense, the application of the alternative minimum tax, and deductibility of real property taxes, could impact the residential real estate market.

Any of the above factors, and other factors discussed in this Annual Report on form 10-K could cause a decline in the housing or mortgage markets and have a material adverse effect on our business by causing periods of lower growth or a decline in the number of home sales and/or home prices. This could lead to a decrease of the number of agents in our network and reduce the fees we receive from our franchisees and agents, which, in turn, could adversely affect our financial condition and results of operations.

A lack of financing for homebuyers in the U.S. residential real estate market at favorable rates and on favorable terms could have a material adverse effect on our financial performance and results of operations.

Our business is significantly impacted by the availability of financing at favorable rates or on favorable terms for homebuyers, which may be affected by government regulations and policies. Certain potential reforms such as the U.S. federal government's conservatorship of Fannie Mae and Freddie Mac or other government sponsored entities ("GSEs"), proposals to reform the U.S. housing market, attempts to increase loan modifications for homeowners with negative equity, monetary policy of the U.S. government, increases in interest rates and the Dodd-Frank Act may adversely impact the housing industry, including homebuyers' ability to finance and purchase homes.

The monetary policy of the U.S. government, and particularly the Federal Reserve Board, which regulates the supply of money and credit in the U.S., significantly affects the availability of financing at favorable rates and on favorable terms, which in turn affects the domestic real estate market. Changes in the Federal Reserve Board's policies are beyond our control, are difficult to predict, and could restrict the availability of financing on reasonable terms at favorable interest rates for homebuyers, which could have a material adverse effect on our business, results of operations and financial condition.

In addition, a reduction in government support for home financing, including the possible winding down of GSEs could further reduce the availability of financing for homebuyers in the U.S. residential real estate market. No consensus has emerged in Congress concerning potential reforms relating to Fannie Mae and Freddie Mac and a potential transition to alternative structures for the secondary market, so we cannot predict either the short or long term-effects of such regulation and its impact on homebuyers' ability to finance and purchase homes.

Furthermore, many lenders significantly tightened their underwriting standards since the real estate downturn, and many subprime and other alternative mortgage products are no longer common in the marketplace. While some loosening of credit standards has occurred, if these mortgage loans continue to be difficult to obtain, including in the jumbo mortgage markets, the ability and willingness of prospective buyers to finance home purchases or to sell their existing homes could be adversely affected, which would adversely affect our operating results.

The Dodd-Frank Act, which was passed to more closely regulate the financial services industry, created the Consumer Financial Protection Bureau ("CFPB"), an independent federal bureau, which enforces consumer protection laws, including various laws regulating mortgage finance. The Dodd-Frank Act also established new standards and practices for mortgage lending, including a requirement to determine a prospective borrower's ability to repay a loan, removing incentives to originate higher cost mortgages, prohibiting prepayment penalties for non-qualified mortgages, prohibiting mandatory arbitration clauses, requiring additional disclosures to potential borrowers and restricting the fees that mortgage originators may collect. Rules implementing many of these changes protect creditors from certain liabilities for loans that meet the requirements for "qualified mortgages." The rules place several restrictions on qualified mortgages, including caps on certain closing costs. These and other rules promulgated by the CFPB could have a significant impact on the availability of home mortgages and how mortgage brokers and lenders transact business. In addition, the Dodd-Frank Act contained provisions that require GSEs, including Fannie Mae and Freddie Mac, to retain an interest in the credit risk arising from the assets they securitize. This may serve to reduce GSEs' demand for mortgage loans, which could have a material adverse effect on the mortgage industry, which may reduce the availability of mortgages to certain borrowers.

While we are continuing to evaluate all aspects of legislation, regulations and policies affecting the domestic real estate market, we cannot predict whether or not such legislation, regulation and policies may increase down payment requirements, increase mortgage costs, or result in increased costs and potential litigation for housing market participants, any of which could have a material adverse effect on our financial condition and results of operations.

We may fail to execute our strategies to grow our business, which could have a material adverse effect on our financial performance and results of operations.

We intend to pursue a number of different strategies to grow our revenue and earnings and to deploy the cash generated by our business. We constantly strive to increase the value proposition for our agents and brokers. If we do not reinvest in our business in ways that support our agents and brokers and make the RE/MAX network attractive to agents and brokers, we may become less competitive. Additionally, we are exploring opportunities to acquire other businesses, including select RE/MAX independent regional franchises, or other businesses in the U.S. and Canada that are complementary to our core business. If we fail to develop, execute, or focus on our business strategy, fail to make good business decisions, fail to enforce a disciplined management process to ensure that our investment of resources aligns with our strategic plan and our core management and franchising competencies or fail to properly focus resources or management attention on strategic areas, any of these could negatively impact the overall value of the Company. If we are unable to execute our business strategy, for these or any other reasons, our prospects, financial condition and results of operations may be harmed and our stock price may decline.

We may fail to deliver our booj-driven technology rollout as expected.

During the first quarter of 2018, we acquired booj, a real estate technology company, primarily to develop and deliver core technology solutions designed for RE/MAX affiliates. We anticipate that this new technology will improve existing RE/MAX systems and ultimately assist in attracting and retaining agents. If the technology platforms expected to be developed by booj (a) are delivered later than expected, (b) do not create a distinct competitive edge for franchisees and agents, or (c) have a poorer than expected adoption rate by our franchisees and agents, the introduction of such platforms may not be effective in attracting and retaining agents.

We may be unable to acquire regional franchise rights in independent RE/MAX regions in the U.S. and Canada or successfully integrate the independent RE/MAX regions that we have acquired.

We are pursuing a key growth strategy of reacquiring select RE/MAX independent regional franchises in the U.S. and Canada. The acquisition of a regional franchise increases our revenue and provides an opportunity for us to enhance profitability. This growth strategy depends on our ability to find regional franchisees willing to sell the franchise rights in their regions on favorable terms, as well as our ability to finance and complete these transactions. The number of

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remaining independent regions in the United States and Canada is limited and therefore we may have difficulty finding suitable regional franchise acquisition opportunities at an acceptable price. Further, in the event we acquire a regional franchise, we may not be able to achieve the expected returns on our acquisition after we integrate the acquired region into our business.

Integrating acquired regions involves complex operational and personnel-related challenges and we may encounter unforeseen difficulties and higher than expected integration costs or we may not be able to deliver expected cost and growth synergies.

Future acquisitions may present other challenges and difficulties, including:

- the possible departure of a significant number of key employees;
- regulatory constraints and costs of executing our growth strategy may vary by geography;
- the possible defection of franchisees and agents to other brands or independent real estate companies;
- the disruption of our respective ongoing business;
- limits on growth due to exclusive territories granted by former region owners;
- problems we may discover post-closing with the operations, including the internal controls and procedures of the regions we acquire;
- the failure to maintain important business relationships and contracts of the selling region;
- impairment of acquired assets;
- legal or regulatory challenges or litigation post-acquisition, which could result in significant costs;
- unanticipated expenses related to integration; and
- potential unknown liabilities associated with acquired businesses.

A prolonged diversion of management's attention and any delays or difficulties encountered in connection with the integration of any acquired region or region that we may acquire in the future could prevent us from realizing anticipated cost savings and revenue growth from our acquisitions.

We may not be able to manage growth successfully.

In order to successfully expand our business, we must effectively recruit, develop and motivate new franchisees, and we must maintain the beneficial aspects of our corporate culture. We may not be able to hire new employees with the expertise necessary to manage our growth quickly enough to meet our needs. If we fail to effectively manage our hiring needs and successfully develop our franchisees, our franchisee and employee morale, productivity and retention could suffer, and our brand and results of operations could be harmed. Effectively managing our potential growth could require significant capital expenditures and place increasing demands on our management. We may not be successful in managing or expanding our operations or in maintaining adequate financial and operating systems and controls. If we do not successfully manage these processes, our brand and results of operations could be adversely affected.

The failure to attract and retain highly qualified franchisees could compromise our ability to expand the RE/MAX network.

Our most important asset is the people in our network, and the success of our franchisees depends largely on the efforts and abilities of franchisees to attract and retain high quality agents. If our franchisees fail to attract and retain agents, they may fail to generate the revenue necessary to pay the contractual fees owed to us.

Additionally, although we believe our relationship with our franchisees and their agents is open and strong, the nature of such relationships can give rise to conflict. For example, franchisees or agents may become dissatisfied with the amount

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of contractual fees and dues owed under franchise or other applicable arrangements, particularly in the event that we increase fees and dues. They may disagree with certain network-wide policies and procedures, including policies dictating brand standards or affecting their marketing efforts. They may also be disappointed with our marketing campaigns. In early 2019 we announced a new service model designed to tailor and enhance the value delivered to our franchisees and help them further develop their businesses. If we do not implement the new service model effectively or if changes to our service model are note well received by our franchisees, that could affect retention of franchises and franchisees' ability to attract and retain agents. If we experience any conflicts with our franchisees on a large scale, our franchisees may decide not to renew their franchise agreements upon expiration or may file lawsuits against us or they may seek to disaffiliate with us, which could also result in litigation. These events may, in turn, materially and adversely affect our business and operating results.

Our financial results are affected by the ability of our franchisees to attract and retain agents.

Our financial results are heavily dependent upon the number of agents in our global network. The majority of our revenue is derived from recurring dues paid by our franchisee's agents and contractual fees paid by our franchisees or regional franchise owners based on the number of agents within the franchisee's or regional franchise owner's network. Competition for real estate agents is fierce. If our franchisees are not able to attract and retain agents (which is not within our direct control), our revenue may decline. In addition, our competitors may attempt to recruit the agents of our franchisees.

Competition in the residential real estate franchising business is intense, and we may be unable to grow our business organically, including increasing our agent count, expanding our network of franchises and their agents, and increasing franchise and agent fees, which could adversely affect our brand, our financial performance, and results of operations.

We generally face strong competition in the residential real estate services business from other franchisors and brokerages (i.e. national, regional, independent, boutique, discount and web-based brokerages), as well as web-based companies focused on real estate. There has recently been substantial investment in real estate technology, including companies aiming to use innovative technology to disrupt the real estate industry. As a real estate brokerage franchisor, one of our primary assets is our brand name. Upon the expiration of a franchise agreement, a franchisee may choose to renew their franchise with us, operate as an independent broker or to franchise with one of our competitors. Competing franchisors may offer franchisees fees that are lower than those we charge, or that are more attractive in particular markets. Further, some of our largest competitors may have greater financial resources and larger budgets than we do to invest in technology to build their brands and enhance their value proposition to agents, brokers and consumers. To remain competitive in the sale of franchises and to retain our existing franchisees at the time of the renewal of their franchise agreements, we may have to reduce the cost of renewals and/or the recurring monthly fees we charge our franchisees.

As a result of this competition, we may face many challenges in adding franchises and attracting agents in new and existing markets to expand our network, as well as other challenges such as:

- selection and availability of suitable markets;
- finding qualified franchisees in these markets who are interested in opening franchises on terms that are favorable to us;
- increasing our local brand awareness in new markets;
- attracting and training of qualified local agents; and
- general economic and business conditions.

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A significant adoption by consumers of online alternatives to full-service agents could have a material adverse effect on our business, prospects and results of operations.

A significant increase in consumer use of technology that eliminates or minimizes the role of the real estate agent could have a materially adverse effect on our business, prospects and results of operations. These options include direct-buyer companies (also called iBuyers) that purchase directly from the seller at below-market rates in exchange for speed and convenience, and then resell them shortly thereafter at market prices, and online discounters who reduce the role of the agent in order to offer sellers a low commission or a flat fee while giving rebates to buyers. How consumers want to buy or sell houses will determine if these models reduce or replace the long-standing preference for full-service agents.

Our financial results are affected directly by the operating results of franchisees and agents, over whom we do not have direct control.

Our real estate franchises generate revenue in the form of monthly ongoing fees, including monthly management fees and broker fees (which are tied to agent gross commissions) charged by our franchisees to their agents. Their agents pay us annual dues to have access to our network and utilize our services. Accordingly, our financial results depend upon the operational and financial success of our franchisees and their agents, whom we do not control, particularly in Independent Regions where we exercise less control over franchisees than in Company-owned Regions. Our franchisees operate in an intensely competitive market and we have little visibility into the results of operations of our franchises. If industry trends or economic conditions are not sustained or do not continue to improve, our franchisees' financial results may worsen and our revenue may decline. We may also have to terminate franchisees more frequently in the future due to non-reporting and non-payment. Further, if franchisees fail to renew their franchise agreements, or if we decide to restructure franchise agreements in order to induce franchisees to renew these agreements, then our revenue from ongoing monthly fees may decrease, and profitability from new franchisees may be lower than in the past due to reduced ongoing monthly fees and other non-standard incentives we may need to provide.

Our franchisees and their agents could take actions that could harm our business.

Our franchisees are independent businesses and the agents who work within these brokerages are independent contractors and, as such, are not our employees, and we do not exercise control over their day-to-day operations. Broker franchisees may not operate real estate brokerage businesses in a manner consistent with industry standards, or may not attract and retain qualified independent contractor agents. If broker franchisees and agents were to provide diminished quality of service to customers, engage in fraud, misconduct or negligence or otherwise violate the law or realtor codes of ethics, our image and reputation may suffer materially and we may become subject to liability claims based upon such actions of our franchisees and agents. Any such incidents could adversely affect our results of operations.

Brand value can be severely damaged even by isolated incidents, particularly if the incidents receive considerable negative publicity or result in litigation. Some of these incidents may relate to the way we manage our relationship with our franchisees, our growth strategies or the ordinary course of our business or our franchisees' business. Other incidents may arise from events that are or may be beyond our control and may damage our brand, such as actions taken (or not taken) by one or more franchisees or their agents relating to health, safety, welfare or other matters; litigation and claims; failure to maintain high ethical and social standards for all of our operations and activities; failure to comply with local laws and regulations; and illegal activity targeted at us or others. Our brand value could diminish significantly if any such incidents or other matters erode consumer confidence in us, which may result in a decrease in our total agent count and, ultimately, lower revenues, which in turn would materially and adversely affect our business and results of operations.

An organized franchisee association could pose risks to our ability to set the terms of our franchise agreements and our pricing. A group of broker/owners from around the country have founded and committed to the initial funding of a new RMX Association (RMXA), an independent association of RE/MAX franchisees, whose goal is to work in partnership with RE/MAX, LLC and each other to improve, enhance and grow the brand into the future and protect assets and grow profitability as franchisees.

The failure of Independent Region owners to successfully develop or expand within their respective regions could adversely impact our revenue and earnings.

We have sold regional master franchises in the U.S. and Canada and have sold and continue to sell regional master franchises in our global locations outside of Canada. While we are pursuing a strategy to acquire select regional franchise rights in a number of regions in the U.S. and Canada, we still rely on independent regional master franchises in Independent Regions, and in all regions located outside the U.S. and Canada. We depend on Independent Regions, which have the exclusive right to grant franchises within a particular region, to successfully develop or expand within their respective regions and to monitor franchisees' use of our brand. The failure of any of these Independent Region owners to do these things, or the termination of an agreement with a regional master franchisee could delay the development of a particular franchised area, interrupt the operation of our brand in a particular market or markets while we seek alternative methods to develop our franchises in the area, and weaken our brand image. Such an event could result in lower revenue for us, which would adversely impact our business and results of operations.

We are subject to a variety of additional risks associated with our franchisees.

Our franchise system subjects us to a number of risks, any one of which may impact our ability to collect recurring, contractual fees and dues from our franchisees, may harm the goodwill associated with our brand, and/or may materially and adversely impact our business and results of operations.

Bankruptcy of U.S. Franchisees. A franchisee bankruptcy could have a substantial negative impact on our ability to collect fees and dues owed under such franchisee's franchise arrangements.

Franchise Nonrenewal. Each franchise agreement has an expiration date. Upon the expiration of the franchise arrangement, we or the franchisee may or may not elect to renew the franchise arrangement. If the franchisee arrangement is renewed, such renewal is generally contingent on the franchisee's execution of the then-current form of franchise arrangement (which may include terms the franchisee deems to be less favorable than the prior franchise agreement), the satisfaction of certain conditions and the payment of a renewal fee. If a franchisee is unable or unwilling to satisfy any of the foregoing conditions, the expiring franchise arrangement will terminate upon expiration of the term of the franchise arrangement.

The real estate business is highly regulated and any failure to comply with such regulations or any changes in such regulations could adversely affect our business.

The businesses of our franchisees are highly regulated and are subject to requirements governing the licensing and conduct of real estate brokerage and brokerage-related businesses in the jurisdictions in which they do business. These laws and regulations contain general standards for and prohibitions on the conduct of real estate brokers and agents, including those relating to licensing of brokers and agents, fiduciary and agency duties, administration of trust funds, collection of commissions, advertising and consumer disclosures. Under state law, the franchisees and our real estate brokers have certain duties to supervise and are responsible for the conduct of their brokerage business.

Our franchisees (other than in commercial brokerage transactions) must comply with RESPA. RESPA and comparable state statutes, among other things, restrict payments which real estate brokers, agents and other settlement service providers may receive for the referral of business to other settlement service providers in connection with the closing of real estate transactions. Such laws may to some extent restrict preferred vendor arrangements involving our franchisees. RESPA and similar state laws also require timely disclosure of certain relationships or financial interests that a broker has with providers of real estate settlement services.

There is a risk that we could be adversely affected by current laws, regulations or interpretations or that more restrictive laws, regulations or interpretations will be adopted in the future that could make compliance more difficult or expensive. There is also a risk that a change in current laws could adversely affect our business or our franchisees' businesses.

Regulatory authorities also have relatively broad discretion to grant, renew and revoke licenses and approvals and to implement regulations. Accordingly, such regulatory authorities could prevent or temporarily suspend our franchisees from carrying on some or all of our activities or otherwise penalize them if their financial condition or our practices were found not to comply with the then current regulatory or licensing requirements or any interpretation of such requirements by the regulatory authority. In addition, new regulations could increase the barriers to entry for brokers and agents which may impact our ability to sell franchisees and our franchisees' ability to recruit agents. Our or our franchisees' failure to comply with regulatory requirements or interpretations could limit our ability to renew current franchisees or sign new franchisees or otherwise have a material adverse effect on our operations.

We, or our franchisees, are also subject to various other rules and regulations such as:

- the Gramm-Leach-Bliley Act, which governs the disclosure and safeguarding of consumer financial information;
- the European Union's General Data Protection Regulation (GDPR) and various state and federal privacy laws protecting consumer data;
- the USA PATRIOT Act;
- restrictions on transactions with persons on the Specially Designated Nationals and Blocked Persons list promulgated by the Office of Foreign Assets Control of the Department of the Treasury;
- federal and state "Do Not Call," "Do Not Fax," and "Do Not E-Mail" laws;
- the Fair Housing Act;
- laws and regulations, including the Foreign Corrupt Practices Act, that impose sanctions on improper payments;
- laws and regulations in jurisdictions outside the U.S. in which we do business;
- state and federal employment laws and regulations, including any changes that would require reclassification of independent contractors to employee status, and wage and hour regulations;
- increases in state, local or federal taxes that could diminish profitability or liquidity; and
- consumer fraud statutes.

Our or our franchisees' failure to comply with any of the foregoing laws and regulations may result in fines, penalties, injunctions and/or potential criminal violations. Any changes to these laws or regulations or any new laws or regulations may make it more difficult for us to operate our business and may have a material adverse effect on our operations.

Our franchising activities are subject to a variety of state and federal laws and regulations regarding franchises, and any failure to comply with such existing or future laws and regulations could adversely affect our business.

The sale of franchises is regulated by various state laws as well as by the Federal Trade Commission ("FTC"). The FTC requires that franchisors make extensive disclosure to prospective franchisees but does not require registration. A number of states require registration and/or disclosure in connection with franchise offers and sales. In addition, several states have "franchise relationship laws" or "business opportunity laws" that limit the ability of franchisors to terminate franchise agreements or to withhold consent to the renewal or transfer of these agreements. We believe that our franchising procedures, as well as any applicable state-specific procedures, comply in all material respects with both the FTC guidelines and all applicable state laws regulating franchising in those states in which we offer new franchise arrangements. However, noncompliance could reduce anticipated revenue, which in turn may materially and adversely affect our business and operating results.

Most of our franchisees self-report their agent counts, agent commissions and fees due to us, and we have limited tools to validate or verify these reports. This could impact our ability to collect revenue owed to us by our Independent Regions, franchisees, and agents, and could affect our ability to forecast our performance accurately.

Under our franchise agreements, franchisees, including independent regions, self-report (a) the number of agents and (b) gross commissions and other statistics from home sale transactions. This data is used to determine our billings for

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continuing franchise fees, annual dues and broker fees. We may have limited methods of validating the data and must rely on reports submitted and our internal protocols for verifying the reasonableness of the data. If franchisees were to underreport or erroneously report such data, even if unintentionally, we may not receive all of the revenues due to us. In addition, to the extent that we were underpaid, we may not have a definitive method for determining such underpayment. If a material number of our franchisees were to underreport or erroneously report their agent counts, agent commissions or fees due to us, it could have a material adverse effect on our financial performance and results of operations. Further, agent count is a key performance indicator (KPI), and incomplete information, or information that is not reported in a timely manner could impair our ability to evaluate and forecast key business drivers and financial performance.

The failure to maintain positive relationships with legacy booj customers could have an adverse effect on our financial results.

The booj business which was acquired in February 2018, includes service to legacy customers, unrelated to RE/MAX. With the heavy focus by the booj technology development team towards RE/MAX initiatives, we could lose revenue over time that is currently earned by booj. Also, disputes with legacy booj customers could result in a diversion of management time and other resources and could result in litigation.

We are subject to certain risks related to litigation filed by or against us, and adverse results may harm our business and financial condition.

We cannot predict with certainty the costs of defense, the costs of prosecution, insurance coverage or the ultimate outcome of litigation and other proceedings filed by or against us, including remedies or damage awards, and adverse results in such litigation and other proceedings may harm our business and financial condition.

Such litigation and other proceedings may include, but are not limited to, securities litigation including class actions and shareholder derivative litigation, complaints from or litigation by franchisees, usually related to alleged breaches of contract or wrongful termination under the franchise arrangements, actions relating to intellectual property, commercial arrangements and franchising arrangements.

In addition, litigation against a franchisee or its affiliated sales agents by third parties, whether in the ordinary course of business or otherwise, may also include claims against us for liability by virtue of the franchise relationship. Franchisees may fail to obtain insurance naming the Company as an additional insured on such claims. We could face similar claims for direct liability related to our former operation of Company-owned brokerages, the last of which we sold in 2015 and early 2016. In addition to increasing franchisees' costs and limiting the funds available to pay us contractual fees and dues and reducing the execution of new franchise arrangements, claims against us (including vicarious liability claims) divert our management resources and could cause adverse publicity, which may materially and adversely affect us and our brand, regardless of whether such allegations are valid or whether we are liable.

Our global operations may be subject to additional risks related to litigation, including difficulties in enforcement of contractual obligations governed by foreign law due to differing interpretations of rights and obligations, compliance with multiple and potentially conflicting laws, new and potentially untested laws and judicial systems and reduced protection of intellectual property. A substantial unsatisfied judgment against us or one of our subsidiaries could result in bankruptcy, which would materially and adversely affect our business and operating results. See "Risk Factors—We may experience legal proceedings related to the matters underlying the Special Committee investigation and such legal proceedings may result in adverse findings, the imposition of fines or other penalties, increased costs and expenses and the diversion of management's time and resources."

Our global operations, including those in Canada, are subject to risks not generally experienced by our U.S. operations.

The risks involved in our global operations and relationships could result in losses against which we are not insured and therefore affect our profitability. These risks include:

- fluctuations in foreign currency exchange rates, primarily related to changes in the Canadian dollar to U.S.

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dollar exchange rates, as well as the Euro to U.S. dollar exchange rate and foreign exchange restrictions;
- exposure to local economic conditions and local laws and regulations, including those relating to the agents of our franchisees;
- economic and/or credit conditions abroad;
- potential adverse changes in the political stability of foreign countries or in their diplomatic relations with the U.S.;
- restrictions on the withdrawal of foreign investment and earnings;
- government policies against businesses owned by foreigners;
- investment restrictions or requirements;
- diminished ability to legally enforce our contractual rights in foreign countries;
- difficulties in registering, protecting or preserving trade names and trademarks in foreign countries;
- restrictions on the ability to obtain or retain licenses required for operation;
- increased franchise regulations in foreign jurisdictions;
- withholding and other taxes on remittances and other payments by subsidiaries; and
- changes in foreign tax laws.

Our global operations outside Canada generally generate substantially lower average revenue per agent than our U.S. and Canadian operations.

Our business depends on strong brands, and any failure to maintain, protect and enhance our brand would hurt our ability to grow our business, particularly in new markets where we have limited brand recognition.

RE/MAX is a strong brand that we believe has contributed significantly to the success of our business, and the Motto brand is gaining recognition. Maintaining, protecting and enhancing the "RE/MAX" and Motto brands is critical to growing our business. If we do not successfully build and maintain strong brands, our business could be materially harmed. Maintaining and enhancing the quality of our brand may require us to make substantial investments in areas such as marketing, community relations, outreach and employee training. We actively engage in television, print and online advertisements, targeted promotional mailings and email communications, and engage on a regular basis in public relations and sponsorship activities. These investments may be substantial and may fail to encompass the optimal range of traditional, online and social advertising media to achieve maximum exposure and benefit to the brand.

Inasmuch as our business is in part dependent on strong brands, our business may be subject to risks related to events and circumstances that have a negative impact on our brands. If we are exposed to adverse publicity or events that do damage to our brands and/or image, our business may suffer material adverse effects from the deterioration in our brand and image.

We may be unable to obtain approval of independent regional owners to fund network-wide advertising and promotional initiatives.

Regional RE/MAX master franchisees, as independent business operators, may from time to time disagree with us and our strategies regarding the business and how best to promote the RE/MAX brand on a national or network-wide basis. Both Company-owned and Independent Regions in the U.S. concentrate advertising expenditures with our respective regional advertising funds. Our focus on regional and local advertising in the U.S. may fail to leverage franchisee contributions to achieve maximum group purchasing power in our media buys, having an adverse impact on our business and results of operation in future periods. To the extent that the advertising funds in Independent Regions choose not to contribute to national or pan-regional creative development and media purchases, this may reduce economies of scale in the purchase of advertising, or may result in different marketing messages being associated with the RE/MAX brand in

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different areas of the country. If Independent Regions and their advertising funds choose not to invest in common technology platforms, this likewise may reduce economies of scale and may result in fragmented web presences for the RE/MAX brand in various areas of the country and less web traffic to remax.com, resulting in fewer leads to RE/MAX agents, potentially affecting our results of operations.

Loss of market leadership could weaken our brand awareness and brand reputation among consumers, agents, and brokers.

We derive significant benefit from our market share leadership and our ability to make claims regarding the same, including through use of our slogan that “Nobody sells more real estate than RE/MAX” as measured by residential transaction sides. Loss of market leadership, and as a result an inability to tout the same, may hinder public and industry perception of RE/MAX as a leader in the real estate industry and hurt agent recruitment and franchise sales as a result.

Infringement, misappropriation or dilution of our intellectual property could harm our business.

We regard our RE/MAX trademark, balloon logo and yard sign design trademarks as having significant value and as being an important factor in the marketing of our brand. We believe that this and other intellectual property are valuable assets that are critical to our success. Not all of the trademarks or service marks that we currently use have been registered in all of the countries in which we do business, and they may never be registered in all of those countries. There can be no assurance that we will be able to adequately maintain, enforce and protect our trademarks or other intellectual property rights.

We are commonly involved in numerous proceedings, generally on a small scale, to enforce our intellectual property and protect our brands. Unauthorized uses or other infringement of our trademarks or service marks, including uses that are currently unknown to us, could diminish the value of our brand and may adversely affect our business. Effective intellectual property protection may not be available in every market. Failure to adequately protect our intellectual property rights could damage our brand and impair our ability to compete effectively. Even where we have effectively secured statutory protection for our trademarks and other intellectual property, our competitors may misappropriate our intellectual property, and in the course of litigation, such competitors occasionally attempt to challenge the breadth of our ability to prevent others from using similar marks or designs. If such challenges were to be successful, less ability to prevent others from using similar marks or designs may ultimately result in a reduced distinctiveness of our brand in the minds of consumers. Defending or enforcing our trademark rights, branding practices and other intellectual property could result in the expenditure of significant resources and divert the attention of management, which in turn may materially and adversely affect our business and operating results. Even though competitors occasionally attempt to challenge our ability to prevent infringers from using our marks, we are not aware of any challenges to our right to use, and to authorize our franchisees to use, any of our brand names or trademarks.

In addition, franchisee noncompliance with the terms and conditions of our franchise agreements and our brand standards may reduce the overall goodwill of our brand, whether through diminished consumer perception of our brand, dilution of our intellectual property, the failure to meet the FTC guidelines or applicable state laws, or through the participation in improper or objectionable business practices. Moreover, unauthorized third parties may use our intellectual property to trade on the goodwill of our brand, resulting in consumer confusion or dilution. Any reduction of our brand’s goodwill, consumer confusion, or dilution is likely to impact sales, and could materially and adversely impact our business and operating results.

Our business is heavily reliant on technology and product development for certain key aspects of our operations.

The systems may not perform as desired or we may experience cost overages, delays, or other factors that may distract our management from our business, which could have an adverse impact on our results of operations. Further, we may not be able to obtain future new technologies and systems, or to replace or introduce new technologies and systems as quickly as our competitors or in a cost-effective manner. Also, we may not achieve the benefits anticipated or required from any new technology or system, including those related to our recent acquisition of booj, and we may not be able to devote financial resources to new technologies and systems in the future.

We rely on traffic to our websites, including our flagship website, remax.com, directed from search engines like Google and Bing. If our websites fail to rank prominently in unpaid search results, traffic to our websites could decline and our business could be adversely affected.

Our success depends in part on our ability to attract home buyers and sellers to our websites, including our flagship websites, remax.com and mottomortgage.com through unpaid Internet search results on search engines like Google and Bing. The number of users we attract from search engines is due in large part to how and where our websites rank in unpaid search results. These rankings can be affected by a number of factors, such as changes in ranking algorithms, many of which are not under our direct control, and they may change frequently. In addition, our website faces increasing competition for audience from real estate portal websites, such as Zillow, Trulia and Realtor.com. As a result, links to our websites may not be prominent enough to drive traffic to our websites, and we may not be in a position to influence the results. In some instances, search engine companies may change these rankings in order to promote their own competing services or the services of one or more of our competitors. Our websites have experienced fluctuations in search result rankings in the past, and we anticipate fluctuations in the future. Any reduction in the number of users directed to our websites could adversely impact our business and results of operations.

Cyberattacks, security breaches and improper access to, disclosure or deletion of our data, personally identifiable information we collect, or business records could harm our business, damage our reputation and cause losses.

Our information technologies and systems and those of our third-party hosted services are vulnerable to breach, damage or interruption from various causes, including: (i) natural disasters, war and acts of terrorism, (ii) power losses, computer systems failure, Internet and telecommunications or data network failures, operator error, losses and corruption of data, and similar events, and (iii) employee error, malfeasance or otherwise. Of particular risk and focus in recent years is the potential penetration of internal or outsourced systems by individuals seeking to disrupt operations or misappropriate information (aka, cyberattacks). Cyberattacks, including the use of phishing and malware, continue to grow in sophistication making it impossible for us to mitigate all of these risks. Any extended interruption of our systems or exposure of sensitive data to third parties could cause significant damage to our business or our brand, for which our business interruption insurance may be insufficient to compensate us for losses that may occur.

In addition, we rely on the collection and use of personally identifiable information from franchisees, agents and consumers to conduct our business and in certain instances such data may include social security numbers, payment card numbers, or customer financial information. Global privacy legislation (including the recently enacted GDPR regulations in the European Union), enforcement and policy activity are rapidly expanding and creating a complex compliance environment. Should we misuse or improperly store the personally identifiable information that we collect, or should we be the victim of a cyberattack that results in improper access to such personally identifiable information, we may be subject to legal claims and regulatory scrutiny. Any legal claims, government action or damage to our reputation due to actions, or the perception that we are taking actions, inconsistent with the terms of our privacy statement, consumer expectations, or privacy-related or data protection laws and regulations, could expose us to liability and adversely impact our business and results of operations.

Any disruption to our websites or lead generation tools could harm our business.

We are vulnerable to certain additional risks and uncertainties associated with websites, which include our lead referral system LeadStreet®, remax.com, global.remax.com, theremaxcollection.com, remaxcommercial.com and mottomortgage.com. These risks include changes in required technology interfaces, website downtime and other technical failures, security breaches and consumer privacy concerns. We may experience service disruptions, outages and other performance problems due to a variety of factors, including reliance on our third-party hosted services, infrastructure changes, human or software errors, capacity constraints due to an overwhelming number of users accessing our platform simultaneously, and denial of service, fraud or attacks. Our failure to address these risks and uncertainties successfully could reduce our Internet presence, generate fewer leads for our agents and damage our brand. Many of the risks relating to our website operations are beyond our control.

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We only have one primary facility, which serves as our corporate headquarters. If we encounter difficulties associated with this facility, we could face management issues that could have a material adverse effect on our business operations.

We only have one primary facility, in Denver, Colorado, which serves as our corporate headquarters where most of our employees are located. A significant portion of our computer equipment and senior management, including critical resources dedicated to financial and administrative functions, is also located at our corporate headquarters. Our management and employees would need to find an alternative location if we were to encounter difficulties at our corporate headquarters, including by fire or other natural disaster, which would cause disruption and expense to our business and operations.

We recognize the need for, and continue to develop business continuity and disaster recovery plans that would allow us to be operational despite casualties or unforeseen events impacting our corporate headquarters. If we encounter difficulties or disasters at our corporate headquarters and our business continuity and recovery plans are not adequate, our operations and retained information may not be available in a timely manner, or at all, and this would have a material adverse effect on our business.

We rely on third parties for certain important functions and technology. Any failures by those vendors could disrupt our business operations.

We have outsourced certain key functions to external parties, including some that are critical to financial reporting, our franchise and membership tracking/billing, the Motto loan origination system, and a number of critical consumer- and franchise/agent-facing websites. We may enter into other key outsourcing relationships in the future. If one or more of these external parties were not able to perform their functions for a period of time, perform them at an acceptable service level, or handle increased volumes, our business operations could be constrained, disrupted, or otherwise negatively affected. Our ability to monitor the activities or performance of vendors may be constrained, which makes it difficult for us to assess and manage the risks associated with these relationships.

We are relatively new to the mortgage brokerage industry, which, along with the intense competition within the industry, may hinder our efforts to establish and grow our new mortgage brokerage franchising business, Motto Mortgage, which could have implications to the goodwill on our Consolidated Balance Sheet.

We are pursuing a growth strategy to offer and sell residential mortgage brokerage franchises in the U.S under the “Motto Mortgage” brand and trademarks. Our investments in the new Motto business included the cost of our acquisition of certain assets of Full House Mortgage Connection, Inc. (“Full House”) and initial funding for the business. We lack extensive operating experience in the mortgage brokerage industry. Our strategy hinges on our ability to recruit franchisees and help them recruit loan originators, to develop and maintain strong competencies within the mortgage brokerage market, on favorable conditions in the related regulatory environment and on our success in developing a strong, respected brand. We may fail to understand, interpret, implement and/or train franchisees adequately concerning compliance requirements related to the mortgage brokerage industry or the relationship between us and our franchisees, any of which failures could subject us or our franchisees to adverse actions from regulators. Motto Franchising, LLC, may also have regulatory obligations arising from its relationship with Motto franchisees; we may fail to comply with those obligations, and that failure could also subject us to adverse actions from regulators. As a start-up, the Motto Mortgage brand's initial lack of brand recognition may hamper franchise sales efforts. We may experience impairment of acquired assets and/or potential unknown liabilities associated with the acquisition of the business of Full House. This venture could divert resources, including the time and attention of management and other key employees, from our RE/MAX business, and a prolonged diversion could negatively impact operating results. In addition, residential mortgage brokerage is a highly competitive industry and Motto will suffer if we are unable to attract franchisees, which will adversely affect Motto's growth, operations and profitability. Motto has $11.8 million of goodwill recognized in connection with its acquisition. Poor performance for any of the reasons outlined above could trigger an impairment of this goodwill.

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The terms of RE/MAX, LLC’s senior secured credit facility restrict the current and future operations of RMCO, RE/MAX, LLC and their subsidiaries.

RE/MAX, LLC’s senior secured credit facility includes a number of customary restrictive covenants. These covenants could impair the financing and operational flexibility of RMCO, RE/MAX, LLC and their subsidiaries and make it difficult for them to react to market conditions and satisfy their ongoing capital needs and unanticipated cash requirements. Specifically, such covenants may restrict their ability to, among other things:

- incur additional debt;
- make certain investments, acquisitions and joint ventures;
- enter into certain types of transactions with affiliates;
- pay dividends or make distributions or other payments to us;
- use assets as security in certain transactions;
- repurchase their equity interests;
- sell certain assets or merge with or into other companies;
- guarantee the debts of others;
- enter into new lines of business; and
- make certain payments on subordinated debt.

In addition, so long as any revolving loans are outstanding under the senior secured credit facility, RE/MAX, LLC is required to maintain specified financial ratios. As of December 31, 2018, there were no outstanding revolving loans.

The ability to comply with the covenants and other terms of the senior secured credit facility will depend on the future operating performance of RE/MAX, LLC and its subsidiaries. If RE/MAX, LLC fails to comply with such covenants and terms, it would be required to obtain waivers from the lenders or agree with the lenders to an amendment of the facility’s terms to maintain compliance under the facility. If RE/MAX, LLC is unable to obtain any necessary waivers or amendments and the debt under our senior secured credit facility is accelerated or the lenders obtain other remedies, it would likely have a material adverse effect on our financial condition and future operating performance.

We have significant debt service obligations and may incur additional indebtedness in the future.

We have significant debt service obligations, including principal, interest and commitment fee payments due quarterly pursuant to RE/MAX, LLC’s senior secured credit facility. Our currently existing indebtedness, or any additional indebtedness we may incur, could require us to divert funds identified for other purposes for debt service and impair our liquidity position. If we cannot generate sufficient cash flow from operations to service our debt, we may need to refinance our debt, dispose of assets or issue additional equity to obtain necessary funds. We do not know whether we would be able to take such actions on a timely basis, on terms satisfactory to us, or at all. Future indebtedness may impose additional restrictions on us, which could limit our ability to respond to market conditions, to make capital investments or to take advantage of business opportunities. Our level of indebtedness has important consequences to you and your investment in our Class A common stock.

For example, our level of indebtedness may:

- require us to use a substantial portion of our cash flow from operations to pay interest and principal on our debt, which would reduce the funds available to us for working capital, capital expenditures and other general corporate purposes;
- limit our ability to pay future dividends;

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- limit our ability to obtain additional financing for working capital, capital expenditures, expansion plans and other investments, which may limit our ability to implement our business strategy;
- heighten our vulnerability to downturns in our business, the housing industry or in the general economy and limit our flexibility in planning for, or reacting to, changes in our business and the housing industry; or
- prevent us from taking advantage of business opportunities as they arise or successfully carrying out our plans to expand our franchise base and product offerings.

We cannot assure you that our business will generate sufficient cash flow from operations or that future financing will be available to us in amounts sufficient to enable us to make payments on our indebtedness or to fund our operations.

As a result of these covenants, we are limited in the manner in which we conduct our business and we may be unable to engage in favorable business activities or finance future operations or capital needs. Our ability to make payments to fund working capital, capital expenditures, debt service, and strategic acquisitions will depend on our ability to generate cash in the future, which is subject to general economic, financial, competitive, regulatory and other factors that are beyond our control.

Variable rate indebtedness subjects us to interest rate risk, which could cause our debt service obligations to increase significantly.

We have a material amount of term loans outstanding under our senior secured credit facility, net of an unamortized discount and issuance costs, which was at variable rates of interest, thereby exposing us to interest rate risk. We currently do not engage in any interest rate hedging activity. As such, if interest rates increase, our debt service obligations on our outstanding indebtedness would increase even if the amount borrowed remained the same, and our net income would decrease.

Our operating results are subject to quarterly fluctuations, and results for any quarter may not necessarily be indicative of the results that may be achieved for the full fiscal year.

Historically, we have realized, and expect to continue to realize, lower Adjusted EBITDA margins in the first and fourth quarters due primarily to the impact of lower broker fees and other revenue primarily as a result of lower overall home sale transactions, and higher selling, operating and administrative expenses in the first quarter for expenses incurred in connection with our annual convention. Accordingly, our results of operations may fluctuate on a quarterly basis, which would cause period to period comparisons of our operating results to not be necessarily meaningful and cannot be relied upon as indicators of future annual performance.

We may experience legal proceedings related to the matters underlying the Special Committee investigation and such legal proceedings may result in adverse findings, the imposition of fines or other penalties, increased costs and expenses and the diversion of management’s time and resources.

We may experience legal proceedings including investigations, securities class action claims and/or derivative litigation related to matters reviewed by a special committee of our Board of Directors (the “Special Committee”) in 2017 and early 2018. The Company has advised the staff of the SEC regarding the internal investigation conducted by the Special Committee. The SEC performed its own inquiry into certain matters related to the Special Committee investigation. The Company cooperated fully with the SEC with respect to its review of these matters and intends to continue to do so in the event of any further inquiries.

Any legal proceedings related to the Special Committee investigation including any shareholder derivative litigation or governmental inquiries or investigations may divert management’s time and attention and may result in the incurrence of significant expense, including legal fees. Such legal proceedings could also have a material adverse effect on our business, financial condition, results of operations and cash flows including as a result of such expenses or arising from any consequences of such legal proceedings including damages, monetary fines, sanctions, penalties, adverse publicity and damage to reputation.

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Our business is dependent on key personnel including key members of our senior management team and loss of key individuals, or the inability to retain additional qualified personnel could adversely affect our operations, our brand and our financial performance.

Our future success will likely continue to depend heavily on the efforts and abilities of key personnel including our CEO, Adam Contos, and other members of our senior management. The loss of services from any of these key personnel could make it more difficult to successfully operate our business and achieve our business goals. In addition, we do not maintain key employee life insurance policies on Mr. Contos or our other key employees. As a result, we may not be able to cover the financial loss we may incur in losing the services of any of these individuals.

In the event of the loss of the services of any of such key personnel, we may be unable to implement or execute upon our corporate succession plan due to factors including the timing of the loss relative to the development of key successor employees or the loss of those successors themselves.

Our ability to retain such key personnel and other key individuals is generally subject to numerous factors, including the compensation and benefits we pay, our ability to provide pathways for professional development and overall morale. As such, we could suffer significant attrition among these key individuals unexpectedly. Competition for qualified personnel in the real estate franchising industry is intense, and we cannot assure you that we will be successful in attracting and retaining qualified employees.

Risks Related to Our Organizational Structure

RIHI has substantial influence over us including over decisions that require the approval of stockholders, and its interest in our business may conflict with yours.

RIHI, a company controlled by David Liniger, our current Chairman and Co-Founder, and Gail Liniger, our Vice Chair and Co-Founder, respectively, owns all of our outstanding Class B common stock. Although RIHI no longer controls a majority of the voting power of RE/MAX Holdings' common stock, RIHI remains a significant stockholder of the Company and through its ownership of the Class B common stock holds approximately 41% of the voting power of the Company's stock. Therefore, RIHI has the ability to significantly influence all matters submitted to a vote of our stockholders.

In addition, RIHI's entire economic interest in us is in the form of its direct interest in RMCO through the ownership of RMCO common units, the payments it may receive from us under its tax receivable agreement and the proceeds it may receive upon any redemption of its RMCO common units, including issuance of shares of our Class A common stock, upon any such redemption and any subsequent sale of such Class A common stock. As a result, RIHI's interests may conflict with the interests of our Class A common stockholders. For example, RIHI may have a different tax position from us which could influence its decisions regarding certain transactions, especially in light of the existence of the tax receivable agreements that we entered into in connection with our IPO, including whether and when we should terminate the tax receivable agreements and accelerate our obligations thereunder. In addition, RIHI could have an interest in the structuring of future transactions to take into consideration its tax or other considerations, even in situations where no similar considerations are relevant to us.

Our tax receivable agreements require us to make cash payments based upon future tax benefits to which we may become entitled. The amounts that we may be required to pay could be significant, may be accelerated in certain circumstances and could significantly exceed the actual tax benefits that we ultimately realize.

In connection with our IPO, we entered into tax receivable agreements with our historical owners. After one of these historical owners assigned its interest in its tax receivable agreement, these tax receivable agreements are now held by RIHI and Parallaxes Rain Co-Investment, LLC (“Parallaxes” and together, the “TRA Parties”). The amount of the cash payments that we may be required to make under the tax receivable agreements could be significant and will depend, in part, upon facts and circumstances that are beyond our control.

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The amount of our obligations pursuant to the tax receivable agreement with RIHI will depend, in part, upon the occurrence of future events, including any redemptions by RIHI of its ownership interest in RMCO. In general, future redemptions by RIHI will increase our tax receivable agreement obligations to RIHI. Payments under the tax receivable agreements are anticipated to be made, on an annual basis. Any payments made by us to the TRA Parties under the tax receivable agreements will generally reduce the amount of overall cash flow that might have otherwise been available to us. To the extent we are unable to make timely payments under the tax receivable agreements for any reason, the unpaid amounts will be deferred and will accrue interest until paid by us. Furthermore, our future obligation to make payments under the tax receivable agreements could make us a less attractive target for an acquisition, particularly in the case of an acquirer that cannot use some or all of the tax benefits that may be deemed realized under the tax receivable agreements. The payments under the tax receivable agreement with RIHI are not conditioned upon RIHI maintaining a continued ownership interest in either RMCO or us, and payments under the tax receivable agreement with Parallaxes are not conditioned upon Parallaxes holding any ownership interest in either RMCO or us.

The tax receivable agreements provide that if certain mergers, asset sales, other forms of business combination, or other changes of control were to occur, or that if, at any time, we elect an early termination of the tax receivable agreements, then our obligations, or our successor’s obligations, to make payments under the tax receivable agreements would be based on certain assumptions, including an assumption that we would have sufficient taxable income to fully utilize all potential future tax benefits that are subject to the tax receivable agreements.

As a result, (i) we could be required to make cash payments to the TRA Parties that are greater than the specified percentage of the actual benefits we ultimately realize in respect of the tax benefits that are subject to the tax receivable agreements, and (ii) if we elect to terminate the tax receivable agreements early, we would be required to make an immediate cash payment equal to the present value of the anticipated future tax benefits that are the subject of the tax receivable agreements, which payment may be made significantly in advance of the actual realization, if any, of such future tax benefits. In these situations, our obligations under the tax receivable agreements could have a substantial negative impact on our liquidity and could have the effect of delaying, deferring or preventing certain mergers, asset sales, other forms of business combination, or other changes of control. There can be no assurance that we will be able to finance our obligations under the tax receivable agreements.

We will also not be reimbursed for any cash payments previously made to the TRA Parties (or their predecessors) pursuant to the tax receivable agreements if any tax benefits initially claimed by us are subsequently challenged by a taxing authority and are ultimately disallowed. Instead, any excess cash payments made by us to either of the TRA Parties will be netted against any future cash payments that we might otherwise be required to make under the terms of the tax receivable agreements. However, we might not determine that we have effectively made an excess cash payment to either of the TRA Parties for a number of years following the initial time of such payment. As a result, it is possible that we could make cash payments under the tax receivable agreements that are substantially greater than our actual cash tax savings.

Risks Related to Ownership of Our Class A Common Stock

RIHI directly (through ownership of our Class B common stock) and indirectly (through ownership of RMCO common units) owns interests in us, and RIHI has the right to redeem and cause us to redeem, as applicable, such interests pursuant to the terms of the RMCO, LLC agreement. We may elect to issue shares of Class A common stock upon such redemption, and the issuance and sale of such shares may have a negative impact on the market price of our Class A common stock.

In connection with our IPO, RMCO entered into the RMCO, LLC agreement, and subject to certain restrictions set forth therein, RIHI is entitled to potentially redeem the RMCO common units it holds for an aggregate of up to 12,559,600 shares of our Class A common stock, subject to customary adjustments. We also have entered into a registration rights agreement pursuant to which the shares of Class A common stock issued upon such redemption are eligible for resale, subject to certain limitations set forth therein.

We cannot predict the size of future issuances of our Class A common stock or the effect, if any, that future issuances and sales of shares of our Class A common stock may have on the market price of our Class A common stock. Sales or

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distributions of substantial amounts of our Class A common stock, including shares issued in connection with an acquisition, or the perception that such sales or distributions could occur, may cause the market price of our Class A common stock to decline.

You may be diluted by future issuances of additional Class A common stock in connection with our incentive plans, acquisitions or otherwise; future sales of such shares in the public market, or the expectations that such sales may occur, could lower our stock price.

Our certificate of incorporation authorizes us to issue shares of Class A common stock and options, rights, warrants and appreciation rights relating to Class A common stock for the consideration and on the terms and conditions established by our Board of Directors in its sole discretion. This could include issuances as compensation pursuant to our 2013 Omnibus Incentive Plan, in connection with acquisitions (either by issuing shares to raise funds for such an acquisition, or by issuing shares to the seller of the acquired business) or to raise capital for other purposes. Any Class A common stock that we issue, including under our 2013 Omnibus Incentive Plan or other equity incentive plans that we may adopt in the future, would dilute the percentage ownership held by the investors who own Class A common stock.

Our Class A common stock price may be volatile or may decline regardless of our operating performance and you may not be able to resell your shares at or above the price you paid for them.

Many factors, which are outside our control, may cause the market price of our Class A common stock to fluctuate significantly, including those described elsewhere in this "Risk Factors" section, as well as the following:

- our operating and financial performance and prospects;
- our quarterly or annual earnings or those of other companies in our industry compared to market expectations;
- future announcements concerning our business or our competitors' businesses;
- the public's reaction to our press releases, other public announcements and filings with the SEC;
- the size of our public float;
- coverage by or changes in financial estimates by securities analysts or failure to meet their expectations;
- strategic actions by us or our competitors, such as acquisitions or restructurings;
- changes in accounting standards, policies, guidance, interpretations or principles;
- material weakness in our internal control over financial reporting.

Volatility in the market price of our common stock may prevent investors from being able to sell their common stock at or above the price they paid for the stock. In addition, price volatility may be greater if the public float and trading volume of our common stock is low. As a result, you may suffer a loss on your investment.

We cannot assure you that we will have the available cash to make dividend payments.

We intend to continue to pay cash dividends quarterly. Whether we will do so, however, and the timing and amount of those dividends, will be subject to approval and declaration by our Board of Directors and will depend upon on a variety of factors, including our financial results, cash requirements and financial condition, our ability to pay dividends under our senior secured credit facility and any other applicable contracts, and other factors deemed relevant by our Board of Directors. Any dividends declared and paid will not be cumulative.

Because we are a holding company with no material assets other than our ownership of common units of RMCO, we have no independent means of generating revenue or cash flow, and our ability to pay dividends is dependent upon the financial results and cash flows of RMCO and its subsidiaries and distributions we receive from RMCO. We expect to cause RMCO to make distributions to fund our expected dividend payments, subject to applicable law and any restrictions contained in RMCO's or its subsidiaries' current or future debt agreements.

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Anti-takeover provisions in our charter documents and Delaware law might discourage or delay acquisition attempts for us that you might consider favorable.

Our certificate of incorporation and bylaws contain provisions that may make the acquisition of our company more difficult without the approval of our Board of Directors. These provisions:

- establish a classified Board of Directors so that not all members of our Board of Directors are elected at one time;
- authorize the issuance of undesignated preferred stock, the terms of which may be established and the shares of which may be issued without stockholder approval, and which may include super voting, special approval, dividend or other rights or preferences superior to the rights of the holders of common stock;
- provide that our Board of Directors is expressly authorized to make, alter or repeal our bylaws;
- delegate the sole power to a majority of our Board of Directors to fix the number of directors;
- provide the power of our Board of Directors to fill any vacancy on our Board of Directors, whether such vacancy occurs as a result of an increase in the number of directors or otherwise;
- eliminate the ability of stockholders to call special meetings of stockholders; and
- establish advance notice requirements for nominations for elections to our Board of Directors or for proposing matters that can be acted upon by stockholders at stockholder meetings.

Our certificate of incorporation also contains a provision that provides us with protections similar to Section 203 of the Delaware General Corporation Law, and prevents us from engaging in a business combination with a person who acquires at least 15% of our common stock for a period of three years from the date such person acquired such common stock unless board or stockholder approval is obtained prior to the acquisition, except that David and Gail Liniger are deemed to have been approved by our Board of Directors, and thereby not subject to these restrictions. These anti-takeover provisions and other provisions under Delaware law could discourage, delay or prevent a transaction involving a change in control of our Company, even if doing so would benefit our stockholders. These provisions could also discourage proxy contests and make it more difficult for you and other stockholders to elect directors of your choosing and to cause us to take other corporate actions you desire.

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ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our corporate headquarters is located in leased offices in Denver, Colorado. The lease consists of approximately 231,000 square feet and expires in April 2028. We also lease an office building in Denver, Colorado for our booj operations. The lease consists of approximately 20,000 square feet and expires in February 2034.

ITEM 3. LEGAL PROCEEDINGS

From time to time we are involved in litigation, claims and other proceedings relating to the conduct of our business. Such litigation and other proceedings may include, but are not limited to, actions relating to intellectual property, commercial arrangements, franchising arrangements, brokerage disputes, vicarious liability based upon conduct of individuals or entities outside of our control including franchisees and independent agents, and employment law claims. Litigation and other disputes are inherently unpredictable and subject to substantial uncertainties and unfavorable resolutions could occur. Often these cases raise complex factual and legal issues, which are subject to risks and uncertainties and which could require significant time and resources from management. Although we do not believe any currently pending litigation will have a material adverse effect on our business, financial condition or operations, there are inherent uncertainties in litigation and other claims and regulatory proceedings and such pending matters could result in unexpected expenses and liabilities and might materially adversely affect our business, financial condition or operations, including our reputation.

ITEM 4. MINE SAFETY DISCLOSURES

None.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our Class A common stock trades on the New York Stock Exchange ("NYSE") under the symbol "RMAX". As of February 19, 2019, we had 28 stockholders of record of our Class A common stock. This number does not include stockholders whose stock is held in nominee or street name by brokers. All shares of Class B common stock are owned by RIHI, Inc. ("RIHI"), and there is no public market for these shares.

The following table shows the highest and lowest close prices for our Class A common stock as well as dividends declared per share during the calendar quarter indicated below for the years ended December 31, 2018 and 2017.

	Class A Common Stock Market Price		Dividends Declared
	Highest	Lowest	per Share
2018			
First quarter	$ 60.90	$ 45.40	$ 0.20
Second quarter	$ 60.45	$ 52.10	$ 0.20
Third quarter	$ 56.25	$ 42.85	$ 0.20
Fourth quarter	$ 43.85	$ 28.23	$ 0.20
2017			
First quarter	$ 60.90	$ 53.10	$ 0.18
Second quarter	$ 60.25	$ 53.15	$ 0.18
Third quarter	$ 64.60	$ 56.50	$ 0.18
Fourth quarter	$ 67.20	$ 46.30	$ 0.18

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During 2018, our Board of Directors declared quarterly cash dividends of $0.20 per share of Class A common stock. See Note 5, Earnings Per Share and Dividends to the consolidated financial statements included elsewhere in this Annual Report on Form 10-K for further information. We intend to continue to pay a cash dividend on shares of Class A common stock on a quarterly basis. However the timing and amount of those dividends will be subject to approval and declaration by our Board of Directors and will depend on a variety of factors, including the financial results and cash flows of RMCO, LLC and its consolidated subsidiaries ("RMCO"), distributions we receive from RMCO, cash requirements and financial condition, our ability to pay dividends under our senior secured credit facility and any other applicable contracts, and other factors deemed relevant by our Board of Directors. All dividends declared and paid will not be cumulative.

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Performance Graph

The following graph and table depict the total return to stockholders from December 31, 2013 through December 31, 2018, relative to the performance of the S&P 500 Index, Russell 2000 (Total Return) Index and a peer group of real estate and franchise related companies. The graph and table assume that $100 was invested at the closing price on December 31, 2013 and that all dividends were reinvested.

The performance graph and table are not intended to be indicative of future performance. The performance graph and table shall not be deemed "soliciting material" or to be "filed" with the Securities and Exchange Commission for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or otherwise subject to the liabilities under that Section, and shall not be deemed to be incorporated by reference into any of the Company's filings under the Securities Act of 1933, as amended, or the Exchange Act.

Other franchise and real estate related companies include the following: Realogy Holding Corp., Dunkin' Brands Group Inc., Domino's Pizza Inc., Yum! Brands Inc., Choice Hotels International Inc., Marriott International Inc., CBRE Group Inc. and Jones Lang LaSalle Inc. For purposes of the chart and table, the companies in this peer group are weighted according to their market capitalization.

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ITEM 6. SELECTED FINANCIAL DATA

The following tables set forth our selected historical consolidated financial results and other data as of the dates and for the periods indicated. The selected consolidated statements of income data for the years ended December 31, 2018, 2017 and 2016, and the consolidated balance sheets data as of December 31, 2018 and 2017 have been derived from our audited consolidated financial statements ("financial statements") included elsewhere in this Annual Report on Form 10-K.

The selected consolidated statements of income data for the years ended December 31, 2015 and 2014 and the selected consolidated balance sheets data as of December 31, 2016, 2015 and 2014 have been derived from our audited financial statements not included in this Annual Report on Form 10-K.

As of December 31, 2014, RE/MAX Holdings, Inc. ("RE/MAX Holdings") owned 39.89% of the common membership units in RMCO, LLC and its consolidated subsidiaries ("RMCO"), and as of December 31, 2018, RE/MAX Holdings owns 58.57% of the common membership units in RMCO. RE/MAX Holdings' economic interest in RMCO increased primarily due to the issuance of shares of Class A common stock as a result of RIHI's redemption of 5.2 million common units in RMCO during the fourth quarter of 2015. RE/MAX Holdings' only business is to act as the sole manager of RMCO and in that capacity, RE/MAX Holdings operates and controls all of the business and affairs of RMCO.

Our selected historical financial data may not be indicative of our future financial condition, future results of operations or future cash flows.

You should read the information set forth below in conjunction with our historical financial statements and the notes to those statements and "Item 7.—Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this Annual Report on Form 10-K.

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	Year Ended December 31,				
	2018	2017 As adjusted*	2016 As adjusted*	2015*	2014*
	(in thousands, except per share amounts and agent data)				
Total revenue:					
Continuing franchise fees	$ 101,104	$ 93,694	$ 81,197	$ 73,750	$ 72,706
Annual dues	35,894	33,767	32,653	31,758	30,726
Broker fees	46,871	43,801	37,209	32,334	28,685
Franchise sales and other revenue	28,757	22,452	24,471	25,468	23,440
Brokerage revenue	—	—	112	13,558	15,427
Total revenue	212,626	193,714	175,642	176,868	170,984
Operating expenses:					
Selling, operating and administrative expenses	120,179	106,946	88,037	91,561	92,400
Depreciation and amortization	20,678	20,512	16,094	15,124	15,316
Loss (gain) on sale or disposition of assets, net	63	660	178	(3,397)	(14)
Gain on reduction in tax receivable agreement liability	(6,145)	(32,736)	—	—	—
Total operating expenses	134,775	95,382	104,309	103,288	107,702
Operating income	77,851	98,332	71,333	73,580	63,282
Other expenses, net:					
Interest expense	(12,051)	(9,996)	(8,596)	(10,413)	(9,295)
Interest income	676	352	160	178	313
Foreign currency transaction (losses) gains	(312)	174	(86)	(1,661)	(1,348)
Loss on early extinguishment of debt	—	—	(796)	(94)	(178)
Equity in earnings of investees	—	—	—	1,215	600
Total other expenses, net	(11,687)	(9,470)	(9,318)	(10,775)	(9,908)
Income before provision for income taxes	66,164	88,862	62,015	62,805	53,374
Provision for income taxes	(15,799)	(57,047)	(15,167)	(12,030)	(9,948)
Net income	50,365	31,815	46,848	50,775	43,426
Less: net income attributable to non-controlling interests	23,321	21,577	24,627	34,363	30,209
Net income attributable to RE/MAX Holdings, Inc.	$ 27,044	$ 10,238	$ 22,221	$ 16,412	$ 13,217
Earnings Per Share Data:					
Basic	$ 1.52	$ 0.58	$ 1.26	$ 1.30	$ 1.14
Diluted	$ 1.52	$ 0.58	$ 1.26	$ 1.28	$ 1.08
Other Data:					
Agent count at period end (unaudited)	124,280	119,041	111,915	104,826	98,010
	$ 0.80	$ 0.72	$ 0.60	$ 2.00	$ 0.25

Cash dividends declared per share of
Class A common stock

*Effective January 1, 2018, the Company adopted ASU 2014-09, Revenue from Contracts with Customers (Topic 606), the new revenue recognition standard, retrospectively. All 2017 and 2016 financial results have been recast to reflect this change. Financial results for 2015 and 2014 have not been recast and are therefore not comparable. See Note 3, Revenue for more information.

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	As of December 31,				
		2017	2016		
		As	As		
	2018	adjusted*	adjusted*	2015*	2014*
	(in thousands)				
Cash	$ 59,974	$ 50,807	$ 57,609	$ 110,212	$ 107,199
Franchise agreements, net	103,157	119,349	109,140	61,939	75,505
Goodwill	150,684	135,213	126,633	71,871	72,463
Total assets	426,840	412,835	444,683	383,786	356,431
Payable pursuant to tax receivable agreements, including current portion	40,787	53,175	98,809	100,035	67,418
Debt, including current portion	227,787	228,986	230,820	200,357	209,777
Total stockholders' equity	79,275	49,126	43,841	39,414	39,283

*Effective January 1, 2018, the Company adopted ASU 2014-09, Revenue from Contracts with Customers (Topic 606), the new revenue recognition standard, retrospectively. All 2017 and 2016 financial results have been recast to reflect this change. Financial results for 2015 and 2014 have not been recast and therefore are not comparable. See Note 3, Revenue for more information.

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ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with our consolidated financial statements (“financial statements”) and accompanying notes thereto included elsewhere in this Annual Report on Form 10-K. This Management’s Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements. See “Special Note Regarding Forward-Looking Statements” and “Item 1A.—Risk Factors” for a discussion of the uncertainties, risks and assumptions associated with these statements. Actual results may differ materially from those contained in any forward-looking statements.

The historical results of operations discussed in this Management’s Discussion and Analysis of Financial Condition and Results of Operations are those of RE/MAX Holdings, Inc. (“RE/MAX Holdings”) and its consolidated subsidiaries (collectively, the “Company,” “we,” “our” or “us”).

Business Overview

We are one of the world’s leading franchisors in the real estate industry, franchising real estate brokerages globally under the RE/MAX brand (“RE/MAX”) and mortgage brokerages within the U.S. under the Motto Mortgage brand (“Motto”). RE/MAX and Motto are 100% franchised - we do not own any of the brokerages that operate under these brands. Although we partner with our franchisees to assist them in growing their brokerages, they fund the cost of developing their businesses. As a result, we maintain a low fixed-cost structure, which combined with our recurring, fee-based models, enables us to capitalize on the economic benefits of the franchising model, yielding high margins and significant cash flow.

Because we are a franchisor of both real estate brokerages and mortgage brokerages with approximately 95% of our revenue and nearly three-quarters of our RE/MAX agent count coming from our franchising operations in the U.S. and Canada, we are significantly affected by the real estate market in the U.S. and Canada.

The U.S. housing market experienced a slowdown in home sales during the latter part of 2018, particularly in the West. Persistent price appreciation, low housing inventory, rising interest rates and weak wage growth were among the more meaningful contributors to the slowdown in home sales as homebuyers and sellers adapted to a shifting market. The housing market, which has generally favored sellers over the past several years, began to shift toward greater equilibrium and we believe this shift will be healthy for housing over the longer term. Additionally, our U.S. and Canadian agent count growth rates modestly decelerated during the fourth quarter. We expect the current home sales and agent count growth rate trends to continue through at least the beginning of 2019.

Financial and Operational Highlights – Year Ended December 31, 2018

(Compared to year ended December 31, 2017, as adjusted* unless otherwise noted)

*See Note 3, Revenue for more information.

- Total agent count increased by 4.4% to 124,280 agents.
- U.S. and Canada combined agent count increased 0.2% to 84,449 agents.
- Total open Motto Mortgage franchises more than doubled to 78 offices.

- Revenue increased 9.8% to $212.6 million.
- Net income attributable to RE/MAX Holdings, Inc. of $27.0 million.
- Adjusted EBITDA of $104.3 million and Adjusted EBITDA margin of 49.1%.

During 2018, we grew organic revenue 4.5% primarily due to agent count increases, Motto expansion, rising average home prices, event-based revenue from our annual convention in the U.S. and a July 1, 2017 annual dues fee increase in the U.S. and Canada. Our 2018 revenue growth was also impacted by having waived approximately $2.0 million of continuing franchise fees and brokers fees in the prior year for hurricane-impacted associates. We grew our network agent count 4.4% and our U.S. and Canadian combined agent count by 0.2%, and we sold 1,120 RE/MAX franchises worldwide, including 285 franchises in the U.S. and Canada combined.

Expenses increased primarily due to increased investments in technology, costs to support booj's legacy operations assisting its external customers, severance and other payroll related expenses, and operating costs to support Motto's growth. These increases were partially offset by a $3.7 million loss recognized in the prior year related to subleasing a portion of our corporate office building and costs of a litigation settlement. Interest expense also increased $2.1 million due to rising interest rates.

We also focused on pursuing potential growth catalysts by acquiring booj, a real estate technology company, for a purchase price of $26.3 million. With booj, we expect to deliver core technology solutions designed for and with RE/MAX affiliates in 2019. We believe this new technology will make our highly productive agents even more efficient and successful and help RE/MAX franchisees recruit and retain agents.

Financial and Operational Highlights – Year Ended December 31, 2017, as adjusted*

(Compared to year ended December 31, 2016, as adjusted* unless otherwise noted)

*See Note 3, Revenue for more information.

- Total agent count increased by 6.4% to 119,041 agents
- U.S. and Canada combined agent count increased 2.3% to 84,274 agents
- Acquired the master franchise rights Northern Illinois
- Revenue of $193.7 million, up 10.3% from the prior year
- Net income attributable to RE/MAX Holdings, Inc. of $10.2 million, which includes a $10.1 million net expense impact from the Tax Cuts and Jobs Act
- Adjusted EBITDA of $102.1 million and Adjusted EBITDA margin of 52.7%

During 2017, we grew our business organically primarily due to an increase in broker fee revenue because of rising average home prices and changing agent mix, agent count increases, Motto expansion and July 1, 2016 continuing franchise fee increases in our Company-owned Regions. We grew our network agent count 6.4% and our U.S. and Canadian combined agent count by 2.3%, and we sold 1,059 RE/MAX franchises worldwide, including 324 franchises in the U.S. and Canada combined. Organic growth was negatively impacted by the impact of waiving approximately $2.0 million of continuing franchise fees and broker fees during the year for hurricane-impacted associates.

Expenses increased primarily due to a $3.7 million loss recognized related to subleasing a portion of our corporate office building; a net charge of $2.6 million incurred in connection with a litigation settlement and additional corresponding professional fees related to our 2013 acquisition of the net assets of Tails, Inc. ("Tails"); $2.6 million of professional fees incurred related to the Special Committee investigation and operating costs for Motto, and the 2016 acquisitions of six independent regions (the "2016 Acquired Regions"), and costs for certain employee benefits and the refresh of the RE/MAX brand.

We focused on growth catalysts by successfully acquiring the Independent Region of Northern Illinois (the "2017 Acquired Region") for a purchase price of $35.7 million. The acquisition converted nearly 2,300 agents and over 100 offices into the Company-owned Regions.

In 2017, RE/MAX branding was updated with a fresh, modern design. This “brand refresh” resulted in updates to the iconic RE/MAX Balloon logo, the RE/MAX logotype, and RE/MAX property sign designs. In the company’s nearly 50-year history, this was the first time the RE/MAX logotype had been modernized and the third time the RE/MAX Balloon

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logo had been updated.

On December 22, 2017, the Tax Cuts and Jobs Act was enacted. The Tax Cuts and Jobs Act includes significant changes to the U.S. corporate tax system, including a federal corporate rate reduction from 35% to 21%. The reduction in the corporate tax rate from 35% to 21% resulted in substantial reductions to the Company's deferred tax assets and the TRA liabilities and resulted in a net expense impact on net income of $10.1 million.

Selected Operating and Financial Highlights

For comparability purposes, the following table sets forth our agent count and results of operations for the periods presented in our audited financial statements included elsewhere in this Annual Report on Form 10-K.

	Year Ended December 31,		
		2017	2016
	2018	As adjusted*	As adjusted*
Total agent count growth	4.4 %	6.4 %	6.8 %
Agent Count:			
U.S.	63,122	63,162	61,730
Canada	21,327	21,112	20,672
U.S. and Canada Total	84,449	84,274	82,402
Outside U.S. and Canada	39,831	34,767	29,513
Total	124,280	119,041	111,915
Motto open offices	78	31	2
RE/MAX franchise sales (1)	1,120	1,059	903
Motto franchise sales	49	60	6
Total revenue	$ 212,626		