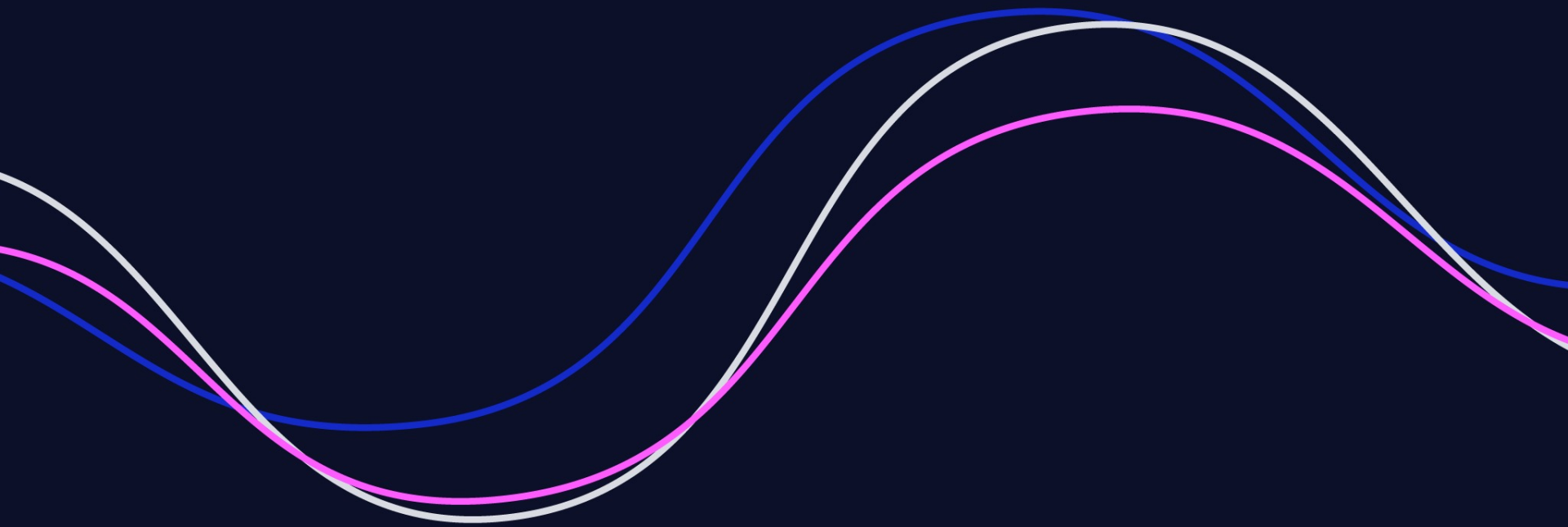


# Inside the Compass IPO

MD



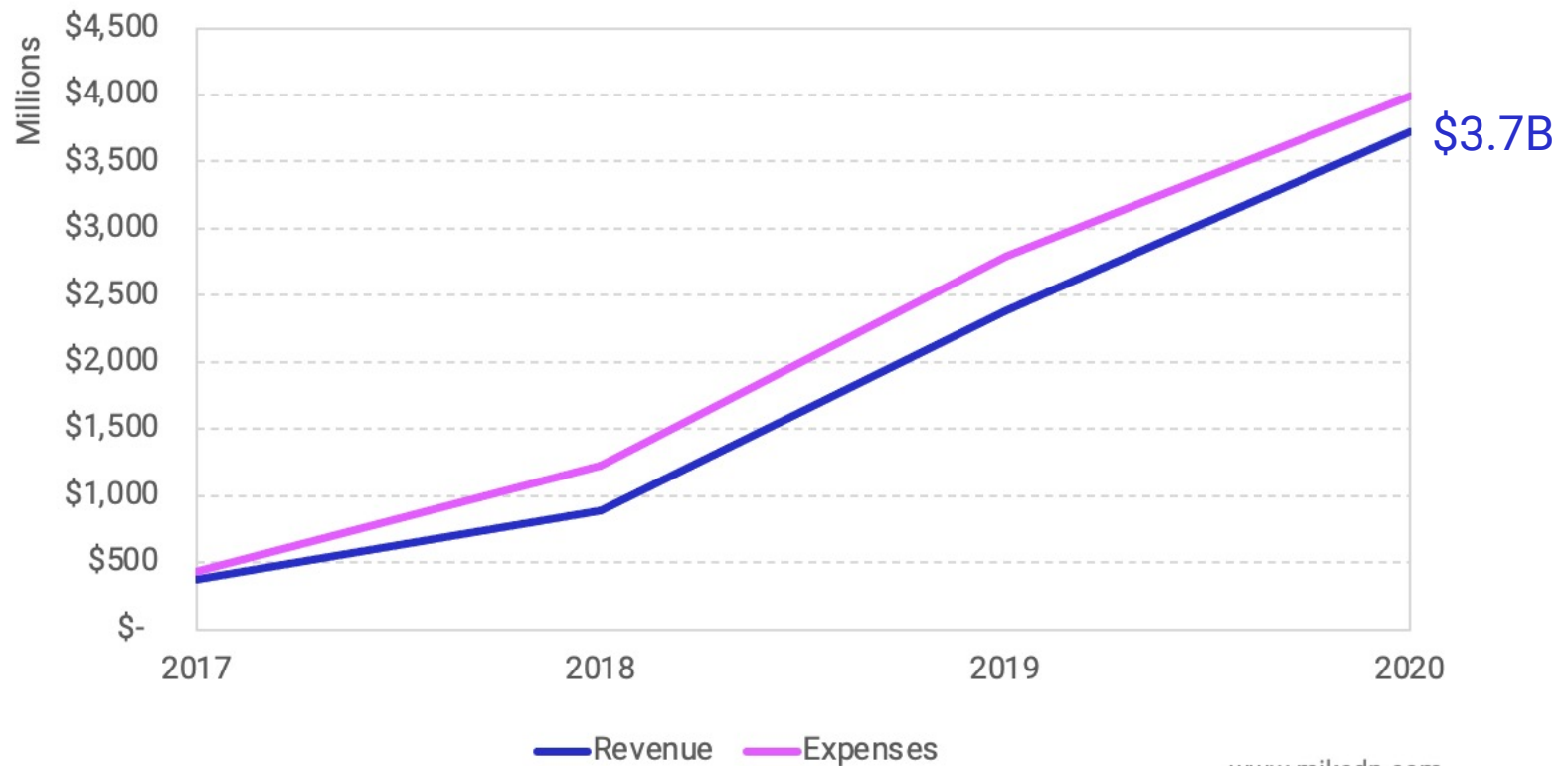
2021

# Part 1

# Financials

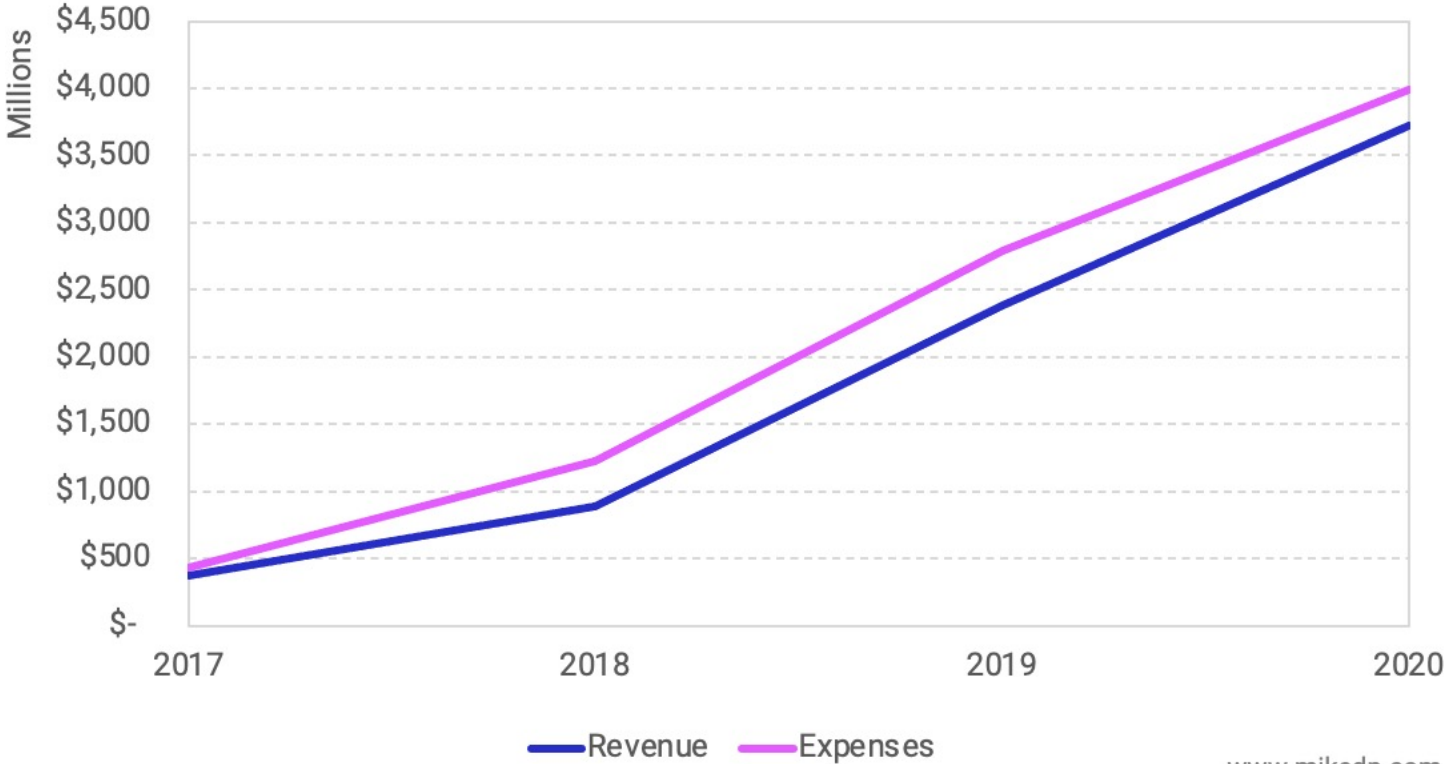
Compass' revenues have grown impressively, up to \$3.7 billion in 2020.

## Compass' Financials



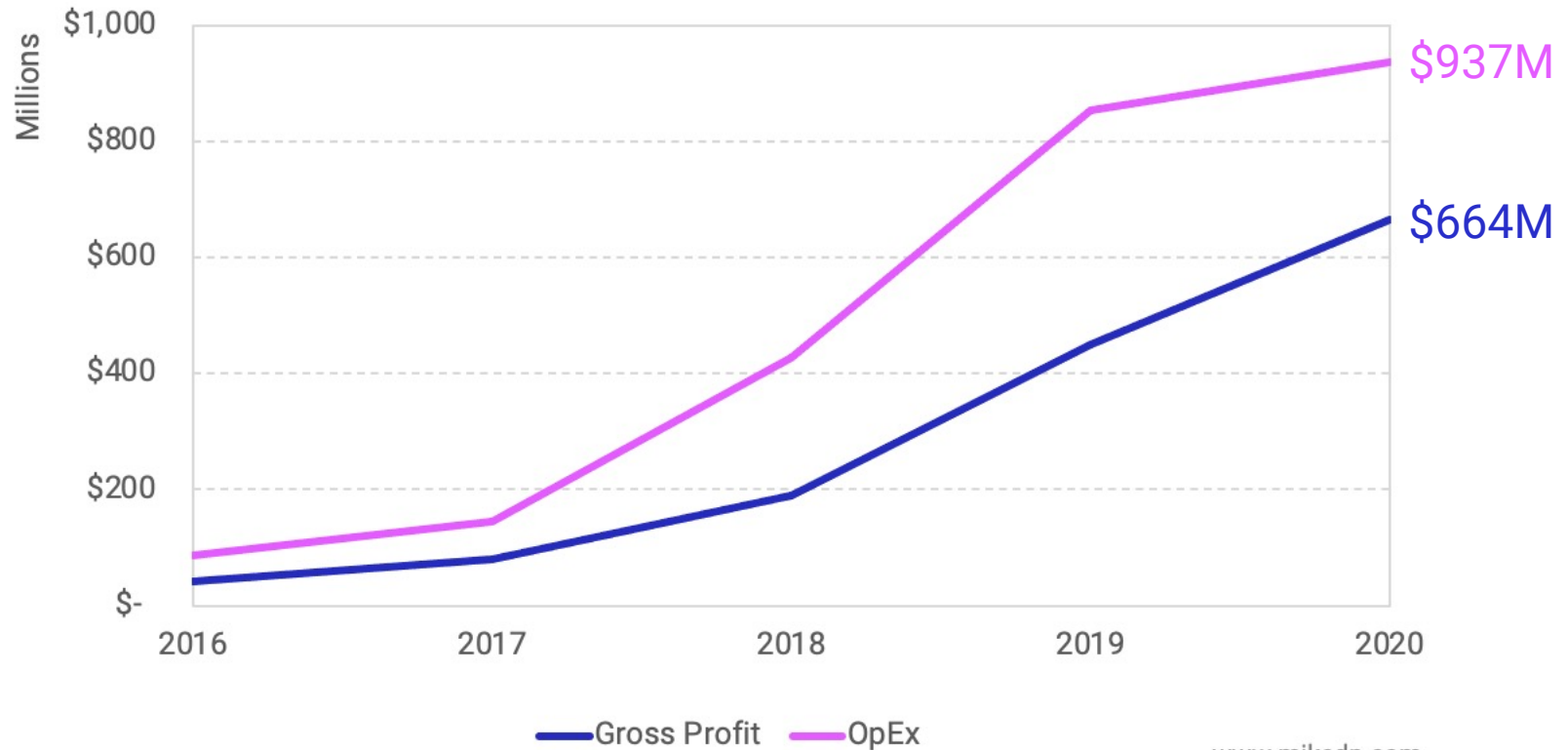
Of that \$3.7 billion in revenue, Compass pays 82 percent back to agents in commissions.

### Compass' Financials



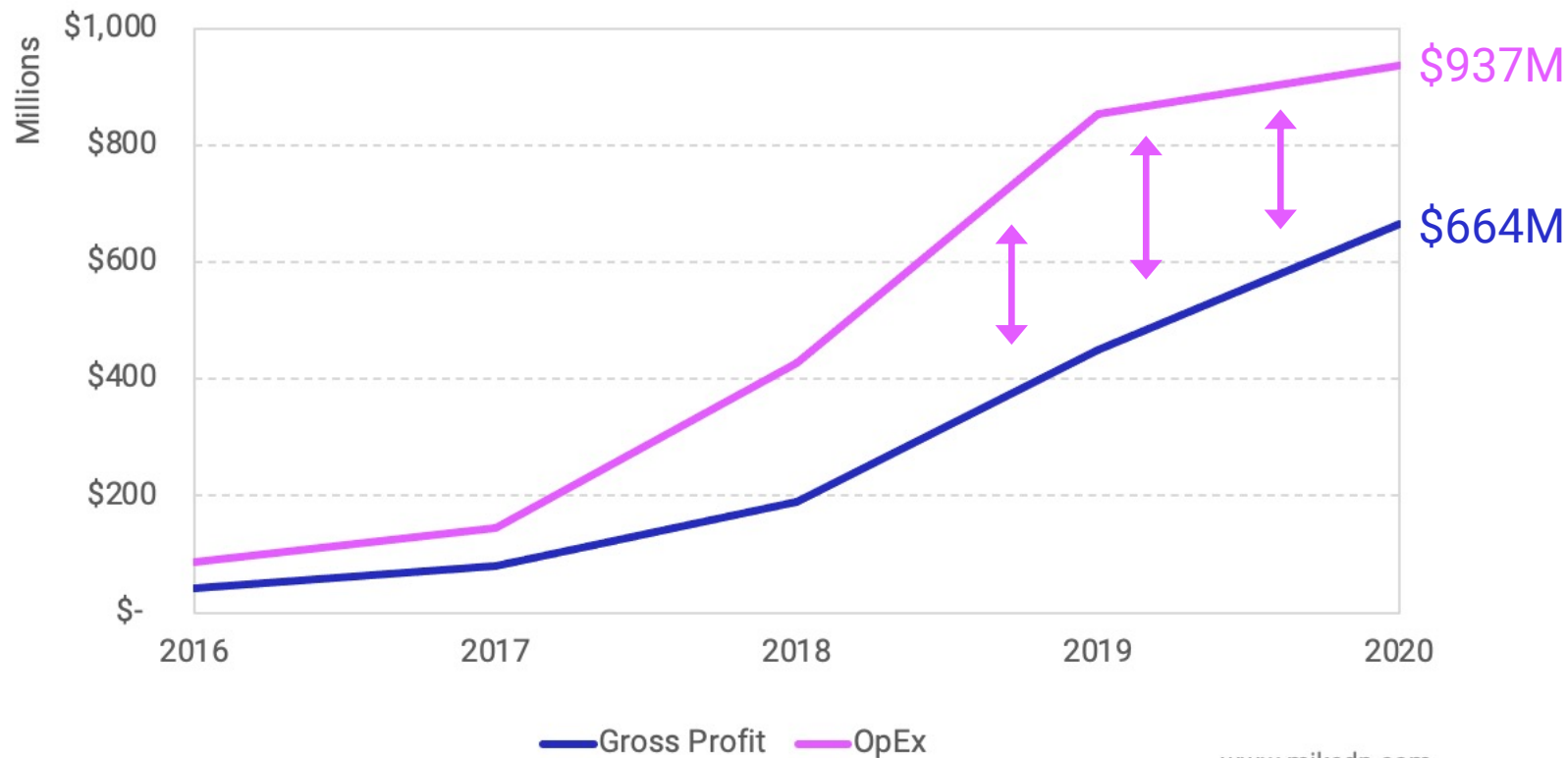
What's left is Compass' gross profit. The remaining expenses are its operating expenses (OpEx).

## Compass' Financials



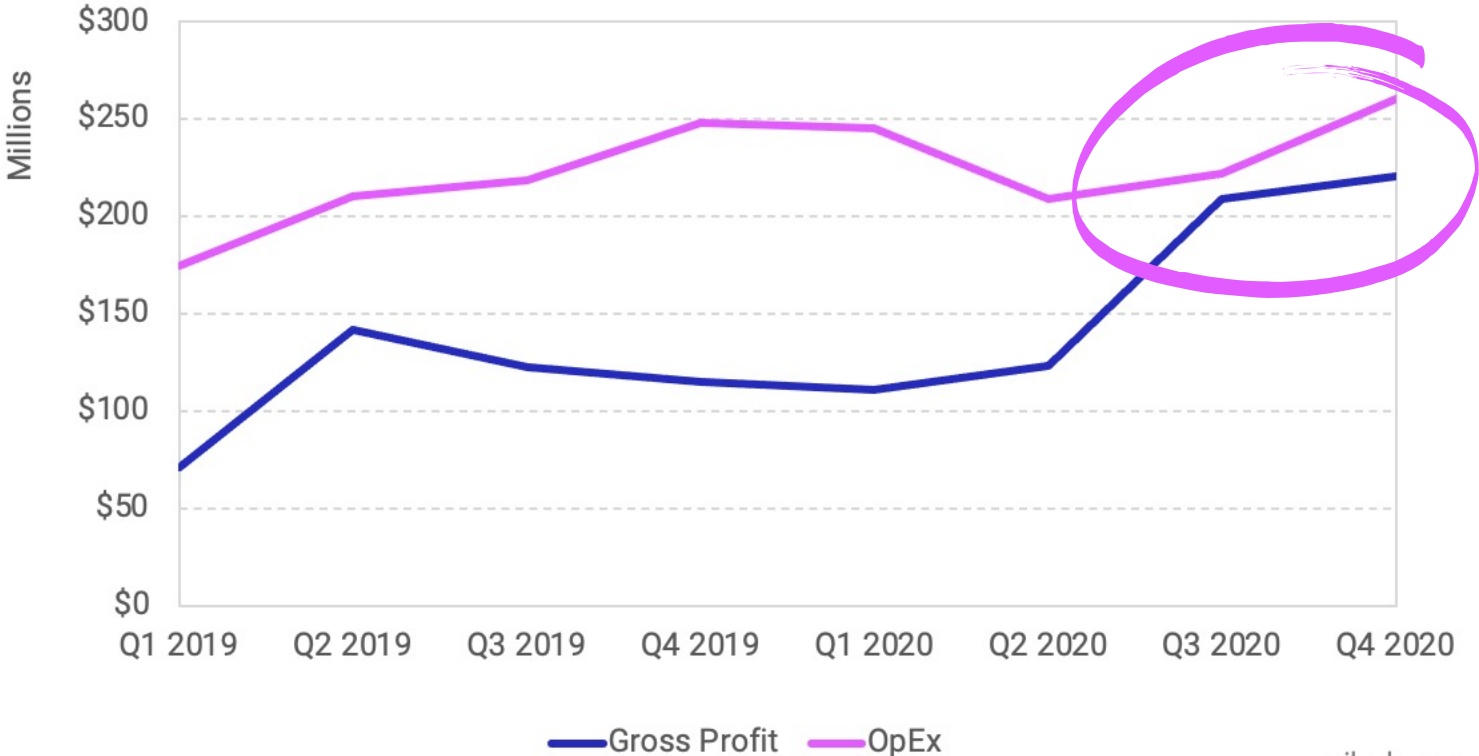
Compass is unprofitable. Its expenses are significantly higher than its gross profit.

## Compass' Financials

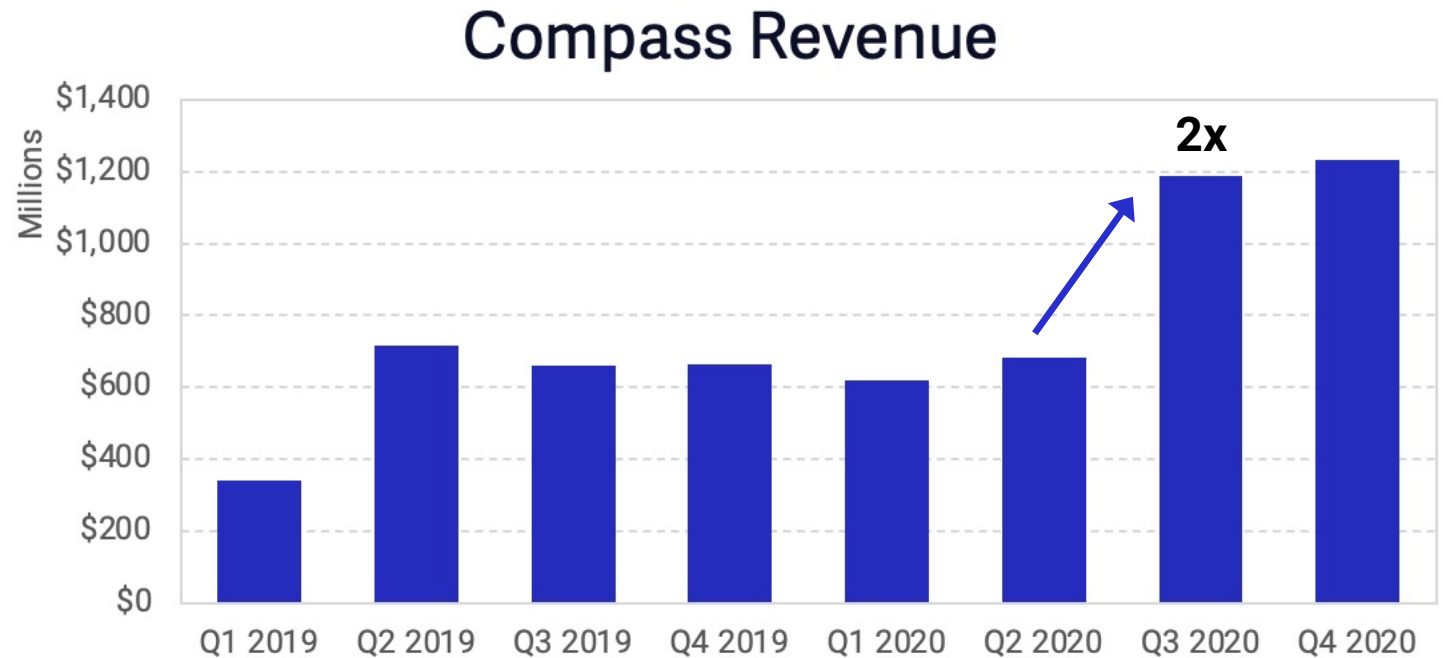


Like much of the real estate industry, Compass saw a surge in revenue in the last half of 2020.

### Compass' Financials



Compass' revenue in Q3 and Q4 was double that of the preceding quarters, a reflection of a hot market.





Comparing Compass' and Redfin's expense lines highlights a few notable differences.

	<u>Compass</u>	<u>Redfin</u>	
Transactions	144k	75k	2x
Sales & Marketing	\$407M	\$54M	8x
Tech Development	\$146M	\$84M	1.7x
G&A	\$106M	\$92M	1x
Ops & Support	\$225M		

Sales and marketing expenses are huge, a result of agent recruitment and agent marketing expenses.

	<u>Compass</u>	<u>Redfin</u>	
Transactions	144k	75k	2x
Sales & Marketing	\$407M	\$54M	8x
Tech Development	\$146M	\$84M	1.7x
G&A	\$106M	\$92M	1x
Ops & Support	\$225M		

Ops & Support, which Redfin includes as part of its cost of sales, represents agent support resources.

	<u>Compass</u>	<u>Redfin</u>	
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G&A	\$106M	\$92M	1x
Ops & Support	\$225M		

# Since 2018, agent recruitment expense is up over \$60M. The total cost in 2020 is likely over \$100M.

## *Sales and marketing*

	Year Ended December 31,		\$ Change	% Change
	2019	2020		
	(in millions, except percentages)			
Sales and marketing	\$382.8	\$407.9	\$ 25.1	6.6%
Percentage of revenue	16.0%	11.0%		

Sales and marketing expense increased by \$25.1 million, or 6.6%, for 2020 compared to 2019. The increase was primarily driven by an increase of \$26.6 million in agent recruitment and other agent-related costs and \$4.4 million in bad debt expense associated with our Compass Concierge Program. Additionally, sales and marketing expense for 2020 includes \$1.5 million of severance expenses and \$4.3 million of lease termination costs. These increases were partially offset by a decrease in employee compensation, as we reduced marketing headcount as a cost-reduction measure in response to COVID-19. The decrease in sales and marketing expense as a percentage of revenue in 2020 compared to 2019 was primarily due to economies of scale as we were able to grow revenue more quickly than the costs of our sales and marketing efforts and cost-saving measures taken in response to the COVID-19 pandemic.

## *Sales and marketing*

	Year Ended December 31,		\$ Change	% Change
	2018	2019		
	(in millions, except percentages)			
Sales and marketing	\$174.3	\$382.8	\$208.5	119.6%
Percentage of revenue	19.7%	16.0%		

Sales and marketing expense increased by \$208.5 million, or 119.6%, for 2019 compared to 2018. The increase was primarily driven by an increase of \$66.2 million in occupancy-related expenses due to an expansion of regional field offices, \$54.2 million in agent marketing and advertising, \$42.8 million in compensation and other personnel-related costs due to increased headcount, and \$40.3 million in agent recruitment and other agent-related costs. The decrease in sales and marketing expense as a percentage of revenue in 2019 compared to 2018 was primarily due to economies of scale as we were able to grow revenue more quickly than the costs of our sales and marketing efforts.

# Not to mention at least \$75M in agent marketing expenses, often included in incentive packages.

## *Sales and marketing*

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	2019	2020		
	(in millions, except percentages)			
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All up, there are hundreds of millions of dollars in agent incentives included in Compass' expenses.

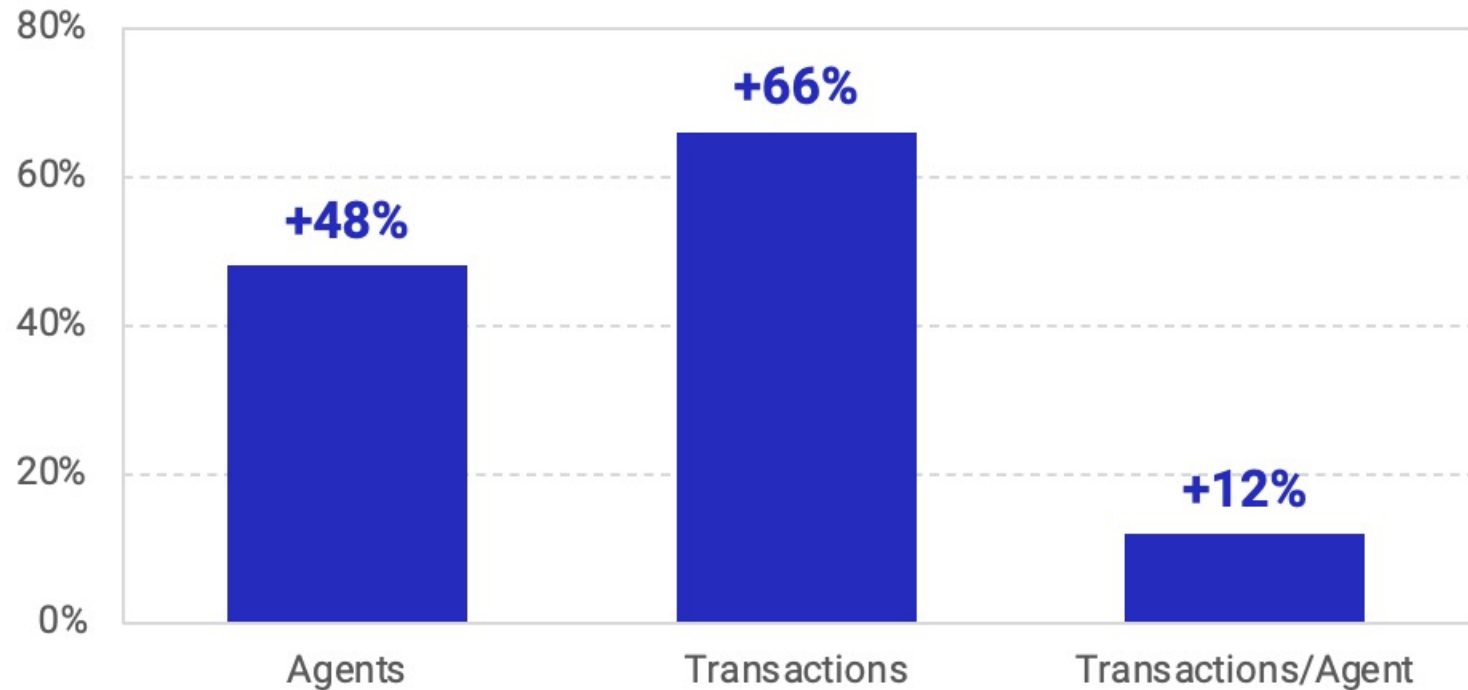
	<u>Compass</u>	<u>Redfin</u>	
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Ops & Support	\$225M		

# Part 2

## Efficiency

In 2020, Compass grew transaction count 66% with a 48% increase in agents.

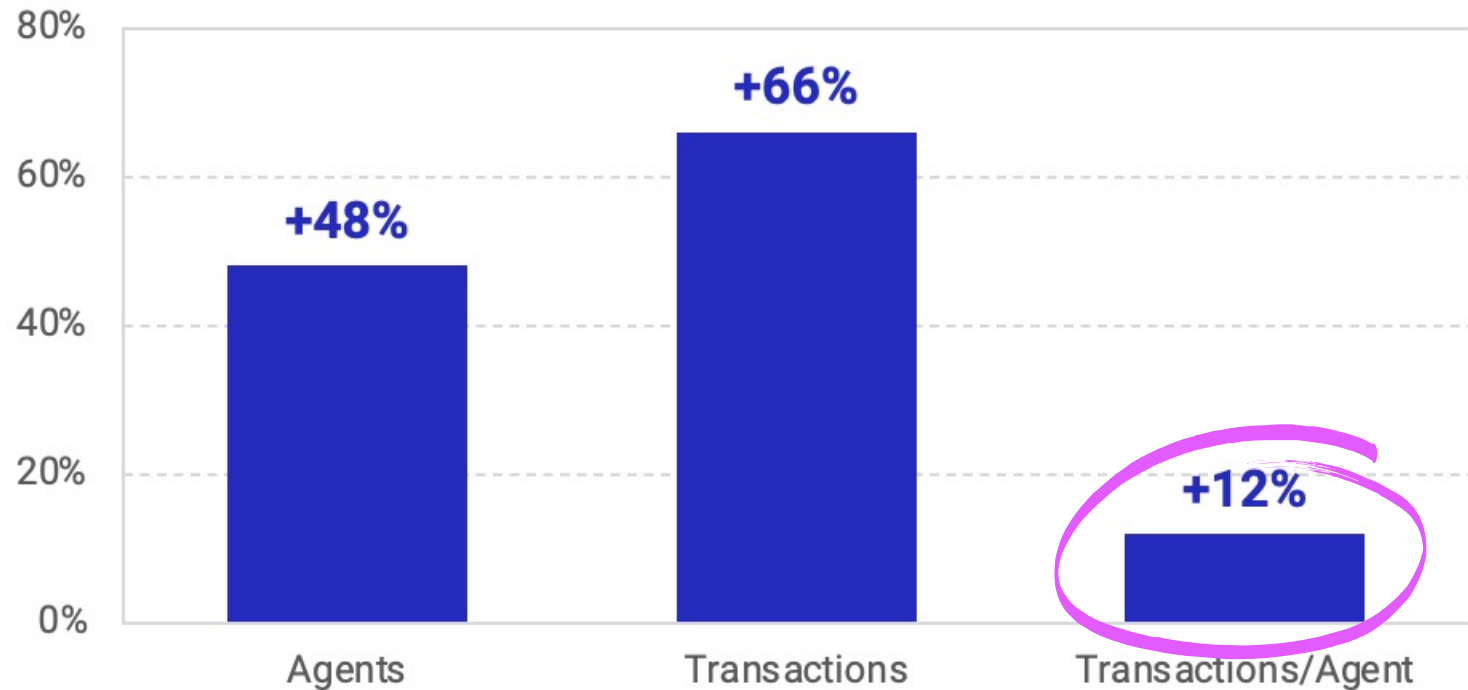
## Compass Year-on-Year Growth





The net result is a 12% increase in the number of transactions closed per agent.

## Compass Year-on-Year Growth

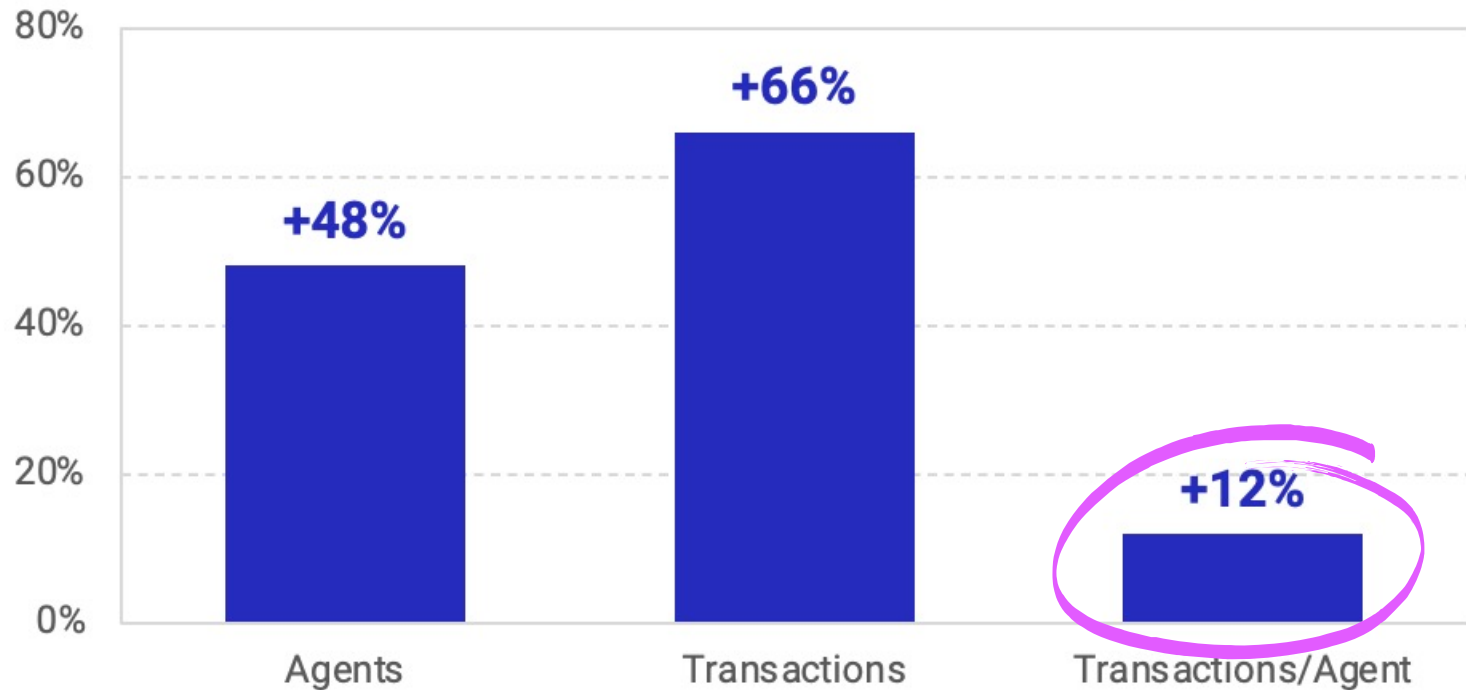


## But Keep In Mind

The overall U.S. market was up 5.6% in 2020, and up 22% in December.

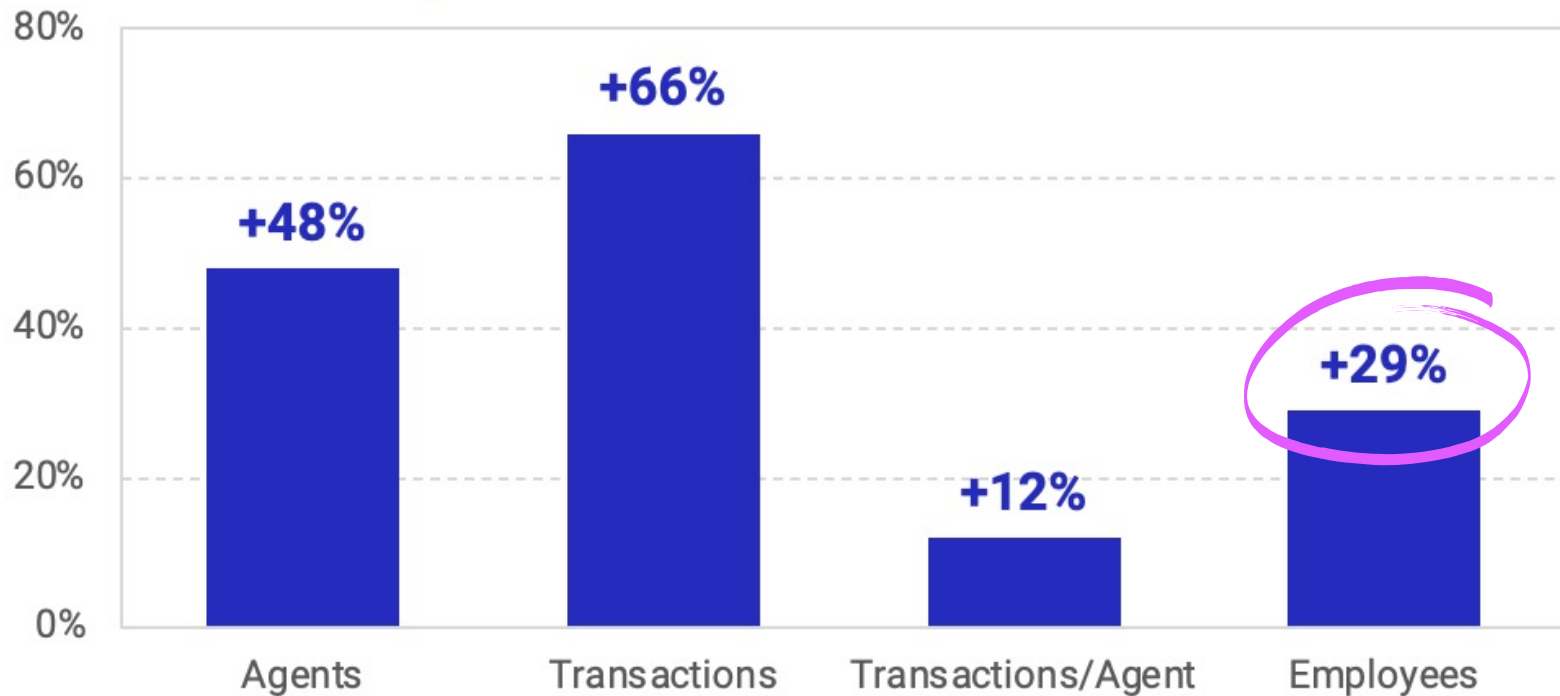
The increase in efficiency could be reflective of overall market activity.

## Compass Year-on-Year Growth



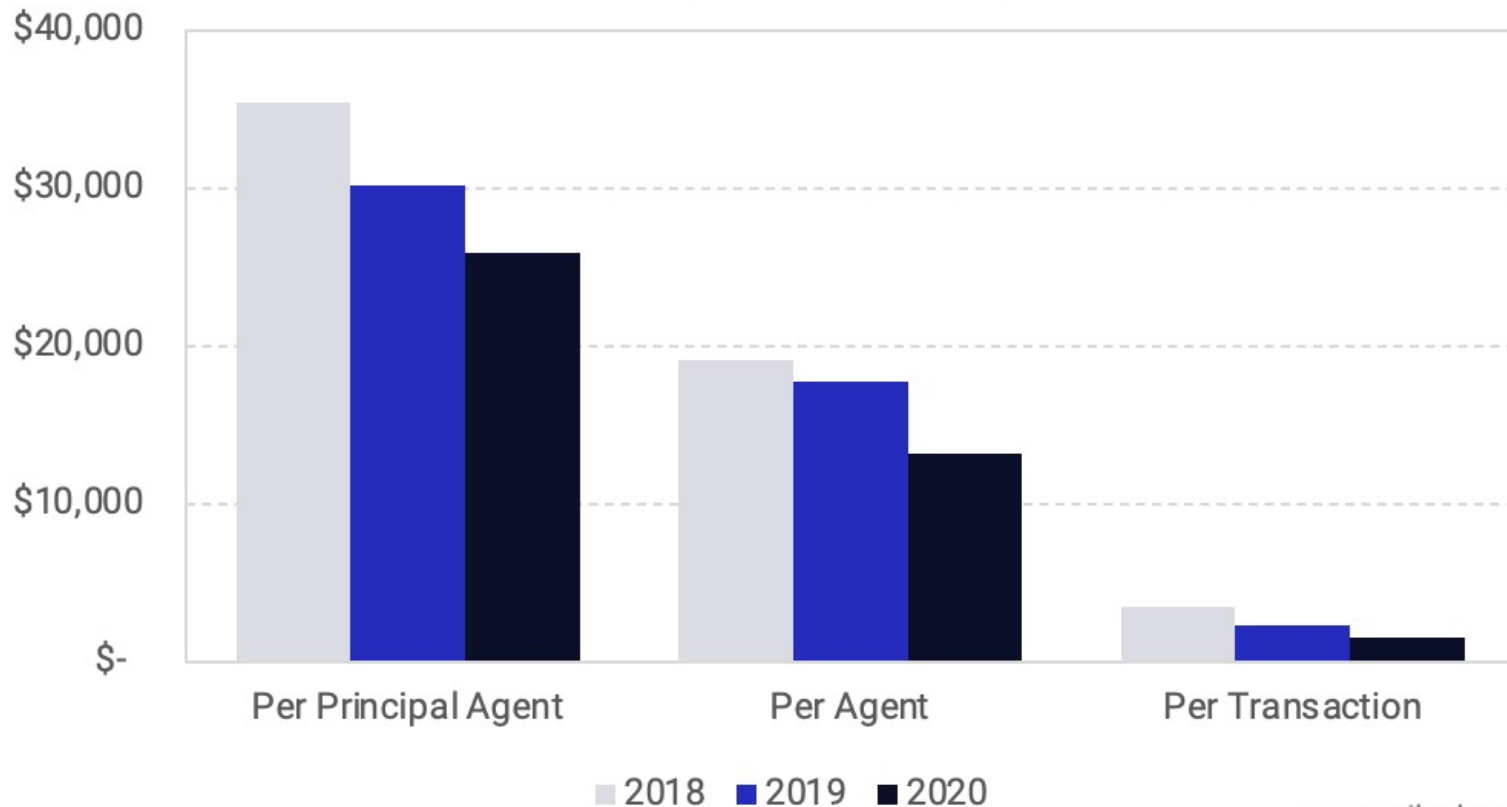
Regardless, Compass was able to support the increase in volume with less full-time employees.

## Compass Year-on-Year Growth



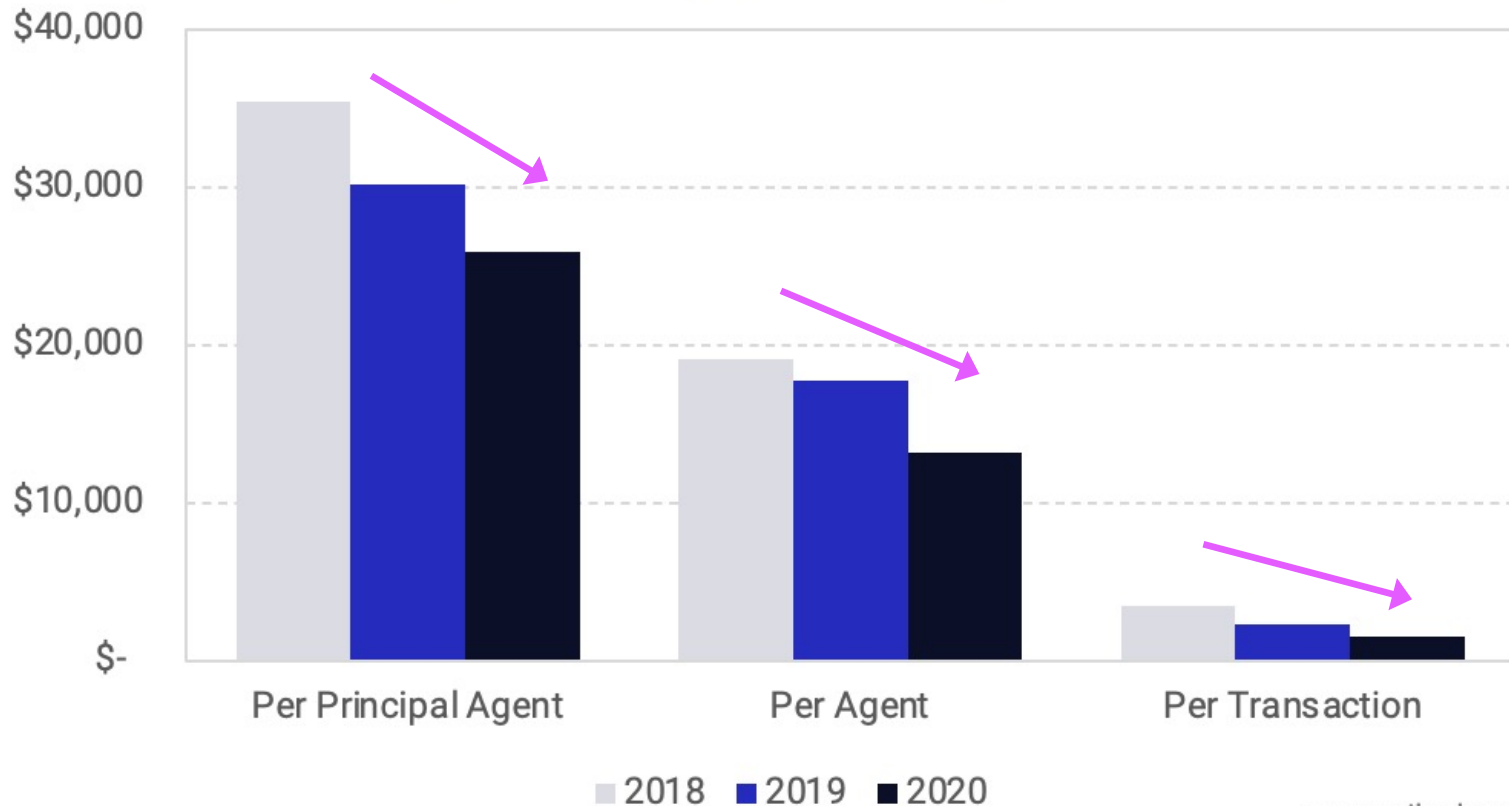
On a per agent and per transaction basis, Ops & Support expenses are dropping over time.

## Ops & Support Expense



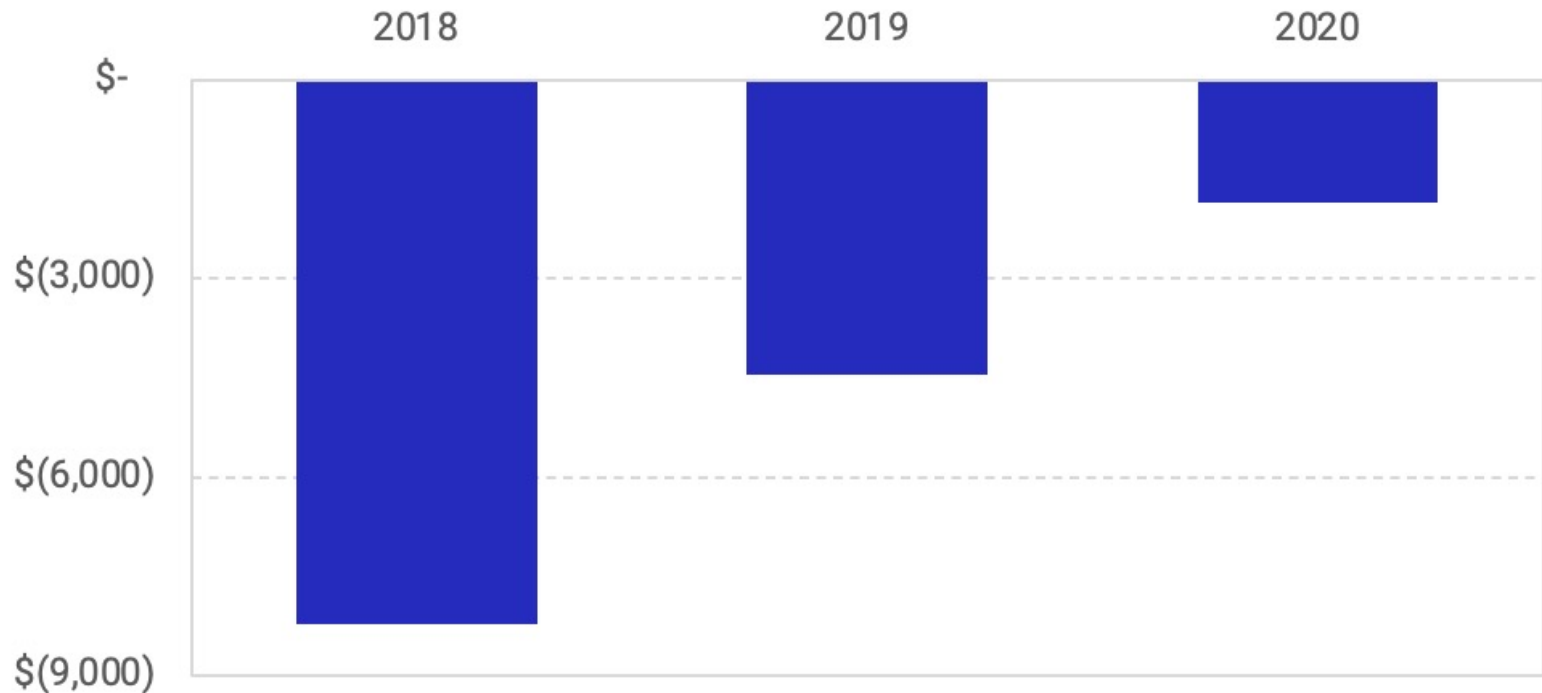
This is a sign of improving operational efficiency as the business scales.

## Ops & Support Expense



And the result is decreasing overall losses per transaction.

## Compass Net Loss per Transaction



# Part 3

## Profitability

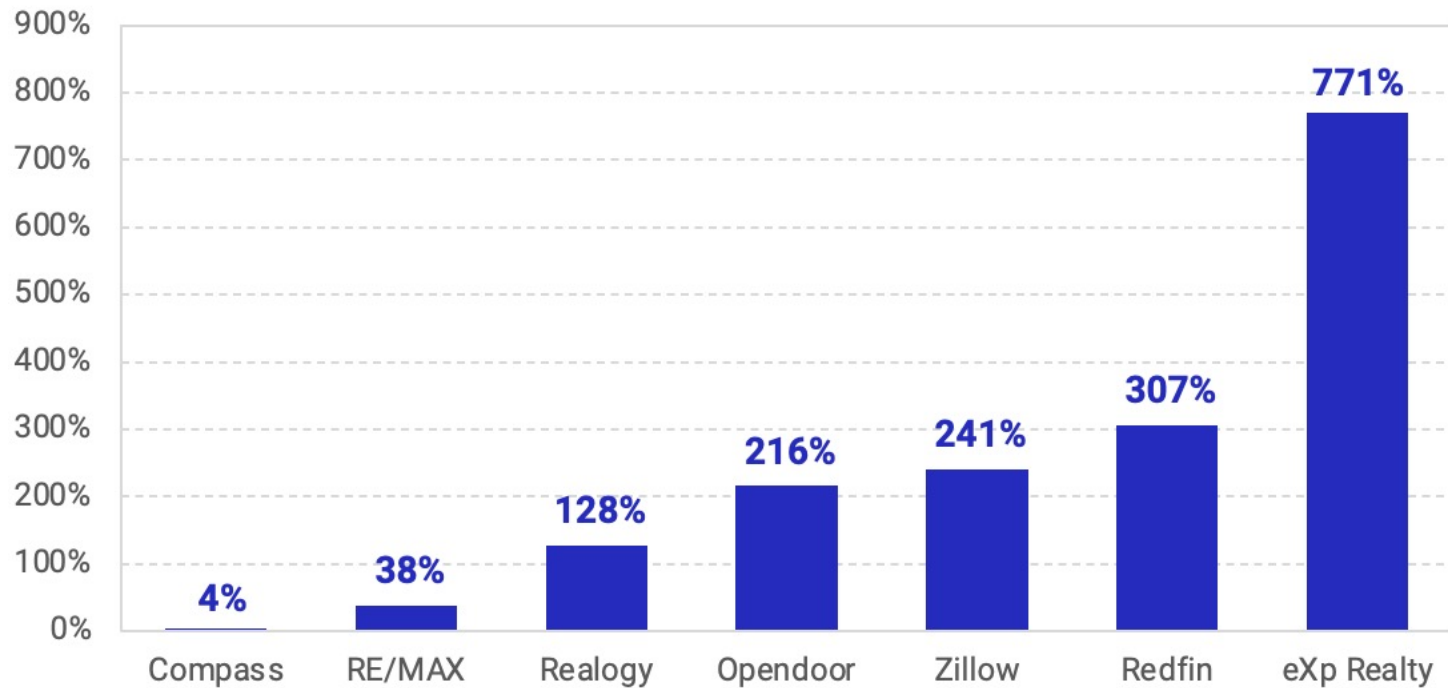


As of April 2021, Compass is being valued more as a technology company than a traditional brokerage.

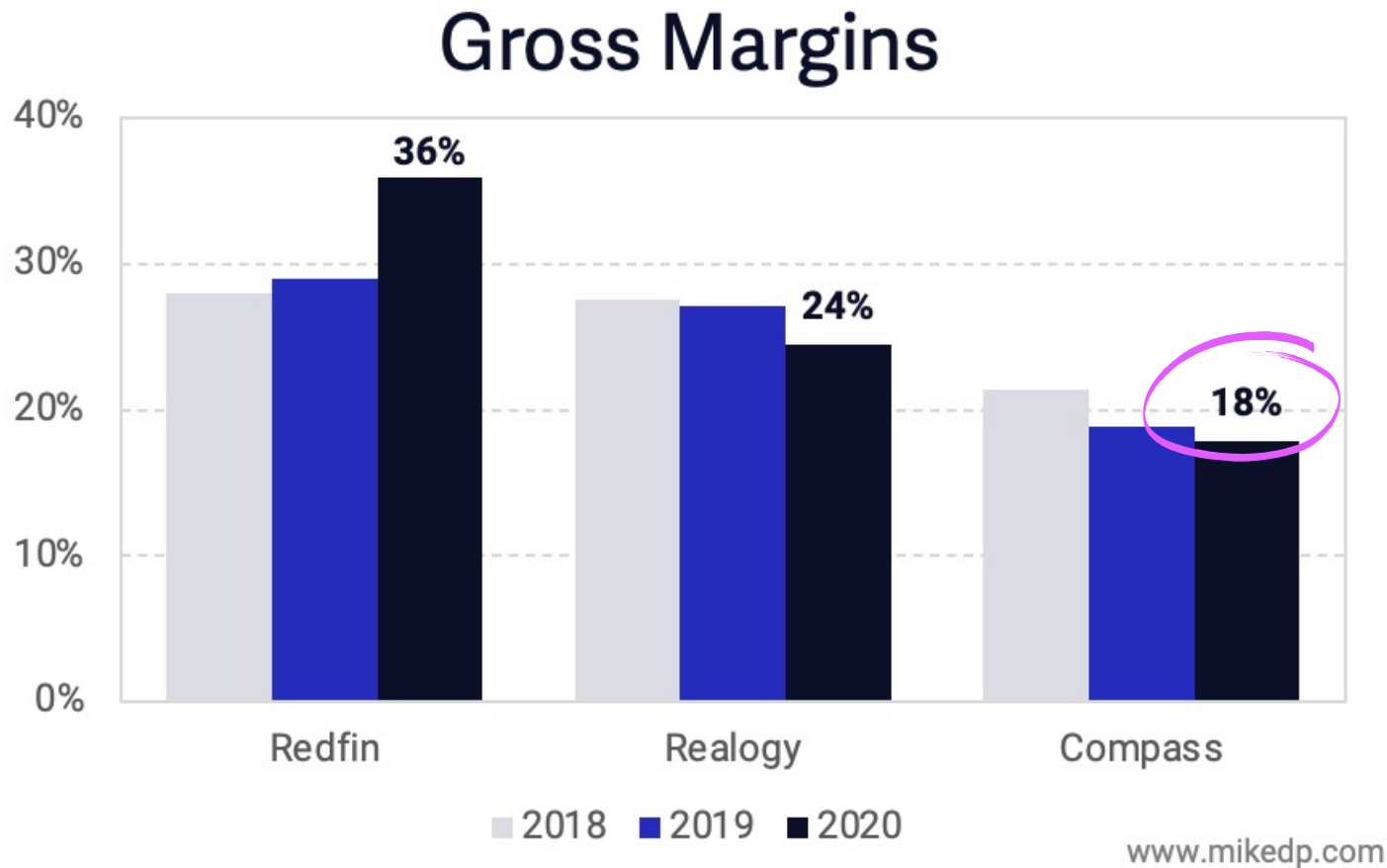
	<u>Realty</u>	<u>Redfin</u>	<u>Compass</u>
Brokerage Revenue	\$4.6B	\$607M	\$3.7B
Agents	53k	1.7k	19k
Transactions	334k	75k	144k
<b>Market Cap</b>	<b>\$1.5B</b>	<b>\$6.8B</b>	<b>\$6.5B</b>

Since 2019, Compass' valuation hasn't budged (in stark contrast to its real estate peers).

## Company Valuation Changes, 2019–2021

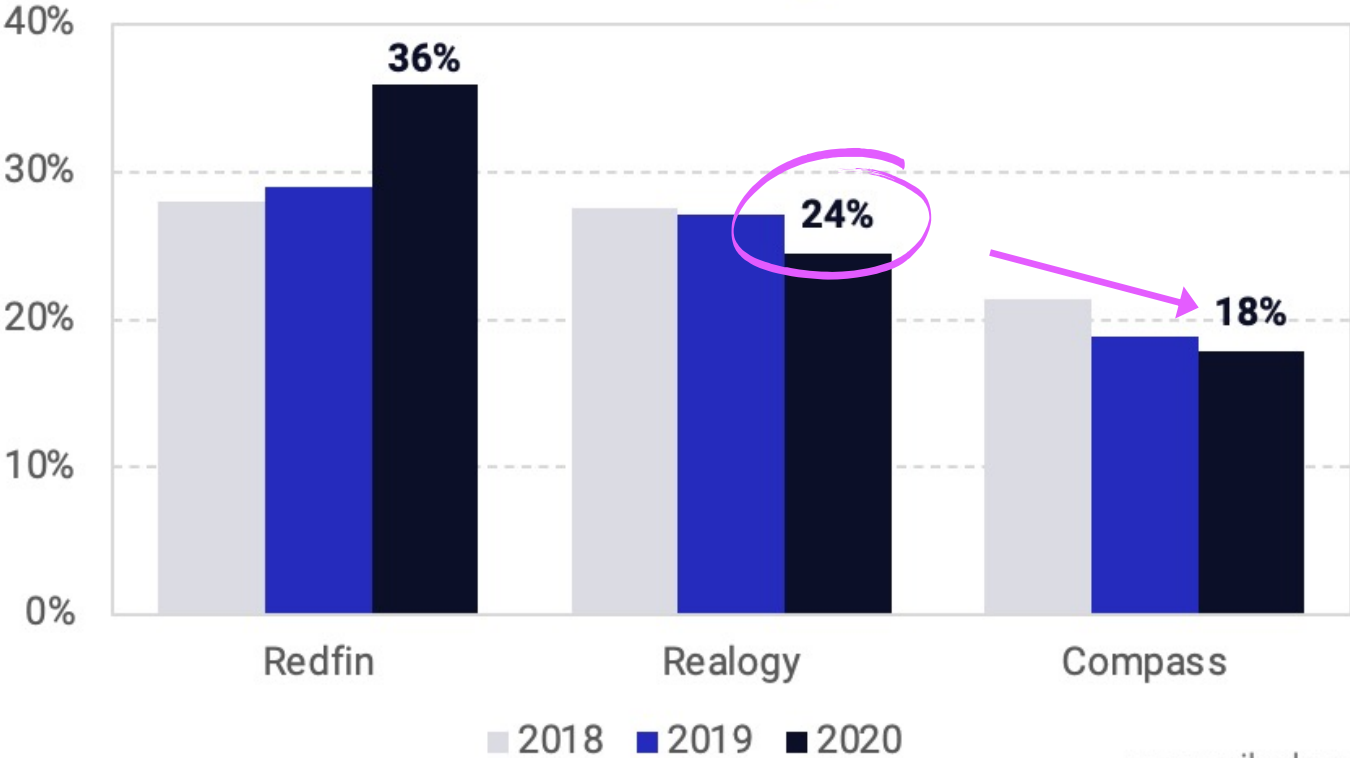


Compass' gross margins are close to an industry average of 20 percent.

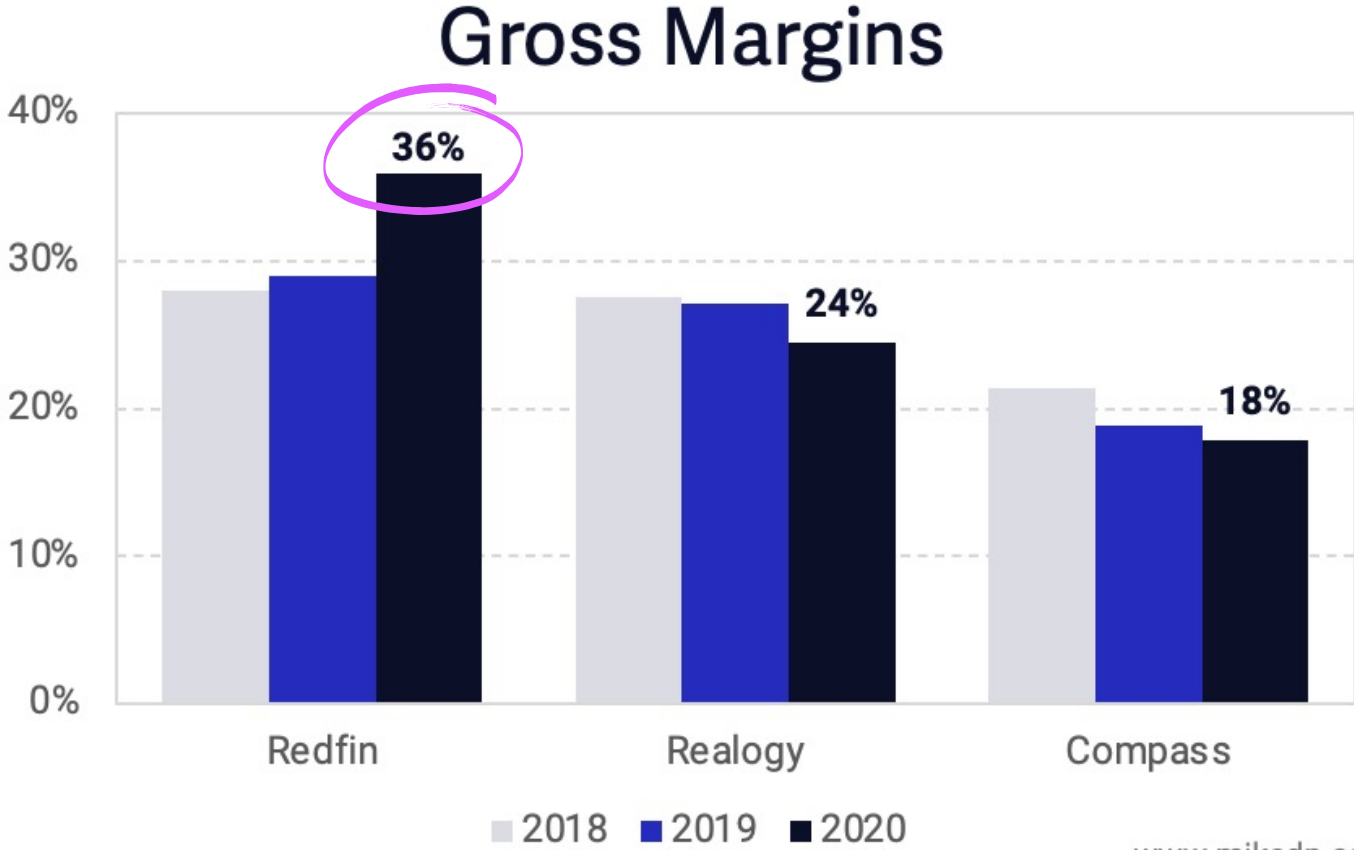


However, gross margins are below industry behemoth Realty, and have been trending down.

### Gross Margins



Meanwhile, tech-brokerage Redfin demonstrates high margins from its different operating model.



Compass' gross margins are closer to those of an airplane manufacturer than a technology company.

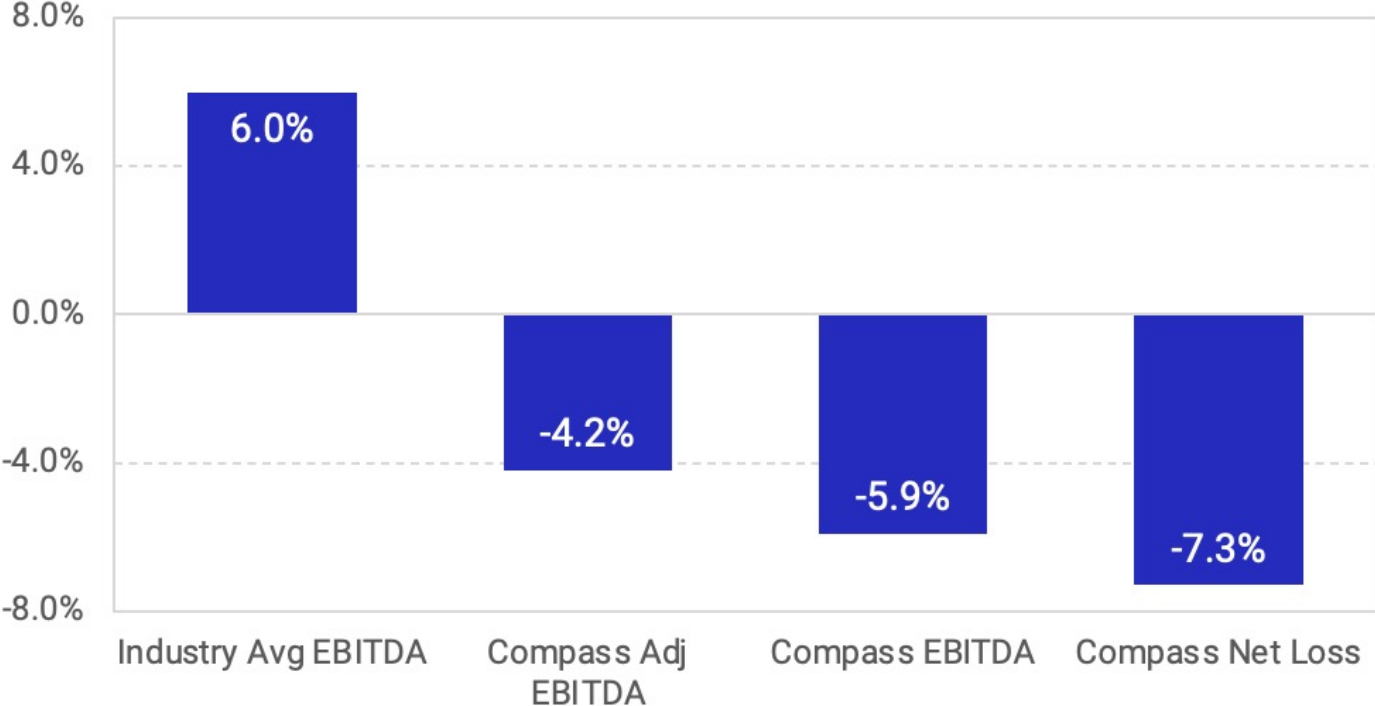
## Gross Margins

Zillow 90%  
Facebook 80%  
Salesforce 74%  
Airbnb 67%

Uber 48%  
Amazon 40%  
Apple 38%  
Tesla 23%  
WeWork 20%  
Boeing 19%  
Compass 18%  
Opendoor 6%

Financially, Compass is well-below industry standard profit margins.

### Profit Margins, 2020

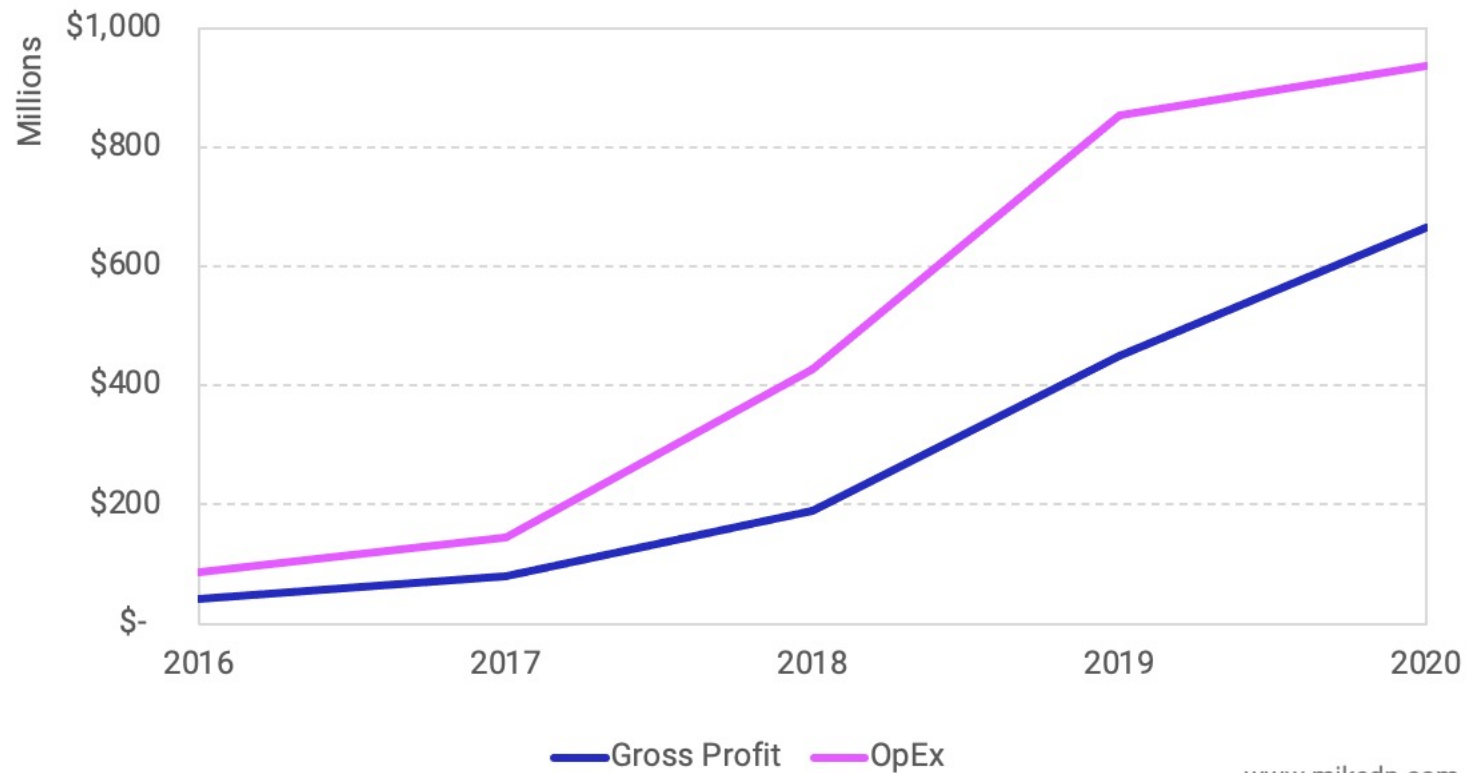


With net losses exceeding \$1 billion over the past five years, Compass is the most unprofitable real estate brokerage in U.S. history.



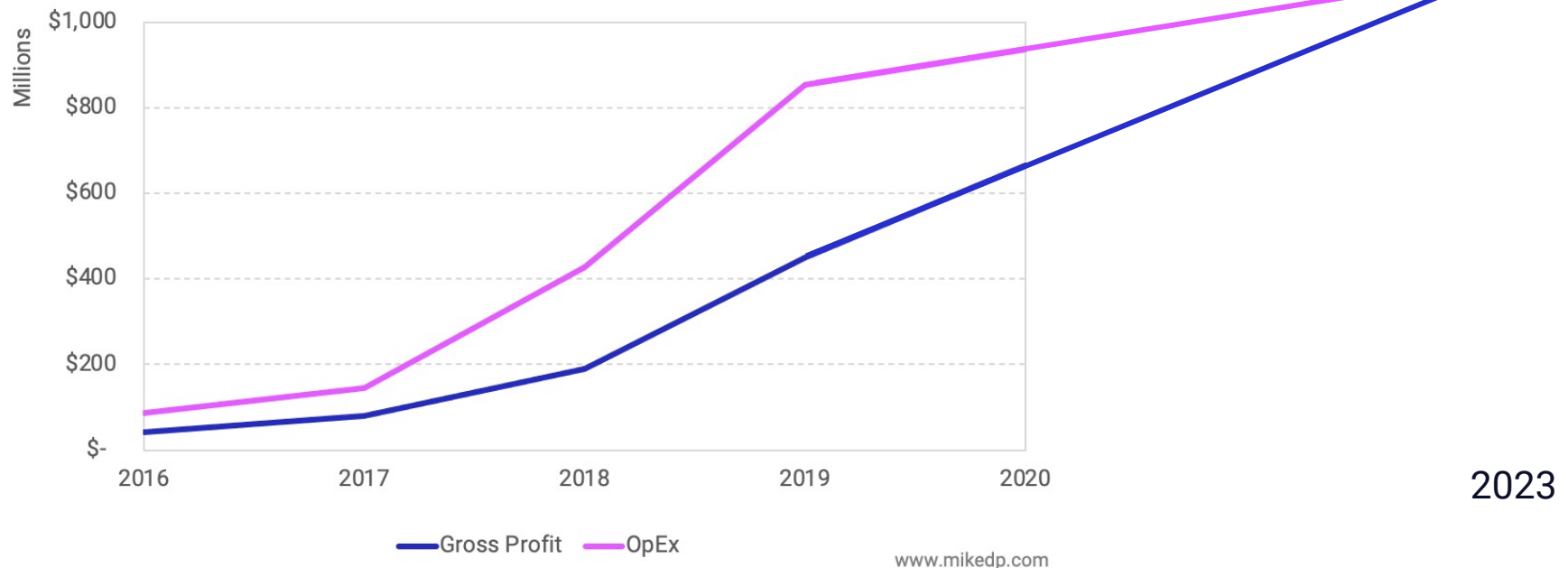
To believe Compass will ever be profitable, the profit and expense lines need to intersect.

## Compass' Financials



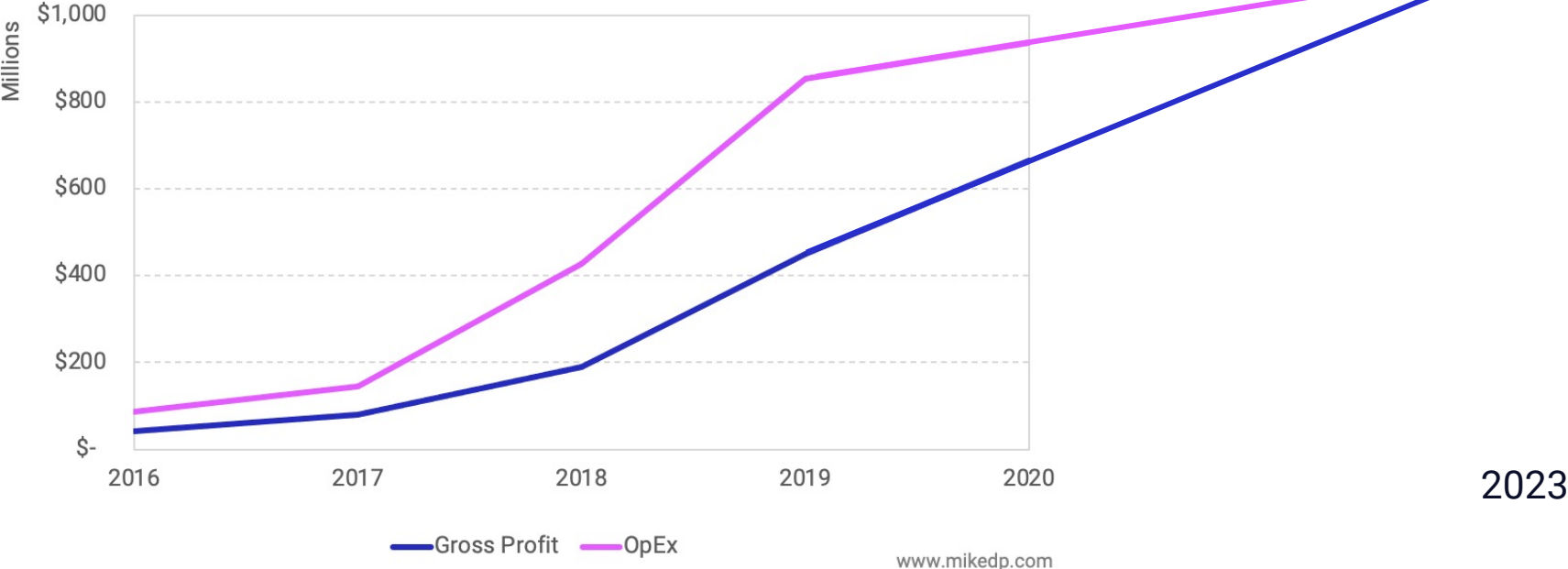
If the 2020 trajectory continues, the lines would intersect in 2023.

## Compass' Financials



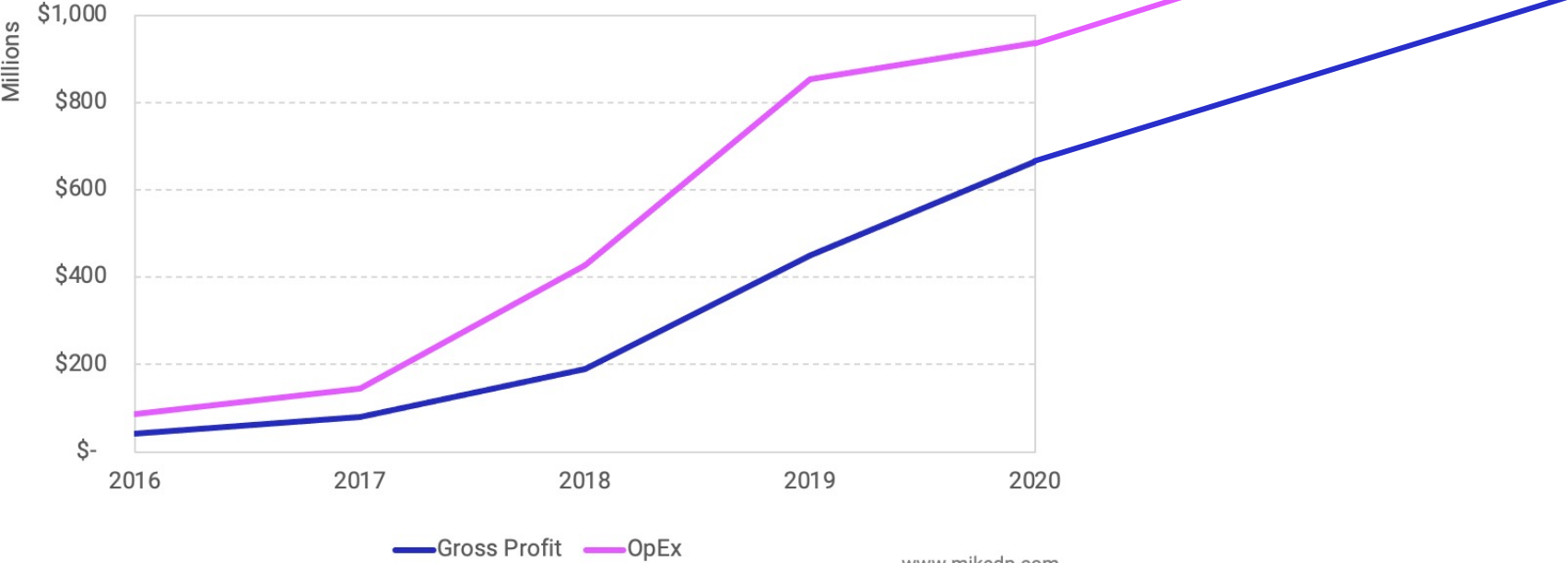
However, that assumes a continuation of the unique circumstances of 2020, an unlikely event.

### Compass' Financials



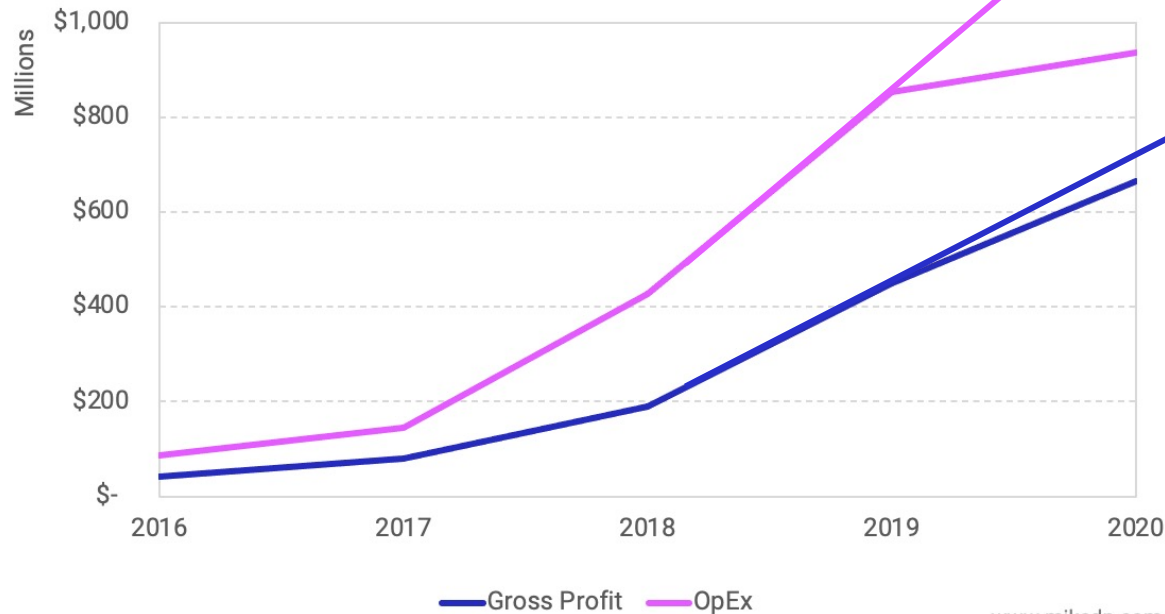
Even a slight variation (slowing revenue and modest expense growth) results in never converging lines.

### Compass' Financials



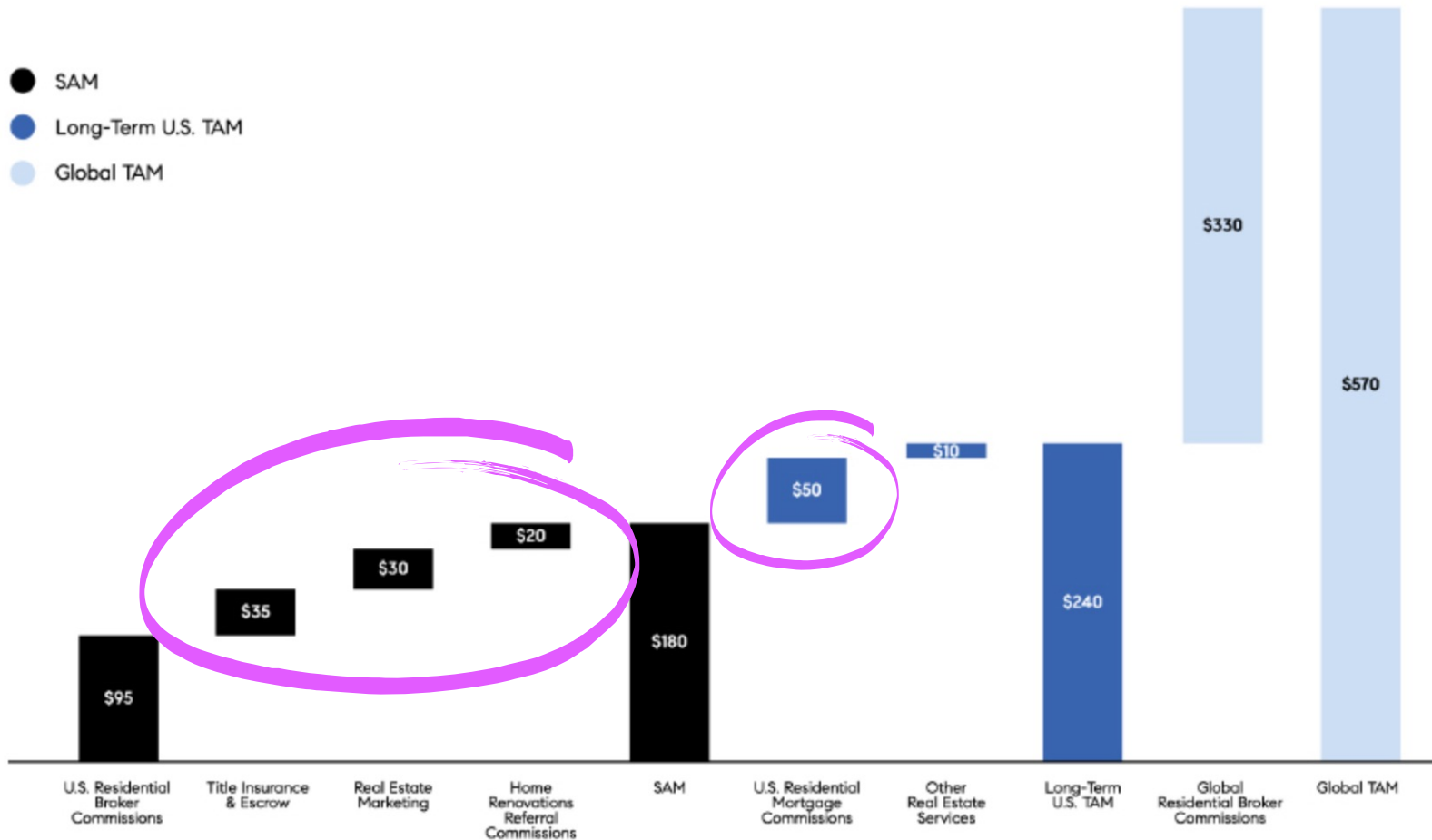
And before 2020, Compass was on a path of increasing – not decreasing – unprofitability.

### Compass' Financials



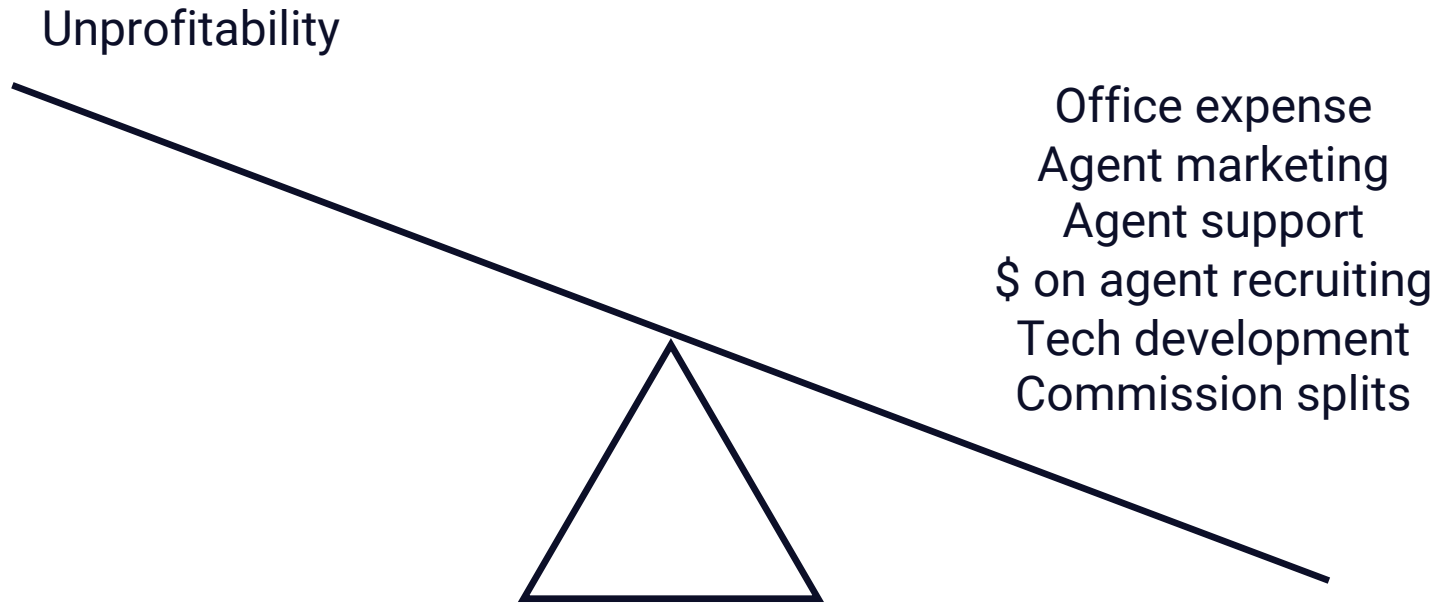
# Compass' public game plan for profitability is familiar: sell consumers adjacent services.

Compass is in the Early Days of Attacking a Sizable TAM Opportunity



The strategy is reminiscent of  
Realty and other traditional  
real estate brokerages.

What makes Compass unique and appealing to agents is also what makes it so unprofitable.





Those benefits are agent perks, and are a big reason why so many agents stick around.



If Compass cuts those perks in an effort to become profitable, it will have an agent retention problem.

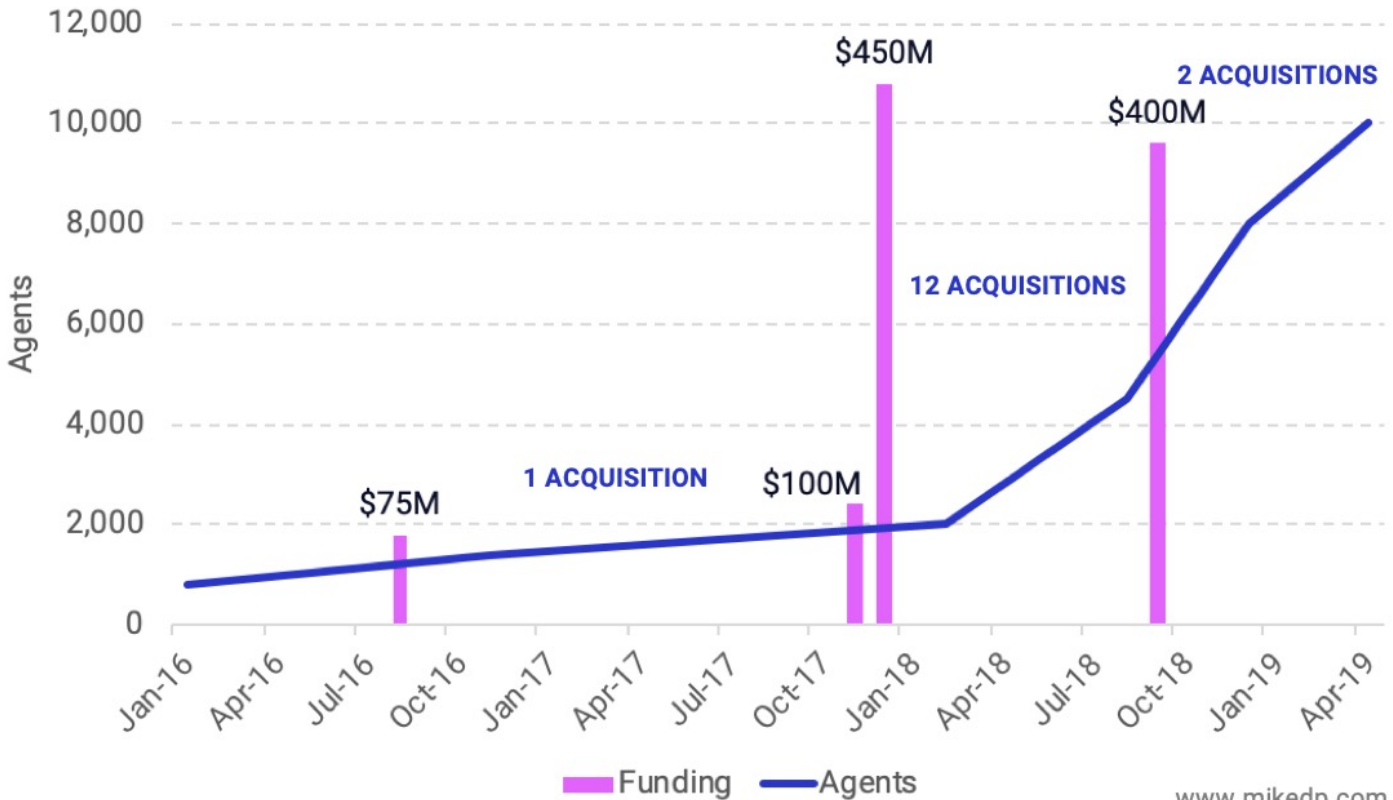


# Part 4

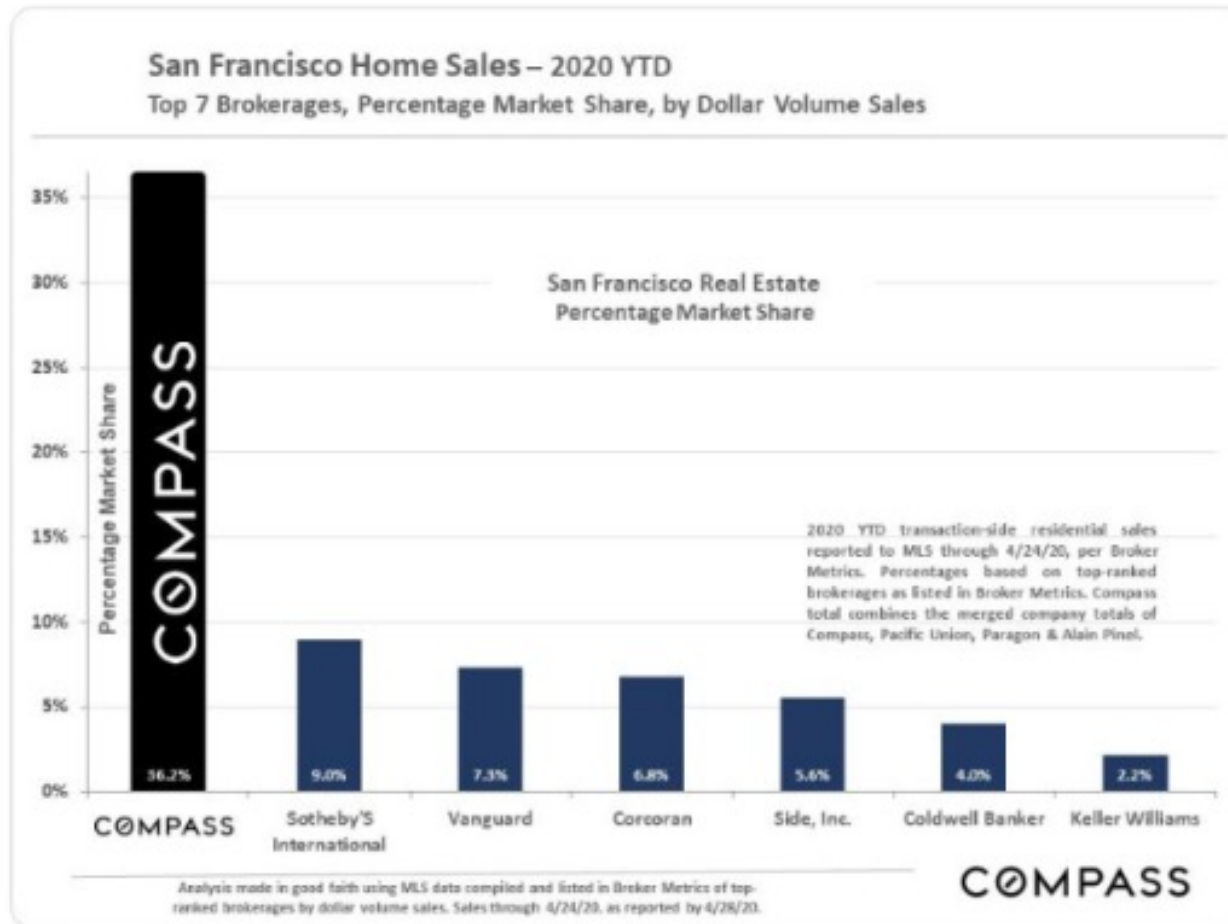
## Implications

Compass' growth strategy has been to turn massive amounts of venture capital into agents.

### Compass Funding + Agent Count



Consequently, Compass is quickly acquiring market share; in some markets, 40+ percent.



# Compass is then turning that market share into market power, via exclusive listings.

20 of 1,406 Homes Coming soon Sort by Recommended



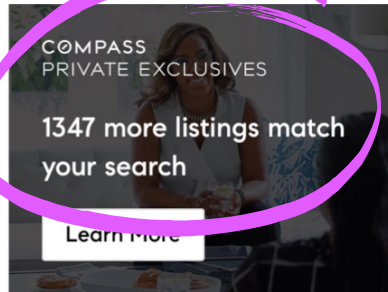
COMPASS COMING SOON

Coming Soon

\$450,000

20 Plaza Street East, ... Prospect Heights

0.5 Beds | 1 Bath | - Sq. Ft.



COMPASS PRIVATE EXCLUSIVES

1347 more listings match your search

Learn More

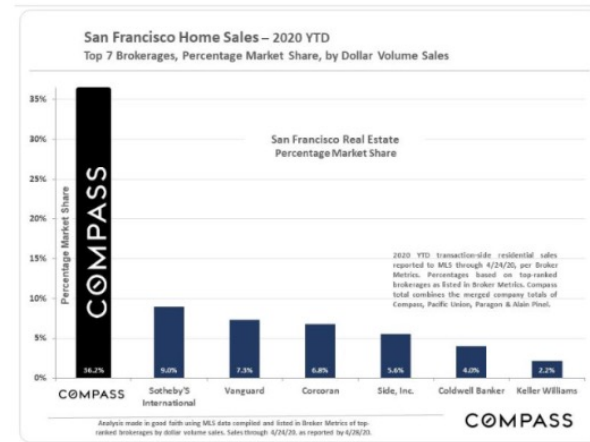
2867 Results  
Only on Compass

See 12,515 Homes



Real Estate Advisor @ Compass / San Francisco  
26m

36% market share in San Francisco. When a brokerage has this much market share its clients benefit--all of them--buyers and sellers. I have inventory (homes) on our private Compass platform that will never get listed on Zillow or Redfin. Get yourself a Compass agent ... or miss out. It's that simple.



In summary, Compass' strategy prioritizes growth above all else.

- Compass' growth is tied to its agent count; agents sell houses, not technology.
- Tech and productivity improvements have yet to meaningfully materialize.
- The core economics resemble a traditional brokerage.
- A meaningful play will be based on a strategy not in the public domain nor IPO disclosure documents.

**MD**

**MIKE DELPRETE**



# About the author: Mike DelPrete

Mike is a global real estate tech strategist, and a scholar-in-residence at the University of Colorado Boulder. He's a former tech entrepreneur, CEO, and head of corporate development with broad expertise in online real estate tech, and a passion for growing new businesses.

Mike is internationally recognized as an expert and thought-leader in real estate tech. His research and insights have been in the New York Times, Wall Street Journal, Financial Times, and The Economist. His evidence-based analysis is widely read by global leaders, and he is a sought-after strategy and new ventures consultant.



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