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CEO Matt Widdows pushes HomeSmart toward IPO

Public filing reveals brokerage exec drew down millions from company

By *Matthew Blake*

HomeSmart is a growing real estate brokerage that may go public, but the company faces questions about its business model and the compensation of founder and CEO Matt Widdows.

Founded in 2000, Scottsdale, Arizona-based HomeSmart is the seventh largest brokerage in the country by transaction sides, or how many times a HomeSmart agent represented the buyer or seller in a deal, according to RealTrends.

Last Friday, HomeSmart filed an “S-1” with the Securities and Exchange Commission, a document that conveys HomeSmart’s intention to sell company shares to

prospective investors and the public.

HomeSmart has yet to give itself a valuation or declare how much money it seeks to raise in a public offering. The company generated \$478 million revenue in the first nine months of 2021 – a figure that includes what income is earned by their independent contractor agents, and posted a \$2.3 million net loss, according to the filing.

HomeSmart like Compass, Keller Williams, eXP and other brokerages, states it has unique technology to modernize real estate.

“HomeSmart is a revolutionary real estate enterprise

powered by our proprietary end-to-end technology platform,” declared the first page of the voluminous SEC filing, later elaborating: “We have been developing our software in-house over the last 20 years and have a 100% adoption rate across our agents.”

There’s substance to HomeSmart’s claim, argued Steve Murray, senior advisor at RealTrends and longtime real estate industry consultant.

“HomeSmart does have one of the most interesting tech platforms out there as it has been internally built and basically covers all aspects of a brokerage firm’s operations,” Murray said. “The fact that it

has been used for years and built upon and it's a totally cloud-based platform does make it both unique and useful to its own operations."

And HomeSmart has grown its agent base 30% the last two years from 17,841 agents at the end of 2019 to 23,197 agents as of Sept. 30, who are spread across 47 states. HomeSmart is a "flat fee" brokerage, meaning its agents pay a set transaction fee per deal instead of a commission percentage.

HomeSmart's revenue soared 74% from the first nine months of 2020, when the company reported \$275 million generated. But that growth came with the company veering from the black to the red. HomeSmart posted a \$7.1 million profit in the first nine months of 2020, before the \$2.3 million loss at 2021's three quarter mark.

Also, \$447 million of HomeSmart's revenue in the first three quarters of 2021, or 94% of its total revenue, returns to its agents as "commission and other agent-related costs."

A not insignificant component of HomeSmart's finances

is what is funneled to, and from, Widdows.

The CEO commands a \$960,000 salary but has also received multi-million-dollar yearly payments from a "corporate reorganization." For example, in 2020, an unspecified HomeSmart subsidiary gave Widdows \$10.1 million. Widdows, though, also made a \$6.5 million "contribution" back to HomeSmart the same year.

Also, HomeSmart entered into two "eight-year note payable agreements" for which Widdows will get \$3 million and \$7 million each, plus interest. The deal is partly mitigated by a separate \$2 million "note receivable agreement" between HomeSmart and Widdows.

Messages left with HomeSmart were not returned.

"He is taking out more money than he is putting in despite the company being barely profitable," said Lloyd Greif of Greif & Co. investment bank in Los Angeles. "That's probably not the best practice." Greif, a financial adviser for decades, expressed confusion about Widdows putting in, and then taking out, money at the

same time. "Why not just take out in a lesser amount?" Greif said.

But Wayne Guay, an expert in executive compensation at the University of Pennsylvania, said these are perhaps not dubious dealings.

"The corporate reorganization may, in fact, have been executed to facilitate the company's IPO, which may have required various payments to various parties to get everything in order," Guay said.

One related matter revealed in the filing: Angelique Chambers, described as living with Widdows and working as a loan officer for HomeSmart subsidiary Minute Mortgage, was granted in July restricted stock units worth almost \$300,000.

Greif saw the stock options to a personal acquaintance – and workplace subordinate – as ethically questionable. "He can't run the company as a personal piggy bank," Greif said.