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CBG - Q2 2015 CBRE Group Inc Earnings Call

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OVERVIEW:

CBG reported 2Q15 YoverY revenue growth of 12% and adjusted EPS of \$0.42. Expects 2015 adjusted EPS is likely to be toward upper-end of \$1.90-1.95 guidance range.



CORPORATE PARTICIPANTS

Steve Iaco *CBRE Group Inc - IR*

Bob Sulentic *CBRE Group Inc - President & CEO*

Jim Groch *CBRE Group Inc - CFO & Global Director of Corporate Development*

CONFERENCE CALL PARTICIPANTS

Tony Paolone *JPMorgan - Analyst*

Brad Burke *Goldman Sachs - Analyst*

Mitch Germain *JMP Securities - Analyst*

David Ridley-Lane *BofA Merrill Lynch - Analyst*

Brandon Dobell *William Blair & Company - Analyst*

PRESENTATION

Operator

Greetings and welcome to the CBRE second-quarter earnings call.

(Operator Instructions)

As a reminder, this conference is being recorded. I would now like to turn the conference over to your host, Mr. Steve Iaco, with investor relations. Thank you. You may begin.

Steve Iaco - CBRE Group Inc - IR

Thank you and welcome to CBRE's second-quarter 2015 earnings conference call. Earlier today, we issued a press release announcing our financial results for the quarter. This release is posted on the homepage of our website, CBRE.com. This conference call is being webcast and is available on the Investor Relations section of our website. A presentation slide deck, which you can use to follow along with our prepared remarks, can also be found there. An audio archive of the webcast will be posted on the website later today and a transcript of our call will be posted tomorrow. Please turn to the slide labeled forward-looking statements.

This presentation contains statements that are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. These include statements regarding CBRE's future growth momentum, operations, financial performance, business outlook, adjusted earnings per share expectations, expectations regarding our Government Sponsored Enterprise lending activities, the timing of incentive fee realizations, and our ability to close and integrate the Global Workplace Solutions acquisition, including the timing of that closing. These statements should be considered estimates only and actual results may ultimately differ from these estimates. Except to the extent required by securities laws, we undertake no obligation to update or publicly revise any of the forward-looking statements you may hear today. For a full discussion of the risks and other factors that may impact any forward-looking statements, please refer to our second-quarter earnings report filed on Form 8-K and our most recent quarterly report on Form 10-Q and annual report on Form 10-K. These reports are filed with the SEC and are available at SEC.gov.

During this presentation, we may make certain statements that refer to non-GAAP financial measures as defined by SEC regulations. Where required by these regulations, we may provide reconciliations of these measures to what we believe are the most directly comparable GAAP measures. Those reconciliations, together with explanations of these measures, can be found within the appendix of this presentation or in our earnings release.



Please turn to slide 3. Participating on the call today are Bob Sulentic, our President and Chief Executive Officer; Jim Groch, our Chief Financial Officer and Global Director of Corporate Development, and Gil Borok, our Deputy Chief Financial Officer and Chief Accounting Officer. During our remarks, all references to the percentage increase or decrease in revenue are in local currency except where otherwise noted. Now please turn to slide 4 as I turn the call over to Bob.

Bob Sulentic - *CBRE Group Inc - President & CEO*

Thank you, Steve, and good morning, everyone. CBRE's excellent start to 2015 extended into the second quarter. Our business exhibited broad strength around the world and we continue to execute our strategy and our people create real competitive advantages for our clients. We were pleased to once again produced double-digit growth rates on the top and bottom lines. Our growth was especially impressive, coming at a time when foreign currency exchange rates worked against us significantly. In local currency, our increases of 19% in revenue and 22% in normalized EBITDA are among our best on record. Adjusted earnings per share, while up strongly at 17%, would have increased by more than 30% but for the currency effects. Our regional services businesses, the Americas, EMEA, and Asia Pacific, drove our strong performance during the quarter.

We continue to invest prudently in recruiting, M&A, platform enhancements, and strategic initiatives to ensure that we are always providing best-in-class service for our clients and driving profitable growth for our business. The benefits of these efforts were very clear in the second quarter. Each of our three regions turned in exceptional results, with high teens or better revenue growth in local currency, positive operating leverage, and strong margins. While achieving robust growth and remaining riveted on client service, we continued our progress toward completing the acquisition of the Global Workplace Solutions business from Johnson Controls. We remain on course to complete this transaction later this quarter or early next quarter, and are very enthusiastic about the opportunities it will afford us to deepen our relationships with many the world's largest corporations.

A final highlight of the quarter was CBRE's performance in The Barron's 500 ranking, published in May. Barron's uses detailed analytics to evaluate the financial performance of the 500 largest US-based corporations. We're extremely pleased to be number two on this prestigious ranking this year, up from number seven last year. This is a great testament to the hard work our people are doing every day to create value for our clients and our shareholders. Now I will turn the call over to Jim, who will describe our second-quarter performance in greater detail.

Jim Groch - *CBRE Group Inc - CFO & Global Director of Corporate Development*

Thank you, Bob. Please turn to slide 5. As Bob indicated, our Q2 results reflect sustained underlying momentum in our business. We're in a very good financial position with market-leading scale, strong margins, robust cash flow, and a flexible investment-grade balance sheet. Reflecting this, Standard & Poor's recently raised our investment grade rating to BBB from BBB minus. Revenue and earnings achieved received strong double-digit growth, even after adverse foreign currency movement. Gross revenue and fee revenue both rose 12%, or 19% in local currency. Normalized EBITDA increased 16%, or 22% in local currency, to \$304 million. We achieved a 17.1% normalized EBITDA margin on fee revenue, up 60 basis points from Q2 2014. Adjusted earnings per share improved 17% to \$0.42 for the quarter, after a \$0.05 negative impact from adverse foreign currency movement. Adjusted earnings per share would have improved 31% without the effects of foreign currency.

Please turn to slide 6 for a review of the performance of our major global lines of business in Q2. As a reminder, all percentage increases are in local currency unless noted otherwise. We achieved outstanding growth in our capital markets business. Property sales revenue surged 32%, with growth in the vast majority of countries worldwide. Mortgage services revenue growth exceeded 40% for the second quarter in a row. Mortgage servicing rights on loan activity associated with the US Government Sponsored Enterprises, or GSEs, continue to grow rapidly, with EBITDA up \$14 million over last year's Q2. As we indicated last quarter, GSE activity is expected to moderate in the second half of the year due to regulatory caps.

Global Corporate Services, our occupier outsourcing business, was particularly strong overseas, as clients increasingly require globally integrated solutions. Excluding the transaction revenues generated by this business, which are accounted for in leasing and sales revenues, Global Corporate Services achieved a 15% increase in fee revenue. Asset Services also showed robust growth around the world, with fee revenue up 24%. Property leasing revenue jumped 15%, as our focus on market share gains continued to pay dividends. The valuation business line had a very strong quarter, with revenue up 35%. Every region exhibited double-digit growth even before accounting for acquisitions completed in the second half of last

year. Revenue fell in Global Investment Management, in part due to minimal carried interest and incentive fees in this year's Q2. Overall, contractual fee revenue plus leasing, which is largely recurring, totaled 68% of total fee revenue. Property sales accounted for 23% of total fee revenue.

Please turn to slide number 7 where we will review Q2 results for our three regional business services segments, starting with the Americas. The Americas again displayed strength across the board as overall fee revenue increased 19% to \$1.06 billion. Every business line in the region produced double-digit revenue growth for the fourth quarter in a row. Once again, capital markets turned in a very strong performance, property sales rose 25% with major contributions from the US and Mexico, while mortgage services improved 44%. We increased our market share in the US investment sales and held the number one position at mid-year according to RCA. Leasing revenue grew at a double-digit clip for the eighth consecutive quarter. This reflects both improved productivity from our current brokers, as well as contributions from new producers who are migrating to CBRE at an impressive rate. Revenue for the quarter was up 11%. Combined fee revenue from Global Corporate Services and Asset Services improved 11%.

Please turn to slide 8 regarding EMEA. EMEA's performance rebounded significantly following a sluggish start to 2015. Fee revenue growth was robust across every service line and increased 33% overall to \$409 million. Property sales revenue surged 62%. United Kingdom showed exceptionally strong growth, with France, Germany, Italy, Spain, and Sweden also making notable gains. France recovered from a relatively low base in Q2 last year and remains a challenging macro environment. For the region, our growth markedly exceeded the estimated 19% volume growth recorded for the market as a whole. Growth in leasing was exceptional. Big gains in Germany, the United Kingdom, and other countries resulted in a 33% increase in leasing revenue. Year-to-date, leasing is up 14%. Combined fee revenue from Global Corporate Services and Asset Services also achieved very strong growth, improving 25%. The United Kingdom accounted for the lion's share of this growth, with notable contributions from France, Germany, and Spain.

Please turn to slide 9 regarding Asia Pacific. This region achieved 17% growth in fee revenue to \$200 million. Property sales revenue increased 24%, led by strong growth in Australia and greater China. This was a notable improvement from a relatively soft Q1. Leasing revenue also rose solidly, increasing by 12%. Australia, India, and Singapore all posted healthy gains. Combined fee revenue from Global Corporate Services and Asset Services rose 19%. China and India were key growth drivers, as outsourcing continues to gain a firmer foothold in these emerging economies.

Please turn to slide number 10, regarding our occupier outsourcing business. Financial results for this business line, which we call Global Corporate Services are reported within the three regional services segments. Global Corporate Services grew 15%, continuing its long-term record of solid secular growth as we focus on extending our leadership position with deeper and broader services for our clients. The pay-off can be seen in a growing roster of clients and the expansion of existing relationships. In Q2, we signed 83 total outsourcing contracts, one of our most productive quarters, and nearly 40% entailed expanding services or geographies for existing customers.

Mission-critical facilities have provided fertile ground for growth since we added the Norland capabilities 18 months ago. To illustrate, we were awarded data center management contracts with two Fortune 50 companies and a global financial information company during the quarter. Adding Global Workplace Solutions, 16,000 people in more than 50 countries later this year, will further broaden our reach and deepen our expertise.

Please learn to slide 11, regarding our Global Investment Management segment. Revenue and normalized EBITDA in Global Investment Management declined in Q2 versus the prior year. This was driven disproportionately by minimal carried interest and incentive payments, as well as the impact of the REIT market in the quarter.

The MSCI US REIT Index declined 10% during Q2 2015, as compared to a 7% increase in the index during the prior year's second quarter. As a result, we did not achieve anticipated incentive fees in our listed security business and were impacted by the mark to market of our related co-investments. Overall, combined incentive fees and carried interest are expected to be more weighted to the second half of this year. We anticipate being on track with our investment management and Development Services combined guidance for the full year.

Capital raising continued at a brisk pace. We raised \$2.2 billion in the second quarter and \$7.7 billion over trailing four quarters. The pipeline remains strong as we continue to produce solid returns for investors. Assets under management of \$88.4 billion were up \$2.1 billion over prior-year Q2 in local currency, but down \$4.4 billion when converted into US dollars.



Please sir turn to slide 12 regarding our Development Services segment. You will recall we expected property sales and earnings in this business to be weighted to the second half of the year. Development projects in process totaled \$6 billion, up \$500 million over Q1 2015, and the pipeline totaled \$3.7 billion, up over \$100 million over Q1 2015. Please turn to slide 13, as I turn the call back over to Bob for closing remarks.

Bob Sulentic - *CBRE Group Inc - President & CEO*

Thank you, Jim. At the midpoint of 2015, CBRE is on course for another year of very strong financial performance. We are intensely focused on executing our strategy to sustain long-term secular growth and further extend our position as the industry leader. During the first half of 2015, we completed three infill acquisitions that enhanced our service offering and we continued to lay the groundwork for the smooth integration of Global Workplace Solutions later this year. This business is perfectly aligned with our strategy of helping large global clients to meet their objectives under long-term contractual relationships. We also continued to selectively upgrade and expand our talent base. Brokerage recruiting is running at a brisk pace again this year.

We are capitalizing on the growing recognition that CBRE affords the industry's top professionals the opportunity to better serve their clients and build their careers. Finally, as Jim reviewed earlier, we are in a very strong position financially. As we start the second half, we are positive on our outlook for the remainder of 2015 and believe our full-year performance is likely to be toward the upper end of our guidance range of \$1.90 to \$1.95 adjusted earnings per share. Our business has positive underlying momentum and we're seeing great benefit from the steps we have taken to enhance our service delivery for clients and fortify our market position.

Operator, we will now open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Tony Paolone, JPMorgan.

Tony Paolone - *JPMorgan - Analyst*

Can you give us maybe some guide posts on EMEA, particularly sales and leasing for the back half of the year, in terms of are those -- do you see those as been easier or more difficult comps because when we look at the performance in the second quarter, it was pretty strong, but it also seems to be part of the business where you might be most subject to currency as well, so just trying to understand what that picture looks like in the next couple of quarters?

Bob Sulentic - *CBRE Group Inc - President & CEO*

Tony, good morning. This is Bob. We did have a good quarter in EMEA after a tough quarter, as you know, and that part of the world is particularly impacted by FX. The business has picked up momentum and we believe that we will have a strong second half there. Obviously, we're not providing separate guidance on what might happen in any one of our geographic regions, but we do feel good about the momentum in the business. And it goes beyond the UK. We're seeing good momentum in several of the other countries there, as Jim noted in his comments, so we should see a good second half there.



Tony Paolone - JPMorgan - Analyst

Okay. Then second, in the Americas your leasing was up 10%. It's a good number but I am just curious what your thoughts are in terms of how you see that commission plot cyclically and what you think the potential might be over the balance of the cycle, say, because it seems like that is one of the business lines in regions where it just hasn't seemed like it is run to full potential yet this cycle.

Jim Groch - CBRE Group Inc - CFO & Global Director of Corporate Development

Tony, this is Jim. We're up now eight quarters, double-digit, on leasing in the Americas, so it is still relatively early in the recovery stage but it continues to move strongly. It was up 11% in local currency and we're up probably about 15% year-to-date, so it is pretty consistent with our guidance for the year so far on the leasing.

Tony Paolone - JPMorgan - Analyst

Do you feel like that business is as far along, say, as investment sales, or if you feel like there's still a lot more to be gained on the leasing side?

Jim Groch - CBRE Group Inc - CFO & Global Director of Corporate Development

No, leasing is still relatively early stages. If you think back, we've only recovered the jobs we lost at the last recession in April of last year and it is the pick-up in jobs that has been at a modest pace but steady that's helped slowly improved rental rates and that has provided some fuel behind the business, but it feels relatively early still.

Tony Paolone - JPMorgan - Analyst

Okay. Last question, with regards to the JCI transaction, any update on financing yet? When you think you might -- if I recall correctly and I might be wrong, but you were going to fund a part of it with debts and just wondering when you start to put that all together?

Jim Groch - CBRE Group Inc - CFO & Global Director of Corporate Development

When we announced the deal, we mentioned that we anticipated funding some with cash, probably somewhere in the range of about one-third and the rest with debt. We can't provide more insight than that right now.

Tony Paolone - JPMorgan - Analyst

Okay. Thanks.

Operator

Brad Burke, Goldman Sachs.

Brad Burke - Goldman Sachs - Analyst

A bit of a follow-up to Tony's questions, but more macro. The negative headlines that we're seeing coming out of Greece or China haven't had much of an impact on your results, but for the impact of FX, and I'm just wondering if we should start to sense -- see any moderation or slowdown outside of the US across any of your business lines because of macro concerns or at this point are the CRE market just shrugging it off?



Bob Sulentic - *CBRE Group Inc - President & CEO*

Brad, I was over in Europe last week with our EMEA leadership team and they are not feeling threatened by the macro circumstances you are describing. Obviously, they are watching them and they watch them more closely than we do from over here and they have insight from interface with local business people and so forth, but they are not feeling threatened by that, and in general, feeling good momentum, as I said to Tony, good momentum, not only in the UK but in businesses around Europe. So you never know where surprises might come from, but for the moment everything we are seeing is being taken on board, and that economy, broadly speaking, is now growing and activity in our sector is picking up leasing, as well as capital markets, which has already picked up, so we're feeling pretty good about it right now.

Brad Burke - *Goldman Sachs - Analyst*

That would be the same for Asia Pacific as well?

Bob Sulentic - *CBRE Group Inc - President & CEO*

The situation is a little different in Asia Pacific than it is in EMEA. Everything is relative, so our folks in Asia Pacific, while that part of the world is still growing faster than the rest of the world, relative to historic standards that they've set, it's not as exciting, so I would say that they are feeling solid, but there is not the same enthusiasm about the relative movement in the market as there is in EMEA. Of course, the leasing in general is moving solid, not spectacular in Asia Pacific capital markets, a lot of capital wants to go there. There is a challenge around lack of product in some markets so there is not a feeling of being threatened by the macro circumstances there, but on a relative basis, EMEA probably has a little more momentum now than Asia Pacific.

Brad Burke - *Goldman Sachs - Analyst*

Okay, that's helpful. Jim, you said you realized a \$14 million improvement in EBITDA from GSE lending in the quarter, but you're still expecting there to be a deceleration in the back half of the year, so I was hoping you could help us think about the magnitude of the slowdown that you might expect and if you could give us any rough guidelines on how to think about the potential EBITDA impact year-over-year?

Jim Groch - *CBRE Group Inc - CFO & Global Director of Corporate Development*

It is a little hard to predict the volume but we do think we will be down in the second half versus the prior year, probably in the range of \$10 million to \$20 million, but that is our best view as of now.

Brad Burke - *Goldman Sachs - Analyst*

Okay. And on investment management EBITDA, I realize that a lot of the decline that we're seeing is driven by some of the choppy items, but it's still the lowest quarter that we've seen in a while, so I was hoping that you could help us think about what we're looking at in 2Q and how that compares to how we should think about a normalized run rate for that business?

Jim Groch - *CBRE Group Inc - CFO & Global Director of Corporate Development*

Brad, Q2 was definitely hit by number of things. I would say, the performance of the REIT market was a big one. It was down over 10%, the market, the index was down over 10% in Q2, and that's compared to being up 7% in Q2 on the prior year. That compare hits us in a few different places. It resulted in us not achieving some incentives that we had anticipated. It reduced some of the fees off the base business, and then that 17% swing resulted in us [marking to market] our co-investments, which was not immaterial. We have about \$60 million or so of co-investments in that business. So the combination of those three, I would say, was somewhat of an [anomalous] impact. FX also the business. It is pretty heavily weighted to



Europe. Those are the primary factors that hit it for the quarter. And as I said in the opening, we do believe that our guidance for the year, which we gave on a combined basis for the development business and investment management business, still appears to be on track.

Brad Burke - *Goldman Sachs - Analyst*

Okay. That's helpful. Thank you.

Operator

Mitch Germain, JMP Securities.

Mitch Germain - *JMP Securities - Analyst*

Just curious on the guidance, is that including the impact of the GWS acquisition?

Jim Groch - *CBRE Group Inc - CFO & Global Director of Corporate Development*

It is but we're not expecting that to have a material swing on the numbers for the period of time that we will have the business.

Mitch Germain - *JMP Securities - Analyst*

So the one quarter is not going to make much of a difference. How should we think about it for next year then?

Jim Groch - *CBRE Group Inc - CFO & Global Director of Corporate Development*

We won't be giving guidance on that for next year until we are ready to give guidance for the year just in our normal course activity.

Mitch Germain - *JMP Securities - Analyst*

Then just with regards to GWS, how many new relationships does that company bring into the fold?

Bob Sulentic - *CBRE Group Inc - President & CEO*

Mitch, it brings in 100 relationships, many of which we have already, 100-plus relationships, but many of those we don't have on a contractual basis. So as you know, because of the skill of our business, we do business in one way or another with most companies around the world today, but GWS had large contractual relationships with a substantial number of corporations that we had one-off relationships with, so very, very different relationships going forward and a very important part of this deal.

Mitch Germain - *JMP Securities - Analyst*

Just in terms of that comment, Bob, how do you consider the potential to cross-sell if many of those customers are already existing customers? Just trying to figure out not just what GWS brings into the fold, but what it could bring in, in your ability to cross-sell your services?

Bob Sulentic - *CBRE Group Inc - President & CEO*

There's two kinds of cross-sell that will come from that combination. One is what GWS can do for the clients we have that we're not doing today, and then the other is what we can do for the clients they have that they're not doing today, so there is big opportunity in both directions. The first order of business, of course, is for us to get the businesses combined and do great work with what we are already doing and that is where our focus is right now. But we do think there is both kinds of revenue synergy opportunities. There is technical services that GWS should be able to provide for us in many places of the world, many clients. Then obviously, they didn't have a material transaction business and we think there is opportunity, if we do great work for those clients over time, to do quite a bit of transaction work for them. So we look at that in both directions, but the starting point is great job at what we're already doing for those clients.

Mitch Germain - *JMP Securities - Analyst*

Okay. Just in terms of appetite for acquisitions, you mentioned three on the year. Is it slowing down just because you have got this big one in the queue or is it still as active a pipeline as you guys have seen before?

Jim Groch - *CBRE Group Inc - CFO & Global Director of Corporate Development*

I'd say the pipeline is just as active. As we've commented over the last year or so, we've become increasingly particular about the deals and the deal structures that we are looking at. Walking away from deals, we think the pricing is out of whack, but the pipeline is still quite solid. We signed GWS in the first half and closed three infill acquisitions, slightly slower pace than normally without a large transaction, but we feel pretty good about the pipeline and we will continue to do infill, probably at a pretty similar rate to what we have done when we're not in the midst of a large closing.

Mitch Germain - *JMP Securities - Analyst*

Great. That's it for me. Thanks.

Operator

David Ridley-Lane, Bank of America Merrill Lynch.

David Ridley-Lane - *BofA Merrill Lynch - Analyst*

You had a goal of getting around 50 basis points of operating margin expansion in the regional service segments, North America, EMEA, Asia Pac. Year-to-date, you're up about 150 basis points. Do you see an upward bias on that target?

Jim Groch - *CBRE Group Inc - CFO & Global Director of Corporate Development*

We are ahead of our plan on that basis, and we look at it, if we back out of the regional businesses, the year-over-year gains from servicing rights and the impact of FX, we are up about 100 basis points, which we feel great about. We will have a little tougher compare as we get into the second half, particularly on the servicing side, but we feel good about where we are at and we are a little bit ahead of our pace for the year.

David Ridley-Lane - *BofA Merrill Lynch - Analyst*

Then on the proprietary businesses, it seems like maybe a little bit more second-half weighted, particularly in Development Services, just in terms of EBITDA in the second half of 2015 versus 2014. Could you see those two businesses, the Investment Management Development Services have a year-over-year increase in EBITDA?



Jim Groch - CBRE Group Inc - CFO & Global Director of Corporate Development

Our guidance was that the two of them would be roughly flat to the prior year combined and we still believe we are on target to that guidance.

David Ridley-Lane - BofA Merrill Lynch - Analyst

Got it. Then a little bit of a macro question. In the capital markets business, how would you put the average holding periods or how frequently buildings are changing hands today versus long-term averages? Are we back to the normal turnover level globally in capital markets?

Bob Sulentic - CBRE Group Inc - President & CEO

David, we don't have that. That is a great question and it would be nice to have that statistic at our fingertips but we don't and so we can't answer it up specifically. I will tell you what we are seeing. The prices are good so a lot of people are trading and there is a lot of capital out there so a lot of people are trading. That is part of why prices are good. But there is also -- once people acquire assets, there is a desire to keep them and work them and so on and so forth. So you have dynamics on both sides of that question, some pushing for a quicker turnover, some pushing for longer hold. Where the math works out, we just don't have -- we haven't researched that and don't have an answer ready for you.

David Ridley-Lane - BofA Merrill Lynch - Analyst

All right. Congratulations on the quarter. Thank you.

Operator

Brandon Dobell, William Blair.

Brandon Dobell - William Blair & Company - Analyst

Jim, just to clarify, on the GSE business, that \$10 million to \$20 million, is that a second half or second-half headwind that you are talking about? Just want to make sure I understand how you are positioning that number?

Jim Groch - CBRE Group Inc - CFO & Global Director of Corporate Development

Yes, it is a second-half headwind, as far as in comparison to the figures for that from first-half prior-year.

Brandon Dobell - William Blair & Company - Analyst

Got it. Okay.

Jim Groch - CBRE Group Inc - CFO & Global Director of Corporate Development

I'm sorry, from second half.



Brandon Dobell - *William Blair & Company - Analyst*

Yes, second-half, prior-year. All right. Got you. Then, Bob, you mentioned the pace of recruiting or hiring remains at a pretty high level. Maybe put some context around that for us? Is that higher than you expected? Has it surprised you because of inbound interest, or maybe just your success rate of getting people you thought you might get? Then how do we think about what that should tell us for the pace of headcount additions in the back half of the year?

Bob Sulentic - *CBRE Group Inc - President & CEO*

Brandon, it is consistent with the last couple of years. We've commented that the last couple of years have been long-term records for us, so we are encouraged by it. We're not really surprised by it because we work very hard at it and we have done some things with the business that make it a more attractive place for brokers to come and I would say meaningfully so. We expect to, given the work we're doing and given the business we've built and the ability of brokers to come over here and produce more than they can produce in other places and do things for their clients that it is harder for them to do in other places, we expect to see that momentum continue and it is an important part of our strategy.

Brandon Dobell - *William Blair & Company - Analyst*

Okay. And maybe to that point, if you look at the wins, maybe in the first half of this year or this quarter in the Corporate Services part of the bailiwick, how do those wins look from a breadth and depth of the services and the geographies that they include versus what they look like last year? Or maybe for -- compare a couple of clients in the same industry, a recent win versus a win a couple of years ago, what do those things look like? How much expansion are you getting, new deals versus old?

Bob Sulentic - *CBRE Group Inc - President & CEO*

I will give you a comment on it and then I'm going to ask Jim to also, because you asked multiple questions there. But first of all, the pace of wins is picking up and when you have more wins, you have more different kinds of wins. We're seeing more wins outside the US than we have seen historically. We are seeing more wins in what I would call the technical area, which makes the GWS acquisition even more appealing for us. We are seeing, on the transaction services side of the business, we are seeing wins where they are demanding that we do things that we have not been able to do historically. Again, our GCS team and our brokerage team have worked together to put some capabilities in place to serve that requirement, so all of that is positive. And by the way, we really are seeing a lot of -- as Jim commented, in the numbers, a high percentage of the wins we are having are add-on services or expansions of existing contracts. So the business is just getting bigger, in part, and all the things you see in a bigger business -- more diverse types of services and contracts, more global, all of that stuff is happening for us. But Jim, do you want to add anything to that?

Jim Groch - *CBRE Group Inc - CFO & Global Director of Corporate Development*

Bob, the only thing I would add to that is just that as the depth and breadth of our capability set has continued to expand, the same thing has happened with the size -- the depth and breadth of the assignment. So as we have become more capable to do more things for our clients, we're seeing those opportunities open up, that clients are smart and well-informed as to our capability sets and that [has helped] to drive larger more complicated accounts with more services and critical facilities, was one that you mentioned. That has picked up simply because we've picked up capabilities in that area and continue to improve.

Brandon Dobell - *William Blair & Company - Analyst*

One final one in that same direction, given some of the capabilities that you are adding, how successful are you with, let's call it, mid- contract discussions? Not at a specific renewal point in a contract but going back to some of the legacy customers that you couldn't serve with those newly



added services when you first signed the contract, how successful are you at [rejiggering] or expanding those contracts when there really wasn't a specific renewal point that you have to walk in and talk about?

Bob Sulentic - *CBRE Group Inc - President & CEO*

Brandon, that is a circumstance that we are precluded from essentially selling at this point. The two companies, until they are combined, have to market separately. Obviously, we have a point of view on what will happen, and when you go back to Jim's comments and mine on the trends we're seeing in these contracts, we believe that'll be pretty powerful combination when it is added together but we are not able to enjoy that yet.

Brandon Dobell - *William Blair & Company - Analyst*

Okay. Got you. Thanks, guys.

Operator

Brad Burke, Goldman Sachs.

Brad Burke - *Goldman Sachs - Analyst*

A quick follow-up on Mitch's question on the guidance, the \$1.90 to \$1.95 that you had given previously presumably didn't include the impact of the JCI business, and now, per your answer to his question, it sounds like it does. Jim, you had said that, that was an immaterial impact, but I was hoping you could give us a little bit more just to make that comparison of Q2 guidance versus Q1 guidance apples-to-apples, whether you can elaborate on the magnitude that we ought to be thinking about, or maybe the timing of closing that you're expecting, that is currently in the guidance that you are giving now?

Jim Groch - *CBRE Group Inc - CFO & Global Director of Corporate Development*

I don't think it is going to have much impact. We will probably be carrying some extra interest expense, as we're likely to have some financing expense that will be -- even some weeks of interest expense, when you're only holding a business for, call it, a few months, can have an impact. So we're assuming modest if any -- call it \$0.01, maybe, impact from GWS, but that is a very rough estimate at this point. It could be impacted by the timing of the closing.

Brad Burke - *Goldman Sachs - Analyst*

As a general statement, though, we would expect the expenses for the acquisition to ramp on more quickly than the associated EBITDA with the acquisition, just due to the timing of the financing, so that wouldn't be how we would think about a run rate accretion in 2016?

Jim Groch - *CBRE Group Inc - CFO & Global Director of Corporate Development*

That is correct.

Brad Burke - *Goldman Sachs - Analyst*

Okay. That's helpful. Thank you.

Operator

Tony Paolone, JPMorgan.

Tony Paolone - JPMorgan - Analyst

I had a follow-up on Norland and the more technical aspect of that business, which you cited a couple times seems to be strong. What exactly, or can you put a little more detail around exactly what you do with data centers and things of that nature? So for instance, when we hear about Amazon and their cloud business just growing so rapidly, is it something that you guys would be involved in or is it more to do with companies' back office, if you will, data center needs? Just trying to understand exactly what gets done there?

Bob Sulentic - CBRE Group Inc - President & CEO

I would say both. If you look at a heavy-duty data center, we would do everything within that data center up to putting the computers in the racks and from that point forward. In some cases, we will not only manage the facility, the mechanical systems, fire safety, battery power back-up, et cetera, but in some cases, even build out the racking systems and then that is where our service would stop. I don't know if -- is that helpful with regard to your question?

Tony Paolone - JPMorgan - Analyst

Yes. Is that because of the nature of that being more technical and the capability -- do you get a better margin on that? And also do you see that growing faster than, say, the non-technical side of things?

Bob Sulentic - CBRE Group Inc - President & CEO

I can't comment on the margin specifically, but I would say it's definitely one of the areas within that business where we have seen strong growth. And we had significant capabilities already in that area before the acquisition of Norland. Norland had a -- probably almost one-third of their business that was totally focused on these types of critical facilities. GWS has considerable focus and expertise, as well, in a variety of critical facilities -- not only data centers, but also laboratories and other critical facilities, so that our base of capabilities has continued to improve and the market has been pretty open for us there.

Tony Paolone - JPMorgan - Analyst

Okay. Thank you.

Operator

Mr. Sulentic, we have no more further questions at this time. I would now like to turn the floor back over to you for closing comments.

Bob Sulentic - CBRE Group Inc - President & CEO

Thank you everyone for joining us and we look forward to talking to you next time.

Operator

Ladies and gentlemen, this does conclude today's teleconference. You may disconnect your lines at this time. Thank you for your participation and have a wonderful day.

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