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EDITED TRANSCRIPT

CBG - Q3 2015 CBRE Group Inc Earnings Call

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OVERVIEW:

Co. expects 3Q15 adjusted EPS of \$0.51. Expects 2015 adjusted EPS to be \$2.00 to \$2.05.



CORPORATE PARTICIPANTS

Steve Iaco *CBRE Group, Inc. - Senior Managing Director, IR and Corp Communications*

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

Jim Groch *CBRE Group, Inc. - CFO*

CONFERENCE CALL PARTICIPANTS

Brad Burke *Goldman Sachs - Analyst*

Tony Paolone *JPMorgan - Analyst*

Brandon Dobell *William Blair & Company - Analyst*

Mitch Germain *JMP Securities - Analyst*

David Ridley-Lane *BofA Merrill Lynch - Analyst*

PRESENTATION

Operator

Greetings and welcome to the CBRE third-quarter 2015 earnings conference call. At this time, all participants are in a listen-only mode. The question-and-answer session will follow the formal presentation.

(Operator Instructions)

As a reminder, this conference is being recorded. I will now turn the call over to Mr. Steve Iaco, Investor Relations for CBRE. Thank you, Mr. Iaco, you may now begin.

Steve Iaco - *CBRE Group, Inc. - Senior Managing Director, IR and Corp Communications*

Thank you. Welcome to CBRE's third-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 home page of our website, www.cbre.com.

This conference call is being webcast through the investor relation section of our website. You can also find there our presentation slide deck which you can use to follow along with our prepared remarks. The audio archive of the webcast will be posted to the website later today, and a transcript of our call will be posted tomorrow.

Before we get started, we would like to remind all of you that we will host our annual business outlook day in New York on December 3. This is an opportunity to provide the investment community with an in-depth understanding of our business lines and our strategy. We look forward to seeing many of you there. Now, 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, and adjusted earnings per share expectations including expected contributions and cost synergies from the newly acquired Global Workplace Solutions business and its integration. These statements should be considered to be estimates only, and actual results may ultimately differ from these estimates.



Except to the extent required by securities laws, we will undertake no obligation to update or publicly revise any forward-looking statements we may make today. For a full discussion of the risks and other factors that may impact any forward-looking statements, please refer to our third-quarter earnings report filed on Form 8-K and our quarterly reports on Form 10-Q filed in 2015 and our most recent annual report on Form 10-K. These reports are filed with the SEC and available at www.SEC.gov.

During this presentation, we may make certain statements that refer to non-GAAP financial measures as defined by SEC regulations. We are required by these regulations we provide reconciliation to these measures to what we believe to be the most directly comparable GAAP measures. Those reconciliations, together with explanations of these measures, can be found within the appendix of this presentation. Please turn to slide 3.

Participating on our call today are Bob Sulentic, our President and Chief Executive Officer, Jim Groch, our CFO, and Gil Borok, our Deputy CFO and Chief Accounting Officer. During our remarks, except where otherwise noted, all references to the percentage increase or decrease are in local currency as calculated by comparing current-period results at prior-period exchange rates versus prior-period results.

Now, please turn to slide 4 as I turn the call over to Bob.

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

Thank you, Steve. Good afternoon, everyone, and thanks for joining us. The third quarter of 2015 was an eventful period for CBRE.

As you saw in our press release, we posted excellent results with strong top and bottom line growth around the world, highlighted by a 28% increase in adjusted earnings per share. We also moved decisively to fortify our market leading occupier outsourcing business with the acquisition of Global Workplace Solutions on September 1. This is our largest acquisition in nearly a decade and one of the most compelling ever completed in our sector.

The combination creates a platform unlike anything that has previously existed in our industry with highly complementary product offerings and common cultures around innovation and client service. It broadens our value proposition, creates true global scale, deepens our relationships with prominent global corporations, and enriches our talent pool.

Our last three large strategic acquisitions are recurring revenue businesses that operate under contracts that are typically five years or longer. These acquisitions have helped to transform CBRE into a more resilient business. We now have a dramatically more powerful integrated service offering while maintaining our core focus on commercial real estate services.

We also continued to make gains through investments in recruiting, training, technology, branding, and research, all positioned to help us deliver great outcomes for clients and to drive growth. We saw the payoff from these investments across CBRE in the third quarter. Notably, our services business comprised of the Americas, EMEA, and Asia-Pacific regions again posted significant revenue and normalized EBITDA growth with solid margin expansion. Our investment management business also performed well.

Now, Jim will provide you with more specific insight into our performance.

Jim Groch - *CBRE Group, Inc. - CFO*

Thank you, Bob. I will begin with an update on our overall performance and the expected contributions from our recent acquisition of Global Workplace Solutions. Please turn to slide 5.

In Q3, our business continued to exhibit excellent broad-based momentum. Revenue and earnings growth for the quarter was very strong. In local currency, gross revenue increased 26% while fee revenue rose 21%. Without the one-month contribution from the acquired Global Workplace Solutions business, gross and fee revenue were both up 16% in local currency.

Normalized EBITDA totaled \$345 million, an 18% improvement from last year's Q3 with a 24% improvement in local currency. Profitability was strong with a 17.8% normalized EBITDA margin on fee revenue, up approximately 60 basis points from Q3 2014. Adjusted earnings per share increased 28% to \$0.51 for the quarter.

Please turn to slide 6 for an update on the expected financial contributions from the newly acquired Global Workplace solutions business. This acquisition greatly enhanced our ability to serve leading corporations around the world. We funded about one-third of the purchase price with cash and temporary revolver borrowings and two-thirds with attractively priced five-year and seven-year bank debt in 10-year bonds. Both Moody's and Standard & Poor's affirmed our investment-grade credit rating.

The integration of Global Workplace Solutions with our existing occupier outsourcing business is off to a great start. Morale is very high. Our organization structure for senior leadership, line of business leaders, and geographic leadership is in place. Feedback from clients, their consultants, and our shareholders has been overwhelmingly positive as the rationale for the acquisition and the value proposition is clear.

We have identified additional cost synergies and now expect run rate annual synergies of approximately \$50 million, up from our initial estimate of \$35 million in March 2015. We anticipate achieving approximately \$30 million of the synergy in 2016 with the remaining run rate savings largely realized by year-end 2017.

When we announced the acquisition in March, we indicated expected material accretion to our adjusted 2016 EPS with a mid-single digit percentage increase. We are now raising our estimate to high single-digit percentage increase accretion in 2016.

We closed the acquisition in the early part of our expected timeframe and raises financing with minimal interest expense in advance of closing. In light of this, we now expect the acquired Global Workplace Solutions business to contribute \$0.03 to \$0.04 to adjusted earnings per share for the last four months of 2015. Calendar-year Q4 has typically been a seasonally slower period for the acquired Global Workplace Solutions business due to its fiscal year previously ending September 30. As a result, accretion from the last four months of 2015 is not indicative of the higher expected run rate contribution in 2016.

Please turn to slide 7 for a review of the performance of our major global lines of business in Q3. As a reminder, I am referencing percentage increases in local currency unless noted otherwise.

For the Company as a whole, contractual fee revenue plus leasing, which is largely recurring, totaled 68 % of total fee revenue. Occupier outsourcing showed strong growth in all three regions, excluding transaction revenue generated by this business, which is accounted for in leasing and sales revenue. Occupier outsourcing achieved a 53% increase in fee revenue, excluding the contribution from the acquired Global Workplace Solutions business, fee revenue rose 14%.

Asset services growth was moderate with fee revenue up 4%. Investment management performed well. Fee revenue increased 19% fueled by higher carried interest tied to property dispositions.

Valuation again grew nicely with global fee revenue up 14%. We benefited from higher volumes of appraisal and consulting work which stem in part from acquisitions we made in 2014.

Property leasing revenue again rose by double digits with 12% growth globally led by Europe and Asia-Pacific. The growth rate in the US slowed modestly but remains strong at 9%.

We are seeing less availability in Class A office space in a few gateway markets with new development accelerating but generally still lagging demand. This may extend the time it takes to complete certain larger lease transactions. However, we continue to reap the benefits of very strong recruiting activity, higher productivity from our existing brokerage teams and modest rent growth.

Our capital markets business continued to perform exceptionally well and made gains in market share and strong capital flows into real estate. Property sales revenue rose 19% with every region producing markedly higher activity. In the US, we logged impressive market share gains as

confirmed by RCA at a time when the overall market activity was flat for the quarter. We continued to see activity broadening into secondary markets in the US and EMEA. In Asia-Pacific, Australia and Hong Kong accounted for the lion's share of the increase.

Mortgage services also remained robust with revenue up 33%, even though as expected, loan volume with the US government-sponsored enterprises leveled off due to the regulatory caps. Banks, life companies, and other debt capital sources stepped up their lending. Please turn to slide 8. We will review Q3 results for our three regional services segments all in local currency.

Fee revenue increased 18% in the Americas. In EMEA, fee revenue increased 29%. We saw healthy gains across the region including France, Germany, the Netherlands, Spain, Switzerland, and the United Kingdom. In Asia-Pacific, fee revenue rose 22% with growth led by Australia, greater China, and India.

Fee revenue growth without the contribution from the acquired Global Workplace Solutions business was 14% in the Americas, 19% in EMEA, and 17% in Asia-Pacific. Normalized EBITDA increased 18% in the Americas, 70% in EMEA, and 54% in Asia-Pacific.

Please turn to slide 9 regarding our occupier outsourcing business which is reported within the three regional services segments. This business line, which we previously called global corporate services, adopted the global workplace solution name on September 1. This move reflects global workplace solutions high brand value in the facility management sector and the increasingly diverse workspaces in which we are serving clients, including hospitals, data centers, labs, and manufacturing plants. Outsourcing continues to gain wider appeal and existing customers are taking advantage of our deeper and broader platform.

In Q3, we set a new quarterly record for the number of expansions of existing contractual relationships. We also signed nine contracts with new or existing healthcare clients reflecting the compelling and growing opportunity for CBRE in this sector. These numbers do not include contracts from the newly acquired Global Workplace Solutions business which we will begin to reflect in our contract reporting in 2016.

Please turn to slide 10 regarding our global investment management segment. This business performed well with \$19 million of carried interest tied to significant property disposition activity. Capital-raising totaled \$1.8 billion in Q3 and \$7 billion over the trailing four quarters.

We continue to attract significant equity commitments based on the solid performance of our investment programs. More than 75% of our AUM has outperformed its long-term industry benchmark. At the end of Q3, assets under management of \$86 billion were up \$1.6 billion over prior-year Q3 in local currency but down \$2.6 billion when converted into US dollars.

Please turn to slide 11 regarding our development services segment. Pro forma revenue, which includes equity earnings and gains on real estate sales and EBITDA, both declined, reflecting fewer large property dispositions than in last year's highly active Q3 period. However, activity is very strong, and we expect most of this year's earnings to be achieved in Q4 from several large transactions. We now anticipate that our combined investment management and development services businesses for 2015 will moderately exceed 2014 performance.

Development projects in process totaled \$6.7 billion, up \$1.3 billion since the end of 2014. The pipeline totaled \$4 billion, flat with year-end 2014, as projects have been converted from pipeline to in-process.

Now, please turn to slide 12 as I turn the call back over to Bob for closing remarks.

Bob Sulentic - CBRE Group, Inc. - President & CEO

Thank you, Jim. As we enter Q4, 2015 is clearly emerging as another exceptional year for CBRE. The actions we have taken to upgrade our talent base, enhance our service offering, materially strengthen our operating platform, particularly around data and technology, and fortify our financial position are yielding strong results for our clients and for our shareholders.



We are mindful of the challenges to the global economy. However, in light of our performance through the third quarter and our strategic and financial momentum, we are raising our full-year 2015 guidance for adjusted EPS by \$0.10 to the \$2 to \$2.05 range. This new guidance implies 20% year-on-year growth in adjusted earnings per share at the midpoint of the range.

With that, Operator, we will go to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Brad Burke, Goldman Sachs.

Brad Burke - Goldman Sachs - Analyst

Good evening. Congratulations on the quarter. I want to start with property sales. The growth was obviously strong in the US, certainly versus what a lot of us were expecting when we look at the RCA data. And, you had called out that you had taken share in the quarter. But, I was hoping you could break down how much of the growth that you saw in Q3 was share gain versus maybe the market holding up a little bit better than what the third-party data would indicate? And, to the extent that you're gaining share, if you could touch on some of the things that would be driving that.

Jim Groch - CBRE Group, Inc. - CFO

Brad, it's Jim Groch. We think RCA's data is pretty good so we attribute the vast majority of our outperformance to share gain.

Brad Burke - Goldman Sachs - Analyst

So, that 17% growth in the quarter versus you had said RCA being zero, so the entirety of that is share gain?

Jim Groch - CBRE Group, Inc. - CFO

Yes. I think so. Now, as we say every quarter depending on which way these things go, regardless of which way they go, quarter-to-quarter swings in this data can move quite a bit from one quarter to another.

Brad Burke - Goldman Sachs - Analyst

And, is that an increase in headcount or recruiting or better productivity, or a combination of the two?

Bob Sulentic - CBRE Group, Inc. - President & CEO

Brad, this is Bob. It is both. We have had a lot of recruiting success. That has been a big initiative for us for the last three years, and we have talked about the fact that we have had -- a couple of years ago was one of the best years in the history, if not the best year in the history of our Company. We repeated it last year. This year is on a similar pace, and we are starting to see the benefit of that recruiting.



We are seeing better production from some of our people. We are teaming in some ways and doing some things. We've built an in-house investment banking capability to support our investment sales professionals. That has been helpful in a number of cases. And, as a result, all of this came together to produce what you saw this quarter. I think it's notable though what Jim said. These things do fluctuate quarter to quarter. This was a particularly good quarter for us.

Brad Burke - *Goldman Sachs - Analyst*

Okay. That's helpful. And, with the capital markets business, I know has been something that we have been nervous on. I was hoping that you could give us some thoughts about how that business is shaping up looking forward? And also, whether you are starting to see any pullback in the credit markets?

Jim Groch - *CBRE Group, Inc. - CFO*

Brad, this is Jim. At the beginning of the year as you know, we gave guidance that we thought the growth rate in this business would pull back to high single digits. We think we -- obviously, the market -- we and the market have outperformed that projection. But, we still believe that that business will slow down and that's coming and we may have just been a little bit early on that call. We think it will slow down to a more sustainable level, but that continues to be our belief. The rate of increase in liquidity in the market has come down, but as you know, there's still quite a bit of liquidity in the market.

Brad Burke - *Goldman Sachs - Analyst*

Okay. Last one just sticking with capital markets. With the commercial mortgage business, I think last quarter you had said there was a \$15 million headwind to EBITDA you were expecting Q3, Q4 due to the GSE lending caps. And, it certainly doesn't seem to have impacted the third quarter, so I was wondering whether that was still the case? And, if you are able to beat that, what would be driving it?

Jim Groch - *CBRE Group, Inc. - CFO*

That ended up being about flat for Q3. We are still projecting that Q4 will be down from prior year. We are now thinking \$10 million-plus or minus, but it's a little hard to project those numbers precisely. Other lenders have picked up pace. More capital is coming to market from other sources as they have pulled back.

Brad Burke - *Goldman Sachs - Analyst*

Thank you.

Jim Groch - *CBRE Group, Inc. - CFO*

Thank you.

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

Thanks, Brad.



Operator

Tony Paolone, JPMorgan.

Tony Paolone - JPMorgan - Analyst

Thanks, and good afternoon, everybody. First on GWS, I just wanted to reconcile -- if I think about the \$237 million of revenue you got in September and annualize that. It's \$2.8 billion. It just seems inside if I recall right, correctly that the run rate revenues coming out of the deal, is there seasonality? Or, can you just give us a sense as to what the annualized number should be as we look at GWS in the first year?

Jim Groch - CBRE Group, Inc. - CFO

Yes. We will give a little more color when we normally do guidance in 90 days, but two comments. One is, the numbers I think you maybe referencing were from 2014. JCI had been shedding a couple of unprofitable contracts, and then, of course, revenue and expenses were impacted by foreign exchange since 2014.

Tony Paolone - JPMorgan - Analyst

Okay, so we should have -- there will be some diminution in that just from a run rate point of view? That shouldn't be the number we look at?

Jim Groch - CBRE Group, Inc. - CFO

Not EBITDA. But, revenue, yes.

Tony Paolone - JPMorgan - Analyst

Right. And, the accretion guide that you gave with the transaction, is that -- just to understand the mechanics. Is that still the EBITDA that you originally expected, I think? Plus the cost saves and then minus interest expense on the bond deal you did? And then, some D&A? Is that how you're getting to that accretion? Just trying to understand the components of that number?

Jim Groch - CBRE Group, Inc. - CFO

Yes, pretty much. I think you've outlined the right factors.

Tony Paolone - JPMorgan - Analyst

What was it that, I guess, surprised you, or turned out to be a bit more positive to move from mid-single-digit to high single-digit accretion?

Jim Groch - CBRE Group, Inc. - CFO

It's two factors. One being increased synergy and the second just increased confidence.

Tony Paolone - JPMorgan - Analyst

Okay. In the synergy, I think you had mentioned \$30 million, but I thought that was the same as what it was originally? And, the extra \$20 million was something for 2017.



Jim Groch - *CBRE Group, Inc. - CFO*

No, when we first announced the deal in March, we referenced a \$35 million run rate synergy and noted that we expected most of that to be back-end weighted to the second year. Or, not most of it but for it to be more back-end weighted so that we'd realize that over two years. That \$35 million run rate synergy has now increased to \$50 million, and we're saying we believe we will achieve \$30 million of that \$50 million in the next calendar year in 2016. And, by the end of 2017, we should largely achieve the full \$50 million run rate synergy. So, the total amount of synergy has increased and the pace at which we expect to achieve the synergy has increased.

Tony Paolone - *JPMorgan - Analyst*

Okay. Got it. Thanks for clarifying that.

And then, I have a question in development services and as well as investment management. Given how robust capital markets are, do you think you will accelerate asset sales and drive promotes, incentive fees, and that stuff in the next few quarters? We notice that it seemed like your carried interest was a little higher this quarter. I'm just curious as to what your plans are with -- again, the development pipeline being pretty large and moving its way through. And then, any other asset sales that might drive promotes?

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

Tony, you mentioned both the development business and the investment management business. And, it has been the case for some time now and continues to be the case that we are aggressively harvesting assets in our investment management business, because that's what our clients want us to do. We are able to fetch good prices and recycle the capital for them in many cases and generating very good relative returns. And so, we will continue down that path.

In the development business, we've built up a very healthy, in-process portfolio of opportunities. They are very well underwritten. Very good, and we think that that business will contribute really nicely to the Company fourth quarter this year and next year, and we are not doing anything to accelerate it. Development projects have their own lifecycle. You have to get them approved, designed, built, and leased up, and then you can sell them. So, we're not doing anything to accelerate that process, but that process is playing out. And, as you know, we have -- our portfolio of projects has grown nicely over the last couple of years. So, we expect to see some good returns as a result.

Tony Paolone - *JPMorgan - Analyst*

Okay. And, can you share what the fourth quarter expected incentive fees or carried interest amount is going to be?

Jim Groch - *CBRE Group, Inc. - CFO*

Tony, what we've mentioned on our -- just before we opened up for questions is that we expect the combination of the two businesses to be up moderately over last year.

Tony Paolone - *JPMorgan - Analyst*

Okay. And then, just last question. If I think about your various business lines and then also your various geographies and then overlay that with some of the more macro economic volatility we've seen over the last few months. Where do you see pressure, if anywhere on that Matrix?



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

Right now, Tony, we're not seeing a lot of pressure. I would tell you where we are seeing the strongest growth is in Europe. You saw the results this quarter. We expect that to continue.

But we saw good growth in places where people didn't necessarily expect it. In greater China we had nice growth, and Australia we did. And so, we have not felt a lot of meaningful pressure at this point. And, the backlogs of business we have suggests that the year should finish out nicely for us.

Tony Paolone - *JPMorgan - Analyst*

Okay. Thanks and nice quarter.

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

Thank you.

Operator

Brandon Dobell, William Blair.

Brandon Dobell - *William Blair & Company - Analyst*

Thanks. Afternoon. Let me keep hammering the capital markets line for a second here. Do you feel there is any -- or was any acceleration in deals? Just with an eye of maybe uncertainty towards the end of the year? Or, people just changing their approach based on how the interest rate noise is playing to the capital markets? Are people changing their trajectory? Or, was it just it felt like deals that closed -- or were closing when they were supposed to close?

Jim Groch - *CBRE Group, Inc. - CFO*

Brandon, this is Jim. We did not see any change in the dynamics of people trying to accelerate deal closings. I would say that you asked about coming forward next quarter. Q4 the last two years has been really strong, so it's a little bit of a tough compare. But, outside of that, I think the business activity will still be strong.

Brandon Dobell - *William Blair & Company - Analyst*

Okay. And, within the US looking at the larger markets versus secondary markets, I know there's still some pretty big gaps in cap rates and things like that between those markets. But, do you look at those -- if you want to divide the market into those two categories. Where do you feel you've got more momentum, or where do you feel the momentum is sustainable over a longer duration for your brokers?

Jim Groch - *CBRE Group, Inc. - CFO*

There is still, honestly, an awful lot of activity across the market globally both in the key markets -- core [CBD] markets and in the secondary markets, but we have seen strengthening in the secondary markets both throughout the US and EMEA.



Brandon Dobell - *William Blair & Company - Analyst*

Okay. And then, in GWS. Maybe some color on how the cadence of the either contract renewals, or your opportunity to get under the covers of some of these contracts. How we should think about that impacting some of the potential knock-on revenues around other services? Whether it be add-ons to the existing contracts for facility or property? Leasing? Maybe you had some capital markets activity, but I guess I'd focus more on the leasing and consulting around the existing contracts. Is it going to take you four, five, six years to get through all these things? Or, do you have opportunities to go back or to go into those customers midstream and change what those deals might look like?

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

Brandon, we always have the opportunity because of the full service nature of what we do to talk to those, and they are mostly large corporates. Though increasingly, we are doing work for hospital systems and government enterprises, but the -- we always have the opportunity to talk to them on a full-service basis. But, we've made an absolute commitment to ourselves and to our clients that for the time being our focus for them with this acquisition, which again as we talked about in our prepared remarks is the biggest we've done in a decade and really unlike anything spent in our sector. The focus is on great results for our clients. We believe that the other things we do aren't going to be a secret to them, and that over time, we can provide great services to them with the work we do now.

We will be able to integrate back and forth between the client base that we have and the client base that GWS brought to us with the very complementary services we have had. But, that's not what we've talked about in our underwriting, or in the -- Jim has talked a number of times over the last couple of quarters about what we expect out of this deal. What we're talking about is not that. That will be there if we do a good job. Our focus is on doing a good job. We think there will be upside, but we aren't factoring in a lot of revenue synergy into that business right now. We're factoring in our normal growth and excellent execution, and we think the revenue synergy will come as a result of that.

Brandon Dobell - *William Blair & Company - Analyst*

Okay. Does the acquisition change how we should think about the headcount and growth trajectory for 2016? I.e., do you need to add service professionals in the core service lines around the GWS deal to really take advantage of the breadth of the portfolio? Or, should we expect the numbers of headcount you add in 2016 to look like it did in 2015, so the growth rate is a little bit slower?

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

Yes, we won't need to add a lot of professionals. We added a lot of professionals, as you know, and really at a record pace the last couple of years in our transactional businesses, and we work for 80%, 90% of the large companies around the world on the transaction side already. We're positioned to do more for those clients. We're positioned to do work for them on a contractual basis, and we are seeing more that. But, we're not going to have to meaningfully ramp up our headcount to get that done.

Brandon Dobell - *William Blair & Company - Analyst*

Okay. Perfect. Thanks a lot.

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

Thank you.

Operator

(Operator Instructions)



Mitch Germain, JMP Securities.

Mitch Germain - *JMP Securities - Analyst*

Thank you. Jim, was trying to get a better idea with regards to the guidance bump. It looks like about \$0.03 to \$0.04 of it was GWS, mortgage, some carried interest. Is that the way to think about the different variables that led you to take such a constructive view on the outlook?

Jim Groch - *CBRE Group, Inc. - CFO*

I would say those are factors, but really the businesses have been performing pretty strongly across all three regions and all lines of business. We do a bottoms-up detailed review every quarter, and it was that review that took us to this increase.

Mitch Germain - *JMP Securities - Analyst*

Great. And, if I look at the balance sheet a little over two times debt to EBITDA today, where do you see that factoring out as 2016 progresses? Do you see that dropping down to more normalized levels?

Jim Groch - *CBRE Group, Inc. - CFO*

When we announced the deal in March we said we thought we would be at 1.7 times leverage -- 1.7 times EBITDA by year-end, and I think we are right on track for that. That's a relatively conservative view, so our bank covenants will show a lower leverage ratio because we can pro forma in the run rate EBITDA that we've acquired et cetera. But, on the most conservative view, we're just over two now, and we will be under two by year-end.

Mitch Germain - *JMP Securities - Analyst*

Great, and then just two quick ones -- two more quick ones for me. One, in terms of retention, GWS. It sounds like you said you have the business leaders in place and the management in place. How did you -- do you see any loss in terms of some of the key personnel that you were expecting to take on?

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

Well, the most important people have signed employment agreements for five years and are feeling quite significant enthusiasm for the business and the combination. So, I don't think so. We will have -- there will be some overlap and so there will be some people that leave, but I think we're in very strong shape there as far as retention.

Mitch Germain - *JMP Securities - Analyst*

Great, and now that this deal has been completed, are you seeing -- are you going to be now focusing back on some of the smaller tuck-in and strategic acquisitions?

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

Yes. I think you'll start to see a pickup probably as early as our next quarterly call.

Mitch Germain - JPM Securities - Analyst

Great, thank you. Great quarter.

Bob Sulentic - CBRE Group, Inc. - President & CEO

Thank you.

Operator

David Ridley-Lane, Bank of America.

David Ridley-Lane - BofA Merrill Lynch - Analyst

Sure. So, one concern we've heard from investors is that sources of cross-border capital -- either commodity-driven economies or greater Asia economies are likely to slow going forward. What have you seen either quantitatively or anecdotally about cross-border capital flows?

Jim Groch - CBRE Group, Inc. - CFO

We have not seen that David. What we've seen is that cross-border capital flows have remained strong. We have interviewed -- polled our clients in various ways. We think half of the clients that we did business with a year ago that were moving capital across borders. Half of them intend to move more capital this year than they did a year ago.

And so, you saw the numbers for the -- numbers not only for us but for the whole market. For the quarter and the year. So, we have not seen a pullback in that at this point. It just hasn't been something we've seen. In Europe, in particular, we have seen a meaningful increase in cross-border flows into Europe.

David Ridley-Lane - BofA Merrill Lynch - Analyst

Got it. And then, on the capital markets pipeline, has the disruption we've seen in the debt markets and around CMDS in particular. Has that been enough to put some deals out of the pipeline? Or, is most of the things that you've been working on still very much go-ahead for the fourth quarter?

Jim Groch - CBRE Group, Inc. - CFO

From what we've seen, there is sufficient capital from other sources to step in. As I mentioned earlier, we have been anticipating that the rate of growth and sales will come down to a more sustainable level, and we still believe that that's likely to be the case. But, we are not seeing deals die, basically, because of the lack of debt capital.

David Ridley-Lane - BofA Merrill Lynch - Analyst

Got it. And then, curious on the leasing volumes. Did you see any impact from the market volatility? Or, were corporations pretty -- had enough confidence to go ahead and execute leases even with some of the broader market volatility in the quarter?

Jim Groch - *CBRE Group, Inc. - CFO*

We saw strong growth in leasing around the world. Slightly slower growth in the US this quarter than we have seen, but still very strong at 9%. And so, we haven't seen the dynamic. We are expecting to see some of that in China, but we really haven't as of now haven't seen that pullback. And, we are expecting to see a nice finish to the year. We are watching China like everybody else.

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

Got it. Thank you very much.

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

Thank you.

Operator

Mitch Germain, JMP Securities.

Mitch Germain - *JMP Securities - Analyst*

I am sorry. Just one more for me. How should I look at the recurring -- the fee revenue of the Company on a more -- on a pro forma level when we assume a full-year impact of the GWS deal?

Jim Groch - *CBRE Group, Inc. - CFO*

Mitch, we are not -- .

Mitch Germain - *JMP Securities - Analyst*

As a percentage of the whole?

Jim Groch - *CBRE Group, Inc. - CFO*

We haven't given any guidance on that. When we come back next quarter, we will take a look at that maybe we can give some more color.

Mitch Germain - *JMP Securities - Analyst*

Thank you.

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

Okay.



Operator

We have no further questions at this time. I would like to turn the conference back to management for any closing comments.

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

Thank you, everyone, and we look forward to talking to you when we do our year-end release in three months.

Operator

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

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