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# EDITED TRANSCRIPT

CBG - Q3 2016 CBRE Group Inc Earnings Call

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## OVERVIEW:

Co. reported 3Q16 adjusted EPS of \$0.50. Expects 2016 adjusted EPS to be \$2.15-2.30.



## CORPORATE PARTICIPANTS

**Steve Iaco** *CBRE Group, Inc. - Senior Managing Director of IR*

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

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

## CONFERENCE CALL PARTICIPANTS

**Anthony Paolone** *JPMorgan - Analyst*

**Jade Rahmani** *Keefe, Bruyette & Woods, Inc. - Analyst*

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

**Brandon Dobell** *William Blair & Company - Analyst*

**Alan Wai** *Goldman Sachs - Analyst*

**Mitch Germain** *JMP Securities - Analyst*

## PRESENTATION

### Operator

Greetings, and welcome to the CBRE third-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, Steve Iaco with Investor Relations. Mr. Iaco, you may begin.

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**Steve Iaco** - *CBRE Group, Inc. - Senior Managing Director of IR*

Thank you, and welcome to CBRE's third-quarter 2016 earnings conference call. Earlier today, we issued a press release announcing our financial results for the quarter and the first nine months of the year. This release is posted on the home page of our website, CBRE.com.

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

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 statements include statements regarding CBRE's future growth momentum, operations, market share, business outlook, and financial performance expectations. 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 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 2016 earnings report furnished on Form 8-K, and our most recent quarterly and annual reports on Form 10-Q and 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 have provided 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.

Please turn to slide 3. Participating on our call today are Bob Sulentic, our President and Chief Executive Officer, Jim Groch, our Chief Financial Officer, and Gil Borok, our Deputy Chief Financial Officer and Chief Accounting Officer. Now please turn to slide 4, as I turn the call over to Bob.

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

Thank you, Steve, and good morning, everyone. By now, you've read our press release, detailing CBRE's financial results for the third quarter of 2016, which Jim will discuss shortly. Our results are solid, and largely in line with our and the market's expectations.

Our performance is notable when viewed against the exceptionally strong growth we posted in last year's Q3, and a backdrop of lower property sales volumes in most markets. In this environment, CBRE's premier position in commercial real estate, with a deep diverse market-leading service offering, continues to serve us and our clients well. Occupier outsourcing, our largest business line, saw fee revenue growth of 16% or better in local currency in each of our three regions, before contributions from the acquired Global Workplace Solutions business. This acquisition, which we completed 13 months ago, has fortified our capabilities, and given us an advantaged position serving occupier clients.

The diversity and depth of our service offering helps set CBRE apart from others in our sector. Another way we're distinguishing ourselves is through the strategic gains we're making across the Company. Our investments in people, digital initiatives, specialized consulting services, and other capabilities are driving growth and enhancing CBRE's ability to deliver highly-differentiated client outcomes. With that, I'll turn the call over to Jim for a detailed review of our third-quarter results.

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

Thanks, Bob. Please turn to slide 5 for an overview of our financial results. As Bob noted, Q3 was a solid quarter against an exceptionally strong Q3 of 2015.

To put this into perspective, we achieved growth rates in Q3 2015 of 21% in fee revenue and 24% in adjusted EBITDA, both in local currency, and 28% in adjusted EPS. In Q3 of 2016, fee revenue of \$2.1 billion was up 11% in local currency from Q3 2015. Organic growth without the contributions from acquisitions, including the Global Workplace Solutions business, increased 1%.

Adjusted EBITDA for the quarter totaled \$349 million, a 1% increase in US dollars from last year's Q3, or 5% increase without the impact of currency movements, including hedging. Adjusted EBITDA margin on fee revenue for the quarter was solid at 16.5%, despite headwinds versus prior year Q3 from reduced carried interest, decreased property sales, and increased costs to retain and attract talent. Adjusted earnings per share totaled \$0.50 for the quarter.

Comparing Q3 2016 results for the year-earlier quarter, currency movement, including hedges, had a negative impact of \$12.9 million to adjusted EBITDA and \$0.03 to adjusted EPS. Without this impact, adjusted EPS was up 4%. Q3 2016 adjusted EBITDA of \$349 million includes \$38.9 million incurred in connection with the cost elimination program that we discussed in the prior three quarters. This program is now complete. It also includes \$28.6 million of integration costs relating to the acquisition of Global Workplace Solutions.

In Q3, we continued to maintain our investment discipline around M&A, as we have seen pricing increase on less stable income streams during 2016. We remain actively engaged in the market, but are willing to step aside when price or terms are out of step with our underwriting criteria.

In a similar vein, recruiting in the sales and leasing business continued at a measured pace. As noted on prior calls, we have tightened underwriting, and reduced our net recruiting significantly versus the pace of the last few years. Nonetheless, we expect to add hundreds of producers net of departures this year, while maintaining by far the highest EBITDA margins among diversified services providers.

Please turn to slide 6 regarding Q3 results for our three regional services segments, all in local currency. Fee revenue increased 25% in EMEA and 9% in both the Americas and Asia-Pacific. Without contributions from the acquisition of Global Workplace Solutions, fee revenue increased 8% in EMEA, and 3% in the Americas, but declined 2% in Asia-Pacific. After removing the effect of foreign currency, including hedging in both Q3 2016 and 2015, adjusted EBITDA increased 19% in EMEA, and 6% in the Americas, while decreasing 8% in Asia-Pacific.

Our strong performance in EMEA this quarter highlights the steps we have taken in recent years to strengthen our position. A material slowdown in transaction activity in the UK, our largest market in the region, was more than offset by the results from three areas of focus:

Number one, significant growth in our outsourcing business. Two, the strength of our business in continental Europe, which is benefiting from an enhanced leadership team. And three, run rate operating savings from our proactive cost elimination program, which began a year ago and is now complete.

In the UK, overall gross revenue and fee revenue grew 20% and 12% respectively, or 8% and 2%, excluding the acquired Global Workplace Solutions business. This growth occurred, despite the slowdown in the UK transaction market, in the wake of Brexit.

Please turn to slide 7 for a review of our business mix. The Company's business mix has evolved significantly in recent years. Contractual fee revenue comprised 42% of total fee revenue for the Company, as a whole. This compares with 37% in Q3 2015, and 20% in Q3 2006.

Please turn to slide 8 for a review of our major global lines of business in Q3. All percentage increases are in local currency. As Bob mentioned, occupier outsourcing exhibited very strong growth.

Organic fee revenue rose 19%, without the contributions from the acquired Global Workplace Solutions accounts. Strength was exhibited around the world, with fee revenue growth rates, ex the Global Workplace Solutions acquisition, of 16% in the Americas, 21% in EMEA, and 25% in Asia-Pacific. Property sales activity was healthy by historical standards, but global sales revenue declined 7%, compared with the very strong Q3 2015, when our global sales revenue rose 19%.

In Q3 2016, EMEA saw strong growth in France, the Netherlands and Switzerland which offset continued weakness in property sales in the UK, in the wake of Brexit. Commercial mortgage services rose 24%, driven by gains from mortgage servicing rights, and increased loan originations for the government sponsored enterprises to provide financing to multifamily assets.

Year-to-date capital markets revenues were up 2%. In light of lower sales revenue in Q3, and the impact of Brexit discussed last quarter, we now expect our capital markets revenues to be flat to slightly up for the year.

Leasing revenue grew 2% in Q3, compared with largely flat global market volumes, and a very strong Q3 for CBRE in 2015, which saw leasing up 12% globally. Year to date, our leasing revenues are up 7% globally.

In the Americas, robust growth in Brazil, Canada and Mexico offset flat performance in the US in Q3. Year-to-date leasing revenue in the Americas has increased 9%. In Asia-Pacific, leasing revenue increased 4% in Q3, led by Greater China, Japan, and Singapore.

Leasing in EMEA rose 3%, a turnaround from a decline in Q2. A number of countries showed strength, notably France, Ireland, Poland and Switzerland. Fee revenue from property management services increased by 2%. Valuation revenue was essentially unchanged for the quarter.

Please turn to slide 9 regarding our occupier outsourcing business, which is reported within the three regional service segments. This business' ongoing appeal to large space users can be seen in the 113 total outsourcing contracts, including facility management, project management, and transaction management signed during Q3, including 52 expansions of existing client relationships, a Company record.

In our outsourcing business, gross revenue, as determined under GAAP, depends on the contract structure, while there is typically no impact on the calculation of fee revenue. As we harmonize contract structures and renewals of legacy JCI Global Workplace Solutions clients, we will likely



continue to experience different growth rates over time for gross and fee revenue. We believe fee revenue generally provides a more consistent view of revenue growth.

We continue to make great inroads in the healthcare sector, an underpenetrated market, with significant growth potential. We signed 16 total contracts in this sector in Q3, adding new clients like Brigham and Women's Hospital and Mount Sinai Health System, while expanding our work for existing clients, such as John Hopkins.

We are also well-positioned to capture integrated multi-service, multi-geography mandates. One recent example was ExxonMobil, which selected CBRE to provide integrated facilities, project and transaction management services throughout Asia-Pacific and the Americas. CBRE's capabilities enable us to create competitive advantage for our global clients, and in turn, drive growth opportunities in our outsourcing and transaction businesses.

Please turn to slide 10, regarding our Global Investment Management segment. Adjusted EBITDA for this business totaled \$19 million, down from a particularly strong Q3 of 2015. This decrease was driven by the timing of carried interest. Just \$2 million of carried interest revenue was realized in the current quarter, compared with \$19 million in the prior-year period.

Attesting to the strong returns this business line generates for its clients, total equity commitments in Q3 rose to \$2.1 billion, the highest level in nine quarters. Total equity raised over the past 12 months increased to \$7.4 billion.

Assets under management totaled \$87.9 billion, up \$5 billion from a year ago in local currency. Foreign currency movement over the past year limited the increase to \$1.9 billion in US dollars. This reflects the fact that approximately 60% of our AUM, excluding securities, is in Europe, and is generally denominated in Euros and pounds sterling.

Please turn to slide 11 regarding our Development Services segment. This business continued to perform well. Adjusted EBITDA totaled nearly \$16 million for Q3, while pro forma revenue, which includes gains on real estate sales, equity earnings and non-controlling interest, increased to \$43 million.

Development projects in process totaled \$7.1 billion, up \$400 million from Q3 2015. The new projects pipeline totaled \$3.7 billion, down \$300 million from a year ago, as projects have converted from pipeline to in process. When looking at our Development Services and investment segments together, as noted in last quarter, we continued to see some uncertainty as to the timing of the realization of incentives.

Please turn to slide 12. Before I turn the call back to Bob, I'd like to briefly highlight our results for the first nine months of 2016. Fee revenue increased 19%, and adjusted EBITDA rose 12%, both in local currency.

Adjusted earnings per share increased 10%, or 13% without the effects of currency changes, including hedging. This strong performance was on top of an exceptional growth for the first nine months of 2015 when we achieved growth rates of 24% for adjusted EBITDA, and 30% for adjusted EPS, both without the effects of currency, including hedging. Now, please turn to slide 13 for Bob's closing remarks.

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

Thank you, Jim. CBRE has continued to produce strong results for our shareholders, as we invest in our people and platform, including digital initiatives, to drive long-term growth and create superior outcomes for our clients. Commercial real estate fundamentals remain healthy in most parts of the world, and the global economy continues to grow at a modest pace.

CBRE, as the clear market leader, is well-positioned to achieve strong long-term financial performance and widen our competitive advantage in the marketplace. We continue to expect adjusted EPS for the full year of \$2.15 to \$2.30, which represents solid growth of approximately 9% at the midpoint of the range, on top of an exceptional performance in 2015.

Before we close, you'll note that this morning we announced an authorization to repurchase up to \$250 million of our shares over the next three years. The strength of our balance sheet, considerable cash flow, and resiliency of our business gives us the flexibility to return capital to our shareholders, while continuing to make long-term growth oriented investments. With that, operator, we'll open the line for questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions)

Our first question comes from the line of Anthony Paolone with JPMorgan. Please proceed with your question.

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### Anthony Paolone - JPMorgan - Analyst

First question is on guidance. You kept the range as we head into the last quarter of the year. Just wondering if you can comment on what it would take to make it to the bottom, or to the high end of the range, and what creates the variability with one quarter left.

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

It's Jim. I think we can't comment at this point as to what would drive up or down the range. As to the variability, Q4 is our biggest quarter, and so there's always some -- there are big numbers, there's always some uncertainty, as you get into Q4. Sales have slowed a bit, as we mentioned, so that's an impact. But also, just some timing around carried interest, which we also noted.

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### Anthony Paolone - JPMorgan - Analyst

Okay. You mentioned the capital markets revenue now being flat to up for the year. Does that part of it feel pretty visible at this point, in terms of being in that ZIP code?

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### Bob Sulentic - CBRE Group, Inc. - President and CEO

Tony, this is Bob Sulentic. It really -- there's some signs that buyers and sellers are coming together, but as you know, it really depends on what happens in December, and we're still a ways away from that. So we wouldn't want to project, with any level of certainty, what's going to happen as the year-end comes.

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### Anthony Paolone - JPMorgan - Analyst

Okay. And then on EBITDA, was wondering if maybe you could help us, if I look at your adjusted EBITDA just year-over-year was up about like I think \$5 million or something, in that range, so up modestly. You had obviously the contribution from GWS, and the acquisition there. How are the margins in the rest of the businesses performing, if we extrapolate out the acquisition?

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

Tony, this is Jim. I would just comment overall on the margins. Our margin for the quarter was 16.5%. Our margin year to date is 16.4%.

The margins are only down modestly, and basically back to where they were a little over a year ago. So we've given back some of the operating leverage that we picked up last year, but the margins, I think have held up pretty nicely, especially after the acquisition of GWS, and after the fact that sales have been down this year.

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**Anthony Paolone** - JPMorgan - Analyst

Okay. How much cost did the savings initiatives take out of the system, now that those are done?

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

We're not giving a specific number on that, but I think you can see some of the results coming through, particularly in EMEA, where that work was concentrated.

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**Anthony Paolone** - JPMorgan - Analyst

Okay. And then on outsourcing, you had mentioned 16 additional contracts, can you give us any sense as to what average fee revenue is on one of these types of contracts?

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

Not really. The range is very wide. They can be hundreds of millions, down to much smaller contracts. They're all multi-year and material, but the range is extremely wide.

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**Anthony Paolone** - JPMorgan - Analyst

Okay. Last question. There have been some articles written about just competition for brokers in the marketplace ramping up. Can you comment on just retention and broker splits and any trends there?

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

Tony, this is Bob. There is a decent amount of that going on in the market. The articles that are out there get some things right, and miss some things in a pretty big way.

But we've very much maintained our discipline around underwriting, for retaining and recruiting brokerage talent, and as a result our recruiting this year, while very active, is down meaningfully from the record pace we've had the last couple years. We expect to add a couple hundred brokers. It will be off meaningfully from where it's been, and we simply aren't going to participate in what we consider to be irrational pricing in the recruiting wars.

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**Anthony Paolone** - JPMorgan - Analyst

Okay. Thank you.

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**Operator**

Our next question is from the line of Jade Rahmani with KBW. Please proceed with your question.



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**Jade Rahmani** - Keefe, Bruyette & Woods, Inc. - Analyst

Thank you very much. On the property sales business, looking beyond the fourth quarter, can you just give some color on what trends you're seeing in the market? For example, how do bid lists on transactions look? Are you seeing fewer participants? Are you seeing increased caution on underwriting, or do you think there's resiliency in the marketplace and maybe the US election is a factor weighing on sales pace?

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

Jade, this is Jim. We are seeing, in our system where we track the number of folks that are signing non-disclosure agreements per deal, that's remained pretty steady and at a high number, in the upper 50s per deal of people that have seen it, reviewed the teaser, and come in and signed a full non-disclosure agreement, so with a real interest. That's held pretty steady. We have seen days on the market increase a bit, let's say maybe 10% or so, so we have seen a little more caution as the year played out.

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**Jade Rahmani** - Keefe, Bruyette & Woods, Inc. - Analyst

And how about actual bids, people submitting bids on transactions? Is the number of participants declining?

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

Still pretty strong in general, but on the largest deals, you're seeing the number decline, on very large transactions.

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**Jade Rahmani** - Keefe, Bruyette & Woods, Inc. - Analyst

And in terms of recent capital flows and maybe fund raising activity in the market, what does that suggest to you about the outlook for property sales?

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

Our own capital raising was a very, very strong quarter, and very strong trailing 12 months for our own business. But capital raising overall with the industry has been under some pressure. It still feels like there's a fair amount of liquidity on the market.

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**Jade Rahmani** - Keefe, Bruyette & Woods, Inc. - Analyst

And in terms of mix of buyers and sellers, is that shifting a lot? Are you seeing more foreign capital flows in the US, for example, or any change in type of funds?

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

We're seeing more capital from Asia than we've seen in the past. But there's -- beyond that, we wouldn't -- no major trends.

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**Jade Rahmani** - Keefe, Bruyette & Woods, Inc. - Analyst

Okay. Just on the leasing business, can you comment on the flat performance in the US, and maybe differentiate between gateway cities versus secondary markets? What do you think is driving the flattish performance? Is it supply, or any changes in leasing velocity?



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

Supply comes into play once in a while in a few markets, but it's not a prominent driver. First of all, it's important to note that the flatness is one quarter. Year-to-date, we've had good growth. And secondly, there is a little uncertainty out there among occupiers, as to what they want to do.

We're also comparing against a really strong year from last year, so I think it's hard to read too much into what happened over the last 90 days. And we still expect to see growth in the economy. We still expect to see healthy leasing activity, but keep in mind the backdrop of a little uncertainty and a very strong compare from a year ago.

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**Jade Rahmani** - Keefe, Bruyette & Woods, Inc. - Analyst

On the M&A side, we get lots of questions about the rationale behind various M&A transactions that the major brokers have pursued. Can you give some color on how you're thinking about M&A, and also what benchmarks you look at? For example, how do you think about return on invested capital?

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

Sure. We don't give very specific underwriting standards, what we have noted in the past is that an infill M&A for us has historically, and has continued on average to be in the 5 to 6 times EBITDA range. We note that our cost of capital, we believe, is in the plus or minus 10% range, and that we conservatively underwrite well in excess of that return on an IRR basis.

That gives you a couple of metrics to have a sense for. We commented throughout the last year, but really the last I would say 12 to 18 months, we've seen the deal flow relatively strong. Opportunities are out there, but we have felt that pricing was getting heady, and that the income streams that were being priced were less certain. And as a result, we've pulled back on deal volume that we've been closing.

We stepped away from deals where we had to latch out to make the deal. We just didn't think the economic returns, the risk/reward ratio was right. So hopefully that gives you some good feedback there.

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**Jade Rahmani** - Keefe, Bruyette & Woods, Inc. - Analyst

Yes, thanks. And just finally, on the MSR gains, can you quantify maybe on a per-share impact that MSR gains contributed to adjusted EPS?

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

We don't quantify in total. What I can tell you is that on an EBITDA basis, the incremental in this quarter versus the same quarter last year was \$26.5 million.

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**Jade Rahmani** - Keefe, Bruyette & Woods, Inc. - Analyst

Thanks for taking my questions.

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**Operator**

Our next question is from the line of David Ridley-Lane with Bank of America. Please proceed with your question.

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

Since you're initiating the buyback now, just wanted to get a sense of your philosophy. Would you expect to be steadily active in the market, or is this more of an opportunistic authorization? Just your broader thoughts on you how you're planning to use the buyback.

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

Say it again. Your question was on how we intend to execute the buyback?

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

Yes. Is it going to be a steady amount each quarter or is it more opportunistic?

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

We're not going to comment on timing, but it would be over time and probably not steady by quarter.

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

Got it. And then, could you comment on the progress you're making on cross-selling leasing to GWS clients, and maybe your expectations for that in 2017?

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

Yes, David. This is Bob. That is a very important part of our strategy.

We have put in place an initiative we call advisory and transaction services for occupiers. It operates at the intersection between our occupier brokerage or tenant rep businesses, a lot of people call it, and our transaction management business for our large occupier outsourcing accounts. We've added a lot of consultative capability and data capability to that offering. And we're seeing, very good results, and we're counting on those results to be a big part of the future of that business.

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

Got it. And then, has debt financing become incrementally more difficult to obtain for potential buyers on the capital markets side? And are you seeing that as a potential tailwind for your commercial mortgage brokerage business?

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

Our commercial mortgage brokerage business does a lot of work with the GSEs, and that is very active, and we expect that to continue to be very active through the course of the year. Much more skewed in that direction of multi-family than our sales business is, and that's why you've seen a divergence in the volume of our mortgage origination business, and the volume of our sales business. We expect there to be adequate capital from the life companies and the GSEs going forward, so we expect to see strong volume for the balance of the year.

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

And I know you're not giving quantification on the cost elimination program, but maybe could you -- have we seen half the benefit of the full run rate of this program in the third quarter? Did we see most of the full run rate benefit in the third quarter? Is there some color you could give us around that?

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

Well, it continued through three quarters, and of course you don't get the run rate on -- you certainly don't get a full year's worth of run rate on anything you did after the first quarter of the year. So we expect -- we will receive meaningful benefit this year. We'll receive more benefit from it next year. But we really aren't quantifying it on an annual or quarterly basis. It was an important and significant program, though.

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

Understood. Thank you very much.

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**Operator**

Our next question is coming from the line of Brandon Dobell with William Blair. Please proceed with your question.

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**Brandon Dobell** - William Blair & Company - Analyst

Maybe, either Bob or Jim, some comments about the leasing market momentum, maybe compare how things feel here in North America versus Europe, and has there been any -- I wouldn't call it snapback, but any recovery in momentum now that we've got a bit of distance after the Brexit vote?

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

Well, leasing volume was down significantly in the UK, but on continental Europe, it's doing much better, and we meaningfully outperform the market on continental Europe. We think the volume in the UK was down in the mid double-digits. We were down far less than that.

We grew very dramatically on the continent as a result of some of the things that Jim talked about in his prepared remarks. I would say, around the world, it's what I said earlier, Brandon. There's significant activity, but against a backdrop from last year, where we and the market grew dramatically. It seems fairly muted.

We expect there to continue to be solid activity. We expect the market -- there to be job growth, like the job growth we had so far this year. But there is uncertainty in the marketplace, which is putting pressure on the results, relative to what they were a year ago.

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**Brandon Dobell** - William Blair & Company - Analyst

Okay. Thinking about your transaction producers, and I don't know how this works, but given the strength the past couple of years, and it sounds like there's a reasonably competitive market for especially the top people these days, are you already talking with guys about how split structures, those things are going to look for the next year going into year-end? Or maybe asked a different way, do you think that producers have a little more leverage going into year-end, or thinking about 2017 than they would have over the past couple of years?

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

The way we run the business, we try to have a platform, a set of capabilities, a brand, a client base that allows us to pursue our policies on a consistent long-term basis. For instance, we do work with virtually every major corporation in the world. We have a \$90 billion AUM investment management business, that we do a lot of work for. We have \$7 billion of development in process, that virtually all of which is leased and sold by our brokers.

As Jim has noted a number of times, we get about a third of our occupier leasing work from our base of outsourcing clients, and we've increasingly invested in technology and consultative capability to support our brokers. So we're not going from quarter to quarter and from poaching headline to poaching headline, and adjusting the way we engage with our brokers on a financial basis. It's much more of a long-term plan.

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**Brandon Dobell** - *William Blair & Company - Analyst*

Okay. And then final one from me, as you think about the investment management business, the type of capital you're raising from the various sources, maybe some color around what the fee structures look like, how sticky the capital may be in terms of what those deals look like, versus last year, a couple years ago? I guess I'm just trying to get a sense for whether you're seeing things in the capital raised within CBREI that gives you a little either pause, some cause for concern, or just gives you a different feel for where your customers may think we are in the cycle, versus where a broker's transaction customer might? Thanks.

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

Sure. I would say with regard to fees in the business, we had fees in Europe, particularly continental, fee pressure in Europe, particularly continental Europe for part of the last few years. We're really not seeing too much of that anymore. I think that's stabilized. We are a core base -- our platform is primarily targeting investment of core properties. We do have value-add funds that are very high performers, but the majority of our AUM is core, core plus product, tends to be pretty stable, and stable fee structures.

Sometimes we'll have an impact on mix. We did have mix change a bit, particularly in Europe, where folks were coming out of higher fee funds and moving more into separate accounts, where they wanted more control or core, core plus that had a little lower fee structure. But generally I think we're seeing that be reasonably stable today.

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**Brandon Dobell** - *William Blair & Company - Analyst*

Okay. Thanks a lot.

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**Operator**

Our next question is from the line of Alan Wai with Goldman Sachs. Please proceed with your question.

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**Alan Wai** - *Goldman Sachs - Analyst*

Just one from me. You touched on fewer attractive opportunities to deploy capital into M&A. I was wondering how much of the rationale for the buyback is due to the attractiveness of the current share price, and how much of it is due to fewer opportunities to deploy capital into the acquisitions?

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

Sure, Alan. We try not to comment generally on our share price. I would say, the fact that we've had a slower pace over the last 18 months was helpful, and as we think about our capital allocation opportunities, it gave us more comfort that we could do both, building up a little bit of liquidity. But the other factor I would comment on is just the growth in the Company over the last few years.

Our profitability is up considerably, and the flexibility we have on our balance sheet really gave us comfort that we could do both. The other thing I'd just reiterate, the opportunities are still out there. It's just the pricing, the pricing is off, and that doesn't usually last forever, so I expect we'll see more in the future.

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**Operator**

Thank you. Our next question is from the line of Mitch Germain with JMP Group. Please proceed with your questions.

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**Mitch Germain - JMP Securities - Analyst**

So just another question on the cost elimination program. In you saying that it's over, is that capturing where your outlook is for the global economy, and the industry, and where we're heading? Is that captured into your thoughts? Or if we have a leg down, is there potential reemergence in this cost elimination program?

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

Mitch, we always focus on cost. We think it's a strategic initiative for us, because we have very much committed to continuing to invest in our strategy through cycle. It was tough to do that in past cycles. That's something that we've addressed very specifically. And so we're focused on cost.

We decided a year or so ago that after -- at the time six plus years of strong growth, when we were adding all kinds of people and capability, that it was time to scrutinize what we had done and formally address some cost inefficiencies. That was what drove that initiative. It wasn't looking at the market, or predicting where the market cycle was going.

We completed that program, but we will remain very, very focused on cost management. And if we think we're at a point in time anywhere where we -- we're just carrying too much cost or cost of the wrong type, or we've made investments that we need to pull back on, then we'll get more aggressive. But the formal program has been completed.

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**Mitch Germain - JMP Securities - Analyst**

Great. I appreciate that. And while I have you, just curious about the pipelines that you're seeing in the UK. Obviously, seems like activity levels are somewhat reemerging in that market. I'd love to hear your thoughts, please.

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

We think that our leaders in the UK tell us that they believe that there is a reasonable chance that activity will pick up now. Obviously there's real uncertainty there, over this issue of hard Brexit and will that happen, or won't it, and what will the implications of that be. But we have some hope that there will be a pick up between now and the end of the year.

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**Mitch Germain - JMP Securities - Analyst**

Okay. And my last one. It seems like there's more of these multi-geography outsourcing deals that you are doing. I'm curious in terms of -- are you seeing a real pick-up in the level of RFPs of customers, that are really looking at multi-geographies now?

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

I think the customers respond to capabilities. If you look back two-plus years ago before we did Norland, our critical mass of self execution capability was primarily in the US. When we did Norland, we picked up considerable critical mass in the UK, and then with GWS, we picked up critical mass and capabilities throughout much of the world. I think we're seeing a response to that, which is the more capable we are, the more clients would like to give us more work to do, and work with one or two or three max providers.

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**Mitch Germain** - *JMP Securities - Analyst*

Thank you.

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**Operator**

The next question is a follow-up from the line of Anthony Paolone with JPMorgan. Please proceed with your questions.

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**Anthony Paolone** - *JPMorgan - Analyst*

Just given all the currency movement, any change to your hedging strategy as we look out to 2017?

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

We're not going to comment on that today but I might hit that at Investor Day coming up.

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**Anthony Paolone** - *JPMorgan - Analyst*

Okay. And then on the buyback, if I just think about your earnings run rate and cash flow, and I spread the \$250 million across three years, it seems to be in the zip code of call it 10% of your cash flow going to the buyback, if you execute it that way. Any color on how you got to that level, versus acquisition opportunities, or perhaps paying down debt, just how you think about that?

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

Absent a large transaction, we'll probably continue to be paying down some debt, primarily to build flexibility and capability for us to do large strategic transactions, whenever those opportunities become available. But as to specifics around allocation, it's something we're -- allocation of capital, something we talk to our Board about on a pretty regular basis. We have a lot of communication with our shareholders, and we're always trying to balance what are the top opportunities for us to return value to our shareholders, and remain flexible.

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**Anthony Paolone** - *JPMorgan - Analyst*

Sure. And then go back to, I think some of the guidance brackets you talked about over the course of the year, I think you talked about the promote income being, if I recall in 2016, at least at the level of 2015, I think, if I remember correctly. And just wondering so far in the nine months, where that's tracking, or if you can give us some numbers on that.

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

Our guidance was, at the beginning of the year, our guidance was that the development business and the investment management business in total would be approximately flat to down slightly last year, and that guidance still seems reasonable.

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**Anthony Paolone** - JPMorgan - Analyst

Okay. That was all inclusive of the gains and incentives, and things of that nature?

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

Yes.

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**Anthony Paolone** - JPMorgan - Analyst

Okay. Thanks.

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**Operator**

Our next question is a follow-up from the line of Jade Rahmani with KBW. Please proceed with your question.

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**Jade Rahmani** - Keefe, Bruyette & Woods, Inc. - Analyst

Can you give some color about how you think about target or appropriate leverage going into 2017? You mentioned continuing to pay down debt to create flexibility, but is there a ratio that you are targeting, or a level of liquidity? How do you think about it?

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

We're very focused on maintaining quite a bit of flexibility in our balance sheet. But we're also quite comfortable with where leverage ratios are now. So I don't -- there's not an aggressive program to prioritize debt repayment. But just the natural flow of the cash flow from our business in the investments we outlined, we're likely to continue as we have intermittently over the years, continue to pay down debt, and then bring it back up a bit when there's a large opportunity.

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**Jade Rahmani** - Keefe, Bruyette & Woods, Inc. - Analyst

Thanks very much.

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**Operator**

Thank you. At this time for closing remarks, I will turn the floor back to Mr. Bob Sulentic.

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

Thanks everyone for joining us this morning, and we look forward to talking to you again three months from now, at year-end.

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**Operator**

Thank you. This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.

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