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CBRE Group, Inc. (CBRE)

Q4 2018 Earnings Call

CORPORATE PARTICIPANTS

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James R. Groch

*Chief Financial Officer & Global Director of Corporate Development,
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OTHER PARTICIPANTS

Anthony Paolone

Analyst, JPMorgan Securities LLC

Jason Green

Analyst, Evercore ISI

Alan Wai

Analyst, Goldman Sachs & Co. LLC

Mitch Germain

Analyst, JMP Securities LLC

David E. Ridley-Lane

Analyst, Bank of America Merrill Lynch

Jade J. Rahmani

Analyst, Keefe, Bruyette & Woods, Inc.

Patrick O'Shaughnessy

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the CBRE Fourth Quarter Earnings Call. At this time, all participants will be in a listen-only mode. A brief question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

I'd now like to turn the conference over to Brad Burke with Investor Relations. Please go ahead.

Brad Burke

Head-Investor Relations, CBRE Group, Inc.

Thank you and welcome to CBRE's fourth quarter 2018 earnings conference call. Earlier today, we issued a press release announcing our financial results and it is posted on our website, cbre.com. On the Investor Relations page of our website, you will find a presentation slide deck that you can use to follow along with our prepared remarks.

This presentation contains forward-looking statements. These include statements regarding CBRE's future growth momentum, operations, market share, business outlook, investment levels and financial performance expectations. These statements should be considered estimates only and actual results may ultimately differ from these estimates. For a full discussion of the risks and other factors that may impact these forward-looking statements, please refer to our fourth quarter 2018 earnings report furnished on Form 8-K and our most recent annual and quarterly reports filed on Form 10-K and Form 10-Q respectively.

During our remarks, we may refer to certain non-GAAP financial measures as defined by SEC regulations. Where required by these regulations, we have provided reconciliations to what we believe are the most directly comparable GAAP measures. These reconciliations together with explanations of these measures can be found within the appendix of this presentation. Additionally, all revenue and fee revenue growth rate percentages cited in our remarks are in local currency unless otherwise stated.

Please turn to slide 3. Participating on our call today are Bob Sulentic, our President and Chief Executive Officer; and Jim Groch, our Chief Financial Officer.

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

Robert E. Sulentic

President, Chief Executive Officer & Director, CBRE Group, Inc.

Thank you, Brad, and good morning, everyone. Our business ended the year with broad strength across geographies and business lines. The fourth quarter was highlighted by 16% fee revenue growth in our regional services businesses with positive operating leverage in those businesses driven by leasing and Occupier Outsourcing. This led to adjusted EPS growth of 26% for the quarter. For the year, adjusted EPS rose 20% on 15% growth in fee revenue. This marks our ninth consecutive year of double-digit increases in adjusted EPS. Our results for both the quarter and the year reflect the operational gains in capital investments we have made to enable our people to produce hard-to-replicate client outcomes.

Our leasing business is a good example. We repositioned this business four years ago in response to client appetite for greater advisory services and now have more than 1,000 dedicated specialists working alongside our transaction professionals. They advise clients on workplace design and employee experience, labor and location analytics, government incentives and supply chain optimization among other things. No competitor has the capacity to invest in advisory capabilities to the same degree that CBRE has. This is creating competitive differentiation and contributing to strong leasing revenue growth particularly with account-based clients.

While we were having one of our best quarters on record, we also worked diligently to prepare for the reorganization that took effect on January 1. This structure puts several of our sector's very best leaders in compelling new leadership roles, sharpens our focus on excellence across our services and enables operating efficiencies across our business. These moves are already having an impact, and we expect them to come through in our financial performance in 2019.

Before I hand the call over to Jim, I'll comment on the plan we announced in January to split his responsibilities. Our scale and financial strength, much of which resulted from Jim's excellent work, gives CBRE unique advantages as an investor in our sector. Jim is a savvy investor with a proven long-term record of successfully allocating and deploying capital. We will benefit greatly from his exclusive focus in this critically important area. I want to thank Jim for his many contributions as our CFO. Our search for a new CFO is progressing nicely.

Now, Jim will discuss our performance for the fourth quarter and the year in more detail.

James R. Groch

Chief Financial Officer & Global Director of Corporate Development, CBRE Group, Inc.

Thanks, Bob. Please turn to slide 5. Before discussing our performance, I want to say how much I am looking forward to devoting my full attention to allocating and investing our capital. We have built up considerable investment capacity and anticipate great opportunities to deploy capital over time, to add value for our

shareholders and capabilities for our clients. I also look forward to working closely with our new CFO. As Bob noted, CBRE had an outstanding quarter and year. Fee revenue, adjusted EBITDA and adjusted EPS each reached all-time highs with double-digit growth across all metrics.

For the quarter, consolidated fee revenue rose 18% in local currency. Growth in the quarter was predominantly organic. Adjusted EBITDA rose 15% and adjusted EPS increased 26% both in U.S. dollars. For the year, adjusted EBITDA exceeded \$1.9 billion and adjusted EPS of \$3.28 increased 20% over prior year. Our full-year adjusted net income margin of 10.4% on fee revenue is up 50 basis points over 2017 and is a new record high for CBRE.

Our balance sheet is very well positioned for the future. At year-end, net debt was only 0.6 times 2018 adjusted EBITDA. Late in the quarter, we borrowed €400 million on a new term loan and used the proceeds to repay U.S. dollar term loans. We expect this transaction to reduce our annual interest expense by about \$12 million while also reducing the FX translation risk from our European business.

In addition, we launched a refresh of our existing \$2.8 billion line of credit for a new five-year term that we expect to close in March. We also took advantage of volatility in the equity markets to buy back over \$200 million of our stock. Through early January, we opportunistically acquired 5.1 million shares at an average price of \$40.20 per share.

Finally, I want to remind everyone that as we discussed last quarter, we are introducing our new segment disclosures at our Investor Day in three weeks. We'll be providing guidance based on those new segments at that time. Please hold your questions about our 2019 forecast until our Investor Day.

Please turn to slide 6 which details the revenue performance of our major lines of business for Q4. Leasing was incredibly strong this quarter globally with a 24% increase over last year. All three regions produced double-digit increases. As Bob noted earlier, account-based work is representing a growing portion of our leasing business and this was certainly the case in the fourth quarter.

Americas led with leasing up 27%, mostly driven by 29% growth in the U.S. on top of 16% growth in Q4 of the prior year. M&A contributed about 4%. The accelerating growth of flexible office solutions was also a tailwind, and we estimate that working with flexible space operators and placing our customers in their space accounted for 3% of our U.S. growth.

The remainder is explained by market share gains and the strong overall leasing market. Our U.S. leasing business saw increases in the number of transactions, average square footage and price per square foot. Given the continued economic strength, companies are adding incremental office space and trading up to newer, more modern space. Global property sales revenue increased 10% led by the Americas with a 13% increase, 10% growth in Asia Pacific was notably led by China.

While there is uncertainty around trade in China, we have seen high levels of investment activity from both foreign and domestic capital. Investments in our team and platform in China are also driving growth in the business. Our commercial mortgage origination business showed continued strength with 16% revenue growth. In 2018, CBRE originated the most agency multifamily mortgages in the U.S. for the fifth time in six years. We were also the number one Freddie Mac originator for the 10th year in a row. Strong originations in the quarter helped our loan servicing portfolio across the \$200 billion mark, and recurring servicing revenues rose 20% for the quarter.

Please turn to slide 7, which highlights our Occupier Outsourcing business, which as Bob mentioned had another quarter of impressive growth. Fee revenue rose 20% for the quarter and 19% for the year. This was driven by

strong organic growth of 16% for the quarter and 14% for the year. Growth has been driven by an ability to create value for our clients with an unmatched platform. The depth and breadth of our platform has been materially enhanced in recent years with the successful integrations of Norland, JCI's Global Workplace Solutions business and FacilitySource along with numerous, smaller specialty firms. As an example, in the fourth quarter, we combined the capabilities of FacilitySource which we acquired in June with the strength of our existing outsourcing platform to win one of our largest-ever facility management contracts with a new outsourcing client. These combined capabilities allowed CBRE to provide a tailored client solution that could not be matched by others.

An example of an expanding existing relationship is Uber. In the fourth quarter, Uber awarded us a global mandate to provide a full suite of outsourcing services including strategic consulting and transactions, facilities and project management for its 6-million-square-foot portfolio. Investments in digital and technology capabilities and our CBRE 360 Workplace experience service, which we recently renamed Host, were important in differentiating our offering. With growing capabilities and a record year-end pipeline, this business is poised for another year of solid double-digit growth.

Please turn to slide 8 which summarizes our Global Investment Management segment. Revenue was up 18%, driven by growth in asset management and incentive fees and higher carried interest. Adjusted EBITDA rose 7% in the quarter, despite a mark-to-market loss of \$7 million on co-investments in public securities in a turbulent quarter. These co-investment losses have since reversed with improved public markets in January.

We continue to attract significant capital due to our record of generating very good returns for our fund and separate account investors. Capital raising rose 10% during 2018 to \$10.9 billion, a record for the company. Assets under management increased by \$1 billion in U.S. dollars from the prior quarter to \$105.5 billion. For the year, AUM increased \$2.3 billion in U.S. dollars and \$5.1 billion in local currency.

Please turn to slide 9 which summarizes our Development Services segment. This business had a remarkable year with \$185 million of adjusted EBITDA, up 55% over prior year. \$34 million of adjusted EBITDA in the quarter was on par with a strong Q4 2017. Our developments in process reached a record level of \$9 billion, a strong indicator of anticipated activity over the next few years.

As a reminder, this business consumes relatively little capital. We had \$100 million invested in development projects at year-end 2018 and just \$8 million of repayment guarantees on outstanding debt balances. Following 2018's record performance, we expect 2019 adjusted EBITDA to be closer to 2017 which was our next strongest year ever.

Now please turn to slide 10 for Bob's closing remarks.

Robert E. Sulentic

President, Chief Executive Officer & Director, CBRE Group, Inc.

Thanks, Jim. We start the new year with excellent momentum across our global business. Our people are energized and aligned behind our strategy. Our new organizational structure will allow them to take maximum advantage of CBRE's scale and resources and growing suite of technology tools. Globally, the economy is expected to grow at a healthy but moderately slower pace than in 2018. Cross-border capital flows are solid notwithstanding the ongoing trade and geopolitical tensions. While we remain mindful of potential macro challenges and the length of the current economic expansion, this continues to be a supportive environment for our business. As always, transaction volumes are difficult to forecast. However, we expect solid revenue growth in our transaction businesses in 2019 supported by market share gains.

We also see strong continued momentum in real estate outsourcing as interest accelerates in new sectors and customers expand existing mandates. In addition, our competitive advantages continue to strengthen driven by large investments in strategic acquisitions and strong operational and technology gains. This portends another year of strong growth for our outsourcing business in 2019.

Finally, we continue to make material investments in our business at a level similar to 2018 with the intention of further differentiating our products and services. In 2019, we expect solid top line growth while also achieving modest positive operating leverage in our advisory and outsourcing businesses. We will discuss all of this in more in detail at our Investor Day and we look forward to seeing everyone in New York on March 7.

Before I close, let me thank everyone at CBRE for another outstanding year in 2018. We are very proud of their dedicated efforts on behalf of our clients and our shareholders, and now operator we'll open the line for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question today is coming from the line of Anthony Paolone with JPMorgan. Please proceed with your question.

Anthony Paolone
Analyst, JPMorgan Securities LLC

Q

Yeah. Thanks. Good morning. My first question is as it relates to, I think Bob you mentioned, the continued investment into the business again in 2019. I know in 2018 you made – you reinvested I guess the tax savings. As you think about 2019 in that comment, is that incremental to that or it just means that that level of investment continues?

Robert E. Sulentic
President, Chief Executive Officer & Director, CBRE Group, Inc.

A

Jim, why don't you hit the investment level...

James R. Groch
Chief Financial Officer & Global Director of Corporate Development, CBRE Group, Inc.

A

Okay.

Robert E. Sulentic
President, Chief Executive Officer & Director, CBRE Group, Inc.

A

...that we're expecting?

James R. Groch
Chief Financial Officer & Global Director of Corporate Development, CBRE Group, Inc.

A

Sure. Anthony, we have commented that we expect modest operating leverage next year. So overall obviously implies that our investment levels will grow at a slower rate than our revenue growth. So we're at a steady state investment level where that'll grow a bit as the business grows, but nothing akin to what you saw last year, just more of a steady state investment.

Robert E. Sulentic

President, Chief Executive Officer & Director, CBRE Group, Inc.

Yeah.

A

Anthony Paolone

Analyst, JPMorgan Securities LLC

Got it. And do you have a final tally on what that pick up was in 2018? I think it was, if I recall correctly, something like \$30 million a quarter or something thereabouts, but I don't know if you have a more accurate number as the [ph] years close out (17:03)?

Q

James R. Groch

Chief Financial Officer & Global Director of Corporate Development, CBRE Group, Inc.

It did start off a little bit slower and end the year at about \$40 million in the fourth quarter and was close to the \$30 million in Q3.

A

Anthony Paolone

Analyst, JPMorgan Securities LLC

Okay. And the first half was a little bit less than those still?

Q

James R. Groch

Chief Financial Officer & Global Director of Corporate Development, CBRE Group, Inc.

Yeah. It just took some time as things ramped up.

A

Anthony Paolone

Analyst, JPMorgan Securities LLC

All right. They're still on the order of magnitude of call it \$100 million or something thereabouts?

Q

James R. Groch

Chief Financial Officer & Global Director of Corporate Development, CBRE Group, Inc.

That's right.

A

Anthony Paolone

Analyst, JPMorgan Securities LLC

Okay. And then can you comment on the M&A landscape, what you're seeing out there, pricing and types of deals you'd like to do?

Q

James R. Groch

Chief Financial Officer & Global Director of Corporate Development, CBRE Group, Inc.

Yeah, sure. I mean, I'd say overall, Anthony, the market is healthy. We did about 10 investments this year. I'd say as it feels like we're later in the cycle, we're seeing more deals come to market for obvious reasons as sellers are more open to selling. That obviously puts more of the onus on us to be very thoughtful about underwriting. Yeah, but I'd say it's a healthy – it's a solid, steady, healthy market with a lot of companies to look at, and a lot of good companies to consider.

A

And multiples are in line – I mean are – in typical deal, infill multiples are still in the plus or minus 6 range on average. If you have a unique deal that's more of a software platform or something like that, obviously, that will trade differently. But the traditional infill M&A type transactions have been trading at a pretty steady range or at least with the deals that we've done.

Anthony Paolone
Analyst, JPMorgan Securities LLC

Q

Great. Thank you.

Operator: The next question is from the line of Jason Green with Evercore. Please proceed with your question.

Jason Green
Analyst, Evercore ISI

Q

Good morning. I know you're not giving guidance today but you're calling for solid revenue growth in the transaction business. I guess just broadly and specifically in the sales market, what are you guys seeing out there in the marketplace that gives you confidence that this is a number that can continue to grow.

Robert E. Sulentic
President, Chief Executive Officer & Director, CBRE Group, Inc.

A

Jason, we're seeing a few things. First of all there is a lot of debt and equity capital available that still wants to get in to commercial real estate. Assets are in really good shape. Occupancies are going up. Rental rates are growing up which is attractive to investors in commercial real estate. And the base of assets around the world is growing. We're now potentially going to see some new development in New York that we haven't seen for a while. So I think all of that suggests, of course, unless problems emerge given what's going on geopolitically and in trade, etcetera, I think we should see another solid year for building sales.

Probably, the marketplace in general won't be quite as active as it was in 2018, but we expect to grow our business because we expect to take some market share, we've added some professionals and things we've done historically. By the way, what's going on with interest rates is probably a good thing for asset sales. The momentum to raise interest rates has diminished, and we think that's a good thing.

Jason Green
Analyst, Evercore ISI

Q

As far as interest rates, you saw a dramatic decline in the [ph] tenure (20:18) from the start of 4Q till the end. Was there a noticeable change throughout the quarter in investment sales activity and just the outlook of some of those customers?

Robert E. Sulentic
President, Chief Executive Officer & Director, CBRE Group, Inc.

A

I don't think we could stratify our trading that closely throughout the quarter. I can tell you we had a really good quarter. We think we took significant market share in all three regions of the world, and we saw healthy trading everywhere. There was clearly some downward pressure in the UK related to Brexit, not huge, but some. But in general, we saw an active market around the world. We saw a really active market here in the U.S. for our GSE financing and so I wouldn't say that the type of circumstance you describe was real evident.

Jason Green

Analyst, Evercore ISI

Q

Got it. Then last question for me on that GSE financing. You have the potential new head of FHFA testifying tomorrow and historically he has been at least against the concept of the GSEs in general. I guess given the amount of business you do with the entities, can you talk about what your expectations are moving forward there?

Robert E. Sulentic

President, Chief Executive Officer & Director, CBRE Group, Inc.

A

Yeah. We're expecting Mike Calabria (sic) [Mark Calabria] (21:33) to be confirmed in the coming months to lead FHFA. We see him as a conservative executive who's unlikely to do expand the lending programs, but at the same time also not likely to make risky changes in a system or to a system that's worked well through the financial crisis and continues to work well. And specifically we're referring to multifamily, and as you know the multifamily part of the GSEs actually did quite well through the financial crisis and have performed very nicely since as well. So we see that as being pretty stable. We do expect changes over time, and we think that any changes will [ph] occur (22:16) very gradually over a period of many years.

Jason Green

Analyst, Evercore ISI

Q

Great. Thanks.

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

Alan Wai

Analyst, Goldman Sachs & Co. LLC

Q

Thanks. Good morning. I had a question on your Americas EBITDA margin. Seemed to me that the business mix was quite favorable due to the leasing and sales but did not lead to significant margin improvement. Are there any puts and takes I should be thinking about?

James R. Groch

Chief Financial Officer & Global Director of Corporate Development, CBRE Group, Inc.

A

Alan, I would say the – we did have the incremental investments I referenced earlier in response to a question from Anthony. It was about \$40 million in the quarter as compared to the same quarter in the prior year. And we also had a bit of headwind – FX headwind. I want to say this cost us about \$10 million or so. I'll confirm that. But – and we still achieved a 10 basis point the higher margin in the quarter. We also had – acquisition mix was about a 10 basis point headwind.

Alan Wai

Analyst, Goldman Sachs & Co. LLC

Q

Great. That's helpful.

James R. Groch

Chief Financial Officer & Global Director of Corporate Development, CBRE Group, Inc.

A

And, of course, business mix with GWS growth being up so much in the quarter. So I guess the way I would look at it is pretty darn strong quarter with a significant shift in business mix, significant incremental investment, some headwind from – from exchange rates and we still expanded margins by 10 basis points.

Alan Wai

Analyst, Goldman Sachs & Co. LLC

Q

Your EMEA capital markets revenues were down only 2% while the broader market was down over 20%. So can you comment on what's driving that type of outperformance? And any color on the UK would also be helpful.

James R. Groch

Chief Financial Officer & Global Director of Corporate Development, CBRE Group, Inc.

A

That was mostly continental Europe where we had a really good year last year. Your numbers would suggest what we believe which is that we did take market share. We did see some downward pressure in the UK as expected. Although it didn't – it wasn't a very dominant circumstance relative to our overall performance, it did have an impact on the margin. We didn't see that, by the way, in leasing where we saw really strong growth in the UK, but we saw a little bit of pressure in asset trading and the [ph] continent (24:33) did quite well.

Alan Wai

Analyst, Goldman Sachs & Co. LLC

Q

Great. Thank you.

Operator: The next question is from the line of Mitch Germain with JMP Securities. Please proceed with your question.

Mitch Germain

Analyst, JMP Securities LLC

Q

Thank you. On the leasing environment, it seems like a lot of the key drivers, modernizing space and the co-sell from outsourcing, it seems like that's been around, right? That's always been part of the story for the last couple years. So what do you think is really unlocking the growth in that business line this year versus the last couple years?

Robert E. Sulentic

President, Chief Executive Officer & Director, CBRE Group, Inc.

A

Mitch, there are several things going on. Some of them are market related, some pretty significant ones are market related and then some are more unique to us and a couple of our larger competitors. For sure, this office experience dynamic where companies are using space to attract, retain and make talent more productive is a big deal. There's just no doubt about it. Co-working is helping on the margin. I think we thought it had a 3% impact but 3% impact when you have that much growth is non-trivial. That's important.

Everything that you're seeing going on with e-commerce and the – in both directions, the e-commerce sale and then the returns which have become huge is prompting a lot of leasing activity that we haven't seen historically in warehouse space of various types, small and large. So all of that is helping the sector.

And then as it relates to a company like ourselves and specifically us [indiscernible] (26:07) we're talking about I guess. The account-based business is growing and we are in a super good position to take advantage of that with our global footprint, with our ability to invest in all these advisory services. We now have 1,000 people around the

world working on advisory-related services for clients to kind of supplement our traditional tenant rep business, the technology platform we can build, the link to our outsourcing to our FM and project management clients, all of that account-based work is growing and we're taking a disproportionate share of that and that's coming through in the numbers. So there's – there are a bunch of things at play that are causing the results you're seeing in the leasing business and it's been really good news for our company.

Mitch Germain

Analyst, JMP Securities LLC

Q

Great. Thanks for that. You said the reorg is paying some immediate dividends and I'm curious, are you changing – are you shifting the way that you measure employee and broker performance? Is that part of the process as well?

Robert E. Sulentic

President, Chief Executive Officer & Director, CBRE Group, Inc.

A

It's not that we're shifting it with the new organization we have and the focus on the segments. So let's – you're asking leasing or brokerage specifically. With the focus we have on our advisory business, we expect the management team in that business to be much more focused, have much greater insight and much greater accountability specifically about the performance of that part of the business. The way we set up our Chief Operating Officer, Jack Durburg, in a role that we've never had him in before or we've never had a person in before, a big part of what he's supposed to do is help drive those business lines and help drive the measurement of those business lines which of course improves accountability and we expect that to come through in the results.

Then we're rebuilding our client care effort which is about the way we serve and measure the work we do for these big account-based clients. We expect all those things to conspire to allow us to have better insight into the performance of those lines of business, more accountability and as a result better results.

We also are going to gain some advantage on the cost side. There's just no doubt in my mind about that. We've eliminated some costs and we have an organizational structure that's going to be more accountable for eliminating even more costs.

Mitch Germain

Analyst, JMP Securities LLC

Q

Great. And then last one for me, I know you just launched it back in October but the co-working venture and how that's coming about?

Robert E. Sulentic

President, Chief Executive Officer & Director, CBRE Group, Inc.

A

Hana? Well, Hana is going quite well. We expect very soon to announce a number of units and we will have units up and running we think by mid – by this summer. It's a new investment opportunity for us. It's one of the most exciting opportunities we've had in some time and we're – we love the team we have. We love the strategy we have. We think the marketplace is oriented quite well toward it. We think our relationships with both occupiers and landlords is oriented quite well toward it. So we're excited and it's moving along as we had hoped.

Mitch Germain

Analyst, JMP Securities LLC

Q

Thank you.

Operator: Next question is from the line of David Ridley-Lane with Bank of America Merrill Lynch. Please proceed with your question.

David E. Ridley-Lane

Analyst, Bank of America Merrill Lynch

Q

Sure. Did want to have a little bit of a discussion on the Development Services side, the in-process now it has grown quite substantially here or I guess last year in 2018. And I'm just trying to square that with the comments that adjusted EBITDA in 2019 will be closer to 2017 levels. So maybe just a broader discussion around the timing of those projects, when you recognize the most of the profits on those would be helpful?

Robert E. Sulentic

President, Chief Executive Officer & Director, CBRE Group, Inc.

A

Yeah. David, the kind of gestation period for development deal takes it beyond the first year that you put it in process. So the – and some are longer than others. You can have some warehouses that you can get through pretty quickly in a year, maybe a little over a year. Office buildings can take much longer. Multifamily can take much longer. And we're doing more and more core type product which in general takes a little longer which is by the way very good news because it's generally less risky. Generally, you're able to finance it with more staying power. And so even if you hit a bump in the road with the marketplace you can get through it and do quite well. But the bump up that you're seeing in that in-process portfolio wouldn't likely harvest within a year.

David E. Ridley-Lane

Analyst, Bank of America Merrill Lynch

Q

And then sort of separately on the FacilitySource acquisition, how has the early integration been and feedback among clients?

James R. Groch

Chief Financial Officer & Global Director of Corporate Development, CBRE Group, Inc.

A

Yeah, David. The early integration has been quite good. It's on plan with our underwriting. I noted when talking about the GWS business that we just landed in Q4 one of our largest global contracts ever and FacilitySource played a big part in us being able to kind of customize a solution where different parts of our service were able to kind of attack different parts of their portfolio in a way that I think is somewhat unique in that the client found to be really compelling. So that deal is off to a great start, integration is going well and the client response has been very positive.

David E. Ridley-Lane

Analyst, Bank of America Merrill Lynch

Q

All right – all right. Thank you very much.

Operator: Thank you. Next question is from the line of Jade Rahmani with KBW. Please proceed with your question.

Jade J. Rahmani

Analyst, Keefe, Bruyette & Woods, Inc.

Q

Thanks very much. I was somewhat surprised by the contribution to growth that you cited for co-working and flex space since a lot of independent research has estimated it accounts for somewhere between 20% and 30% of leasing absorption at least in 2018. So can you give any color on why the contribution to growth was only 3% given that the market absorption seems to be much higher than that?

James R. Groch

Chief Financial Officer & Global Director of Corporate Development, CBRE Group, Inc.

A

Well, I guess one comment I would make is absorption tends to look at what's happening on the margin and doesn't account for the vast base of existing real estate that just turns and renews or maybe moves. So the other thing is you'll see a bigger impact in some of markets like New York City and London where there's a lot of press and maybe many of us are closer to those markets but we've kind of gone through our own internal analysis through our actual vouchers and feel that 3% is a good estimate of what the impact was on our total leasing business in the U.S. in this year.

Jade J. Rahmani

Analyst, Keefe, Bruyette & Woods, Inc.

Q

What is your view about the overall sustainability of the business model, perhaps away from your independent initiative but some of the other companies and the sustainability of this niche and their offering?

Robert E. Sulentic

President, Chief Executive Officer & Director, CBRE Group, Inc.

A

We think that co-working or flexible space, and we think it's going to morph over time, so it's more suites-oriented, institutional occupier-oriented than traditional co-working. We think it's going to grow. We think it's 1% to 2% of the global base of multi-tenant space today. We think that could grow to 5% to 10%. Obviously, you've read research reports by others that suggest it could go much higher than that. We've studied it very closely. We think it's very real. We think that – let's look at our big Occupier clients.

We know for sure that those Occupier clients want to have a lot of the space that they are in, the space they own. We know they want to have a lot of the space they're in, the space they lease that's exclusively for them. But we also know that on the margin, they like to be able to have a chunk of their space for employees that move around the world or employee is sort of part of a team that's just forming and maybe absorbed into something else later, things like that. They like the notion of flexible space. And so we think this opportunity is real. We think it's going to grow and we are very oriented toward participating in it in a variety of ways.

Jade J. Rahmani

Analyst, Keefe, Bruyette & Woods, Inc.

Q

In terms of the capital markets environment, are you seeing any changes in terms of the number of bid lists participants and bid lists on transactions or any concentrations whether it be in pricing or average deal size or any trends that you could point out?

James R. Groch

Chief Financial Officer & Global Director of Corporate Development, CBRE Group, Inc.

A

No big trends. I mean cap rates are pretty stable. The amount of capital that's out there is stable. The flow of capital in from Asia may have slowed a bit. There's plenty of bidders for anything good that comes to market. There's plenty of depth for anything good that comes to market. We've said we think the market will be a little less active. Well, the growth will be, I shouldn't say that. We think the growth in the market will be less in 2019 than

2018. We think it will be kind of a flattish market, but I wouldn't say we're seeing big trends and we expect to grow our capital markets and our sales business next year.

Jade J. Rahmani

Analyst, Keefe, Bruyette & Woods, Inc.

Q

Turning to M&A, do you see any compelling rationale for mergers amongst the large public players in commercial real estate services whether it be to consolidate market share globally and drive increased penetration amongst larger clients or rationalize overheads or accelerate the technology investment in the industry?

James R. Groch

Chief Financial Officer & Global Director of Corporate Development, CBRE Group, Inc.

A

We wouldn't generally comment on questions where we could kind of get – you could get specific quickly in a relatively small industry. But all those opportunities have been around for a long time and the pace of activity over time has been what it's been. There are opportunities along the lines of some of the things you mentioned. There's also breakage issues that people have to consider and culture. And we're growing our business now on an organic basis by a large amount each year. Annual growth is equal to the size of some of the fairly large customers – competitors who are now in the marketplace and so you have to look at all the opportunities and compare them against one another.

Jade J. Rahmani

Analyst, Keefe, Bruyette & Woods, Inc.

Q

And when you look at CBRE's overall mix of business, product offering, do you see any obvious identifiable gaps in the product set, niches that you're not currently offering or any ancillary businesses that you're not active in right now?

Robert E. Sulentic

President, Chief Executive Officer & Director, CBRE Group, Inc.

A

Jade, we like the businesses we're in. We study that all the time and ask the question with our management team, with our strategy team, with our board, should we go into adjacent areas. The choices we made for the time being are that we're going to go into this experience market with our host offering more aggressively. We've made the choice to go into the co-working or flexible space market with Hana.

Obviously, in this last cycle, we escalated materially our participation in multifamily. We think that was a really good call. We have now a sizable multifamily development business and we've always had a sizable multifamily trading and financing business.

But for the most part we like the businesses we're in and we see opportunities all over our business to expand. We don't have 10% market share globally in anything we do and we're constantly scanning our lines of business and our geographies for places where we think we can do more.

By the way, this reorganization should really help in that regard. So, let's take our advisory business. If you went back to the organizational structure we had last year and before and look across the geographies, to a degree, among our leadership team, we had comingled our outsourcing business and our advisory business, our brokerage businesses. We're going to have much more focus now. We have mechanisms to ensure synergy between the two but we're going to have much more focus. And if you were to ask Mike Lafitte, the global head of our advisory business what he's going to do, we have 12 divisional presidents around the world in that advisory business and one of the things he's going to ask them to focus on in each major market is understanding whether

or not we're the leader in lease – in Occupier leasing, whether we're the leader in agency leasing, whether we're the leader in capital markets and financing and understand that deeply and to the extent we aren't, go after That's one of the reasons we're so confident that this reorganization is going to be powerful and – and so the fact of the matter is we largely like the products we're in, but we see plenty of holes and opportunities for improvement.

Jade J. Rahmani

Analyst, Keefe, Bruyette & Woods, Inc.

Thanks very much.

Q

Operator: The next question is from the line of Patrick O'Shaughnessy with Raymond James. Please proceed with your questions.

Patrick O'Shaughnessy

Analyst, Raymond James & Associates, Inc.

Hey, good morning. Any indication thus far that the launch of Hana is going to weigh in your flexible work space leasing activity?

Q

Robert E. Sulentic

President, Chief Executive Officer & Director, CBRE Group, Inc.

No indication at all, Patrick. When you look at our leasing activity and you look at the leasing activity of our good competitors, it's much bigger than just flexible workspace. We had a question a minute ago why only 3% when the market absorption is 20%. Well, first of all, that's just office space, right? We do a lot – we lease – we do a lot of leasing obviously in the industrial space. We do leasing in the retail space. But there is an awful lot of what's going on in the leasing world. We represent most big occupiers around the world. Most big occupiers around the world, the majority of their leasing will still be in spaces that are not co-working spaces. And so we don't think on the margin that what we're doing with Hana or what our clients out in the market space that are in the agile or co-working arena do will have a big impact on our leasing business, certainly not for the foreseeable future.

A

Now if co-working didn't go to 10% but in fact went to 20% or 30%, then maybe we'd move more in the direction of Hana and see a little bit of bad pressure on our leasing. But we're not seeing it now.

Patrick O'Shaughnessy

Analyst, Raymond James & Associates, Inc.

Great. Thank you. And then can you provide an update on your remaining share repurchase capacity and thoughts on further repurchases now that the market has rallied a bit and how you think about that versus your other capital allocation options?

Q

James R. Groch

Chief Financial Officer & Global Director of Corporate Development, CBRE Group, Inc.

Sure. We've got just under \$50 million of remaining capacity under our existing authorization. And I would say we'll continue to approach buybacks opportunistically. As I noted, we purchased just over \$200 million worth 5.4 – 5.1 million shares at an average price of \$40.20 per share. That was mostly December and the first week in January. But we can – we can obviously go back and ask for more authorization but can't talk about it really beyond that.

A

As far as capital allocation philosophy, really hasn't changed. We return capital to shareholders when we think it's the highest and best use of our capital. We've also committed to returning capital to our shareholders if our leverage approaches zero. We've talked quite a bit about being in a posture of having little leverage at late cycle and we've spoken equally about being comfortable with higher than our long-term target leverage point as we're in a downturn and the early years of recovery where we think capital scares and that's the great time to deploy a lot of capital.

Patrick O'Shaughnessy

Analyst, Raymond James & Associates, Inc.

Q

Great. And then following up on that point. So, historically, you have used a lot of capital for M&A, but given the size of the business and the cash flow that the business generates today, is it realistic to expect that you can continue to have M&A be the primary usage of that capital return or does it suggest that your capital philosophy is going to have to change just given now the business has matured to grown?

Robert E. Sulentic

President, Chief Executive Officer & Director, CBRE Group, Inc.

A

We still think we're going to have substantial opportunity to make acquisitions, infill acquisitions and transformational acquisitions over time. The exact amount of that, we don't know. As Jim said, we're prepared to buy back our shares if that turns out to be the best use of capital. And we also think over an extended period of time, with real attention to the cycle, there'll be increased opportunities to invest in our real estate investment businesses with Hana, with Trammell Crow Company and with our investment management business. So we've got lots of places to look to, to invest to our capital and we think this is one of the real advantages we have as a company, is our ability to invest and then make those investments impactful after they happen.

Patrick O'Shaughnessy

Analyst, Raymond James & Associates, Inc.

Q

Great. And then last one for me. In the Trammell Crow business, is there any indication that at this point in this economic cycle investors are getting a little bit more nervous about embarking on those big development projects or is this still kind of full steam ahead?

James R. Groch

Chief Financial Officer & Global Director of Corporate Development, CBRE Group, Inc.

A

We're not having any trouble at all raising capital for that business. The track record has been pretty exceptional. In this cycle we've generated compounded returns for our third-party capital partners over 30%. They know that we're very thoughtful about the investments we make. And when we identify a project that we want to do, capital is there to participate with us.

Patrick O'Shaughnessy

Analyst, Raymond James & Associates, Inc.

Q

Thank you very much.

Operator: Thank you. [Operator Instructions] Thank you. There are no additional questions at this time. I'll turn the floor back to management for further remarks.

Robert E. Sulentic

President, Chief Executive Officer & Director, CBRE Group, Inc.

Thanks, everyone. We appreciate you being with us and look forward to seeing you on our Investor Day.

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

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