

# Marcus & Millichap



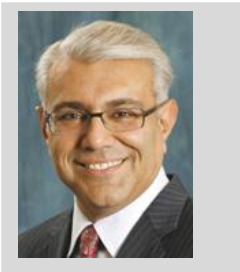
## **First Quarter 2017 Earnings Conference Call**

**May 9, 2017**

# Forward-Looking Statements

Certain statements in this presentation are “forward-looking statements” within the meaning of the federal securities laws, including our business outlook for 2017 and beyond and expectations for market share growth. Statements about our beliefs and expectations and statements containing the words “may,” “could,” “would,” “should,” “believe,” “expect,” “anticipate,” “plan,” “estimate,” “target,” “project,” “intend,” “well-positioned” and similar expressions constitute forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the Company’s actual results and performance in future periods to be materially different from any future results or performance suggested in forward-looking statements in this earnings press release. Investors are urged to consider these factors carefully in evaluating the forward-looking statements and are cautioned not to place undue reliance on such forward-looking statements. Any forward-looking statements speak only as of the date of this earnings press release and, except to the extent required by applicable securities laws, the Company expressly disclaims any obligation to update or revise any of them to reflect actual results, any changes in expectations or any change in events. If the Company does update one or more forward-looking statements, no inference should be drawn that it will make additional updates with respect to those or other forward-looking statements. Factors that could cause results to differ materially include, but are not limited to: (1) general economic conditions and commercial real estate market conditions, including the conditions in the global markets and, in particular, the U.S. debt markets; (2) the Company’s ability to attract and retain transaction professionals; (3) the Company’s ability to retain its business philosophy and partnership culture; (4) competitive pressures; (5) the Company’s ability to integrate new agents and sustain its growth; and (6) other factors discussed in the Company’s public filings, including the risk factors included in the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 16, 2017.

# Conference Call Participants



**Hessam Nadji**  
*President, Chief Executive  
Officer & Director*






**Marty Louie**  
*Chief Financial Officer*

# MMI Financial Highlights

# 2017 First Quarter Highlights

## Financial Highlights

		<u>YOY</u>
Revenue	\$153.2 million	 (6.7)%
Net Income	\$12.0 million	 (19.0)%
Adjusted EBITDA	\$22.4 million	 (17.5)%

## Operational Highlights

		<u>YOY</u>
Sales Volume	\$8.5 billion	 (11.9)%
Transaction Closings	2,067	 1.4%
Investment Sales & Financing Professionals as of March 31, 2017	1,736	 8.6%

# 2017 First Quarter Brokerage Highlights

**Sales Volume <sup>(1)</sup>**

**\$6.5 billion** **↓ (13.8)%** <sup>YOY</sup>

**Transaction Closings**

**1,489** **↓ (0.7)%**

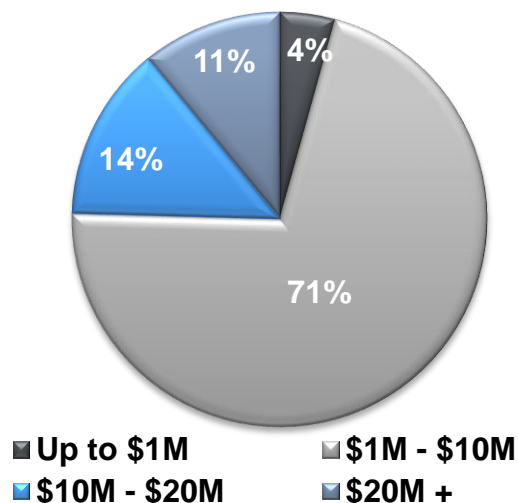
**Investment Sales Professionals as of March 31, 2017**

**1,638** **↑ 9.0%**

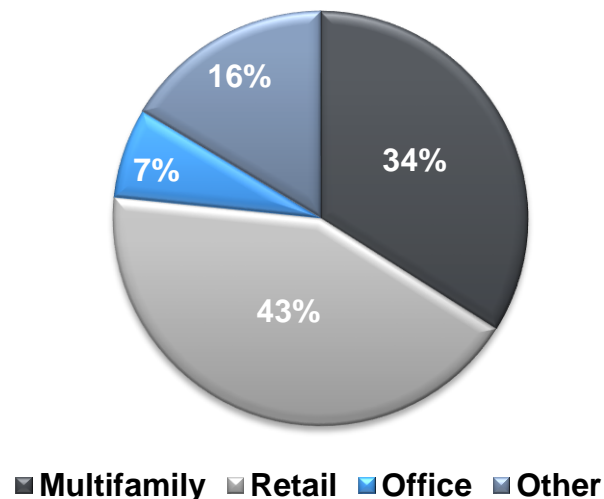
**Real Estate Brokerage Commissions Revenue**

**\$140.1 million** **↓ (8.8)%**

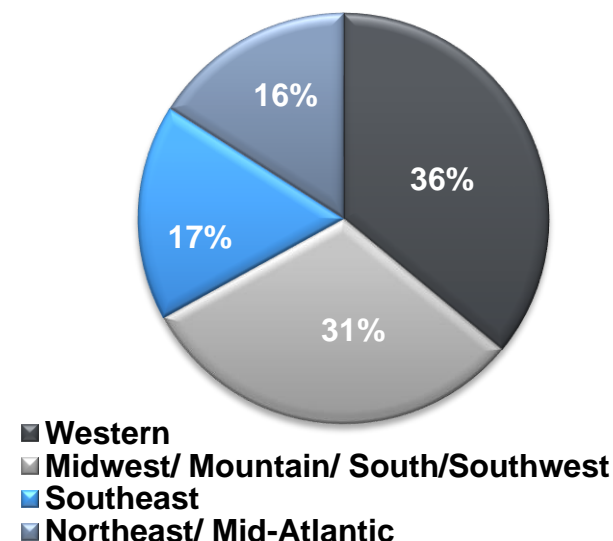
**Revenue by Transaction Size**



**Transactions by Property Type**



**Transactions by Region**

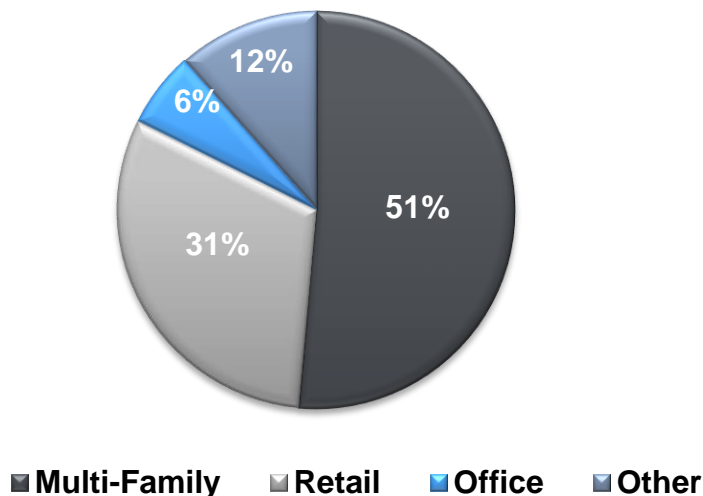


<sup>(1)</sup> Normalized sales volume, adjusting for one large transaction in excess of \$300 million in 1Q 2016, represents year over year reduction of 7.7%

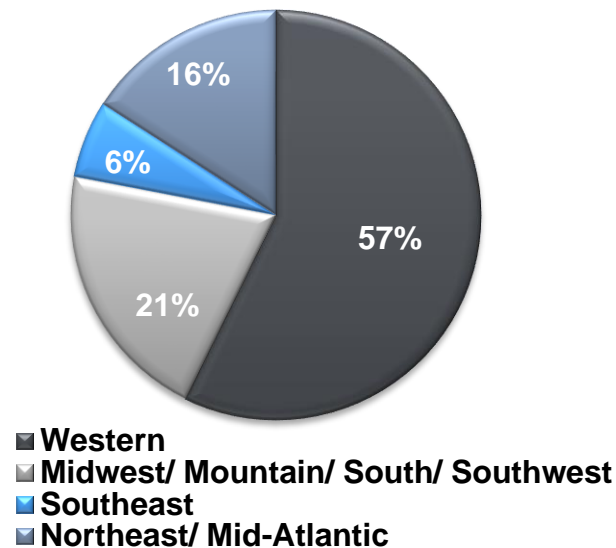
# 2017 First Quarter Financing Highlights

<b>Sales Volume</b>	<b>\$1.2 billion</b>	<b>↑</b>	<b><u>YOY</u> 12.9%</b>
<b>Transaction Closings</b>	<b>391</b>	<b>↑</b>	<b>5.7%</b>
<b>Financing Professionals as of March 31, 2017</b>	<b>98</b>	<b>↑</b>	<b>2.1%</b>
<b>Financing Fees Revenue</b>	<b>\$10.1 million</b>	<b>↑</b>	<b>15.1%</b>

## Transactions by Property Type



## Transactions by Region

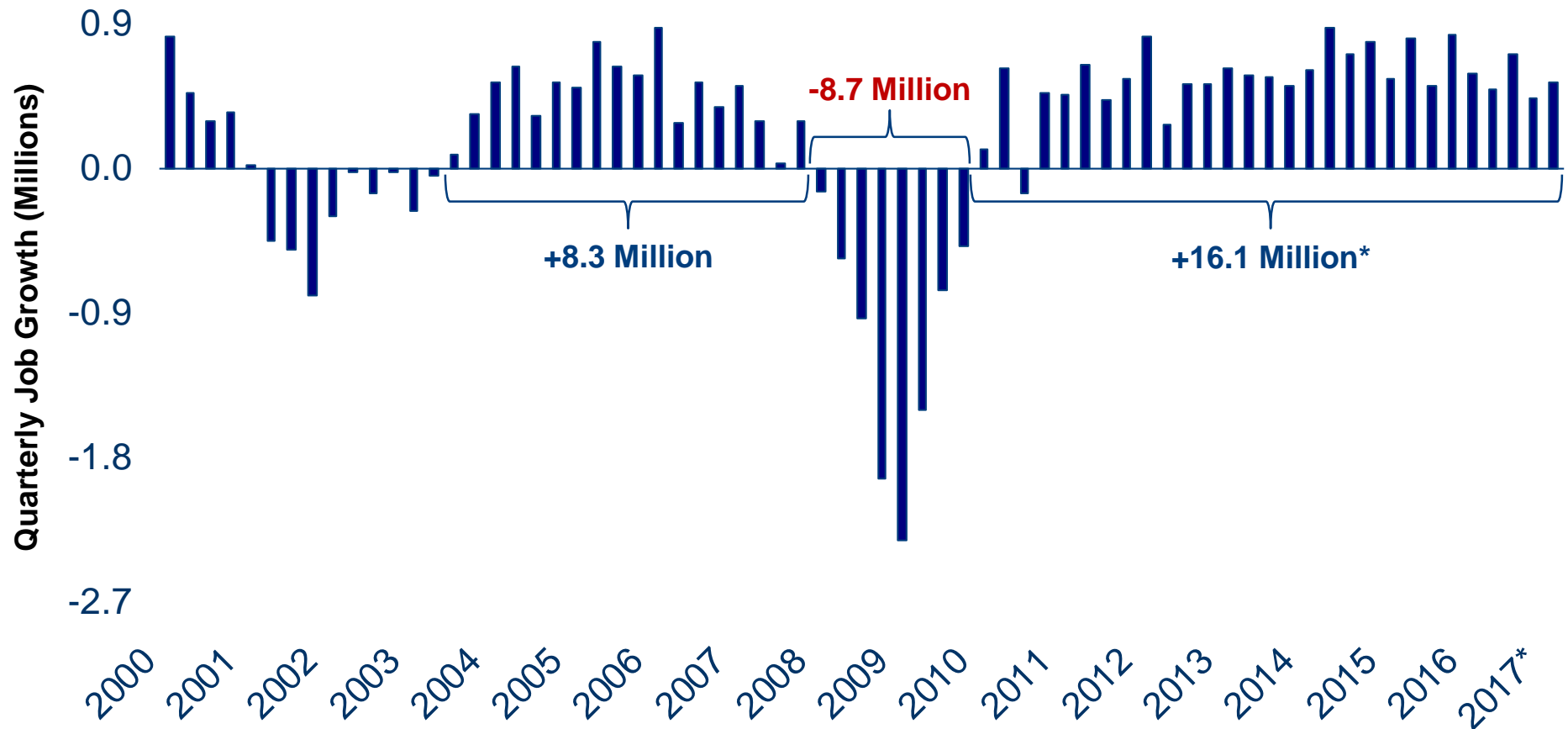


# Market Highlights



# U.S. Employment Gains Driving Real Estate Demand

- U.S. employment has expanded well above prior peak
- 2017 forecast to add 2.1 million jobs\*\*



\* Through 1Q

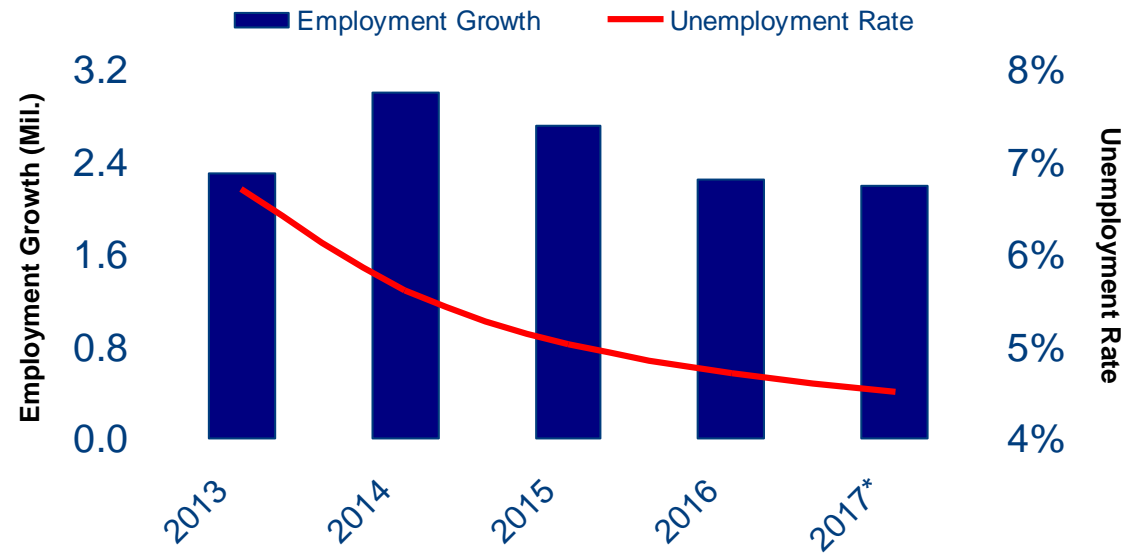
\*\* Forecast per Economy.com

Sources: BLS

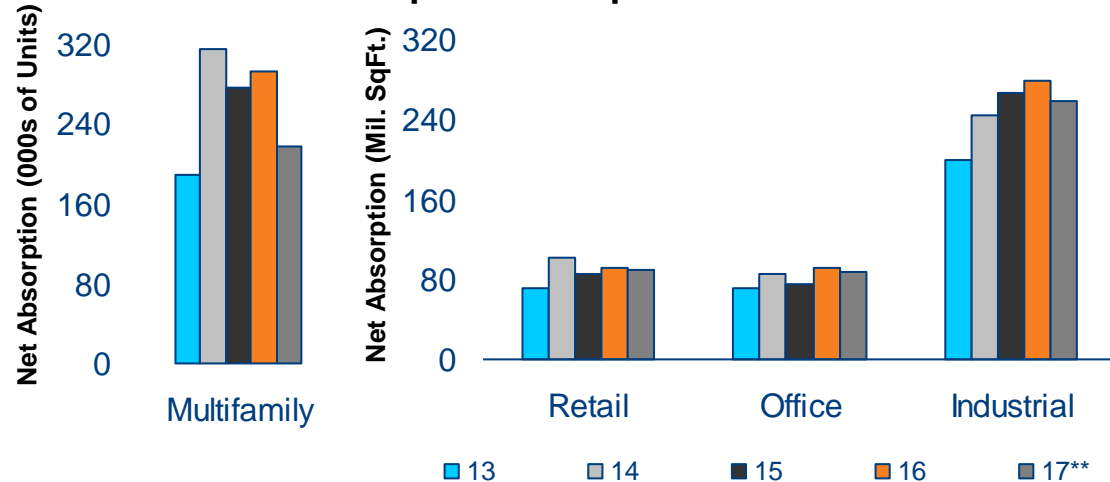
# Employment and Space Demand Remain Strong

- Employment growth totaled more than 2.2 million jobs in the past 12 months
- Total employment stands 7.4 million above the pre-recession peak
- Unemployment rate is down 220 basis points since 2013
- Space absorption remains robust in all property types

## Employment Growth vs. Unemployment Rate



## Space Absorption Trends



Sources: BLS, CoStar Group, Inc., MPF Research

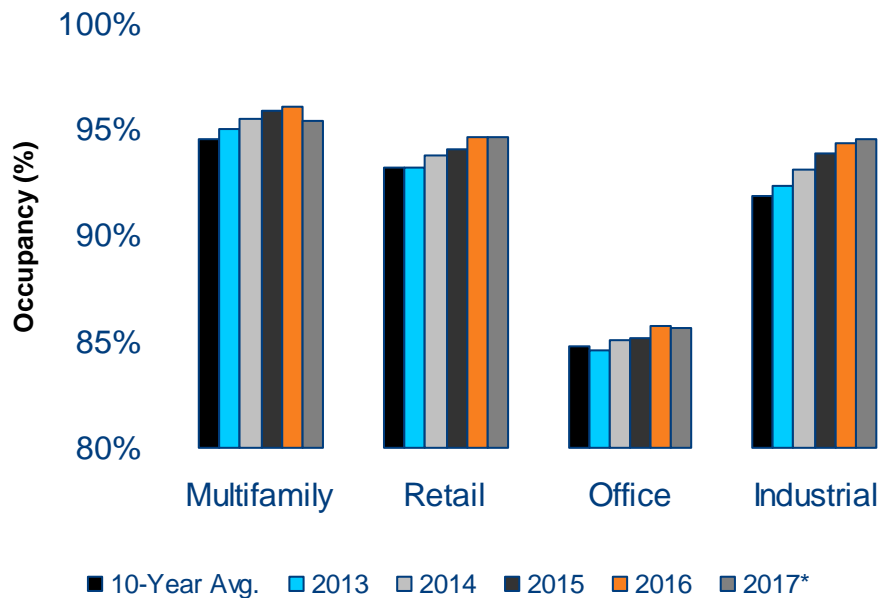
\* Through 1Q; trailing 12-months through 1Q for employment growth

\*\* Preliminary estimate for trailing 12-months through 1Q

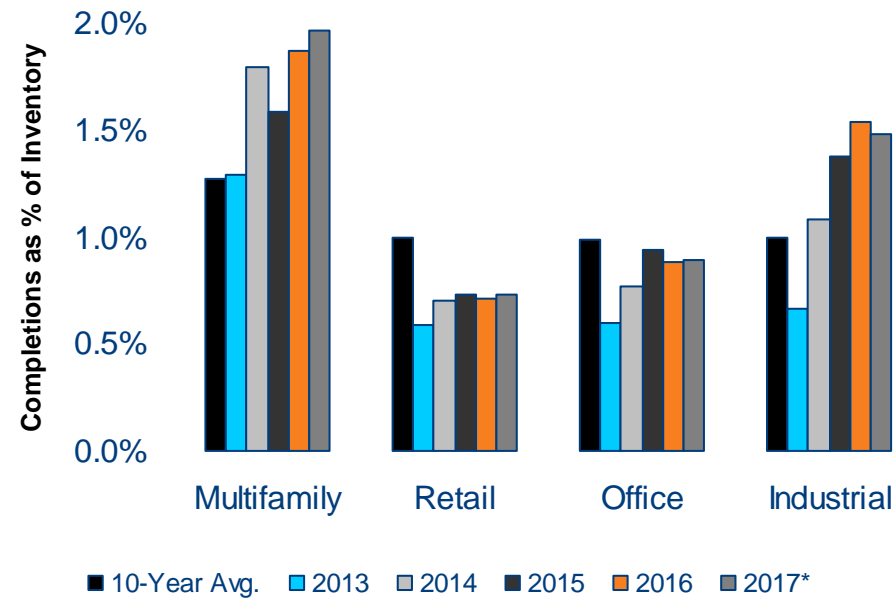
# Property Fundamentals Remain Healthy; Construction Trends Vary

- Property fundamentals showing healthy performance across all property types
- Multifamily properties led the recovery
- Select markets showing signs of high-end apartment oversupply; core workforce multifamily still healthy
- New supply rising, but still below long-term trends for retail and office sectors

## Occupancy Trends



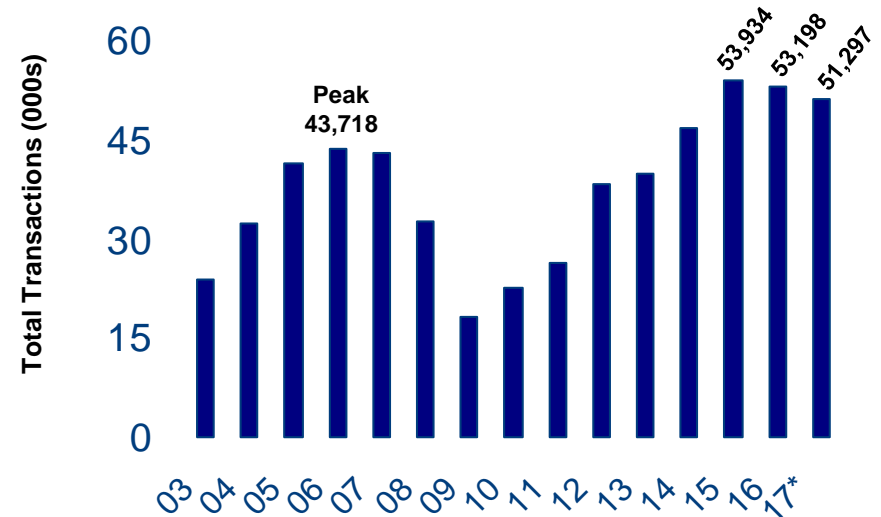
## Construction Trends



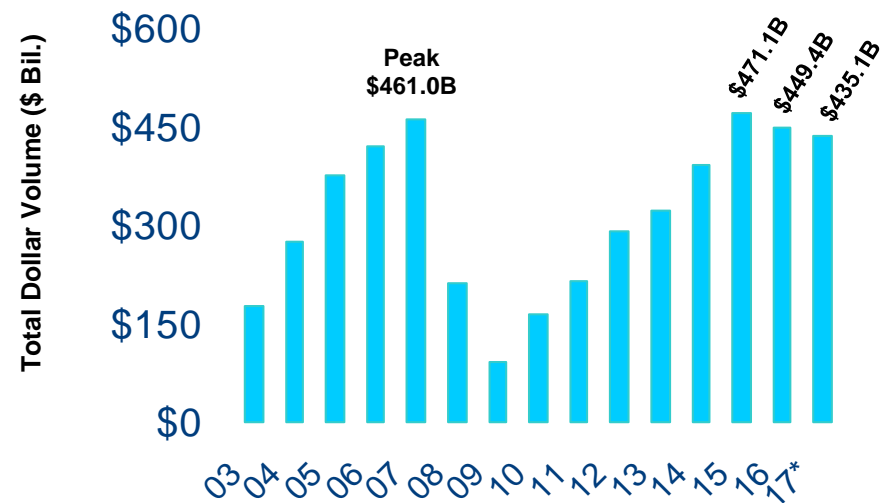
# Investment Sales Market Still Active Despite Recent Slowdown

- Preliminary estimates for trailing 12-month sales show a decline of 6% in transactions and 7% in sales volume from the prior year
- Largest decline was observed in 1Q 2017 with an estimated 15% drop in transactions and 14% decline in sales volume
- The post-election jump in interest rates, uncertainty regarding tax reform and economic initiatives, hampering transactions in the short-term
- Healthy fundamentals and eventual policy clarity expected to improve real estate capital flows

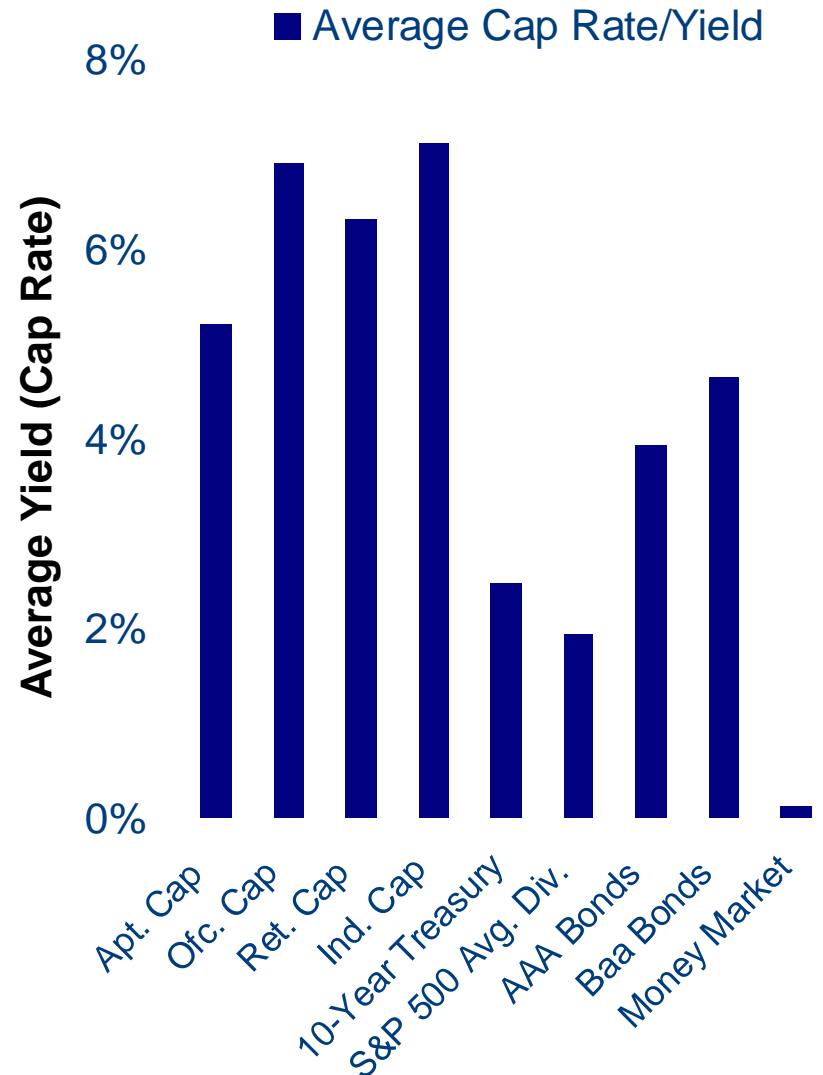
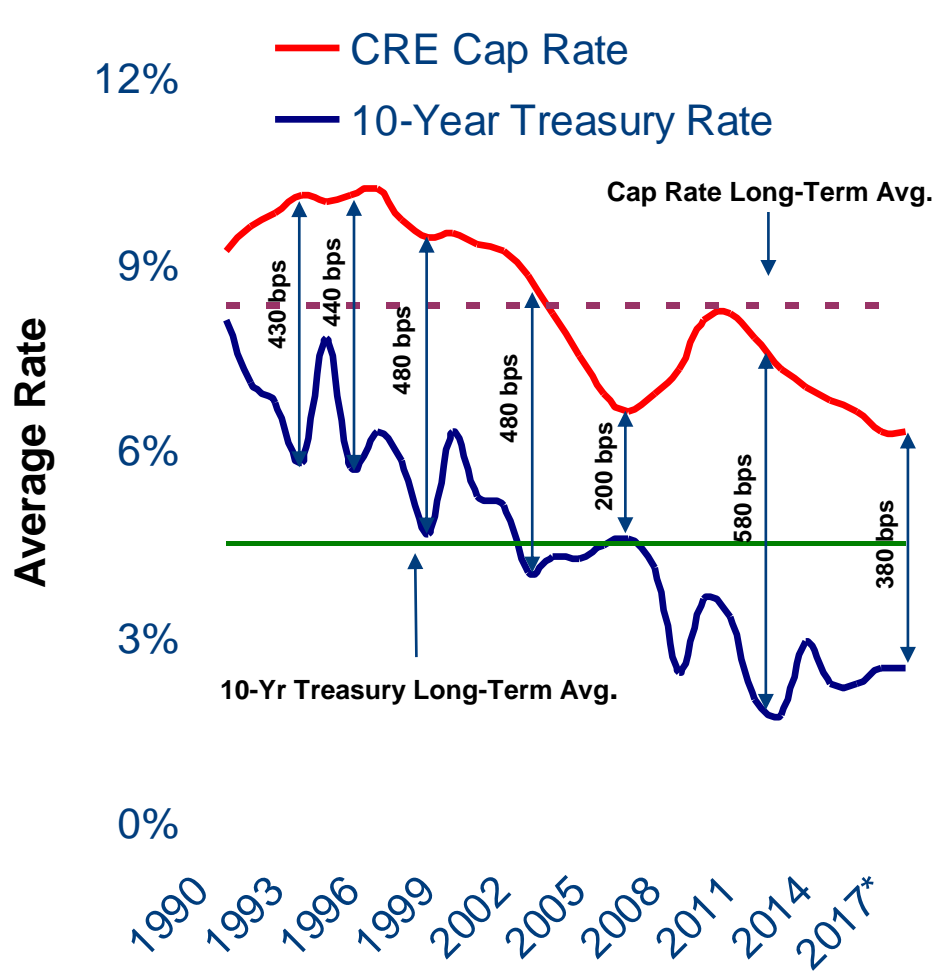
U.S. Commercial Real Estate - Total Transactions <sup>(1)</sup>



U.S. Commercial Real Estate - Total Dollar Volume <sup>(1)</sup>



# Commercial Real Estate Yields Compelling



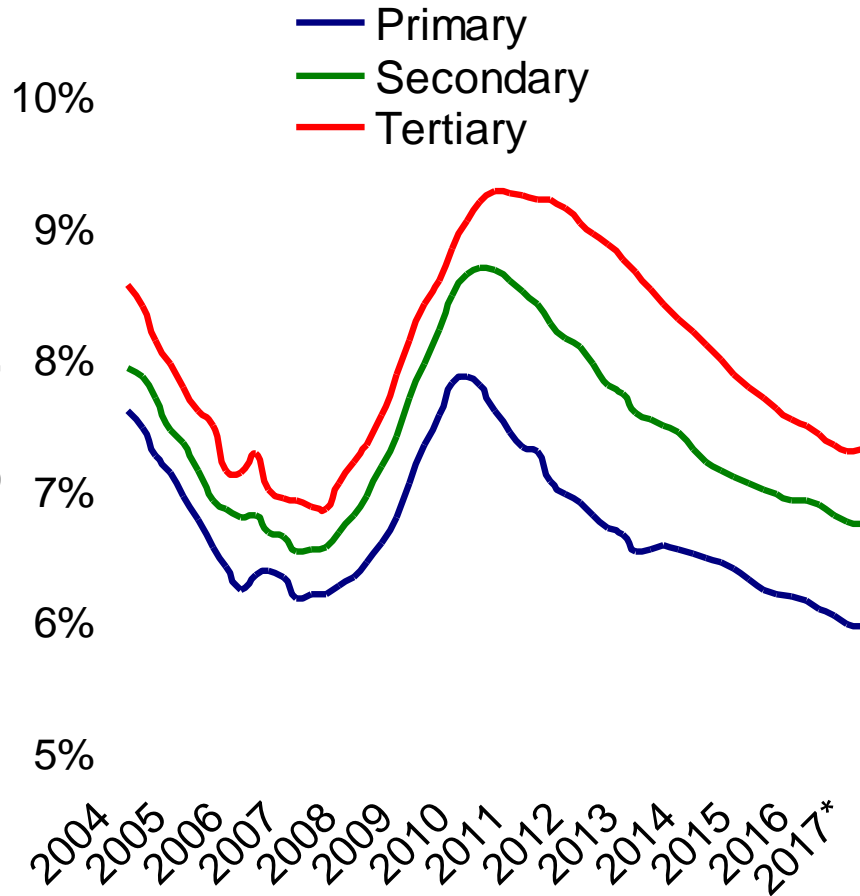
\* Through 1Q 2017

Cap rates for sales \$1 million and greater

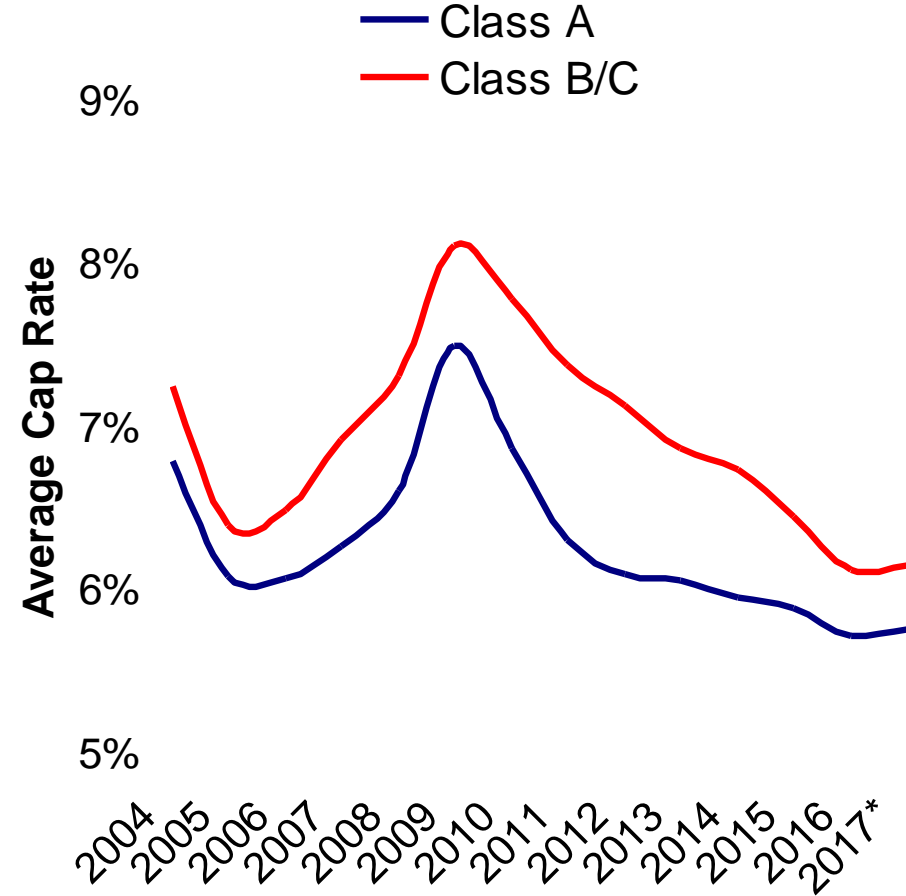
Sources: CoStar Group, Inc., Real Capital Analytics, Federal Reserve, Standard & Poor's

# Commercial Real Estate Cap Rate Trends

## Cap Rates by Market Type <sup>(1)</sup>



## Cap Rates by Class <sup>(2)</sup>



Sources: CoStar Group, Inc., Real Capital Analytics

\* Preliminary estimate through 1Q

(1) Includes apartment, retail, office, and industrial sales \$1 million and greater

(2) Includes apartment and office sales \$1 million and greater

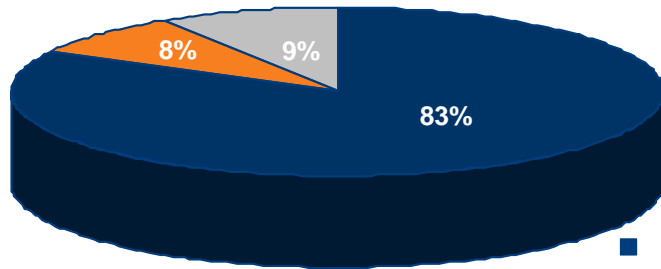
# MMI Market Position

# Private Client Market Segment – Largest Sales and Commission Pool Opportunity

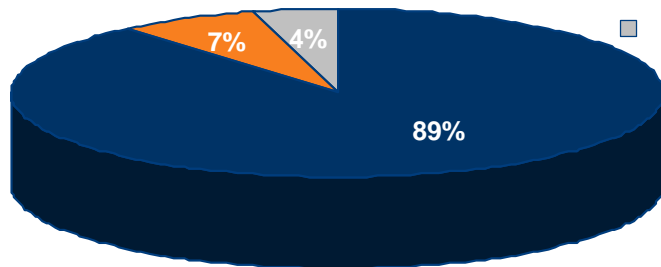
- Market segment consists of sales \$1 million - \$10 million; is the largest and most active, accounting for 80%+ of transactions
- Primarily driven by high-net worth individuals, partnerships and smaller private fund managers
- Influenced by personal drivers that result in buying/selling/refinancing properties, as well as market conditions
- Market segment features the highest commission rates

## Transactions by Investor Segment <sup>(1)</sup>

### Commercial Real Estate Market

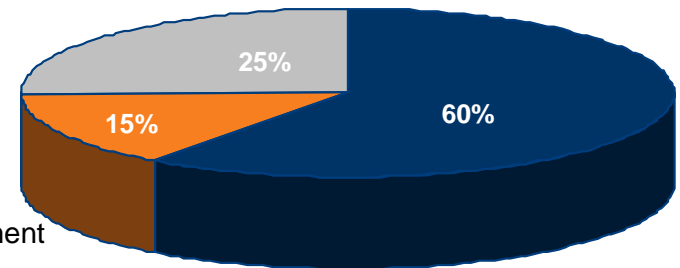


### Marcus & Millichap

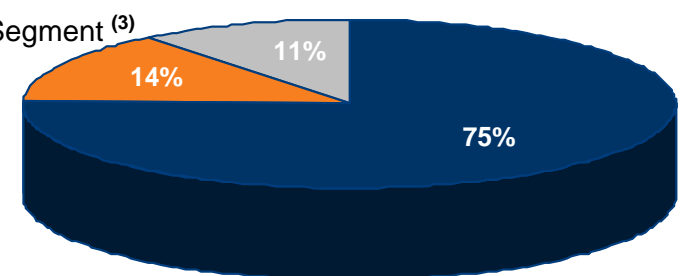


## Commission Pool by Investor Segment <sup>(1) (2)</sup>

### Commercial Real Estate Market



### Marcus & Millichap



Sources: CoStar Group, Inc., Real Capital Analytics

(1) Includes apartment, retail, office, and industrial sales \$1 million and greater for the trailing 12-months through 1Q 2017; 1Q preliminary estimate for market total.

Commercial Real Estate market totaled an estimated 51,297 transactions, with \$7.9 billion in total commission pool.

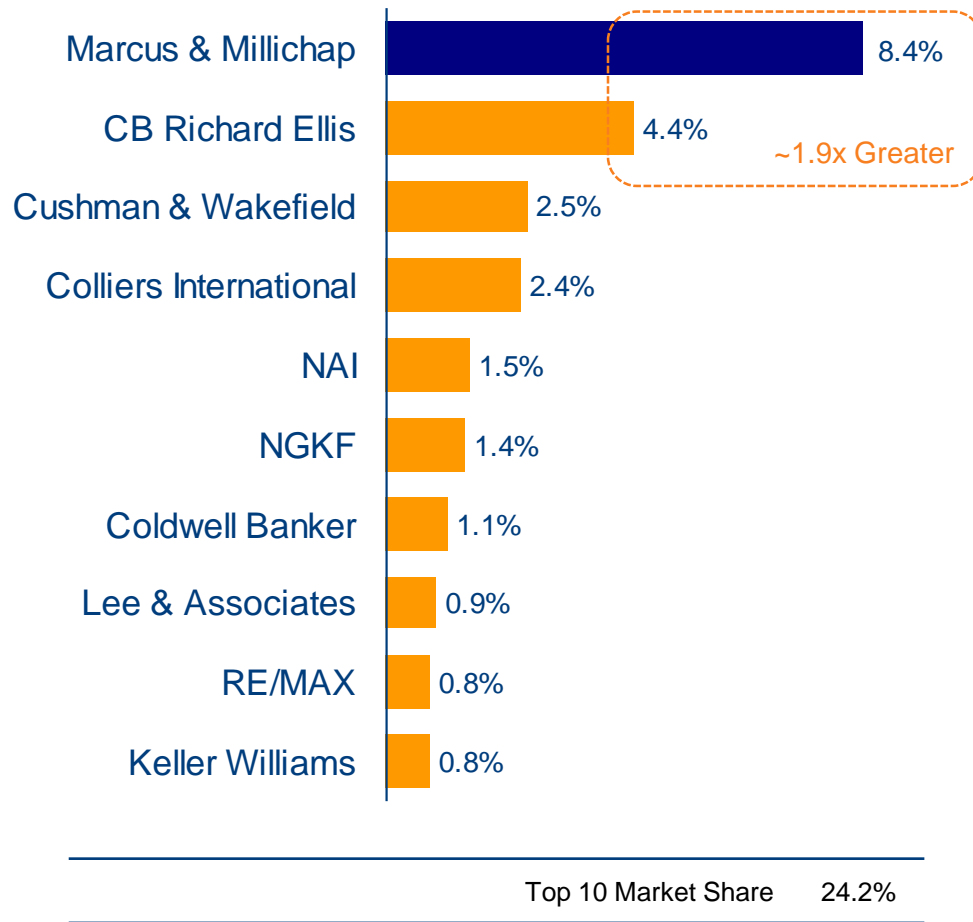
(2) Estimate based on industry averages: 3.7% commission rate for Private Client Market segment, 2.0% rate for Middle Market Segment and 0.8% for Larger Transaction Market segment.

(3) Middle Market segment (previously referred to as hybrid segment) and Larger Transaction Market segment (previously referred to as Institutional Market segment).

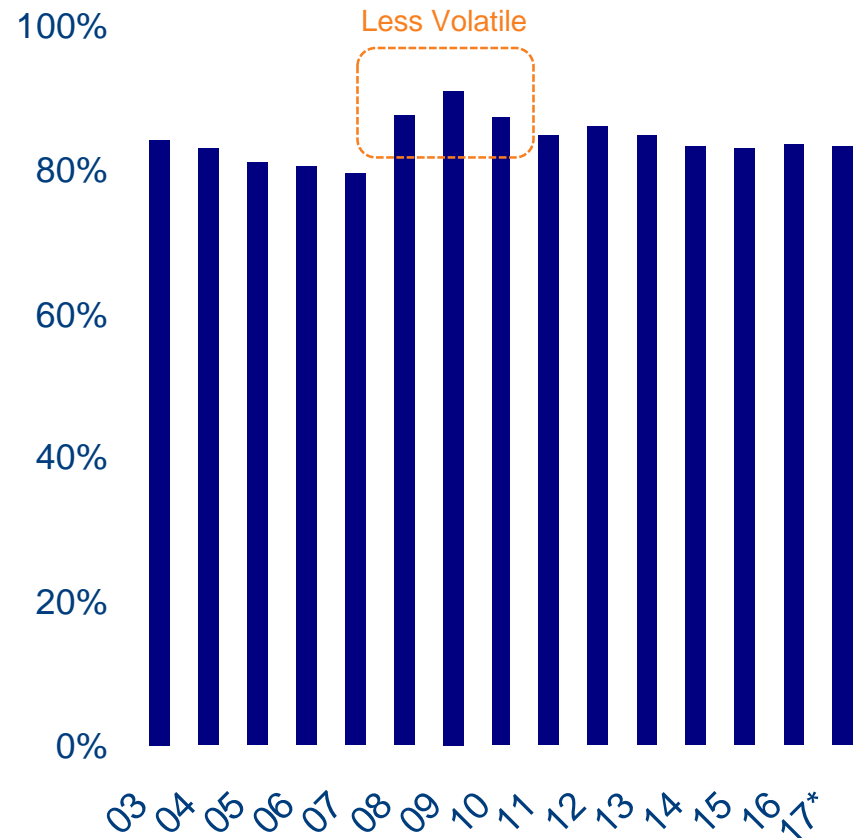


# MMI – Private Client Market Leader with Growth Opportunity

**Top 10 U.S. Brokerage Firms by Market Share  
(Private Client Market Segment \$1M - \$10M)<sup>(1)</sup>**



**Private Client Segment (\$1M - \$10M) Transactions  
as a Percentage of Total Real Estate Transactions <sup>(2)</sup>**



Sources: CoStar Group, Inc., Real Capital Analytics

\* Preliminary estimate for trailing 12-months through 1Q

Market share includes recent company mergers and acquisitions

(1) Includes multifamily, retail, office and industrial sales from \$1 million to \$10 million during 2016 in which the brokerage firms represented the seller.

(2) Includes multifamily, retail, office and industrial sales \$1 million and greater

# Market Share Growth Opportunity by Property Type

MMI T-12 1Q 2017 Transactions by Property Type <sup>(1)</sup>

Property Type	Transactions	Volume (\$Billion)
<b>Multifamily</b>	<b>3,342</b>	<b>\$19.96</b>
<b>Retail</b>	<b>3,632</b>	<b>\$11.86</b>
<b>Office</b>	<b>634</b>	<b>\$2.92</b>
<b>Self-Storage</b>	<b>182</b>	<b>\$1.16</b>
<b>Hospitality</b>	<b>225</b>	<b>\$1.16</b>
<b>Industrial</b>	<b>271</b>	<b>\$0.99</b>
<b>Seniors Housing</b>	<b>85</b>	<b>\$0.97</b>
<b>Land</b>	<b>293</b>	<b>\$0.81</b>
<b>Manufactured Housing</b>	<b>92</b>	<b>\$0.32</b>
<b>Mixed - Use / Other</b>	<b>268</b>	<b>\$1.01</b>
<b>Total</b>	<b>9,024</b>	<b>\$41.16</b>

- Leverage platform, relationships, brand to grow in various sectors
- Growth opportunity remains in leading sectors (multifamily and retail)
- Expanding multi-tenant office, industrial presence
- Expanding presence in specialty property types and larger transactions
  - National specialty divisions led by tenured executives

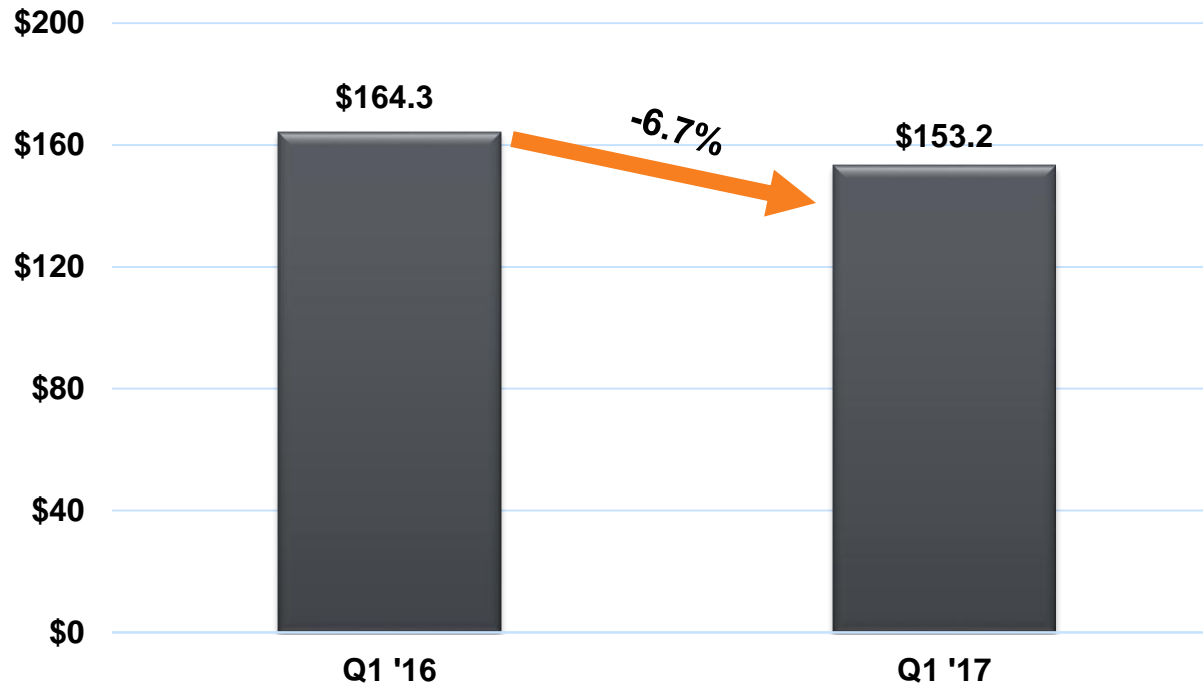
(1) Includes investment sales, financing and other transactions for the trailing 12-months through 1Q 2017

# MMI Financial Detail

# Q1 2017 Total Revenues Decreased By 6.7% From Prior Year

## Revenue

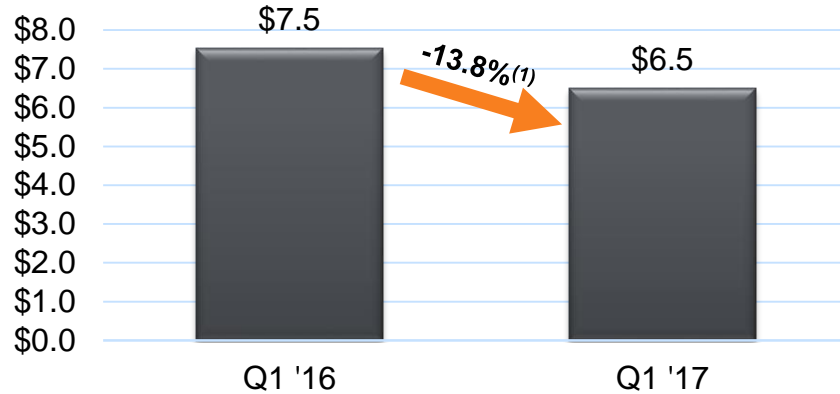
(\$ in millions)



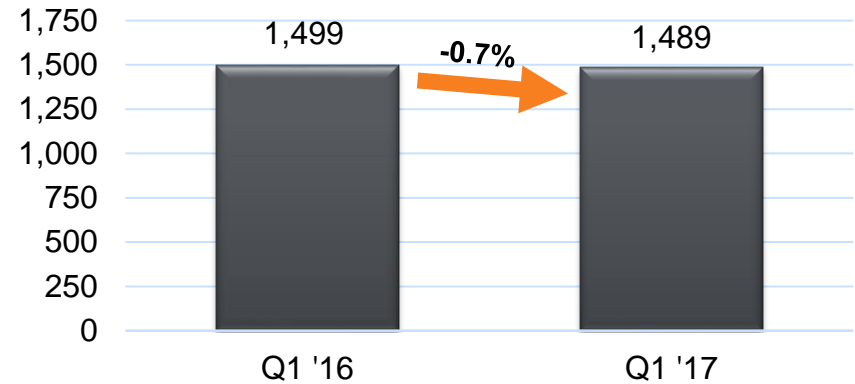
# Q1 2017 Brokerage Operating Metrics

## Total Sales Volume

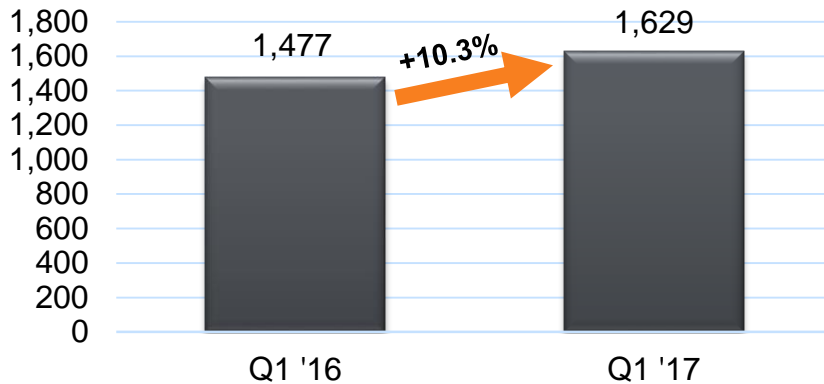
(\$ in billions)



## Total Number Of Sales Transactions

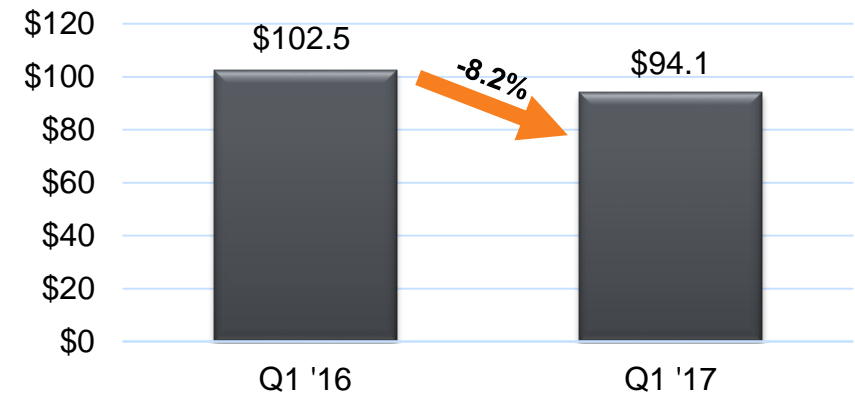


## Average Investment Sales Professionals



## Average Commission Per Transaction

(\$ in thousands)

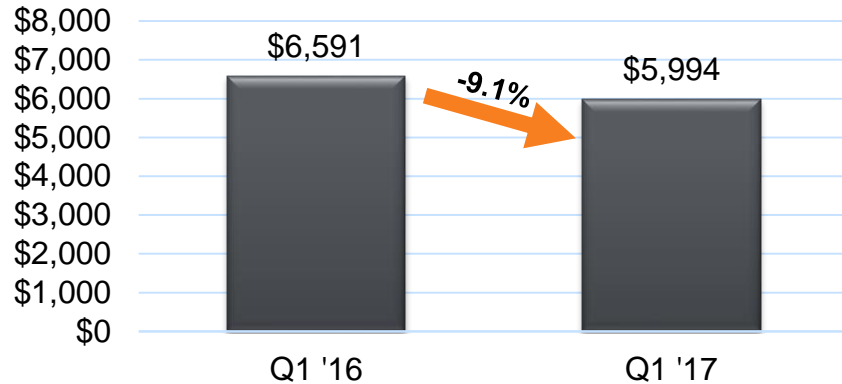


(1) Normalized sales volume, adjusting for one large transaction in excess of \$300 million in 1Q 2016, represents year over year reduction of 7.7%

# Q1 2017 Brokerage Revenue by Market Segment

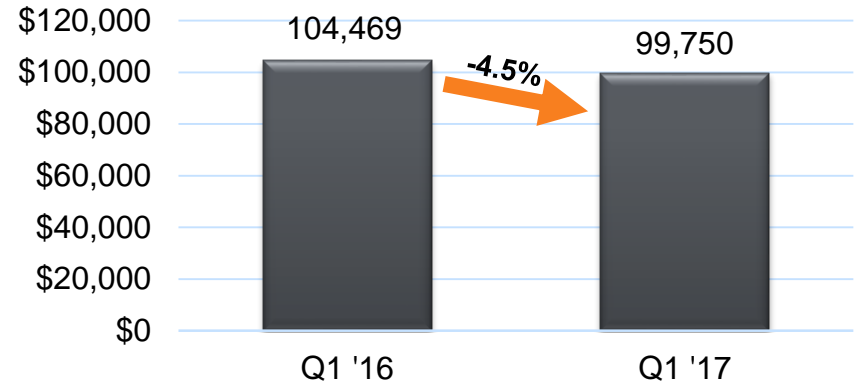
## <\$1 million

(\$ thousands)



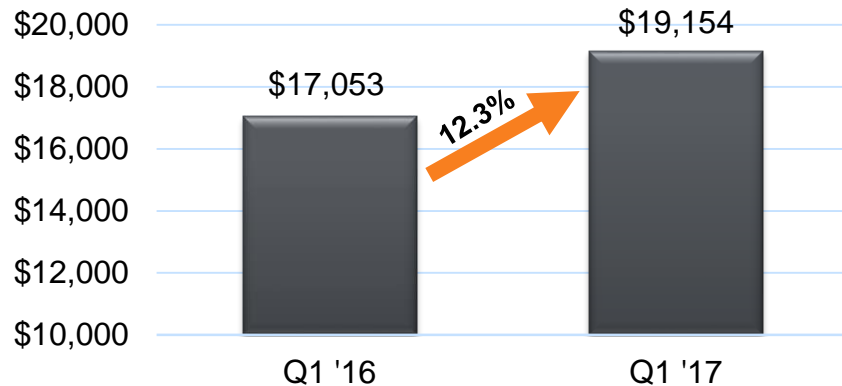
## Private Client Market (\$1 - \$10 million)

(\$ thousands)



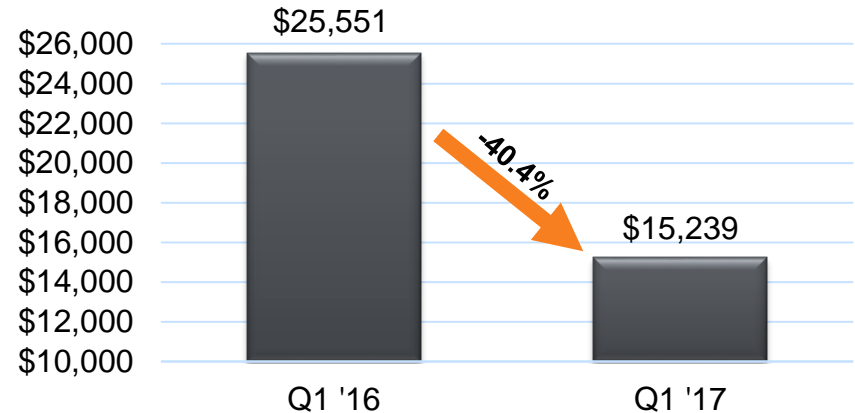
## Middle Market (≥ \$10 - \$20 million)

(\$ thousands)



## Larger Transaction Market (≥\$20 million)

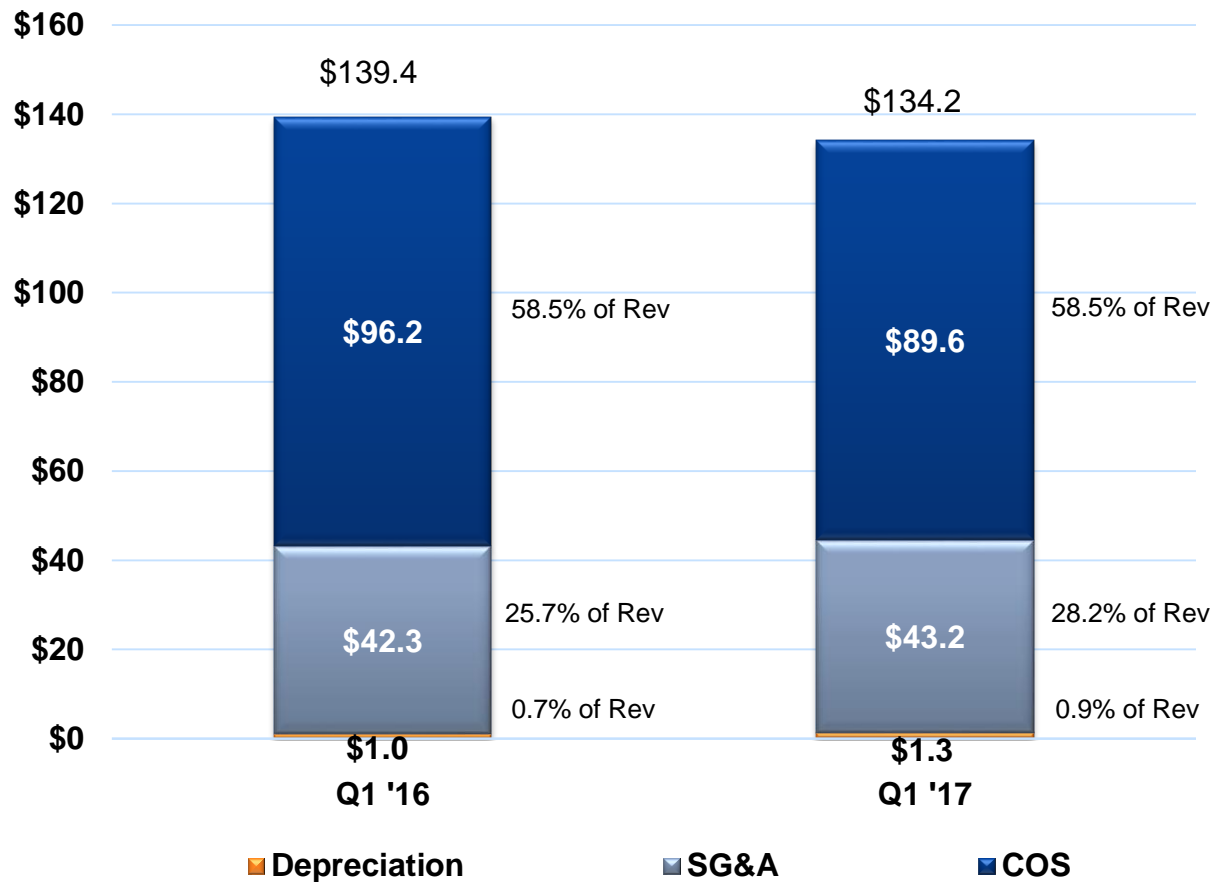
(\$ in thousands)



# Q1 2017 Operating Expenses

## Operating Expense

(\$ in millions)



# Q1 2017 Net Income and Adjusted EBITDA Performance

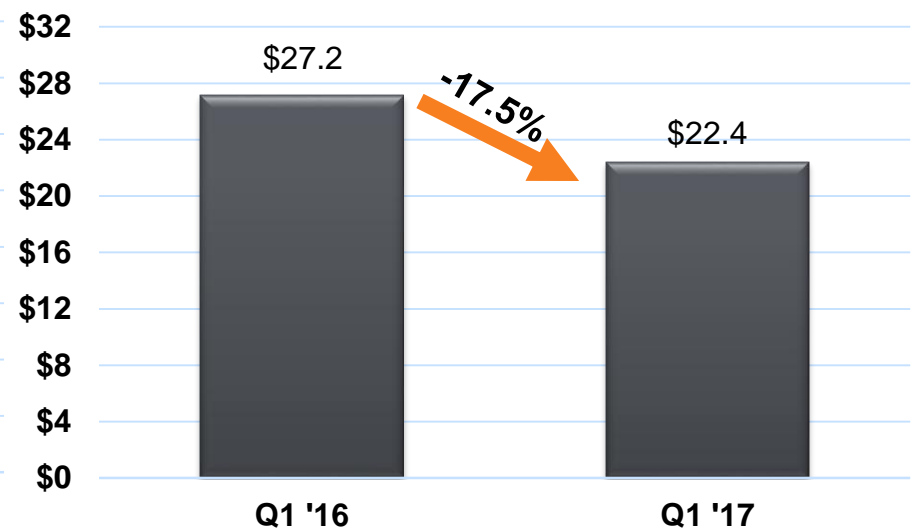
## Net Income

(\$ in millions)



## Adjusted EBITDA

(\$ in millions)





# Cash Flow Used In Operating Activities

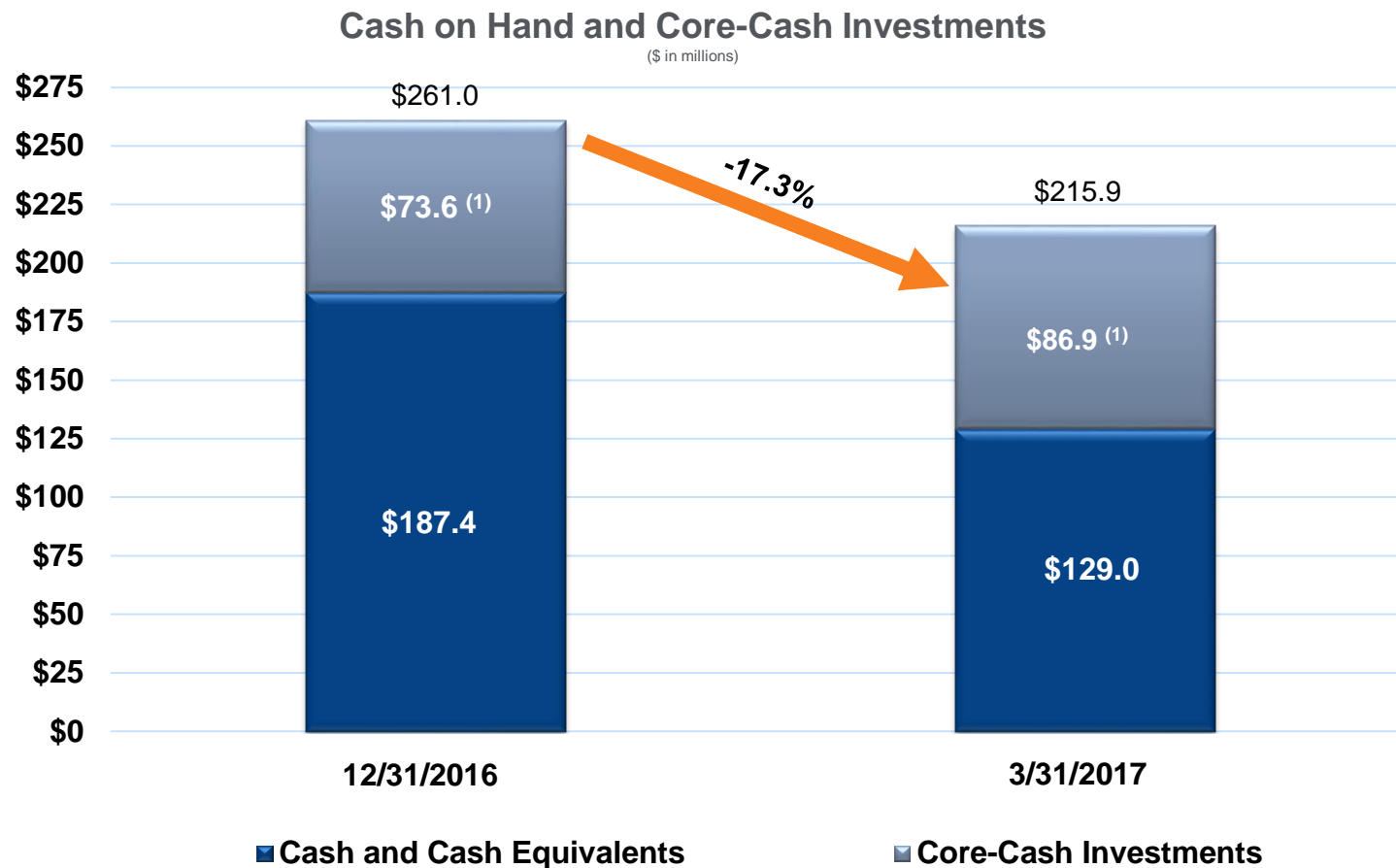
## Q1 2017 Cash Flow Used In Operating Activities <sup>(1)</sup>

(\$ in millions)



(1) Traditionally, the Company experiences net cash used in operating activities during the first quarter since bonuses and certain deferred commissions related to the prior year(s) are typically paid during the first quarter of the year. The decrease was primarily due to a reduction in the deferral of certain discretionary commissions, a decrease in bonus accruals related to our reduced operating results, an increase in advances to the Company's investment sales and financing professionals and payments for SARs liability.

# Strong Liquid Capital Position



(1) Relates to investments designated by the Company as core-cash investments in fixed and variable debt securities, in accordance with our investment policy approved by the Board of Directors with weighted average maturity of .95 years and 1.16 years for the periods ended 3/31/2017 and 12/31/2016, respectively. Traditionally, the Company experiences a decrease in cash on hand during the first quarter since bonuses and certain deferred commissions related to the prior year(s) are typically paid during the first quarter of the year.

# Appendix

# Adjusted EBITDA Reconciliation

Adjusted EBITDA, which the Company defines as net income before (i) interest income and other, including net realized gains (losses) on marketable securities, available-for-sale and cash and cash equivalents, (ii) interest expense, (iii) provision for income taxes, (iv) depreciation and amortization and (v) stock-based compensation. The Company uses Adjusted EBITDA in its business operations to evaluate the performance of its business, develop budgets and measure its performance against those budgets, among other things. The Company also believes that analysts and investors use Adjusted EBITDA as a supplemental measure to evaluate its overall operating performance. However, Adjusted EBITDA has material limitations as an analytical tool and should not be considered in isolation or as a substitute for analysis of the Company's results as reported under U.S. generally accepted accounting principles ("U.S. GAAP"). The Company finds Adjusted EBITDA as a useful tool to assist in evaluating performance because Adjusted EBITDA eliminates items related to capital structure and taxes and non-cash stock-based compensation charges. In light of the foregoing limitations, the Company does not rely solely on Adjusted EBITDA as a performance measure and also considers its U.S. GAAP results. Adjusted EBITDA is not a measurement of the Company's financial performance under U.S. GAAP and should not be considered as an alternative to net income, operating income or any other measures derived in accordance with U.S. GAAP. Because Adjusted EBITDA is not calculated in the same manner by all companies, it may not be comparable to other similarly titled measures used by other companies.

A reconciliation of the most directly comparable U.S. GAAP financial measure, net income, to Adjusted EBITDA is as follows (in thousands):

	Three Months Ended March 31,	
	2017	2016
Net income .....	\$ 12,000	\$ 14,815
Adjustments:		
Interest income and other <sup>(1)</sup> .....	(625)	(252)
Interest expense .....	382	391
Provision for income taxes .....	7,502	9,882
Depreciation and amortization .....	1,297	1,006
Stock-based compensation .....	1,866	1,325
Adjusted EBITDA <sup>(2)</sup> .....	<u>\$ 22,422</u>	<u>\$ 27,167</u>

(1) Other for the three months ended March 31, 2017 and 2016 includes \$7 and \$(155), respectively, of net realized gains (losses) on marketable securities, available-for-sale and cash and cash equivalents.

(2) The decrease in Adjusted EBITDA for the three months ended March 31, 2017 compared to the same period in the prior year is primarily due to lower total revenues and a higher proportion of operating expenses compared to revenues.

# Company Overview

## **National Platform Focused on Investment Brokerage**

- 46-year old platform dedicated to perfecting real estate investment brokerage
- Designed to facilitate the movement of capital providing liquidity to clients

## **Market Leader in the Private Client Market Segment**

- Only national brokerage firm focused on the Private Client Market segment
- Private Client Market segment consistently comprises 80%+ of U.S. commercial property sales transactions annually

## **Platform Built for Maximizing Investor Value**

- Marcus & Millichap Capital Corporation (“MMCC”), Research & Advisory support client dialogue, financing, strategy and sales execution
- Culture and policy of information sharing is key to maximizing investor value

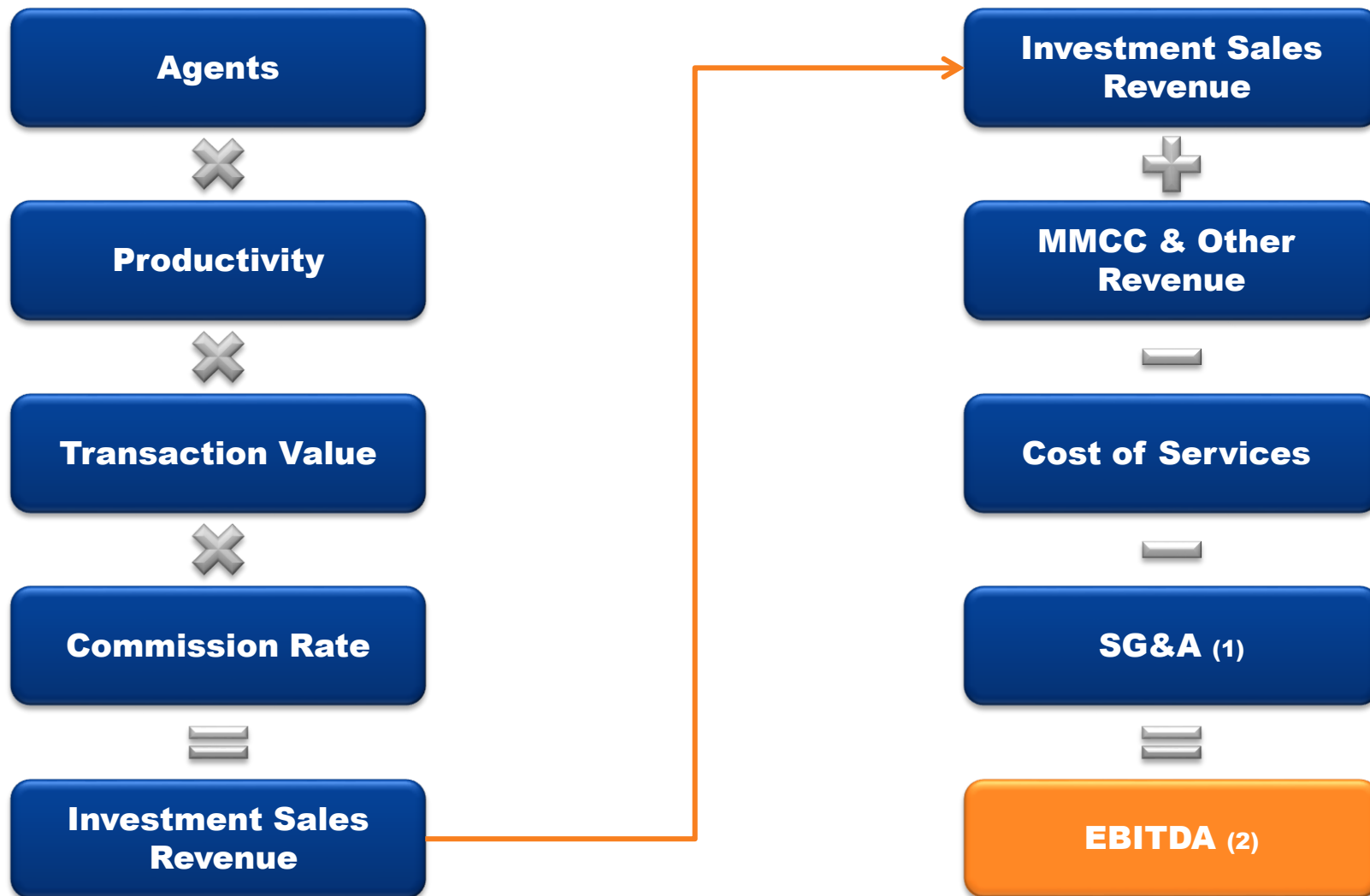
## **Management With Significant Investment Brokerage Experience**

- Non-competitive management with extensive investment brokerage experience, committed to training, coaching and supporting investment sales professionals
- Creates a competitive advantage through agent retention and better client results

## **Well Positioned to Execute on Strategic Growth Plan**

- Positioned to increase Private Client Market segment share, expand presence in specialty niches/larger transaction business and grow financing division, MMCC

# Illustrative MMI Earnings Model



(1) Includes stock-based compensation

(2) EBITDA is not a measurement of our financial performance under U.S. GAAP and should not be considered as an alternative to net income, operating income or any other measure derived in accordance with U.S. GAAP.