

# Marcus & Millichap, Inc. Reports Results for Fourth Quarter and Full-Year 2017

## ***Results Include a One-Time Tax Charge***

CALABASAS, Calif.--(BUSINESS WIRE)-- Marcus & Millichap, Inc. (the "Company", "Marcus & Millichap", "MMI") (NYSE:MMI), a leading national brokerage firm specializing in commercial real estate investment sales, financing, research and advisory services, today reported financial results for the fourth quarter and full year ended December 31, 2017.

### ***Fourth Quarter 2017 Highlights***

- Total revenues increased by 7.2% to \$202.8 million compared to a 6.9% decline in the fourth quarter of 2016
- Financing revenue increased by 22.6% to \$15.5 million driven by significant growth in financing purchase transactions
- Private Client Market segment brokerage transactions were up slightly in contrast to a 7.0% decline experienced during the fourth quarter of 2016
- Brokerage commissions in the Larger Transaction Market segment increased by 5.1% compared to a difficult comparison of 15.1% gain in this segment during the fourth quarter of 2016
- Net income was \$8.5 million, or \$0.22 per common share (basic and diluted), which included a \$11.6 million one- time charge in connection with the remeasurement of deferred tax assets, net due to the enactment of the Tax Cuts and Jobs Act. Adjusted net income was \$20.1 million, or \$0.52 per common share, basic and \$0.51 per common share, diluted when excluding this charge.

### ***Full Year 2017 Highlights***

- Total revenues increased to \$719.7 million
- Financing revenue increased by 14.3% to \$49.7 million
- Private Client Market segment brokerage transactions, which represented approximately 68% of the Company's brokerage commissions, increased 2.3% compared to prior year, despite an estimated decline for the year in market transaction activity
- Brokerage transactions in the Larger Transaction Market segment declined by nearly 2.0% compared to an outsized 29.7% gain in this segment in 2016
- Net income was \$51.5 million, or \$1.32 per common share (basic and diluted), which included a one-time charge of \$11.6 million in connection with the remeasurement of deferred tax assets, net due to the enactment of the Tax Cuts and Jobs Act. Adjusted net income was \$63.2 million, or \$1.62 per common share (basic and diluted) when

excluding this charge.

Hessam Nadji, President and CEO stated, "Marcus & Millichap ended 2017 on a positive trajectory with revenue growth of 7.2% on a year-over-year basis for the fourth quarter in contrast to revenue decline of 6.9% in the fourth quarter of 2016. Our intensified client outreach initiatives, sales force expansion and our team's commitment to client service provided the impetus for modest revenue growth for the year despite uncertainty that pushed many investors to the sidelines." Mr. Nadji continued, "We are encouraged by our continued market share growth in the Private Client Market segment in light of a more challenging environment and slower sales. Our initiatives to expand our financing capabilities are also showing progress as reflected in revenue growth of 22.6% for our financing business in the fourth quarter and 14.3% for the year." Mr. Nadji added, "We look forward to 2018 with cautious optimism. The Tax Cuts and Jobs Act is projected to be very constructive, not only for the real estate industry at large, but also for the Company given our reduced tax rate going forward. Lower tax liability, coupled with a gradual increase in market activity and further share gains, should grow our free cash flow and further strengthen the balance sheet. The Company is well positioned for strategic acquisitions and investments to make our platform more competitive. We are focused on executing these strategies to enhance long-term shareholder value."

#### ***Fourth Quarter 2017 Results Compared to Fourth Quarter 2016***

Total revenues for the fourth quarter of 2017 were \$202.8 million, compared to \$189.2 million for the same period in the prior year, increasing by \$13.6 million, or 7.2%. The growth in total revenues was driven by the increase in real estate brokerage commissions, other revenues and, to a lesser extent, financing fees. Real estate brokerage commissions increased by 2.7% to \$177.3 million primarily due to an increase in sales volume and, to a lesser extent, improved rates in the Private Client Market and Middle Market segments. This increase was partially offset by a decrease in average commission rates due to a larger proportion of transactions from the Larger Transaction Market segment. Other revenues increased by 164.9% to \$9.9 million primarily due to a large consulting and advisory services fee during the fourth quarter of 2017 with no comparable fee during the same period in 2016. Financing fees grew by 22.6% to \$15.5 million primarily due to a significant growth in financing purchases.

Total operating expenses for the fourth quarter of 2017 increased by 8.8% to \$175.4 million, compared to \$161.3 million for the same period in the prior year. The increase was primarily driven by an increase in cost of services and selling, general and administrative expenses. Cost of services increased by 8.3% to \$131.7 million. Cost of services as a percent of total revenues rose by 70 basis points to 65.0% compared to the same period in the prior year. This was primarily due to an increase in the proportion of transactions closed by our more senior investment sales professionals, who are generally compensated at higher commission rates.

Selling, general and administrative expense for the fourth quarter of 2017 increased by 10.1% to \$42.3 million, compared to the same period in the prior year primarily due to higher costs associated with (i) sales operations support and promotional marketing expenses; (ii) compensation related costs, including salaries and related benefits and management performance compensation; (iii) stock-based compensation expense and (iv) expansion of existing offices. These increases were partially offset by a decrease in legal costs and

accruals.

Net income for the fourth quarter of 2017 was \$8.5 million, or \$0.22 per common share (basic and diluted), compared to net income of \$17.2 million, or \$0.44 per common share (basic and diluted), for the same period in the prior year. Net income for the fourth quarter of 2017 included a one-time charge in connection with the remeasurement of deferred tax assets, net due to the enactment of the Tax Cuts and Jobs Act. Excluding this charge of \$11.6 million, adjusted net income was \$20.1 million, or \$0.52 per common share, basic and \$0.51 per common share, diluted. Adjusted EBITDA for the fourth quarter of 2017 was \$32.1 million compared to adjusted EBITDA of \$31.3 million for the same period in the prior year.

### ***Full Year 2017 Results Compared to Full Year 2016***

Total revenues for 2017 were \$719.7 million, compared to \$717.5 million for 2016, increasing by 0.3%. Total operating expenses for 2017 were up 2.1% to \$623.6 million compared to \$610.9 million for 2016. Cost of services as a percent of total revenues remained flat at 62.0%. Net income for 2017 was \$51.5 million, or \$1.32 (basic and diluted) per common share, compared with net income of \$64.7 million, or \$1.66 (basic and diluted) per common share for 2016. Net income for 2017 included a one-time charge in connection with the remeasurement of deferred tax assets, net due to the enactment of the Tax Cuts and Jobs Act. Excluding this charge of \$11.6 million, adjusted net income was \$63.2 million, or \$1.62 per common share (basic and diluted). Adjusted EBITDA for 2017 decreased by 5.6% to \$111.7 million, from \$118.3 million for 2016. As of December 31, 2017, the Company had 1,819 investment sales and financing professionals.

### ***Business Outlook***

We believe that the Company is positioned to continue to gain market share by leveraging a number of factors, including our leading national brand predominantly within our Private Client Market segment and specialty groups, experienced management team, infrastructure investments and proprietary technology. The size and fragmentation of the Private Client Market segment, in particular, continues to offer long-term growth opportunities with the top ten brokerage firms making up only 25.2% market share. This market segment consistently accounts for over 80% of commercial property sales transactions and over 60% of the commission pool. The Company's growth plan also includes further expansion into various specialty property types such as hospitality, self-storage, seniors housing and the Larger Transaction Market segment, as well as expansion of its financing division, Marcus & Millichap Capital Corporation.

Key factors likely to influence the Company's business in 2018 include:

- Volatility in market sales and investor sentiment driven by:
  - Slowdown in market sales in the short- to mid-term in view of a maturing cycle, rising interest rates, and bid-ask spread gap between buyers and sellers, financial regulation and economic initiatives.
  - Possible boost to investor sentiment and sales activity based on Tax Cuts and Jobs Act, regulatory easing and proposed economic initiatives which are expected to increase real estate demand.
- Experienced agents' larger share of revenue production in a more challenging market

environment resulting in a higher average commission payout.

- Reduction of MMI's effective tax rate to the 25.5%-27.5% range from nearly 40% in prior years reflecting a positive impact on its corporate tax rate as a result of the enactment of the Tax Cuts and Jobs Act.
- Volatility in the Company's Larger Transaction Market segment.
- The potential for merger and acquisition activity and subsequent integration.

These factors, in addition to the business's typical transaction closing date variability, highlight the importance of viewing the Company's business through a long-term, at least annual, perspective.

### ***Conference Call Details***

Marcus & Millichap will host a conference call today to discuss the results at 2:00 p.m. Pacific Time/5:00 p.m. Eastern Time. To participate in the conference call, callers from the United States and Canada should dial (877) 407-9208 ten minutes prior to the scheduled call time. International callers should dial (201) 493-6784. For those unable to participate during the live broadcast, a telephonic replay of the call will also be available from 5:00 p.m. Pacific Time/8:00 p.m. Eastern Time on Thursday, March 8, 2018, through 8:59 p.m. Pacific Time/11:59 p.m. Eastern Time on Thursday, March 22, 2018, by dialing (844) 512-2921 in the United States and Canada or (412) 317-6671 internationally and entering passcode 13674949.

### ***About Marcus & Millichap, Inc.***

Marcus & Millichap, Inc. is a leading national brokerage firm specializing in commercial real estate investment sales, financing, research and advisory services. As of December 31, 2017, the Company had over 1,800 investment sales and financing professionals in 78 offices who provide investment brokerage and financing services to sellers and buyers of commercial real estate. The Company also offers market research, consulting and advisory services to our clients. Marcus & Millichap closed 8,979 transactions in 2017, with a sales volume of approximately \$42.2 billion. For additional information, please visit [www.MarcusMillichap.com](http://www.MarcusMillichap.com).

### ***SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS***

This release includes forward-looking statements, including the Company's business outlook for 2018 and beyond and expectations for market share growth. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends affecting the financial condition of our business. Forward-looking statements should not be read as a guarantee of future performance or results and will not necessarily be accurate indications of the times at, or by, which such performance or results will be achieved. Forward-looking statements are based on information available at the time those statements are made and/or management's good faith belief as of that time with respect to future events and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward-looking statements. Important factors that could cause such differences include, but are not limited to:

- market trends in the commercial real estate market or the general economy;
- our ability to attract and retain qualified managers and investment sales and financing professionals;
- the effects of increased competition on our business;
- our ability to successfully enter new markets or increase our market share;
- our ability to successfully expand our services and businesses and to manage any such expansions;
- our ability to retain existing clients and develop new clients;
- our ability to keep pace with changes in technology;
- any business interruption or technology failure and any related impact on our reputation;
- changes in interest rates, tax laws, including the recently enacted Tax Cuts and Jobs Act, employment laws or other government regulation affecting our business; and
- other risk factors included under “Risk Factors” in our most recent Annual Report on Form 10-K.

In addition, in this release, the words “believe,” “may,” “will,” “estimate,” “continue,” “anticipate,” “intend,” “expect,” “predict,” “potential,” “should” and similar expressions, as they relate to our company, our business and our management, are intended to identify forward-looking statements. In light of these risks and uncertainties, the forward-looking events and circumstances discussed in this release may not occur and actual results could differ materially from those anticipated or implied in the forward-looking statements.

Forward-looking statements speak only as of the date of this release. You should not put undue reliance on any forward-looking statements. We assume no obligation to update forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting forward-looking information, except to the extent required by applicable laws. If we update one or more forward-looking statements, no inference should be drawn that we will make additional updates with respect to those or other forward-looking statements.

**MARCUS & MILLICHAP, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF NET**  
**AND COMPREHENSIVE INCOME**  
(dollar and share amounts in thousands, except per share amounts)  
*(Unaudited)*

|  | Three Months<br>Ended December 31, |                  | Year Ended<br>December 31, |                  |
|--|------------------------------------|------------------|----------------------------|------------------|
|  | 2017                               | 2016             | 2017                       | 2016             |
| <i>Revenues:</i>   |                                    |                  |                            |                  |
| Real estate brokerage commissions  | \$177,324                          | \$172,743        | \$649,393                  | \$662,220        |
| Financing fees   | 15,522                             | 12,665           | 49,653                     | 43,444           |
| Other revenues   | 9,930                              | 3,749            | 20,654                     | 11,786           |
| Total revenues   | <u>202,776</u>                     | <u>189,157</u>   | <u>719,700</u>             | <u>717,450</u>   |
| <i>Operating expenses:</i>   |                                    |                  |                            |                  |
| Cost of services   | 131,730                            | 121,637          | 446,557                    | 444,768          |
| Selling, general, and administrative expense   | 42,255                             | 38,391           | 171,648                    | 161,794          |
| Depreciation and amortization expense  | 1,388                              | 1,223            | 5,363                      | 4,387            |
| Total operating expenses   | <u>175,373</u>                     | <u>161,251</u>   | <u>623,568</u>             | <u>610,949</u>   |
| Operating income   | 27,403                             | 27,906           | 96,132                     | 106,501          |
| Other income (expense), net  | 1,585                              | 567              | 4,590                      | 2,134            |
| Interest expense   | (370)                              | (378)            | (1,496)                    | (1,533)          |
| Income before provision for income taxes   | 28,618                             | 28,095           | 99,226                     | 107,102          |
| Provision for income taxes   | 20,138                             | 10,921           | 47,702                     | 42,445           |
| Net income   | <u>8,480</u>                       | <u>17,174</u>    | <u>51,524</u>              | <u>64,657</u>    |
| <i>Other comprehensive (loss) income:</i>  |                                    |                  |                            |                  |
| Unrealized (losses) gains on marketable securities, net of tax of \$(103), \$(487), \$139 and \$197 for the three months ended December 31, 2017 and 2016 and the years ended December 31, 2017 and 2016, respectively | (132)                              | (737)            | 193                        | 313              |
| Foreign currency translation gain (loss), net of tax of \$0 for each of the three months ended December 31, 2017 and 2016 and each of the years ended December 31, 2017 and 2016                                       | 2                                  | 8                | (63)                       | 40               |
| Total other comprehensive (loss) income  | <u>(130)</u>                       | <u>(729)</u>     | <u>130</u>                 | <u>353</u>       |
| Comprehensive income   | <u>\$ 8,350</u>                    | <u>\$ 16,445</u> | <u>\$ 51,654</u>           | <u>\$ 65,010</u> |
| <i>Earnings per share:</i>   |                                    |                  |                            |                  |
| Basic  | \$ 0.22                            | \$ 0.44          | \$ 1.32                    | \$ 1.66          |
| Diluted  | \$ 0.22                            | \$ 0.44          | \$ 1.32                    | \$ 1.66          |
| <i>Weighted average common shares outstanding:</i>   |                                    |                  |                            |                  |
| Basic  | 38,966                             | 38,843           | 38,988                     | 38,899           |
| Diluted  | 39,230                             | 39,079           | 39,100                     | 39,035           |

**MARCUS & MILLICHAP, INC.**  
**KEY OPERATING METRICS**  
**SUMMARY**  
*(Unaudited)*

Total sales volume was \$12.3 billion for the three months ended December 31, 2017, encompassing 2,443 transactions consisting of \$8.7 billion for real estate brokerage (1,752 transactions), \$1.7 billion for financing (499 transactions) and \$1.9 billion in other transactions, including consulting and advisory services (192 transactions). Total sales volume was \$42.2 billion for the year ended December 31, 2017, encompassing 8,979 transactions consisting of \$30.5 billion for real estate brokerage (6,562 transactions), \$5.6 billion for financing (1,707 transactions) and \$6.1 billion in other transactions, including consulting and advisory services (710 transactions). As of December 31, 2017, the Company

had 1,723 investment sales professionals and 96 financing professionals. Key metrics for real estate brokerage and financing are as follows:

|  | Three Months Ended December 31, |           | Year Ended December 31, |           |
|--|---------------------------------|-----------|-------------------------|-----------|
|  | 2017                            | 2016      | 2017                    | 2016      |
| <i>Real Estate Brokerage</i>                                     |                                 |           |                         |           |
| Average Number of Investment Sales Professionals                 | 1,682                           | 1,594     | 1,649                   | 1,527     |
| Average Number of Transactions per Investment Sales Professional | 1.04                            | 1.05      | 3.98                    | 4.24      |
| Average Commission per Transaction                               | \$101,212                       | \$103,377 | \$98,963                | \$102,258 |
| Average Commission Rate  | 2.04%                           | 2.08%     | 2.13%                   | 2.07%     |
| Average Transaction Size (in thousands)                          | \$ 4,972                        | \$ 4,962  | \$ 4,644                | \$ 4,935  |
| Total Number of Transactions                                     | 1,752                           | 1,671     | 6,562                   | 6,476     |
| Total Sales Volume (in millions)                                 | \$ 8,711                        | \$ 8,291  | \$30,475                | \$ 31,962 |
|  |                                 |           |                         |           |
|  | Three Months Ended December 31, |           | Year Ended December 31, |           |
|  | 2017                            | 2016      | 2017                    | 2016      |
| <i>Financing <sup>(1)</sup></i>                                  |                                 |           |                         |           |
| Average Number of Financing Professionals                        | 93                              | 100       | 95                      | 98        |
| Average Number of Transactions per Financing Professional        | 5.37                            | 4.42      | 17.97                   | 16.83     |
| Average Fee per Transaction                                      | \$ 30,669                       | \$ 28,719 | \$28,960                | \$ 26,314 |
| Average Fee Rate   | 0.88%                           | 0.91%     | 0.88%                   | 0.85%     |
| Average Transaction Size (in thousands)                          | \$ 3,481                        | \$ 3,172  | \$ 3,299                | \$ 3,093  |
| Total Number of Transactions                                     | 499                             | 441       | 1,707                   | 1,651     |
| Total Sales Volume (in millions)                                 | \$ 1,737                        | \$ 1,399  | \$ 5,632                | \$ 5,107  |

(1) Operating metrics calculated excluding certain financing fees not directly associated to transactions.

The following table sets forth the number of transactions, sales volume and revenues by commercial real estate market segment for real estate brokerage:

|  | Three Months Ended December 31, |                            |                               |              |                            |                               | Change    |                            |                               |
|--|---------------------------------|----------------------------|-------------------------------|--------------|----------------------------|-------------------------------|-----------|----------------------------|-------------------------------|
|  | 2017                            |                            |                               | 2016         |                            |                               |           |                            |                               |
|  | Number                          | Volume<br>(in<br>millions) | Revenues<br>(in<br>thousands) | Number       | Volume<br>(in<br>millions) | Revenues<br>(in<br>thousands) | Number    | Volume<br>(in<br>millions) | Revenues<br>(in<br>thousands) |
| <i>Real Estate Brokerage</i>               |                                 |                            |                               |              |                            |                               |           |                            |                               |
| <\$1 million                               | 300                             | \$ 189                     | \$ 7,842                      | 256          | \$ 164                     | \$ 6,771                      | 44        | \$ 25                      | \$ 1,071                      |
| Private Client Market (\$1 - \$10 million) | 1,263                           | 3,845                      | 115,904                       | 1,253        | 4,049                      | 116,881                       | 10        | (204)                      | (977)                         |
| Middle Market (≥\$10 - \$20 million)       | 103                             | 1,405                      | 26,988                        | 96           | 1,315                      | 23,786                        | 7         | 90                         | 3,202                         |
| Larger Transaction Market (≥\$20 million)  | 86                              | 3,272                      | 26,590                        | 66           | 2,763                      | 25,305                        | 20        | 509                        | 1,285                         |
|  | <u>1,752</u>                    | <u>\$ 8,711</u>            | <u>\$ 177,324</u>             | <u>1,671</u> | <u>\$ 8,291</u>            | <u>\$ 172,743</u>             | <u>81</u> | <u>\$ 420</u>              | <u>\$ 4,581</u>               |

|   | Year Ended December 31, |                            |                               |              |                            |                               | Change    |                            |                               |
|---|-------------------------|----------------------------|-------------------------------|--------------|----------------------------|-------------------------------|-----------|----------------------------|-------------------------------|
|   | 2017                    |                            |                               | 2016         |                            |                               |           |                            |                               |
|   | Number                  | Volume<br>(in<br>millions) | Revenues<br>(in<br>thousands) | Number       | Volume<br>(in<br>millions) | Revenues<br>(in<br>thousands) | Number    | Volume<br>(in<br>millions) | Revenues<br>(in<br>thousands) |
| <i>Real Estate Brokerage</i>                  |                         |                            |                               |              |                            |                               |           |                            |                               |
| <\$1 million                                  | 1,062                   | \$ 661                     | \$ 27,952                     | 1,070        | \$ 682                     | \$ 29,217                     | (8)       | \$ (21)                    | \$ (1,265)                    |
| Private Client Market (\$1 -<br>\$10 million) | 4,891                   | 15,029                     | 444,081                       | 4,779        | 15,274                     | 447,366                       | 112       | (245)                      | (3,285)                       |
| Middle Market (≥\$10 - \$20<br>million)       | 361                     | 4,906                      | 91,035                        | 374          | 5,099                      | 88,568                        | (13)      | (193)                      | 2,467                         |
| Larger Transaction Market<br>(≥\$20 million)  | 248                     | 9,879                      | 86,325                        | 253          | 10,907                     | 97,069                        | (5)       | (1,028)                    | (10,744)                      |
|   | <u>6,562</u>            | <u>\$ 30,475</u>           | <u>\$ 649,393</u>             | <u>6,476</u> | <u>\$ 31,962</u>           | <u>\$ 662,220</u>             | <u>86</u> | <u>\$(1,487)</u>           | <u>\$ (12,827)</u>            |



**MARCUS & MILLICHAP, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(dollar amounts in thousands, except per share amounts)

|  | December 31,<br>2017<br>(Unaudited) | December 31,<br>2016 |
|--|-------------------------------------|----------------------|
| Assets   |                                     |                      |
| Current assets:  |                                     |                      |
| Cash and cash equivalents  | \$ 220,786                          | \$ 187,371           |
| Commissions receivable   | 9,586                               | 4,809                |
| Prepaid expenses   | 9,661                               | 8,094                |
| Income tax receivable  | 1,308                               | 1,182                |
| Marketable securities, available-for-sale  | 73,560                              | 27,454               |
| Other assets, net  | 5,529                               | 5,102                |
| Total current assets   | 320,430                             | 234,012              |
| Prepaid rent   | 15,392                              | 13,285               |
| Property and equipment, net  | 17,153                              | 16,355               |
| Marketable securities, available-for-sale  | 52,099                              | 77,475               |
| Assets held in rabbi trust   | 8,787                               | 7,337                |
| Deferred tax assets, net   | 22,640                              | 35,571               |
| Other assets   | 23,163                              | 9,981                |
| Total assets   | <u>\$ 459,664</u>                   | <u>\$ 394,016</u>    |
| Liabilities and stockholders' equity   |                                     |                      |
| Current liabilities:   |                                     |                      |
| Accounts payable and accrued expenses  | \$ 9,202                            | \$ 10,133            |
| Notes payable to former stockholders   | 1,035                               | 986                  |
| Deferred compensation and commissions  | 49,180                              | 44,754               |
| Accrued bonuses and other employee related expenses  | 23,842                              | 22,303               |
| Total current liabilities  | 83,259                              | 78,176               |
| Deferred compensation and commissions  | 49,361                              | 44,455               |
| Notes payable to former stockholders   | 7,651                               | 8,686                |
| Deferred rent and other liabilities  | 4,505                               | 3,845                |
| Total liabilities  | 144,776                             | 135,162              |
| Commitments and contingencies  | —                                   | —                    |
| Stockholders' equity:  |                                     |                      |
| Preferred stock, \$0.0001 par value:   |                                     |                      |
| Authorized shares – 25,000,000; issued and outstanding shares – none at December 31, 2017, |                                     |                      |
| and 2016, respectively   | —                                   | —                    |
| Common stock, \$0.0001 par value:  |                                     |                      |
| Authorized shares – 150,000,000; issued and outstanding shares – 38,374,011 and 37,882,266 |                                     |                      |
| at December 31, 2017, and 2016, respectively   | 4                                   | 4                    |
| Additional paid-in capital   | 89,877                              | 85,445               |
| Stock notes receivable from employees  | (4)                                 | (4)                  |
| Retained earnings  | 224,071                             | 172,599              |
| Accumulated other comprehensive income   | 940                                 | 810                  |
| Total stockholders' equity   | 314,888                             | 258,854              |
| Total liabilities and stockholders' equity   | <u>\$ 459,664</u>                   | <u>\$ 394,016</u>    |

**MARCUS & MILLICHAP, INC.**  
**OTHER INFORMATION**  
(Unaudited)

## Adjusted EBITDA Reconciliation

Adjusted EBITDA, which the Company defines as net income before (i) interest income and other, including net realized (losses) gains 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<br>Ended December 31, |                  | Year Ended<br>December 31, |                  |
|---|------------------------------------|------------------|----------------------------|------------------|
|   | 2017                               | 2016             | 2017                       | 2016             |
| Net income                                | \$ 8,480                           | \$ 17,174        | \$ 51,524                  | \$ 64,657        |
| Adjustments:                              |                                    |                  |                            |                  |
| Interest income and other <sup>(1)</sup>  | (1,221)                            | (516)            | (3,514)                    | (1,761)          |
| Interest expense                          | 370                                | 378              | 1,496                      | 1,533            |
| Provision for income taxes <sup>(2)</sup> | 20,138                             | 10,921           | 47,702                     | 42,445           |
| Depreciation and amortization             | 1,388                              | 1,223            | 5,363                      | 4,387            |
| Stock-based compensation                  | 2,972                              | 2,102            | 9,145                      | 7,035            |
| Adjusted EBITDA <sup>(3)</sup>            | <u>\$32,127</u>                    | <u>\$ 31,282</u> | <u>\$111,716</u>           | <u>\$118,296</u> |

- (1) Other for the three and twelve months ended December 31, 2017 and 2016 includes net realized gains (losses) on marketable securities, available-for-sale.
- (2) Provision for income taxes for the three and twelve months ended December 31, 2017, includes a one-time charge in the amount of \$11.6 million in connection with the remeasurement of deferred tax assets, net due to enactment of the Tax Cuts and Jobs Act, which reduced the U.S. federal statutory corporate tax rate from 35% to 21%. In addition, the Company adopted a new accounting pronouncement in 2017 that required any windfall tax benefits, net of shortfalls to be recorded as a discrete item in the Company's provision for income taxes. These windfalls/shortfalls arise from the difference in the grant date price and the vesting date price of employee and non-employee directors vesting of restricted stock units, deferred stock units and restricted stock awards. The Company recognized \$2.7 million and \$2.9 million in windfall tax benefits, net during the three and twelve months ended December 31, 2017, respectively as a reduction in the Company's provision for income taxes.
- (3) The increase in Adjusted EBITDA for the three months ended December 31, 2017 compared to the same period in the prior year is primarily due to higher total revenues, partially offset by a higher proportion of operating expenses compared to revenues. The decrease in Adjusted EBITDA for the twelve months ended December 31, 2017 compared to the same period in the prior year is primarily due to a higher proportion of operating expenses compared to revenues, partially offset by higher total revenues.

### **Adjusted Net Income Reconciliation**

During the three and twelve months ended December 31, 2017, the Company adjusted net income to exclude a one-time charge of \$11.6 million in connection with the remeasurement of deferred tax assets, net as result of the enactment of the Tax Cuts and Jobs Act, which reduced the U.S. federal statutory corporate tax rate from 35% to 21%. A reconciliation of the most directly comparable U.S. GAAP financial measure, net income, to adjusted net income, excluding this one-time charge is as follows (in thousands):

|   | 2017               |                 |
|---|--------------------|-----------------|
|   | Three Months Ended | Year Ended      |
| Net income                                  | \$ 8,480           | \$51,524        |
| Adjustments:                                |                    |                 |
| One-time charge Tax Cuts and Jobs Act       | 11,644             | 11,644          |
| Adjusted net income                         | <u>\$ 20,124</u>   | <u>\$63,168</u> |
| Weighted average common shares outstanding: |                    |                 |
| Basic                                       | 38,966             | 38,988          |
| Diluted                                     | 39,230             | 39,100          |
| Earnings per share:                         |                    |                 |
| Basic                                       | \$ 0.22            | \$ 1.32         |
| Diluted                                     | \$ 0.22            | \$ 1.32         |
| Adjusted earnings per share:                |                    |                 |
| Basic                                       | \$ 0.52            | \$ 1.62         |
| Diluted                                     | \$ 0.51            | \$ 1.62         |

### **Glossary of Terms**

- Private Client Market segment: transactions with values from \$1 million to up to but less than \$10 million
- Middle Market segment: transactions with values from \$10 million to up to but less than \$20 million
- Larger Transaction Market segment: transactions with values \$20 million and above

### **Certain Adjusted Metrics**

## *Real Estate Brokerage*

During the year ended December 31, 2016, we closed a large transaction in our real estate brokerage business in excess of \$300 million. Following are actual and as adjusted metrics excluding this transaction:

|                                       | Year Ended<br>December 31, 2017 |               |
|---------------------------------------|---------------------------------|---------------|
|                                       | (actual)                        | (as adjusted) |
| Total Sales Volume Reduction          | 4.7%                            | 3.2%          |
| Average Commission Rate Growth        | 2.9%                            | 1.4%          |
| Average Transaction Size<br>Reduction | 5.9%                            | 4.4%          |

View source version on businesswire.com:

<http://www.businesswire.com/news/home/20180308006286/en/>

Investor Relations:

ICR, Inc.

Evelyn Infurna, 203-682-8265

[evelyn.infurna@icrinc.com](mailto:evelyn.infurna@icrinc.com)

Source: Marcus & Millichap, Inc.