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JLL - Q4 2017 Jones Lang LaSalle Inc Earnings Call

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OVERVIEW:

JLL reported 2017 adjusted net income of $419m or $9.16 per diluted share. 4Q17 adjusted net income was $226m or $4.92 per diluted share.

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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to Jones Lang LaSalle Incorporated's Fourth Quarter 2017 Earnings Conference Call. For your information, this conference call is being recorded.

I would now like to turn the conference over to Grace Chang, Managing Director of Investor Relations.

Grace T. Chang - *Jones Lang LaSalle Incorporated - MD of Corporate Finance and IR*

Thank you, operator. Good morning, and welcome to our fourth quarter 2017 conference call for Jones Lang LaSalle Incorporated. Earlier this morning, we issued our earnings release, which is available on the Investor Relations section of our website, jll.com, along with the slide presentation intended to supplement our prepared remarks.

During the call, we will reference certain non-GAAP financial measures, which we believe provide useful information for investors. We include reconciliations of non-GAAP financial measures where appropriate to GAAP in our earnings release and supplemental slides.

As a reminder, today's call is being webcast live and recorded. A transcript of this conference call will also be posted on our website. Any statements made about future results and performance or about plans, expectations and objectives are forward-looking statements. Actual results and performance may differ from those forward looking statements as a result of factors discussed in the company's annual report on Form 10-K for the fiscal year ended December 31, 2016, and in other reports filed with the SEC. The company disclaims any undertaking to publicly update or revise any forward-looking comment.

And with that, I would like to turn the call over to Christian Ulbrich, our Chief Executive Officer, with opening remarks.

Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chair of Global Executive Board, CEO, President and Director*

Thank you, Grace, and welcome to everyone joining today's review of our 2017 results for the fourth quarter and full year. Our CFO, Christie Kelly, is also with us. Christie will discuss our financial results in detail in a few minutes.

But first, let me summarize our performance. We delivered record double-digit revenue growth for both the quarter and the year. Fee revenue reached $2.2 billion for the quarter, 18% above the fourth quarter of 2016, thanks to broad-based growth in real estate services revenue and, in particular, outstanding performance in our Capital Markets and Leasing businesses. In addition, LaSalle delivered solid advisory fees and equity earnings.

For the year, fee revenue increased 16% to $6.7 billion. Adjusted net income was $226 million for the quarter compared with $180 million for the same period in 2016. full year adjusted net income totaled $419 million, up from $370 million a year ago. Adjusted diluted earnings per share reached $4.92 for the quarter and $9.16 per share for the year. Adjusted EBITDA totaled $360 million for the quarter, up from $286 million a year ago and $760 million for the full year compared with $658 million in 2016.

And we are particularly pleased with the improvements in working capital and reduction of our net debt position last year. Above all, we achieved these results while continuing to make substantial investments in our data and technology agenda.

To put our results in context, the global economy grew at 3.6% annually last year, up from 3% in 2016. Global real estate transaction volumes grew to $228 billion in the fourth quarter, 10% above the same period in 2016. This brought full year volumes to $698 billion, 6% higher than a year ago. Despite everything going on in the world, investors clearly remain confident about real estate performance, and many continued to increase their allocations to real estate.

Capital values for prime assets in 26 major office markets worldwide increased 6% for the year. 8 of these markets recorded double-digit growth for 2017, the result of steady income growth and yield compression. Hong Kong, Stockholm, Sydney and Frankfurt topped the list. Prime office yields overall were virtually unchanged in the fourth quarter, but office yields in Europe did continue to compress, falling below 4% for the first time in years.

Global office leasing markets finished the year on a strong note with 118 million square feet leased in the fourth quarter, the highest quarterly volume since 2007. This brought full year Leasing volumes to 438 million square feet, 4% above 2016 levels. The global office vacancy rate fell to 11.9% in the fourth quarter, demonstrating the capacity of the market to absorb additional space. And rents for prime offices in 26 major markets grew 4.1% for the full year, the highest rate since 2011.

In this environment, our Capital Markets and Leasing businesses both outperformed the broader market for both the quarter and the full year. For details, see Slide 6 in the supplemental information document on the Investor side at jll.com.

So all in all, a very positive year for commercial real estate and for JLL. We believe these conditions will continue into 2018, which I will talk about later in the call.

But now let's turn to Christie for her comments and our performance in this market environment.

Christie B. Kelly - *Jones Lang LaSalle Incorporated - CFO and EVP*

Thank you, Christian, and welcome to everyone on our call. Christian provided the headline summary of our results for the fourth quarter and year, so I will move directly to the details of our performance.

We had a strong finish to 2017 with the fourth quarter, always our most important, contributing to record fee revenue. As Christian mentioned, for the full year, we achieved consolidated local currency fee revenue growth of 16%, of which 10% was organic and 6% was attributable to M&A. The year's real estate services fee revenue growth reflects double-digit expansion of our transactional and annuity businesses across all geographic segments. This robust top line growth, together with productivity initiatives, contributed to a 13% increase in total consolidated adjusted EBITDA for the year. Additionally, we generated $790 million of operating cash flow, reducing net debt by $547 million. We achieved a net debt to adjusted EBITDA of 0.8x, a significant improvement compared to 1.7x at year end in 2016.

For the quarter, we had local currency fee revenue growth of 14% and adjusted EBITDA growth of 22%. This was largely the result of organic growth in Leasing and Capital Markets across all geographies, which contributed 70% of the quarter's fee revenue growth.

Turning to specific consolidated service line highlights. All JLL Leasing revenue increased 15% for the full year and 20% for the fourth quarter. The full year growth was substantially organic, led by the Americas, which accounted for nearly 80% of the increase. Strong organic growth was also driven by larger-than-average deal size as well as Leasing related to Corporate Solutions client and market share gains across all regions.

JLL Capital Markets fee revenue growth of 18% for the full year and 35% for the quarter was primarily organic. We also benefited from geographic and product diversification. To illustrate and recap overall market conditions for 2017, investment sales market volume in EMEA and APAC increased by double digits, while the Americas declined by 12% as shown on Slide 6 of our supplemental slides.

Our diversified Capital Markets offering in the U.S., which now includes a significant multi-family and debt business, helped grow revenue despite the decline in U.S. investment sales market volumes.

On a full year basis, our Americas region performed exceptionally well with Capital Markets fee revenue growth of 13%. Asia Pacific significantly outperformed market volumes driven by strong performance around the region and most notably, in Japan and Singapore. We also saw the benefit of a recovering U.K. market, combined with strong growth in Germany and Switzerland.

Our Property & Facility Management fee revenue grew 25% for the full year and 3% for the quarter driven substantially by the Integral acquisition as well as organic growth in Asia Pacific. Together with ancillary services such as Leasing, Project & Development Services, Advisory & Consulting, Corporate Solutions grew 31% for the year and 9% for the quarter. Project & Development Services fee revenue grew 16% for the year and 14% for the quarter across all regions. For the full year, organic growth represented 85% of the increase.

Our Advisory & Consulting business grew approximately 20% for the full year and 15% for the quarter. The Americas contributed over 60% to the full year growth, primarily due to valuation-related acquisitions and strong organic gains related to acquisitions previously integrated into our platform.

Adjusted EBITDA margin for the full year calculated on a fee revenue basis was flat to last year. Our full year margin waterfall at actual currency rates, as shown on Page 7 of our supplemental slide, reflects an organic service mix improvement of 75 basis points. To provide a bit more color on the 75 basis points, it represents a combination of 155 basis points primarily from strong growth in transactional businesses, partially offset by an 80 basis point impact related to Integral due to factors I will discuss in a minute.

Year-on-year, our overall positive service mix and organic gains fully offset margin pressures related to: first, 10 basis points for anticipated reduced incentive and transactional fees at LaSalle; second, 25 basis points for continued investments in technology, data and platform improvements; third, 20 basis points related to M&A primarily driven by 7 additional months of Integral operations; and finally, 20 basis points for EMEA primarily associated with continued investment in our Corporate Solutions outsourcing business, along with costs associated with the wind-down of a noncore U.K. business as previously reported.

For the fourth quarter, consolidated adjusted EBITDA margin expanded 100 basis points at actual currency rate. The improvement was largely driven by a positive service mix primarily due to growth in higher-margin businesses, such as Leasing and Capital Markets, and increased LaSalle equity earnings. We had organic gains in transactional businesses across all regions but most notably in the Americas.

For the quarter, we did not have an incremental dilution related to investments in technology and data. As mentioned last quarter, we continued to make additional investments into our outsourcing platform in EMEA. Our margins were diluted by the prolonged Integral integration, including the technology upgrade, together with service mix challenges primarily related to the cancellation of loss-making contracts, neither of which materially impacts the strategic benefits we believe are deriving from the Integral acquisition.

Turning to capital location and our investment-grade balance sheet. At the beginning of 2017, our capital allocation strategy was to reduce M&A while increasing investments in technology, data and our platform and increasing our cash flow generation. Our balance sheet reflects total net debt of $586 million as of December 31, 2017, a decrease of $427 million or 42% from the third quarter and $547 million lower than at December 31, 2016. This primarily reflects strong business performance and improvements in working capital management. For the year, we've generated approximately $520 million of cash flow from earnings and additional $270 million from improved working capital, which allowed us to reduce debt significantly. As we move forward, we will maintain our focus on a disciplined capital allocation strategy, working capital management and cash flow generation.

Turning to segment results. We provide results on a local currency basis with the exception of Capital Markets, which we state in U.S. dollars to align with industry research data. Full year fee revenue in the Americas increased 15% over 2016 and 17% for the fourth quarter. Organic growth for the year across all service lines was 12%, representing approximately 80% of the increase.

For the quarter, we achieved all growth organically with nearly 80% of the quarter's increase attributable to Capital Markets and Leasing. The region had strong adjusted EBITDA margin expansion for the year and quarter.

Our Leasing revenue grew 16% for the full year and 23% for the quarter compared with total quarterly market growth absorption of 6%. Quarterly growth was driven by favorable market conditions in the Midwest, Atlanta and the Northwest, which were strong markets throughout 2017. Our average deal size for the quarter was up more than 30%, helping drive exceptional performance.

Capital Markets fee revenue grew 13% for the full year and 20% for the quarter, contrasted with a 15% fourth quarter reduction in investment sales market volumes. Our growth in the quarter was driven by investment sales, particularly in industrial and hotels and by growth in debt placement.

Property & Facility Management fee revenue grew 4% for the full year and 1% for the quarter, the results of pursuit cycle time and timing of wins towards the end of the year as well as the further evolution of service offerings. We successfully penetrated the untapped market of diverse services such as Corrigo, smart buildings and facility flats.

As mentioned at our Investor Day, Corporate Solutions is more than just Property & Facility Management. In 2017, the Corporate Solutions business grew fee revenue by approximately 14%, highlighted by organic gains across all services, and especially, significant leasing deals.

Project & Development Services fee revenue grew 16% for the year and 11% for the quarter. The majority of the growth was organic and attributable to expanded mandates with existing clients and new wins from the Corporate Solutions and local markets businesses.

Advisory, Consulting revenue grew 43% for the full year and 23% for the quarter. The majority of the growth was attributable to acquired U.S. valuation businesses and a few other acquisitions as well as organic growth and revenue from Technology Solutions.

Adjusted EBITDA margin for the full year in the Americas was 13.3% on a fee revenue basis, up 130 basis points from last year. Expansion was driven by positive performance from organic gains across the business and operational cost management. Slightly offsetting these were investments in our ERP system upgrade and other technology and data investments.

Turning to EMEA. Full year revenue grew 29% and 13% for the fourth quarter. Both increases reflect impressive growth in Leasing and Capital Markets and, on a full year basis, the benefit of 7 months of incremental fee revenue from Integral acquisition. For the year and quarter, EMEA's margin performance was largely impacted by the Integral losses discussed previously as well as continued Integral integration costs and investments we made into the EMEA facilities management platform. These items overshadow the region's good performance, which was primarily driven by growth in transactional businesses.

EMEA, excluding Integral, had 12% fee revenue growth for the year and 18% for the quarter. EMEA Leasing revenues grew 11% for the full year and 10% for the quarter compared with 16% growth in overall fourth quarter market growth absorption. The quarter's activity level reflects the deal timing as full year performance was consistent with general market conditions.

For the quarter, we saw good performance in the U.K. office and industrial sectors as the market bounced back post the Brexit announcement and Germany and France continued to show strength.

Capital Market's fee revenue for the full year grew 21% and 42% for the quarter against fourth quarter market investment sales volume growth of 31%. For the quarter, revenue growth was largely led by favorable market conditions in the U.K. where revenue was up 54%. Our outperformance against the quarter's market volumes was led by Continental Europe where our revenue was up 35% versus market investment sales volumes that were up 20%. Our volume reflects several large transactions in France and notable strength in Germany and Switzerland.

Property & Facility Management fee revenue for the full year grew 69% but was nearly flat for the quarter. Integral accounted for the majority of the full year growth. The performance for the quarter was muted due to the previously mentioned contract losses and business mix headwinds. We anticipate stronger organic growth for Integral in 2018 as we win new business and continue to improve operations.

Project & Development Services fee revenue increased 13% for the full year and 21% for the quarter. The quarter's growth was all organic primarily driven by our Tetris business in France.

Advisory & Consulting revenue grew 10% for the full year and 9% for the quarter. The quarterly growth was all organic driven primarily by [sales]. The EMEA region delivered an adjusted EBITDA margin of 4.4% for the year, a decline of 250 basis points from 2016. Solid growth in transactional businesses across a number of countries, most notably in the U.K., was more than offset by Integral and other planned EMEA IFM investments.

Moving to Asia Pacific. Full year revenue grew 14% and 18% for the fourth quarter. For the year, transactional business performance, combined with double-digit annuity business growth, created a perfect opportunity to gain scale and improve profitability across all businesses. The region had strong adjusted EBITDA margin expansion for the year and quarter.

Leasing revenue grew 9% for the full year and 18% for the quarter, in contrast to an overall fourth quarter market growth absorption decline of 26%. The outsized fourth quarter growth was driven by Hong Kong, India and Japan.

Capital Markets revenue grew 27% for the year and a remarkable 50% for the quarter against fourth quarter investment sales market volume growth of 16%. Japan and Singapore drove most of the upside in the quarter.

A highlight in Asia Pacific continues to be the strength of organic fee revenue growth in Property & Facility Management, Projects & Development and Advisory, Consulting services with full year increases of 11%, 23% and 11%, respectively. Annuity businesses have been the fastest-growing services in Asia Pacific for the past 2 years at increasingly accretive margins.

Full year adjusted EBITDA margin was 11%, up 120 basis points compared with last year. Margins expanded due to transaction business growth and annuity business economies of scale as well as cost management initiatives. Overall, we had great top line and bottom line performance across the APAC region.

LaSalle Investment Management delivered solid performance for the full year with total revenue of $355 million and equity earnings of $41 million. The 12% revenue decline against the prior year was a direct result of anticipated lower incentive and transaction fees, which collectively declined by $57 million against prior year.

For the quarter, total revenue declined by 11% due to incentive fees being down $15.5 million against fourth quarter 2016. But we saw a double-digit increase in advisory fees primarily due to fees earned for new equity commitments on established funds.

Equity earnings for the full year were up $9.6 million or 30% and up $6.2 million for the quarter primarily the result of net valuation increases across our coinvestment portfolio. The most notable valuation increases were in Europe and Asia. As a reminder, nearly 90% of our coinvestment portfolio today is influenced by fair value accounting, and therefore, changes in valuation up or down are reflected in earnings.

Assets under management declined by 5% to $58.1 billion compared with December 31, 2016. The net decrease reflects $13.1 billion of dispositions and withdrawals, which more than offset the impact of increases as to acquisitions, net valuation increases and foreign exchange.

As we move into 2018, we note that current real estate capital flows into LaSalle favor private over public equity. This occurred throughout 2017 and is likely to continue. We closed 2017 with global securities representing 17% of assets under management versus 26% at the end of 2016. Assets under management by geography is diversified with roughly 1/3 in the Americas, 1/3 in the U.K. and the remainder in Continental Europe and Asia.

Capital raising remains active as LaSalle raised $2.2 billion of new capital in the quarter and $4.8 billion for the year, primarily from private equity. LaSalle had $9.2 billion in dry powder to deploy with active acquisition plans across all regions. Approximately half of the dry powder relates to commingled funds already accruing advisory fees and will contribute to assets under management as the capital is deployed.

LaSalle's full year adjusted EBITDA margin, including equity earnings calculated on a fee revenue basis, was 28.3% compared to 28.5% in 2016. The margin decline was driven by the anticipated reduction in incentive and transactional fees, partially offset by higher equity earnings and record annuity margins.

As noted in our third quarter earnings call, beginning with the first quarter 2018, we will reflect the adoption of ASC 606, the new GAAP revenue recognition standard. We expect this change to result in a material increase in the gross revenue and associated pass-through expenses we show from our annuity businesses.

Using full year 2016 as an example, associated growth revenue and pass-through expenses were both increased by approximately $6 billion. From comparability and ease of translation into the new standard, we will restate 2016 and 2017 results in accordance with ASC 606 requirements. Look for more information on the change in our 10-K and other communications over the coming months.

In addition to ASC 606 upcoming changes, the other notable impact to our results relates to an increased income tax expense of $141.3 million as a result of the new tax legislation in the U.S. passed at the end of December. The additional tax expense represents our provisional estimate for the tax on deemed repatriated earnings of foreign subsidiaries and remeasurement of U.S. deferred tax assets. The quarter-to-date and year-to-date impact on the diluted earnings per share is $3.09, with no impact to adjusted diluted earnings per share.

Going forward, we do not expect any material impact to our effective tax rate over the near term and see potential benefits over the longer term.

And now back to Christian for closing remarks.

Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chair of Global Executive Board, CEO, President and Director*

Thank you, Christie. Slide 22 lists a few of our recent business wins across service lines and geographies. In our Corporate Solutions business, last year, we won 185 new assignments, expanded existing relationships with another 70 clients and renewed 50 contracts. These 305 wins totaled just over 1 billion square feet across all regions, and it represent a 70% overall win rate for new business expansions and renewals.

In one highlight, we expanded our relationship with IBM, adding facilities management responsibilities for 27 million square feet of space in 220 locations across the United States. This adds to our existing facilities management contract with IBM for 16.5 million square feet of space in Asia Pacific.

Representative wins in Capital Markets included: representing Amway in a long-term sale and lease back in Tokyo between Amway's Japan affiliate and The Blackstone Group. The transaction achieved Amway's financial objectives, marks Blackstone's first coinvestment in Japan and is the largest office transaction in Shibuya submarket to date this year; the $220 million redevelopment of The Dime Savings Bank building in New York and the SEK 4 billion that's about $500 million financing of residential real estate of D. Carnegie in Sweden.

In Leasing & Management activity, we completed the largest [directly] sign in Houston in 2017, a 369,000 square feet lease extension for the Transcontinental Gas Pipeline Company up the Williams Tower; leasing 118,000 square feet of space in Paris to Bank of America we represented the landlord post [EMO]; and for WeWork, the lease for the entire China overseas international center, a new 291,000 square foot building in Shanghai. It was 2017's largest leasing transaction in Shanghai central business district.

LaSalle Investment Management closed 2 funds during the fourth quarter: LaSalle Real Estate Debt Strategies III, which closed in November at $1.1 billion; and LaSalle Income & Growth Fund VII, which closed at $511 million.

I have been participating in The World Economic Forum for many years now, and I have never experienced such a broad-based optimism on the economic outlook and on business leaders' confidence. Global GDP is expected to continue to grow this year, rising by an estimated 3.9%. The flip side of this positive economic outlook is an expectation of slightly accelerated increases in interest rates. Currently, our researchers are forecasting that in 2018, global investment sales volumes will soften by 5% to 10% to about $650 billion for the year. Still, investors continue to want to access the sector. Some are looking at new strategies with a greater focus on debt financing, M&A and alternative sectors. Single-asset transactions may start to decline, but the search for yield will continue. Our researchers anticipate that global leasing volumes will total more than 430 million square feet, down marginally from 2017 levels.

We remain confident about our own business prospects in this environment. You will find our 2018 business outlook on Slide 9. Consistent with the longer-term 2025 targets, we spoke about our recent Investor Day, we are expecting mid- to high-single-digit growth in fee revenue this year and a 10% to 12% adjusted EBITDA margin.

Slide 9 also lists some of our key priorities for 2018. We intend to leverage our Corporate Solutions platform for more profitable growth, expand our Capital Markets capabilities across the capital stack, continue to invest in technology and continue to transform the global JLL platform to increase operational efficiency and take a very rigorous approach to capital allocation.

To close our prepared remarks for this call, we'd like to mention just a few of the awards and honors our people have earned. In the fourth quarter, we were named one of America's 100 Most JUST Companies by Forbes magazine and JUST Capital. We earned our fourth consecutive perfect score on the Human Rights Campaign Foundation's Corporate Equality Index. We won Office Agency of the Year and Investment Agency of the Year in the Central and Eastern Europe Investment & Green Building Awards.

In Shanghai, our JLL office was awarded WELL Platinum certification, only the third office in the world to earn this level of certification from the International WELL Building Institute. And in January, we were named to FORTUNE's list of the World's Most Admired Companies. Congratulations to everyone who made these and other awards possible, and thanks to all our people around the world for continuing to serve our clients and JLL so well.

So let's take your questions. Operator, will you explain the process?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Anthony Paolone with JPMorgan.

Anthony Paolone - *JP Morgan Chase & Co, Research Division - Senior Analyst*

I'll start with, I guess, one of the areas where Christian left off. How do you tie an outlook where leasing activity is down globally with, I guess, the comments at Davos and a global economic picture that's pretty strong?

Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chair of Global Executive Board, CEO, President and Director*

That's a great question. I mean, the outlook, which was painted at Davos, was really strong, and you kind of wonder whether it was a bit over the top. I mean, leasing takeup is a reality check. And it's a reality check not only with people who think about future employment. So we had an exceptional strong year with regards to the leasing volumes in 2017, pretty much across the board, and which was then topped by a very, very,

very strong fourth quarter. So even if kind of leasing volumes for next year, we believe, will be slightly down, there will be still at a very, very strong level. And so I think you can bring the comments from Davos and the research forecast from our own people in line.

Anthony Paolone - *JP Morgan Chase & Co, Research Division - Senior Analyst*

Okay. And then I have a question. You talked through some of the components of your organic growth, and one of them, I think, was just picking up more activity from your outsourcing clients in other parts of the business. I'm just wondering, that seemed like a very strong move. Are you all doing something different there to better penetrate that client base? Or what's happening there? Because that seemed to be -- if I heard your comments right, seemed to be a big part of the pickup in like leasing and some other areas.

Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chair of Global Executive Board, CEO, President and Director*

Well, I mean, obviously, I have to say to you that we believe that we are delivering outstanding quality to our clients, and so that should be rewarded with a growing market share growing -- going forward. On top of that, I think what we see is that our clients tend to get bigger and bigger. And the more our clients are growing, the more they will revert back to the leaders in the real estate industry when they have real estate needs. So the overall trend of consolidation, which you see, is a trend, which is favoring the leaders of the industries you are addressing. And so that is one other reason over and above the quality we are delivering that we are benefiting and taking more market share year by year.

Anthony Paolone - *JP Morgan Chase & Co, Research Division - Senior Analyst*

Okay. And just last question, can you spend a minute on the M&A backdrop, and what you're seeing right now in terms of just potential volume of business? Do you like the deals that you're seeing? And maybe a view on whether you think you'll spend more or less money on M&A in 2018 versus 2017.

Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chair of Global Executive Board, CEO, President and Director*

Well, I mean, we are looking at quite a lot of deals. And I think the picture we are seeing is a bit of a reflection that you see in the public markets. It's a bit more mixed. It's a more volatility in it in the sense that some of the deals we are seeing are becoming more attractive again, and we believe people are getting more realistic about their price expectations. And that may be driven that people are getting maybe slightly nervous that we are peaking the cycle, and they still want to sell before the cycle turns. And others are still asking for outrageous multipliers where we are not willing to play. So it's obviously hard to give you a forecast whether we will have more M&A in 2018 than in 2017. We will continue to be very, very rigorous in our approach of assessing these opportunities. But overall, as I said, we see more interesting deals in our -- on our table. And so I wouldn't be surprised if we have a bit of a pickup compared to 2017 where we were extremely small in our M&A activity.

Operator

Our next question comes from the line of David Ridley-Lane with Bank of America.

David Emerson Ridley-Lane - *BofA Merrill Lynch, Research Division - VP*

Within the kind of normalized volumes for LaSalle of $20 million in equity earnings and $40 million for incentive fees, as you look forward into 2018, is there any reason to believe that they would be kind of above or below the normal kind of historical run rate for the business?

Christie B. Kelly - *Jones Lang LaSalle Incorporated - CFO and EVP*

David, yes. So just from the perspective of historical run rates, as you know, incentive fees and equity earnings are extremely difficult to forecast, and Jeff addressed that as well very nicely at our Investor Day. But just for modeling purposes, I would suggest that you put incentive fees at our 5-year historical norm, which is now in the $70 million to $80 million range and keep equity earnings at $20 million.

David Emerson Ridley-Lane - *BofA Merrill Lynch, Research Division - VP*

Understood. And then on EMEA margins, I think on the call, you were suggesting that some of the Property & Facilities Management investments and the Integral integration cost kind of continue on into early 2018. Do they continue on through the full year? Or is this more of a few more months? Just wondering how long those investments will be a drag on margins.

Christie B. Kelly - *Jones Lang LaSalle Incorporated - CFO and EVP*

Yes. I think from the perspective of EMEA, David, we don't give guidance. But if you can imagine, the team's working really hard to integrate and realize the benefits of the Integral acquisition. That's going to be ongoing throughout 2018. And we'll have more to report as we go through second quarter for the second half of the year and let you know where we are.

David Emerson Ridley-Lane - *BofA Merrill Lynch, Research Division - VP*

Okay. And last one for me. Within Property & Facilities Management, wondering about the pipeline for deals there and whether or not you would expect a strong organic trend in 2018 versus 2017.

Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chair of Global Executive Board, CEO, President and Director*

Well, we had very strong year in 2017 in winning new contracts. And there's a general trend that companies are keen to do more outsourcing and to reduce their number of providers. So without going into too much detail about the immediate coming quarters, the overall trend is very healthy for that business segment, and it is a very important business segment for us going forward.

Operator

Our next question comes from the line of Jade Rahmani with KBW.

Jade Joseph Rahmani - *Keefe, Bruyette, & Woods, Inc., Research Division - Director*

In terms of 2018 goals, what do you see as the greatest opportunities for growth? Could you perhaps highlight a couple of areas of focus whether it be geography or specific to business lines?

Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chair of Global Executive Board, CEO, President and Director*

Well, we continue to believe that the U.S. business is offering us a tremendous growth potential. We still have areas in our services where we see that our fair share of the business should be significantly higher going forward, and that will be an area of focus. And as we alluded to earlier, we are able to take (inaudible) market share over and above the overall growth rates of the market. The other area is what we just talked about, the IFM business or what we call the overall Corporate Solutions business. There's a very strong macro trend there, and we believe that we will be one of the best beneficiaries of that macro trend. So from that end, we are quite positive about our outlook going forward with these 2 business areas.

Jade Joseph Rahmani - *Keefe, Bruyette, & Woods, Inc., Research Division - Director*

And within the U.S., would you say the best growth potential would lie in growing the Capital Markets offering both the investment sales and debt placement?

Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chair of Global Executive Board, CEO, President and Director*

Yes, when you look where we are in the ranking on the investment sales side, we have room to grow there. We are very strong on the multi-family side on and on the debt side. But on investment sales, we have room to grow. But overall, the broad sense of definition how we define Capital Markets offers still a very strong growth potential not only in the U.S., also when you look at Asia Pacific. Historically, we have been very, very strong in that segment in EMEA, and we are working hard to get to the same level of market share in the other 2 regions.

Jade Joseph Rahmani - *Keefe, Bruyette, & Woods, Inc., Research Division - Director*

And does the U.S. Leasing market share -- is it greater? Does JLL have greater market share in U.S. Leasing than in Capital Markets?

Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chair of Global Executive Board, CEO, President and Director*

Yes, much great. I mean, this is our powerhouse, our U.S. Leasing and tenant rep business, and it continues to grow much stronger than the market is offering. And I have no reason then to believe that this will continue.

Jade Joseph Rahmani - *Keefe, Bruyette, & Woods, Inc., Research Division - Director*

In terms of the fourth quarter acceleration and revenue growth, were there any deals that had delayed closings early in the year? Or anything that represented a pull forward from 2018 as a result of higher anticipated interest rates? Or do you think that this represents a reacceleration in these businesses?

Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chair of Global Executive Board, CEO, President and Director*

I don't think that it had anything to do with interest rates. I think what has happened is that people were really, really keen to close their deals in December. And at the end of the day, you can have a nice kind of setup as a service provider and with outstanding people servicing clients. But then you need clients who are willing to drive some urgency into closing those deals, and that is what happened in December. There was a massive urgency in closing those deals. Now your question is, does that mean that we pulled deals, which we expected to close in Q1 into December? Yes. In fact, that happened. There were a couple of deals, which we expected to close in the first quarter, which closed, actually, in the fourth quarter. But on the other hand, we still have a massive momentum going forward. There is still an overhang of capital, which tries to get into the real estate sector, and it's a good investment. There aren't just enough willing sellers.

Jade Joseph Rahmani - *Keefe, Bruyette, & Woods, Inc., Research Division - Director*

The -- and that urgency to close by year end, what was that a function of? The competitive environment or capital deployment targets?

Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chair of Global Executive Board, CEO, President and Director*

That is very often just psychology. You talked to your peers and your peers are talking about closing a deal, and then you want to close the deal. I can't give you a credible answer. Maybe the U.S. tax reform has driven a little bit more kind of momentum that people were thinking, "Listen, this will give another boost into 2018 and '19. We'd rather close that deal now than wait." But this is speculation. It was a great quarter. It was stronger than we expected to close in December, but the momentum continues.

Jade Joseph Rahmani - *Keefe, Bruyette, & Woods, Inc., Research Division - Director*

And could you make any comment on how -- you're saying the momentum continues. It sounds like the market volatility over the last few days and couple of weeks hasn't had an impact in terms of investor sentiments. Is that a fair statement?

Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chair of Global Executive Board, CEO, President and Director*

Well, that would be too quick. I mean, we had market volatility predominately on Friday, Monday and Tuesday, and today is Wednesday. I don't know whether that will have an impact on our clients in closing deals. I think people are getting used to a pretty challenging overall environment. I mean, when you think about the political issues and kind of trouble in the world, which is out there, you could argue it's surprising that the market sentiment is so strong. I think people are really getting used to compartmentalizing the world and focus on when they want to get done. And so I don't want to speculate whether the last 3 days will have an impact or not.

Operator

And our next question comes from the line of Mitch Germain with JMP Securities.

Mitchell Bradley Germain - *JMP Securities LLC, Research Division - MD and Senior Research Analyst*

Christian, I think you mentioned mid- to high-single-digit fee revenue growth. I'm curious if you could attribute that to your major business lines. Is that going to be somewhat consistent? Or do you have -- are you guys predicting some possibly on the lower end versus others on the higher end?

Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chair of Global Executive Board, CEO, President and Director*

Mitch, that's a very detailed question. I think that our Capital Markets business has the opportunity to be slightly higher than that. And I would hope that our Corporate Solutions IFM business will be slightly higher than that. And then to get to the number we have forecasted, you need a couple of areas, which will be slightly lower than that.

Christie B. Kelly - *Jones Lang LaSalle Incorporated - CFO and EVP*

And Mitch, recall, we don't -- Mitch, we don't give guidance.

Mitchell Bradley Germain - *JMP Securities LLC, Research Division - MD and Senior Research Analyst*

Understood. And I appreciate that color. Christian, you've talked about diversifying your offerings across Capital Markets. And I know that you've got the GSE business that you brought on a couple of years ago, and I know you guys are good in hotels. Maybe if you could -- and debt placement. If you could maybe just provide some context as to the areas that you're focusing in on trying to improve as you look to build that business out even further.

Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chair of Global Executive Board, CEO, President and Director*

Mitch, we are working to be a one-stop shop around the whole capital stack. And what we have seen in 2017, again, is when people feel very comfortable with their real estate portfolio, they won't necessarily sell. And -- but at the end of the day, they may want to kind of refinance. They want to get some equity out and restructure their money in the deal. And so there's always something to do. And historically, our industry was coming only from the investment sales side and has moved over the last 10 years to be a full-service provider. And we tried to lead in that sector, and that's where we see tremendous growth.

Mitchell Bradley Germain - *JMP Securities LLC, Research Division - MD and Senior Research Analyst*

Got you. That's helpful. Moving over to Integral, and I appreciate the transparency you guys provided this quarter on some of the, I don't want to call them challenges, but some contract losses. And I'm just curious, was that part of your original underwriting? Or did this come up as a bit of a surprise to you?

Christie B. Kelly - *Jones Lang LaSalle Incorporated - CFO and EVP*

From the perspective of the original underwriting, Mitch, we had forecast the loss of some higher-margin business that we thought would be canceled as I communicated last quarter. But just given the economic backdrop in the U.K., there's been some challenges with large construction-related clients and just the overall industry segment, which has had some follow-on or ripple effect into our Integral business. So we proactively moved forward, canceled the contracts, and now we're focused on winning new business, integrating the business and moving on for 2018.

Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chair of Global Executive Board, CEO, President and Director*

And if you had followed the press that some of the big players in that sector or an that adjacent sector have come into real trouble, and we are not completely unaffected by that because, in some cases, we were SAP providers to them.

Mitchell Bradley Germain - *JMP Securities LLC, Research Division - MD and Senior Research Analyst*

Got you. I have seen some of that. Last question. I wanted to shift over to LaSalle, and I've noticed that your dry powder up pretty significantly. And I know you've got -- you've had pretty consistent levels of capital raising. Is there -- is some of that a function of the inability to find the targeted returns that your team is looking for? And I know that you guys are somewhat laid out during your Investor Day, given the certain -- the current pricing environment. Is that kind of delaying your ability to put some of that dry powder to work?

Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chair of Global Executive Board, CEO, President and Director*

Well, Mitch, if you kind of take a very simple description of what is currently happening in the market is that many owners of real estate don't want to sell because they are comfortable with their portfolio. And the ones who want to sell only want to sell if they get really a top, top price. And on the buy side, you have a lot of dry powder, but people don't want to make a mistake that they are buying at the peak of the cycle and overpaying at the peak of the cycle. And so sometimes, it's quite hard to bring the seller and the buyer together. And when LaSalle is a buyer, then they are the ones who are thinking we don't want to overpay. And so they are very cautious in deploying the money of our investors. And that is the reason why you see this massive dry powder at LaSalle. But you see that was pretty much every professional fund manager that they have massive dry powder at the moment because they are cautious to deploy that money.

Operator

Our next question comes from Stephen Sheldon with William Blair.

Stephen Hardy Sheldon - *William Blair & Company L.L.C., Research Division - Associate*

First, kind of great results in both Capital Markets and Leasing across the regions. I was just curious how trends, I guess, in those businesses progressed throughout the quarter. I think you mentioned December was strong on the Capital Markets side. But just -- but do we know is it steady throughout? Or did you see activity build throughout the quarter and kind of continue into the first month or so here in 2018?

Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chair of Global Executive Board, CEO, President and Director*

As I've said, the momentum is still very strong. And so irrespective of the last 3 days of volatility in the public markets, and I don't know whether that will have an impact, as I said earlier, we are seeing our teams being incredibly busy from the first day of the new year on. There wasn't any break (inaudible), and hopefully, that will continue.

Mitchell Bradley Germain - *JMP Securities LLC, Research Division - MD and Senior Research Analyst*

Okay, that's helpful. And then you gave great detail about revenue exposure to FX trends and filings, but wanted to get an update on the potential margin impact as we look at 2018, just from the weakening of the U.S. dollar. Could that become a headwind to margins as we think about this year?

Christie B. Kelly - *Jones Lang LaSalle Incorporated - CFO and EVP*

Stephen, I think -- we don't forecast rates or anything like that. But I think that if you just look at the major bank together with the spot rates, I mean, you can continue to project strong euro. And I would really expect just more of the same in terms of the impacts on our results. As you look forward for your modeling purposes, not material at this point.

Operator

Our next question comes from the line of Patrick O'Shaughnessy with Raymond James.

Patrick Joseph O'Shaughnessy - *Raymond James & Associates, Inc., Research Division - Research Analyst*

So you spoke about your average deal size being a fair amount larger in the fourth quarter. Do you think there's something structural with that? Or is that just a relatively unique event during the fourth quarter?

Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chair of Global Executive Board, CEO, President and Director*

I think that is something which we see on a regular basis in the fourth quarter that the big deals tend to take a bit longer until they close, but then everybody wants to close them in the fourth quarter. So I think that is just a regular trend every year, and that was maybe slightly more pronounced in the fourth quarter of 2017 than before. But I wouldn't read too much into that.

Patrick Joseph O'Shaughnessy - *Raymond James & Associates, Inc., Research Division - Research Analyst*

Got it. And then going back to Integral, should we assume at this point that kind of the customer runoff or any of those loss-making contracts that was all completed during the fourth quarter and presumably a return to growth in the first quarter of 2018?

Christie B. Kelly - *Jones Lang LaSalle Incorporated - CFO and EVP*

Yes, Patrick. Yes. For the most part, yes. And we're focused on growth in 2018 in integrating the business and, as I mentioned before, to completing our technology upgrade for the team.

Patrick Joseph O'Shaughnessy - *Raymond James & Associates, Inc., Research Division - Research Analyst*

Great. And then last one for me. Obviously, we're still only a little bit more than a month into the year, but long-term rates have risen pretty markedly. And I think you touched on this a little earlier, but how has the nature of our conversations with those clients changed, if at all, given the steepening yield curve and long-term rates moving up?

Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chair of Global Executive Board, CEO, President and Director*

I think with regards to interest rates, it's all about expectations. As long as that rise in interest rates is in line with expectations, it doesn't really impact the outlook for our business because we still have to accept that the absolute level of interest rates in a long-term comparison is very low. And real estate is still super attractive as an investment class. The only thing which is sometimes or can be a bit disturbing is if we have unexpected spikes. And that's what you saw a little bit hitting the REIT market, not only in the U.S. when people were thinking, oh, it's now going faster. But I think, overall, it's nothing which is really of concern to us.

Operator

And our next question is from Marc Riddick with Sidoti.

Marc Frye Riddick - *Sidoti & Company, LLC - Research Analyst*

Wanted to touch base. I wasn't sure if you had gone over this. So if I missed this, forgive me. But I wanted to touch base on forward-looking thoughts around comfort level of debt. And I know in the past, you've stressed investment-grade rating and of course, a target -- a ballpark target, I believe, of around a couple of turns. So I just wanted to get your thoughts, given where the levels are now if those thoughts are updated.

Christie B. Kelly - *Jones Lang LaSalle Incorporated - CFO and EVP*

Yes, thanks, Marc. Just overall from a strategic perspective, we're very focused on managing our business for the long term at net debt to EBITDA under 2, maintaining our investment-grade ratings. And as you could see, with the focus coming off of the acquisitions that we did, really driving cash flow generation and really remaining focused on disciplined working capital. So you're going to see more of the same in 2018.

Operator

I'm not showing any further questions. So I'll now turn the call back over to management for closing remarks.

Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chair of Global Executive Board, CEO, President and Director*

Okay, thank you. With no further questions, we will close today's call. Thank you for participating and for your continued interest in JLL. We look forward to speaking with you again following the first quarter. Thanks.

Operator

Ladies and gentlemen, this does conclude the program. You may now disconnect. Everyone, have a wonderful day.