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CBG - Q4 2012 CBRE Group, Inc. Earnings Conference Call

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OVERVIEW:

Co. reported full-year 2012 revenue of \$6.5b. 4Q12 total revenue was approx. \$2b and GAAP diluted EPS was \$0.53. Expects Full-year 2013 EPS to be \$1.40-1.45.



CORPORATE PARTICIPANTS

Nick Kormeluk *CBRE Group Inc - IR*

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Bill Concannon *CBRE Group Inc - President, Global Corporate Services*

Gil Borok *CBRE Group Inc - CFO*

CONFERENCE CALL PARTICIPANTS

Anthony Paolone *JPMorgan Chase & Co. - Analyst*

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PRESENTATION

Operator

Welcome to the CBRE fourth quarter earnings call. At this time, all lines are in a listen-only mode. Later, there will be an opportunity for your questions and instructions will be given at that time.

(Operator Instructions)

As a reminder, this conference is being recorded. I'll now turn the conference over to Nick Kormeluk, Investor Relations. Please go ahead, sir.

Nick Kormeluk - *CBRE Group Inc - IR*

Thank you and welcome to CBRE's fourth quarter 2012 earnings conference call.

About an hour ago, we issued a press release announcing our Q4 financial results. This release is available on the homepage of our website at CBRE.com. This conference call is being webcast and is available on the Investor Relations section of our website. Also available is a presentation slide deck which you can use to follow along with our prepared remarks. An archived audio of the webcast and a PDF version of the slide presentation will be posted to the website later today and a transcript of our call will be posted tomorrow.

Please turn to the slide labeled forward-looking statements. This presentation contains statements that are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995, including statements regarding our future growth momentum, operations, financial performance and business outlook. These statements should be considered estimates only and actual results may ultimately differ from these estimates.

Except to the extent required by applicable securities laws, we undertake no obligation to update or publicly revise any of the forward-looking statements you may hear today. Please refer to our fourth quarter earnings report filed on Form 8-K, our current annual report on Form 10-, and our current quarterly report on Form 10-Q, in particular, any discussion of risk factors or forward-looking statements, which are filed with the SEC and available at the SEC's website, SEC.gov, for a full discussion of the risks and other factors that may impact any estimates you may hear today.



We may make certain statements during the course of this presentation, which include references to non-GAAP financial measures as defined by SEC regulations. As required by these regulations, we have provided reconciliations of these measures to what we believe are the most directly comparable GAAP measures, which are attached hereto within the Appendix. Participating with me today are Bob Sulentic, our President and Chief Executive Officer, Gil Borok, our Chief Financial Officer, and Bill Concannon, the Chief Executive Officer of our Global Corporate Services Business.

I'll now turn the call over to Bob.

Bob Sulentic - *CBRE Group Inc - President & CEO*

Thanks, Nick.

Please turn to slide 4. CBRE's performance rebounded strongly in the final quarter of 2012. Following a sluggish Q3, activity improved in virtually all business lines, particularly our Capital Markets businesses. All three global operating regions delivered solid top line growth, with especially strong results in the Americas. The positive turn in performance reflects improved market sentiment which has fluctuated throughout the current recovery, as well as CBRE's distinct advantages as the global market leader.

Revenue for the year set a new milestone at \$6.5 billion and both earnings and normalized EBITDA exhibited strong growth. Our full-year normalized EBITDA margin of 14.1% was the highest since 2007, and increased 50 basis points over 2011. These achievements in a year of economic and market uncertainty are a testament to the strength and diversity that comes from our geographic footprint and broad product offering, our brand and our people's talents for collaborating to create value for our clients.

Please turn to slide 5. Global business line highlights for the quarter include a 22% increase in global property sales revenue, as we completed single asset and portfolio sales valued at more than \$1 billion in several markets, including Berlin and Frankfurt, Moscow, New York, Seattle and Silicon Valley. Sales activity was especially strong in the Americas, rising 32%. Despite Europe's weak economic growth and continued financial stress, property sales in the EMEA rose 13% aided by robust performance in the United Kingdom. Commercial mortgage brokerage revenue improved 38%, fueled by continued strong US loan origination activity. In a generally soft market, leasing revenue grew 5%, led by the Americas and Asia Pacific.

Outsourcing continued its strong growth. Overall revenue rose 13% as all three global regions posted double-digit increases. As you will hear from Bill Concannon shortly, we signed a record number of new Global Corporate Services contracts and aggressively expanded our scope of services for existing clients in 2012. Investment management revenue, excluding discontinued operations, and normalized EBITDA grew 18% and 48%, respectively, as a result of higher incentive fees as well as increased asset management fees which benefited from a full quarter of ING REIM Europe contributions.

As the market enters its fourth year of slow recovery, we expect conditions to continue to improve gradually, tracking the performance of the global economy. While we are encouraged by positive underlying trends in the US and China, and the easing of credit market tensions in Europe, the pace of recovery remains subpar and investors and occupiers alike are still managing their businesses cautiously. As you would expect, we continue to diligently manage our own day-to-day expense base while making strategic investments in our people and platforms that we believe will enhance our client services and position us for long term, profitable growth.

Some of the most notable transactions we completed during or immediately following the quarter are shown here on slide 6. As is our typical process, I will not go through them individually but we have included them for your review. Starting this quarter, we will be having one of our senior executives join the call to give you a deeper dive into their business. This is something we've done from time to time in the past and will now make a regular feature of our calls.

Our goal is two-fold. One, to provide you with more insight into our key lines of business and, two, to give you an opportunity to ask these executives questions. Bill Concannon, CEO of Global Corporate Services, our Occupier Outsourcing business, will join us today. We decided to begin with Global Corporate Services because it is a complex business that cuts across most of our geographies and a number of our service lines.

Global Corporate Services is also a large business with annual revenues of about \$1.5 billion. It has been growing at a rate in the mid-teens for the past few years and it services many of our largest clients. We see significant growth opportunities ahead because the outsourcing concept for real estate occupiers is still relatively young, and we are extremely well positioned to benefit from its growth.

Now I'll turn the call over to Bill, who will describe the business and the opportunities in more detail.

Bill Concannon - *CBRE Group Inc - President, Global Corporate Services*

Thanks, Bob.

Please turn to slide 7. Global Corporate Services is CBRE's occupier outsourcing business. We provide these occupiers with tailored real estate solutions. Our clients include corporations, ranging from the biggest Fortune 500 companies to growing mid-cap enterprises, healthcare providers, public sector institutions, and others. We provide four core services for these occupier clients, portfolio and transaction services, facilities management, project management and strategic consulting.

On our income statement, the variable portion of portfolio and transaction services rolls into our leasing and property sales revenue lines, while project management and facilities management, even the reimbursed portion of portfolio and transaction services rolls into property and facilities management revenue. Strategic consulting is a small contributor to all three revenue lines.

We have more than 300 Global Corporate Services clients, all of them served under contracts of at least a year and most for multiple years. We also enjoy very high renewal rate with these clients. These clients' contracts range from integrated full-service global clients to a contract where we provide a single service for a period of a year or more, such as managing a complex construction project.

We have a very strong leadership team and more than 13,000 employees in Global Corporate Services, many of them working on-site with our clients as an integral part of their real estate teams. As Bob indicated, our business has been growing strongly and 2012 was our best year ever for total contracts signed. We set new records for wins, expansions, and renewals.

We continue to sign new contracts at an impressive clip in the fourth quarter. Most notably, we completed the most contract expansions ever, both in a single quarter and full year, reflecting our sharp focus on broadening our scope of services for existing clients. Opportunities in newer relatively untapped market sectors are also gaining momentum. In 2012, we experienced solid growth in the healthcare and government sectors, both of which are looking for innovative solutions to cost pressures. We also continued to see opportunities outside of the US where outsourcing by real estate occupiers is typically in the very early stages as well as for global mandates.

Please turn to slide 8. Macro trends remain favorable for our Global Corporate Services business and should help us to drive future growth. The size of the Global Corporate Services' potential market for outsourcing by real estate occupiers has been estimated at more than \$50 billion by McKinsey. They estimate market penetration to be at \$10 billion, leaving significant headroom for growth.

New occupier markets and sectors embracing real estate outsourcing continue to emerge. As mentioned earlier, one of the most exciting is healthcare. Hospital beds managed by CBRE have increased 40% in the past two years to more than 9,800, as healthcare providers have been driving hard to find efficiencies. We believe this trend will only intensify in the years ahead as the Federal Affordable Care Act takes full effect.

Changes in corporate management structures also bode well for us. Despite the steady growth we've seen over the past several years, it -- the fact is that many large companies still manage their real estate decision making on a decentralized basis. As the pace of centralization picks up, it opens up more opportunities for third-party real estate service providers to serve more of their global portfolios, and CBRE is one of a handful of firms well positioned for these opportunities.

Finally, supply chain optimization and the rise of strategic sourcing create significant opportunities for us. In our Facilities Management business, we manage more than \$20 billion in total vendor spend for clients. We are highly focused on helping them find ways to reduce their costs and add value which can result in a meaningful upside to us in the form of incentive fees tied to performance goals. Our Global Corporate Services business

enters 2013 with strong momentum and a large pipeline of opportunities, both with existing and new clients. We continue to be very excited about our future prospects.

I will now turn the call over to Gil, who will discuss CBRE's fourth quarter performance.

Gil Borok - CBRE Group Inc - CFO

Thank you, Bill.

Please advance to slide 9. Total revenue was approximately \$2 billion for the fourth quarter of 2012, up 14% from last year. This increase was driven by growth in virtually all businesses and service lines. Normalized EBITDA was \$351.7 million in the fourth quarter of 2012, resulting in a normalized EBITDA margin of 17.5%. This margin is slightly lower than last year's fourth quarter, which benefited significantly from more sizable development services gains on project sales.

Cost of services decreased to 56.4% of total revenue in the fourth quarter of 2012 versus 57.2% in the fourth quarter of 2011. Excluding \$20 million of cost containment expenses in the fourth quarter of 2011, cost of services was 56.1% of revenue. Fourth quarter 2012 operating expenses were 29.8% of total revenue, versus 34.2% in the fourth quarter of 2011.

Excluding \$45 million of integration and other costs related to the ING REIM acquisition, and \$11.1 million of cost containment expenses, fourth quarter 2011 operating expenses were 31% of revenue. Included in the fourth quarter 2012 operating expenses was \$25 million of impairments of assets in our principal businesses, involving final resolution of assets acquired before the financial crisis. Much of this was attributable to non-controlling interests which substantially reduced the impact on normalized EBITDA.

Interest expense was relatively flat in the quarter, versus the fourth quarter of 2011. Our fourth quarter 2012 tax rate was approximately 33%. This lower tax rate was primarily the result of the benefit from previously unavailable foreign income tax credits that can be utilized to offset US Federal Income Taxes on foreign-sourced earnings in the near future. We realized this outcome due to our continued focus on the tax efficiency of our legal entity and operating structure. Our full-year 2012 tax rate was approximately 35%, and we expect this rate to be similar in 2013.

Depreciation and amortization expense increased \$8.9 million in the quarter, versus the fourth quarter of 2011, primarily due to depreciation of recent increased IT-related capital expenditures, including those incurred in the integration of ING REIM. Fourth quarter 2012 GAAP diluted earnings per share was \$0.53, versus \$0.25 last year. Adjusted diluted earnings per share was \$0.55 in the fourth quarter of 2012, which was up 20% as compared to \$0.46 in the fourth quarter of 2011.

Please advance to slide 10. We have included the full-year comparison of key financial measures for your benefit, but will not discuss them further except to note that we did achieve 10% revenue growth and a 50 basis point increase in full-year normalized EBITDA margin versus 2011. EBITDA margin is a metric we watched closely as a proxy for our ability to control costs.

Please turn to slide 11. Leasing was our largest service line in the quarter, representing 31% of total revenue. Notwithstanding soft market conditions, this business generated 5% growth globally versus the fourth quarter of 2011. This brought full-year 2012 leasing revenues in line with full-year 2011, which was not the case at the end of the third quarter.

Property and facilities management was our second largest service line in the fourth quarter of 2012, representing 30% of total revenue in the quarter, with a strong 13% increase over the fourth quarter of 2011. As Bill noted, this is where much of our Global Corporate Services revenue is concentrated. Global Corporate Services is the most rapidly growing component of this revenue category. Investment sales growth accelerated by 22% in the fourth quarter of 2012, relative to the fourth quarter of 2011.

Appraisal and valuation revenue increased 9% in the fourth quarter of 2012 versus the fourth quarter of 2011 led by the Americas and Asia Pacific. Global investment management revenue increased 20% quarter-over-quarter, driven by increases in asset management and incentive fees. Commercial mortgage brokerage revenue grew 38% from the fourth quarter of 2011, driven by continued capital availability, investors' appetite



for high relative yield and increased competition among lenders. It should be noted that this is primarily a US-based business where investment activity and sentiment, particularly in the multifamily sector, remains stronger than in other parts of the world.

Development services revenue increased 73% to \$30.3 million, primarily as a result of higher incentive fees. Recurring revenue comprised approximately 55% of total revenue for the fourth quarter of 2012. This includes revenue from leasing commissions from existing clients, property and facilities management fees, fees for assets under management and loan servicing fees, which are all largely recurring.

Please turn to slide 12. We have included this slide for your convenience and it shows our service line revenue comparisons on a full-year basis.

Please turn to slide 13, which demonstrates steadily decreasing vacancy rates and positive absorption in all three market sectors depicted, along with forecasted improvement over the next 24 months. Average national office cap rates came down 20 basis points in the fourth quarter of 2012, versus the third quarter of 2012, and 40 basis points versus the fourth quarter of 2011, primarily due to continued strength in core property sales.

Please turn to slide 14. The Americas region showed very strong overall revenue growth, up 16% in the fourth quarter of 2012, versus the fourth quarter of 2011, driven by contributions from all major service lines. Investment sales revenue in the Americas jumped by 32% in the fourth quarter of 2012, versus the fourth quarter of 2011, driven by the attractive yield still available from core market activity and by investors hurrying to close transactions before year end, an annual ritual that was magnified in 2012 by the potential for higher capital gains tax rates in the US.

CBRE once again held the number one position in the US investment market for the fourth quarter and the full-year 2012, according to real capital analytics. Leasing activity picked up again this quarter, posting a 7% revenue increase in the fourth quarter of 2012, versus the fourth quarter of 2011, reflective of continued moderate job growth and market share gains. Our Americas outsourcing revenue grew by a strong 13% in the fourth quarter of 2012. It is notable that fourth quarter 2012 revenue growth outpaced full-year 2012 growth in all three major service lines.

Please turn to slide 15. Total EMEA revenue increased 7% in the fourth quarter of 2012, versus the fourth quarter of 2011. This was an 8% increase in local currency, which is indicative of the fact that foreign currency exchange was not nearly as impacted in the fourth quarter of 2012 as it was in the third quarter of 2012. We are pleased with this result considering the ongoing broad economic weakness across Europe in the fourth quarter. Year-over-year growth in investment sales revenue rebounded strongly in the fourth quarter of 2012 with a 13% increase.

The strength was driven by the United Kingdom, where a combination of stronger general market activity and CBRE's ability to capture more market share led to a revenue increase of 31%, and to a lesser degree, higher revenue in Switzerland and Germany. Leasing revenue was flat in the fourth quarter of 2012 versus the fourth quarter of 2011. Positive growth in the United Kingdom was offset by weak performance on the continent. EMEA outsourcing revenue increased a healthy 17% in the fourth quarter of 2012, versus the fourth quarter of 2011.

Please turn to slide 16. Our total revenue in Asia Pacific this quarter was up 7% as compared to the fourth quarter of 2011. Improved performance in Australia, Singapore, India and China contributed to the region's overall revenue growth. Property sales revenue declined 1% in the fourth quarter of 2012, as compared to the fourth quarter of 2011, driven by China, where deal flow was constrained by lack of product availability. However, leasing revenue in Asia Pacific increased 7%, led by Australia, China and Singapore. Demand was generally driven by domestic clients. Outsourcing revenue improved by 13% in the fourth quarter of 2012, versus the fourth quarter of 2011.

Please turn to slide 17. Revenue for the development services segment totaled \$33.3 million in the fourth quarter of 2012, versus \$22.4 million in the fourth quarter of 2011, due to higher incentive fees. However, fourth quarter 2012 normalized EBITDA declined to \$35.6 million due to lower gains from project sales versus the prior year quarter. Such gains do not flow through revenue.

At the end of the fourth quarter 2012, in-process development totaled \$4.2 billion, down \$700 million from the end of 2011. The pipeline totaled \$2.1 billion, up \$900 million from the end of 2011. Our equity co-investments at the end of 2012 in the development services business totaled \$70.5 million, and our recourse debt and repayment guaranties stood at \$16.1 million.

Please turn to slide 18. Fourth-quarter 2012 global investment management revenue increased to \$124.2 million from \$107.8 million in the fourth quarter of 2011. The increase resulted from higher incentive fees as well as higher asset management fees, largely stemming from the inclusion of ING REIM Europe for a full quarter.

Please turn to slide 19. Assets under management, or AUM, totaled \$92 billion at the end of 2012, up \$1.6 billion from the third quarter of 2012. This was comprised of increases of \$1.6 billion from acquisitions; \$900 million from net asset value changes; and \$700 million due to positive currency fluctuations, partially offset by dispositions and transfers of \$1.6 billion. Included in the \$92 billion in AUM at the end of 2012 was \$23.6 billion of listed securities.

This represents an increase of \$1.4 billion from the third quarter of 2012 which resulted primarily from value appreciation in this portfolio. During 2012, we raised new equity capital of approximately \$3.8 billion in the Direct Real Estate business and had approximately \$3.6 billion of equity capital to deploy at the end of the quarter. Our core investments in this business at the end of the quarter totaled \$211.5 million.

Our global investment management EBITDA reconciliation details is shown on slide 20. In the fourth quarter of 2012, we incurred \$5.9 million of expenses related to the ING REIM acquisitions, primarily for retention, severance and information technology. As of December 31, 2012, the Company maintained a cumulative accrual of carried interest compensation expense of approximately \$48 million, an increase of \$6 million in the fourth quarter of 2012, which pertains to anticipated future carried interest revenue and is illustrative of portfolio value increases. This business operated with a solid pro forma normalized EBITDA margin of 24% for the fourth quarter of 2012 and 30% for the full year of 2012.

Slide 21 shows our liquidity position at December 31, 2012, as well as our amortization and debt maturity schedule for all outstanding corporate debt. The latter is virtually unchanged from last quarter. With considerable liquidity in cash flow, we remain very comfortable with our debt maturity schedule and the flexibility it provides, including as it relates to our \$450 million senior subordinated notes that are callable in June 2013.

Please turn to slide 22. Excluding cash within consolidated funds and other entities not available for Company use, and excluding our non-recourse real estate loans, and our mortgage brokerage warehouse facilities, our total net debt at the end of 2012 was approximately \$1.5 billion. This represents a decrease of \$126.2 million from the fourth quarter of 2011.

At the end of the fourth quarter 2012, our weighted average interest rate was approximately 5.6%, unchanged from the end of the third quarter of 2012, when including interest rate swaps. Our leverage ratio on a covenant basis now stands at 1.4 times at the end of 2012 on a trailing 12-month basis. Our total Company net debt to trailing 12-month normalized EBITDA stood at 1.7 times.

I will now turn the call back over to Bob.

Bob Sulentic - *CBRE Group Inc - President & CEO*

Thanks, Gil.

Please turn to slide 23. Our performance in the fourth quarter and strong full-year growth at a time of continuing economic challenges reflects the many strengths that have led CBRE to the market-leading position in our industry, including our deep pool of professional talent; our deep, diverse and loyal client base; our well-recognized and highly regarded brand; our unmatched geographic and service line footprint; and our capacity and willingness to make strategic investments that enhance our services to clients and position us for continued growth.

With market conditions continuing to improve slowly, and systemic threats to the global economy lessening, our view of 2013 is on the positive side of the lever -- ledger. It is also an opportune time to modestly increase investment in our platform. We expect to partly offset any above normal platform investments through continued rigorous management of our day-to-day cost structure, lower interest expense, and tax savings. Accordingly, we expect the impact of these investments on the bottom line to be muted. These investments will enable our people to work more efficiently and collaborate more effectively and will help us sustain our growth for years to come.



For 2013, we expect global revenue to increase at a mid- to high single digit rate, consistent with our long-term historical performance. We anticipate this growth to once again be paced by the Americas with Asia Pacific rebounding and EMEA still being challenged by a weak macro environment. Among our global business lines, we expect moderate leasing growth to be closely tied to the performance of the global economy.

We anticipate that property sales will increase in line with improving fundamentals and outsourcing will continue to grow in the low double-digits. In light of these expectations, and factoring in anticipated higher depreciation and amortization expense, we anticipate generating full-year 2013 EPS in the range of \$1.40 to \$1.45. This implies a solid growth rate of 15% to 20% as compared to 2012, while once again producing the industry-leading normalized EBITDA margins you have come to expect of us.

With that, operator, we'll open the lines for questions.

QUESTIONS AND ANSWERS

Operator

Thank you.

(Operator Instructions)

Anthony Paolone with JPMorgan.

Anthony Paolone - JPMorgan Chase & Co. - Analyst

My first question is on leasing. It seemed like the evidence was that leasing volumes, in general, were down in the fourth quarter but both you and JLL ended up doing pretty well. It seemed like you picked up share so, A, is that really the case? Then B, where do you think that share came from and how sustainable do you see that as being?

Bob Sulentic - CBRE Group Inc - President & CEO

We do believe we picked up share. We do believe JLL probably picked up share as well. Where it came from probably is our smaller competitors. Whether or not it's sustainable depends on whether or not we can continue to do the job we're doing on behalf of our clients.

We're going to certainly try to do that. We're investing aggressively in the business to make sure we do that. We're supporting our professionals. We think we have the industry-leading professionals in that area so we expect that we'll be able to continue the trend of growing our leasing business. I can tell you it's certainly a big focus here and we have the right people to get that done.

Anthony Paolone - JPMorgan Chase & Co. - Analyst

On the leasing side as you look into 2013, one thing we hear oftentimes is in the office category, tenants increasingly pushing to cut costs, push more people into a given amount of space and so forth. Do you see that as being, A, do you see it out there? And B, is that something you think is cyclical with still a fairly tough macro backdrop or do you think that's a longer term headwind we should watch for that could keep some lid on leasing?



Bob Sulentic - *CBRE Group Inc - President & CEO*

Well, it's definitely cyclical. When companies are uncertain or companies feel like they're under pressure, they control costs more aggressively and one of the costs they focus on is their leases. But in addition to that, there's no doubt that things are changing. What makes the notion of alternative work space real is really two things. Number one, it's the notion of a more paperless world, and number two, it's the notion of connectivity and wirelessness on the technology side.

All of that stuff is happening and so what you're seeing is people that are very mobile with their office space and coming up with alternative designs for office space that allow them to move around, share space, so on and so forth. So that's a very real trend. We see it with a lot of clients. We're doing it with our own spaces around the world. By the way, I think the younger generation of workers coming in is pushing all of us in that direction.

Anthony Paolone - *JPMorgan Chase & Co. - Analyst*

Okay. Thanks. Just a couple of other things as it relates to guidance. Can you comment at all on just things like backlog of development gains that may exist that we may see a pick-up in, say, 2013 that might be in the numbers? Along the same lines, in investment management, it seems like you guys have been booking some carried interest accruals on the expense side, but refresh my memory if you booked anything on the revenue side or if those start to come in, in 2013, do they drop right to the bottom line?

Gil Borok - *CBRE Group Inc - CFO*

We have not booked any carried interest revenue in 2012 and our guidance would include any anticipated carried interest revenue that might come in '13. It will obviously come in the future. You see an accrued balance of \$48 million of carried interest expense, so you can assume that carried interest revenue, more or less double that, will come in, in the future but I'm not going to comment as to which year.

Anthony Paolone - *JPMorgan Chase & Co. - Analyst*

Is it similar on the development backlog gains?

Bob Sulentic - *CBRE Group Inc - President & CEO*

Well, Anthony, we're bringing on a good number of new projects. Obviously, you've observed as we'll have that business over the years and you know that the life cycle associated with harvesting those projects is fairly long. What you're going to see in 2013 from us is likely less development profitability because what we've done is we've burned off the inventory of projects that we carried for a long time through the downturn. Now we're reloading and the gestation period of those projects suggests it will be two or three years before a lot of them harvest.

I think we're going through now a cyclical bottom and then we'll be coming back out in terms of the profitability generated by that business. But we do -- to answer your question specifically, yes, we do see some nice new opportunities. We're particularly encouraged by the fact that if you can find development opportunities and get them started, there's less competition now than there has been at many points in the past.

Anthony Paolone - *JPMorgan Chase & Co. - Analyst*

Okay. Then just last one, any updated thoughts on how you look at your free cash flow as it relates to either dividend or stock buyback, just given how the business is strong and your net debt continues to whittle down?



Gil Borok - *CBRE Group Inc - CFO*

We look at it and obviously, we like it. We do have the \$450 million bonds that are callable in June of '13. So we're obviously contemplating our options currently in terms of what we do with those. It may involve use of some cash, maybe all cash, but at the moment, what we've guided to is, we know we can refinance those for about half the interest rate that they're currently at. So that's one alternative that fits into our overall strategy.

The other thing is you've got to remember that even though there's about \$1 billion of cash on the books at the moment, we're going into our seasonal usage period. So in the first quarter and into the second quarter, you can anticipate us using between \$400 million and \$450 million of cash to pay bonuses. We will do that with cash and not have to draw on our revolver. So there's a big usage.

The other thing you have to remember is that \$300 million of that cash is overseas, \$700 million, give or take, is domestic and again, the overseas cash can be used for bonuses as well. So there are some uses coming up. They will be left over and it will be part and parcel of our discussions around that \$450 million call, as to what we do with it at the moment.

Anthony Paolone - *JPMorgan Chase & Co. - Analyst*

Okay. Thanks. Congratulations on a good quarter, particularly, Bob, in your new seat.

Operator

Brandon Dobell with William Blair.

Brandon Dobell - *William Blair & Company - Analyst*

Just from a near-term perspective, should we expect much of an air pocket here in the first quarter in the capital markets business given your comments and finish to the year on investment sales and mortgage brokerage? Or would you expect typical seasonality and no exaggerated seasonality around it? Is there anything else? I wouldn't imagine you saw it in any pull-forward in leasing or outsourcing, but just want to make sure we get the right staging or pacing here from Q4 into Q1.

Bob Sulentic - *CBRE Group Inc - President & CEO*

Brandon, the -- I want to make sure I understand your question. So I'll give an answer and if I don't answer the question you asked, tell me. We really don't think there was any pull-forward in leasing or outsourcing, so that's the easy part of your question. Whether or not there's an air pocket in the capital markets, probably a little bit.

There was an awful -- particularly here in the States, there was an awful lot of activity in Q4, and particularly in December, in response to the tax situation that we're all aware of. So we think we benefited from that. We don't think it's going to have an overwhelming or a dominant impact on Q1. In fact, we think that 2013 is going to be a better year overall than 2012, but it wouldn't be surprising to see some impact from that.

Brandon Dobell - *William Blair & Company - Analyst*

Okay, fair enough. Then going back to your discussion around corporate services. As you look at the renewals and expansions, maybe some color around, are those typically with more size and/or more services? Is there any difference between, let's say, EMEA and Americas in terms of what those renewals or expansions may look like?



Bill Concannon - *CBRE Group Inc - President, Global Corporate Services*

Okay. Thank you for that question. I -- one of the things that I'd say is -- one of the number one thing I like about our 2012 performance is that the expansions that we booked, 56 in total, show us that we've got good client satisfaction, show us that our people are focused, that shows us their clients trust us and therefore they're willing to work with us in more places.

In fact, when you look at the two cases highlighted on the slide, Microsoft and State Street, there were US multinationals that expanded with us in EMEA and Asia Pacific. So the customer doesn't have to originate in EMEA and/or Asia Pacific. We can get a lot of expansion on a year-over-year basis with US multinationals, which is a key part of our growth metric.

Brandon Dobell - *William Blair & Company - Analyst*

Okay. Then Gil, maybe any color on what we should expect CapEx and additional co-investments to look like in '13?

Gil Borok - *CBRE Group Inc - CFO*

Yes. On the CapEx front, we're probably looking at something a little north of \$150 million, consistent with our moderate investment goals. On the current investment front, it's a little bit difficult to say, because of what the net will be, but as Bob said, it is a time in the cycle where we think there's good opportunity. So that's going to be somewhere between \$50 million and \$100 million, but it's hard to give a tight range on it, Brandon.

Brandon Dobell - *William Blair & Company - Analyst*

Okay. Then final question for you, maybe Gil, or even for Bob. As we think about the impact of headcount additions or technology spending, should we see that make a difference or should that show up more in the Americas than it should in Asia Pac and EMEA, i.e., should it not impact margin trajectories in the international markets or is it going to be spread evenly across the P&Ls?

Bob Sulentic - *CBRE Group Inc - President & CEO*

We're making those investments around the world, Brandon, and -- but importantly, I want to stress one thing. As we said in our comments, we're expecting our margin to continue to expand. So we're making these investments thoughtfully and cautiously and they're all about enabling our professionals, technology, marketing, other things that are going to enable our professionals. We're doing it around the world.

We do the same products everywhere in the world. We do the processes that are very similar everywhere in the world and increasingly, with those business we're serving the same customers everywhere in the world. Bill, I don't know if you'd have an add-on to that.

Bill Concannon - *CBRE Group Inc - President, Global Corporate Services*

No, I think that's it. That captures it.

Operator

Will Marks with JMP Securities.

Will Marks - *JMP Securities - Analyst*

I wanted to first ask, maybe some questions of Gil, on the interest expense line, you gave -- you said you included some benefit from refinancing in your guidance. Is that -- just to confirm; that's correct?



Gil Borok - *CBRE Group Inc - CFO*

That's correct, yes.

Will Marks - *JMP Securities - Analyst*

Okay. Then what run rate should we see on that line during the year? I realize it will change in the second half of the year but maybe to start the year?

Gil Borok - *CBRE Group Inc - CFO*

Yes, it will run -- with the assumptions I've given you, Will, it will run about \$40 million a quarter in the first half, dropping down to between \$33 million and \$35 million in the second half per quarter.

Will Marks - *JMP Securities - Analyst*

Great. Okay. Thank you. Then same question, I was still a little surprised at the D&A level in the fourth quarter. You made some comment, and I apologize if I missed what I'm asking, and that is, the guidance along those lines for 2013.

Gil Borok - *CBRE Group Inc - CFO*

Two things that drive it. First of all, depreciation is going up along with capital expenditure increases. You know in the down, we didn't invest. Since then, we have been investing incrementally. Some of those projects that were held as construction in progress have come online and are now starting to be depreciated. So that's what has caused an uptick in depreciation of it, the depreciation part of it, certainly in the second half of the year.

The other component is amortization and that has to do with our mortgage brokerage business where we -- I think you know we capitalized upfront the servicing rights, which creates income upfront and the servicing rights we get when we originate loans. That has to amortize into the P&L over time. So in a growing portfolio, you're getting gains and amortization. The amortization is less than the gains but amortization goes through the amortization line. So a combination of those two factors is what's pushing it up. Before you ask it for next year, the run rate per quarter is going to be around \$38 million to \$40 million and [drop].

Will Marks - *JMP Securities - Analyst*

Okay, so it will drop substantially from that fourth quarter level. I realize that things are seasonal too, but --

Gil Borok - *CBRE Group Inc - CFO*

If you're looking at the P&L on the income statement, remember, that's not normalized. I'm giving you a normalized number.

Will Marks - *JMP Securities - Analyst*

Right. Sorry. Yes.



Gil Borok - *CBRE Group Inc - CFO*

Okay?

Will Marks - *JMP Securities - Analyst*

Fair enough. Okay. And then just moving on. The -- typically, there's a -- the net debt balance does go up in the first quarter. I'd expect, or I should ask, should we expect the same in 2013 due to bonus?

Gil Borok - *CBRE Group Inc - CFO*

Yes, exactly. So on a net debt basis that's true, yes.

Operator

David Ridley-Lane with Bank of America Merrill Lynch.

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

I wanted to ask a question about the -- on the investment sale side, particularly in the Americas. Just wondering if you were seeing investor interest expand from Tier 1 Class A [series] within trading how quite frequently over the last year or two, and into Tier 2 and Tier 3 series.

Bill Concannon - *CBRE Group Inc - President, Global Corporate Services*

David, we're seeing that start to happen slowly. Both in terms of moving out a little with the assets and moving out a little with the markets that investors are looking at.

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

Okay. So, and that's -- to be clear, is that -- when you say moving out, is that the most that it's moved out through this recovery or are we getting back to second quarter '12 before the Eurozone crisis hit us.

Bob Sulentic - *CBRE Group Inc - President & CEO*

I would say we would expect it to be more than it's been prior to this in the recovery in 2013, and that's our expectation. We're -- and again, we started to see that in the fourth quarter for sure.

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

Got it. Then if the EMEA revenue was flattish in 2013, would you expect the margins to be up or down in that region, i.e., as in you made enough cost cuts to keep things flat or will we still see some deleveraging there?

Bob Sulentic - *CBRE Group Inc - President & CEO*

We made some cost cuts and we're also going to make some incremental investments. It's hard to give you an exact answer at this point because if we didn't see things -- if we didn't start to be more optimistic, which I think we're going to be, by the middle of the year about EMEA, then we



would put a governor on the magnitude of the incremental investments, obviously. But my guess is those two things will offset each other over the course of the year in EMEA and we'll respond to the market in the second half of the year as it unfolds.

Operator

Todd Lukasik with Morningstar.

Todd Lukasik - Morningstar - Analyst

Just hoping to revisit some of the numbers you had given for the global corporate outsourcing business. You referenced the McKinsey report, \$50 billion potential market. If I understood correctly, current industry penetration of about \$10 billion, of which you guys are about 15%, or \$1.5 billion.

Bob Sulentic - CBRE Group Inc - President & CEO

Yes, that's correct, Todd.

Todd Lukasik - Morningstar - Analyst

Okay. And then --

Bob Sulentic - CBRE Group Inc - President & CEO

By the way, we think that's a conservative estimate by McKinsey. It's only in the service lines where we operate today.

Todd Lukasik - Morningstar - Analyst

Okay.

Bob Sulentic - CBRE Group Inc - President & CEO

So it doesn't include in vertical markets like higher education where we're not -- they're not really out outsourcing yet today. But it does not include soft service providers, so it wouldn't include janitorial or security in many of the vendor spend categories that we manage as a facilities manager.

Todd Lukasik - Morningstar - Analyst

Okay, got you. Then I was wondering if you could just comment a little bit on competition in that business. I'd assume that on a local or regional basis there are a lot more competitors that can put in bids than could credibly for some of the global deals that you are bidding for. I was particularly wondering if you have any information you could share in terms of percentage of business that you win, what you're bidding for and what percentage that you tend to win?

Bob Sulentic - CBRE Group Inc - President & CEO

Well, we have lots of metrics that we track in the business, Todd. One of them is obviously win rate and we've got a very, very high win rate on the business that we choose to go after. I will tell you that this year -- I can't remember a year where the pace picked up where we set records for the number of new contracts won and the number of new RFPs. RFPs were up almost 40% on a year-over-year basis.

And so when these customers come out, they're not just vetting for cost anymore. They're vetting for, in a very sophisticated RFP process, with many times procurement and/or strategic sourcing at the table with these Fortune 500 companies; they're looking for process improvements. They're looking for the access to talent that they can bring into their own company in terms of running the real estate, running the facilities, better compliance, better regulatory reporting.

So this business, as it's gotten more sophisticated, as the selection process has gotten more difficult, it really bodes well for us, companies like ours. So we very rarely would see a local or regional player compete effectively on a large global deal or even an Americas-based deal.

Todd Lukasik - *Morningstar - Analyst*

Okay. Then just one more. Do you have a sense as to, or could you share what percentage of that \$1.5 billion that you are doing today? Is business with people or corporations on a global scale as opposed to a regional scale?

Bob Sulentic - *CBRE Group Inc - President & CEO*

It's growing. 80% of our business is in the Americas today. So 20% is outside the Americas, but it is growing. Asia Pacific and Latin America, to name two geographies, we saw a real jump on a year-over-year basis on our RFP count. In fact, there's a lot of scrutiny in those regions of the world.

Operator

Anthony Paolone with JPMorgan.

Anthony Paolone - *JPMorgan Chase & Co. - Analyst*

In the mortgage origination business, is that -- do you think that's more correlated to, say, activity in CMBS or is it just more tied to general investment sales activity? Like how do we think about where that goes?

Bob Sulentic - *CBRE Group Inc - President & CEO*

It's very tied to investment sales activity, and in our case it's tied to multi-family investment sales activity, far more than just CMBS. We provide mortgage origination for all types of different financing, so -- or for all types of different capital sources, so we wouldn't necessarily be driven more by CMBS or something else. I will tell you we've done a lot of multi-family stuff, but we do a good amount of work whether it's office, industrial, or retail in the mortgage brokerage business. So I would -- if you want to have a parameter, I would look at investment sales in general.

Anthony Paolone - *JPMorgan Chase & Co. - Analyst*

Okay. What's -- any guidance as to what the incremental margins are for that business line? It seems to have gotten pretty big, and has grown pretty nicely.

Gil Borok - *CBRE Group Inc - CFO*

I'll just give that it is higher than the overall corporate margin. It does drive the margin up.



Anthony Paolone - *JPMorgan Chase & Co. - Analyst*

Then just for Bill on facilities, that -- when you think about the double-digit growth clip that business is running at, should we really think about that on the \$1.5 billion as opposed to the entire, I think, \$2.2 billion? Just want to understand that other \$700 million; what's in that number again?

Gil Borok - *CBRE Group Inc - CFO*

So there's another component to outsourcing which is the asset services business, property management for landlords, that's the difference.

Anthony Paolone - *JPMorgan Chase & Co. - Analyst*

Is that -- should we think about that though as being more flat compared to what you're doing on the outsourcing side or --?

Gil Borok - *CBRE Group Inc - CFO*

It's slower growth but still a growing business.

Bob Sulentic - *CBRE Group Inc - President & CEO*

I think the -- to specifically answer Anthony's question, in aggregate, the two grow north of 10%.

Gil Borok - *CBRE Group Inc - CFO*

That's correct.

Bob Sulentic - *CBRE Group Inc - President & CEO*

Bill's business is the faster-growing of the two, so it's in the mid-teens and above.

Bill Concannon - *CBRE Group Inc - President, Global Corporate Services*

Not all parts of GCS, Anthony, flow through properties in the facilities management line. So there are revenues that aren't captured in that business that's growing 10% year over year.

Operator

Will Marks with JMP Securities.

Will Marks - *JMP Securities - Analyst*

I wanted to ask, Bob, on -- when you had your Business Review Day in early December, you chose not to address guidance. I'm just curious, and I can accept you not addressing my question about addressing, but was it an uncertain time? Is it -- was this just a decision that you made going forward to not do it during the Business Review Day?



Bob Sulentic - *CBRE Group Inc - President & CEO*

It's the latter, Will. We just do it -- we have a specific time we do it with our annual release calendar. We didn't want to address it off-cycle, in essence.

Operator

David Gold with Sidoti.

David Gold - *Sidoti & Company - Analyst*

Just a quick one for you. Can you address a little bit -- two factors that presumably affected the fourth quarter and effect on the first. One is, I know you said you didn't think there was much by way of pull-forward, but basically on the capital gains side domestically, how much of an effect do you think that had, loosely, in the fourth quarter, pick up on capital markets? Then also on the fiscal cliff side or fears on that, how much do you think that weighed on leasing?

Bob Sulentic - *CBRE Group Inc - President & CEO*

David, thanks for that question. I want to clarify. We did say that we thought there was, in fact, some pull-forward due to the tax laws changes. We didn't quantify it. But what we do believe is that the capital markets business will be bigger for next year than it was this year. So that would tell you that we don't believe there was so much pull-forward into '12 that '12 got bigger than '13. Does that answer your question?

David Gold - *Sidoti & Company - Analyst*

Yes. That's helpful. Part two of that one, though, is to the extent there was pull-forward, do you think we'll see a bigger effect in the first quarter, some slowdown there because maybe some business happened in the fourth versus the first?

Bob Sulentic - *CBRE Group Inc - President & CEO*

It will impact the first quarter some. We don't think it's going to be a dramatic impact. By the way, I don't think I answered your question about the impact on leasing of the fiscal cliff issue.

I don't think it created any pull-forward. I think what it did was it liberated leaders of businesses to make commitments that they were waiting to make. So I think we'll see the benefit from that. We probably saw a little benefit from that in Q4. I think we'll see the benefit from that from now forward through the rest of this year in all probability.

David Gold - *Sidoti & Company - Analyst*

So you think there was benefit from that rather than detriment?

Bob Sulentic - *CBRE Group Inc - President & CEO*

I think there was benefit, but I don't think it was pull-forward benefit. I think it was just people that had been on the sidelines deciding to start to come in and make some decisions.



Operator

Ladies and gentlemen, we have no one else in queue. Please go ahead with any closing remarks.

Bob Sulentic - *CBRE Group Inc - President & CEO*

That's all, and we'll see you in 90 days to talk about the first quarter. Thanks very much.

Operator

Thank you then. Ladies and gentlemen, that does conclude our conference for today. Thank you for your participation and for using AT&T executive teleconference. You may now disconnect.

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