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CBG - Q1 2013 CBRE Group, Inc. Earnings Conference Call

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OVERVIEW:

CBG reported 1Q13 total revenue of approx. \$1.5b, GAAP diluted EPS of \$0.11 and adjusted diluted EPS of \$0.16. Expects full-year 2013 adjusted EPS to be \$1.40-1.45.



CORPORATE PARTICIPANTS

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Jack Durburg *CBRE Group Inc - Global President of Transaction Services*

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the CBRE Quarter 1 2013 earnings conference call. At this time I would like to turn the conference over to our host from CBRE, Mr. Nick Kormeluk. Please go ahead.

Nick Kormeluk - *CBRE Group Inc - SVP, IR*

Thank you, and welcome to CBRE's first-quarter 2013 earnings conference call. About an hour ago we issued a press release announcing our Q1 financial results. This release is available on the home page of our website at www.CBRE.com. The 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 archive 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 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 as 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 that you may hear today. Please refer to our first-quarter earnings report filed on Form 8-K and our current annual report on Form 10-K. 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 that 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. Please turn to slide 3. Participating with me today are Bob Sulentic, our President and Chief Executive Officer; Gil Borok, our Chief Financial Officer; and Jack Durburg, our Global President of Transaction Services. I will now turn the call over to Bob.

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

Thanks, Nick. And please turn to slide 4. CBRE had a good start to 2013 in what is traditionally our seasonally slowest period of the year. As you have seen from our news release, revenue, earnings and normalized EBITDA grew solidly, despite continued sluggish pace to the global economic

recovery and the high degree of investor and occupier caution that persists in many parts of the world. In this environment, CBRE continues to be well-served by our broad geographic and product line footprint, and the effectiveness of our people at working across these markets and business lines to create value for clients. Going forward, we will also benefit significantly from the series of debt refinancing actions undertaken in March, which Gil will describe in detail. These actions will lower our interest expense and increase our capacity to fund strategic initiatives and platform investments, while giving us greater flexibility to navigate market uncertainty.

In the first quarter, revenue rose in every one of our global regions and major business lines. It was particularly gratifying to see strong double-digit revenue growth in the EMEA, a notable turnaround from last year's first quarter. This improvement partly reflects our preeminent position in the UK, which continues to attract a disproportionate share of capital due to its safe haven status and our ability to take advantage of modestly better market sentiment and activity on the European continent. Asia Pacific also meaningfully improved on last year's first quarter, with notable gains in Greater China and Japan, while the Americas sustained good growth in all business lines. Looking at our global business lines, capital markets-based businesses again set the pace. Property sales revenue increased 21%, led by rebounds in EMEA and Asia Pacific. Commercial mortgage brokerage revenue improved 16%, fueled by continued strong US investment activity, particularly in the multi-family sector. Increased investment activity in the US and Europe contributed to a 12% rise in appraisal and valuation revenue.

We also continue to see steady gains in our outsourcing line of business. Revenue grew in all regions, climbing 11% on a global basis. EMEA's performance was notably strong. In our Global Corporate Services business, which is our outsourcing services offering for occupiers, we signed 46 contracts in the quarter, including 22 with new clients. Ongoing sluggish job creation and occupier caution continued to temper leasing revenue performance. Growth in the EMEA and the Americas was partially offset by a decline in activity in Asia Pacific, resulting in a modest improvement on a global basis. A significant portion of the fall-off in Asia Pacific reflected continued occupier caution throughout the region, as well as the Japanese yen's depreciation against the dollar.

Driving the growth of our transaction business -- leasing, property sales and mortgage brokerage -- is a strategic priority for CBRE. Transactions are the historic foundation of our Company and a key pillar of our future. Together these businesses comprise about half of our total revenue. And we see substantial upside potential for them, particularly given CBRE's unique position in the global marketplace. To this end, about a year ago, we created a new position -- Global President of Transaction Services, and we appointed Jack Durburg to fill this role. Jack previously ran our US central region. He will join us now to describe the transaction businesses in greater detail and discuss our growth plans. He will also be available for questions. Jack?

Jack Durburg - *CBRE Group Inc - Global President of Transaction Services*

Thanks, Bob. And please turn to slide 5. Transaction Services consists of three core businesses. Leasing representation on behalf of occupiers and investors. We have 4,100 professionals globally providing this service. Included among the occupiers they serve are the more than 300 clients in our Global Corporate Services business. Property sales, where we have 1,500 dedicated professionals. In the US, this business primarily consists of representing sellers, while in EMEA and Asia Pacific, we represent both buyers and sellers. Mortgage brokerage, where we source debt for investors or sell loans for lenders, is almost entirely a US business, where we have more than 100 professionals.

We believe clients are best served through specialization and teamwork. So we organized the businesses around property type -- office, industrial, retail, multi-family and hotel. As well as geography, with collaboration across disciplines and markets in delivering service. As you can see from the chart, we are by far the most active sales and leasing firm, with nearly \$190 billion of transaction volume in 2012. Our focus starts with the delivery of consistent, high-quality client service around the world. It is this focus that has led to CBRE's size and strong market position. And it continues to be the catalyst for the growth of our Transaction Services business. I think it is important to find quality service in the context of our transaction business.

Transaction Services entails sophisticated, client advisory work. It is not just selling. While selling is an important element, it is underpinned by deep market knowledge and research, comprehensive and often complex analysis of alternatives, financial modeling, and thoughtful strategies developed by experienced and skilled professionals. This is all typically coupled with expertise in marketing and negotiations. In almost all cases today, we need collaboration among teams rather than individuals acting alone to deliver these services. In today's sophisticated marketplace,

quality Transaction Services requires the resources and the organizational scope to accomplish all of this and to execute at a consistently high level. CBRE is particularly well-suited to make this happen.

Please turn to slide 6. As strong as our market position is globally, we believe there is significant headroom for growth across all our geographic regions. In most local markets, we estimate that our brokerage market share across all property types rarely exceeds 10% to 15%. We take a systematic approach to identify areas with substantial growth opportunities, and then actively target resources to capitalize on them. Our growth plan starts with leadership. Our management structure pairs dedicated geographic leaders, who have responsibility for all business lines within their markets, with business line leaders, who are subject matter experts within their disciplines. Together, these leaders partner to establish, develop and implement strategy. We have learned that strategy transcends geography. So our go-to-market strategy is essentially the same across all three regions, with distinct approaches for our leasing and sales businesses and consists of the following elements. It all starts with our clients. We focus closely on our existing clients, and surround them with the depth and breadth of service that we believe other firms would find difficult to match. We nurture and grow these very important relationships through our client care and development program.

Market segmentation and penetration analysis. We methodically identify areas in each business line across geographies where we have opportunities to grow. And then develop action plans targeted at the most promising opportunities. Proactive business development. We proactively develop new business, both leasing and sales, with an approach that uncovers more opportunities across business lines and geographies. We supplement these efforts with best practice play books to ensure consistency of execution around the world. Managed brokerage. Our leaders use established sales management principles to ensure that we have the right team on the field for each opportunity. We do this by custom-building teams of professionals with unique mix of skill sets required for each assignment. This gives us the best chance to win assignments, and ultimately ensures that we are providing the very best service to our clients.

Retention and recruiting. We want to have the best talent across all business lines in every market to ensure excellence in execution. We accomplish this by focusing time and resources on training and mentoring our existing professionals, and providing them with the tools to help ensure that they are realizing their full potential. We augment our talent base through targeted recruitment of top professionals who share our values and are attracted to our brand and platform. Lastly, we tie all this together by driving global connectivity in a culture of collaboration with growing technology commitments. Ultimately, we believe this process provides us with more opportunities and a higher win rate. At the same time, as I described earlier, it also ensures that we are delivering the highest quality service to our clients, all of which helps drive increased market share.

To cite one high-profile example of our work, CBRE is playing a pivotal role at the Hudson Yards project on Manhattan's Far West side. Earlier this month, we acted as agents for the site developers, related companies and Oxford Properties Group, on two large leases, 400,000 square feet for L'Oreal and 115,000 square feet for SAP. We also represented L'Oreal in its lease, and Coach in its purchase of 740,000 square feet at the development site. These transactions closed in April and are now reflected in our Q1 financial results. However, they are emblematic of our Firm's tremendous influence in the marketplace, and our clients' recognition of the service quality that is a hallmark of CBRE. Now I will turn the call over to Gil, who will take us through our Q1 performance.

Gil Borok - CBRE Group Inc - CFO

Thank you, Jack. Please advance to slide 7. Total revenue was approximately \$1.5 billion for the first quarter of 2013, up 10% from last year, or 9% excluding discontinued operations. This increase is at the upper end of our expectations for long-term growth, and was generally well-balanced among service lines, with good growth around the world. Cost of services increased slightly to 58.4% of total revenue in the first quarter of 2013, versus 58.3% in the first quarter of 2012. First-quarter 2013 operating expenses were 31.8% of total revenue, down from 32.6% in the first quarter of 2012. It should be noted that \$10 million of integration and other costs related to the ING REIM acquisition were included in the first quarter of 2012, versus only \$1.5 million in the first quarter of 2013. Excluding integration costs, operating expenses were 31.7% of revenue in the first quarter of 2013, very much in line with the first quarter of 2012, despite incremental investments in our operating platform. Interest expense was relatively flat versus the first quarter of 2012, given that our refinancing activities occurred late in the quarter.

The write-off of deferred financing costs related to our prior credit facility and certain financing costs incurred for the new credit facility resulted in an expense of \$13.6 million, which has been normalized. In addition, \$24.8 million of financing costs incurred in connection with the new credit facility were capitalized. Our first-quarter 2013 tax rate was approximately 35%, as compared to 42% in the first quarter of 2012. This lower tax rate

was largely the result of higher earnings in lower tax rate jurisdictions than in the first quarter of 2012. Our focus on the tax efficiency of our legal entity and operating structure continues and our full-year tax rate should approximate the rate for the first quarter. Depreciation and amortization expenses were essentially unchanged at approximately \$46 million. Additional amounts in the first quarter of 2013, including those related to capital expenditures after the first quarter of 2012 and to mortgage servicing rights, were matched by a similar amount of ING REIM [incentive and] amortization expenses in the first quarter of 2012, which did not recur in the current period.

First quarter of 2013 GAAP diluted earnings per share was \$0.11, up from \$0.08 in last year's first quarter. Adjusted diluted earnings per share improved to \$0.16 in the first quarter 2013 from \$0.14 in the first quarter of 2012. Normalized EBITDA rose 7% to \$161.3 million in the first quarter of 2013, resulting in a normalized EBITDA margin of 10.9%. A slight narrowing of margins was due to the benefit in last year's first quarter of higher income from active sales, primarily reflected in equity earnings in the Development Services business and [better co] investment returns in the Global Investment Management business. In addition and as expected, the current quarter had higher costs associated with increased hiring in the Americas after the first quarter of 2012. Our combined regional services businesses saw a 40 basis point improvement in normalized EBITDA margins in the first quarter of 2013, versus the first quarter of 2012.

Please turn to slide 8. Property & Facilities Management revenue increased 11% for the quarter. It was once again our largest service line, representing 40% of total revenue. Leasing was our second largest service line, comprised of 25% of total revenue for the quarter. Leasing growth was modest at 3%, projecting continued occupied portion in many parts of the world. Investment sales grew by 21% in the first quarter of 2013, with notable strength in parts of EMEA and Asia Pacific, as activity recovered from the muted levels seen in the first quarter of 2012. Global Investment Management revenue increased 2% quarter over quarter. Appraisal and Valuation revenue increased 12% for the quarter, paced by EMEA and the Americas. Commercial Mortgage Brokerage revenue grew 16% year over year, reflecting continued vibrancy in Europe's investment markets, particularly the multi-family sector, where we enjoyed an especially strong market position. Development Services revenue increased 2% to \$12.7 million. Recurring revenue comprised approximately 64% of total revenue for the first quarter of 2013. 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 9. Global Corporate Services, or GCS, is our outsourcing business that provides service for occupiers, including Transaction Services, Facilities and Project Management, as well as a Strategic Consulting. This business continued its consistent strong growth in the first quarter of 2013, with revenue increasing 12% globally and 15% in the Americas, versus the first quarter of 2012. In the first quarter of 2013, GCS signed 22 contracts with new clients, including Honeywell in the Americas, Alcatel Lucent in Asia Pacific, and the British Council, a government agency in the EMEA. International growth was strong, with two new accounts, one expansion, and one renewal in EMEA, and two new accounts in Asia Pacific. In addition, three US-based clients committed to expand its service contracts in overseas markets. We also saw strong growth in the government sector, with four new accounts, including recently the City of Stockton, California.

Please turn to slide 10, which shows steadily decreasing vacancy rates and positive absorption in all three market sectors for the quarter, along with continued expected recovery over the next 24 months. Average national cap rates remained relatively stable in the first quarter of 2013, versus the both the fourth quarter of 2012 and the first quarter of 2012. Year-over-year volumes improved slightly in office and industrial.

Please turn to slide 11. The Americas' solid performance in the first quarter of 2013 was broad-based, with all major service lines showing moderate to strong growth. Overall, revenue rose 10%. Investment sales revenue increased 9% in the first quarter of 2013. This quarter we saw particularly good growth in Canada and Latin America, while the US was relatively flat following a very strong fourth-quarter 2012. Despite continued sluggish employment growth, leasing revenue rose by 5%. This performance reflects a slowly recovering market in which occupiers remain conservative about making space commitments, and rent growth is modest. In general, leasing volumes remain weak, and we believe our moderate growth will increase market share for CBRE. Our Americas' Property & Facilities Management revenue grew by a solid 11% in the first quarter of 2013.

Please turn to slide 12. EMEA showed the best growth among our regions in the first quarter of 2013. Overall revenue growth was strong at 16%. This reflects both CBRE's premier place in large safe-haven markets, which positions us well in this environment, and a moderate rebound of transaction activity. However, caution remains the operative word for investors and occupiers alike. Investment activity across Europe has continued to revive from the weak levels of a year ago. CBRE estimates that market-wide investment sales rose 11% during the first quarter of 2013. CBRE's investment sales significantly outstripped this pace, with revenue up 44% year over year. Growth in Germany and the UK was particularly robust, with increases of more than 100% and 50%, respectively. Leasing revenue advanced 6% across EMEA. Again, Germany exhibited very strong growth,



reflecting its status as one of Europe's key growth engines, with meaningful but lesser contributions from Belgium and the UK. Property & Facilities Management revenue rose 15% in the EMEA, driven by property management fees, and was our largest business within the region during the first quarter of 2013. We believe that we remain well-positioned to capture increased business from the continued emergence of real estate outsourcing in Europe.

Please turn to slide 13. We reported solid revenue growth of 9% in Asia Pacific, overcoming a generally cautious macro environment throughout much of the region, and negative currency effects, which constrained growth in dollar terms. In local currencies, total revenue in Asia Pacific was up 13%. Investment sales was the big driver of growth in the first quarter of 2013. Overall revenue from this business line jumped 51%, compared to the subdued levels in last year's first quarter. Strength was evident across much of the region, including Australia, Greater China, Japan and Singapore. In contrast, leasing revenues suffered 9%. Multi-nationals remained hesitant to make long-term space commitments, and demand is primarily being generated by domestic companies. Greater China saw higher leasing revenue, which was more than offset by a notable decrease in Japan. However, nearly half of the decline in Japan was due to the yen's depreciation against the US dollar. Removing currency effects, leasing revenue was down 5% across all of Asia Pacific. Property & Facilities Management revenue rose by 8% in the first quarter of 2013.

Please turn to slide 14. Revenue for Development Services segment, including discontinued operations, totaled \$15.7 million in the first quarter of 2013, versus \$14.9 million in the first quarter of 2012. However, normalized EBITDA declined to \$7.8 million, due to lower income from project sales, primarily reflected in equity earnings in the first quarter of 2013. Development Projects in Process totaled \$4.3 billion, up \$100 million from year-end 2012, but down \$500 million from the first quarter of 2012. The inventory of pipeline deals totaled about \$1.9 billion, down \$200 million from year-end 2012, but up \$600 million from the first quarter of 2012. Our equity co-investments at the end of the first quarter of 2013 in the Development Services business totaled \$73.5 million, and our recourse debt stood at \$15.3 million.

Please turn to slide 15. First-quarter 2013 Global Investment Management revenue increased to \$127.3 million from \$125.2 million in the first quarter of 2012. The increase was primarily due to higher asset management fees in our global real estate securities business. Global Investment Management assets under management, or AUM, totaled \$90.7 billion at the end of the first quarter of 2013, a decrease of \$1.3 billion from year-end 2012. The decrease for the quarter was primarily driven by foreign currency effects, which lowered AUM by \$2.1 billion. The Company completed \$1.1 billion of acquisitions and takeovers during the quarter, and \$1.7 billion of dispositions. AUM increased by \$100 million due to improved net asset values in the direct investment portfolio. And by \$1.3 billion from gains in the real estate securities portfolio. Included in the \$90.7 billion of AUM at the end of the first quarter of 2013 was \$24.9 billion on listed securities. During the first quarter of 2013, we raised new equity capital of approximately \$500 million in the direct real estate business. And had approximately \$3 billion of equity capital to deploy at the end of the quarter. Our four investments in this business at the end of the quarter totaled \$211.6 billion.

Our Global Investment Management EBITDA reconciliation detail is shown on slide 16. In the first quarter of 2013 we incurred \$1.5 million of integration expenses related to the ING REIM acquisitions. As of March 31, 2013, we maintained a cumulative accrual of carried interest compensation expense of approximately \$44 million, which pertains to anticipated future carried interest revenue. This represents a decrease of \$4 million from the fourth quarter of 2012 due to an income tax-related distribution. This business operated with a solid pro-forma normalized EBITDA margin of 32% for the first quarter of 2013. The decline from the first quarter of 2012 was partly due to lower co-investment returns in the current quarter, as well as severance payments.

Slide 17 shows our liquidity position at March 31, 2013, as well as our amortization and debt maturity schedule for all outstanding corporate debt. As you will recall, in March 2013, we completed a series of refinancing transactions. We amended our credit agreement, which now provides for \$750 million of partly delayed short-term loans, and a \$1.2 billion revolving credit facility, nearly double the volume capacity we previously had under the revolver. We also sold \$800 million of new 10-year 5% fixed rate senior unsecured notes. Here you can see the benefits of these transactions, with maturities extending well into the future, and very little debt coming through over the next three years. We plan to call the \$450 million 11.625% senior subordinated notes due in 2017 in June of this year, as provided for in our related debt agreement. When these actions are complete, we will have reduced total corporate debt by about \$500 million. And on a pro-forma basis for 2012, would have reduced annual interest expense by approximately \$50 million. With considerable liquidity and cash flow, as well as increased financial flexibility, we believe that we are well-positioned to make strategic investments that will further our growth plans while we continue to navigate through an uncertain recovery cycle.



Please turn to slide 18. 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 the first quarter of 2013 was approximately \$1.7 billion. This represents an increase of \$198.6 million from year-end. At the end of the first quarter of 2013, our weighted average interest rate was approximately 6.6%. This rate should decline to 4.9% once we draw down the additional \$300 million of term loan A and call the 11.625% senior subordinated notes. Our leverage ratio on a covenant basis at the first quarter of 2013 stood at 1.75 times on a trailing 12-month basis. And total Company net debt to trailing 12-month normalized EBITDA stood at 1.9 times. I will now turn the call back over to Bob for closing remarks.

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

Thanks, Gil. Please turn to slide 19. With three months now in the books, we continue to view the opportunities ahead of us in 2013 favorably. While the macro recovery continues to be slower than previous ones, our leading presence in key global markets, broad high-quality product and service offering, and strong flexible capital structure position us well to drive continued top and bottom line growth. We expect to achieve positive operating leverage, while making strategic investments in our people and platform. These investments are vital to further cementing CBRE's place as the global market leader. We believe that CBRE remains on course to achieve full-year revenue growth of the mid- to high-single digits. Among our major services business lines, we expect investment sales to continue to grow strongly, fueled by low interest rates, investors continued search for yield, and real estate's acceptance as an institutional asset class. We expect outsourcing to sustain steady low double-digit growth as adoption continues to grow around the world. And we expect leasing activity to pick up as the year unfolds.

Although lower results from our principal businesses in the first quarter as well as planned increases in head count in the Americas cause margins to narrow slightly versus the year earlier period, we continue to expect margin improvement for the full year. We anticipate this will be driven by increased contributions in future quarters from our higher-margin Transaction Services and principal businesses, as well as our continued focus on calibrating operating expenses with revenue growth. In light of this, for all of 2013, we continue to expect adjusted earnings per share to improve in the range of 15% to 20%, coming in at the \$1.40 to \$1.45 range for the year.

Before we end today's call, I want to note that the people of CBRE send our thoughts, prayers and best wishes to our clients, employees and friends in the Boston area. The people of that city have shown remarkable resiliency. CBRE extends its sympathies to the victims of last week's senseless act, and we applaud the first responders and everyone in law enforcement who assisted with this terrible situation. With that, operator, we will take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Anthony Paolone with JP Morgan.

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

On the margin issue, sales leasing and mortgage brokerage were up year over year. And those tend to be kind of high-incremental margin businesses. So you had mentioned hiring kind of weighing on things. Can you talk a little bit about the type of hiring, what the timeline is for perhaps the type of hires you made to produce income and just what the impact of that was?

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

Yes, we can Anthony, thanks. This is Bob. We hired people to support our technology platform. We hired people in the area that supports our brokerage business, both of which we had focused on late last year in our comments, and thought that it was important to make those investments.

It is notable that the additional investments we made in people will play out ratably over the year. That is not the case for our revenues obviously. So the impact of these new hires and these incremental costs are more significant in the first quarter, given the lower revenue, than they will be as the year wears on.

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

But are those folks revenue producers or -- because it sounds like you mentioned a couple areas of support -- or is it just the idea that, that support will allow the producers to do better? I'm just trying to understand that.

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

Well, we certainly hired new revenue producers. But the people I am talking about are not revenue producers, they are support folks.

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

Okay. And then on the balance sheet, the financing activity that you guys undertook in March. How did that tie to what you had included in your guidance originally?

Gil Borok - *CBRE Group Inc - CFO*

Yes, Anthony, it's Gil. With minimal breakage, so to speak. It pretty much was considered in the guidance. So it obviously didn't play out exactly as we planned it. But bottom line, it is considered in the guidance.

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

Okay. And then, last question I had. You had mentioned in some of your comments in the press release about the balance sheet moves and the ability to make strategic and operational investments. So just curious if you could comment on what the acquisition pipeline may look like or what you're seeing out there on the deal side? And whether or not the balance sheet activity and strength has gotten any closer to perhaps considering a buyback or some other use of cash?

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

Anthony, I will let Gil comment on the buyback. But in terms of the strategic activity or the M&A activity, as is always case, we are in the market for infill acquisitions and we considered that a core competency. We look for those opportunities in all of our business lines, in all of our regions of the world. We will do that this year as we always do. In terms of bigger strategic opportunities, those are less frequent. We believe they will still arise from time to time. And I think it is worth remembering, sometimes people look back and think, well, there was a lot of these big strategic deals going on at one point. And that is not the case now. The reality that is those big game changing strategic deals have been coming along about every five years. So it was about 2001 that the Insignia acquisition happened. About 2006, five years later, the Trammell Crow Company happened. 2011, like the year before last, the ING acquisition happened. We think those big opportunities will be out there and we continue to look for them. But on a regular ongoing basis, we have our people around the world and across our business lines looking for infill acquisitions. And we do believe that the balance sheet actions that were taken in the first quarter certainly make it easier to do that.

Gil Borok - *CBRE Group Inc - CFO*

And then just following on that, Anthony, I would say that, as I have said so many times before, we don't have a menu that excludes any use of cash. Buyback is on the menu. But at the moment, as it has been for some time, it is pretty low down. We would consider cashing capacity to do



the types of things that Bob was talking about, whether that be infill or strategic M&A, whether that be core investments in our principal businesses, and or whether that would be debt pay-down, before we would consider doing something on the equity side.

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

Okay, thank you.

Operator

Brandon Dobell, William Blair.

Brandon Dobell - *William Blair & Company - Analyst*

Turning to the property services business for a second. How should we think about the puts and takes on square footage growth? It hasn't been that significant for several quarters now. Obviously the revenue growth has been there, but the square footage has been kind of stuck in a minimal growth range. Can you get that up to a 5% or 10% number? Or is low-single digits the right way to think about it? And then, if that is the case, this 10%-plus growth rate we're seeing, how are you guys getting to that? Is it just cross-sell or is it more value-added services? Or is it pricing? Thanks.

Gil Borok - *CBRE Group Inc - CFO*

Hi Brandon, it's Gil. Let me just take the square footage question, which has been -- first of all when you see the chart, there is rounding. But it has been perhaps less growth than when you look back four or five years. And I think the crux of the question was how do you tie that to the revenue growth. When we look at the Global Corporate Services business and quote a 12% growth rate globally and 15% in the Americas, that includes the entire business. Which I think you will recall includes transaction management, where we have seen accelerated growth in more recent years that obviously doesn't translate into square footage. We are also seeing good growth in project management, and that doesn't translate into square footage. So it is really facilities management for occupiers and property management for landlords that, that revenue would have correlation to square footage. And then I remind you that active services is two-thirds of the \$3 billion under management, and that's growing a lot slower. So it is not apples to apples. The portion of the business -- the facilities management portion of the business that is growing faster under GCS is correlating better. That subset is correlating better to revenue.

Brandon Dobell - *William Blair & Company - Analyst*

Okay.

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

There is an additional point that I think is worth making, Brandon. And that is on the property management or asset services side, we ramped up very significantly over the last couple of years a premier properties initiative. A lot of the new wins that we have had have been in this premier properties class, which tends to be high-end office buildings around the world. Which tends to generate higher revenue per square foot than some of the things that were in our portfolio historically. So that has been a very nice shift in product mix that helps on the revenue and profitability, but it doesn't show up in the square footage measures.

Brandon Dobell - *William Blair & Company - Analyst*

Okay, that makes sense. Back in the Business Review Day and a little bit in the fourth quarter call, you had talked about linking more of the services, of service lines together in a number of ways, just trying to be one Firm face to the client. Has there been any change in terms of how people are



compensated based on that goal of trying to get more, I will call it cross-sell, to use a loose term. But has your organization rethought how the compensation models should work or could work as you guys try and integrate things more closely?

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

We've thought about that, Brandon. And the reality of it is, there are so many places with so many clients, that you have to connect your people around the world now and across product lines to serve these clients. That it would be impossible to come up with a compensation model that on a rifle-shot basis awarded incremental comp to people that cooperated with each other. And we explicitly addressed that and decided not to do that. We talked to our people about it. So we get at it two ways. Number one, we really aggressively push and preach the notion here that the way you will be compensated for this is that the whole Firm will do better, we will serve our clients better, we will land more clients. And in the long run, everybody will benefit. And I think that there has been a lot of buy-in to that notion in our Company. The other thing we do that is much more direct and explicit is among our management team, the people that run the business, people that do a better job of generating coordination around the Company and collaboration are the people who get promoted. They are the people that get the good assignments and they are the people that become the bigger leaders in the Company. And that has become a very prominent notion within the enterprise.

Brandon Dobell - *William Blair & Company - Analyst*

Okay. Gil, in terms of capital spending or any kind of movement in the pension or any kind of accrual things that will change, how we think about free cash flow this year, anything to think about out of the ordinary?

Gil Borok - *CBRE Group Inc - CFO*

No, Brandon, I think it's -- there is nothing that strikes me as worth mentioning on that front.

Brandon Dobell - *William Blair & Company - Analyst*

Okay. And then final one for me. As we think about head count additions for the balance of the year, should we think about the same kind of pacing in incremental additions as we saw in the first quarter? Should it slow down and focus more on revenue producer versus support people? Any kind of color will be great.

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

Well, again, Brandon, this is an important point and I want to stress it because I don't want it to be missed. The quarterly run rate of these incremental investments we have made in the platform, so to speak, the non-producing part of the business that supports the producing part. That impact in absolute dollars should be roughly the same, and frankly, may even go slightly down on a quarter-to-quarter basis against ever-growing revenue. So the impact you'll see from that will diminish over the course of the year.

Brandon Dobell - *William Blair & Company - Analyst*

Okay.

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

In terms of market-facing hires, particularly in our transactional or brokerage businesses, we have very aggressive plans there. And I'm going to let Jack comment on that, because he is quarterbacking that for us globally.

Jack Durburg - *CBRE Group Inc - Global President of Transaction Services*

Sure. Brandon, as you know, we're always looking to bring talent into the firm. And we do that consistently. So we are increasing the productivity of our producers. And we are bringing in new talent on a regular basis across all three regions.

Brandon Dobell - *William Blair & Company - Analyst*

Okay, thanks guys. Appreciate it.

Gil Borok - *CBRE Group Inc - CFO*

Thanks, Brandon.

Operator

David Ridley-Lane, Merrill Lynch.

(Operator Instructions)

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

Just impressive growth in the EMEA region this quarter. I'm wondering how sustainable that is. And how optimistic are you about investment sales volumes in that region for the full year?

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

Okay. I'm going to comment generally. And then again I'm going to ask Jack to comment on investment sales, because he is closest to our transactional businesses. But in general, we are expecting a better year, this year versus last year, in the EMEA. The growth rates that you saw in the first quarter were pretty strong. And it is always important to caution -- two things. Number one, the first quarter is a small quarter, so relatively small numbers can have a big percentage impact, and we saw some really big percentage impact. They did a really, really nice job in the first quarter in the EMEA. But those kind of growth numbers I don't think you can extrapolate throughout the course of the year. We would love to see them and we think our team is going to have a nice year in the EMEA. But I don't think you can extrapolate those kind of growth numbers across the year. Because A, it's one quarter. And B, it's a small quarter. We think it's going to be a better year, though, than last year. Jack, you might want to comment on the expectations for investment sales.

Jack Durburg - *CBRE Group Inc - Global President of Transaction Services*

Sure. Thanks, Bob. Well said. We do believe that there is going to be moderate improvement throughout the rest of the year, notwithstanding the difficult environment throughout Europe. There is still a lot of capital -- cross-border capital -- chasing safety and core assets. I think one important point to note around the growth of our -- in our first quarter, was the addition of Frank [Wohler], who made a significant impact. And that was a recruitment that we made in 2012, the results of which we are seeing in the first quarter. So going forward, cautious optimism around the sale side. Right now, most of the activity is still core assets in core markets, really with a flight to safety. Hopefully, as this market stabilizes and moderately improves, we may see then our investors chasing a little bit more yield and moving out of those core markets. But we really haven't seen much of that yet.



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

Got it, thank you. And then on the -- I will take another cut on the Americas investment. Can you size what Americas' EBITDA margin would have been up X the platform investments? Was this a 100 basis points drag, or 200 basis points drag, or can you bucket the rough size?

Gil Borok - *CBRE Group Inc - CFO*

That is hard for me to do off the cuff. I wasn't expecting that question. But the investment for -- on people, as in the -- call it in the -- maybe this will be helpful to you -- in the \$3 million to \$5 million range.

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

Okay, that's great. And then last one for me. Can you talk about the -- I was a little bit surprised to see the equivalent investment management assets under management down. Can you talk about the capital raising plans you have for that segment in 2013?

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

Yes, David, first of all, it's important to note that the FX impact alone took the assets under management from what would've been slightly positive, to negative over the course of the quarter. We also are doing exactly what our clients in that business want us to do. And that is, we are selling assets, because it is a very good time to be selling assets. So the combination of those two things is really what accounted for that decline. We expect this to be a very good year in terms of new capital raising, and materially better than last year.

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

Just remind us what you had last year, if you have that number?

Gil Borok - *CBRE Group Inc - CFO*

I don't have it.

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

I think it was -- net of the securities business, I think it was between \$3 billion and \$3.5 billion.

Gil Borok - *CBRE Group Inc - CFO*

That sounds about right, yes.

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

Okay, thank you.

Gil Borok - *CBRE Group Inc - CFO*

Other questions?



Operator

Yes, Mr. Marks, your line is open.

William Marks - *JMP Securities - Analyst*

Thank you. I didn't hear the introduction. Actually, let's start with Jack. On transactions, I guess it was Bob's point that leasing should pick up for the year, off of the 3% first quarter. Why would you think it would -- what makes you -- are you a lot more [noted] than we do. So what gives you that idea?

Jack Durburg - *CBRE Group Inc - Global President of Transaction Services*

Sure. Well, obviously that is a global number that you just stated, right? So you really have to look at it region by region to answer the question. We do believe that in the Americas, we are moderately improving. And so that is part of the answer. In EMEA, as well, as difficult as it is in that environment, we do believe the second half of the year will be better than the first half, and there may be some moderate improvements there as well. In Asia Pacific, difficult environment currently. The multi-nationals are slow to make decisions. A lot of the activity is from domestic firms. But we do believe that going through the course of '13, that there will be some moderate improvement in leasing activity there as well. So when you roll that all up together, the global outlook is moderate improvement.

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

Yes, this is Bob. I think just in a nutshell, we believe business confidence around the world is going to grow somewhat as the year wears on. And when business people are confident in their businesses, they tend to lease space. And when they are nervous, they don't. And leasing decisions can be turned off and on pretty quickly. If we are wrong about business confidence growing, then we will be wrong about our enthusiasm for the leasing business growing as the year moves on.

William Marks - *JMP Securities - Analyst*

Okay, thank you. Another question on margin. I'm not going to -- I think you pretty made it clear why there is some upside and why the first quarter was maybe a little weaker than we would have thought. Was there anything -- I guess this is a quick question. First-quarter '12, is the number as reported, or was there any anomaly in that quarter?

Gil Borok - *CBRE Group Inc - CFO*

Will, on the normalized basis, it is apples to apples. But I think we didn't -- it hasn't been as highlighted in the Q&A. But certainly in our prepared remarks, we did talk about the principal businesses also having an impact on margin. That was normal activity, and I'm talking about normalized margin. So we had higher equity earnings in the prior year in the development business than we had co-investment returns in the investment management business that were higher, to the tune of \$3 million to \$4 million. And that's the other reason that we've got margin compression. And again, in the first 90 days of the year, that type of amount makes a bigger impact on margin, dealing with a smaller base.

William Marks - *JMP Securities - Analyst*

Okay, great. That is very helpful, thanks. And then just a couple of below the line, below the EBITDA line questions that you're usually okay answering. On interest expense for the full year, you may have given this and I missed it on the call. But can you give us some sense of what the full-year numbers should look like?

Gil Borok - *CBRE Group Inc - CFO*

Yes, I can. And it's going to change quarter by quarter, obviously going down each quarter, particularly after we call the 11.625% notes in June. So the full-year number is going to be around \$145 million. But it's not going to be ratable, it will still be around \$40 million in Q2, and then around \$30 million in each of Q3 and Q4.

William Marks - *JMP Securities - Analyst*

Okay. And then, just my last question. D&A is the first quarter --

Gil Borok - *CBRE Group Inc - CFO*

It is a run rate. You are looking on the P&L on the press release. You're seeing \$46 million. The normalized equivalent is around \$40 million. Both of which are indicative of the -- so it's \$46 million GAAP per quarter, \$40 million normalized per quarter.

William Marks - *JMP Securities - Analyst*

Perfect, okay. That's all for me. Thanks, guys.

Gil Borok - *CBRE Group Inc - CFO*

Thank you.

Operator

Anthony Paolone, JP Morgan.

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

Just, Gil, on that principal business comment, putting aside the first quarter, do you all still expect that to be up year over year from last year?

Gil Borok - *CBRE Group Inc - CFO*

To answer that question, let me split the Development Services business from Global Investment Management. We have said that Development Services would not be as strong as it was in 2012. We had a few large sales in '12 that aren't going to recur. And that has a lot to do with starts and when -- the downturn in '08 and '09. And we have been harvesting certain projects that were held for a little while, but the starts have been down in more recent years. So it's going to take a little while for that business to get back to normal activity. So that -- and bifurcating that from Global Investment Management on the other hand, where we see moderate improvement -- you've got to remember that '12 was obviously significant improvement when we added ING REIM for the full year. We don't have that going for us this year. We do have some tension in Europe with regard to the situation there that is impacting the business. On the other hand, we have got more robust activity in the US. So all of all, moderate improvement in that business. Development clearly be down.



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

Okay. And then just a couple of other ones. You had mentioned in your opening remarks about some of the growth in leasing came by way of share. Can you give us a sense as to what just the market -- I guess, like commission pod, for lack of a better term? What that change was year over year?

Jack Durburg - *CBRE Group Inc - Global President of Transaction Services*

Sure. Well, as you know, the tracking leasing is not quite as transparent as tracking sales, right? So it is not as much of an exact science. We do the best we can. There are firms out there, like a CoStar, as an example, that would say that the market was actually down significantly quarter over quarter. We believe that it was down slightly. And yet we were able to grow our revenues, thereby picking up share. One of the reasons for that, of course, I think, is the change in buyer behavior. Our clients now are buying at a more consolidated manner, as opposed to a one-off manner. And we are well-positioned to win that business and to service that business. And so we are taking share as a result, from some of our competitors.

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

Okay, got it. And then just one last question. I think in -- and maybe this was the press release, it mentioned that in facilities some project management activity, and perhaps Europe helped there. And I was just curious what the magnitude of something like that is. And do you see -- is revenue like that, that is project-managed, does it tend to have as much duration, or is it more or less recurring than the rest of the facilities business? Should we think about any adjustments we should make there?

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

The project management revenue is less recurring than the facilities management revenue. And probably roughly, comparably recurring with the transaction management revenue that we do for our Global Corporate Services customers. And I don't think that I would try to read too much into what might go on for the rest of the year relative to that project management work in Europe. First of all, it is not a dominant number. It's material to the first quarter when it happens. But if the same thing happened in the third or fourth quarter, it wouldn't have a comparable effect on our numbers.

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

Okay, thank you.

Operator

There are no other questions at this time.

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

Okay. Thanks, everyone, and we will talk to you again at the end of the second quarter.

Operator

Ladies and gentlemen, that does conclude our conference for today. Thank you for your participation and using the AT&T [directly to call your] conference. You may now disconnect.

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