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CBG - Q4 2013 CBRE Group, Inc. Earnings Conference Call

EVENT DATE/TIME: FEBRUARY 05, 2014 / 10:00PM GMT

OVERVIEW:

CBG reported full-year 2013 adjusted EPS of \$1.43. 4Q13 revenue was more than \$2.2b and adjusted EPS was \$0.67. Expects full-year 2014 adjusted EPS to be \$1.55-1.60.



CORPORATE PARTICIPANTS

Steve Iaco *CBRE Group Inc - IR*

Bob Sulentic *CBRE Group Inc - President and CEO*

Gil Borok *CBRE Group Inc - CFO*

CONFERENCE CALL PARTICIPANTS

Anthony Paolone *JPMorgan Chase & Co. - Analyst*

Brandon Dobell *William Blair & Company - Analyst*

Mitch Germain *JMP Securities - Analyst*

David Ridley-Lane *BofA Merrill Lynch - Analyst*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and welcome to the CBRE fourth-quarter earnings call.

(Operator Instructions)

As a reminder, this conference is being recorded. I'd now like to turn the conference over to our host, Mr. Steve Iaco with Investor Relations. Please go ahead.

Steve Iaco - CBRE Group Inc - IR

Thank you and welcome to CBRE's fourth-quarter 2013 earnings conference call. About an hour ago, we issued a press release announcing our Q4 2013 financial results. This release is available on the home page of our website, 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 the prepared remarks. An archived audio of the webcast and a PDF version of the slide presentation will be posted on our 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 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, business outlook, and ability to successfully integrate businesses we have acquired with our existing operations.

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 fourth-quarter earnings report filed on Form 8-K, our current annual report on Form 10-K, and our current quarterly report on Form 10-Q, in particular, for any discussion of risk factors and forward-looking statements which are filed with the SEC and available at the SEC's website, sec.gov, for a full disclosure of the risks and other factors that may impact any estimate 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, and Gil Borok, our CFO. Please turn to Slide 4 as I turn the call over to Bob.

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

Thank you, Steve. As you've seen from our press release, CBRE ended 2013 on a high note. Despite lingering economic challenges and an uneven global recovery, we generated double-digit revenue and adjusted earnings growth for the fourth quarter and full year.

During the quarter, we were especially pleased to see further market share gains in our leasing and sales businesses, supported by our investments in recruiting and in our platform. We were also encouraged by a continued strong revenue rebound in EMEA and sustained growth within our occupier outsourcing business.

All this drove a very strong 22% rise in adjusted earnings per share for the quarter. A strong final quarter of growth helped us reach new Company milestones, as full-year revenue exceeded \$7 billion and normalized EBITDA surpassed \$1 billion for the first time. Full-year 2013 adjusted EPS of \$1.43 was in the middle of the annual guidance range we gave last February.

These are notable accomplishments that reflect the diligent efforts of our people to work together, leveraging our brand and our global services offering to produce outstanding results for our clients. We're very proud of the value they create for our clients and for our shareholders.

Please turn to Slide 5. As always Gil will take you through the performance of our regions and business lines in detail. On Slide 5, I'll briefly touch on some high points for the quarter.

For a second consecutive quarter, we produced double-digit growth and strong market share gains in global leasing revenue, with a notably sharp improvement in the Americas where our strategic investments to boost market share are clearly bearing fruit. We achieved robust revenue growth in Global Investment Management, fueled by significant carried interest revenue, which we earn when we sell assets at values that exceed target return thresholds.

We saw continued strength in property sales, particularly in overseas markets, including Australia, Brazil, Germany, Japan, the Netherlands, and the UK. Modestly higher interest rates following the US Federal Reserve's long-anticipated tapering of monetary stimulus have had a negligible impact on investment activity. Extending our successful long-term track record, we made further strong revenue gains in our occupier outsourcing business, while signing a record number of contracts with new customers.

We also had tremendous success in attracting top professionals to CBRE, with a net addition of hundreds of professionals to our brokerage ranks during 2013 through strategic recruiting and in-fill M&A. This was one of our top priorities for 2013 and we believe it resulted in our strongest year of brokerage recruitment in the past decade. While these new producers' contributions are not immediately reflected in our financial results, they do help us set the table for strong market share growth later in 2014 and beyond.

The quarter was not without challenges. These included the continuing weakness of currencies in Asia-Pacific, which tempered our results in this region when it's translated into US dollars.

Also, as described last quarter, the pull-back in multi-housing lending from the government-sponsored enterprises, or GSEs, continued to have an adverse impact on the profitability and margins of our Americas business. Overall, the diversity and strength of our business base enabled us to generate significant top- and bottom-line growth in the fourth quarter and throughout 2013, while making vitally important investments in our people, our platform, and our service offerings.

Please turn to Slide 6 where you can see the strong revenue growth spread across our business lines for the full year. Now please turn to Slide 7.

One of the key areas where we put our capital to work last year was in strategic M&A. Buying and integrating highly successful firms that are a good strategic fit and cultural fit, as well, is a core competency for CBRE. In 2013, we invested approximately \$545 million to acquire 11 companies.

By far the largest and most significant of these was Norland Managed Services, which we purchased in late December for approximately \$434 million. Norland substantially bolsters our occupier outsourcing business in the EMEA by enabling us to self-perform building technical engineering services in this region and giving us market-leading expertise in the rapidly-growing critical environments market segment.

This is a very well run \$630 million revenue business that has been historically growing at 20% per year and has a loyal blue-chip customer base with contract renewal rates better than 90%. We are very enthusiastic about our growth prospects with Norland, and in our initial month of working together, we have already identified significant cross-selling opportunities.

We also made 10 in-fill acquisitions last year, where we added a new capability or fortified an existing strength. For example, we purchased three property management companies in Europe and acquired five firms in the US including Fameco, a leading retail specialist in the Mid-Atlantic region and CAC Group, the market leader in brokerage and property management in downtown San Francisco. We also purchased the remaining interest in our Brazil operation.

We continue to have an active pipeline of infill acquisitions and have already announced two such transactions in the first month of 2014, one in the southeastern US and the other in Germany. With that, I'll turn the call over to Gil, who will review our financial results for the quarter.

Gil Borok - CBRE Group Inc - CFO

Thank you, Bob. Please advance to Slide 8.

The fourth quarter of 2013 was a period of strong revenue growth. Revenue rose 11% or 12% in local currency to more than \$2.2 billion. Of this amount, 54% was recurring revenue, reflecting the prominence of fee-based service lines in our business mix. We define recurring revenue as property, facilities, and project management fees; asset management fees; loan servicing fees; and leasing commissions from existing clients.

Cost of services increased to 57.2% of revenue in the fourth quarter of 2013 versus 56.4% in the fourth quarter of 2012. The increase was primarily attributable to higher broker recruitment costs and related expenses somewhat in advance of revenue.

As Bob mentioned, we are strategically expanding our ranks of brokerage professionals to drive long-term revenue growth. In addition, we experienced modestly increased commission splits, as more producers achieved higher production levels.

As always, we continue to manage operating expenses prudently even while investing to support growth. This can be seen in a decrease in operating expenses to 28.6% of revenue from 29.8% in the fourth quarter of 2012.

In the fourth quarter of 2013, we benefited from a 36% decline in interest expense. This was the result of refinancing activities earlier in the year which reduced Corporate debt by more than \$500 million.

Depreciation and amortization expense rose by 18% to \$53 million, driven by increased capital expenditures in facilities and technology that are further strengthening our competitive positioning in the marketplace. Amortization of previously capitalized amounts related to GSE mortgage servicing also contributed to this increase.

Our normalized tax rate was 31% for the fourth quarter of 2013 versus 33% in last year's fourth quarter. This lower rate was the result of ongoing tax planning efforts and the impact of a US state tax rate reduction.

The resulting full-year 2013 normalized tax rate was 35%. We expect the full year 2014 normalized tax rate to be about the same.

Normalized EBITDA in the fourth quarter of 2013 grew by 12% over the prior-year quarter and margin increased by 10 basis points despite significant recruiting and other incremental investments in the Business. Carried interest revenue of \$56 million in the fourth quarter was largely offset by a number of other factors, including a decline in Development Services profits, the slowdown in GSE lending, significant and unexpected legal and

insurance costs, and currency effects. For full year 2013, normalized EBITDA margin also increased 10 basis points to 14.2%, despite investments, heavy recruiting, and the aforementioned GSE legal, insurance, and currency effects.

Adjusted earnings per share rose 22% to \$0.67 for the fourth quarter of 2013. For the full year, adjusted earnings per share grew 17% to \$1.43, consistent with our annual guidance.

Continuing with our business review, please turn to Slide 9. Bob earlier alluded to the strength during the fourth quarter of our occupier outsourcing business, called Global Corporate Service, or GCS.

This business also achieved a high growth rate for the year, with revenue rising 12% globally, paced by a 14% improvement in the Americas. The momentum in this business is being sustained by strong macro forces that are compelling major space occupiers to lower their real estate costs and improve operating efficiencies.

CBRE is well-placed to assist these occupiers by taking over responsibility for managing their real estate functions. In 2013, we signed contracts with a record 96 new occupier outsourcing customers. Our 32 new customer contracts in the fourth quarter was also a single quarter record for CBRE.

As we noted briefly on our third-quarter conference call, our new contract with JPMorgan Chase for facilities, transaction, and project management services is one of our largest outsourcing assignments ever. Also noteworthy is our new contract with MedStar Health, the largest healthcare provider in the greater Washington, DC area -- healthcare [in effect] that we believe has considerable head room for growth.

We had a particularly productive year in EMEA, with 27 total contracts signed, evident that the demand for outsourcing in overseas markets is continuing to build. Globally, we estimate that occupier outsourcing is a \$50 billion to \$60 billion potential market and believe there is tremendous upside as the current industry penetration is only about 15% to 20%.

Please turn to Slide 10. We continue to achieve strong growth in the Americas, our largest business segment. Overall revenue increased 9% for the fourth quarter of 2013. Leasing pace on growth in the Americas for the quarter was a 15% revenue gain, reflecting our heightened focus on energizing the growth of this business line.

For the full year, Americas leasing revenue rose 10%. This is especially satisfying in light of the sluggish macro environment for leasing, indicating that we continue to build market share.

Americas sales revenue rose 8% for the quarter, versus flat volume for the industry, according to Real Capital Analytics, or RCA. We remind you that the fourth quarter presented a tough comparison for us, as well as the entire industry, as tax-related selling led to a 32% revenue rise in last year's fourth quarter versus the fourth quarter of 2011. For the full year, CBRE's Americas sales revenue grew 15% and we captured the number one spot in RCA's Annual Investment Sales lead table for the eighth consecutive year, with a 150 basis-point increase in market share.

Meanwhile, our Americas property facilities and project management business continues to grow briskly. Revenue in this business rose 9%, or 10% in local currency, for both the fourth quarter and the full year.

Please turn to Slide 11. US markets fundamentals continue to improve steadily.

The last quarter of 2013 saw strong absorption, particularly in office and industrial. This reflects continuing low levels of new construction and slow but steady demand. Our economists forecast continued strong absorption this year, as demand improves in step with the economy.

Average national cap rates have contracted a bit across all property types, as capital migrates to US commercial real estate from around the globe. However, we do expect cap rates to widen modestly and we expect to see some investment turn increasingly to secondary markets for yield.



Please turn to Slide 12. The strong rebound of our EMEA revenue continued in the fourth quarter of 2013, with an increase of 21%. This performance reflects our strategic moves to strengthen and diversify our service offering.

We were especially pleased with the growth of our property sales business, where revenue improved 49% for the quarter. Property sales in the United Kingdom were robust, with growth of 57% reflecting our strong market position in Central London.

For full-year 2013, EMEA property sales revenue rose 36%, outstripping the increase in overall market activities. CBRE again topped the lead tables for property sales in the UK for 2013, according to Property Data.

In contrast to the investment market, leasing markets in the EMEA are still soft and occupiers remain cautious. Overall leasing revenue rose 4% for the fourth quarter of 2013, paced by double-digit growth in France and the UK.

For the full year, leasing revenue rose a healthy 8%, a very satisfying outcome considering that Eurozone leasing volume declined marginally during 2013. This again highlights our success in building market share.

Finally, EMEA registered robust growth in property, facilities, and project management revenue. For the quarter, revenue in this business line grew 25%, with Spain, the Netherlands, and the UK leading the way. For all of 2013, revenue in this business improved 21%.

Please turn to Slide 13. Unfavorable currency trends once again marked mass strong revenue gains in Asia-Pacific in the fourth quarter of 2013. Revenue improved 14% in local currency, with contributions from Australia, India, and Japan, but only 3% when translated into US dollars.

Property sales continued to rebound from a lackluster 2012. During the fourth quarter of 2013, revenue from this business line surged 31%, or 46% in local currency, as Australia, Hong Kong, and Japan experienced robust growth. This caps a strong year for property sales, contributing to a 39% revenue gain for 2013, or 50% in local currency, versus a 24% rise in investment market activity.

Unlike the investment market, leasing markets across the region remain challenged. Leasing revenue edged up modestly for both the quarter and the year in local currency, but declined when translated into US dollars.

Similarly, in property, facilities, and project management, a healthy 9% revenue increase in local currency for the fourth quarter was negated by weak foreign exchange. After translation into US dollars, revenue in this business line fell 2% during the quarter. For the full year, revenue in local currency rose 11%, reflecting increased adoption of outsourcing among occupiers and investors in the region.

Please turn to Slide 14. The final quarter of 2013 was exceptionally strong for our Global Investment Management business. Revenue rose 35% to \$168 million compared with \$124 million in the fourth quarter of 2012.

Most of this growth was attributable to carried interest, which reflects the incremental revenue we earn as we self-fund assets at values that exceed return thresholds set with our investors. While carried interest does not occur every year, we have earned significant carried interest in half of the years over the past decade, totalling over \$300 million during this period.

We produced significant carried interest revenue in the second half of 2013. With a very healthy sales environment in 2013, we harvested some assets that might otherwise have been sold in 2014. As a result, we will realize very little carried interest revenue in 2014.

For the full year, revenue increased 11% to \$539 million, resulting in \$215 million of normalized EBITDA. Please refer to the appendix for our reconciliation of normalized EBITDA and our accounting treatment for carried interest.

While the Investment Management business continues to perform well over all, in the fourth quarter of 2013, we took a non-cash intangible asset impairment charge that relates to decreased values in one part of the European business, that being open-ends. These funds have experienced decline in assets under management, or AUM, as the business mix shifts towards separate accounts, consistent with market movements following the extended financial crisis in Europe.



As investors withdraw capital from these funds, they are often reinvesting them through our growing separate account program. Nevertheless, as a result of project sales and planned liquidations of certain funds, we recorded a \$98 million pre-tax non-cash charge against non-amortizable intangible assets.

The charge has been normalized. It is important to note that normalized EBITDA from our Investment Management business in Europe has remained at or above the level of the combined CBRE ING REIM business at the time of the acquisition in 2011, even in light of the extended downturn in Europe.

Please turn to Slide 15. We ended 2013 with \$89.1 billion of total AUM, up \$1.5 billion from the end of the third quarter of 2013. AUM was down \$2.9 billion for the year, reflecting our strategy to sell certain core assets and monetize a large US [fund].

AUM increase during the fourth quarter of 2013 was achieved even though we sold \$2.4 billion of properties during the period. These sales were more than offset by acquisitions of \$2.1 billion, combined with positive foreign exchange of \$900 million and a \$900 million net increase in portfolio values. We expect continued AUM growth in 2014.

We have significant investment totalling \$4 billion following a solid year of capital raising. For full-year 2013, we raised \$5 billion of new equity capital in the direct and fund-to-funds businesses. This does not include approximately \$5 billion of gross inflows into our Global Securities Business.

Fundraising was especially strong in the fourth quarter of 2013, with \$2.5 billion of new commitments and we expect another strong year in 2014. We see significant opportunities to put this capital to work for our investors. Our core investments in this business at the end of the year totaled \$170.3 million.

Please turn to Slide 16. Revenue for the Development Services segment totaled \$18.8 million in the fourth quarter of 2013. This was down from the same period in 2012, primarily because of lower development incentive fees and decreased rental revenue.

Normalized EBITDA fell to \$21.8 million for the fourth quarter of 2013 due to lower gains on property sales in the current-year quarter. EBITDA exceeded revenue because gains on the sale of property under GAAP accounting [flows through] the equity income or gain on disposition of real estate lines on our income statement rather than through revenue. Full-year 2013 revenue in normalized EBITDA decreased to \$61.1 million and \$43 million respectively, for the same reasons just mentioned for the quarter.

Development projects in process totalled \$4.9 billion at year end 2013, up \$700 million from the end of 2012 and down \$300 million from the third quarter of 2013. The inventory of pipeline deals totalled \$1.5 billion, down \$600 million from year-end 2012, and down \$100 million from the third quarter of 2013. The shift from pipeline to in-process reflects recovering demand for Development Services as the economy improves.

Our equity co-investments in the Development Services business totalled \$83.1 million at the end of 2013, while our recourse debt for this business stood at \$7.2 million. We believe our Development Services business is well-positioned to contribute strong profits over the next several years, assuming the macro environment continues to be favorable.

Our strong liquidity position at December 31, 2013 can be seen on Slide 17. During 2013, we executed a carefully-planned debt refinancing program that further strengthened our balance sheet and provided additional capacity for future investments. These actions included amending our present agreement to provide for \$715 million of new term loans and to establish a \$1.2 billion revolving credit facility; paying down our \$450 million, 11.625% senior subordinated notes, which were due in 2017; tapping the capital markets for new \$800 million of new 10-year 5% fixed-rate senior unsecured notes to take advantage of the low interest rate environment; and extending maturities well into the future.

All of these moves lowered our average interest rate by 60 basis points to approximately 5% at year-end 2013. With our restructured balance sheet, the annualized interest expense savings is expected to be approximately \$50 million. We believe these moves also leave us very well positioned to capitalize on future opportunities.



During the fourth quarter of 2013, we drew down our revolver by approximately \$60 million to partially fund the Norland acquisition. At year-end 2013, we had total of \$143 million drawn on a revolver, which has [available] capacity of \$1.2 billion.

Please turn to Slide 18. Our total net debt stood at approximately \$1.5 billion at year-end 2013. This is essentially flat with year-end 2012, even after investing approximately \$545 million on acquisitions this year.

Our leverage ratio at year-end 2013 stood at 1.43 times on a covenant basis. Total Company net-debt-to-normalized-EBITDA was 1.49 times, a very lower level of leverage for us. Now please turn to Slide 19 for Bob's closing remarks.

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

Thank you, Gil, and thanks also to our 44,000 CBRE professionals around the world. Their focused commitment to our clients and dedication to excellence produced a banner year of growth and market share gains, as well as strong returns for our shareholders in 2013.

As the market continues a slow but steady recovery, we look ahead to 2014 with enthusiasm. We have good momentum in most of our businesses, and global market sentiment is generally more positive than it has been for several years.

Our outlook is further buoyed by signs of firmer economic growth in the US and Europe's emergence from a long slump. While we remain conscious of continuing challenges, particularly slowing economic growth in Asia-Pacific, and recent anxieties over emerging market currencies, we believe 2014 will be another year of solid growth for CBRE.

Our property sales business is expected to grow at a double-digit pace, benefiting from a continued influx of capital into real estate, and particularly, an expansion of activity into secondary markets. Interest rates remain attractive and the market has already priced in modestly higher rates as the US Federal Reserve continues to gradually withdraw monetary stimulus.

Our occupier outsourcing business is poised for continued double-digit growth before taking into account the Norland acquisition, as the appetite for outsourcing leaches into new corners of the economy. Vertical markets like healthcare and the public sector, and especially niches like critical environments, as well as overseas markets present fertile ground for growth. The addition of Norland will expand and accelerate these activities in Europe.

Over the past few quarters, our leasing business has demonstrated an ability to grow without much help from the macro environment. In 2014, we look to benefit from some market lift as we further advance our strategic plan to increase market share and we expect mid- to high-single-digit growth in this business. For GSE loan origination activity, our current assumption is that volumes will be similar to 2013, although the regulatory limits, if any, for this year have yet to be announced.

Please turn to Slide 20. Looking at our Business overall, we expect our real estate services business globally to produce double-digit normalized EBITDA growth, even before contributions from Norland. Our combined principal businesses, Global Investment Management and Development Services, will likely perform in line with 2013, excluding carried interest.

We started 2013 with an expectation of approximately \$55 million of carried interest for the year and \$40 million of carried interest for 2014. Approximately \$30 million of the latter \$40 million was actually realized in 2013. Consequently, we expect relatively little carried interest for this year.

Finally, the benefit of lower interest expense will be largely offset by higher depreciation and amortization expenses. Even with relatively little carried interest and continued investments in growth, particularly in brokerage recruiting, we expect to achieve earnings per share as adjusted, in the range of \$1.55 to \$1.60 for 2014, implying a growth rate of 10% at the mid-point of this range.

We have not historically commented on the percentage distribution of our earnings by quarter. However, it has been quite consistent over the last four years, with an average of 15% in the first quarter, 23% in the second and third quarters, and 39% in the fourth quarter.

We expect 2014 to be similar, except that the shallow margin in Q1 may be disproportionately impacted by recruiting-related expenses, and the pull-back in GSE lending, which did not occur until the third quarter of 2013, will impact the first and second quarter's compare. Thus, we estimate that our earnings distribution in 2014 will be weighted slightly to the second half of the year, relative to recent years. Quarter-to-quarter fluctuations should not be considered an indication of performance for the year.

With that, operator, we'll take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

We'll go to Anthony Paolone with JPMorgan.

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

Thanks, good evening. First question, is Norland -- just to clarify -- is Norland in your guidance, though?

Gil Borok - *CBRE Group Inc - CFO*

It is, Anthony, it's Gil. Hi.

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

So then double-digit EBITDA growth before Norland, so you did about a \$1 billion on the nose in 2013, so if I just say 10%, that is a \$1.1 billion. And then Norland is \$600 million, \$700 million, at a margin that you typically see on your outsourcing business. Is that -- is it fair to say that we're talking 15%-plus overall EBITDA growth in 2014?

Gil Borok - *CBRE Group Inc - CFO*

Anthony, sorry for if it was confusing, but what the statement said was that we would have 10%-plus, double-digit growth, in our service business before Norland. Service business, not the total business, and then Norland would be incremental. It was not a commentary on the entire Company but on the service business.

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

Okay. Got it. Sorry about that.

Gil Borok - *CBRE Group Inc - CFO*

No, that 's okay.



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

Is there a way to quantify just the impact on your earnings for 2014 from all of the acquisition activity you have been doing, including Norland?

Gil Borok - *CBRE Group Inc - CFO*

The way I would answer that is we don't typically and won't comment on in-fill contributions. We view that, combined with organic, so we've not traditionally done that because we look at growth through in-fills and organic.

But on Norland, we have commented before, in terms of the contribution, that it was about a \$600 million, \$700 million revenue base, and it would be -- have margins consistent with our FM, our Facilities Management business, which is our stickiest revenue business, but also a lot of margin business for us in that 7% range. So you can do the math from there.

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

Okay and then I was a little bit surprised by the leasing outlook. What's the drag on that business? Because it seemed like the last couple quarters, that growth has bumped up a little bit?

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

Anthony, this is Bob. We actually are expecting to see good growth in leasing next year, not as healthy as the growth we're going to see in investment properties, but very good growth in leasing, and we think it will be in the mid- to high-single-digits.

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

But what -- it seems to be coming down a little bit for the last couple of quarters. Was the last couple of quarters just a bit of a bounce or--?

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

We had pretty extraordinary performance in leasing the last couple quarters. We took a lot of market share.

We would love to see that happen again next year. Our plan doesn't assume that it will be that aggressive.

But if you look at our leasing performance in 2013 versus the market, it was pretty exceptional. We're expecting next year to get a little lift from the market and to take a little market share, but we're not planning that the amount of market share we will take will be as extreme as it was this year.

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

Okay and just last question on investment management. It seems like you're expecting flattish there ex the carry, but yet you talked about pretty good inflows, it seems, in raising new capital, and also ties with your optimism on investment sales where you talked about a lot of money being moved into real estate. I'm just wondering why that's not perhaps up?

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

Okay. Well, there are a number of things that go into the EBITDA that you generate in that business. One of them is the placement of new capital and the fees associated with that.

But keep in mind, the in-place amount of AUM in that business is down from where it was a year ago, so the fees associated with that in-place base are going to be down a little bit and we're going to build that base up over the course of the year. So that is essentially what we're reflecting there.

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

Okay. Thank you.

Gil Borok - *CBRE Group Inc - CFO*

Thanks, Anthony.

Operator

Next we'll go to the line of Brandon Dobell with William Blair.

Brandon Dobell - *William Blair & Company - Analyst*

Thanks. Bob, you mentioned a little bit about maybe concentration of some of the transaction businesses within the higher compensated brokers. Broadly, across the transaction business, in particular, how we think about your ability to manage compensation especially as you keep going on recruiting?

Should we expect pressure on that average, comped to revenue ratio? Or is there other things going on there?

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

It is a great question and there is a couple things going on in that cost of services that you saw go up related to the brokerage business. One is we did have a very big year in recruiting last year and the costs related to that recruiting hits the cost of services in our brokerage business. So that was one of the pieces.

The other thing that went on last year was that the gateway markets around the world were the markets where we really saw pronounced activity in investment sales, but also in leasing. Those markets are typically characterized by very high-powered brokers and I'm talking about markets here in the US, like New York, Chicago, LA, Houston. But also international markets like London, which is obviously a very, very prominent market; Tokyo, where we have actually a disproportionate share of our Asia-Pacific business; and then in markets like Sydney and Melbourne in Australia.

The big brokers, the senior brokers, dominated in those markets the last couple of years. That certainly was the case for us.

It had a bit of an upward impact on our cost of services, along with the recruiting. We don't think that's going to accelerate particularly next year, but we don't expect to see any relief in that regard, either.

Brandon Dobell - *William Blair & Company - Analyst*

Okay. As a follow-on, should we expect the hundreds of additional headcount this year through organic and acquired growth -- and it feels like it mostly showed up in the US in the transaction businesses -- should we assume that your recruiting efforts are mostly US-focused, the same magnitude as we saw in 2013?



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

I don't know that we'll have the same degree of new recruits in 2014 as we had in 2013. It's certainly a high priority. We really ended up with an unusual amount of success.

It wasn't just the US. We really had a lot of success in EMEA and in the United States. It was spread between both of them.

By the way, you'll see that start to come into our numbers in the second half of 2014 because, as you know, when brokers transition in, the first part of their tenure with you, a lot of those revenues are owed to the Company they came from. You'll see a good year for us in brokerage recruiting this year.

I don't know that it will be as hefty as last year was, but by the way, as we said in our prepared remarks last year, we don't have great records, if you get back six or seven or eight years, but we're fairly confident that was, by a nice margin, our biggest year in a decade. So we don't have to repeat what we did last year to have a very good year.

Brandon Dobell - *William Blair & Company - Analyst*

Okay and with the [mortgage] origination business, it sounds like you're assuming roughly flat total origination quotas for the agencies. A two-part question.

One, given what happened in the back half of the year, have you done anything to change the cost structure or right-size the cost structure? And then relative to the full year, should we expect it to look a little bit more normal in terms of the pacing of origination volumes and the agencies or is there something else going on that is going to shift it maybe away from Q3 this year and more into Q1, Q2, given how the quotas could work?

Gil Borok - *CBRE Group Inc - CFO*

Hey, Brandon, it is Gil. In terms of the cost structure, other than our normal prudent cost management, we haven't taken any other actions. The reason is because most of the impact which, of course, is caused by a reduction in the GSE lending, is an accounting anomaly, right?

Brandon Dobell - *William Blair & Company - Analyst*

Right.

Gil Borok - *CBRE Group Inc - CFO*

Most of the results are the upfront recognition of the asset and related gain that slows as production slows. So it's more that than, for example, servicing fees or loan origination fees, which are healthy. So to answer that question, the answer is no, and again, reiterating that it is an accounting impact, that is more of the impact than anything else.

And then with regard to the pacing, just to be clear, obviously if it stays flat and we don't have, as Bob said in his remarks, we don't know exactly what is going to happen, so our working assumption is flat into the -- for a full year 2014 versus a full year 2013. If that is the case, the impacts will be flipped. Q1 and Q2 of 2013 will be higher than Q1, Q2 of 2014 and then it will be more in line in the back half of the year because the reduction came in Q3 2013.



Brandon Dobell - *William Blair & Company - Analyst*

Right. Okay. And then final small one, with all that carried interest pulled forward from 2014 into 2013, still safe to assume that in the back of the year, the \$10 million may show up given how you characterize the 2013 versus 2014 dynamics?

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

Yes, we think that could show up this year, but a big, big diminution from last year because that \$30 million pull-forward was very real.

Brandon Dobell - *William Blair & Company - Analyst*

Got it. Okay, thanks guys. Appreciate it.

Operator

Next we'll go to the line of Mitch Germain with JMP Securities.

Mitch Germain - *JMP Securities - Analyst*

Just curious on -- Bob, you mentioned deal flow in the pipeline -- are you skewed toward any specific region or capability?

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

Mitch, what product line are you talking about?

Mitch Germain - *JMP Securities - Analyst*

You just mentioned just the acquisition pipeline in general?

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

Okay.

Mitch Germain - *JMP Securities - Analyst*

You made like a retail investment; you've done healthcare; obviously, Norland and some of the other deals in Europe. Is there anything specific that you're looking to strengthen as you look through the process?

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

Yes, with regard to acquisitions, we come at that in two ways. We have a very well developed now Corporate development capability, people that are trained to do acquisitions, underwrite acquisitions, negotiate acquisitions. That capability is more significant than we've ever had -- certainly, than we've had in many years.



In addition to that, we have our businesses around the world, our local business units, trained to seek out and underwrite acquisitions and do the front-end part of that, all regions of the world. So we come at that from both directions. What we expect is on a regular basis for opportunities to bubble up from around the world, from our geographies.

We have seen a lot of that bubbling up in the US and in EMEA, in the last year or so. In Asia-Pacific, what we've seen is opportunities with our network of affiliates that we already know very well and have thoroughly underwritten just through our work with them.

We don't expect that trend to change much in 2014. We expect to see similar things; we expect to see a good number of opportunities.

One thing that has been added to the mix in the last year is that our Global Corporate Services business, or our occupier outsourcing business, has gotten to a scale where we're seeing opportunities directly through it, and you saw KLMK last year, obviously Norland last year. We are continuing to see those kind of opportunities, so I think that it will be spread among those areas again this year, as it was last year. We're seeing good opportunities in terms of being financially accretive and good opportunities in terms of being a solid, strategic fit.

There is a second broadly-defined acquisition we do that everybody that follows us is very familiar with, and that is the big strategic acquisitions. There has been a handful of them in the last 12 or 13 years. There was Insignia; there was Trammell Crow Company; there was ING; and then last year there was Norland.

Those tend to come along every few years. You can never be sure exactly where they'll come from. We expect they will still come along every few years and we have our eyes out for those, but those things don't happen every year or every other year typically.

Mitch Germain - JPM Securities - Analyst

Great. I appreciate that. And any specific projects in terms of capital investment for the year or along the lines of what we've seen in capital spend over the last couple of years, Gil?

Gil Borok - CBRE Group Inc - CFO

Yes, it is along the same lines. We will -- our spend is in two areas -- technology and facilities -- and that's exactly what we're expecting.

We may see a bit of a shift as we move -- as industry moves more toward software as a services, and so forth. We may see some shift from CapEx that then gets depreciated to P&L, more front-end loaded.

It is not material but we do see a bit of a trend shift in that regard. But the categories are facilities and IT.

Mitch Germain - JPM Securities - Analyst

Great. Thanks.

Gil Borok - CBRE Group Inc - CFO

Sure.

Operator

And the last question will come from David Ridley-Lane with Bank of America Merrill Lynch.



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

Sure. Just trying to get an impact on EPS or EBITDA from the carried interest in 2013 so we can have a gauge of the headwind you face in 2014?

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

Okay. In 2013, we had planned to generate carried interest in the \$75 million to \$80 million range. The carried interest we actually experienced--

Gil Borok - *CBRE Group Inc - CFO*

It was \$55 million, Bob.

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

For the whole year?

Gil Borok - *CBRE Group Inc - CFO*

Yes.

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

Okay. I'm sorry.

I gave you the amount we [get] -- we expected to generate around \$55 million for the whole year. We ended up generating around \$85 million. I went at it backwards.

We ended up generating about \$30 million more than we expected during the year. That was dollar-for-dollar pulled forward from 2014. So what would have otherwise -- so you might say our profitability was bolstered in 2013 by that amount and diminished in 2014 by that amount.

There's another thing that is really important -- and now, you say, well, where did that show up in our earnings in 2013? Our earnings played out for the year very much as we expected, very much as we expected.

As you know, we gave you a range of \$1.40 to \$1.45 and we ended up \$1.43. What offset that incremental \$30 million of carrier than we expensed in 2013 was \$43 million of the following -- and these are very exact numbers because they came on us in a very real way.

Number one, we had legal insurance costs, mostly loaded in the fourth quarter. And number two, we had this decline in OMSRs, which went to the straight to the bottom line on EBITDA, which added up between them to be \$43 million more than we experienced in those items or have a \$43 million detrimental impact on our EBITDA line, versus a year earlier.

By the way, all of that lost EBITDA was in our services business, and all of the gained EBITDA from carry was obviously in our principal businesses. So you can look at that and very directly see the impact that it had on last year's earnings, and how we should expect that to play out in terms of an impact on this year's earnings.



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

Okay. So the \$85 million in actual carried interest in 2013, that goes against your expectations of plus or minus \$10 million for 2014?

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

Roughly.

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

Okay. And then since you still have two quarters of -- ahead of you before you anniversary the GSE issues, is that -- how much of a drag would that be in the first half?

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

We expect that to be roughly flat year-over-year.

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

Flat in terms of volumes or flat in terms of profitability?

Gil Borok - *CBRE Group Inc - CFO*

Yes, I understand the question you're asking. You're asking what would be the negative impact in the first half of the year.

We're not going to comment on that specifically publicly, but you can assume there is not a back-end loading necessarily of the OMSR gains the way there would be, let's say, in our brokerage business. It is not quite ratable but it's more ratable than the brokerage business so you would have, in essence, a potentially inverse effect in Q1 and Q2. But again I caution, David, that we just don't know the guidance for 2014, and so we're not better off than you are in terms of trying to predicting this because we've got a working assumption.

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

Got it. And then I know you have a negative mix impact on margins from Norland, but on an underlying EBITDA margin basis, would you expect to be up on your EBITDA margin ex Norland in 2014?

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

Ex Norland and ex our principal business, David, so take them out of the mix and look at the rest of our services business globally, we expect those margins to expand slightly.

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

Got it. Okay.

All right. Thank you very much.

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

Thanks, David.

Operator

And we do have a follow-up from the line of Anthony Paolone with JPMorgan.

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

Yes, thanks. I just wanted to follow up on that because I got a little confused and I want to make sure I'm getting this right.

On the carried interest, it is \$86.2 million in 2013, and that's what goes to \$10 million in 2014? Am I getting that right?

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

Yes.

Gil Borok - *CBRE Group Inc - CFO*

Yes.

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

Then is there a way to give a sense, though, in 2013, just to understand some of the margin stuff in the P&L, of that \$86.2 million, how much was up in revenue versus coming in through equity and earnings?

Gil Borok - *CBRE Group Inc - CFO*

No, it is all revenue, Anthony, that doesn't come through equity earnings.

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

Okay but then what about the development gains and the gains that come through equity and earnings, do you have a total for 2013 for that number, as well?

Gil Borok - *CBRE Group Inc - CFO*

The way I would approach it is I would -- and you're right, that does come through equity earnings and gains, the gain line in the P&L -- more or less what drives the year-over-year difference is the gains that would come below the revenue line -- what's in revenue is more recurring development service fees. There are some incentive fees but materially just look at the year-over-year diminution and that will more or less give you, directionally, what the reduced gains are in 2013 versus 2012.



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

Okay, is there a way to protract that out to 2014? What I'm getting at, is there on the development side of the gain business, is there anything we have to think about in terms of resetting the baseline for 2014?

Gil Borok - *CBRE Group Inc - CFO*

Well, what we said, Anthony, was that if you exclude carried interest, you have the earnings for the Investment Management business for the full year 2013; you have the earnings for the development business for full year 2013; and we've said relatively flat for those two businesses. I don't want to get into one or the other, but if you're modeling, the two principal businesses will be relatively flat, ex the impact of carried interest, which we've talked about \$86 million and \$10 million.

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

Okay. Got it. Thank you.

Gil Borok - *CBRE Group Inc - CFO*

Sure.

Operator

And no one is in queue with a question. Any closing remarks, gentlemen?

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

No. Thank you very much for being on our call and we'll talk to you again in three months.

Operator

And ladies and gentlemen, that does conclude your conference for today. Thank you for your participation and for using AT&T Executive Teleconference. You may now disconnect.

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