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CBG - Q1 2017 CBRE Group Inc Earnings Call

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Co. reported 1Q17 gross revenues of \$3b.



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PRESENTATION

Operator

Greetings, and welcome to the CBRE First Quarter 2017 Conference Call. (Operator Instructions) As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Mr. Steve Iaco with Corporate Communications. Thank you. You may begin.

Steve Iaco - *CBRE Group, Inc. - Senior MD of Corporate Communications*

Thank you, and welcome to CBRE's First Quarter 2017 Earnings Conference Call. Earlier today, we issued a press release announcing our financial results and it is posted on the homepage of our website, cbre.com. This call is being webcast through the Investor Relations page of our website. On this page, you can find a presentation slide deck that you can use to follow along with our prepared remarks. An audio archive of the webcast will be posted to the website later today, and a transcript of our call will be posted tomorrow.

Now 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. These include statements regarding CBRE's future growth momentum, operations, market share, business outlook and financial performance expectations. These statements should be considered estimates only and actual results may ultimately differ from these estimates. Except to the extent required by securities laws, we undertake no obligation to update or publicly revise any forward-looking statements we may make today. For a full discussion of the risks and other factors that may impact any forward-looking statements, please refer to our first quarter 2017 earnings release, furnished on Form 8-K and our most recent annual report on Form 10-K. These reports are filed with the SEC and are available at sec.gov.

During this presentation, we may refer to certain non-GAAP financial measures, as defined by the SEC regulations. Where required by these regulations, we have provided reconciliations to what we believe are the most directly comparable GAAP measures. These reconciliations, together with explanation of these measures, can be found within the appendix of this presentation.

Please turn to Slide 3. Our participants on the call this morning are Bob Sulentic, our President and Chief Executive Officer; Jim Groch, our Chief Financial Officer; and Gil Borok, our Deputy Chief Financial Officer and Chief Accounting Officer.

Before I turn the call over to Bob, I want to note that, as we announced 2 weeks ago, Brad Burke will join us from Goldman Sachs in early June as Head of Investor Relations. Brad is well known to most of you and he will make an excellent addition to our team. I will be working with Brad to



hand over my primary IR duties to him over time, and following a transition period, will focus more fully on the company's corporate communications. Until Brad is on board, I will remain your primary IR contact.

Now please turn to Slide 4, as Bob discusses our first quarter performance.

Robert E. Sulentic - *CBRE Group, Inc. - CEO, President and Director*

Thank you, Steve, and good morning, everyone. Our financial performance in the first quarter continues to reflect strong operating momentum and the growing advantages we hold in the marketplace. Those of you who have been following CBRE closely know that we've been focused for some time on a strategy to make CBRE a more balanced and capable enterprise that produces highly differentiated outcomes for our clients. In support of this strategy, we have made targeted organic investments and acquisitions aimed at bolstering our talent base, service offering and operating platform. These investments have allowed us to significantly improve our ability to provide integrated solutions for our clients around the world as well as improving our digital and consultative capabilities. All of this has positioned us to better satisfy our clients and take market share. This was clearly evident in our first quarter results with excellent top and bottom line organic growth across our regional services businesses globally. This growth came against the backdrop of lower sales market volumes in many parts of the world. Our earnings were further enhanced by the steps we took in late 2015 and in 2016 to calibrate our costs while also investing in our strategy.

While we are always mindful not to read too much into first quarter performance, CBRE is in a strong competitive position, and we are intent on further pressing our advantages for the benefit of our clients, shareholders and employees.

Now Jim will take you through our first quarter results in detail.

James R. Groch - *CBRE Group, Inc. - CFO and Global Director of Corporate Development*

Thank you, Bob. Please turn to Slide 5. As Bob indicated, CBRE had a very strong quarter. Let me start with 3 highlights. First, Q1 growth was almost entirely organic. This is being achieved in an overall market where global sales transaction volumes were down. Second, we increased our margin to 15.8% in Q1 2017 and grew adjusted EPS by 19% with high-quality earnings. Third, we continue to be highly disciplined in our approach to both recruiting and M&A. Since late 2015, we have repeatedly noted that M&A and recruiting had become pricey and less disciplined, just as the industry was beginning to experience lower market transaction volumes. The market had moved away from our long-stated 5 to 6x EBITDA multiple for infill M&A. During this period, we shifted our focus to small, highly strategic, nontraditional acquisitions. This allowed us to strengthen our platform to support organic growth, create balance sheet capacity for future M&A and maintain a high-teens return on invested capital. Continuing this trend, year-to-date, we have acquired 3 modest in size but highly strategic enterprises. Two are leading SaaS software platforms, and the third is a technology-enabled national financing platform. All 3 provide operating leverage and enhance our clients' offerings. I should note that we are now beginning to see early, hopeful signs of greater discipline around M&A in the market.

With regard to recruiting and retention, our disciplined approach is working. Top professionals are continuing to elect to join CBRE and remain with us, because our operating platform, scale, brand and ability to deliver integrated solutions enable them to do more for their clients.

Please turn to Slide 6. All growth rate percentages cited throughout this presentation are in local currency, unless stated otherwise. Our results for the quarter were strong. Gross revenue and fee revenue both rose 7% to \$3 billion and \$1.9 billion respectively. Virtually all of our growth was organic, providing continued clear evidence of gains in market share. EBITDA increased 21% to \$307 million, and adjusted EBITDA increased 7% to \$303 million, both in U.S. dollars. This growth was particularly impressive considering EBITDA contributions from our Development Services business were down sharply, as expected, due to timing of gains and incentives.

Adjusted EBITDA margin of 15.8% on fee revenue improved 40 basis points from Q1 2016. Adjusted earnings per share in U.S. dollars increased 19% to \$0.43 for the quarter, driven by strong performance in the regional services businesses. The benefit of a lower tax rate was more than offset by the reduced gains from our Development Services segment.

Please turn to Slide 7, regarding the results for our 3 regional services businesses, which exhibited broad strength in Q1. Combined, they achieved 7% growth in fee revenue and 19% growth in adjusted EBITDA. Adjusted EBITDA margin on fee revenue for our regional services segments was 15.2%, up 180 basis points from Q1 2016. Note that the impact of cost savings is particularly pronounced in our lightest quarter. In addition, Q1 '16 also included approximately \$9 million of expense in cost of goods sold that did not recur in Q1 2017.

The Americas, our largest business segment, posted fee revenue growth of 5%, while EMEA and Asia Pacific posted fee revenue growth of 10% and 8% respectively. Virtually all of the growth was organic.

In Asia Pacific, growth was particularly strong in Greater China, India and Singapore, while Germany, Spain and Switzerland set the pace for CBRE in EMEA.

In the United Kingdom, overall fee revenue rose 9%, with solid growth across virtually all business lines. Growth of 9% in leasing and 5% in sales reflected continued improvement in market sentiment following the Brexit vote and our market share gains.

Strong organic growth, coupled with our proactive cost-elimination program, which ended in Q3 2016, once again led to significant operating leverage in each of the 3 regional services businesses.

In U.S. dollars, adjusted EBITDA increased 18% in the Americas, 22% in EMEA and 58% in Asia Pacific. After removing the effect of all foreign currency movements, including prior year hedging, on a year-to-year comparison, the adjusted EBITDA growth rates were 18% in the Americas, 39% in EMEA and 10% in Asia Pacific.

Please turn to Slide 8 for a review of our major global lines of business in Q1. As already noted, all figures are in local currency unless stated otherwise. Occupier outsourcing produced fee revenue growth of 9%. Emblematic of the strong gains this business is making internationally, we achieved notable growth in Canada, India, Spain and the United Kingdom, among other countries.

Our capital markets businesses, property sales and commercial mortgage services, continue to perform very well, producing 8% revenue growth on a combined basis. Commercial mortgage services grew at a double-digit clip, with revenue up 14% for the quarter. Our loan volume growth in Q1 was driven by increased originations with life insurance companies. Our loan servicing portfolio ended Q1 at approximately \$150 billion, up about \$18 billion or 14% from the year-earlier quarter.

Property sales revenue increased 6% despite, as Bob mentioned, a notable slowdown in global market volumes, especially in the United States.

EMEA sales revenue increased 16%, aided by a robust growth in France, Spain and Switzerland. Asia Pac revenues dipped 4%. Improved performance in Greater China and Singapore was offset by a decline in Japan, which had an exceptionally strong Q1 of 2016 when sales rose by 67%.

The Americas saw sales revenue rise by 6%, bolstered by significant gains in Canada. Revenue growth of 2% in the U.S. stood in stark contrast with a 13% market volume decline, as reported by Real Capital Analytics. CBRE picked up 130 basis points of market share according to RCA.

It is also important to note that we completed more than 1,900 sales transactions in the U.S. in Q1. Of these, less than half are captured in RCA's statistics, as the remaining fall outside of their parameters for deal size, property type and user versus investor sales. This reflects the broad base of our service offering around property sales.

Leasing revenue rose 4% globally in Q1. It is important to note that our growth of 1% in the U.S. was on top of very strong growth of 20% in the U.S. in Q1 2016. Leasing for both Asia-Pac and EMEA recorded double-digit growth. We continue to have good momentum in our leasing business.

Property management and valuation achieved solid growth for the quarter, fueled by double-digit increases in both business lines in EMEA and Asia Pacific.



Please turn to Slide 9, regarding our occupier outsourcing business, which is reported within the 3 regional services segments. Fee revenue increased 9% in the quarter for our occupier outsourcing business. We achieved solid organic growth in all 3 regions, as our value proposition has been materially strengthened by the Global Workplace Solutions acquisition. Notably, with the integration largely complete, we are now fully focused on the delivery of great client outcomes and the growth that naturally follows from high client satisfaction.

This business maintained an active new business pipeline in Q1, highlighted by 52 contract expansions. Overseas contract activity was brisk, with 17 total contracts in EMEA and 12 in Asia Pacific. 16 total contracts were signed in the global health care sector, most of them reflecting expanded service scope for hospital systems in our client portfolio.

International markets and the health care sector remain fertile growth opportunities that are particularly well suited to CBRE's scale, broad capabilities and collaborative culture.

Please turn to Slide 10, regarding our Global Investment Management segment. Again, all percentage increases are in local currency unless stated otherwise.

Adjusted EBITDA rose to \$26 million for Q1 2017, up 19% in local currency, or 13% after removing all effects in both years of foreign currency. Revenue was up 3%. Carried interest totaled \$3.3 million compared with less than \$2 million in the year-ago quarter. Asset management fees were relatively flat.

It should be noted that currency translation continues to have a pronounced impact on the results for this business, as approximately 60% of the Assets Under Management, excluding securities, is denominated in euro and British pound Sterling.

The weakness of the Sterling continued to constrain growth of AUM when measured in U.S. dollars.

AUM totaled \$86.5 billion, up \$900 million in local currency from Q1 2016. However, when measured in U.S. dollars, AUM decreased by \$3.2 billion.

The capital-raising environment remains healthy, and our business continues to attract significant capital from investors due to the strong performance of its investment programs. Equity commitments for the trailing 12 months ended in Q1 2017 rose to \$8.4 billion.

Please turn to Slide 11, regarding our Development Services segment. As we had anticipated, EBITDA contributions from this business declined dramatically from \$31.9 million in Q1 of 2016 to \$2.8 million. The reduced contributions are a matter of timing of asset sales. Development Services has a continued strong flow of assets being brought to the market, and we expect to realize significant gains in the back half of the year.

Projects in process totaled \$5.9 billion, down \$1.2 billion from Q1 2016, while our pipeline increased by \$2 billion to \$5.1 billion. More than half of the pipeline is for fee-only projects, which typically do not include a co-investment or a promoted interest.

Please turn to Slide 12. Before I turn the call back to Bob, I'd like to emphasize 2 points regarding our performance in Q1. First, our regional services businesses had another outstanding quarter, with 7% growth in fee revenue and 19% growth in adjusted EBITDA, both in local currency. Second, growth in the last 2 quarters was almost exclusively organic. This reflects the success of our integration of Global Workplace Solutions and our ability to drive market share gains in our transaction businesses.

Now please turn to Slide 13 for Bob's closing remarks.

Robert E. Sulentic - CBRE Group, Inc. - CEO, President and Director

Thanks, Jim. We are pleased with the excellent performance our people produced in the first quarter. As we look ahead, we are increasingly energized about our market position and prospects. We operate in a sector with attractive underlying growth dynamics. The global economy continues to grow at a modest clip, and commercial real estate market fundamentals remain sound. This is a generally favorable macro environment for CBRE.



Our business has positive momentum, and our people, supported by our increasingly robust operating platform, are well positioned to capitalize on this environment.

At the same time, it is important to remember that the first quarter is typically our seasonally lightest quarter for revenue and earnings, and the impact of our cost savings actions is particularly pronounced this quarter. As always, we caution against extrapolating first quarter performance to the full year, and we are not updating guidance only 3 months into the year.

With that, operator, we will open the lines for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question is coming from Anthony Paolone of JPMorgan.

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

My first question is on the OpEx, which was down year-over-year. And I think, you mentioned just -- you guys had a magnified impact from cost savings. Can you just talk about more specifically how to think about that number over the rest of the year? Like, is it something that should still be down year-over-year in the coming quarters? Or was the first quarter just skewed?

James R. Groch - *CBRE Group, Inc. - CFO and Global Director of Corporate Development*

Tony, it's Jim. I don't think the OpEx was actually down, but the growth -- but it was not up very much. And what we're saying is we will continue to see the benefit from our cost savings effort that we earlier mentioned. It's just with such a small quarter, Q1 being the smallest quarter of the year, the same dollar amount has a bigger impact in Q1 than does in Q2.

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

Great. So I guess, if I'm looking at the income statement, the \$606 million against last year, I mean, maybe last year had some items, and, I guess, you make the adjustments to the \$606 million to get your adjusted EPS. But, I mean, it seems still pretty flat or, at the very least, even if, I guess, you make those adjustments. So I know there is some variable cost in that, so that will move as the year progresses, but is the general idea of being even flat year-over-year the way to think about it?

James R. Groch - *CBRE Group, Inc. - CFO and Global Director of Corporate Development*

No, the adjusted is down about \$10 million, but I don't think you can necessarily assume that OpEx won't be up in the next few quarters, especially just dealing with larger quarters.

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

Okay. And then on the outsourcing business, I know there's a bit of a drag from FX in EMEA. In the past, you've talked about that being basically a double-digit business. Seems like it's been trending more in local currency in the high single-digit business. Is it just mix or just the ebb and flow of it? Or should we think of that as kind of being down a little bit from where you've been trending last couple of years?



Robert E. Sulentic - *CBRE Group, Inc. - CEO, President and Director*

Yes, Tony, this is Bob. What we said for this year was that we expected that business to grow, give or take, 10%, but that we expected the growth to be skewed toward the back half of the year. Reason being is that we came out of a very intense integration over the last 15 months, and the focus was integration, getting those accounts and those customer relationships where we wanted to get them, et cetera, et cetera, less than typically focused on growth. Obviously, that integration, as Jim commented in his remarks, is largely behind us now, and the focus has returned to more normal things, including growth. So we expect -- but the day you shift that focus, the growth doesn't show up. So we expected that -- our growth to be more back-end loaded this year. We were really quite happy with the first quarter growth, that 9%.

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

Okay, I understand. Can you give us an outlook or any updated views on how you're seeing things progress on the leasing side, particularly in the U.S.?

Robert E. Sulentic - *CBRE Group, Inc. - CEO, President and Director*

Yes. I mean, leasing isn't growing the way it was in some prior years. But as it relates specifically to our first quarter, one thing to keep in mind is that last year we grew 20% in the first quarter. So that was a pretty tough compare, and we grew a little bit this year. In general, though, we haven't changed our view as to what we think will happen with leasing for the full year. And I think we were -- we said mid- to high single-digit growth, and we still think of it the same way.

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

Okay. And then just last question. It seems like 2 of the 3 acquisitions you noted were technology-oriented, and it seems like you've -- over the last year or 2, that's been a focus. Are those -- should we think about those and the capital deployed into those kinds of investments as being, like, historically what you would do, where there would be some multiple on EBITDA? Or are these more technology-oriented investments strategic or don't have, really, earnings or these profitable companies? Like, how to think about those things?

Robert E. Sulentic - *CBRE Group, Inc. - CEO, President and Director*

Yes, Tony. Jim is going to answer that, but before he does, I want to correct what I just said. We didn't say mid- to high single-digit leasing growth. We said mid-single-digit leasing growth. So I just want to make sure that I've corrected that. Jim, you want to hit the...

James R. Groch - *CBRE Group, Inc. - CFO and Global Director of Corporate Development*

Sure. And Tony, also, on the -- just coming back to your first question on the OpEx. OpEx for our 3 regional services businesses was up about 2%. When you look at that on a consolidated basis, the real material impact is that Development business is down so much, and the comp expense that goes with that brought down OpEx on a consolidated basis. As far as your question on the M&A, even in -- even technology deals can look radically different from one to another. Some are profitable operating businesses with a certain growth rate, others are in a really steep ramp-up, where they're still unprofitable. So we look at these businesses one by one, and we're really looking at just kind of cash flow over a range of assumptions to underwrite the value of the business.

Operator

Our next question is coming from Mitch Germain of JMP Securities.

Mitch Germain - JPM Securities LLC, Research Division - MD and Senior Research Analyst

Bob, I think you mentioned the JCI integration was basically complete. And I guess, kind of looking back over the past year plus, how did that integration go relative to the timeline that you guys internally established in terms of your expectations?

Robert E. Sulentic - CBRE Group, Inc. - CEO, President and Director

The integration moved through the timeline roughly as we had expected, Mitch. It was harder work than we thought. We always tend to underestimate those things. This integration had 16,000 people in 50 countries and lots of clients. So it was hard, but it was very successful, and it was successful on the timeline that we had expected it to be. And one of the really nice things we're seeing now is, we're seeing visibly and we measure this, it's really important to know we measure this. We are seeing visibly improving scores with our clients that we acquired in that transaction from where those clients were when we acquired the business, which is what's enabling us to continue to be confident that the growth in that business will sustain and pick up as the year moves on. And we often get questions about cross-selling, and you know we've been reticent to talk at all about cross-selling into those clients while we were going through that integration, because it was all about doing great work for them on what they've hired us to do to date. We're starting to see some of that opportunity become available to us. So we're feeling pretty darn good about it.

Mitch Germain - JPM Securities LLC, Research Division - MD and Senior Research Analyst

Great. With regards to your attitude toward hiring, I know that we've spoken in the past that some of your competitors have been a bit aggressive with regards to what the pay packages and commission structures they're offering. And I'm curious, have you seen that mitigate at all and maybe, just in general, what your attitude is towards hiring for across the board for your platform?

Robert E. Sulentic - CBRE Group, Inc. - CEO, President and Director

So we have been through a period, both in terms of hiring and acquisitions, where -- and Jim has commented on this pretty regularly, where we thought things got a little frothy, for lack of a better term. We decided to remain darn disciplined during that period, and we're really glad we did. By the way, I think it's clearly showing up in our numbers. But we still, on the hiring side, Mitch, hired hundreds of brokers, net of departures last year. If you look at our departures relative to the headcount we have, particularly among our senior brokerage ranks, they're very, very low compared to our turnover in almost any other part of the business, and frankly, compared to turnover in almost any part of any major business, and there's a reason for that. And the reason for that is that we have a business, it includes our operating platform, our brand, our clients, our global network that allows those brokers to come here or stay here and generate considerably more volume than they can generate elsewhere. So through all of what made the headlines, particularly last year, we had a great year for recruiting, we had a great year for retention, and that has continued into this year. Now our net recruiting numbers through the first quarter of this year are a lot like they were last year, which are strong, relative to long-term historic metrics, but down from 2014 and 2015.

Mitch Germain - JPM Securities LLC, Research Division - MD and Senior Research Analyst

Great. And then last question for me. I think, more looking at the investment sales markets, and I know, RCA data had implied a pretty slow start to the year with an acceleration in March. And I'm curious if that was consistent with what you saw from your customers? And then how you feel about the pipelines as they sit today?

Robert E. Sulentic - CBRE Group, Inc. - CEO, President and Director

Well, we haven't changed our outlook for the year on what we think will happen with investment sales. We saw a different result than the market saw in that business during the first quarter. And I think that was a result of taking market share. But I think the general trends you described over the course of the quarter were a reasonable reflection. And we expect to continue to take market share throughout this year and end up the year



with good, solid performance in that business. And it is worth noting that while the capital markets and investment sales, in general, are down from where they were, particularly in 2015 and before. 2016 and so far this year, by historical measures, are still pretty good. And there is a massive amount of -- or capital that wants to be in commercial real estate for a bunch of reasons. Notably, you do get cash flow. Fundamentals are strong. Rents are in good shape. Vacancies are in good shape. There's pressure to grow rents in many markets. As you've heard from us and our competitors, it's not a loose market for construction loans, which means there's not going to be a lot of new product coming on. And there's not a lot of new product in the pipeline, which means that you should see fundamentals remain strong. By the way, that's really good news for our Development business. So we think it's going to be a solid year for investment sales, but it's not going to be crazy growth like we saw in some prior years.

Operator

Our next question is coming from Jason Weaver of Wedbush Securities.

Jason Weaver - *Wedbush Securities Inc., Research Division - SVP and Senior Equity Research Analyst*

In the Investment Management business, I know AUM was up in local currency, but I'm curious how you describe the capital-raising environment, and what your investors are thinking about this stage of the cycle.

James R. Groch - *CBRE Group, Inc. - CFO and Global Director of Corporate Development*

Yes, capital raising has been very, very strong for us and, I would say, it continues to be on a fairly consistent basis. We are seeing maybe investors just being careful and thinking about where they're investing and aware of the fact that we're -- we've been in a slow but longer economic recovery than prior cycles, that this cycle feels a bit different, but the flows of capital into our Investment Management business have continued quite strong. I think we mentioned, we've raised \$8.4 billion of equity in the last trailing 12 months, which is pretty consistent with what we've been doing, on average, for the last few years.

Jason Weaver - *Wedbush Securities Inc., Research Division - SVP and Senior Equity Research Analyst*

That's helpful. In the commercial mortgage services business, can you characterize what you see is driving the growth in your origination volumes there? Is it the -- is it sort of a retreat of banks and general depositories in that market?

Robert E. Sulentic - *CBRE Group, Inc. - CEO, President and Director*

Well, life companies are strong, and the GSEs, where we have a big market share, are very active. And while the sale of multifamily is off in the first quarter, refinancings are strong in that business. So those things have played well for our mortgage origination business because we're very active in those markets.

Jason Weaver - *Wedbush Securities Inc., Research Division - SVP and Senior Equity Research Analyst*

Okay. And just one more for me. Also, in the commercial mortgage business, can you tell us the approximate split between the gain from MSR and just the gain on sale volume that you saw there?

James R. Groch - *CBRE Group, Inc. - CFO and Global Director of Corporate Development*

Yes. So just specifically, EBITDA from OMSR gains increased \$3.7 million for the quarter. That was a little more than offset by incremental-related amortization of \$5 million. So the net impact for us on the quarter and pretax income was \$1.3 million. That's down, net negative impact of \$1.3 million.



Operator

Our next question is coming from Jade Rahmani of KBW.

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

On the investment sales business, the market share gains, are you taking market share from a certain strata of competitor? Is it coming from the top 5 players? Or is it really the smaller, say, the bottom 20 players, smaller firms, where either you're hiring folks out of those smaller, regional or local firms or they're just not able to compete in an environment where execution certainty is at a premium?

Robert E. Sulentic - *CBRE Group, Inc. - CEO, President and Director*

Yes, Jade, the -- we did a nice job in the first quarter across our investment sales business. And it's really important to note, and Jim in his comments made the point on the large volume of transactions we do. A significant number of those is captured in that RCA data, but over half of them aren't. And so we have an active business. We believe we grew market share across the spectrum of what we do. I wouldn't want to say it's at the expense of any one group of competitors, because we don't have great insight into -- other than what's published for everybody to see on RCA, we don't have great insight into what individual competitors do, and we also don't read too much into 1 quarter. But I would say the efforts that we're making across our capital markets business, both on the loan origination side and on the investment sales side and across the full spectrum, investment sales performed quite well around the world in the first quarter, and probably in most places, we took market share.

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

And in terms of the RCA data, is there a predominant category of your deals that are not showing up? Is it because of the size of the deals or the nature of the projects?

James R. Groch - *CBRE Group, Inc. - CFO and Global Director of Corporate Development*

There's a variety of categories. So I'd say the largest category is that RCA doesn't track sales by users as opposed to investors. So we -- with our large corporate business, we do a lot of work through companies that are buying real estate for their own use, so those don't show up. There are some that don't show up for size. There are some that don't show up for products. So for example, they don't track land sales, and we've got a large land sales business. So it's, kind of, a number of different categories.

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

And what percentage of sales, historically, have been from users as opposed to investors?

James R. Groch - *CBRE Group, Inc. - CFO and Global Director of Corporate Development*

I don't think we've broken that down. It's less than half. We noted, RCA's volume caught about less than half of our total transactions. It's -- they've captured more on a value of the transactions, because they're capturing, obviously, more of the larger institutional deals. Although, that's somewhat offset by the fact that smaller deals tend to have larger commissions. So from a revenue standpoint, they're missing a decent chunk of the revenue that comes to us from that business.



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

And in terms of the broker headcount, can you give some color on year-over-year percentage growth in the first quarter?

Robert E. Sulentic - CBRE Group, Inc. - CEO, President and Director

We don't give that, Jade. But what we said, if you remember, if you went back to '14 and '15, we talked about several hundred brokers net. So we track very closely not only the number of brokers we hire, we track the departures, we track the production of both groups. And we talked about, in '14 and '15, several hundred brokers net. We talked about the volumes slowing down by 1/3 or so last year. That's been similar this year. I can tell you that the average production of the inbound brokers is larger than the average production of the outbound brokers. By the way, this is another one of the things that I think is showing up pretty clearly in our numbers. But we don't give those percentages specifically.

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

On the Investment Management business, what drove the reversal of the carried interest comp? And can you say in what quarter that was previously booked?

James R. Groch - CBRE Group, Inc. - CFO and Global Director of Corporate Development

So we adjust for carried -- GAAP requires that we recognize comp expense associated with an incentive that we expect to get. So we'll assess the fund and maybe we'll run through the numbers on the fund and assess that we've got a carried interest 2 years from now that we think is going to be a certain amount. GAAP requires us to book the comp expense, which is significant at the time that we're making that estimate. We adjust -- all of our adjustments in that area that you're asking about is to try to align the comp expense with the timing of when we realize those incentive gains. So when we're reversing an expense like we did in this quarter, it can be from a number of different quarters where, if you look back over the last few years, we made adjustments in the other direction. So it's just -- that's all it is. It's just to simply match the comp expense with the timing that we actually realize the income from carried interest.

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

Does it reflect any reduction in the amount of carried interest or the gain that you expect to generate?

James R. Groch - CBRE Group, Inc. - CFO and Global Director of Corporate Development

Anytime we're making an adjustment, up or down, it's because we're reassessing a carried interest out into the future as compared to the time that we last made that judgment call. So yes.

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

Just wanted to ask about the retail sector and if you view it as an opportunity or a risk? In terms of transaction volumes, for example, are you seeing an increase in deal flow for dispositions from large retails, for example? Are you seeing space repositioning deals? And then in Management Consulting, is there an opportunity to either bolster capabilities or develop potential productivity-targeted initiatives toward helping advise retailers on improving their business?

Robert E. Sulentic - CBRE Group, Inc. - CEO, President and Director

Jade, first of all, I want to put retail in perspective. It is a very important business to us, and we have a substantial network across the country. But it is less than 10% of our Americas' revenues. Change is a good thing for us in general. When people are growing and adding space, that's good.

When people are exiting spaces and looking for people to offload into, that's good. So retail is a good business for us, has been a good business, continues to be a good business. It's not dominant in our numbers. What we're seeing is a couple of trends. Number one, anything that has to do with experience retail, food and beverage-oriented stuff, is, in fact, quite active. Secondly, anything that tends to be in and around these work, live, play type areas in major cities, the more urban areas, is really active and doing well. So we expect that to continue throughout the year. We expect the change to continue. Obviously, e-commerce is having a big impact on that. We do have the opportunity to be consultants to the retailers that we work for, and we get called on to do that fairly regularly. That's part of what we do as well. But that's a good, solid business for us, and we expect that to continue.

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

And finally, just what do you think is the reason behind the expected acceleration in occupier outsourcing growth in the second half of the year?

Robert E. Sulentic - *CBRE Group, Inc. - CEO, President and Director*

Well, the market, we believe, broadly speaking, the market opportunity is the same in the first half and the second half. What happened with us and what we talked about was, we spent the last 15 to 18 months integrating probably the most complex acquisition in the history of our sector. Certainly, the largest by headcount, and certainly, the largest by the number of different countries that were involved. And so when you're in that mode, you're filling your pipeline less than you normally would, because you're focused on executing existing businesses being integrated. So what you're seeing early this year is still the result of us being focused on that integration. As we get later into the year, you're seeing a reflection of us having turned more and more, late last year and early this year to going on offense, to growing the business, and that's what's being reflected there, not a change in the market.

Operator

Our next question is coming from Brandon Dobell of William Blair.

Brandon Dobell - *William Blair & Company L.L.C., Research Division - Partner and Group Head of Global Services*

Jim, maybe one for you to start. As you think about the balance of the year in the mortgage brokerage business, both the agency and nonagency business, anything that we should be aware of either relative to the pace of last year's volumes or change in mix, those kinds of things, that we need to remember as we think about Q2, 3 and 4 modeling-wise? Or just what the OpEx of growth looked like out of that business?

James R. Groch - *CBRE Group, Inc. - CFO and Global Director of Corporate Development*

Sure. Thanks, Brandon. I guess, I would start with some -- on the agency side. Both agencies have caps that are roughly similar to what they had last year. Our expectation is both will meet their caps. There is a little more room in the caps around some item -- some types of loans that don't -- aren't subject to the caps, affordable housing, green projects. But all in all, our expectation is it'll be another strong year. Our loan volume was down modestly with the GSEs from last year, but I think that's just a matter of timing between quarters. Our volume with Freddie was down a little bit. Our volume with Fannie was up a bit. So the real strength for us in Q1 was driven by the life insurance companies. As you know, the numbers, quarter-to-quarter, can move around a bit with the agencies in particular. But overall, we expect it to be another solid year.

Brandon Dobell - *William Blair & Company L.L.C., Research Division - Partner and Group Head of Global Services*

Okay. And then thinking a little bit about some of the OpEx questions and dynamics at the outset of the call, how is the JCI or GWS integration played into some of those dynamics? I recognize there is some, kind of, discrete cost management programs. But is there still some benefit to come



from the integration and how that's reduced the cost structure? Or are we past that? And really, just cost is going to be more depend on what you guys do from a kind of discrete perspective?.

James R. Groch - *CBRE Group, Inc. - CFO and Global Director of Corporate Development*

Yes, I think we're largely through the benefit of the synergies from within that deal. And as we noted, we're done our integration and normalization of any remaining cost will be done next quarter. So I think most of that benefit is really flow-through now.

Brandon Dobell - *William Blair & Company L.L.C., Research Division - Partner and Group Head of Global Services*

Okay. In the U.K., as you look at both investment sales as well as leasing in the quarter but, I guess also, more importantly, the pipeline. How do we think about the mix of the various property types that you see transacting or what the pipeline looks like, relative to what it looked like last year, especially kind of pre and post Brexit? Are you seeing any notable differences in especially the office or maybe even retail in the U.K. for how people are -- owners and occupiers are dealing with this stuff?

Robert E. Sulentic - *CBRE Group, Inc. - CEO, President and Director*

Well, industrial is strong, Brandon. And in general, the U.K. is making a nice comeback. I mean, we are seeing good activity there. I think we had a recent survey of clients that showed that London once again was the favored destination for international capital among all major markets around the world. So I would say, positive trends, and nothing about what's going on with the Brexit situation are giving us major concerns now. And if I were to spike out a property type, it would be industrial. Particularly good news.

Brandon Dobell - *William Blair & Company L.L.C., Research Division - Partner and Group Head of Global Services*

And then final one for me on producer headcount, I guess both EMEA and the U.S. given the M&A environment seems to be a little bit easier, has that impacted how you guys think about what the right level of, kind of, outgoing churn or attrition within the producer ranks should be? Or has it changed what those -- what that attrition looks like, either in a -- in any notable direction the past couple of quarters?

Robert E. Sulentic - *CBRE Group, Inc. - CEO, President and Director*

Brandon, I want to make sure we're understanding your question. Are you saying that because we think the opportunity to do infill M&A may be getting better again, i.e. the discipline in the market is such that we would be interested in deals, given current pricing more than we were last year, that we would correspondingly reduce our efforts to recruit, Brandon?

Brandon Dobell - *William Blair & Company L.L.C., Research Division - Partner and Group Head of Global Services*

But I guess, I was also referring to maybe the idea that the M&A environment is getting easier. Do you see your producers having an easier time, looking outside CBRE and going elsewhere?

Robert E. Sulentic - *CBRE Group, Inc. - CEO, President and Director*

No, no. I think the M&A environment doesn't impact our producers much one way or another. Really, the #1 overwhelming thing that impacts a producer's decision, particularly a producer's decision to stay, is whether or not they think the opportunity here, long term, is better than it is elsewhere. Yes, the signing bonuses have an impact, but when you look at the total number of producers we have, and when you look at the top ranks of producers, the headlines don't match up with reality. A huge, overwhelming number of our people look at the circumstances and say, over time, where can I do better? Where can I serve my clients better? Where can I do more business? And where do I feel comfortable with the



culture and the colleagues and all of those things? And the M&A environment doesn't change that much. Yes, the recruiting environment out there does change that a little, but that's on the margin. On the whole, if you look at the numbers, it's all about what we have to offer our producers, and that's going quite well.

Operator

Our final question today is coming from Anthony Paolone of JPMorgan.

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

Just in terms of income statement geography, the integration costs adjustment and the carried interest adjustments, where were those? Where would we make those adjustments? Are they on cost of services or OpEx?

James R. Groch - *CBRE Group, Inc. - CFO and Global Director of Corporate Development*

Yes, they're mostly going to go through OpEx.

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

Both of them go through OpEx?

James R. Groch - *CBRE Group, Inc. - CFO and Global Director of Corporate Development*

Yes.

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

Okay. And then, I think, tax rate in the quarter was around 29%. I think you had guided to, I want to say, 32% for the year. Is that still how it's going to go?

James R. Groch - *CBRE Group, Inc. - CFO and Global Director of Corporate Development*

Yes. We're not updating guidance, but we'll take another look at that in Q2. But the numbers you quoted were the numbers that we guided to. We are continuing -- following our GWS acquisition, we continue to rationalize entities. Sometimes we can get certain benefits released, tax benefits released, as we rationalize entity. So we're doing continued work in that area, but no update yet on that.

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

Okay. And then last question, did you buy back any stock in the first quarter? And how are you thinking about that right now?

James R. Groch - *CBRE Group, Inc. - CFO and Global Director of Corporate Development*

We did not buy back any stock in the first quarter. And we expect to ultimately execute on the authorization given by the Board, but we've not done any buybacks yet.

Operator

We actually do have time for another question. Our next question is coming from David Ridley-Lane of Bank of America.

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

Just had a question on -- in the capital markets business, whether or not you've seen widening in bid ask spreads or any hesitation on the part of buyers?

Robert E. Sulentic - *CBRE Group, Inc. - CEO, President and Director*

We haven't seen much impact on pricing, David. Maybe a just a very bit on the -- just tiny impact on cap rates and prices. We have seen some slowdown in the velocity related to getting deals done, and that's really where we've seen the impact. That -- anytime there's uncertainty about where the market is headed, you get that. But again, you saw our numbers. It was -- our first quarter this year was more active than our first quarter last year. And while neither year is the equal of 2015, a lot of volume. Both years, we did 1,900 deals in the first quarter.

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

Understood. And then on sort of a similar question on leasing, particularly around EMEA. Is that any sort of incremental hesitancy on the part of occupiers to find leases, particularly in the U.K., maybe?

Robert E. Sulentic - *CBRE Group, Inc. - CEO, President and Director*

No, I don't think there's incremental hesitancy. I think -- look, businesses around the -- we're in a slow growth environment, but we're in a growth environment. So businesses don't feel that need to secure space to make sure it's there to accommodate lots of future growth, but they do rational levels of leasing to keep pace with their modest growth. And that's exactly what we're seeing in the marketplace. We're seeing a lot of financial rigor by companies. That's why everybody has good balance sheet. That's one of the reasons we think the expansion has a chance to run for a while. And we're pretty happy with that dynamic, and it's playing out nicely for us, and it's playing out nicely in our numbers without being radical.

Operator

Thank you. I -- at this time, I would like to turn the floor back over to Mr. Sulentic for any closing comments.

Robert E. Sulentic - *CBRE Group, Inc. - CEO, President and Director*

Thanks for being with us, everyone, and we'll talk to you at the end of the second quarter.

Operator

Ladies and gentlemen, thank you for your participation. Today's teleconference has concluded. You may disconnect your lines at this time, and have a wonderful day.



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