Cushman & Wakefield

Second Quarter 2018 Earnings Conference Call

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CORPORATE PARTICIPANTS

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Brett White, *Executive Chairman and Chief Executive Officer*

Duncan Palmer, *Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

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Alex Kramm, *UBS*

Stephen Sheldon, *William Blair & Company*

Mitchell Germain, *JMP Securities*

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Peter Christiansen, *Citi*

PRESENTATION

Operator:

Welcome to Cushman & Wakefield's Second Quarter 2018 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. If you'd like to ask a question, please press star, followed by the number one on your telephone keypad. If you'd like to withdraw your question, press the pound key.

It is now my pleasure to introduce Bill Knightly, EVP of Investor Relations and Treasurer for Cushman & Wakefield. Mr. Knightley, you may begin the conference.

Bill Knightly:

Thank you and welcome again to Cushman & Wakefield's Second Quarter 2018 Earnings Conference Call. Earlier today, we issued a press release announcing our financial results. This release can be found on our Investor Relations website along with today's presentation pages that you can use to follow along. The materials can be found at ir.cushmanwakefield.com.

Please turn to the page labeled Forward-Looking Statements. Today's presentation contains forward-looking statements based on our current forecast and estimates of future events. These statements should be considered as estimates only, and actual results may differ materially. During today's call, we

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may refer to non-GAAP financial measures as outlined by SEC guidelines. Reconciliations of GAAP to non-GAAP are found within the financial tables of our earnings release and as an appendix of today's presentation. For those of you following along with the presentation, we will begin on Page 5.

With that, I'd like to turn the call over to Executive Chairman and CEO, Brett White.

Brett White:

Thank you, Bill, and hello, everyone. It is an exciting time at Cushman & Wakefield and we're pleased to be sharing our results with you today. As most of you know, we had a very successful IPO just a month ago and our business is performing well, which I will elaborate on shortly. But first, given this is our first call as a public company, I thought I'd begin by providing you all with a quick overview of Cushman & Wakefield. I'll begin my comments by referencing Page 5 in the presentation.

Cushman & Wakefield is a top three global commercial real estate services firm that focuses on two types of clients—real estate owners and occupiers—delivering a broad suite of services through our integrated and scalable platform. Our business is focused on meeting the increasing demands of our clients across multiple service lines, including Property, Facilities, and Project Management; Leasing; Capital Markets; and Valuation & Other services.

We are among the largest real estate services firm in the world with 48,000 employees in approximately 400 offices across 70 countries. In 2017, the Firm had $5.3 billion in Fee revenue we managed around 3.5 billion square feet.

While our leading global brand was built over the past 101 years, our business was completely transformed through the combination of DTZ, Cassidy Turley and Cushman & Wakefield in 2015. Combining those three firms under the Cushman & Wakefield brand gave us the scale and platform to effectively serve our clients in any part of the world and, importantly, it gave clients a third option for global service delivery in a highly fragmented industry.

Turning to Page 6, you'll see that we have a well-balanced, diversified business positioned to provide value to our shareholders. In addition to a geographically balanced revenue mix, you should note that 46% of our revenues are recurring from services like Property, Facilities, and Project Management; an additional 39% of our revenues are highly visible, which include services like Leasing and Valuation. That means 85% of our revenue is very durable through any economic environment.

On Page 7 you will see we have a strong track record of growth through both strategic and infill M&A. It's an area of particular strength of our Management Team. On average, we've executed deals at multiples of six times EBITDA on a post-synergy basis.

Turning to Page 8, we wanted to underscore the point that, because of the diversity of our revenue mix, demand for our services is most directly correlated to GDP growth, not the real estate cycle. Because we are not owners of real estate, asset values and interest rates are not a strong predictor for our Services business.

Looking ahead, the current economic environment and outlook is very favorable to our business and industry. Most economic forecasts, including the IMF referenced here, expect continued GDP growth through 2019 of around 4%.

On Page 9 you will find more detailed observations on the external environment. The commercial real estate market outlook remains robust with strong demand for office space, a continued boom for logistics facilities, and highly active capital markets. Overall, market conditions for commercial real estate remain quite positive.

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With that background, now I'd like to share the highlights of the first half of the year which you will see summarized on Page 10. To begin, I will reiterate that we were very pleased with the successful completion of our IPO and the Vanke service private placement, which, together, resulted in net proceeds of more than $1 billion which we've used to reduce our indebtedness and add additional liquidity. In addition, our business has performed very well in the first half of the year. We saw solid revenue growth of 10% in the half driven by strong 16% growth in Leasing and 28% growth in Capital Markets.

Our Capital Markets performance is a good example of the return on our recent investments into top talent, where we're not just driving revenue growth but we're also taking significant share. For example, in the last year we grew market share in New York investment sales from 11% to 37%, ranking as number one in that very important market. We've set the same strategy in motion in many other markets, including Sydney, where we recruited the top Capital Markets Team just seven weeks ago, and last week we were appointed to sell a significant stake in Chifley Tower, a trophy in Sydney's financial district and one of Australia's best-known office towers.

We also continued to see momentum in occupier services, like leasing and facilities management outsourcing. As one recent example, our Outsourcing business which we call Global Occupier Services extended its contract and expanded its scope of services with long-term client Humana. In addition to project and development services, integrated portfolio management and portfolio administration, we will now begin providing integrated facilities management across Humana's 9.3 million square foot U.S. portfolio. That's an example of how our dedicated account based services grow organically to meet client needs.

In addition to top line growth, we grew Adjusted EBITDA 51% in the first half and expanded Adjusted EBITDA margins 250 basis points year-over-year due to a combination of operating leverage and our Service line mix in the half. On Page 11 you will see our track record of strong operational and financial performance and our history of accretive margin growth. Since 2014, we've expanded EBITDA margin over 250 basis points.

Now I'd like to turn the call over to Chief Financial Officer Duncan Palmer who will discuss our financial results in more detail. Duncan?

Duncan Palmer:

Thanks, Brett, and good afternoon, everyone. I would like to start with the financial highlights for the first half of 2018. In describing our financial results, the Company uses Fee revenue, Adjusted EBITDA, and local currency to improve comparability of current results and to assist our investors in analyzing the underlying performance of our business. The Company believes that Fee revenue is useful to analyze the financial performance of our Property, Facilities, and Project Management service line and our business generally. Fee revenue is GAAP revenue excluding costs reimbursable by clients which have substantially no margin, and, as such, provides greater visibility into the underlying performance of our business.

We have determined Adjusted EBITDA to be our primary measure of segment profitability. We believe that investors find this measure useful in comparing our operating performance to that of other companies in our industry. This is because these calculations generally eliminate integration and other costs related to acquisitions, stock-based compensation, the deferred payment obligation related to the acquisition of Cassidy Turley, and other items.

Adjusted EBITDA also excludes the effects of financings, income tax, and the non-cash accounting effects of depreciation and intangible asset amortization. Adjusted EBITDA margin is calculated by dividing Adjusted EBITDA by Fee revenue.

In discussing our results, we refer to percentage changes in local currency. These metrics are calculated by holding foreign currency exchange rates constant in year-over-year comparisons. With that, let's start

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with our key financial data for the first half and second quarter of 2018, summarized on Page 13. You'll find the more detailed financial information in the tables of today's news release and the Form 10-Q.

Today, we reported year-to-date Fee revenue of $2.7 billion, a 10% increase compared to the first half of 2017. Second quarter Fee revenue of $1.4 billion also reflected a 10% increase compared to 2017. Year-to-date Adjusted EBITDA was $245 million, 51% higher than the first half of 2017. Our year-to-date Adjusted EBITDA margin of 9.1% increased 250 basis points from the first half of 2017, driven by strong performance in our Capital Markets and Leasing service lines, as well as by our continued focus on operating efficiency.

Adjusted EBITDA for the second quarter was $170 million, a 28% increase over the same period in 2017. Adjusted EBITDA margin expanded 180 basis points in the quarter. First half adjusted earnings per share of $0.53 was up $0.38 versus the first half of 2017. Second quarter earnings per share $0.46 was up $0.17 from the second quarter 2017. The improvement in adjusted earnings per share was driven by our strong operating performance, as well as a significant reduction in our adjusted effective tax rate, which was 22% in both the first half and the second quarter of 2018. This was an 800 basis points reduction versus the 2017 adjusted effective tax rate of 30%, driven primarily by the U.S. Tax Reform Act.

While we are on taxes, I wanted to add that we expect to have a cash tax rate of 12% to 15% on adjusted pretax profits in 2018, owing to our integration losses and planning. We expect that cash tax rate will be below the adjusted effective tax rate for several years. Note that our 2018 financials reflect the adoption of ASC Topic 606 as of January 1, 2018. This has resulted in acceleration of the recognition of certain revenue items related to our Leasing service line, mainly in our Americas segment. Two-thousand-seventeen financial results have not been restated by ASC 606.

For the first half, Fee revenue was up $25 million and Adjusted EBITDA $11 million due to the adoption of ASC 606. In the second quarter Fee revenue was up $15 million and Adjusted EBITDA $6 million. You can find other information on the impact of the adoption of ASC 606 in the appendix to this presentation and in the Form 10-Q.

Moving to Page 14 where we show our Fee revenue growth rates in local currency by segment, the Americas grew 11% and APAC 7% over the prior period for both the first half and second quarter. EMEA grew 75 on a year-to-date basis and 4% in the quarter versus 2017. I'll go into the more detail on the drivers of these growth rates later in the presentation.

On Page 15 we show our growth rates on a local currency basis for our four service lines. As Brett mentioned earlier, Property, Facilities, and Project Management service line, which we call PMFM, has represented almost half our Fee revenue over the past 12 months. PMFM grew 4% for the first half and 6% in the second quarter. Within PMFM, our Facility service operations represent a little over half of the Fee revenue. In Facility services, we typically perform a variety of services for our clients and we have major operations in both the Americas and APAC. Facility services is a great business for us with very sticky revenue, but typically this business has an annual growth rate in the low single digits. On a year-to-date basis, Facility services declined about 3% in revenue, caused mainly by a change in the revenue accounting treatment of a contract in APAC.

The rest of the PMFM service line, which includes our occupied outsourcing and property management operations, has grown in the mid-teens so far in 2018.

Our Leasing and Capital Markets service lines have shown significant growth so far this year with Capital Markets being particularly strong in the Americas and APAC. Valuation and Other has grown in both APAC and EMEA in 2018, but this has been more than offset by a decline in revenue in the Americas. I'll go into more detail on the drivers for this later in the presentation.

With that, we will start with a more detailed review of our segments, starting with the Americas on Page 16. Americas Fee revenue grew 11% for both the first half and the second quarter. Our strong growth was

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driven by Leasing, which was up 19% for the first half and 22% for the second quarter, and by Capital Markets, which was up 30% for the first half and 23% for the second quarter. Performance was strong across our Americas markets. As Brett mentioned, Real Estate Alert has reported that on a year-to-date basis we have the number-one position in the New York investment sales market with almost 40% market share, significantly ahead of our nearest competition.

Americas' Adjusted EBITDA was up 48% for the first half and 36% for the second quarter, primarily driven by a strong top line performance, as well as by operating efficiency. Adjusted EBITDA margin in the Americas for the first half was 10.1%. This represents an improvement of about 260 basis points versus the first half of 2017. While this sort of margin improvement is unlikely to sustain on a full-year basis, it demonstrates that we remain very focused as a Company on driving margin accretion across our businesses.

Within our Americas PMFM service line, our Facility services operations represent a little over half of our Fee revenue and Facility services revenue has been about flat so far in 2018. The rest of the PMFM service line has grown solid double digits on a year-to-date basis. The year-over-year decline in Valuation & Other was mainly driven by a contract that ended in mid-2017 in the Valuation business. This discrete item will not be a factor in the second half of the year.

Moving on to EMEA results on Page 17, Fee revenue increased 7% in the first half and 4% in the second quarter. Our PMFM service line in EMEA represents less of our overall segment Fee revenue than in the other two regions, but has grown strongly in the first half of the year, up 24% for both the first half and the second quarter. We've seen declines in revenue in Leasing with a 2% decline for the first half and 5% in the second quarter. We've also seen modest decline in Capital Markets revenue for both the first half and the full year. Valuation & Other has grown to 5% in the first half and 2% in the second quarter.

Overall, our EMEA business has grown EBITDA by $2 million in the first half, but was down $2 million in the second quarter.

I'd like to remind you that owing to the relatively heavy weighting to Leasing and Capital Markets in our EMEA business, typically less than 20% of the annual EBITDA for the segment occurs in the first half of the year.

Now for our Asia-Pacific segment on Page 18, Fee revenue grew 7% for both the first half and the second quarter. Leasing, Capital Markets and Valuation & Other all grew very strongly for the first half and the second quarter. PMFM represents about two-thirds of Fee revenue for the segment, and as I alluded to earlier, the Facility services business in APAC declined in the first half, owing to a change in the revenue accounting treatment of a contract in Australia. The impact to the accounting change to Fee revenue was $18 million in the first half and is expected to be about $30 million for the full year with no impact to EBITDA. Excluding this discrete item, PMFM grew 3% for the first half with the Facility services operations in APAC being about flat, and the rest of the PMFM service line growing double digits.

The strong revenue performance across the region has driven an 81% increase in Adjusted EBITDA for the first half and 43% for the second quarter. This enabled margins for the first half to increase by over 400 basis points.

Now we have a few additional items to cover. Many investors and analysts have asked us about integration costs and our addbacks to arrive at Adjusted EBITDA. To assist investors with this, we have provided a summary of our adjustments to EBITDA for the first half of 2018 and our projected adjustments to EBITDA for the rest of 2018, 2019, and 2020 on Page 19. As you can see, 2018 will be the last year of adding back material new integration costs. A majority of the remaining costs being added back in the second half of 2018 will be one-time fees paid in connection with the IPO.

Going forward, the remaining expenses being added back in this line will be non-cash employment expenses associated with payments made to fee earners in connection with the merger in 2015 and

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2016. Expenses associated with fee underpayments (phon) after year-end 2016 are being recognized in Adjusted EBITDA.

Consistent with our credit agreement, we excluded from Adjusted EBITDA stock-based compensation expense associated with the Management stock plans in effect under private ownership. Going forward, we'll be recognizing stock-based compensation expense incurred in connection with the Company's equity grants made to Management as a public company. The Cassidy Turley Deferred Payment Obligation, DPO, represents an accrual of the deferred consideration given to the employee shareholders of Cassidy Turley when it was acquired in December 2014. This accrual will cease when the deferred consideration is settled at the end of 2018. The cash use of the IPO proceeds are about $130 million.

Finally, we continue to experience some small items which we add back to EBITDA, including about $5 million a year of costs associated with our receivable securitization. These costs are expensed in adjusted interest expense and are therefore recognized there in arriving at adjusted earnings as opposed to within Adjusted EBITDA. In addition, we expect to have some relatively small one-time costs in the period from 2018 to 2020 associated with implementing Sarbanes-Oley compliance as a U.S.-listed public company.

Moving on to Page 20, we are very proud to have completed the successful initial public offering on August 6. At the same time, we entered into a private placement with a Chinese company, Vanke Service, resulting in an additional $170 million of proceeds. We're excited about this relationship with Vanke who now owns 4.9% of our shares. Overall, we raised over $1 billion of gross proceeds.

The use of proceeds has been to reduce our indebtedness and add additional liquidity. Since the IPO we have repaid the second lien term loan. In addition, we have completed the refinancing of our $2.7 billion first lien term loan and have completed a new revolving credit facility of $810 million. The first lien loan matures in August 2025 and the revolver in August 2023. Both facilities were closed with improved terms versus the facilities that had been in place. We've also expanded our receivable securitization facility to $125 million from $100 million and we have fixed our interest rate exposure for the near term.

The net effect of these actions has been twofold. First, we have reduced our net indebtedness so it's on a pro forma basis. We ended the second quarter as a net debt to Adjusted EBITDA of three times. We continue to project that our leverage will reduce to the mid-twos as our business grows. Second, we have secured liquidity in excess of $1.6 billion, comprising our revolving credit facility and our cash on hand. We have a strong financial position.

Turning to Page 21, in summary we are very pleased with the performance of our businesses this year and we continue to be very excited about the journey out Company is on. The global economy continues to provide an environment conducive to growth in our businesses across our service lines and across our markets. The fourth quarter is generally the largest quarter of the year in terms of Adjusted EBITDA, and we would expect that to be the case again this year. We look forward to providing revised full-year guidance on the third quarter earnings call which will be in November.

With that, I'll turn the call back to the Operator to moderate the Q&A portion of today's call.

Operator:

Thank you. As a reminder, if you'd like to ask a question, please press star, then the number one on your telephone keypad. We ask that you limit yourself to one question and one follow-up. We will pause for just a moment to compile the Q&A roster.

Your first question comes from Anthony Paolone with JP Morgan. Your line is open.

Anthony Paolone:

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Thanks and good afternoon. My first question relates to, as we start to look into the second half of the year—I know you're not giving guidance, but had very strong EBITDA growth in the first half and was wondering if you can talk through some of the puts and takes that may take away some of that growth perhaps in the second half or giving opportunity for some growth in the second half.

Brett White:

Sure, Anthony, and nice to hear from you. This is Brett. The first thing I'd say is that the underlying trends in the business that we saw in the first half of the year, nothing has materially changed in the trends. We're seeing good performance across the business in most of our global regions, but keep in mind that the first half of the year represents, as a proportional amount, less of our EBITDA by far than will the second half. When you think about percentage increases, we're dealing with relatively small numbers in the first quarter, a bit larger in the second, third and fourth quarter, particularly the fourth quarter for us, are the major events.

As we mentioned when we were on the road, we will be updating, if we feel it's necessary, our full-year guidance at the end of the third quarter on our third quarter call. At the moment, I wouldn't see any major puts and takes that would impact the fundamental business, but I'll turn it to Duncan. Duncan, anything you want to add to that?

Duncan Palmer:

Yes. I think Brett hit the key points. The trends are pretty good in the overall business. The percentage of EBITDA that shows up in the different quarters can vary year-over-year. I think last year we had a particularly strong Q4 and a relatively weaker Q3. I'm not expecting this year to maybe be shaped quite like that, but generally speaking, the business is in good shape, although obviously the significant EBITDA growth we saw in the first half of the year and the significant increase in margin is probably not an indicator of that kind of percentage for the whole year.

Anthony Paolone:

But do you think you can have some growth in the second half of the year versus second half last year in EBITDA?

Duncan Palmer:

I think we are expecting to see—I'd say Q3 last year was relatively weak, Q4 was quite strong. We're not guiding to specifically what we think EBITDA is going to be in the second half of the year, so I don't want to sort of get too much into that, but generally speaking I think that that was the shape of last year and I think this year won't necessarily be in that shape.

Anthony Paolone:

Okay. Great. Thank you.

Operator:

Your next question comes from Alex Kramm with UBS. Your line is open.

Alex Kramm:

Hey, good evening. Pretty strong margin expansion obviously as you pointed out several times here so far this year. I'm wondering if you could talk a little bit about the forward-look, and I'm not talking about the second half but more as you think about the next couple of years. Clearly you're gaining scale, so that should be a margin upside, but you also gained a lot from integration over the last year, so maybe you

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can just parse out as you think about the next couple of years how much opportunities are there still left on the integration side and maybe you can point to specifics, and then how much—or if we should just expect mostly it to come from sale gains.

Brett White:

Sure. Good question, Alex. First of all, I would just remind you that first half of this year the benefits to margin were not driven from legacy integration expenses from the 2015 mergers. These were performance of the business and cost efficiency that we drive just as a matter of business practice here. As we think about our business going forward, we've been pretty clear that we are very focused on accreting margin every year. It won't be likely at the rate that it has been the past three years, but we'd be disappointed if, in a favorable market, margins didn't expand a bit each year. Those expansions will come from a variety of factors. I'll let Duncan touch on those specifically.

Duncan Palmer:

Yes. As we talked about it, I think a lot during the road show, we do see opportunity to improve margins in our business and we are very focused on that across our businesses and our service lines. Part of that will come, as Brett said, from continued focus on operating efficiency just generally across our business. The second is scale where we see as we grow our businesses in all the service lines in all the geographies, we benefit from scale and spreading essentially the more fixed elements of our cost structure over a broader revenue base.

Thirdly, we get margin expansion as we infill. Brett talked about the success we've had in infill M&A. infill M&A, generally speaking, come on and enables us to expand scale and also to benefit from bringing that revenue stream on higher margins.

All those three things enable us to expand margins, probably not at the level we've seen over the 2014 to 2017 period per year, but, generally, we expect to drive margin expansion across our businesses and service lines on an ongoing basis.

Alex Kramm:

All right. Fair. Thank you. Then just secondly, I mean, you highlighted in your prepared remarks I think Sydney in particular as one of those areas where you're gaining share. But if you look at your business, there're still some holes or some metro areas, I would say, where you're underpenetrated. I think LA, for example, is an area that I think you've even talked about in the past. Any updates you can give us in terms of the hiring pipeline, teams you're looking to lift out; any areas that you can disclose already or that you're getting closer to that could be material?

Brett White:

Sure, Alex. That's a great question. I can assure you one thing I won't talk about are the teams we're thinking of lifting out, but I'd be happy to talk to a topic generally. First of all, I'll just give you a couple of data points that are interesting. In the U.S. so far since January 2017 up to the end of June 2018 we've hired 600 fee earners in the U.S. We've been aggressively hiring. We talked on the road show about where those folks are coming from. We're very focused on filling out our geographic platform in those areas where we aren't number-one or number-two. I think the great news for us, as we think about our business, what we get very excited about is we have a lot of room to continue to grow into markets such as you referenced.

We should be number-one in Los Angeles; we're not. That's something that—Los Angeles is a great example of a market we're focused on. We identified, really two years ago, those markets that were most important to lean into. Sydney was one of those. We're very proud of the group that we brought over and their performance already, since they've been here.

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But I think the best answer I can give you is you should be assured that we are very focused on the top 50, 60 markets around the world and making certain that we have a leading market position in those markets. That leading market position will be generated from organic growth; it'll be generated from hiring great people that are in the industry; and it'll come from infill M&A across those markets, as well. All three of those areas we're very focused upon.

Alex Kramm:

Great. Thank you.

Brett White:

You bet.

Operator:

Your next question comes from Stephen Sheldon with William Blair. Your line is open.

Steven Sheldon:

Good afternoon and thanks for taking my questions. I guess first within the Leasing and Capital Markets businesses, do you view the strong activity in the first half of the year as representing any pull forward of activity, and can you maybe talk about trends that you saw in July and August in those businesses? Did the kind of transactional strength continue in the first few months of the third quarter?

Brett White:

Sure. Why don't I first talk generally about the trends? As I mentioned, I think on Tony's question, or perhaps it was Kramm's (phon), we don't see any fundamental changes in the dynamic supporting the business at the moment from what we've seen the rest of this year so far. The trends we've seen lately are pretty close to what we saw the first half. What are those trends? The trends are: we see a very strong Leasing and Capital Markets environment in the U.S.; we see a very strong Leasing and Capital Markets environment in APAC; we see the U.K. in particular much slower in the Leasing and Capital Markets; and those trends I think have been a stamp for the year and generally what we're seeing now.

We're not going to talk specifically about July and August. We will do that on the third quarter call. I will tell you though that aside from our own performance, which we are very proud of, when you look at the market in general we're seeing forecasted vacancy and rental rates in the U.S. office market, which is a great proxy, I think, for the entire business in the U.S., generally very, very steady next year from what they are this year, and, frankly, this year those vacancy rate and the rental rates are very close to what they were last year. They've been steady for three years. The uptick we are seeing in Capital Markets is share gain—it's almost entirely share gain—and that's related to the hiring we've been doing and some infill acquisition work we've been doing.

Leasing I think is a—you'll get a different answer probably from everybody, and we guess when we try and give you the answer, but I do think that Tax Reform in the U.S. has fully taken hold. Our corporate customers, it takes them a while to go from the view that Tax Reform has actually happened to shaping their capital expenditure budgets and then deploying that capital, so there's a lag there. I think we're seeing some of that in the Leasing numbers. As Duncan mentioned in his comments, when you look at IMF's forecast of roughly 4% GDP growth globally, these are very conducive marketplaces for firms like us, and those trends, as I mentioned, remain in place.

Steven Sheldon:

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Got it. Very helpful. Then within the PMFM business in Asia-Pacific—nice to see that return to growth even with the headwind from the contract structure change for a large client there—can you talk about the factors there that drove the acceleration, and specifically were there contract implementations that could provide support for growth over the remainder of the year and into 2019?

Brett White:

Sure. I'll speak generally, but generally speaking in APAC you're seeing, in China in particular, very, very strong dynamics across the entire business. Every business line in China for us is doing exceptionally well right now and it's material. A piece of that is certainly China.

We have had a very well-entrenched, very, very good PMFM business, particularly the FM side, across Asia-Pacific for many, many years. There are clients we've had in that marketplace for, if you can imagine, over 20 years, and having that market position that we have in Asia-Pacific leads to, in most marketplaces, good growth year in, year out. When we look at the market today and we look at the numbers we're seeing coming from Asia-Pacific today, as Duncan mentioned, most of the growth we saw in Asia-Pacific was transactional. It was Capital Markets and Leasing. PMFM business is just a very good business for us. I'd say at the moment it's being led in growth out of China and some select markets, like Singapore and Australia.

Steven Sheldon:

Great. Thanks.

Operator:

Your next question comes from Mitch Germain with JMP Securities. Your line is open.

Mitchell Germain:

Thanks. Just curious about Europe transaction base revenues; obviously saw some headwinds this quarter. It didn't look like the comp was that strong either from a year ago; is that really just market dynamics slowdown related to Brexit and some other issues there?

Brett White:

I would say it's a combination of factors. The first factor, and I think that most of the firms in our business are organized this way in Europe, the U.K. is a material piece of the European business, and the U.K., as everyone knows, is probably the most—how do I say this right—is the slowest growth market of any major market that we operate in at the moment. You've seen the GDP forecast for the U.K. this year, which are barely any growth at all, and that comes straight through the Leasing line.

On the PMFM side, our business there is underweight. We are very focused on that, as we mentioned on our road show. When you see good growth in those business line in Europe we don't benefit as much as we'd like and we're focused on that as an area for growth for us.

But I do think Europe at the moment is just, the way it's performing at the moment is the way I think it's going to perform generally speaking for a while. That having been said, the first half of the year for Europe for us is only 20% of our EBITDA. We think that for the year we will have good results out of Europe and we see nothing in the marketplace today that would cause us to think that anything in Europe is going to get any worse than it is now. It's a generally pretty good marketplace at the moment, with the exception of the U.K. which is certainly struggling a bit.

Mitchell Germain:

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Got you. The U.K. as a percentage of your European business is how much?

Brett White:

We don't disclose that, but I would say it's a material amount.

Mitchell Germain:

If I can just sneak one more in, I think, Duncan, you said there's a path to deleveraging to mid-two times. Is that like a 24-month target or a 6-month target? I'm just curious in terms of how potentially the deleveraging strategy changed after the private placement.

Duncan Palmer:

Yes. That's a good question. We set a goal that we would sort of get to three times, and as you can see we're kind of on an IPO pro forma basis, at the end of Q2 we're kind of there. As you know, we have $1.6 billion of liquidity so we have a very strong balance sheet. I think from now on what we've said is that just through business growth, and essentially that means growth in EBITDA, we will see deleverage, right. We plan to generate a reasonable amount of free cash flow and we'll be investing a lot of that back in the business through infill and recruitment and efficiency projects. But, generally speaking, we will just de-lever because EBITDA will naturally grows and as it grows we will get towards mid-twos. We haven't put a specific timeline on that, but we have said sort of in the near term.

Mitchell Germain:

Thank you.

Operator:

Again, if you would like to ask a question, please press star, then the number one on your telephone keypad. Your next question comes from David Ridleylane with Bank of America Merrill Lynch. Your line is open.

David Ridleylane:

Sure. Good afternoon. Just wondering what the material credit covenants to be aware of on the revised first lien term loan are.

Duncan Palmer:

Yes. I think the documents are going to be, they'll filed with the 10-Q tomorrow, maybe—did we already file them, I can't—through the 8-K? I've forgotten. But the terms will be file there. Generally speaking, the terms have all improved for the revolver and for the first lien. There is no active covenant unless the revolver is essentially significantly drawn at the end of a particular testing period, so there won't be a covenant that's very covenant-light. Then if the covenant is tested, should there be a spring, then it's tested on sort of a first-lien leverage pro forma basis net debt to EBITDA of 5.8.

David Ridleylane:

Got it. Did I hear you right that you've fixed some of the interest rate exposure; did you talk about the details of any sort of interest rate swap that you did?

Duncan Palmer:

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Yes. Basically we have a general philosophy, certainly for the near term that we're going to fix our interest rate exposure on a net basis so when we look at our first-lien debt net of cash we look at that overall kind of floating rate exposure, because it is almost all floating rate exposure, and we are going to basically lock it all in through the end of next year and a little bit less the year after. It's going to be pretty much all locked in for next year, and those swaps are actually being put in place right now, so we'll be locked in for all of next year on a net debt basis. It'll all be locked in.

David Ridleylane:

Got it. Then on specifically the U.K. Capital Markets business, have you seen any signs in the marketplace that people are getting a little bit more concerned about a potential no-deal Brexit in terms of good ask spread (phon) or in terms of the number of listings or the number of bids; any sort of change in town around that?

Brett White:

No. We haven't. The Capital Markets business there—the nice thing about Europe is it is a terrific market for long-term investment and most investors take a pretty long-term view there. While we didn't see a lot of growth in that business in the first half of the year, it's still a very good business. We haven't seen any material changes in sentiment or deal terms based on that particular issue.

David Ridleylane:

Okay. Thank you very much.

Operator:

Your next question comes from Pete Christiansen with Citi. Your line is open.

Peter Christiansen:

Good afternoon and congratulations on the IPO.

Brett White:

Thanks, Pete.

Peter Christiansen:

You're welcome. I just had a question about the arrangement with Vanke. Can provide us a sense of perhaps some of the opportunities you see with that relationship and perhaps why do you think Vanke saw Cushman as the right fit?

Brett White:

Sure. I'll start with the second half of your question first. Our business in China has been a leading business for many, many years. It is primarily the DTZ business, and that business has been, as I mentioned, a leader in China for decades. I think that within China, the Cushman & Wakefield brand is highly respected. I suspect that for Vanke, they believed there was a great benefit to associating with that brand in one way or another. We are hopeful that with this investment, that this will lead to other opportunities between the two firms.

Vanke, as you probably know, or for those on the phone who don't know, they are very, very significant builder and owner of high-grade commercial buildings in many of China's largest cities, but also a very large third-party facility management business in China. We're talking, like we do with all of our big clients

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in China, we're talking about all the ways in which we can work together more closely and we are hopeful that we will continue to see benefit from our Vanke relationship in a deeper and better business relationship.

Peter Christiansen:

Thanks. Then just briefly, are you seeing any signs of wage pressure in any of your major regions in the PFPM side?

Brett White:

Yes. Speaking of China, we always see wage pressure in China. I don't think that's going to change for a while, but that's nothing new. We've seen that for years now. In our business, wage increases tend to move more or less along the line of inflation, and at the moment there's very low inflation across the board. We've seen a little bit of wage pressure in our Facility services business in the U.S., but the operative word there is a little. Across the rest of the business, most of wage pressure we would see is passed through on the contract with our clients, and we're not—at this moment I wouldn't describe wage pressure as a material item of concern to us.

Peter Christiansen:

Great. Thank you very much.

Operator:

That's all the questions we have for right now. With that, I turn the call back to Management.

Duncan Palmer:

Thank you very much. Thank you for joining our call today. Before I turn it on to Brett to close I'd like to note that we will file our 10-Q tomorrow.

Brett White:

Thanks, Duncan, and thank you to our investors and analysts on the call today. As we mentioned, we're really proud to be a public company, even more excited about the opportunities ahead of us. Thank you again. We look forward to talking to you at the end of the third quarter. Okay.

Operator:

This concludes today's conference call. You may now disconnect.

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