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# Cushman & Wakefield (CWK)

Q3 2018 Earnings Call


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# CORPORATE PARTICIPANTS

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# MANAGEMENT DISCUSSION SECTION

**Operator**: Welcome to Cushman & Wakefield's Third 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. [Operator Instructions]

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

Bill Knightly
*Executive Vice President, Investor Relations and Treasurer, Cushman & Wakefield*

Thank you and welcome again to Cushman & Wakefield's third quarter 2018 earnings conference call. Earlier today, we issued a press release announcing our financial results. This 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 may refer to non-GAAP financial measures as outlined by SEC guidelines. Reconciliations of GAAP to non-GAAP are found within the financial tables in our earnings release and appendix of today's presentation.

For those of you following along with our presentation, we will begin on page 5. And with that, I'd like to turn the call over to Executive Chairman and CEO, Brett White.


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## Brett White

*Executive Chairman & Chief Executive Officer, Cushman & Wakefield*

Thank you, Bill, and thanks, everyone, for joining us today. In recent months, we have discussed with you a number of initiatives we are pursuing as we continue to expand on our position as one of the leading, vertically-integrated global commercial real estate services firms.

These include a focus on revenue and share growth through the delivery of differentiated and best-in-class services to our clients, strategic recruiting and infill M&A to continue to expand on our strong global platform, continuing to leverage our strength in our large and growing recurring revenue businesses and a focus on growing margin through our proven cost discipline. I'm pleased to report that we are executing at a very high level against each of these priorities and more.

In the quarter, we experienced double-digit Fee revenue growth of 18% and Adjusted EBITDA growth of 77%. These results came from a balanced strong performance across our geographic segments and service lines, with particularly notable 34% growth in Capital markets and 32% growth in Leasing globally. On a year-to-date basis, Fee revenue grew 13% and Adjusted EBITDA grew 61%.

In the quarter and year-to-date, we also made significant progress on our goal to expand margin. Our third quarter Adjusted EBITDA margin was 11.9%, which is an increase of 400 basis points year-over-year. Year-to-date, our Adjusted EBITDA margin is 10.1%, representing an increase of 300 basis points over the same period in 2017.

While we're very pleased with our current performance, we're equally as focused on future growth through both infill M&A and strategic recruiting across key service lines and markets. In the third quarter, we were very active on both fronts and I'll share just a few examples with you.

We acquired the commercial property arm of Sherry FitzGerald Group in Ireland and a prominent valuations business in Australia. We also made continued investments in growing our recurring revenue businesses of Property, facilities and project management, with acquisitions of a leading design and build practice in the Netherlands and a highly specialized facility services business in the U.S. that focuses on clean rooms and controlled environments.

These examples illustrate our opportunity to grow our business by growing whitespace in our service platform, allowing us to serve new clients while offering more services to existing clients. In the third quarter, we also saw a continued evidence of our ability to win new business due to our leading position scale and ability to service clients with large complex needs around the world.

Our corporate outsourcing business, which we call Global Occupier Services, has seen an increase in its win rate this year as more corporates continue to outsource real estate services and continue to choose Cushman & Wakefield. Some representative client wins include large outsourcings for Avnet in Asia Pacific, an expansion of FM services for long-term client, Humana, and continued outsource and expansion with one of the largest tech firms in the U.S. Similar examples of outsourcing wins in our facilities services business include a 12 million-square foot portfolio for Cadillac Fairview and a renewal of our contract for Boston Logan International Airport.

As I mentioned previously, our Capital markets and Leasing businesses are growing significantly this year. Marquee assignments in the third quarter included representation of the buyer of two large Japanese logistic facilities, which is one of Japan's largest industrial deal in 2018; representation of Microsoft and its Canadian


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headquarters lease in downtown Toronto and representation of Teva Pharmaceuticals in a 345,000-square foot lease in Parsippany, New Jersey.

Now turning to page 6, you'll see an outlook on the global real estate market which continues to be very supportive of our industry and our business. Real estate fundamentals also continue to be very strong, notwithstanding stock market volatility trade tensions and rising interest rates. Investment volumes are expected to be higher than 2017, with still historically low interest rates and leasing fundamentals will remain robust globally.

So to summarize, along with this continued supportive external environment, we're very pleased with how our business is performing. October continued the strong momentum we've experienced throughout 2018. Based on this and our view on the macroeconomic environment, we'll be raising guidance for full year 2018 which Duncan will address in a moment in his comments.

We're making good progress on our financial, operational, and strategic growth objective. Clients, top talent and organizations interested in joining our platform are drawn to our brand, our momentum, and our culture. It continues to be a very exciting time to be at Cushman & Wakefield.

With that, I'd like to turn the call over to Duncan who will discuss our financial results and outlook in more detail. Duncan?

## Duncan Palmer

*Chief Financial Officer, Cushman & Wakefield*

Thanks, Brett, and good afternoon, everyone. Before I renew the financial data for the third quarter of 2018, I'd like to remind you that the company uses Fee revenue, Adjusted EBITDA, adjusted earnings per share and local currency to improve comparability of current results and to assist our investors in analyzing the underlying performance of our business. You'll find definitions of these non-GAAP financial measures and other more detailed financial information in the tables of today's news release and the Form 10-Q.

With that, let's start on page 8 which summarizes our key financial data for the third quarter and year-to-date. Our performance year-to-date has been excellent. In the third quarter, we reported even higher year-over-year growth than we saw in the first half of the year in both Fee revenue and Adjusted EBITDA.

We're on track to deliver a year of very strong Adjusted EBITDA growth and I'll discuss our full year guidance later in my remarks.

Today, we reported third quarter 2018 Fee revenue $1.5 billion, an 18% increase over the same period in 2017. Year-to-date Fee revenue was $4.2 billion, a 13% increase compared with the year-to-date 2017.

Adjusted EBITDA for the third quarter was $179 million, a 77% increase over the same period in 2017. Adjusted EBITDA margin grew 400 basis points in the quarter to 11.9%. Year-to-date Adjusted EBITDA was $424 million, 61% higher than 2017. Our Adjusted EBITDA margin year-to-date of 10.1% represents a 300-basis point increase from 2017.

Margin expansion for the quarter and year-to-date were driven by strong performance in our Capital markets and Leasing service lines and our continued focus on operating efficiency. Third quarter adjusted earnings per share was $0.45.


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As a reminder, in the third quarter, we successfully refinanced our debt facilities. We issued $2.7 billion of first lien debt with a seven-year maturity and completed a new revolving credit facility for $810 million with a five-year maturity. We also paid off our second lien.

We expanded our receivable securitization facility to $125 million from $100 million and we have fixed our interest rate exposure for the near-term. We ended the third quarter with over $1.7 billion in available liquidity and our balance sheet is strong. Year-to-date adjusted EPS was $1.02.

As I mentioned on our last earnings call, our adjusted effective tax rate to 22% both the third quarter and year-to-date is an 800-basis point reduction versus last year's rate of 30%, driven primarily by the U.S. Tax Act.

Moving on to page 9 where we show off Fee revenue growth in local currency by segment. The Americas grew 20% for the quarter and 14% year-to-date. EMEA grew 21% for the quarter and 12% year-to-date and APAC grew 11% for the quarter and 8% year-to-date. We'll discuss the drivers of growth for each segment shortly.

On page 10, we show our growth rates on a local currency basis for our four service lines. Our Property, facilities and project management service line, which we call PMFM, has represented almost half of our Fee revenue over the past 12 months. PMFM grew 8% for the quarter and 5% year-to-date. Within PMFM, our facility services operations represent a little over half of the Fee revenue. In facilities services, we typically self-perform a variety of services for our clients and we have major operations in both the Americas and APAC.

As we mentioned before, 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. For the quarter, facility services is up 1% and on a year-to-date basis, facility services is down 2%. Excluding a change in revenue accounting treatment related to a contract in APAC, facility services is up 3% for the quarter and is flat year-to-date. The rest of the PMFM service line, which includes our Occupier 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 this year led by 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 in the service line.

With that, we will start a more detailed review of our segments, starting with the Americas on page 11. Americas' Fee revenue grew 20% for the third quarter and 14% year-to-date. Our strong growth was driven by Leasing, which is up 34% for the third quarter and 25% year-to-date and like Capital markets, which is up 42% for the third quarter and 34% year-to-date. Performance was strong across our Americas markets.

Within our Americas PMFM service line, our facility services operations represent a little over half of our Fee revenue and facilities services revenue has been up 1% so far in 2018. The rest of the PMFM service line has grown double digits on a year-to-date basis. The year-over-year decline in Valuation and other was mainly driven by a contract that ended in mid-2017 in the Valuation business.

Americas' Adjusted EBITDA was up 69% for the third quarter and 56% year-to-date, primarily driven by a strong top line performance as well as by operating efficiency. Adjusted EBITDA margin in the Americas through the first three quarters was 10.9%. This represents an improvement of about 300 basis points versus the same period in 2017. Margin accretion has been driven by the strong performance in our Capital markets and Leasing service lines as well as continued focus on operating efficiency.


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Moving on to EMEA results on page 12, Fee revenue increased 21% for the third quarter and 12% year-to-date. This represents a strong performance in the quarter across our service lines. 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 33% for third quarter and 27% year-to-date.

Leasing grew 25% in the third quarter, bringing the year-to-date growth to 7%. Capital markets has grown 10% growth in the third quarter and 3% year-to-date. Valuation and other has grown 11% in the third quarter and 7% year-to-date.

Overall, our EMEA business had a strong third quarter, with Adjusted EBITDA of 126%, resulting in the business being up 76% for the year. Margin has increased 240 basis points year-to-date, a result of strong top line growth and a continued focus on operating efficiency.

Now, for our Asia Pacific segment on page 13, where Fee revenue grew 11% for the third quarter and 8% year-to-date. Leasing, Capital markets, and Valuation and other all grew strongly for the third quarter and year-to-date. PMFM represents about two-thirds of the Fee revenue for the segment and as I mentioned on our last call, 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 of the accounting change to Fee revenue has been $23 million year-to-date and is expected to be about $30 million for the full year with no impact on Adjusted EBITDA.

Excluding this discrete item, PMFM grew 5% for the year-to-date, with the facility services operations and APAC being about flat and the rest of the PMFM service line growing in the high teens. The strong revenue performance across the region has driven a 69% increase in Adjusted EBITDA for the third quarter and 77% year-to-date. Margin year-to-date has increased by over 300 basis points.

Now, I'd like to cover our full year guidance. Turning to page 14, in summary, we are very pleased with the performance of our businesses this year and we continue to be very excited about the progress we are making. The business environment for our markets continue to support healthy growth. Our momentum continues to be strong and we expect to finish the year showing significant year-over-year growth in both Fee revenue and Adjusted EBITDA. The fourth quarter historically the strongest quarter of the year and we would expect that this will be the case again this year.

We expect 2018 Adjusted EBITDA to be between $630 million and $650 million, reflecting the strong market fundamentals. We will provide 2019 full year guidance on our fourth quarter earnings call right now. Based on the continuation of growth in our markets, we expect to grow both Fee revenue and Adjusted EBITDA across our segments in 2019.

And with that, I'll turn the call back to the operator for the Q&A portion of today's call.


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# QUESTION AND ANSWER SECTION

**Operator**: [Operator Instructions] And your first question comes from the line of Anthony Paolone from JPMorgan. Your line is open.

Anthony Paolone
*Analyst, JPMorgan Securities LLC*

Q

Yeah, thank you. Good evening and a very nice quarter. My first question is just on before your guidance, if we look at what you've done year-to-date and back into implicitly without saying about Adjusted EBITDA for 4Q, would suggest it's down 19% year-over-year. Can you talk about why that might be and whether the third quarter strength was pulled forward a bit?

Brett White
*Executive Chairman & Chief Executive Officer, Cushman & Wakefield*

A

Go ahead, Duncan.

Duncan Palmer
*Chief Financial Officer, Cushman & Wakefield*

A

Yeah. It's Duncan. So, yeah, obviously, we've seen strong momentum this year in the first three quarters. We also, if you recall in the fourth quarter of last year, saw a very strong performance and, for example, we saw, I think, our Leasing business grow 30% in the fourth quarter last year whereas, I think, it was rather weak in the third quarter. So I think that sort of shape of last year and the shape of this year a bit different.

So, I think in terms of sort of, as we look out towards the fourth quarter this year and the full year, we expect to be a very strong year-over-year EBITDA growth overall. We're certainly seeing very good business momentum in our business and it continues to be a very strong [indiscernible] (00:17:52) as we look back at last year's fourth quarter, it was a very, very strong fourth quarter and that's kind of reflected in our guidance.

Anthony Paolone
*Analyst, JPMorgan Securities LLC*

Q

Okay. So but I mean is at this point, I mean, it's kind of the middle of November. Are you playing it conservatively at this point or from what you could see booked in your system it's just simply going to be a down year-over-year quarter in the fourth quarter?

Duncan Palmer
*Chief Financial Officer, Cushman & Wakefield*

A

Yeah. I mean, it's...

Anthony Paolone
*Analyst, JPMorgan Securities LLC*

Q

[ph] EBITDA. (00:18:20)

Duncan Palmer
*Chief Financial Officer, Cushman & Wakefield*

A


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...as you'd appreciate, an awful lot of our revenue and EBITDA actually shows up in the last two months of the year, so we don't have like a sort of complete knowledge of that right now. An awful lot of it shows off at the last quarter as you know and we did see good momentum as I talked about actually in October, so I don't think it's – we're losing momentum by any means and certainly, the business momentum in the overall business environment is very strong.

Anthony Paolone
*Analyst, JPMorgan Securities LLC*

Q

Okay. And then in the third quarter, if you just look at the year-over-year incremental margin, EBITDA margin or was it about 30%, 32%, somewhere in that ballpark. I mean, any sense as to how much of that was from cost initiatives versus just simply a lot of strength in the higher margin Leasing and Capital markets piece of the business?

Duncan Palmer
*Chief Financial Officer, Cushman & Wakefield*

A

Yeah. It's a great question. I mean, I think the – as you know, we're very, very focused on operating efficiency and continued – have continued to be so this year and there has been some benefit from some of the projects we've been executing there but I would say probably on a year-to-date basis of the overall margin expansion we've seen, which was several hundred basis points, I think it was like 300 basis points year-to-date. I think – I'd probably say the majority of that came from strong growth in the higher calorie service lines, particularly Capital markets and Leasing. Across our divisions, right? So it's the broad nature of that strength that has given rise to that margin expansion.

Anthony Paolone
*Analyst, JPMorgan Securities LLC*

Q

Okay. And then just last question, maybe for Brett. You've been around for a while and you guys had particularly strong Leasing results in the last couple of quarters but your peers have also had some pretty good Leasing results. Just curious from a more cyclical and fundamental point of view, any thoughts on the cycle and beyond the wins that you all have had, kind of what do you see driving sort of the strength and the ability to sustain it on the Leasing side?

Brett White
*Executive Chairman & Chief Executive Officer, Cushman & Wakefield*

A

Right. So, on the Leasing side, I would say first and foremost, what we look to and I'm sure you do as well, is what the independent third parties are prognosticating, forecasting about rents going forward and I'll just use U.S. office as a proxy for the market. And when you look at the respective third parties that are out there, all the brand names that you and I track, all of them are forecasting U.S. office rents to be up in 2019 and 2020. That, to me, is a very important data point because it speaks to so many of the sub-drivers behind the strength of this current expansion.

I think that for all of us, we will fight the data with instinct but I have to tell you that it's very, very difficult right now to find data points really anywhere throughout our business or that we can read about the folks are tracking that would imply anything other than a healthy commercial real estate market in 2019.

Anthony Paolone
*Analyst, JPMorgan Securities LLC*

Q

Okay. Thanks and again, great job.


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**Brett White**
*Executive Chairman & Chief Executive Officer, Cushman & Wakefield*

A

Thank you.

**Operator**: Your next question comes from the line of Vikram Malhotra from Morgan Stanley. Your line is open.

**Vikram Malhotra**
*Analyst, Morgan Stanley & Co. LLC*

Q

Thanks for taking the questions and congrats again on a strong top line across the board. Just maybe on that topic, you've made some key hires in a couple of different regions: West Coast, parts of Australia. Obviously, New York, you've had good traction. Can you just give us some more color and anecdotes on kind of how you're sort of winning businesses, both these key hires and in the same vein, where else do you really -- on the Leasing and Capital markets side, where else do you still need to beef up?

**Brett White**
*Executive Chairman & Chief Executive Officer, Cushman & Wakefield*

A

It's a very good question. So I would say that at this point, it would be a fair observation to say that the platform, as it pertains to transaction professionals, is built. So as we look across the business, there are no markets where we have what I would consider to be a large gap from where we'd like to be in terms of head count of professionals or productivity of professionals and that being said, some of the markets we talked about in the past are markets that we are focused on.

So, for instance, we are rapidly and fairly aggressively scaling up our transaction professionals business in Asia Pacific. So Australia and New Zealand, to some extent in Singapore, to some extent in Japan, those are areas where we certainly have room to grow. In the U.S., I've mentioned before we'd like to see our market position in Los Angeles be better than it is. Today, it's a very good business in Los Angeles, but could be bigger and better. Dallas is another market where we're quite focused right now but I would say that we're – with the hires we've made the last two and a half years, particularly on the Capital markets side, we have an A team across the board.

The people that we brought on in New York and Atlanta and Dallas and the West Coast the past two years are the best of breed. They're working, integrating exceptionally well with our existing folks in the business and a lot of the upside we see in our numbers right now is not the direct production of those people we hired, but rather the transfer of business and client work from those people to other people already existing in the business. That's exactly why we focused on this sort of producer.

**Vikram Malhotra**
*Analyst, Morgan Stanley & Co. LLC*

Q

That makes sense. Just two other quick ones for me. Maybe just on the integration expenses, could you just give us a sense -- obviously, it [ph] has (00:24:17) been running at a high level in 2018. And I'm not sure – I know you're not going to give us the guidance right now, but just from a trajectory standpoint, can you give us sort of a broad sense of where the integration expenses would trend going into next year?

**Duncan Palmer**
*Chief Financial Officer, Cushman & Wakefield*

A

Yeah. I mean, on the last call, if you recall, we provided, I think, a projection of all those line items going out, I think, to 2019 and so I think that we sort of provided some detail in the last call, I'll refer you back to that. I think in


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the quarter, I mean, the biggest expenses we were sort of adding back, they were not really from an integration point of view as much, sort of like two or three buckets I'd probably bring attention to. One is costs associated with the IPO, which kind of goes through that line but really, integration, from that point of view, there was a material amount of cost added back as a one-time item related to the IPO. That continues to be add backs, as I've discussed before for amortization of broker-related compensation that was linked to the original mergers of the deals as we also talked about before.

And then there were some other so much smaller items that related to sort of residual projects but those are probably the two biggest buckets in the third quarter. And, again, we – integration is essentially over and from next year, if you go back and take a look, the biggest items going to next year will continue to be this sort of tail about broker amortization. But beyond that, there'll be no real integration costs getting added back next year.

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Vikram Malhotra
*Analyst, Morgan Stanley & Co. LLC*

Q

So just – and just to clarify this, all the smaller kind of infill M&A, that shouldn't have any material change from what you projected last quarter?

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Duncan Palmer
*Chief Financial Officer, Cushman & Wakefield*

A

No. Materially, no.

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Vikram Malhotra
*Analyst, Morgan Stanley & Co. LLC*

Q

Okay and then just last one. Were you guys surprised, any sort of opportunities you can call out from Amazon's decision across three cities?

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Brett White
*Executive Chairman & Chief Executive Officer, Cushman & Wakefield*

A

Are we surprised? I think it's been fun watching the search process unfold. I thought it was – I thought they played it really well. So Nashville is going to get a service center. You've got the DC area picking up a big HQ, too. You've got New York picking up some great work there. So, for us, was it surprising? Sure. No one knew where they're going to end up. I think I haven't had a hunch it would be one, if not two, of those cities.

What does it mean to our business? Look, anytime we see a large occupier like Amazon continue to expand, continue to put large centers of people into urban areas like this, it's just very good news for the industry. In particular, I would say the site that they chose in the DC area is particularly interesting because it is a collection of buildings that I think were not receiving the kind of attention that other projects in the area were. So it takes out of the market a large amount of inventory that might have had a little bit more difficult time being leased up so that's a net positive for the market and for everybody. But it was – it's great to see and it's just all good news.

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Vikram Malhotra
*Analyst, Morgan Stanley & Co. LLC*

Q

Great. Thank you.

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**Operator**: Your next question comes from the line of Alex Kramm from UBS. Your line is open.

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**Alex Kramm**
*Analyst, UBS Securities LLC*

Q

Yeah. Hey, good evening, everyone. Just coming back to I guess Brett's comment about how the environment continues to be pretty solid and you obviously mentioned that for 2019, you continue to expect a decent growth across the business. Maybe just to turn this around, given that the stock market is obviously not agreeing with you, I mean, where are you seeing more uncertainty in your business when you look, I guess, globally or by business line? I mean, anything that – or are you starting to see any sort of cracks that you point out or are you pretty positive across the board?

**Brett White**
*Executive Chairman & Chief Executive Officer, Cushman & Wakefield*

A

I learned a long time ago not to pay a lot of attention to the stock market. I don't know what the stock market is telling us and everyone else other than it's volatile, but the things that we pay a lot of attention to are a collection of data metrics, the kind of metrics that we know best forecast to help or not of our industry and our business.

When we look across those metrics, it's already covered. The metrics we watch, the kind of metrics we watch on rental rate which, of course, is underpinned by construction product coming to market and absorption. You look at the Capital markets, which is an important business for us and for our primary competitors.

Sales volumes through the first half of 2018, we're up 13% over 2017. Cap rates are steady. So cap rates certainly aren't telling us anything to be worried about yield, and the delta and yield are all very, very positive right now. So we're seeing – when you look at financing markets, when you look at the price that the people are paying for buildings, even though interest rates have moved up, it hasn't seemed to had any impact really on cap rates or on velocity of transactions in the marketplace. I think one of the reasons for that, by the way, is essentially to note that debt funds have the total amount of capital in debt funds and dry powder in debt funds has doubled over the last two and a half years. Now, $40 billion of raised capital in the debt fund space and that debt fund space is another alternative for buyers to turn to, to finance all or part of their purchase transactions.

So the things we watch, we watch GDP. As you know, the IMF is predicting strong GDP growth for the next two years globally and in most major markets, we watch vacancy rates, we watch rental rate projections. Those are all quite positive right now. We watch new construction. There are very, very few markets right now that one could point to for the primary food groups that we operate in, they are overbuilt. In fact, it'd be hard to pick one at the moment. And we watch just the pricing of product and price remains rational and continuing to incrementally improve.

So areas we'd be worried about right now, I have to be honest with you, I suppose the places we're watching a bit more carefully might be the UK. And the UK, with still an uncertain outcome on Brexit, is certainly a question mark but think of this. Even with the uncertainty that's been around Brexit now for, what, going on two years, with an outcome that is not yet completely known and UK Leasing, [ph] for the (00:31:11) UK Leasing market is up 10% year-to-date and much, much more strongly that for the quarter. You look at Capital markets, up 13% in the quarter, 5% year-to-date.

So, even in the UK where you have a macro uncertainty, you see healthy transaction volumes. So all that to say, as we look around the major markets that we operate in, it's difficult at the moment to find a market that has anything obvious going on that is particularly worrisome.

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**Alex Kramm**
*Analyst, UBS Securities LLC*

Q

All right. Thanks for that color. And then secondly, pretty quickly, I think you mentioned yourself in your prepared remarks that in EMEA, you continue to be pretty underrepresented in PFPM, although that business has been growing nicely. Any updated thoughts in terms of scaling that business up inorganically? Is that a big focus or yeah, I guess [indiscernible] (00:32:07) question.

**Brett White**
*Executive Chairman & Chief Executive Officer, Cushman & Wakefield*

A

Yeah. So we've talked about and Duncan's talked quite a bit about our priorities around capital allocation and we're very thoughtful around that. As it pertains to infill M&A or even larger M&A for that matter, there is no doubt that we have a bias towards recurring revenue businesses and we've made it, I hope, clear and you just referenced it, that in EMEA, both in the recurring revenue businesses but in general, we feel we're underweight given the strength of this platform and the size of our businesses in other geographies. So we are always interested in high quality businesses that meet those metrics in or screening metrics for capital allocation and certainly, EMEA and recurring revenue businesses in EMEA are high on the list.

Now that being said, EMEA is a tough place to do M&A. It is a place that you must be careful because of the labor laws and the cost of integration and we are very careful in EMEA. But if and when we find high quality opportunities there, we'll move on them. You know, from our call in Q2 and the road show, that we've made a series of recurring revenue acquisitions in EMEA the last year and a half has all gone exceptionally well for us and we're on the lookout for more like that.

**Alex Kramm**
*Analyst, UBS Securities LLC*

Q

Great and then just one quick one to finish here. Given that it's a few months since the IPO now and clearly, last minute you got that Vanke investment, just wondering if now that you've hopefully spent more time with these guys, if there's anything that come out of this already, in particular, wondering -- I think they recently launched a kind of like a subsidiary around property management services. So, to what degree is this something where you can partner with them or are they actually competing with you to some degree? So any color there would be helpful.

**Brett White**
*Executive Chairman & Chief Executive Officer, Cushman & Wakefield*

A

Yeah. In China, there is not a – Vanke does not have a competitive property management business per se. We've been talking to them a lot about lots of opportunities for us to work together with them. We have a team there actually at the moment, working with them on a variety of interesting areas to work together in and outside China.

I suspect that in the coming months and years, we will have an ever more deep and powerful relationship with Vanke who's a very important client to us in China. I have nothing there to announce and there's nothing – I don't think that is imminent to be announced but we are absolutely working with them real-time, full-time to explore opportunities for these two firms to work together.

**Alex Kramm**
*Analyst, UBS Securities LLC*

Q

Very good. Thank you.


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**Operator**: [Operator Instructions] Your next question comes from the line of Stephen Sheldon from William Blair. Your line is open.

Stephen Hardy Sheldon
*Analyst, William Blair & Co. LLC*
Q

Hi. First one is some color on maybe the expected impact of operating efficiencies heading into 2019. You've said this year's margin expansion has been heavily driven by the mix shift more towards higher margin transactional activity and less of a benefit from operating efficiency. So just qualitatively, how are you thinking about potential operating efficiencies heading into 2019 and maybe some color on whether we should expect them to have a bigger or smaller impact than in 2018?

Brett White
*Executive Chairman & Chief Executive Officer, Cushman & Wakefield*
A

Yeah. This is Brett. Let me let me take out a kind of a macro stab at this. As far as I'm capable and then hand it to the expert, which is Duncan, but first and foremost, I would just say this. I think that – and we've talked about this in the past, I think generally speaking, this industry is pretty inefficient when it comes to managing businesses and focusing on operating efficiency. And we see that as very low-hanging fruit and something that we're good at and something that we intend to be very focused on year in, year out in this business.

We have a variety of project teams who spend all of their time looking at ways to use technology, looking at ways to do other things to make this business more efficient and to increase margin. It's something that is a relentless focus for us.

Let me turn to Duncan to talk a little bit about next year and how he thinks about that opportunity.

Duncan Palmer
*Chief Financial Officer, Cushman & Wakefield*
A

Yeah. Thanks, Brett. So as you know, and I think we talked about this quite a lot during the IPO process, we had a lot of work during the integration in terms of driving operating efficiencies. And I think we drove the order of 80 basis points or 90 basis points per year on average sort of over that 2014 to 2017 period. In 2018, we continued to sort of look for operating efficiency. Obviously, we have big margin expansion this year and it's been a factor of not only of the mix but also we have driven some operating efficiency which has been important to us, and we will continue to look for opportunities to drive operating efficiency every year. We do think that it's partly due to the scale of our business and partly due to the opportunities we have as we bring on infill M&A because opportunities for us to drive operating efficiencies across our platform.

We do operate at lower rate and margin rates than some of our peers, which in fact, for us, is an opportunity through scale to sort of pick up margin every year and we'll continue to drive that in our operating plans across our service lines, across our geographies, in our operating funds for next year. And it'll be part of when we provide guidance for next year, it will be part of what we look to, to provide the guidance for next year.

Brett White
*Executive Chairman & Chief Executive Officer, Cushman & Wakefield*
A


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I think just to add a comment to Duncan's comments, one thing we're very proud of both in 2017 and in particular, in 2018, is the entire industry is seeing great lift in transaction revenues but the lift we're seeing in margin is unlike any firm in this industry right now.

So the operating efficiency component of that lift is very real and while there is no doubt that the growth in Leasing and Capital markets are very, very supportive of this margin expansion, it would be a mistake not to also conclude that operating efficiency is driving a material piece of that as well.

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Stephen Hardy Sheldon
*Analyst, William Blair & Co. LLC*

Q

Got it. That's very helpful. Can you maybe provide the expected impact of ASC 606 in the fourth quarter to Adjusted EBITDA? I think you had originally targeted roughly a $15 million benefit this year, so through 3Q, we're a little ahead of that roughly $19.5 million. So will ASC 606 be a drag then in the fourth quarter or is the benefit this year just turning a little higher than you'd originally expected?

---

Duncan Palmer
*Chief Financial Officer, Cushman & Wakefield*

A

I suspect it's -- I wouldn't say it's something be, in any way, a drag because for us, because we haven't recast historical financials that's a benefit [ph] towards (00:38:57) for us in every period, so it will continue to be a benefit for us in the fourth quarter as well. It probably is running I think a little higher than we originally thought it would be.

It's definitely – I think it's on page 20 that I would refer you to that in terms of the appendix to our earnings deck in terms of what is has been year-to-date. It's been about $24 million, $25 million of Fee revenue in the third quarter and about $50 million year-to-date. It's been about $9 million of EBITDA in the third quarter and about $20 million year-to-date. And because of the relatively heavy amount of leasing in the fourth quarter versus the other quarter, I would expect it to maybe run a little higher than those rates in the fourth quarter simply because the fourth quarter is the largest quarter in Leasing and that's where a lot that benefit comes from in terms of the change versus last year. But we – I would expect to see a benefit in the fourth quarter and probably bigger than the run rate level than the average of the last three quarters.

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Stephen Hardy Sheldon
*Analyst, William Blair & Co. LLC*

Q

Got it. Thank you.

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**Operator**: And your next question comes from the line of Mitch Germain from JMP Securities. Your line is open.

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Mitch Germain
*Analyst, JMP Securities LLC*

Q

Good evening. Brett, I'm curious about your thoughts around the M&A market. I mean, obviously, you guys continue to find these smaller infill deals and obviously, there was a bit of pause in the market a couple years ago as pricing and expectation seem to ratchet a bit higher. It seems that, I guess, our diligence has adjusted pricing and has gotten a bit more reasonable here. I'd love to get some thoughts around what you're seeing.

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Brett White
*Executive Chairman & Chief Executive Officer, Cushman & Wakefield*

A


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So, in the M&A market, we do benefit, I think, a bit unusually from our peer group in the sense that I think we're seen as a good home for businesses that are looking to roll up into a strong global platform, that's for the reasons we discussed before to which is there are instances where we can onboard a business into ours and they can come in and fill an area of whitespace that we had available. So we tend to get, if not first look. We're definitely in the first group of looks that those firms pursue when they think about trading and I would say without exaggeration, probably more often than not we are first to look.

We have opportunities that continue to come to us where we're able to work with them exclusively before and make a decision whether we're going to pursue them or not before they go to the market. We like that a lot. We have opportunities that come through auction but we tend again to be affirmed at folks, if all things were equal, that folks tend to want to be with for the reasons that I just mentioned.

As it pertains to pricing, it really depends on the geography and the business line. There are certain business lines where things look pretty rich to us. There are other business lines that, for us, are very, very reasonably priced. We have lots of synergy with a lot of the company's expense [ph] energy, large (00:42:13) companies we look at and our post-synergy multiples are many, many times; usually mid-single-digit.

So, in the market today, we finally tend to have a bit less competition for some of the higher quality transactions because frankly, we can fit them in a bit better than others can. We see plenty of well-priced, reasonably priced, fairly priced businesses who I think have concluded, for all the reasons we've talked about for 20 years, that competing as a single market or a single business line firm is just too hard and being part of a powerful global platform like Cushman & Wakefield is a great place for those people and their clients to live in the future.

And there's nothing to market right now in the M&A side that would indicate to me the price is going up. I think to your point, if anything, we're seeing a bit more reasonable multiples on a lot of the projects we're working on.

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**Mitch Germain**
*Analyst, JMP Securities LLC*
**Q**

If I – my understanding, in terms of the facilities management business, is a lot of customers now are looking rather than just having one provider or multiple providers. Maybe it's by geography or other certain criteria. Is that providing your firm an avenue of expansion, organic growth or is there any other phenomenon that you think is really positioning you guys to continue to grow that business line?

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**Brett White**
*Executive Chairman & Chief Executive Officer, Cushman & Wakefield*
**A**

Yeah. Well, you have it right. So it is – it would be unusual to be anomalistic for a major corporate to have a single provider for their corporate real estate outsourcing projects. The biggest corporations, many of them tend to divide up the business by geography or by service line or by both. Because of the platform that we have created here at Cushman & Wakefield, strength of the business, the geographic footprint, the broad capabilities of services, we're now one of those three firms that is almost always bid.

And I would say it in most cases, two or three of those firms are going to pick up some component of the business, assuming they were outsourcing contracts that goes single provider. But if I look at our largest contracts in many, many of them, we're sharing the work with others. So think of it this way. I think that because Cushman & Wakefield now almost three years ago emerged on the scene with a platform, a service array, a quality of service delivery that simply just didn't exist in the market four and five years ago, there is a redistribution of existing share and we are benefiting from that.

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Mitch Germain
*Analyst, JMP Securities LLC*

Q

If I could ask one more. If we potentially see a slowdown in some of the major metros, New York or whatever, how do you think Cushman is positioned in some of the secondary markets?

Brett White
*Executive Chairman & Chief Executive Officer, Cushman & Wakefield*

A

Good question. Cushman & Wakefield is a – so we have hundreds of – let me answer it this way. We have hundreds of offices around the world and I would say that we have a strong presence in all of the major cities. Let's count that as the top 50 major markets around the world. But we have a strong presence in probably the next 150 cities beyond that so our business, for better or for worse, is a diversified business.

We believe it's important to be able to capture share and quality business in Cincinnati and Cleveland just as it is in New York and Chicago. And frankly, many times, the secondary markets are higher margin markets than are some of the major markets. And as you well know, some of the largest – the Fortune 500 companies in the U.S. are located in secondary markets.

So these are important businesses and markets for us. We're well-allocated through our footprint to, I think, a good number of secondary markets around the world that are important. When you look at our presence in Eastern Europe, we've got a dozen offices in Eastern Europe in cities that produce very good business, have terrific clients we do business with around the world, and produce a very good margin work for us.

Mitch Germain
*Analyst, JMP Securities LLC*

Q

Thank you.

**Operator**: And your next question comes from the line of David Ridley-Lane from Bank of America. Your line is open.

David E. Ridley-Lane
*Analyst, Bank of America Merrill Lynch*

Q

Sure. Good evening. So within the facilities management, the self-perform business, is there any follow-on benefit from the faster growth you have in the other side of the house, property management? Do you often get assignments when in the self-perform or when you win the broader mandate or does kind of low single-digit growth feel like a continuing trend?

Brett White
*Executive Chairman & Chief Executive Officer, Cushman & Wakefield*

A

There is no doubt that this opportunity you just described, maybe one of the lowest-hanging fruit we have in this company, we have not done near enough, a good enough job in having those businesses work together to feed each other. And that is something we are very focused on right now. We ought to see in the long run down the road, we ought to see half of the organic growth in our self-perform business come from the property management business or the large corporate outsourcing business that we have and a material piece of those businesses: corporate outsourcing, property management, ought to come from the self-performance business.


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It's not something that these businesses in the past focused on. It's something we are very focused on and we expect to see really good results out of the very, very intense efforts we have in that area underway right now.

**Operator**: And there are no further questions at this time. I will turn the call back over to Brett White for some closing remarks.

## Brett White

*Executive Chairman & Chief Executive Officer, Cushman & Wakefield*

Terrific. Well, thanks, everyone, for your time tonight. It's one of those quarters we want to sit and enjoy for a couple of moments before we start working on our – finishing the fourth quarter. But appreciate everyone calling in and look forward to talking to you in a couple months. Thank you.

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

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