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PRESENTATION

Operator

Good day, and welcome to the Newmark Group second-quarter 2024 financial results. As a reminder, today's call is being recorded.

At this time, I'd like to turn the call over to Mr. Jason McGruder, Head of Investor Relations. Please go ahead.

Jason McGruder - *Newmark Group Inc - Head of Investor Relations*

Thank you, operator, and good morning. Newmark issued its second-quarter 2024 financial results press release this morning. Unless otherwise stated, the results provided on today's call compare only the three months ended June 30, 2024, with the year earlier period.

Except as otherwise noted, we will be referring to results only on a non-GAAP basis, including the terms adjusted earnings and adjusted EBITDA. Unless otherwise stated, any figures discussed today with respect to cash flow from operations refer to net cash provided by operating activities, excluding GSE/FHA loan origination and sales.

Please refer to today's press release, supplement tables, and the quarterly results presentation on our website for complete and updated definitions of any non-GAAP terms; reconciliations of these items to the corresponding GAAP results; and how, when, and why management uses them as well as relevant industry or economic statistics.

The outlook today discusses -- assumes no material acquisitions or meaningful changes in our stock price. Our expectations are subject to change based on various macroeconomic, social, political, and other factors. None of our targets or goals beyond 2024 should be considered formal guidance.

I also remind you that information on this call contains forward-looking statements, including without limitation statements concerning our economic, outlook, and business. Such statements are subject to risks and uncertainties, which could cause actual results to differ from expectations. Except as required by law, we undertake no obligation to update any forward-looking statements.

For a complete discussion of the risks and other factors that may impact these forward-looking statements, see our SEC filings, including, but not limited to, the risk factors and disclosures regarding forward-looking information in our most recent SEC filings, which are incorporated by reference.

I'm now happy to turn the call over to our host and Chief Executive Officer, Barry Gosin.

Barry Gosin - *Newmark Group Inc - Chief Executive Officer*

Good morning, and thank you for joining us. We are happy to report that Newmark delivered growth across every business line, fueled by $2 trillion of near-term US commercial and multi-family mortgage maturities, nearly $400 billion of investable dry powder, and a stable interest rate environment. We produced a 15% increase in capital markets revenues. We also generated solid growth from management, servicing, and leasing.

Our 8% top-line improvement and strong operating leverage produced 22% earnings per share growth. We increased investment sales by 18%, which outpaced industry volumes. Newmark's debt business was up 15%, while industry-wide activity was down by over 5%.

Newmark's outperformance was led by mortgage brokerage growth of 46% and our deep position within the credit markets and strong access to both traditional and alternative sources of capital. Our office leasing revenues were up 16% as companies commits to space and office employment continues to outpace overall job growth.

Demand for additional office space is led by technology, including artificial intelligence and financial services. Recapitalization of properties at lower values will drive macro tailwinds across the leasing market.

Solid fundamentals will drive industrial and retail leasing activity, and we expect to outperform across all three property types over time. We remain confident in our 2024 full-year guidance as well as our 2026 target of generating 50% EBITDA growth over the next two years.

With that, I'm happy to turn the call over to Mike Rispoli.

Michael Rispoli - *Newmark Group Inc - Chief Financial Officer, Executive Vice President*

Thank you, Barry, and good morning. Newmark's second-quarter results demonstrated our strong operating leverage.

Our 8.1% revenue improvement delivered adjusted EPS growth of 22.2% and adjusted EBITDA growth of 18.3%. Total revenues were $633.4 million. We improved revenues for management services, servicing, and other by 9.2%, the fourth consecutive quarter of strong growth, and were up 14.7% year-to-date.

These businesses have grown at a 17% CAGR since our initial public offering in 2017 and recently surpassed $1 billion of annual revenues. We anticipate these service lines generating solid organic improvement for the remainder of the year.

We increased our leasing revenues by 2.4%, led by the 15.8% growth in office. We increased capital markets revenues by 14.5%, continuing to gain market share in both investment sales and debt. Investment sales fees improved 18.2% against the 2% volume decline in the US and Europe.

Fees from our debt business increased 14.6%, against a more than 5% decline in the US commercial and multi-family originations. This outperformance was driven by 46.2% growth in mortgage brokerage fees, partially offset by a decline in GSE/FHA origination. The decline in origination is due to a 27% decrease in industry activity as well as the difficult comparison to the second quarter of last year when we closed the $947 million Park La Brea origination.

Turning to expenses, excluding pass-through items. Total expenses were up 4.3%. Compensational expenses were up 8.3%, reflecting higher variable commissions as well as the recent addition of revenue-generating professionals.

Non-compensation expenses were down 5.3%. During the second quarter, we completed our $75 million cost savings plan. This consisted of long-term and sustainable expense reductions focused on streamlining and improving operational efficiency and service delivery to our producers and their clients.

While we have achieved our previously announced savings target, business transformation and operational excellence is an ongoing part of our DNA. Reimagining every part of our service delivery model through the lens of enhanced technology, artificial intelligence, and automation will drive operating results, more stable cash flow generation, and shareholder value.

Turning to earnings. Our adjusted EPS was $0.22, up 22.2%. Adjusted EBITDA was $86.3 million, up 18.3%. With respect to our share count, our fully diluted weighted average share count was 255.6 million, flat compared with the first quarter of 2024.

We repurchased 5.5 million shares in the quarter. Year to date, we repurchased 9 million shares at an average price of $10.32.

Turning to the balance sheet. We ended the quarter with $176.4 million of cash and cash equivalents and $745.2 million in corporate debt. Year to date, we have generated $132.5 million of cash from the business, representing 88.5% of our year-to-date adjusted EBITDA. We expect this strong cash generation to continue.

Changes from year-end cash reflect the cash generated by the business and $197.9 million of incremental corporate debt. These increases were partially offset by $185.7 million used primarily for investment in our business, $92.7 million of share repurchases, and normal first-half movements in working capital. We ended the quarter at 1.4 times net leverage, amongst the lowest in the industry.

Moving to guidance. Our full-year 2024 revenue and earnings outlook remains unchanged, and we expect sequential earnings improvement for the remainder of the year. We continue to target annual share count growth of 2% or less over time.

For 2024, we expect slightly higher fully diluted weighted average share count growth as a result of our 16% year-to-date increase in share price, which accelerates the recognition of certain RSUs under the treasury stock method. This is just timing and does not reflect the issuance of any additional equity.

And with that, I would like to open the call for questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions) Connor Mitchell, Piper Sandler.

Connor Mitchell - *Piper Sandler - Analyst*

Hey. Good morning. Thanks for taking my question. So across the whole real estate industry, we've seen cap rates coming in, especially with multi-family and shopping centers. So Blackstone might be interested in some shopping centers. We've seen some large apartments, transactions.

Just wondering how you guys think about the institutional appetite for putting dry powder to use paired with like higher pricing and some bidding wars, especially on the favorable property types and how that might impact your investment sales fees in the back half of the year.

Barry Gosin - *Newmark Group Inc - Chief Executive Officer*

Well, I mean, we passed the inflection point. We hit the trough. We're on our way to better times. Interest rates have stabilized.

The ecosystem is designed to buy property. The whole industry is there to invest dry powder, and they're starting to feel better about the opportunities. Many of the categories, it's not a demand or supply issue. It's really about interest rates and liquidity.

And as interest rates come down or stabilize, at the very least, there is a better look at positive leverage. So looking at where and the increases in the market where you want to invest, the smart guys are looking at lots of different things, and retail is one of those.

I mean, it had a softer year this year in terms of retail leasing and industrial, but the underlying fundamentals are all strong, nearshoring, onshoring, consumers. There have been a lot of retail centers that have brought -- have been taken off the market.

As long as population continues to grow, there will still be a need, and the consumer is still strong. So I think that all bodes well for the opportunities looking forward over the next couple of years.

Connor Mitchell - *Piper Sandler - Analyst*

Okay. And then maybe turning to office. You guys talked about the strong office leasing in the quarter and saw that you're the number one broker in the space now in the first half. We're well aware of the strength in Park Avenue and then Century City out West.

Just wondering if these two submarkets are truly differentiated. Or are you guys starting to see the spillover to some other submarkets, maybe closer by or even other regions of the country, in terms of leasing and then also any investment activity?

Barry Gosin - *Newmark Group Inc - Chief Executive Officer*

I mean, I think it's pretty consistent across the gateway cities that the top of the markets are generally pretty good. It's a bifurcated market, down the property types, top of the market, low vacancy, high pricing. Next, as that gets rented, the next tier starts to see activity. I think you could say that for other cities. Lou, you want to add to that?

Luis Alvarado - *Newmark Group Inc - Chief Revenue Officer and East Region Market Leader*

Yeah, yeah. I would agree, Connor. I mean, I think what we're seeing is consistent -- across the market, demand is up. Certainly, people are making commitments for longer term, whereas before, it was much more of a shorter-term commitment.

I think the other thing that you're seeing is as these buildings get recapitalized, it creates the opportunities for these buildings that weren't competitive to become competitive by having the capital to provide the TIs, which is a big issue in the leasing market today, as well as to amenitize these buildings to make them competitive and attractive for the tenants that are out there looking in the market.

So I think we're seeing a couple of things impacting the growth in office. And look, we're certainly not back to where we were, but we're certainly making good strides and good growth and the pipeline looks good and activity looks good going forward.

Connor Mitchell - *Piper Sandler - Analyst*

Okay. And maybe just one more for me as well. Just curious and wanted to get your take on how the business is progressing with some of the new international launches, most recently Paris.

Barry Gosin - *Newmark Group Inc - Chief Executive Officer*

Fantastic. It's incredibly exciting. We've hired great people in Paris. We have opened four months ago. We have now 30 to 40 people sitting in our office in Paris, and we expect to grow that over the next 12 months.

We've hired the number one and number two team in capital markets, retail brokerage. Just hired a great team in office leasing, both on the tenant and agency side. We're very excited about France.

And then we're doing well in the UK. We built a very good foundation of a business in the UK in a relatively short time, 24 months, since we broke up from our alliance partner. And we're going to do the same thing throughout Europe.

Connor Mitchell - *Piper Sandler - Analyst*

Okay. Thank you very much.

Operator

(Operator Instructions) Jade Rahmani, KBW.

Jason Sabshon - *KBW - Analyst*

Hi. Good morning. This is actually Jason Sabshon on for Jade. Thanks for taking my question. What kind of growth rates do you expect to see in leasing and capital markets in 2025?

Michael Rispoli - *Newmark Group Inc - Chief Financial Officer, Executive Vice President*

morning, Jason. So look, I think we've been pretty clear that we're seeing a turn in the market. Our pipelines are building. We have a clear target for 2026, which is about 50% EBITDA growth over two years. Exactly how that plays out each year is a little bit difficult to predict at the moment.

But I would imagine that we're going to continue to see improvement as we move through the back half of '24, as we move into '25, and certainly, by the back half of '25. And into '26, we expect pretty robust activity throughout all the markets.

Jason Sabshon - *KBW - Analyst*

Great. Thank you. And for commercial real estate transaction volumes to really pick up, would you rather see weaker employment and lower rates or stronger employment paired with higher interest rates?

Barry Gosin - *Newmark Group Inc - Chief Executive Officer*

Yeah, that's got to be carefully titrated. I mean, the reality is you would think that lower employment takes the fear out of inflation. People will come back to the office. Lower interest rates is probably the single biggest driver of capital markets transactions. People are looking for returns relating to the fixed free rate of return. And if you can't get positive leverage, it's hard to invest.

I mean, people are investing at the inflection point where there's even leverage on the anticipation of taking floating rate loans or SASB or CMBS loans for shorter terms in anticipation of a takeout at a lower interest rate and arbitrage as a result.

So that's really the biggest driver. On one hand, lower employment, you want higher employment and high employment growth because that establishes demand. So it's tricky. It's tricky.

Inflation will never reside -- in some respects, if you have population growth and you have inflation, it makes the existing inventory in stock more valuable and subject to replacement value. It's never going to get cheaper to build office buildings so that inflation with population growth and low interest rates would be the optimum condition to have. Because you would then be too expensive to build an office, the existing inventory would get filled up, they would be more valuable at higher rates.

And so it's a complex set of levers that drive the market. But from our perspective, we have a very good runway. We have an increasing market share. We've hired a lot of people over the last few years that have not even entered our numbers who are gestating into production. So we are in a really good position to benefit from both -- all aspects of the market improvement and market stabilization and runway increase.

Jason Sabshon - *KBW - Analyst*

Great. Thank you. And for my last question, it seems though office leasing volume has started to pick up a bit. So I'd be curious to hear your view on how occupier sentiment has changed and how you see the July jobs report, which was weaker than expected, how that factors in at all?

Barry Gosin - *Newmark Group Inc - Chief Executive Officer*

Well, the financial service industry has been doing really well. Artificial intelligence, there are green shoots all over the place. Data centers, digital businesses -- I mean, even Bitcoin and those kind of businesses are doing well.

I mean, the only issue in terms of office space in the cities are the businesses where people are more soft on people working from home. But the metrics are starting to show that productivity is declining and opportunity declines for young workers that don't come to the office.

Coming to the office -- every other category of real estate is a supply-demand, interest rate-driven business. Consumer demand is high in retail, multi-family, population growth. There's really a tremendous need for multi-family.

The only -- there will always be an up and a down in respect of oversupply in certain industries that will come back, and it's timing. But the office industry has been more complicated because of the nature of hybrid work. And that a lot of it -- a lot of the information is anecdotal.

It's our belief that people will come to work. And the further away we get from the experience of COVID, the excitement of young people coming to cities to work and get jobs and build relationships and build their careers, it's going to get better.

And I believe it is. We've -- our people are in the office. Of course, we're in the real estate business. Financial services companies are bringing their people into the office. They have to be there, but it's all going to get better.

CEOs are trying to get their people back to the office because they know that it's really beneficial in terms of culture. The CEOs have always, for the most part, wanted to bring their people back to the office, but -- so the one positive of a lower employment is the fact that it provides a lever of the power between employee and employer. And that gives CEOs a little more power to bring people back to the office.

Jason Sabshon - *KBW - Analyst*

Thank you.

Operator

Patrick O'Shaughnessy, Raymond James.

Patrick O'Shaughnessy - *Raymond James - Analyst*

Hey. Good morning. Can you speak to the multi-family outlook in general and then your loan origination pipeline in particular?

Barry Gosin - *Newmark Group Inc - Chief Executive Officer*

Well, multi-family is -- there's still a tremendous demand. I mean, there is -- a function there will be some recaps, some situations where people refinanced and purchased at high prices. But the demand and growth in many of these markets have -- it just continues to be strong.

Some markets have an oversupply and have too much in the pipeline, but that's just normal cyclical nature of the business. But we're optimistic about it. We're seeing a lot of bids and a lot of interest in things that we're doing..

And then you have affordable housing, which is a real opportunity. I mean, the good thing about affordable housing is on both sides of the aisle, it's -- there is no light between Republicans and Democrats on affordable because the Republicans like low income tax credits and the private world coming into building affordable and the Democrats really want more workforce and affordable housing for people.

It's mission-critical for Freddie and Fannie and CRE credits or institutions. So I think that's a growing industry. And we're a big player in the affordable space around the country, certainly all-time Section 8 and LIHTC. So that's all good for housing.

Michael Rispoli - *Newmark Group Inc - Chief Financial Officer, Executive Vice President*

Yeah. And Patrick, I would add that our multi-family debt business is up about 13% year to date and our GSE pipelines look pretty good going forward. While the industry is not going to hit the caps, it should look pretty healthy in the back half of the year. And our pipelines look strong.

Barry Gosin - *Newmark Group Inc - Chief Executive Officer*

Are you saying just originations GSE or generally loans in general? Because our debt business is going through the roof. We have an enormous amount of -- an enormous pipeline for recaps and financings in every aspect of our business. I've never -- we've never had as much as we have now.

Patrick O'Shaughnessy - *Raymond James - Analyst*

Got you. I know you answered my question. But maybe building off that, what is Newmark's ability to participate in the conversion of office structures into multi-family?

Barry Gosin - *Newmark Group Inc - Chief Executive Officer*

I can't -- I couldn't hear your question.

Michael Rispoli - *Newmark Group Inc - Chief Financial Officer, Executive Vice President*

Can you repeat that?

Patrick O'Shaughnessy - *Raymond James - Analyst*

What is Newmark's ability to participate in the conversion of outdated office properties into multi-family properties?

Michael Rispoli - *Newmark Group Inc - Chief Financial Officer, Executive Vice President*

Well, we -- the two largest in the country were sold by Newmark, financed by Newmark. The equity was raised by Newmark, 25 Water downtown, which is 900,000 feet. And just in New York City alone, 222 Broadway, which we sold and financed, is another very large project in New York.

We've been actively involved both on the legislative side of creating the programs and recommending programs, certainly in New York State and I think pretty much everywhere in the country. So we're involved in it in many respects.

So -- and that's certainly -- that's in the markets where there is inventory that is not suitable for a first-class office like New York. But other cities around the country are looking at this as an incredible opportunity to repurpose office buildings that are outdated into either affordable hotels or multi-family.

Some -- and they're hard, but some of the buildings are so deep. They're so deep, you can create light wells. It's really a function of the cost and what the yield to cost is in developing those buildings and depending on the amount of light and how the building situated will determine that.

Patrick O'Shaughnessy - *Raymond James - Analyst*

Got it. Thank you. And then last one for me. So a pretty strong second quarter. The macro backdrop seems to becoming more favorable at this point. What was the thought process behind the full year outlook, you said unchanged, versus maybe raising your outlook.

Michael Rispoli - *Newmark Group Inc - Chief Financial Officer, Executive Vice President*

Sure. So as you probably remember, we outperformed the peer group by a pretty wide margin last year and, particularly had a really strong fourth quarter with the largest loan sale in US history. So we're up against a little bit of a tough comp in the fourth quarter.

We're seeing obviously good pipeline build throughout our businesses. We feel really good about where the guidance is right now. And you can never predict timing of when these transactions will start to close.

So things look good going forward. And certainly, over the next few years, we feel really great about the business.

Patrick O'Shaughnessy - *Raymond James - Analyst*

Thank you.

Operator

We currently do not have any further questions. I would like to turn the call back to Mr. Barry Gosin to close out the call.

Barry Gosin - *Newmark Group Inc - Chief Executive Officer*

Thank you for joining us again. Look forward to the next quarter. I'm very excited about our future and hope to hear from you again. Thanks.

Operator

This concludes today's call. Thank you for your participation. You may now disconnect.
