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EDITED TRANSCRIPT

JLL - Q3 2019 Jones Lang LaSalle Inc Earnings Call

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OVERVIEW:

Co. reported 3Q19 adjusted diluted EPS of $3.52.

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CORPORATE PARTICIPANTS

Christian Ulbrich *Jones Lang LaSalle Incorporated - Chairman of Global Executive Board, President, CEO & Director*

Christopher D. Stent *Jones Lang LaSalle Incorporated - Executive MD of IR & Corporate Finance*

Stephanie Plaines *Jones Lang LaSalle Incorporated - Global CFO & Member of Global Executive Board*

CONFERENCE CALL PARTICIPANTS

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

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

Jason Price Weaver *Compass Point Research & Trading, LLC, Research Division - MD & Senior Research Analyst*

Mitchell Bradley Germain *JMP Securities LLC, Research Division - MD and Senior Research Analyst*

Patrick Joseph O'Shaughnessy *Raymond James & Associates, Inc., Research Division - Research Analyst*

Ryan John Tomasello *Keefe, Bruyette, & Woods, Inc., Research Division - Analyst*

Stephen Hardy Sheldon *William Blair & Company L.L.C., Research Division - Analyst*

PRESENTATION

Operator

Good morning. At this time, I would like to welcome everyone to the Jones Lang LaSalle, Inc. Third Quarter Earnings Conference Call. For your information, this conference call is being recorded. (Operator Instructions)

I would now like to turn the conference over to Chris Stent, Executive Managing Director of Investor Relations. Please go ahead.

Christopher D. Stent - *Jones Lang LaSalle Incorporated - Executive MD of IR & Corporate Finance*

Thank you, and good morning, and welcome to our third quarter 2019 conference call for Jones Lang LaSalle Incorporated.

Earlier this morning, we issued our earnings release which is available on the Investor Relations section of our website, along with the slide presentation intended to supplement our prepared remarks. Please visit ir.jll.com.

During the call, we will reference certain non-GAAP financial measures, which we believe provide useful information for investors. We include reconciliations of non-GAAP financial measures to GAAP in our earnings release and supplemental slides.

As a reminder, today's call is being webcast live and recorded. The transcript of this conference call will also be posted on our website. Any statements made about future results and performance, plans, expectations and objectives are forward-looking statements. Actual results and performance may differ from those forward-looking statements as a result of factors discussed in the annual report on Form 10-K of the fiscal year ended December 31, 2018, and in other reports filed with the SEC. The company disclaims any undertaking to publicly update or revise any forward-looking statements.

And with that, I would like to turn the call over to Christian Ulbrich, our President and Chief Executive Officer, for opening remarks.

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Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chairman of Global Executive Board, President, CEO & Director*

Thank you, Chris. I'd like to welcome everyone to this review of our results for the third quarter and first 9 months of 2019. Stephanie Plaines, our CFO, will share details of our performance following my introductory remarks.

In summary, we had an excellent third quarter at JLL with very strong growth in fee revenue, adjusted EBITDA and adjusted earnings per share, all increasing by double-digit percentages. Fee revenue totaled $1.8 billion for the quarter, a 16% increase in local currency above the third quarter a year ago. Adjusted EBITDA reached $300 million for the quarter compared with $234 million a year ago, a 29% increase in local currency. And adjusted diluted earnings grew $3.52 per share, 18% higher in local currency than in Q3 2018. These excellent results are a product of strong organic growth, combined with robust performance from our recent HFF acquisition.

To put our performance into context, real estate fundamentals are solid, amid cautious global backlog. The recurring theme of slowing growth is reflected in a global GDP forecast of 2.9% for 2019, still relatively healthy, but below the levels of recent years. With regard to the real estate market conditions, Slide 3 shows activity in global investment volumes and leasing gross absorption. Global investment volumes increased 13% in the quarter, bringing year-to-date totals to $205 billion, level with the same period in 2018. With the volume of yet-to-be-deployed capital helped by funds near all-time highs, investors, though increasingly cautious and selective, remain keen to access the sector.

Leasing volumes remained healthy during the quarter, but have started to slow, totaling 111 million square feet across 96 major markets. The global office vacancy rate edged down to 10.7%, a new low point in the cycle, and prime office rental growth slowed to 3.7% year-on-year.

Turning back to our own performance, and before Stephanie takes us through the detailed financial review, I would like to give you an update on the HFF acquisition, which closed at the beginning of the third quarter. We realized strong performance from HFF in its first quarter since the acquisition as both our JLL and new HFF colleagues came together quickly and focused on executing our combined growth plans.

For the quarter, HFF fee revenue increased double digits compared with the same period in 2018, continuing its strong first half 2019 performance. We are encouraged by the integration progress we have made. Combining our capital markets footprints has been highly complementary. The acquisition has been an excellent strategic fit, significantly strengthening our existing capital markets expertise. We are now able to provide HFF's clients with access to JLL's full suite of global Real Estate Services. Together, we are better enabled to achieve accelerated growth. The creation of a stronger talent base and capabilities platform is driving more cross-selling opportunities than we initially expected.

In support of our Beyond strategy to be a leader in technology and data and real estate, we recently announced the formation of JLL Technologies. This new division comprises more than 2,500 highly talented technologists. It will expand our technology and digital initiatives to meet future market and client needs, anticipating opportunities to reshape the future of work and the build environment. Mihir Shah and Yishai Lerner, who founded JLL Spark in 2017, will lead the second phase of our technology transformation and join our global executive Board.

Talking about our technology road map provides me with a great opportunity to shift to shareholder returns. Consistent with our capital allocation strategy, our Board of Directors has authorized a semiannual dividend of $0.43 per share, a 5% increase from 2018. In addition, the Board has authorized a new $200 million share repurchase program, replacing a program that has been dormant for more than a decade.

Our strong financial performance and cash flow generation allows us to continue to drive strategic, disciplined investments in the business to support long-term profitable growth while also returning capital to shareholders through dividends and share repurchases. These actions affirm our confidence in the business outlook and reflect our long-term commitment to being good stewards of capital while maintaining an investment-grade credit profile.

Now we will turn to Stephanie for more detailed comments on our performance.

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Stephanie Plaines - *Jones Lang LaSalle Incorporated - Global CFO & Member of Global Executive Board*

Thank you, Christian, and welcome to everyone on our call. I'm excited to share the details of our continued strong momentum. We delivered another quarter of record revenue driven by solid Real Estate Services, organic performance, combined with double-digit growth from our recent HFF acquisition. On an adjusted basis, we had healthy organic margin expansion, and HFF was accretive in its first full quarter post acquisition.

Before we start into more specifics, a quick reminder that we report percentage changes in local currency, unless otherwise noted. Overall fee revenue increased a record 16% compared with third quarter 2018 and grew 12% year-to-date. For the quarter, the growth was led by RES, which improved 22% and was the result of positive contributions from all service lines, solid organic growth of 8% and the HFF acquisition. HFF fee revenue for the quarter was $186 million, reflecting a 15% increase compared with the same period in 2018.

In our LaSalle business, we continued to successfully scale our platform, driving double-digit growth in annuity revenues and achieving record private equity margin. The combined results contributed to an impressive third quarter adjusted EBITDA margin of 16.5%. Organic gains are most notable in leasing and project and development services, led by the Americas and Asia Pacific segments. Our Capital Markets business reflected strong organic growth of 12% for the quarter. Corporate Solutions achieved double-digit fee revenue growth in both the third quarter and year-to-date and is on track to continue that momentum for the full year 2019.

As I noted, adjusted EBITDA margin, calculated on a fee revenue basis, was 16.5% for the quarter. Our RES business expanded margin notably by 250 basis points when compared with the third quarter 2018, driven by positive contributions from organic growth and recent M&A. We achieved margin expansion across all geographic segments, partially offset by a 70 basis point impact from expected lower incentive fees at LaSalle. Incremental investments will pivot away from global ERP-related spend with the completion of the multiyear rollouts of our financial ERP and HR systems. The new systems in place represent drivers of future productivity and efficiency as we scale the business toward our Beyond 2025 target.

Turning to debt management. Total net debt was $1.5 billion at quarter end, reflecting an increase from second quarter 2019 of $589 million and up $784 million year-on-year. The increase was driven by our HFF transaction, structured as a combination of shares and cash financed through our credit facility. Consistent with the acquisition, net debt to adjusted EBITDA levels increased to 1.5x for the third quarter. We have prioritized timely deleveraging and continue to affirm our commitment to maintaining an investment-grade credit profile.

Moving to our segment results. Americas fee revenue increased 35% in Q3 and 21% year-to-date. Excluding the impact from HFF, growth was a solid 12%. Organic growth was broad-based with double-digit growth in leasing, Project & Development services and Capital Markets. Capital Markets fee revenue grew nearly 3x for the quarter. The base business combined with the newly acquired HFF business generated double-digit growth with strong performance across debt placement and investment sales.

As Christian mentioned earlier, the integration with HFF is going well, and we are encouraged by the strong performance in the first 3 months. We have made good progress in identifying and realizing a portion of the synergies was in the first 90 days and are on track to achieve our stated targeted annual run rate EBITDA synergies of $28 million in the first 12 months and $60 million over 2 to 3 years. So far, we've been working to consolidate our JLL and HFF offices across 22 U.S. locations to co-locate our teams, and we have eliminated duplicative public company cost. We have started to bring our expanded capabilities to clients, and the feedback has been overwhelmingly positive. Real estate owners increasingly look for partners who can help them become more efficient and leverage technology to lower their cost and impact on the environment. They seek to create workspaces that energize and motivate their employees and want to partner to bring best-in-class execution to all aspects of the sale and/or financing process. Our ability to comprehensively address the needs of our clients speaks to the power of our combined platform.

In terms of continued M&A, we recently announced the completion of the Peloton Commercial Real Estate acquisition, a market leader in agency leasing and property management based in Texas.

Moving to Leasing. Our momentum continued as our business realized a fifth consecutive quarter of double-digit growth. Fee revenue grew 12% for the quarter and 18% year-to-date, driven by larger deals with continued strength in the industrial and technology sectors. We continue to make significant gains in bringing value-added expertise to our clients. Project & Development Services grew 22% and advisory and consulting delivered 9% for the quarter. Adjusted EBITDA margin was 19.2% for the quarter and 16% year-to-date. The 320 basis points of margin expansion for the

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quarter was evenly balanced between positive service mix from organic gains in our higher-margin transactional businesses and the contribution from HFF.

Turning now to EMEA. Fee revenue increased 6% in the third quarter and 2% year-to-date. This resilient segment saw solid growth in annuity businesses despite the impacts from sluggish performance in the U.K. and slower economic growth in Germany. France continued to perform well with fee revenue growth of 18% for the quarter, reflecting strength in Capital Markets. For the quarter, adjusted EBITDA margin was 6.2%, an increase of 50 basis points year-on-year.

Moving now to Asia Pacific, where performance continued to be solid. Fee revenue increased 7% over 2018, an 8% increase year-to-date. In the third quarter, all service lines grew with the exception of Leasing. Leasing fee revenue declined 12% for the quarter and was flat year-to-date. Market gross absorption was down in the quarter driven by a combination of economic uncertainty, delay in deals and the impact from tight vacancy conditions in some markets. In addition, the segment faced a challenging lap against third quarter 2018 results, which was up 35%.

Capital Markets fee revenue increased 35% for the quarter and 11% year-to-date compared with 2018, driven primarily by the growth in Japan and larger deals in Greater China. Corporate Solutions fee revenue improved 14% in Q3 and 70% year-to-date, propelled by strong win rates and growth with existing clients. Adjusted EBITDA margin was 14% for the quarter, a 280 basis point improvement year-on-year. The expansion reflected positive service mix, organic growth in Capital Markets, combined with improved profitability in Corporate Solutions.

Turning now to our Investment Management business. LaSalle's fee revenue declined 36% for the quarter and 10% year-to-date primarily a result of lapping near-record incentive fees earned in the third quarter 2018. For the quarter, incentive fees declined by $78 million compared to a year ago due to fewer material asset dispositions. Advisory fees, which serve as an annuity measure to the underlying health of the Investment Management business, grew an impressive 19% for both the quarter and year-to-date. Growth was primarily achieved from capital raising and deployment in LaSalle's margin-accretive 4 open-end funds across the globe. Equity earnings for the quarter were $15 million, predominantly driven by net valuation increases in Asia Pacific.

LaSalle's adjusted EBITDA margin was 34.3% for the quarter, a 90 basis point decrease year-on-year. The margin performance reflects the expected decline in incentive fees, partially offset by both strong equity earnings and achieving record private equity margins. For the third quarter, LaSalle's assets under management was $67.8 billion. Our ability to grow AUM organically remained strong and concentrated in scalable, higher-margin products. For the first 9 months, LaSalle's incentive fees were $59 million, exceeding the full year target range of $30 million to $50 million. The timing of incentive fees tends to be hard to predict and not fully in our control. As we look into the remainder of the year, our pipeline reflects a few sizable transactions that could benefit fourth quarter results.

In summary, the results for the quarter were stellar and a representation of our strong market presence, along with the anticipated benefits from the transformational HFF acquisition. We are well positioned to deliver our 2019 target of 6% to 8% organic fee revenue growth in our Real Estate Services business. We look forward to a strong finish to the year as we enter our seasonably high quarter for both earnings and cash generation.

And now back to Christian for closing remarks. Christian?

Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chairman of Global Executive Board, President, CEO & Director*

Thank you, Stephanie. Through the third quarter, we generated very strong performance both on the top line revenues and a margin perspective. We capitalized on a favorable environment with strong fundamentals across most geographies and business segments, and our efforts to increase operational efficiency are bearing fruit. In addition, the HFF acquisition is already accretive to our results.

In summary, we are pleased with the progress JLL has made post the third quarter and first 9 months of 2019. We now expect our 2019 consolidated adjusted EBITDA margin to be already within our long-term stated target range of 14% to 16%.

To close those prepared remarks, I would like to mention some awards and achievements relative to our global sustainability initiatives. We were named to the Dow Jones Sustainability Index for North America for the fourth consecutive year. We became the first U.K. property consultancy to

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commit to the World Green Building Council's Net 0 Carbon Building Commitment. Lastly, further exemplifying JLL's leadership and sustainability, we recently signed on as official supporter of The Task Force on Climate-Related Financial Disclosures, TCFD. JLL's support of TCFD further illustrates our commitment to transparency for our key stakeholders on both the risks and opportunities related to climate change.

Finally, I would like to recognize and thank all of our people around the world for continuing to serve our clients, shareholders and JLL so well.

Now let's take your questions. Operator, would you please explain the Q&A process?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Anthony Paolone with JPMorgan.

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

My first question is on HFF. Can you talk about whether the personnel decisions are all completed on both sides? And whether the people part of the integration is done?

Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chairman of Global Executive Board, President, CEO & Director*

Sure, Anthony, it's Christian. The integration has been going so far extremely well. The overall run-through of that will take a couple of more quarters. But obviously, the people decisions are being dealt with right at the start, so I would say we are probably 95% done on that. And we are very much driven by what our clients expect from us, and the feedback from the clients have been really strong. There's an overwhelming support from our client base, and that then leads you back to the people decisions. And so it has gone much smoother than we expected originally, and you can see that in the performance of the legacy JLL business as well as the legacy HFF business.

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

Okay. And then on the revenue synergy side, I think the comment was made about more cross-selling opportunities. Can you be a little more specific in terms of where the revenue synergies are emerging in the deal?

Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chairman of Global Executive Board, President, CEO & Director*

Well, what you see is that with our full services offer, we are able to provide now legacy HFF clients with services which they used to buy elsewhere. So we have won probably management mandates from HFF clients, but also the other way around, clients which we have served extremely well on the Leasing side are now assigning Capital Markets work to us, which is executed by former HFF colleagues. And so this kind of going back and forth between the different service lines has been much stronger than we have put into our plans, and there's great momentum around that.

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

Okay. And then last question for me. On the Leasing side, I know third quarter of '18, you had like 16% growth and that moved down to 6%. I know you've had a string of really strong quarters and so the comps get tougher here. As we start to think about fourth quarter, the comp gets even tougher yet. How should we think about Leasing in the fourth quarter or maybe the next few quarters, just coming off of some really strong numbers?

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Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chairman of Global Executive Board, President, CEO & Director*

Well, I mean, our Leasing business is -- the largest of our Leasing business is clearly in the U.S. and the U.S. leasing business has grown in the third quarter still double digit, it was 12%, which is excellent. The work in hand we see is still incredibly strong and there's a tremendous momentum. If you move into the other 2 regions, you can really pick the areas which are much slower than in previous quarter. That is, first and foremost, in EMEA, it's the U.K. where the U.K. is really slow on the Leasing side. That is something which doesn't come as a surprise to us. But if you cut out the U.K., overall, the leasing market in Europe is still relatively strong. We have delivered growth in Germany, and we have delivered double-digit growth in Germany on the Leasing side and double-digit growth in France. If you move down to APAC, it's predominantly Greater China which is slowing down on the Leasing side in the quarter. We are still seeing kind of growth opportunities there, but it's more muted than in the previous quarters. But if we bring that back to our overall performance in Leasing, what is really so relevant for us is the Americas and particularly the U.S. and the U.S. is still storming ahead. So overall, we are still pretty confident about our Leasing business going into the fourth quarter.

Operator

Your next question comes from the line of Jade Rahmani with KBW.

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

Just a quick follow-up to the last question. Can you quantify the percentage of business that JLL does in terms of maybe the percentage of fee revenue or EBITDA in the U.K. and in China, can you give each of those separately?

Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chairman of Global Executive Board, President, CEO & Director*

Overall or on the leasing environment?

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

Just overall because I think it's definitely been -- the greater international mix has been an overhang on JLL stock, so I think it would be helpful to have those 2 numbers.

Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chairman of Global Executive Board, President, CEO & Director*

In -- our Greater China fee revenue is significantly below kind of 6%, if I'm not mistaken, and the majority of that business is annuity-style revenue. And so even a slight downturn of the growth or a slight decrease of the growth numbers, which China is showing, would filter through to our business at such small numbers that it wouldn't really be noticeable in our overall accounts because the annuity business, obviously, will continue to perform nicely and is still growing. And if the transaction growth is slightly muted, we wouldn't really see that in the bottom line. So I wouldn't get -- at least, we are not getting overly concerned about that, and I don't think you should. On the U.K. side, this is already in our business. I mean the situation around Brexit and the uncertainty which we see around Brexit has been there now for the last couple of quarters. So in our own planning, we have beaten our revenue forecast in the U.K. pretty much every quarter. And that -- the can has been kicked down the road once again with the election coming up in December is, again, something which doesn't really concern us. To be precise on that question, I don't know whether Stephanie can chip in here on what the U.K. does as an overall fee revenue. I don't have that here -- wait, let me see, it is -- no, I don't have it here on hand. So Stephanie, you want to chip in?

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Stephanie Plaines - *Jones Lang LaSalle Incorporated - Global CFO & Member of Global Executive Board*

Sure. Jade, it's Stephanie. So the U.K. is a little less than 15% of our business overall. That's the broad strokes. But within that, as Christian said, so the Leasing business is soft and that's the demonstrative decline in our Leasing overall performance in EMEA. But as you'll hear, Capital Markets, for example, performed well in the U.K. So it is a balanced portfolio in that regard.

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

And the 15% is fee revenue, right?

Stephanie Plaines - *Jones Lang LaSalle Incorporated - Global CFO & Member of Global Executive Board*

Fee revenue on our total, yes. So comparable to the China statistic we just gave.

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

The China statistic with the low 6% and U.K. is 15%, right?

Stephanie Plaines - *Jones Lang LaSalle Incorporated - Global CFO & Member of Global Executive Board*

Correct. Yes. They're both based on total fee revenue.

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

Got it. Okay. On the HFF deal, in terms of -- you're saying you're seeing better cross-selling opportunities. Any specific areas you could point out? Is that Leasing, having HFF capital markets brokers team up with JLL's leasing folks? Or is it perhaps the Fannie Mae license, which HFF never previously had in the GSE multifamily business?

Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chairman of Global Executive Board, President, CEO & Director*

Well, the latter we kind of had in our plans pretty precisely forecasted what that would do to us. So there is no big difference with regards to our expectations. Where we are clearly outperforming our own expectations is on the Leasing side and on the property management side and on the project management side. So as I said, we are winning business in our property management from HFF capital markets clients, which is beyond our expectations. And we are winning more business on the Capital Markets side with JLL legacy leasing clients. So both these areas, we had in our forecast that there will be some cross-selling opportunity, but the cross-selling opportunity is significantly exceeding our expectations, and we see that momentum as moving forward into the fourth quarter and into the first quarters of 2020.

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

In terms of the consolidated margin outlook, you said you're already going to be in 2019 within the 14% to 16% range, and you mentioned some positive initiatives on the ERP side. Do you expect to increase that target? And when would you provide that?

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Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chairman of Global Executive Board, President, CEO & Director*

For the time being, we are very, very happy that we have achieved that target range already so early. That wasn't really what we thought what happened when we announced those targets in 2017. For the time being, we are sticking to those targets, and we see how we're moving into 2020 and see how 2020 comes by. And if there's a need to kind of come back to that target, we will do so over the course of 2020.

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

And just last question, how are you thinking about the company's resiliency and potential performance in the recession? Is this something that discussions are increasing on in terms of -- with respect to the Board? And how are you thinking about balance sheet leverage relative to that discussion with the HFF deal largely financed using a credit facility?

Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chairman of Global Executive Board, President, CEO & Director*

Well, I will take the first part of the question, and I'll leave the second part of the question for Stephanie. I mean, first and foremost, there is a lot of noise in the world, and that noise is kind of increasing now the talk about a potential global recession. At the moment, the world economic growth is still kind of 2.9%. That is less than it was in previous years, but it's still close to 3%, so we shouldn't dismiss that. The macroeconomic environment for our industry continues to be really, really positive, and that whole trend of urbanization is continuing, and it's very advantageous for our business. The same is true for corporate real estate outsourcing and the allocation of capital into real estate as an asset class. And so for us, the question is whether a slightly decreasing GDP development outpaces those macro trends which are particularly relevant for our industry. And I can only say that for the time being, the work in hand we have is at a record high. I said that already at the end of the second quarter that the work in hand is at a record high moving into the third quarter, and you see now the results. We see the same situation now moving into the fourth quarter that we have a tremendous book of work. And so we are working to deliver what our clients expect us to do, and we are less concerned about us being hit by any kind of a decline in the global economic outlook over the next couple of quarters.

Stephanie Plaines - *Jones Lang LaSalle Incorporated - Global CFO & Member of Global Executive Board*

Jade, I'll take that second part of your question regarding the leverage. So in Q3, with the HFF debt that we took on, which is about $840 million for the total deal, we're landing at about 1.5x. So that's slightly above our typical levels, which is exactly what we expected going into the transaction. So we're prioritizing debt deleveraging, so we'll be doing that. We're very pleased with the profitability curve that we've had as well as the cash flow generation. So we expect to get back down to levels that are largely in line with what we have historically been throughout the next 4 quarters.

Operator

Your next question comes from the line of Stephen Sheldon with William Blair.

Stephen Hardy Sheldon - *William Blair & Company L.L.C., Research Division - Analyst*

Congrats on the results. First, I wanted to ask about technology investments you're showing RES tech investments as a slight boost to margins this quarter in the waterfall, and I believe that's normally been a drag, although clearly a moderating drag. But can you maybe talk some about what's driving the benefit this quarter?

Stephanie Plaines - *Jones Lang LaSalle Incorporated - Global CFO & Member of Global Executive Board*

Stephen, it's Stephanie. Sure. Yes, it is showing as a benefit this quarter. It's really a reflection of our ERP execution, so we're coming to the finalization of that program. Workday, you'll recall, was a global rollout, and now PeopleSoft has been concluded. So that's really just a spend reduction that you're showing. If you kind of compare that to where we were last year Q3, that was about a 90 basis point drag. So that's exactly what we expected

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to see. To your second point, we still are very much heavily focused on technology-related spend, heavy in the client-facing and in the innovation space. So we don't expect this type of picture to be repeated going forward into 2020 as we have then fully cycled those large ERP investments. We kind of expect to be about 50-50 balanced on tech investments overall long-term and nontech investments.

Stephen Hardy Sheldon - *William Blair & Company L.L.C., Research Division - Analyst*

Okay. That's helpful. And then I wanted to ask, I guess, on the ERP still. How far along are you in terms of standardizing your operations kind of around those systems? Are we still in the early innings of seeing some of those cost efficiencies as that -- maybe you'll be able to realize as you start to leverage those systems more? Just any detail there?

Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chairman of Global Executive Board, President, CEO & Director*

Well, the first kind of task was to roll out globally consistent systems and what's now being worked on, and that will continue to be the case for the next couple of years to really leverage those systems. So we have lots of plans moving on to kind of take advantage and really use the scale, which we have, for the first time, really able to take advantage of. And so we will hope to see further productivity increases over the next couple of years to come, and that is giving us a lot of confidence with regards to any kind of margin resilience going forward.

Stephen Hardy Sheldon - *William Blair & Company L.L.C., Research Division - Analyst*

Okay. Got it. And then, I guess, just given the strong margin performance year-to-date and kind of related to the prior 2 questions, just how are you thinking about incremental investments in technology at this point, especially with the new structure for JLL Technologies rolling JLL Spark underneath that? Are you planning to maybe ramp those a little bit more and reinvesting some of the upside you've seen from the efficiency initiatives?

Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chairman of Global Executive Board, President, CEO & Director*

Yes, exactly. I mean this whole idea of bringing JLL Technologies all under the leadership of Mihir and Yishai is there to minimize replication and complexity in our technology and accelerate the development of a unified data platform and then really unlocking the full depth and richness of our real estate knowledge and data and turn that into real great benefit for our clients with new apps and digital tools. And the efficiencies we are gaining on our ERP side, a lot of that advantage will be -- we will use to turn that into increased investment into client-facing technology. I mean that is what was the whole game plan. And I can tell you, we are very proud that we achieved the rollout of that ERP platform because it allows us to focus even more now on the client side with our technology activities.

Operator

Your next question comes from the line of Patrick O'Shaughnessy with Raymond James.

Patrick Joseph O'Shaughnessy - *Raymond James & Associates, Inc., Research Division - Research Analyst*

I want to start with a question on your full year outlook for America's real estate investment sales volumes. Year-to-date, it looks like Americas investment sales volumes are up about 9%. Full year, you're expecting it flat. So that would imply, I think, a pretty big negative number in the fourth quarter. Curious if you can provide some color on kind of what is going into the outlook? And then, I guess, on a related note, did you guys see some pull forward in the third quarter from sales activity that you would have otherwise thought would have been in the fourth quarter?

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Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chairman of Global Executive Board, President, CEO & Director*

Well, first of all, with these data points, I always like to caution a little bit that there are different things falling into that -- into those research data. The way kind of public sources are doing it and how we are doing it, there's a slight difference to it. We have always been quite cautious with our outlook around the capital markets volume environment, and we probably are still quite cautious with that. We have been positively surprised by that strong rebounds of the volumes in the third quarter, and hopefully, there is more opportunity to be surprised in the fourth quarter. What was the second part of your question, say that again?

Patrick Joseph O'Shaughnessy - *Raymond James & Associates, Inc., Research Division - Research Analyst*

Did you see any pull forward in the third quarter. So you put up pretty good third quarter Capital Markets results, was some of that strength maybe activity that you would have previously thought would have closed during the fourth quarter?

Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chairman of Global Executive Board, President, CEO & Director*

No, not really. I mean the only thing I would say about the fourth quarter, if you remind yourself of the very, very strong performance HFF had in the fourth quarter of 2018, that's a really tough comparison going forward for the fourth quarter, but we haven't really seen any kind of pull forward deals. As I said, the work in hand we see, and that is not only in our Leasing business, but that is also true for our Capital Markets business, is very, very strong and at record levels. And so if that translates the way it has been translating in the past, we are pretty confident around it. But as you know, transactions are pretty kind of -- either they come in or they don't come in in the quarter, and so there's always some risk around that. But for the time being, we expect the fourth quarter to perform as a typical fourth quarter. And on the transaction side, that tends to be a very strong quarter, always.

Patrick Joseph O'Shaughnessy - *Raymond James & Associates, Inc., Research Division - Research Analyst*

Great. And then your property and facilities management growth on a local currency basis, and this is globally, decelerated to 4% year-over-year in the third quarter. That was down from, I think, 8% year-over-year in the second quarter. Is there anything going on there that you would call out that would kind of explain some of that deceleration?

Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chairman of Global Executive Board, President, CEO & Director*

Well, one small aspect is that we are putting the facility management and the property management business together. And you may have noted that we have sold our property management business in Europe over the course of the third quarter, and we're handing over the first couple of countries to the buyer, and so that has a small impact on that. If you just look at our facility management business, that continues to grow very nicely, and we continue to see organic growth there which is in the double-digit area.

Patrick Joseph O'Shaughnessy - *Raymond James & Associates, Inc., Research Division - Research Analyst*

Okay. Great. And then last one for me. What are you guys seeing out there right now in the co-working space in terms of either contributing to a positive backdrop or maybe some incremental headwinds as co-working might show some signs of slowing down?

Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chairman of Global Executive Board, President, CEO & Director*

Well, I mean, obviously, that flex space has taken a lot of attention over the last couple of weeks, they have been -- that area has been quite relevant for the additional growth in the leasing market and flex office space is probably at the moment, somewhere between 2% to 4% of the total office inventory in the U.S. There are 8,000 providers out there, some are more prominent than others, I appreciate that. But a big chunk of that take-up has been for all those provider -- coming from all those providers who are getting less attention in the press, and there will be a lot of opportunity

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for them to continue their growth. As you know, I think I said that earlier this year, flex space, that business model is something which is here to stay. It's an offering, which is really advantageous for our corporate clients. They enjoy that flexibility, which is offered there, and that will continue to be the case. And we see ongoing opportunities for us to serve those flex space operators with our services and there won't be much change to that just because of that recent noise in that industry.

Operator

Your next question comes from the line of Jason Weaver with Compass Point.

Jason Price Weaver - *Compass Point Research & Trading, LLC, Research Division - MD & Senior Research Analyst*

First, I wanted to touch on, with HFF now in the mix, can you comment on the composition of America's capital markets revenues, specifically, the proportion of investment sales versus sort of financing-driven revenue?

Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chairman of Global Executive Board, President, CEO & Director*

It's pretty much balanced, the 2. Investment sales and the debt placement is kind of the majority of the business and they have pretty much the same proportion. And then the other areas of our business is then much, much smaller, especially the equity placement and the loan sales. I mean this is obviously something which is very relevant for us going forward because if I move just quickly to the U.K., in an environment where the owners of buildings in the U.K. are unwilling to kind of lower their price expectations, whereas the buyers have an ambition to kind of get a premium for buying into the U.K. market in that political uncertainty, the transaction volumes in the U.K. have been down very, very significantly. HFF came with a very strong debt business in the U.K. And if you don't sell at some point in time, you have to refinance, which is very attractive in that interest rate environment at the moment. And so that debt business is probably something which will show more growth, not only in the U.S., but also in the U.K. and other areas of the world when volumes on the investment sales side may be slightly muted in a more critical environment.

Jason Price Weaver - *Compass Point Research & Trading, LLC, Research Division - MD & Senior Research Analyst*

And then can you just talk about the current proportion of sort of overall brokerage-driven revenues that are being driven by your P&M and PDS client base and whether you're seeing that accelerate?

Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chairman of Global Executive Board, President, CEO & Director*

I didn't get that. You were fading a little bit. Say that again, what part?

Jason Price Weaver - *Compass Point Research & Trading, LLC, Research Division - MD & Senior Research Analyst*

Excuse me, the current proportion of brokerage revenues that are being driven by property, facility management and Project & Development Services clients.

Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chairman of Global Executive Board, President, CEO & Director*

Sorry, I don't have that detail, how much of that is driven by those clients. We are very proud of our One JLL approach to our clients. And so we are trying to offer all our services in a very holistic approach, but I don't have any statistic at hand, how much of those revenues are now deriving from facility management clients or project management clients.

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Jason Price Weaver - *Compass Point Research & Trading, LLC, Research Division - MD & Senior Research Analyst*

Okay, fair enough. And then just one more point on Jade's question for Stephanie, possibly. With the share buyback authorized, does this change the calculus on the priority for leverage reduction at this point in the cycle?

Stephanie Plaines - *Jones Lang LaSalle Incorporated - Global CFO & Member of Global Executive Board*

Jason, no, it doesn't. I think in my prepared remarks, I said that we're going to be prioritizing deleveraging. We believe our capital allocation strategy is a very healthy balance between focusing in on prioritizing investments within the business for long-term growth and then return to shareholders. So we have a very active dividend policy, which you know since 2005, and the share repurchases are an amplification of how we're feeling about the strength of the business going forward. So we think that that's the right thing to do. Debt prioritization on the HFF will continue to be right in front of the line. So...

Jason Price Weaver - *Compass Point Research & Trading, LLC, Research Division - MD & Senior Research Analyst*

Congratulations on the quarter.

Operator

Your next question comes from the line of Mitch Germain with JMP Securities.

Mitchell Bradley Germain - *JMP Securities LLC, Research Division - MD and Senior Research Analyst*

Stephanie, in your remarks, you mentioned a few sizable transactions, was that specific to LaSalle? Or is that just the pipeline in general for brokerage?

Stephanie Plaines - *Jones Lang LaSalle Incorporated - Global CFO & Member of Global Executive Board*

It was specific to LaSalle, speaking to those incentive fees. So as you know, this area is difficult to predict and it's not one that we spend -- are able to predict accurately, but we do see upside potential in the fourth quarter. It's nothing that we can really give any further color on at this time, but we wanted to obviously put that in our prepared remarks that there could be a potential sizable transaction in play hitting these results.

Mitchell Bradley Germain - *JMP Securities LLC, Research Division - MD and Senior Research Analyst*

Okay. And then, Christian, last quarter, you had mentioned the pipelines in EMEA and Asia Pacific in terms of feeling like -- I think it was specific to capital markets activity was increasing, somewhat consistent with the results today. Curious as to where that stands? Are we seeing a little bit more of a rebound as well in the fourth quarter?

Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chairman of Global Executive Board, President, CEO & Director*

Well, in Asia, we have really made progress, and so we are pretty confident around that going forward. With regards to EMEA, I think what I already mentioned in this call, volumes in the U.K. are very much down because of that kind of, I would call it, expectation from the sellers who feel very comfortable with their portfolios. When you look at the rental levels in London, they are extremely high. They have grown quite significantly over the last 2 years. So the cash flow for the owners of space is still excellent, so they have no reason to sell their buildings below their price expectations, whereas many buyers believe that they should get kind of an additional premium for stepping into that market. So we believe that in the U.K., volumes will continue to be muted, but it is already within our plan, so there is no negative surprise for us coming. The other market, which is -- and I think I mentioned that before, which is slightly muted, is Germany. For different reasons, yield levels are extremely low and people are slightly more cautious how they enter that market at this point. What is going extremely well is France. We have tremendous growth in France and the

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overall mood in France is very, very strong. And we also see some other markets being particularly strong. We have new buyer groups coming into European markets, which used to only enter the U.K. which are now moving across the continent. One to mention is the Green Capital is very, very strong in Eastern Europe now. So for the fourth quarter, we continue to see a very good work in hand in our Capital Markets business with the caveat I just made around the U.K. and Germany.

Mitchell Bradley Germain - *JMP Securities LLC, Research Division - MD and Senior Research Analyst*

I know you mentioned HFF was accretive in the third quarter. One, was that in line with expectation? And then the second part of my question is, obviously, you also mentioned the cross-sell opportunity is better than you thought, but there's been no change to your near-term or long-term margin forecast. Just kind of curious where that stands as well?

Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chairman of Global Executive Board, President, CEO & Director*

Well, as you know, Mitch, we are pretty experienced in integrating acquired businesses, and so we try to plan as precise as we can when we do those type of deals. Now this one is obviously a deal which is clearly standing out by many kind of criteria. And so we were cautious in our comments to the market when we announced the deal with regards to the cross-selling. And so we are very happy to see that the first combined quarter went better, frankly, than we expected. It went better for 2 reasons. First of all, the performance of the HFF legacy colleagues has been absolutely stellar. But also we were probably a little bit positive surprised that our own legacy teams performed so well in the third quarter. You always expect some distraction. And so we are very proud that they were totally focused on our clients and continued to do what they're best at. With regards to cross-selling, that was something where we were really, really cautious in predicting how quickly and to what extent that will come. Now it went extremely well because the reaction from our clients was so positive. And so that is probably something which will help us to continue to show really, really strong performance in that merger. Even if -- and we are not predicting that, but even if the markets were to be slightly more muted, there is quite a lot of cushion now for us to deal with that because of the better opportunities around cross-selling with other service lines.

Mitchell Bradley Germain - *JMP Securities LLC, Research Division - MD and Senior Research Analyst*

Great. Last one for me, and I think you just hit on my question which was with regards to the legacy Americas capital markets JLL employees. Obviously, it seems like the integration was occurring throughout the quarter and is still occurring in terms of what the team will look like. Do you think that organic growth, given kind of the -- where the staffing levels are heading is, sustainable in the Americas region, considering kind of where the staff is -- staffing is heading?

Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chairman of Global Executive Board, President, CEO & Director*

We are always very, very keen to increase the productivity of our brokers and to increase the revenue per head. And obviously, when you do a deal like that, there is quite a lot of work to do because people are coming in, in different locations. Sometimes, there is still opportunity for more headcount and in other locations, it has become a bit more crowded. But as I said earlier on this call, it has been going really well according to our expectations. And as you can imagine, we planned that there will be some attrition around that topic, but it has been doing really well. And so on the people's side, we will be kind of back to normal course of business now very soon, and we'll focus again on where our growth opportunities in 2020. And so I think on that end, the merger will be very much behind us pretty soon, where it will continue to be keeping us busy is the integration on the technology side, bringing all systems together and those type of things. But that takes time, you can't do that overnight.

Mitchell Bradley Germain - *JMP Securities LLC, Research Division - MD and Senior Research Analyst*

Congrats on the quarter.

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Operator

Your next question comes from the line of Ryan Tomasello with KBW.

Ryan John Tomasello - *Keefe, Bruyette, & Woods, Inc., Research Division - Analyst*

Christian, I was -- just was hoping you can provide us with some additional color on how the underlying businesses at JLL Spark are performing? For example, do you have any stats on what the percentage of JLL's client base is that's actually utilizing those technologies in some capacity and how that compares? And then secondly, as it relates to the broader JLL Technologies group, longer term, how do you see that group evolving? And are there any other large initiatives you are contemplating housing there in addition to just JLL Spark and some of the other internal technology development initiatives you referenced?

Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chairman of Global Executive Board, President, CEO & Director*

Sure. I mean, first of all, I would like to reinforce that JLL Spark was a very important activity for us in the past to get deeply into the PropTech world, but compared to the overall activities we had on the technology side, it was a very small activity and also a small activity with regard to capital allocation. Bringing now all technology activities under one roof is obviously a completely different ballgame. I mean, we are talking about more than 2,500 people who are working within our technology areas, and the amount of capital allocation is very significant. We see our opportunity to increase now our attention to create client-facing applications, which are really changing the experience of our clients. And as I said earlier, with our platform technology being rolled out, there's a lot of capacity which will be able to move into client-facing activities over the next 1 to 2 years as they roll off of the platform implementation. So we have tremendous hopes and ambitions around that whole topic. Technology is changing the build environment, and we want to be leading around that topic.

Ryan John Tomasello - *Keefe, Bruyette, & Woods, Inc., Research Division - Analyst*

And then just lastly as it relates to one of the earlier questions on co-working. Can you say how much co-working and flexible office contributed to year-over-year growth in JLL's Leasing business in the quarter and year-to-date? And secondly, I was wondering if you actually view WeWork's potential pullback in the market actually as an opportunity for JLL? Meaning, is that an opportunity for companies like JLL to re-lease space that WeWork is vacating or re-lease these spaces where WeWork might be backing away from previous commitments on these spaces?

Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chairman of Global Executive Board, President, CEO & Director*

You know what, I think that the whole discussion around WeWork is slightly overstating their importance to the market. They have been very, very important to make flex space something which is on -- kind of on everybody's mind and the opportunities which that service offering is providing to occupiers. But as I said earlier, there are more than 8,000 flex-based companies out there. And if one is having to kind of readjust their business model going forward, that doesn't mean that it has a massive impact of that -- to that overall industry. And coming to JLL, we have taken our fair share in leasing space to flex space operators in the past couple of years, and we will continue to take our fair share. I don't think that any kind of space which potentially one company will not sign up for or will actually bring back to the market will have any significant impact to JLL. I mean the beauty of our business model is that, frankly, no single client is a material component of JLL's revenue, and WeWork is no exception to that.

Ryan John Tomasello - *Keefe, Bruyette, & Woods, Inc., Research Division - Analyst*

Fair enough. And just do you have a specific number on how much co-working overall, not just WeWork, but just the overall segment contributed to the Leasing business' growth year-over-year in the quarter?

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Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chairman of Global Executive Board, President, CEO & Director*

To be honest, I don't have that at hand, which already is an answer to your question. It is not big enough that somebody would provide me the number of that area. We don't pull it out as a separate piece of client group for us. It is just part of our growth which you see in our Leasing business.

Operator

There are no further questions at this time. I will now turn the call back over to management for closing remarks.

Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chairman of Global Executive Board, President, CEO & Director*

Excellent. Thank you. Well, with no further questions, I think we can close today's call. Thank you for participating. And Stephanie and I look forward to speaking with you again following the fourth quarter. Thank you again for your calling into that call here.

Operator

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

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