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# EDITED TRANSCRIPT

JLL - Q1 2020 Jones Lang LaSalle Inc Earnings Call

EVENT DATE/TIME: MAY 05, 2020 / 1:00PM GMT

**OVERVIEW:**

Co. reported consolidated revenue of $4.1b and adjusted net income of $25.8m and adjusted diluted EPS of $0.49.



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

**Stephanie Plaines** *Jones Lang LaSalle Incorporated - Executive VP, 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*

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## PRESENTATION

**Operator**

Ladies and gentlemen, thank you for standing by, and welcome to the JLL Q1 2020 Earnings Conference Call. (Operator Instructions) I would now like to turn the call over to your speaker today, Chris Stent, Executive Managing Director, Corporate Finance and Investor Relations at JLL. Please go ahead, sir.

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

Thank you, and good morning. Welcome to our first quarter 2020 conference call for Jones Lang LaSalle Inc. 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. A 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, 2019, 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. Good morning, and welcome to all of you joining us today for this review of our first quarter result in these unprecedented times. Before we delve into our financial performance for the quarter, I would like to take a moment to offer our sympathy and support to all of those who have been touched by the pandemic. Further, on behalf of everyone at JLL, I would like to extend our tremendous gratitude to the health care workers, first responders and everyone on the front lines of this crisis.





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While the COVID-19 pandemic moves around the world, we at JLL continue to focus on what matters most, and that is keeping our employees safe and productive, supporting our communities and serving our clients. In responding to the pandemic, we are partnering with clients and communities in many ways, from local efforts to support health care operations, including rapid deployment of temporary facilities to participation in global collaborative projects. Among the global projects being coordinated by the World Economic Forum, we are participating alongside many other global businesses in WEFs COVID Action Platform.

The impact of the pandemic has truly been profound. The government responses required across the globe and a general cessation of activity through all aspects of business. The effects of the pandemic on our company were initially concentrated in parts of China in January, and in later weeks, spreading across a multitude of service lines and regions throughout the world. It is likely that this crisis will have significant repercussions on the global economy and on our industry, which will go well beyond this year.

We acted early as the pandemic developed and progressed across the world. JLL teams around the world are helping our clients prepare, respond, recover and reimagine the future. For instance, we rapidly deployed practical measures to support health and safety in the wide range of essential facilities continuing to operate full lockdown phases. In addition, we have partnered with clients in developing tailored strategies and plans for reopening and gearing up operations once lockdown phases are eased.

As an illustration of this, our global Corporate Solutions business has to date launched 22 new products designed to help clients navigate the pandemic crisis. One of the most critical essential factors, of course, is health care. We have continued to perform facilities management services for biotech clients that are working to develop a COVID-19 vaccine, helping them run at peak safety and performance as they anticipate moving to 24/7 operations. We have been involved in various capacities in creating temporary hospital facilities. Furthermore, we have been instrumental in ensuring many mission-critical deals are executed, such as facilitating warehouse space for storing medical supplies and equipment as part of the COVID-19 response.

Turning to our people, we are following government and World Health Organization advice and guidelines in order to protect employees and prevent the spread of the COVID-19 infection. We are grateful for the investments we have made in our technology platform over the past several years, which enabled over 90% of our office staff to work safely from their homes by the end of March with limited impact in productivity.

With regard to macroeconomic and real estate fundamentals for the first quarter, global economic growth came to an abrupt halt in the first quarter, making the first quarter of contraction in the global economy in 11 years. Office leasing activities across all the regions softened as deals were delayed. And in some cases, canceled with the market down 22% for the quarter. Investment sales activity saw a noticeable drop as well, particularly in March, so the market down 5% for the quarter. Areas hit by the pandemic first experienced greater declines than those impacted later.

Despite the uncertainty of the depths and duration of the crisis, we remain optimistic about the long-term prospects of the commercial real estate industry. Though the crisis will force an inevitably rethinking of many aspects of our world, the core function of commercial real estate will still be necessary and investors will continue to see real estate as an attractive investment for capital. Our global full-service platform and deep expertise positions us particularly well in these uncertain times as a preferred partner as real estate investors and occupiers evaluate and optimize their real estate assets and look to experienced and trusted hands.

We expect a negative impact to our top line, bottom line and free cash flow across all operating segments for the full year as the pandemic unfolds. Our strategic priority for the fiscal year is to focus on liquidity, cash flow and prudently manage our operating and investment spend to ensure we have the operating flexibility to effectively navigate through this crisis. We acted early and decisively to adjust our cost base.

To send the right tone from the top, all colleagues of the global executive board have cut their base salaries from April onwards by 50% for the rest of the year. And many of our senior leaders around the world have also capped or deferred parts of their base compensation. In consideration of the voluntary compensation reduction offered by many of our employees, the significant actions we have taken on our operating costs, including our colleagues who have been and will be impacted during this crisis, we have decided to suspend our dividend payment to shareholders until we have better visibility on how the world, our clients, and therefore, our business will be impacted.



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While we are currently in a strong financial position, the economic and societal challenge the world is facing is extraordinary and unprecedented. And all leading companies have to be mindful about the totality of all of their actions. Through that backdrop, I will now provide a brief overview of our first quarter financial performance.

We are pleased to report a solid start to the year. Consolidated revenue rose 9% to $4.1 billion and fee revenue increased 15% to $1.5 billion in local currency. Revenue gains were led by continued strong performance in our Americas Capital markets, Property & Facility Management and Project & Development Services businesses. We achieved record first quarter performance in our Real Estate Services business. LaSalle's assets under management reached $69.5 billion. Adjusted net income totaled $25.8 million for the quarter and adjusted diluted earnings per share totaled $0.49, both impacted by non-cash items that Stephanie will provide further commentary on shortly.

Turning to HFF. We continued to successfully integrate the business, and specifically, the overall Americas and EMEA capital markets business performed well despite the softening conditions in March. We have made excellent progress on realizing cost synergies for the first 9 months. Our revenue synergy targets will be certainly impacted in the near-term by the pandemic, but we remain very confident in the long-term potential to drive significant incremental revenue across our multitude of service lines.

During the first quarter, we executed on our goal of utilizing a portion of the $200 million share repurchase authorization that our Board approved in the first quarter 2019 by completing $25 million of share repurchases. Obviously, we are also pausing any further share repurchases in the near term.

Now we will hear from Stephanie for some color and detail on the first quarter financials.

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

Thank you, Christian, and welcome to everyone on our call. Our first quarter performance is a reflection of our global footprint and our diversified business lines in the context of the spread of COVID-19. As Christian mentioned, the pandemic impacted China for almost the full quarter, while Southeast Asia and Southern Europe felt significant impact throughout March. Transactional activity in the U.S. declined progressively in the latter part of March and continued into April due to the spread of the pandemic. We are pleased with the solid start in the first quarter 2020.

We achieved record consolidated revenue and fee revenue, increasing 9% and 15%, respectively. Real estate services fee revenue grew 16%, reflecting organic growth of 5% and 11% attributable to M&A. Increases were achieved across all service lines, led by the continued strength in the Americas. The HFF acquisition, which closed in July 2019, complemented organic gains and reflects ongoing integration success.

As a reminder, we report service line and segment results in local currency, unless otherwise noted. Leasing fee revenue grew 4% for the quarter, driven by the continued strength in the Americas. This was especially noteworthy considering global office leasing volumes declined significantly. For perspective, the market dropped 28% compared to first quarter 2019. Our capital markets fee revenue increased 82% against first quarter 2019, reflecting resilience and excellent progress on HFF integration. Excluding the impact of HFF, Capital Markets delivered 3% organic fee revenue growth.

Corporate Solutions fee revenue grew 6% for the quarter, driven by facility management wins and expansions in the Americas and Asia Pacific. Project & Development Services contributed to the growth, albeit slower in Asia Pacific. We provided additional information on adjusted EBITDA on Slide 11 of the supplemental materials, and I will touch upon the highlights.

Adjusted EBITDA margin, calculated on a fee-revenue basis, was 6.4% for the quarter compared with 7.2% in the prior year. Strong organic gains in Real Estate Services and margin accretion from the acquired HFF business were more than offset by the impact of 2 notable non-cash charges that directly resulted from the pandemic. In the Americas, we increased loan loss reserves for our multifamily business by $31 million. And LaSalle results reflect a $40 million net valuation decline in our co-investment portfolio. Combined, these 2 non-cash charges had a 430-basis-point impact to margins or $0.89 per share.



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Turning to debt management and liquidity. Our balance sheet remained strong. We maintain our investment-grade balance sheet to ensure sufficient liquidity and operational flexibility. Total net debt was $1.5 billion at the end of the quarter, representing an increase of $650 million from year-end. The quarterly increase against year-end reflects the annual timing of variable compensation paid related to 2019 performance. Net debt-to-trailing 12 months adjusted EBITDA was 1.4x, and we have no debt maturities until 2022.

As Christian noted, we have and will continue to strategically apply cost-mitigation actions to fortify our strong financial foundation in support of our long-term growth. First, we have reduced operational expenses through significant reductions in discretionary spending across the board, including marketing, training, occupancy and professional fees, while ensuring our employees have the proper technology and equipment to work efficiently from home. The dedicated investments made in our scaled ERP systems are reaping benefits. It is important to note that we have variable portions of compensation, such as commissions and discretionary bonuses that naturally flex and follow financial performance, most notably in our Leasing and Capital Markets businesses in the Americas.

Second, we're actively managing our cash and liquidity position to preserve our solid financial foundation with a direct focus on our cash conversion.

Third, we have reduced and deferred investments, capital expenditures and certain office moves. We will not undermine our long-term growth potential so we're being targeted and strategic with these decisions.

Moving to our reporting segments. First quarter fee revenue in the Americas increased 30% over the prior year. Growth was led by Capital Markets and broad-based organic gains of 9%, reflecting increases across all service lines. Despite a tough prior year comp of 29% growth, Leasing fee revenue grew an impressive 8% in the first quarter. Market volume declines in office, retail and residential sectors were more than offset by strength in industrial and logistics. The pandemic is highlighting the critical importance of supply chains as it creates demand in the industrial sector that research indicates could fare better during and post the recovery from the pandemic. For the first quarter, the industrial sector represented approximately 1/4 of our leasing fee revenue.

Capital markets fee revenue was up 147% for the quarter. Growth was led by HFF, which contributed $143 million of fee revenue. Organic growth was 4%, driven by investment sales. 2019 market momentum carried into January and February, but contracted in March as the pandemic moved across the U.S.

Americas adjusted EBITDA margin was 13.2% for the quarter. The 80-basis-point improvement year-on-year reflects strong performance and was largely split between HFF and organic gains. Note that the results include a $31 million non-cash increase to loan loss reserves for Fannie Mae multifamily loans.

Turning to EMEA. Total fee revenue increased 1% compared with first quarter 2019. Organic fee revenue growth was 3% and driven by Capital Markets and Project & Development Services. EMEA leasing fee revenue declined 4% for the quarter. Despite improved Brexit sentiment in the U.K., the pandemic stalled activity in much of the region and placed many transactions on hold. EMEA capital markets fee revenue was up an impressive 19% for the first quarter, reflecting double-digit growth in our largest markets.

The U.K. had a strong quarter due in part to a softer 2019 that was impacted by Brexit uncertainty. In addition, Germany delivered solid results, as did France, which closed several large transactions. Project & Development Services increased 14% due to expansions of existing mandates in MENA. Property & Facility management fee revenue decreased 16%, primarily due to the divestiture of our property management businesses in Continental Europe during the second half of 2019. Adjusted EBITDA margin was negative 2.9%, an improvement of 290 basis points year-on-year, primarily a result of strong growth in the higher-margin Capital Markets business.

Moving to Asia Pacific, the segment which saw the most pronounced pandemic impact. Fee revenue declined 7% over first quarter 2019. The decline primarily reflected pandemic-driven lockdowns that negatively impacted transactions. Leasing fee revenue declined 30% and Capital Markets declined 23%. We saw lower investment sales across all countries except Australia. In China, the nationwide lockdown paused transactions. While in Hong Kong, the market was further impacted by the pandemic following the political unrest in the second half of 2019. Real Estate Services fee revenue in Greater China declined 15%. The most notable decline occurred in our transactional businesses as leasing and investment sales



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stalled. Property & Facility Management as well as Advisory & Consulting revenues were up double digit, showing resilience despite the lockdown. For perspective, Greater China comprised about 5% of 2019 total RES fee revenue.

Asia Pacific adjusted EBITDA margin was 5.2% for the quarter, a 150-basis-point improvement year-on-year, primarily from government relief programs and aggressive cost mitigation plans.

Turning to our Investment Management business. LaSalle's fee revenue increased 6% for the quarter. Advisory fees grew 12%, marking the fifth consecutive quarter of double-digit growth. LaSalle adjusted EBITDA margin was negative 24.3%. The continued expansion of annuity margins was more than offset by a $40 million non-cash charge related to net valuation declines in our co-investment portfolio.

From an incentive fee perspective, the first quarter activity of $6 million is indicative of a full year run rate, although the phasing by quarter could vary.

To summarize, in Q1, we achieved solid underlying performance with fee revenue growth across all service lines and margin expansion despite emerging global headwinds. The depth and duration of the pandemic will be the biggest single factor impacting our full year results. Given the current lack of visibility and the wide range of potential outcomes for the year, we are withdrawing our 2020 organic fee revenue and adjusted EBITDA targets previously communicated in February of this year.

In closing, I would like to thank our talented teams for their remarkable dedication and continuous contributions to our clients as we navigate through these uncertain times together. Across the world, JLL employees are adapting admirably to the challenges being presented by the pandemic and are rising to the occasion. We believe our culture shines in these moments, and our long-term beyond strategy, global full-service platform, strong balance sheet and best-in-industry talent enable us to successfully navigate through these disruptions during this unprecedented period.

I will now turn the call back to Christian for final remarks. Christian?

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

Thank you, Stephanie. Now looking at the outlook for the rest of 2020. We are pleased to enter the second quarter in a strong position. Momentum within our Corporate Solutions business continued as we made strides with new mandates and renewals. Our Leasing and Capital Markets business were at record highs when the pandemic made its way across the world. A long history of JLL has taken us through many difficult periods. We don't know the extent of the market decline on the back of this crisis, but as in previous market downturns, we expect to win a disproportionate market share, which should cushion the impact on our financial performance. The depth and duration of the impact are uncertain, but our short-term assumptions show Q2 and Q3 as difficult quarters across all service lines and geographies.

In addition to considering the short-term impacts, we are mindful of the longer-term implications. We have taken a fresh look at the longer-term macro trends that have been supporting growth within the global real estate sector for several years. We believe these trends, growth in corporate real estate outsourcing, rising capital allocations to real estate, increasing urbanization and the tech-driven force industrial revolution will continue to be strong drivers for our sector and our strategic vision for years to come. No doubt, all of these trends will be impacted, and there will be adjustments but they will continue to drive our longer-term growth.

We believe a fifth macro trend has emerged as a major driver within the real estate industry, sustainability. This trend will benefit from an even stronger focus on corporate social responsibility post pandemic, driven in part by greater awareness of the fragility of our society and ecosystem. JLL is an acknowledged global leader in sustainability services and advice, and we continue investing and building those capabilities consistent with our corporate purpose of shaping the future of real estate for a better world. Moreover, we are determined to play an exemplary part in the way we manage our own operations despite all the short-term attention to the impact of the pandemic.

To that end, we were delighted that the science-based target initiative approved JLL's ambitious target for a 68% reduction in our carbon emissions by 2038, in line with our commitment to the Paris Climate Agreement. We are also very proud of the many awards and recognitions we received,



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including being named for the 13th year as one of 2020's World's Most Ethical Companies, earning a place on the Bloomberg Gender-Equality Index and recognition by the Human Rights Campaign and Forbes for our commitment to diversity and inclusion.

To close these remarks, I want to end by expressing my gratitude to the entire JLL team who have witnessed significant upheavals in their personal and professional lives over the past several weeks as a result of this pandemic, yet have continued to work diligently and support each other and our clients through these trying circumstances.

Throughout the history of our company, JLL has shown a remarkable capacity to successfully navigate through turbulent times and deliver excellent results for our stakeholders over the longer term. 2020 will be a challenging year for, not only our business, but the world overall. Recovery might take longer than many would like. Nonetheless, we will continue to execute against our previously stated 2025 long-term growth targets. We remain confident in the strength and resiliency of the JLL platform and our ability to manage effectively in an environment built with uncertainty.

Operator, please explain the Q&A process.

## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) Your first question comes from Anthony Paolone from JPMorgan.

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

I guess my first question is, can you give us any color on how April looked and what you're looking at internally, whether it's surveying brokers or data to get some handle on what 2Q and 3Q can actually work out today?

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

Tony, this is Stephanie. So I think you heard in Christian's remarks, we have seen, obviously, a very strong performance to date in our leasing and brokerage business, particularly notable in the Americas, but we have seen, as the pandemic rolls across, a softening in that business and you see that with the market volume.

So, we don't have any further information to give you right now. What I can say is that in terms of our Q1 results, particularly in the Americas, where we saw strength was particularly in our industrial business. And as you know, in a pandemic, there's been a lot of demand on the supply chain. So, we were very pleased with our performance in that specific sector, which we have about 25% of our total Americas leasing exposed to.

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

Okay. I think you may have cut out on the tail end. But I guess, maybe asked a little bit differently, if we look back at the GFC and what happened to leasing and sales, I mean, it took a period of time for things to unwind. But do you think that, that's the order of magnitude we could be looking at in a more compressed period of time this go around?

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

Tony, it's Christian. I would caution to compare the GFC to the current situation. The GFC was predominantly causing or creating a lack of trust in the financial stability of banks, whereas we are currently faced with a virus, which leads people to be afraid about their personal health and the health of their beloved ones.



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That is creating an enormous amount of uncertainty. And so, the way that will impact the global economy, and therefore, then our clients, which then comes down to us, is still very unclear. One of the big differences within our business compared to the times in 2008, 2009, the industry has bifurcated in a way that you have a couple of companies who are predominantly doing their business as strategic partners to their clients and less so with a hot business.

And those strategic relationships are kind of continuing to operate in good and in bad times. And so the overall resilience of a business like ours compared to 12 years ago is significantly higher just due to these enhanced client relationships.

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

Okay. And then just a follow-up on that. Christian, you had mentioned that all your business lines would be negatively impacted here. Can you talk a little bit more specifically about Corporate Solutions? And that seemed to show a very good organic growth in the first quarter.

What would -- what are the levers to that, that would bring that number down in this environment? Like is there a transactional piece? Or like what are the puts and takes there that we should be watching for?

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

Well, as you already noted, it is very much down to the question whether something is related to transactional revenues or what we would call annuity revenues. Corporate Solutions is the headline for a series of services, which include transactional services, like the sale and leaseback of a corporate headquarter or a corporate building, down to very annuity-type services like facility management. And that's where you kind of have the differences and the impact.

Our facility management business is incredibly resilient. And within that facility management business, the engineering part is the most resilient. Frankly, that is growing with many clients at the moment because the maintenance of big equipment is being done early because the premises may be vacant. And so, the impact of that in maintenance is not as drastic as it would be when they run at full scale.

But then on the other hand, you have discretionary services, which people would just pause to kind of preserve on their liquidity. So overall, we do not expect a massive impact on our Corporate Solutions business. But again, it's all down to the question how long this pandemic will prevail. If it ends in a couple of months, there will be probably not any impact on our business. If it continues for 18, 24 more months, at some point in time, more and more companies will be cautioned around their liquidity.

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

Okay. And then just last one for me. You mentioned the benefit to industrial and supply chains from the way the world is moving technologically. Can you comment on any thoughts you might have with work from home and the impact, long term, on the office business?

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

Well, I -- there is a lot of opinions to be read -- or there are a lot of opinions to be read on what impact work from home will have longer term on the commercial real estate business and especially on the office footprint. I would caution everybody to draw too many conclusions at this point. In a crisis like this, to work from home is easy because the alternative is not to work at all. But if we are back to a very normal environment, then you will see the difference in productivity. And I'm not talking about technology.

A company like ours had no issue at all to send 90% of our people into a home office technology work brilliantly. But still, the interaction with your colleagues, the inspiration you're getting when you're working in an office is driving better results compared to people sitting at home. And so for



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most global companies, working from home was something which was quite normal before. We had lots of people working from home parts of the week, and then they came to the office or they were traveling. So we will go back to that.

But I don't expect a massive, massive shift from people in an office to working from home in the future. Everybody has seen now that it can work and that it is helpful, but they also have learned very immediately the negative aspects from working from home. And so I think we should see people be very happy to come back to the office. We recently made a survey amongst our own employees and less than 5% were keen to work only from home. And the vast majority wants to get back into the office and have the flexibility to work sometimes from home.

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**Operator**

Your next question comes from Jade Rahmani from KBW.

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

I wanted to ask, hopefully, a basic question, although I recognize the uncertainties. But do you think the company overall will remain profitable for, say, the next 2 to 3 quarters?

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

Jade, this is Stephanie. So obviously, as you saw, as we went through the GFC, the company remained strong and profitable. As Christian said, this pandemic is nothing like that. But we are doing everything, obviously, to manage the business. Our liquidity side or expense side, everything that is discretionary to obviously maintain that profitability.

I think what's important to emphasize is that a portion of our business is annuity-based and the portion is transaction-based. As you heard from Christian on our Corporate Solutions business, there are areas of our business that continue to amplify and there are other ones which we've prepared the world on that are softening. And it's happening in different parts around the globe.

China went first. So, you're seeing in Asia Pacific the most demonstrative impact on our top line. But you've also seen margins continue to improve. So, if you look at our EBITDA results, I think that's the best testament right now of how we're planning to run the business through COVID. If you exclude the one-off 2 charges that I've mentioned, you'll see that margins have expanded across all the businesses.

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

Okay now this -- no doubt, this crisis will have an impact on the bottom line. And so, I'm sure you know that.

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

Yes, of course. I mean, we are assuming about 35% declines in leasing volumes and something similar in capital markets. On the liquidity side, during the financial crisis, the company maintained positive cash flow from operations. Do you expect that to be the case as well?

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

Again, the visibility is very poor going forward. And so I would like to refrain from commenting on that. We see what we see in April and you see how our first quarter went. First quarter went well, and we are still smiling for the time being on May 5. And what's happening over the next couple of months, we don't know. But we will do our very best to keep this company on that excellent level and financial strength as it has been in the past.



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

And currently, I believe there's $1.3 billion of available borrowing capacity on the credit facility, which matures in 2023. Is that correct?

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

That's correct, Jade. Yes. So we have about a 50% utilization as of Q1 of our credit facility. And our leverage ratio is about where we had expected. It's a 1.4, which is slightly elevated over prior year, but that's due to the HFF debt that we have taken on.

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

Have you been in touch with ratings agencies at all? And do you believe the company will be able to maintain investment-grade status?

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

So we're in constant contact with the rating agencies as normal course of business, Jade, as you can imagine. And in that sense, we're running the business accordingly, monitoring and driving profitability, cash flow and making all the discretionary choices that are available to you. So, we maintain a strong investment-grade balance sheet, and that remains our focus. It's unchanged through the COVID pandemic.

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

Okay. I wanted to ask about the 2 non-cash charges. On the multifamily credit loss reserve, did you apply a through-cycle methodology so that this loss reserve pulls forward future losses that have yet to impact the multifamily market. So, this loss reserve could be sufficient to cover, say, the next 1.5 years of potential loan defaults, to the extent there are? Or would you expect to be booking ongoing reserves on a quarterly basis?

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

David, this is Stephanie. So I think you said that right. So there's a $31 million non-cash reserve and it's our expected view of those loan losses that's exactly related to only the COVID-19 pandemic. So, it is the estimation of our future losses at this time.

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

Okay. So that would be nonrecurring. In my modeling, I've been assuming a gradual increase in delinquencies triggering loss reserves, not a one-time charge.

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

So this is just our -- this is our expected view of the future losses for -- related to our multifamily exposure. We'll certainly reexamine it and all the factors throughout the year as we do a normal course of business. And if we need to make adjustments, we'll do that at a further time.

**Operator**

Your next question comes from Josh Lamers from William Blair.



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**Joshua Kapler Lamers** - *William Blair & Company L.L.C., Research Division - Associate*

You touched on it a bit, but just in thinking about the FM contracts, probably more specifically the fixed-price FM contracts. Wondering what's the potential for any cost overruns in any of the regions and maybe specifically in EMEA?

And then I also wanted to ask about the revenue runoff from the sale of the FM business in that region in the quarter, and whether it's similar to what you called out in the fourth quarter, I just want to make sure I have my baseline for that business looking ahead.

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

Josh, I'm taking the first part of the question and the second part, I will hand over to Stephanie. I'm not quite sure what you mean with cost overruns. I mean, as you can imagine, we are very, very proactively dealing with our clients and helping them through this crisis.

And as I said, those relationships tend to be very strategic relationships very much on a partner basis. And whatever we do, which goes beyond our contractual obligations, we usually get paid for that, and everything else is in line with our estimated cost to serve. So, I'm not quite sure whether there is any issue which you are raising there.

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**Joshua Kapler Lamers** - *William Blair & Company L.L.C., Research Division - Associate*

Yes. No, it was just in reference. You had mentioned in your prepared remarks, I think that there was kind of a near-term increase in facilities, cleaning, preparation, an increase in engineering costs. And so the question was just related to whether or not you expect, in fixed-price contracts, for there to be a higher-than-planned labor cost, which could negatively impact margins.

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

Okay. Got it. And no. Because when clients have in that contract that their facilities are being cleaned once a day and they move over 2 or 3 times a day, then they would pay for the additional cleaning requirements, which, obviously, we will pass-through to our sub-providers as we do not deliver the cleaning ourselves. But this hasn't been an issue over the last couple of weeks.

If there's anything which has -- which we have been confronted with what that clients have asked us whether we could reduce sometimes the scope of contractual work within the contract because premises were not used anymore. But that is of such a minimal scale that is offset by additional requirements by other clients.

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

Okay. And Josh, I'll take the second part of your question about the European divestiture of our property asset management business. So, I think in Q4, we mentioned that it had a $7 million impact on revenue. So, for Q1, it's about $9 million. If you think about our PFM revenue growth rate, we had a decline in EMEA of 16%. If you adjust for that, it would have a decline of about 8%.

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**Joshua Kapler Lamers** - *William Blair & Company L.L.C., Research Division - Associate*

No, that's helpful. And then again, you mentioned a bit in your prepared remarks, but I'm wondering if the current environment creates the opportunity for expanded infill or redevelopment projects to pick up maybe later in the year and to remain at a sustainably higher rate. And then whether or not JLL has the capacity to take on those additional projects.

And I'm just thinking, again, about kind of industrial retrofitting, office refitting, this kind of stuff in order to create a more spacious environment or to, like I said, reset any of these properties to operate in a post-COVID world.



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

Sure. I mean, that is obviously one of the opportunities coming to us. We are already engaged with lots of our clients around the reopening of their space. And as you know in Asia Pacific, many spaces are already fully running again, and we are starting to reopen now spaces in Europe again. So that is part of our services. We -- as we said, we have created 22 different products in our Corporate Solutions business around health and wellness, space optimization and overall building and office operations, which we have launched over the last couple of weeks and our teams are very busy delivering that.

And so, with all the negativity coming from the pandemic, there are obviously also business opportunities for companies like ours who have the capacity and the knowledge. And certainly, the ability to move the experience, which we are making in Asia Pacific to the other regions and bring that best practice across to help companies to get back to productivity as quickly as possible.

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**Joshua Kapler Lamers** - *William Blair & Company L.L.C., Research Division - Associate*

Okay. And then last one from me. I said that following the lockdowns in January in China that LaSalle had closed its first deal around mid-April, so have operations resumed in APAC to a somewhat normal course? And should we expect, again, best you can tell, but should we expect a similar timeline in other reason -- in other regions?

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

First of all, operations have not resumed as to pre-crisis levels, not at all. If you talk about capital markets transactions, most of the capital markets transactions, which have been closed in late March or which have been closed in April or May, are transactions which have been pre-negotiated pre-COVID.

And so, the ability to really understand how the capital markets business on the investment sales side will perform in a locked-down environment and shortly after, this is still out there and we can't give you enough evidence on that yet. What you see in China at the moment is a lot of interest to restart activities. The developers are coming back and they are looking for advice for new developments because there's a lot of encouragement by the government to start new developments. And there is obviously also discussions and interest around executing capital markets transactions.

But what's most important is that buyers and sellers find a new kind of match on price expectations. I mean, there will be an impact on pricing, and this is something which will take time until both sides feel comfortable with pricing again. And so that will take a bit of time, a couple of months.

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**Operator**

Your next question comes from Michael Funk from Bank of America.

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**Michael J. Funk** - *BofA Merrill Lynch, Research Division - VP*

A few, if I could. Your earlier comments that you wouldn't compare the current situation to the global financial crisis, I would love to hear some more thoughts and some of the differences that you're seeing there and your expectations. And really what I'm trying -- what I'm getting at here is, obviously, visibility is low for everyone, you and us trying to model on Wall Street. And looking at your 2020 consensus EPS, it's about a $3.50 standard deviation.

Now I'm certainly contributing to that being a low on The Street. But once again, very little information for us. So, any incremental thoughts you can give on the comparison with the GFC and kind of what you're seeing with the -- kind of with the step back in leasing and capital market activity would be helpful.



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

Well, again, this -- the GFC, I can only repeat myself, was a lack of trust in the financial stability of banks. What had to be done was to get that trust back into the market and then the economy was starting to develop again.

Here we have a virus, which is affecting people personally. What is needed is that people have their confidence that their health is not exposed. And I guess, at the end of the day, for most people, that would mean they are waiting for the vaccine to feel really comfortable again. And we don't know when that will be delivered. And the big difference at that time was every business was continuing to operate, many people in a more muted fashion, but everybody was operating. We didn't have any lockdowns of buildings or anything like that.

At the moment, we have still most of the countries we operate in, in a lockdown mode. And that is a massive difference. And therefore, it is very hard to make any comparisons between the 2. I think we all have to be a little bit patient and see the real impact on the economy going forward. What I can assure you, that we are fully operational as an organization. So, every client demand, which is out there, we can cover. There's all kinds of technology being used to help deliver deals on the leasing and on the capital markets side.

When you look at the leasing side, you have the full spectrum of renewals. I mean renewals will happen anyway because people will have to renew space. They may take a little bit less, but they will renew their space in principle. So that piece will continue. And then usually kind of the strategic deals. And if I had decided that I want to move my -- a major location into a different location, those deal tend to continue. They will be slowed, but they tend to continue.

What is mainly impacted for the time being is kind of the smaller things. Companies, it planned for taking additional floor, additional 10% of space. They kind of push that out because they want to see how the economy is developing. But anything which is strategic tends to happen but slightly be later. That is on the leasing side.

On the capital markets side, as I said earlier, there is still the need to find the new kind of matching price between buyers and sellers. It's not that nothing is happening. Obviously, there are transactions happening, but at a much lower rate than we would have seen before the COVID crisis. And so that will take time until people have the confidence that they think that this is the right price to buy or to sell.

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**Michael J. Funk** - *BofA Merrill Lynch, Research Division - VP*

Understood. I appreciate the additional commentary and also understand this to paraphrase more of a demand shock this time than the GFC. I just kind of stepped down the income statement a little bit.

Can you frame -- how's about the incremental margin in the business? So, for every dollar coming out of the top line, how much of that is going to translate, do you believe, into EBITDA?

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

We don't see a difference versus the GFC and to the situation we're in on how things translate through our business. So, in terms of our most profitable business lines, is our capital markets and leasing businesses. And we balance the portfolio with LaSalle and our Corporate Solutions. So, there hasn't been a fundamental shift in that regard. All the businesses are driving profitable growth and margin expansion.

I think you can see that in the past quarter's results. Additionally, what we're obviously very focused on and continued to be laser-focused on, particularly during the pandemic crisis, is on cash conversion. So, making sure that we're being very prudent and thoughtful in getting our DSOs and DPOs to convert, continuing to convert exactly so that we can manage this cash flow through this pandemic crisis.

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**Michael J. Funk** - *BofA Merrill Lynch, Research Division - VP*

And one more, if I could, please, and I really appreciate the time today. You mentioned renewals, obviously, a large part of your leasing business. Maybe just remind me, first of all, what percentage of revenue each quarter comes from renewals.

And then second, are you seeing customers reach out proactively asking about blend and extend in the current environment? Or is it too early for that right now?

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

There is, obviously, what you call blend and extend quite a bit. Because if you really don't know where the economy is moving and what that does to your business, there are a lot of clients who need to make a decision on their lease contracts who are just trying to kind of push that out and ask for 12 months or 24 months renewal before they make a longer-term commitment. And so that is happening. I don't have any statistic at hand how much of that is part of our portfolio or our revenues, which we are bringing in on the leasing side.

The renewal business is obviously slightly different market-by-market. You have markets where there are very little fees coming to us for just renewals. And you have markets where the fee levels for renewals are very similar to the fee levels for any new contract. But I think it's fair to say, generally speaking, a brand-new contract is more profitable for us than just renewal business.

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**Operator**

Your next question comes from Patrick O'Shaughnessy from Raymond James.

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

How much of your fee-based expense base is naturally going to be variable and then fluctuate along with revenues that might move up or down?

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

Patrick. So that is a difference between the GFC and now that our business has certainly become even more oriented towards variable and flexing to your question. So, as we've grown the business in the leasing and the capital markets space, that gives us, obviously, that flexibility. So, when the business is good, obviously, it works on the business as obviously a softening, then our comp base, our fixed and variable comp base reflect that.

So, we don't give details on that specifically. But you can see in our financials, on the P&L, that we've made a lot of progress continuing in Q1 to improve our comp-and-ben expense as a percentage of our total fee revenue growth. And so, we've actually improved that 200 basis points year-on-year, if you compare. So, revenue is certainly outpacing the comp-and-ben expense. And we'll continue to obviously utilize the way that our business model is structured throughout the pandemic period.

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

Okay. I think that not paying that June dividend saves you guys roughly $25 million in cash. Given the relatively modest cash savings and generally negative investor perceptions that typically stem from dividend reductions, can you walk through your rationale on this a bit more?

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

Well, Patrick. First of all, we don't have many people in our stock who are in our stock because of our dividend. Our dividend was, in percentage terms, very small. And as I said earlier, while we are in a very strong financial position, the economic and societal challenge the world is facing is just unprecedented. And we strongly believe that all leading companies have to be mindful about their actions.

And we believe that for us, paying a dividend would not be the right message with regards to all our stakeholders. You're right that the $25 million, to take your number, is not very material for us, but when you see how people are suffering across the countries where we do business in, it is not sending the right message.

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

Okay. And then last one from me. Any initial thoughts on what COVID-19 means for the industry? And is it still a viable business model, do you think, in the post-COVID-19 world?

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

Well, I guess you're talking about the flex space industry and co-working is an element of the flex space industry, and it's very important to make that differentiation. Because when you talk about flex space, the flexibility which has been offered by that is obviously something which people will value even more going forward.

If you are currently in a situation where you want to reopen your offices, none of those offices will reopen at full capacity because you will need more space for everybody to kind of keep the social distancing rules in place. And so, you either keep a majority of your employees out of the office or you are starting to enhance your office footprint by picking up some flex space. So, there is an element of the flex space industry which will probably, once we are starting to reopen businesses and once the economy is starting to pick up, we'll actually have a great business going forward.

Now the co-working piece was a different element because co-working usually means that you have people sitting next to you, which you don't know when that may change during the day several times. And so, what was very cool before may not feel that safe and healthy going forward, and so that will certainly see an impact. So, a lot of those players who positioned themselves predominantly as co-working players will probably position themselves going forward more as flex space providers.

And so, let's see how that is playing out for the time being. The demand for space from those companies has obviously dropped very significantly. But I am quite optimistic that, overall, industry has a role to play, but they will have to adjust their business model to deliver that confidence, that trust which all the users of space, whether it's your own space or whether it's flex space, are looking for to feel comfortable in that environment.

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**Operator**

And your final question today comes from Jade Rahmani from KBW.

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

In terms of business resiliency, I just wanted to ask if you could comment on leasing, if you expect leasing, ordinary course renewals to continue to take place. If those contracts can be executed without any in-person presence.

And secondly, on debt placement, if you expect ordinary course debt maturities, which total for the industry around $350 billion per year, to be able to get refinanced. And finally, valuation appraisal, if that can also be done via desktop.

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

Yes. Okay. I take all 3 of those. As I said, renewals will take place. It's not an issue to do renewals, and so that is continuing. On the debt side, for the time being, as you probably will know better than I do, the debt markets are pretty healthy. There was a bit of a kind of a little stumble at the beginning, but now everything is pretty much back in line. We even see CMBS coming back in. So, we -- at the moment, we have no reason to believe that these renewals will not take place.

Obviously, once we see pricing to readjust, that may mean that, that kind of the leverage ratios are changing for some of these deals. But there is a market for all of it. And so, we will see that as part of our business in capital markets going forward, which is probably even more resilient than plain investment sales over the next 1 or 2 quarters.

And the last one on valuation. I think in valuations, you have to be very precise. All these monthly or quarterly or half annual or annual valuation, they can all be done desktop. So, they will continue, and we see a very, very strong demand for those. I mean, it's even in those times, you usually have a higher demand because the question on who is delivering the valuation becomes of higher importance in more challenging time than in brilliant times, and that usually favors JLL. Where we will see an impact on valuations is kind of one-off transaction less valuations. If there are less transactions then there is less need for valuation.

And so, it depends a little bit on the business mix country-by-country. We have some countries in our portfolio who have actual growth in their valuation business, and we have other countries who see the impact of less transactions happening. But overall, this is a pretty stable business for us.

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**Operator**

There are no further questions at this time. I'll turn the call back over to the presenters.

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

Thank you. Well, with no further questions, we will close today's call. Thank you for participating. Stephanie and I, look forward to speaking to you again, following the second quarter. Stay well. Thank you.

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**Operator**

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.

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