Jones Lang LaSalle Incorporated
Second Quarter 2023 Conference Call
August 3, 2023

Speaker: Scott Einberger, Investor Relations Officer

Thank you and good morning. Welcome to the second quarter 2023 earnings conference call for Jones Lang LaSalle Incorporated.

Earlier this morning, we issued our earnings release, along with a slide presentation and excel file intended to supplement our prepared remarks. These materials are available on the Investor Relations section of our website, please visit ir.jll.com. During the call and in our slide presentation and accompanying excel file, we 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 slide presentation. As a reminder, today's call is being webcast live and recorded. A transcript and recording of this conference call will be posted to 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 our annual report on Form 10-K for the fiscal year December 31, 2022 and in other reports filed with the SEC. The company disclaims any undertaking to publicly update or revise any forward-looking statements.

I will now turn the call over to Christian Ulbrich, our President and Chief Executive Officer, for opening remarks.

Speaker: Christian Ulbrich, President and Chief Executive Officer

Thank you, Scott. Hello and thank you all for joining our second quarter 2023 earnings call.

Conditions impacting global real estate markets were largely unchanged in the second quarter. The consistent tone coming from the U.S. Federal Reserve with regards to inflation and the interest rate tightening cycle has kept real estate markets muted. Overall, higher costs of capital, tighter lending standards and elevated price uncertainty has limited transaction volumes. During the second quarter, we grew our resilient business lines, while also effectively managing through the industry wide slowdown in Investment Sales and Leasing activity. To put this into perspective, global commercial real estate investments totaled 139 billion dollars in the second quarter, a year-over-year decline of 53 percent, according to JLL Research. The second quarter decline in investment dollars was in line with the deceleration seen over the last two quarters, which would support the view that the market has found its bottom with regards to transaction volumes.

On the leasing side, volume for the global office market was down 14 percent year-over-year in the second quarter, according to JLL Research. Occupiers continue to have a cautious outlook on the macro-economic environment and as a result are extending their timeline to make decisions. Large scale leasing activity remains slower than normal but is showing signs of improvement with second quarter activity up sequentially from the first quarter. Global office vacancy rates are up modestly to 15.6 percent in the second quarter compared to 14.4 percent last year. Asia Pacific leasing volumes remained stable compared with last year, but volumes declined in both Europe and the U.S. Demand, particularly in the U.S., continues to be focused on high-quality and sustainable spaces in prime locations. These types of best-in-class assets have proven to be much more resilient than the overall market with rental growth remaining positive despite the slowdown in office leasing activity. We are observing Corporates shedding lower quality space while also directing

employees to return to the office at least 3 days a week, which is leading to peak occupancy rates at or near capacity in high-quality buildings for many of our clients. As a reminder, a significant percentage of JLL's office leasing fee revenue comes from transactions in these high-quality or Class A buildings.

Turning to the industrial sector, global leasing activity moderated during the second quarter. Asia Pacific showed positive net absorption during the quarter while gross leasing volumes in the U.S. and Europe slowed. Overall, market fundamentals in the industrial sector remain healthy with low vacancy rates and positive rental growth in many markets. The industrial sector has grown to become one-third of our total leasing fee revenue and we expect growth in this asset class to continue in the coming years. The hotel and retail sectors have benefited from healthy consumer spending on experiences and services. A rebound in international travel has also boosted the hotel and retail markets globally, particularly in the tourist corridors of Europe and Asia Pacific.

Overall, these macro and industry specific trends are playing out largely as we expected when the year began, though we had forecasted a slightly stronger advancement of transactions in the second quarter. In contrast, our resilient business lines collectively delivered positive fee revenue growth during the second quarter, highlighted by growth in our Property Management, Workplace Management and JLL Technologies business lines. LaSalle's business performed well given the decline in real estate asset values and incentive fees were better than expected, demonstrating the diversification and strength of this portfolio.

Before I turn the call over to Karen who will share more detail on the quarter, I want to touch on the JLL Technologies segment. While it is the smallest of our five business segments, the value it brings to our company and our clients is substantial. At the core of this business is our build-buy-partner-invest strategy, which we spoke about at our Investor Briefing last fall. A perfect example of this strategy coming to life is the AI-powered platform our Capital Markets team is using to identify, analyze and source pipeline opportunities. Earlier this week our JLL Technologies team took this one step further with the unveiling of JLL GPT, a secure, generative AI model for commercial real estate that we built in-house. Our teams are beginning to use this new tool to provide clients with even better insights into the current market. These are just a few examples of projects our technology team is working on that we believe will translate into long-term shareholder value, especially when you consider the tech-driven transformation that is playing out in the commercial real estate sector.

Part of our strategy is investments in proptech companies that are positioned to drive further efficiencies or in some cases disrupt the commercial real estate industry. As a reminder, the three main reasons we invest in these companies are, first, to enable our business with technology tools that will drive growth and improve productivity. Second, to provide clients with best-in-class technology solutions and third, to gain insight into technology that will potentially disrupt the industry and inform our strategic direction. While we have a disciplined approach to these investments, venture capital investing is subject to increased volatility during economic cycles. As result, we have to be comfortable with equity gains and losses associated with these investments.

In the second quarter, our JLL Technologies' investment portfolio generated a non-cash equity loss that primarily resulted from two companies raising capital in down rounds. These losses came after approximately 200 million dollars of gains over the past few years. Even after reflecting these recent equity losses, this

portfolio is valued at 1.2 times the original investment amount of 405 million dollars. Today we have built out a mature portfolio that includes more than 50 companies and while we will continue to invest in proptech companies, the dollar amount of incremental investments will be notably less than the past three years. The medium-term outlook remains healthy for many of the companies we have invested in and we are focused on bringing the strategic benefits of these investments to our company and clients.

With that, I'll now turn the call over to Karen, who will provide more detail on our results for the quarter.

Speaker: Karen Brennan, Chief Financial Officer

Thank you, Christian.

Before I begin, a reminder that variances are against the prior year period in local currency, unless otherwise noted.

Overall, I'm pleased with our fundamental operating performance in the quarter, which was consistent with the trends of the past two quarters, particularly considering the continuation of the challenging market backdrop Christian described. At the same time, we are making good progress on a number of important fronts, including improving working capital efficiency, reducing fixed-costs, and enhancing the resiliency of our global platform. As momentum builds across our business, we remain focused on delivering a high level of client service and capturing the significant market opportunities to drive both near-term and long-term growth, profitability, and cash flow.

At the consolidated level, second quarter fee revenue was $1.8 billion, a 13% decline from a year earlier. Adjusted EBITDA totaled $116 million, down 68%, and reflected a margin of 6.2% compared with 16.8% a year ago. A $137 million adverse non-cash change in our equity earnings, net of carried interest, accounted for over 70% of the margin reduction. Beyond the equity loss headwinds, the lower margin was predominantly due to the decline in fee revenue in our Investment Sales, Debt, and Equity Advisory and Leasing business lines. Our ongoing cost reduction actions mostly offset investments in the business made over the past 12 months to drive future growth. Adjusted Diluted EPS of $0.50 reflected the equity losses, higher interest expense, and lower contributions from our transactional business lines. The equity losses were a $1.69 per share headwind to the quarter's Adjusted EPS.

Moving to a detailed review of our operating performance by segment. Beginning with Markets Advisory, the 13% decline in segment fee revenue was mainly due to a contraction in Leasing activity, most notably in the Americas and EMEA. Leasing fee revenue declined 16% following a 24% growth rate in the prior year quarter. Both the office and industrial sectors saw material fee revenue declines while retail and mixed use grew modestly in comparison. Transaction volumes declined across asset types, especially in the office and industrial sectors, while average deal size also decreased across most asset types, particularly in the U.S. industrial sector. The decline in our second quarter office sector fee revenue was largely in line with the 14% contraction in global office leasing volume according to JLL Research. In the Industrial sector, fee revenue declined 26%, which compares favorably with a 34% decrease in global industrial market activity, according to JLL Research. The contraction in Industrial sector leasing activity is consistent with expectations given the tight supply and significant growth seen over the past several years.

As Christian described, we continue to see more sustained leasing demand for high-quality assets, which represents the majority of our business. Our global gross Leasing pipeline continues to hold up, which gives us optimism for continued sequential improvement in revenues, however, the pace of acceleration is uncertain considering the economic backdrop.

Also within Markets Advisory, Property Management fee revenue grew 9%, attributable in part to portfolio expansions in the Americas and incremental fees from interest-rate sensitive contracts in the U.K. The decline in the Advisory, Consulting, and Other fee revenue was primarily due to the absence of revenues associated with the exit of a business that we previously announced in the fourth quarter of last year.

The Markets Advisory second quarter Adjusted EBITDA margin contraction was primarily due to lower Leasing fee revenue.

Shifting to our Capital Markets segment. The market conditions Christian described were a key factor in the 34% decline in segment fee revenue. The contraction is off a strong second quarter 2022 growth rate of 24%. Our global Investment Sales fee revenue, which accounted for approximately 35% of segment fee revenue, fell 45%. The decline was across most geographies and asset classes and compares favorably with the 53% decline in the global sales volume Christian referenced. For perspective, the second quarter market volume was just 2% above the first quarter 2023.

Growth in Valuation Advisory fee revenue in Asia Pacific was more than offset by declines in the Americas and EMEA, leading to a 5% reduction in the total Valuation Advisory fee revenue. Our loan servicing fee revenue fell 3% on approximately $4 million of lower prepayment fees, which masked about 7% growth of recurring servicing fees. The rise in interest rates has slowed early refinancing activity, which generates prepayment fees. The underlying growth of the servicing fees was driven by the growth in our Fannie Mae portfolio.

The Capital Markets Adjusted EBITDA margin contraction was predominantly driven by lower fee revenue and the impact of a $7 million adverse change in our loan loss credit reserve, partially offset by $5 million of equity earnings which we do not expect to recur. The decremental margin within Capital Markets was in line with our expectations considering the differences in geographic compensation structures, the loan loss reserve impact, and other discrete items. Our investments in our Capital Markets talent and platform over the past several years position us to capitalize on a rebound in transaction volumes.

Looking ahead, the global Capital Markets Investment Sales, Debt, and Equity Advisory pipeline is building at a slower rate than historical trends in a typical year and is down mid-twenties percentage compared with this time last year. While we do see early signs of improving activity, particularly within the U.S., the amount and pace of revenue growth through the remainder of the year will be heavily influenced by the factors impacting deal timing and closing rates that Christian described.

Moving next to Work Dynamics, fee revenue growth of 3% was led by continued strength in Project Management, partially offset by lower Portfolio Services and Other fee revenue. The 8% increase in Project Management fee revenue growth is a result of notable demand in Australia, France, the Middle East, and the U.K. The moderate 2% growth in Workplace Management, on the back of 12% growth a year earlier, was mostly due to timing of new contract revenues. The slowdown in leasing activity, particularly in the Americas, continued to adversely impact Portfolio Services fee revenue growth in the quarter. The decline in higher

margin Portfolio Services revenue and continued investments in technology and headcount to support future growth drove the contraction in Work Dynamics Adjusted EBITDA margin.

We are pleased with the underlying performance of our Work Dynamics business and are confident in the segment's growth and margin trajectory over the coming years. We continue to see solid new sales trends and strong contract renewal and expansion rates. Revenue from the new Workplace Management contracts from *Fortune* 100 companies we secured earlier this year will begin to ramp as the year progresses and support solid momentum into 2024. Our pipeline continues to build as the demand for professional management of corporate real estate increases. We remain focused on adding further Project Management mandates amidst the solid demand trends globally despite the moderating economic backdrop.

Turning to JLL Technologies, fee revenue grew 18% as existing large enterprise clients continue to increase their utilization of our platform, including our leading solutions and services offerings. We also saw strong retention rates of JLL Technologies' largely recurring revenue base. Indicative of our focus on segment profitability, JLL Technologies' fee-based operating expenses, excluding carried interest, were consistent with a year earlier despite the strong revenue growth. This quarter, non-cash equity losses related to our investment portfolio totaled $104 million, which reversed approximately half of the equity gains we had recognized over the past several years. The combination of the fee revenue growth and incremental operating efficiency gains drove an improvement in JLL Technologies' Adjusted EBITDA margin that was masked by the $129 million adverse swing in equity earnings, net of carried interest. As Christian mentioned, our portfolio is now more mature, and we have been scaling back our investments in proptech companies over the last 18 months. Year-to-date 2023 investments are approximately 50% lower than the first half of 2022. We will continue to invest in proptech companies that meet our strategic priorities.

Now to LaSalle, incentive fees earned on assets managed on behalf of clients, notably in Japan and the United States, drove 28% fee revenue growth. Advisory fee revenue declined 3% primarily on the impact of recent valuation declines of our assets under management. Net capital deployment was largely offset by the reduction in valuations, leading to assets under management that was consistent with a year earlier. Given the evolving market environment, new capital deployment continues to be subdued thereby impacting transaction revenues compared to the prior year. Moderating asset valuations drove a $12 million adverse change in equity earnings from the prior year. The reduction in LaSalle's Adjusted EBITDA margin was largely due to the change in equity earnings, partially offset by the higher incentive fees.

Shifting to free cash flow, net inflow in the quarter was nearly $200 million, approximately $60 million higher than a year earlier. Incremental cash inflow from net reimbursables and trade receivables drove an improvement in net working capital, which more than offset lower cash from earnings. The lower cash from earnings was largely due to the decline in Capital Markets and Markets Advisory business performance. Cash flow conversion is a high priority, and we remain focused on improving our working capital efficiency.

Turning to our balance sheet and capital allocation. As of June 30th, reported net leverage was 2.3 times, up from 1.0 times a year earlier primarily due to lower free cash flow over the trailing twelve months and the adverse impact of the non-cash equity losses. The equity losses, net of carried interest, over the trailing twelve months had a 0.3 times adverse impact on our second quarter reported net leverage ratio. Our liquidity position remains solid, totaling $1.9 billion at the end of the second quarter, including $1.5 billion of undrawn credit facility capacity.

Regarding our capital allocation priorities, we are prioritizing deleveraging our balance sheet in the near term while continuing to selectively deploy capital towards growth initiatives and repurchasing shares. We repurchased $20 million during the second quarter and are on pace to repurchase enough shares to offset stock comp dilution this year. As long as leverage remains elevated, share repurchases are likely to be modest. Looking further out, the amount of share repurchases will be dependent on the performance of our business, particularly cash generation, and the macroeconomic outlook. Approximately $1.1 billion remained on our share repurchase authorization as of June 30, 2023.

Before closing, I'd like to provide an update on our long-term operating efficiency improvement goals. As of the end of July, we reduced annualized fixed costs by an additional $70 million, bringing the total amount to approximately $210 million, of which $170 million is expected to be realized in 2023. The cost actions are structural in nature and largely focused on non-revenue generating roles that we identified as part of the global realignment of our business lines last year. Importantly, we continue to opportunistically invest in areas that we believe have attractive growth and return prospects across our business.

Regarding our 2023 financial outlook, we previously articulated a consolidated Adjusted EBITDA margin target of 14-16%, which assumed minimal equity earnings and a recovery in the second half of the year. While we have experienced equity losses year-to-date which would bring our margin below our target, we remain focused on running our core business within our previously stated margin range. If you exclude the equity losses and factor in a slightly more modest ramp in Capital Markets and Leasing activity, we expect our 2023 Adjusted EBITDA margin to be at the lower end of the 14-16% range. With secular industry tailwinds very much intact and our investments in our people and platform, we are confident in our prospects of gaining share and growing our business at a rate which meaningfully exceeds global GDP.

Christian, back to you.

Speaker: Christian Ulbrich, President and Chief Executive Officer

Thank you, Karen.

Looking ahead, inflation peaked earlier this year and is now on a swift downward trajectory with interest rates in the U.S. nearing the top of the cycle. Real estate market conditions remain mixed as interest rate volatility and wider than normal bid-ask spreads continue to create uncertainty. However, as we look at the investment sales landscape, we believe there are reasons for optimism. First, markets have developed more certainty over the expected future moves from the U.S. Federal Reserve. Second, credit spreads have started to tighten, helping to make debt costs more predictable and the bid-ask spread has begun to narrow. Third, fundraising for the second quarter was at the highest level in the last year and lenders are active in appropriately priced assets. In addition, our conversations with clients indicate a desire to transact and there is no lack of dry powder. This is supported by the fact that there has been a sequential uptick in bidding activity since the lows seen earlier this year. Weighing these different aspects, we still lean towards a notable uptick in transaction activity this fall.

The investments we have made over the past several years to diversify our business are paying dividends as our more recurring business lines continue to perform well and provide a stable earnings base during the current downturn. The structural changes we have made to the business a couple years ago, continue to allow us to take further costs out and will lead to an even more resilient platform. Downturns often present great opportunities to invest in our business and we have been doing this over the last several months, adding brokerage teams in select markets that will position us to take advantage of the recovery when it transpires. Now more than ever, our clients are relying on our global scale and "One JLL" approach to provide clear and insightful guidance as they manage through the current market environment. Before I close, I would like to thank each of our employees for their hard work and commitment to serving our clients.

Operator, please explain the Q&A process.

Operator: At this time, I would like to remind [Operator Instructions] Your first question comes from the line Stephen Sheldon with William Blair. Please go ahead.

Stephen Sheldon
Analyst, William Blair & Co. LLC

Hey, good morning. Thanks for taking my questions. First one here just on the JLLT. Just curious, [ph] if I can get some (00:28:02) more detail on the two assets that drove that equity write-down. And just generally, how are some of the assets within there performing relative to expectations? And especially are there assets that are doing particularly well, especially those – some of those that you own outright, would just love to get some more detail, I guess, under the hood there?

Christian Ulbrich
President & Chief Executive Officer, Jones Lang LaSalle, Inc.

Sure. First of all, in our venture capital portfolio, we don't own anything completely. We always have a relatively small proportion in those companies. The two companies, which created the predominant part of those losses are two of our largest investments. One of them was actually doing fine, but had the bad luck that they were running out of cash in an environment which just has very, very muted valuations. And so we participated in that round and they successfully raised equity, and we expect them to perform well going forward.

The other one choose to take this environment, although there was no need for liquidity, but they saw a very attractive opportunity to raise equity now and use that liquidity to accelerate their growth potential. We chose not to participate, although the company is doing well, but our exposure to that company was

big enough and there was no need for us to participate. Overall, we are very happy with that portfolio. It is well used – the products they are creating are well used within our major clients.

And the performance has been very strong in the past. So what we have now [ph] partly getting up (00:30:01) in the valuation is the appreciation we have recognized over the previous years. And so we see that as a normal situation when you invest into venture capital. There was a very strong uptick in valuations over multiple years and now we have seen over the last couple of quarters that valuations have come down. And now we were hit by these companies who had to raise equity in that environment or choose to raise equity in that environment.

Stephen Sheldon
Analyst, William Blair & Co. LLC

Got it. That's helpful. And then as a follow-up. Just generally on the outlook for Capital Markets activity over the rest of the year given what you're seeing. I think you said, Christian, that you think Capital Markets activity seems likely to pick up this fall. But is it also fair to say that that isn't necessarily included in the guidance commentary, Karen that you laid out for the low end of the 14% to 16% range, just wanted to drill down, I guess, on those two comments?

Christian Ulbrich
President & Chief Executive Officer, Jones Lang LaSalle, Inc.

So, first of all, we want to stay away on giving a prediction on the overall Capital Markets environment. We are focusing very strictly on our own portfolio because that is what we can judge the best. And what we see with regards to the amount of assignments we are working on the conversion ratio, which we have seen lately and what our clients are telling us, what they still want to do this year.

That provides us with a confidence that we should see a notable uptick in the Capital Markets activity towards the end of this year, the last couple of months of the year. And that uptick is included when we talk about that forecast that we are expecting to achieve the lower end of our margin guidance, excluding equity earnings.

Stephen Sheldon
Analyst, William Blair & Co. LLC

Okay. Great. Thank you.

Operator: Our next question comes from the line of Anthony Paolone with JPMorgan. Please go ahead.

Anthony Paolone
Analyst, JPMorgan Securities LLC

Yeah. Thank you. Just on the second half modest ramp that you need to see for the lower end of your margin guidance, right. Does that – I mean, just trying to put some brackets around, does that mean the fourth quarter fee revenue for JLL overall needs to be up a little bit, a lot or just any – just broad comments on that?

Christian Ulbrich
President & Chief Executive Officer, Jones Lang LaSalle, Inc.

Well, that's a very relative description here, up a little bit or whatever. It will be up against last year in our own predictions. But we are not expecting a massive development on the revenue side or in the fourth quarter, but a better performance than last year.

Anthony Paolone
Analyst, JPMorgan Securities LLC

Okay. And then just in terms of the 2025 goals that you're sticking to here, how would you characterize just getting there by share versus just what the overall market needs to be like to achieve that?

Christian Ulbrich
President & Chief Executive Officer, Jones Lang LaSalle, Inc.

Well, I mean our 2025 financial targets implied medium term margin expansion. And we were confident that we can achieve that margin expansion predominantly based on the organizational changes we have made, which allow us to streamline our platform and reduce our cost base. And at the same time, we have made strategic investments that positioned us to grow our market share and expand then our margin in line with what we predicted around 2025.

Now, if the market were to stay exactly as it is in the first two quarters of this year, then it would become really tough to get to those margin targets. But what we are seeing coming into the market development over the next 24 months, we are pretty confident that we can achieve those 2025 targets based on these efficiencies and cost savings and the investments, which we have taken.

Anthony Paolone
Analyst, JPMorgan Securities LLC

Okay. And then just last one, if I can, maybe for Karen, the – you seem like you had some working capital benefits from receivables and just the reimbursements. Do you think that's something that's going to help

just boost free cash flow for the full year? Or is this something that's just could unwind in the second half, just quarter-to-quarter volatility of those receivables and reimbursements?

Karen Brennan
Chief Financial Officer, Jones Lang LaSalle, Inc.

Yeah. Maybe I first take a step back and just highlight that those working capital outcomes actually offset the decline in earnings. So as we think about the full year free cash flow outcomes, it is certainly very dependent on what happening from an earnings perspective and the expected recovery and pickup of transaction volumes overall. Outside of that, there are a number of puts and takes that will impact the full year final outcome.

As we talked about in the past rates, collections, upfront working capital drag from new contract wins, tax payments, having a bit of a tailwind and then tailwind from lower incentive compensation payments compared to prior year. So a number of moving pieces, the largest of which will be the impact of earnings. And then we are highly focused on working capital and continuing to drive strong outcomes there.

Anthony Paolone
Analyst, JPMorgan Securities LLC

Okay. Thank you.

Operator: Our next question comes from the line of Michael Griffin with Citi. Your line is open.

Michael A. Griffin
Analyst, Citigroup Global Markets, Inc.

Great. Thanks. Just wanted to go back to the comment you had in the release about credit spreads narrowing and kind of asset prices need to adjust, Christian I know you kind of touched on this briefly, but do you have a sense of how much more those spreads need to narrow or where asset prices need to adjust to kind of pick up on that transaction activity?

Christian Ulbrich
President & Chief Executive Officer, Jones Lang LaSalle, Inc.

Well we actually see spreads on narrowing already and we have seen for many assets prices to come down and so activity is starting to grow as we speak. So we are not expecting any kind of massive changes in that trend line. It's an ongoing kind of price adjustment, which is taking place.

In some asset classes, we are very close to where it needs to go for the current interest rate environment. And in other asset classes, there's still some more room for us to really unlock more transactions. But it's not that we are expecting a massive difference in that trend line in order to get to that uptick. We believe that what we are seeing today will lead already to that uptick in the last couple of months.

Michael A. Griffin
Analyst, Citigroup Global Markets, Inc.

Great. Thanks. And then maybe just on kind of markets and regions, are you seeing any difference in performance from transaction activity, be it a APAC, EMEA, Americas? I mean, anything we should read into there?

Christian Ulbrich
President & Chief Executive Officer, Jones Lang LaSalle, Inc.

Yes, you can expect that the North American market will come out quickest from that sale environment on the transactional side. With regards to Europe that will drag along over several more quarters until we see a significant activity uptick. It's not all the same across Europe. The UK will go earlier than the continent. And Asia- Pacific it's very hard to talk about because we always talk about that region, Asia-Pacific, but the situation in the different major countries there is fundamentally different to each other.

So we have a completely different situation in Japan than we have in China versus Australia and versus other markets. Overall, the environment, if we bring it altogether, the environment there is slightly better than in the other two regions. And therefore there is not that much uptick to be expected because it didn't go that far down anyway. But for us the most relevant market is obviously the US. And the US market is the market where you see kind of most light coming back now over the next couple of months.

Michael A. Griffin
Analyst, Citigroup Global Markets, Inc.

Great. That's it for me. Thanks for the time.

Operator: [Operator Instructions] Our next question comes from Jade Rahmani with KBW. Your line is open.

Jade Rahmani
Analyst, Keefe, Bruyette & Woods, Inc.

Thank you very much. On the JLL Technologies side, have you taken a holistic approach across the entire portfolio, not just the two companies that did follow on fundraising? I mean, I think the entire proptech space is undergoing a rethink as you know a lot of these businesses had very optimistic business plans.

And now in this current environment, they really have to prove their mettle, really have to prove the value of the technology. And wondering also if you could comment on the broker adoption rates at JLL? Or wherever you're trying to market those technologies? Are they catching on? Is the business gaining traction? I think investors are wondering if there's going to be more shoes to drop in this segment.

Christian Ulbrich
President & Chief Executive Officer, Jones Lang LaSalle, Inc.

Sure. Let me start off with repeating once again the three reasons beyond the financial returns that we invest in proptech companies. It's first of all to enable our business with technology tools that will drive growth and improve productivity; secondly, to provide clients with best-in-class technology solutions and third to gain insights into technology that could potentially disrupt our industry and therefore is very important for developing and always revisiting our strategy.

And those three reasons have proven to be very valid. And it is across all those aspects which you just mentioned. It is about adoption of products within our broker community. And we started to provide information that we already provided that last quarter that our Capital Markets business is using an AI-powered platform to identify, analyze and source pipeline opportunities.

And last quarter, we mentioned that approximately 20% of our pipeline needs are being sourced from this tool, which we are using. This was originally a venture capital investment into the company with one of our early funds. We later on then bought the complete company, married it with our own technology platform and that has led to that product. And we have multiple examples of products, which are used within our teams that also very much used by our clients.

And so I'd just like to reinforce we are not a normal venture capital investor. We are experts in real estate and in servicing our clients on that. And we only invest into proptech companies where we believe that those type of products will be a game changer for our clients or for our brokers and for our people. And so there's an incredible closeness of understanding the underlying situation here. We are just not – we are not buying just into a hope of something that we have very early proof points before we do those investments. That doesn't protect us from down-writes, as we have just witnessed over the last quarter. But overall, we are very confident about our portfolio.

Jade Rahmani
Analyst, Keefe, Bruyette & Woods, Inc.

Thank you. And in terms of modeling estimates for the company, there's two main areas that are somewhat opaque, the first is the equity income within JLL Technologies. So the approach that I've taken as of last quarter, you had $490 million of carrying value and I just assume a return on invested capital of around 8% for 2024 and 11% next year, which generates around $40 million to $50 million of income, so that's approach number one. And so we would need to reduce that $490 million by the charge this quarter.

And then the other uncertainty would be on the LaSalle side incentive fees, I guess we just look back historically, take an average and think about, a shape of recovery, but is there any more definition you could provide around how we should think about those modeling the equity income on JLL Technologies and then thinking about a recovery in the incentive fees?

Christian Ulbrich
President & Chief Executive Officer, Jones Lang LaSalle, Inc.

Sure. I mean, again on JLLT, I am – I mean, I'm fully aware – we are fully aware that, that doesn't make it easy for you to model the situation. You should take comfort that as we said, we have a very mature portfolio now. And we are reducing our new capital allocation to the proptech arena as Karen and I alluded to, not because we don't believe in it, we very much believe in it, but we are doing it now for five years.

And we are starting also to see now opportunities to recycle existing investments and therefore not every new investment has to be funded by new capital, that's point number one. But we can't prevent that there is some volatility in those equity earnings to the upside as we have seen for the last four years and now in the last two quarters to the downside.

On the LaSalle side, I'll leave that question to Karen.

Karen Brennan
Chief Financial Officer, Jones Lang LaSalle, Inc.

Sure. So on LaSalle incentive fees, just to recap where we are year-to-date, we have earned $39 million and we do expect some further fees in the second half of the year, but they'll be minimal. And you should think about 2023 as us having recognized a significant majority of what we expect for the year.

Looking forward, right, these are, as you see, relatively lumpy and they do vary based on the timing of certain valuation measurements within separate accounts and commingled funds as well as the market environment and kind of vintage of those funds. Over the last several years, right, the range has been as low as $40 million to as much as over $200 million. Again, based on what's happening. We're expecting to be at the lower end of the range this year. And we'll wait to see what we believe will happen in 2024 as we get closer to some return to transaction momentum and volume at the end of this year.

Jade Rahmani
Analyst, Keefe, Bruyette & Woods, Inc.

And is it fair to measure those incentive fees relative to the amount of co-investment capital the company has? Or total funds under management and assume some kind of conversion ratio, just as a sanity check to make sure those forecasts are reasonable?

Karen Brennan
Chief Financial Officer, Jones Lang LaSalle, Inc.

Yeah, that's a great question. They're not specifically necessarily tied to where we've invested in that portfolio. We do earn incentive fees on areas where we have – we don't have co-investments. Let me give some thought around how we can be more specific over a multi-year period to get a little bit more of a kind of bands of where that could shake out. I appreciate the question you're asking on this point, but we'll do a little bit more work and come back.

Jade Rahmani
Analyst, Keefe, Bruyette & Woods, Inc.

Thank you very much.

Operator: There are no further questions at this time. Christian, I will turn the call back over to you.

Christian Ulbrich
President & Chief Executive Officer, Jones Lang LaSalle, Inc.

Sure. Well, if there are no further questions, then I'd like to thank everybody for the interest in JLL. We will talk to you again in a quarter from now. Thank you all.

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