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JLL - Q4 2018 Jones Lang LaSalle Inc Earnings Call

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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the Jones Lang LaSalle Incorporated's Fourth Quarter 2018 Earnings Conference Call. For your information, this conference call is being recorded.

I would now like to turn the conference over to Grace Chang, Managing Director of Investor Relations. Please go ahead.

Grace T. Chang - *Jones Lang LaSalle Incorporated - MD of Corporate Finance & IR*

Thank you, operator. Good morning, and welcome to our Fourth Quarter 2018 Conference Call for Jones Lang LaSalle Incorporated. Earlier this morning, we issued our earnings release, which is available on the Investor Relations section of our website, ir.jll.com, along with the slide presentation intended to supplement our prepared remarks.

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, where appropriate, to GAAP in our earnings release and supplemental slides.

As a reminder, today's call is being webcast live and reported. A transcript of this conference call will also be posted on our website. Any statements made about future results and performance or about 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, 2017, 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 Chief Executive Officer, for opening remarks.

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

Thank you, Grace, and welcome to all of you joining this review of our 2018 results for the fourth quarter and full year. Our Chief Administration Officer and Interim CFO, Trish Maxson, is also with us, and she will discuss details of our financial results in a few minutes.

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But let me start by summarizing our performance. We had a record quarter and full year, the product of outstanding performance, particularly in our Leasing business, Corporate Solutions and at LaSalle. Revenue and fee revenue both achieved record levels, increasing 13% in U.S. dollars for the quarter and full year.

Revenue totaled $4.9 billion for the quarter and $16.3 billion for the full year. Fee revenue reached $2.1 billion for the quarter and $6.5 billion for the year. We produced strong, diversified growth in real estate services, led by Leasing, with revenues up 16% year-on-year compared with a 5% increase for the market as a whole.

Within Corporate Solutions, the tremendous effort and focus to accelerate top line growth and, more importantly, expand margins reflects strong progress and continued momentum.

On top of our record performance in our real estate services business, LaSalle also had an exceptional year and earned record incentive fees of $216 million. Adjusted net income reached $276 million for the quarter, up from $208 million and $563 million for the year compared with $426 million in 2017.

Adjusted diluted earnings per share were $5.99 per share for the quarter, up from $4.53 a year ago. For the full year, adjusted diluted earnings per share reached $12.25 compared with $9.31 in 2017.

Adjusted EBITDA totaled $418 million for the quarter, increasing from $331 million last year, and $953 million for the full year compared with $771 million in 2017.

We are especially proud that next to all the financial and operating success achieved in 2018, we have also made substantial progress with our Beyond strategy and platform-transformation efforts.

To put these results in context, global economic growth is estimated to have been 3.7% last year, roughly in line with 2017, contributing to another year of positive real estate fundamentals. Global real estate transaction volumes were up 4% for the full year, totaling USD 773 billion, their highest level since 2007.

Capital values for prime assets in 30 major office markets grew at an annualized rate of 5.5%. European cities were the top performers globally, notably, Amsterdam up 33%, Madrid up 18% and Berlin up 13%.

Annualized rental growth for prime offices across 30 markets remained steady, with full year 2018 registering growth of 3.8%. Global office leasing markets exceeded expectations over the past year, totaling nearly 463 million square feet, 5% higher than in 2017.

In the fourth quarter, however, global volumes were down 6% compared with a year ago. At the same time, global vacancy rate declined to a cyclically low of 11.3%. Any growth in prime rental growth equaled the 2017 rate of 3.8%.

In this environment, our overall growth was almost completely organic with our Real Estate Services business leading the way, producing record fee revenue of approximately $6 billion.

Growth was led by Leasing, Corporate Solutions and Project & Development Services. Despite a slight decline in our overall Capital Markets revenue, Real Estate Services achieved double-digit revenue growth and margin expansion.

As I noted earlier, LaSalle produced significant revenue growth, reflecting record incentive fees and increased advisory fees. For details, see Slide 13 and the supplemental slides document.

So taken together, we had a very strong year, proof of the collective power and diversity of our services and the breadth of our global platform.

Now let's turn to Trish for detailed comments on our performance in the quarter and for the full year.

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Patricia Maxson - *Jones Lang LaSalle Incorporated - Executive VP, Chief Admin Officer, Interim CFO & Member of Global Executive Board*

Thank you, Christian. It's a pleasure to report the details of such a strong finish to 2018. Our fourth quarter exceeded expectations and significantly contributed to the record full year results.

As Christian noted, we grew revenue by double digits for both the quarter and the year. On a local currency basis, consolidated revenue and fee revenue increased 15% and 16%, respectively, compared to fourth quarter 2017, and on a full year basis, revenue grew 13%.

All segments achieved growth in revenue, and nearly all of that was organic. For the year, total organic growth was stronger compared to organic growth achieved in 2017. The increase was primarily driven by strong performance in Leasing, Corporate Solutions and LaSalle incentive fees.

Consolidated adjusted EBITDA margin expanded by 130 basis points despite reduced Capital Markets revenues and continued platform and technology investments.

A reminder as we turn to service line and segment results. We report percentage changes in local currency, except for Capital Markets, which aligns with U.S.-dollar-denominated research data.

Consolidated Leasing fee revenue grew at a very impressive 27% for the quarter, the outcome of outstanding performance across our Real Estate Services segments. This was exceptional considering the 7% decline in global market gross absorption. Year-to-date, Leasing fee revenue grew 15%, also outpacing the modest 5% increase in full year gross absorption. All geographic segments experienced growth, most notably the Americas.

Our consolidated Capital Markets fee revenue declined 12% against fourth quarter 2017, primarily the result of reduced investment sales in EMEA and Asia-Pacific.

On a full year basis, Capital Markets fee revenue declined by 1% against the 4% increase in global investment sales. Our year-on-year underperformance against the market is attributable to our outsized growth in the prior year. In 2017, we benefited from investments in the Americas Capital Markets debt business, the stellar U.K. rebound in transactions and sizable deals across all geographies, all of which led to double-digit growth.

Against 2017, Property & Facility Management fee revenue grew 17% for the quarter and 10% for the year. Project & Development Services grew 15% for both the quarter and the year, while Advisory and Consulting grew 13% for the quarter and 12% for the year. Corporate Solutions drove the double-digit revenue growth across all geographies, aided by the stabilization of Integral and growth in our Tetris fit-out business in EMEA.

Turning to margins. On an as-reported basis, adjusted EBITDA margin, calculated on a fee revenue basis, was 19.7% for the quarter and 14.7% for the year. This represents margin expansion of 200 basis points and 130 basis points, respectively. Margin expansion for both the quarter and year was primarily driven by organic growth in real estate services. The broad-based impact of growth in Leasing, profitable growth in Corporate Solutions and the stabilization of Integral more than offset the headwind of lower Capital Markets revenue.

Our positive operating performance allowed for continued strategic investments in technology and our global platform. Please see Slide 7 of the supplemental materials for EBITDA margin details for the full year and fourth quarter.

In 2018, we continued investing in both client-facing tools and internal platform enhancements. For the quarter and full year, approximately 75% of the additional investment spend was related to technology investments. As previously mentioned, the financial system upgrade in EMEA and Asia-Pacific is scheduled for implementation in 2019.

Turning now to debt management. Total net debt was $289 million at quarter-end, reflecting a decrease of $454 million from the third quarter and a decrease of nearly $300 million from fourth quarter 2017. The decreases reflect continued strong cash generation and our ongoing ability to improve our net debt position. Compared to fourth quarter 2017, net debt to adjusted EBITDA declined from 0.8x to 0.3x in 2018.

For the year, cash flow from operations was approximately $600 million, representing a 110% of adjusted net income.

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From an M&A standpoint, in the fourth quarter, we closed the acquisition of Aviva Investors Real Estate Multi-Manager business and assumed full ownership of the management of the Encore+ fund. More recently, we announced the majority acquisition of Latitude, a U.S.-based commercial real estate lender. Both acquisitions will contribute to LaSalle's assets under management and advisory fees in 2019.

In Corporate Solutions, we closed on ValuD consulting, a leading provider of IBM software integration and consulting services.

We continue to be active and opportunistic in considering acquisitions while keeping our disciplined focus on completing transactions that meet both our strategic and cultural fit and drive strong operating performance. Our M&A strategy remains focused on growing our Capital Markets, Corporate Solutions and LaSalle businesses.

From an investment standpoint, we continue to identify and deliver new technology-driven real estate service offerings through the creation of new products, strategic investments and the incubation of proptech startups through JLL Spark.

Earlier in 2018, we announced the acquisition of Stessa, which provides technology-based services for property investors. In addition, since the announcement of the JLL Global Venture fund earlier this year, the Spark team has made 9 investments focused on expanding innovative and cutting-edge digital solutions for our clients, a core part of our Beyond strategic vision.

Moving to segment results. Fourth quarter fee revenue in the Americas increased 23% over fourth quarter 2017 and was up 14% for the year. Growth was broad-based across all services, with exceptional performance in Leasing and Corporate Solutions.

For the quarter, Leasing fee revenue grew by 35% over the prior quarter and 17% for the year. The region significantly outperformed the quarter's market gross absorption. We executed larger-than-average deals in the fourth quarter with substantial revenue growth in the New York, Midwest and Northwest markets.

Capital Markets fee revenue was up 5% for the quarter and up 7% for the year. For the quarter, investment sales were nearly flat, while all other services, such as multifamily origination and debt servicing revenues, were up 13%.

Property & Facility Management fee revenue grew 12% for the quarter and 13% for the year. Project & Development Services grew 13% for the quarter and 9% for the year. Advisory and Consulting businesses grew 24% for the quarter and 27% for the year. The significant growth of all 3 service lines was largely due to Corporate Solutions' new contract awards and expansion of services for existing clients.

Americas' adjusted EBITDA margin, calculated on a fee revenue basis, was 19.3% for the quarter and 16.3% for the year, an increase of 180 basis points for the quarter and 110 basis points for the year on an as-reported basis.

For the quarter, taking into account an approximately 120 basis point tailwind from the impact of ASC 606, margin expanded by 60 basis points on a like-for-like basis. The margin improvement was driven by growth in Leasing, accretive new wins in outsourcing and strong operating performance, partially offset by continued platform investments.

Turning to EMEA. Total fee revenue for the quarter grew 5% over fourth quarter 2017 and was up 7% for the full year. Growth was led by Project & Development Services, Property & Facility Management and Advisory, Consulting services.

EMEA Leasing fee revenue was up 7% for both the quarter and year. The performance outpaced market gross absorption across France, U.K. and Germany as well as other countries in the region.

In France, we're seeing significant payback from our Next technology, which has improved the client experience, shortened the time required by clients to locate space and increased broker productivity. We're seeing market share gains in Paris and are focused on expanding the technology across other markets. Visit jll.com for a video tour of the proptech tool.

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EMEA Capital Markets fee revenue was down 13% for the fourth quarter and down 2% for the year, less than the decline in market investment sales.

In the quarter, we did see market outperformance in various countries, including Portugal and Italy. We also outpaced volumes in down markets, including France, Germany and the U.K.

EMEA Property & Facility Management fee revenue increased by 23% for the quarter and 11% for the year. Project & Development Services fee revenue was up 13% for the quarter and up 22% for the year, driven by contributions from MENA and our Tetris fit-out business. Advisory & Consulting increased 13% for the quarter and 6% for the year.

EMEA adjusted EBITDA margin, calculated on a fee revenue basis, was 18.2% for the quarter and 7.7% for the year, an increase of 370 basis points for the quarter and 140 basis points for the year on an as-reported basis. The stabilization of Integral and reduced bad debt provisions drove margin improvement in the quarter and full year.

Moving to Asia-Pacific. Fee revenue increased 3% over fourth quarter 2017 and 6% for the year. Growth for the quarter and full year was led by organic growth in Property & Facility Management and Leasing, and was partially offset by a decline in Capital Markets revenue.

Capital Markets fee revenue declined 38% for the quarter and 20% for the year against 2017. The decline is largely due to prior year outsized performance, driven by a handful of large transactions. Growth of nearly 50% in fourth quarter 2017 against fourth quarter 2016 created a difficult comparable.

Leasing fee revenue for the fourth quarter grew 16% over 2017 and 18% for the year, reflecting record performance for the quarter due to an increase in deals and increased productivity from new hires. Growth was driven by Australia, China, Hong Kong and India.

Property & Facility Management fee revenue increased 19% for the quarter and 7% for the year. For the quarter, Corporate Solutions benefited from a strong win rate and growth in existing clients. Project & Development Services fee revenue was up 24% for the quarter and 20% for the year. We had a strong finish to the year as large projects reached completion.

Advisory & Consulting growth of 4% for the quarter and 6% for the year was driven by Corporate Solutions' clients.

Asia-Pacific adjusted EBITDA margin, calculated on a fee revenue basis, was 21.3% for the quarter and 13.2% for the year, an increase of 70 basis points for the quarter and a decline of 90 basis points for the year on an as-reported basis. For the quarter, after taking into account an approximate 20 basis point tailwind from the impact of ASC 606, margin expanded by 50 basis points on a like-for-like basis. For the quarter, the margin expansion was largely attributable to organic growth in Leasing, Corporate Solutions and the benefits from cost-saving initiatives. These combined to more than offset the margin pressure from lower Capital Markets revenues.

For the full year, contract losses, mentioned previously, and incremental platform investments led to margin contraction.

Moving to our Investment Management business. LaSalle fee revenue growth for the quarter was 69% and 52% for the year. LaSalle's fourth quarter and full year results reflect strong performance, driven by outstanding incentive fees, predominantly from asset dispositions in Asia. $70 million of incentive fees for the quarter and $216 million for the year drove approximately 90% of the revenue.

Equity earnings for the quarter were $5.4 million and $30 million for the year in result of net valuation increases and sale gains on legacy investments.

LaSalle adjusted EBITDA margin, calculated on a fee revenue basis, was 25% for the quarter and 31.7% for the year on an as-reported basis. Adjusted EBITDA margin expanded by 140 basis points on a local currency basis compared to full year 2017. This was primarily the result of incentive fee growth and margin expansion on private equity annuity fees and was slightly offset by decreased equity earnings.

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For the quarter, margin contracted by 420 points on a local currency basis, primarily as a result of a decline in equity earnings for the period and the timing of operating expenses.

For the year, LaSalle raised $6.1 billion in new capital, with $2 billion raised in the fourth quarter. Excluding recent acquisitions, we ended the year with record-level assets under management of $60.5 billion.

For 2019, we expect incentive fees to normalize and have modest expectations for equity earnings, reflecting a moderation in asset sales and valuation increases.

Lastly, in fourth quarter 2018, we reported an incremental income tax expense of $47 million as a result of truing up the 2017 provision estimate relating to U.S. tax legislation changes. The 2018 impact to diluted earnings per share was $1.02, with no impact to adjusted diluted earnings per share.

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

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

Thank you, Trish. Slide 19 lists a few of our recent wins across service lines and geographies. Our Corporate Solutions business maintained its win rate momentum in 2018, winning 145 new assignments, expanding existing relationships with another 78 clients and renewing 52 contracts. These 275 wins totaled 570 million square feet across all regions. For the year, we achieved a 69% win rate for new business, expansions and renewals.

The one highlight, Merck, a leading global health care company retained us for integrated facility management services at 125 locations in 63 countries around the world.

Representative wins in Capital Markets included in the U.S., a $400 million sale of the James medical office portfolio, a diverse group of 23 Class A outpatient properties in 9 states, totaling nearly 1 million square feet of space. In Poland, we advised Unibail-Rodamco on the sale of the 484,000 square foot Lumen and Skylight office buildings for EUR 190 million. And in Australia, we represented Blackstone in the sale of Melbourne's Waverley Garden shopping center for AUD 178 million.

In Leasing & Management activity, in India, we represented WPP Market Communications to consolidate more than 15 business groups into 256,000 square feet in a single facility in Mumbai. In Texas, we represented Hewlett-Packard Enterprise in a 568,000 square foot lease of 2 buildings in Springwoods Village in Houston. And in Poland, we represented Rhenus, a leading provider of logistic services, to lease 441,000 square feet of warehouse space near Warsaw.

At LaSalle, assets under management totaled $60.5 billion at year-end. As Trish mentioned in her remarks, in November, LaSalle completed the acquisition of Aviva's Multi-Manager business with $6 billion in assets under management to create a new business line: LaSalle Global Partner Solutions.

In January, LaSalle closed the majority acquisition of the $1.2 billion debt fund business of Latitude Management Real Estate Investors. Since LaSalle's assets under management totals are reported 1 quarter in arrears, the $60.5 billion figure does not include assets under management from either acquisition.

Moving to market outlook. Undoubtedly, both the political uncertainties in the world and, therefore, the global outlook are becoming increasingly difficult to predict. The current forecast for 2019 shows the global GDP growing 3.4% compared with the 3.7% last year. There were some signs in the fourth quarter that demand is softening. At the same time, a still growing rate of capital continues to target real estate, and occupier fundamentals remain robust. Our research indicates investment activity to slow by no more than 5% to 10% in 2019, which still represents a healthy level of activity, consistent with the last few years.

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An increase in new office supplies this year could translate into slightly higher vacancy rates. However, the added supply will provide a broader range of choices for occupiers and, thereby, support another year of strong leasing activity at levels similar to 2018.

We remain confident about our ability to keep growing our business in this environment. We see tremendous momentum, particularly in the Americas.

If we look at fourth quarter GDP-driven revenue for Leasing and Project & Development Services in the region, we see that our own growth accelerated during the fourth quarter to levels considerably higher for the quarter than for the full year.

And we are working proactively to maintain renewed growth in EMEA and Asia Pacific. In Asia, we strengthened our teams in China and Japan with notable hires, which we expect to benefit from in 2019.

We continue to transform our platform, delivering ahead of plan on our Beyond strategy. In particular, our Corporate Solutions business continues to make great strides with a strong pipeline and drive towards further margin expansion. Adding to that, we are making great progress with our focus on offering our clients industry-leading digital services. As we gain more momentum, we expect our digital services and products to contribute over $100 million in direct revenues, reinforcing another important pillar of our Beyond strategy.

Consistent with our 2025 long-term growth targets, in 2019, we expect 6% to 8% organic fee revenue growth in our Real Estate Services business, and we have lifted our long-term consolidated adjusted EBITDA margin profile target to 12.5% to 14.5%.

To close our prepared remarks on these calls, we always mention just a few of the many awards and honors that our people have earned. Forbes named us one of the best companies for diversity. Fortune honored as one of the world's most admired companies. In Ireland, we were recognized as Commercial Agency of the Year for 2018. Our hotels and hospitality group won 2018 Transactions of the Year honors at the American Lodging Investment Summit for its advisory work on the sale of Waldorf Astoria, Las Vegas. And LaSalle was named 2018 Best Place to Work in Money Management by Pension & Investments.

Congratulations to everyone at JLL and LaSalle who made these and other awards possible, and thanks to all our people around the world for continuing to serve our clients and our firm so well.

Now let's take your questions. Operator, could you please explain the process?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from Mitch Germain with JMP Securities.

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

Christian, 2 years and change into your tenure, and I remember you established some strategic framework for what you wanted to accomplish. How do you stand in terms of what has been done at the company? And what should we expect for the next few years?

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

Well, 2018 was an exceptional year for us because we really made a lot of progress in that change program, more than we had hoped for at the beginning of the year. Obviously, we are very much supported by that strong economic environment we are operating as a company. And we go

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with a lot of headwind into 2019, and we will continue to drive those changes. I think change will be a common pattern for every corporate in this world, and so we should take it as a normal course of doing business that you have to constantly transform and adapt your operations.

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

Great. I know, Christian, you mentioned pipelines of Corporate Solutions were strong, but I'm curious about the transaction business, 4Q being highly volatile, particularly here in the U.S. Did that impact the growth of your pipelines in the transaction business as we enter 2019?

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

Well, I mean, the U.S. is very, very strong, and we started the year with a strong backlog into the first quarter in the U.S. And Europe, the situation is a bit more a muted. Obviously, that whole debate around Brexit has on impact. Although, I have to say that our U.K. business in the fourth quarter did really well, and they also had a pretty good start into the first quarter now. But overall, we can't dismiss that Brexit has an impact on mood.

In Asia-Pacific, the situation was more within JLL. We had some challenges we had to deal with in our transaction business, especially around the Capital Markets front. And -- but we have sorted that out, and we are starting the year with a much, much stronger team than we had during the course of last year. So we are fairly optimistic for that piece of the business in our Asia-Pacific business for 2019.

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

Great. Last one for me. I know you guys had referenced Capital Markets being influenced by some tough comps from the prior year here in 2018. I'm curious, the success that you had in Leasing and how should we think about, potentially, the comps as we head into 2019.

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

Well, Leasing was a very strong year in 2018, but frankly speaking, we don't expect anything else from 2019. We have built just a really, really strong platform with a great team, which is delivering outstanding services, and the momentum into 2019 is brilliant. And on the Capital Markets side, we did some great hires also in the U.S. We took over a very large team in New York. And so our outlook for 2019 is pretty, irrespective of the market outlook, very optimistic.

Operator

Your next question comes from Tony Paolone with JPMorgan.

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

First, I just wanted to clarify something. Christian, I want to make sure I caught your comments towards the end of your remarks properly. The 6% to 8% organic fee revenue growth, was that for 2019? I missed the time frame that you put on that.

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

Yes, that was for 2019 in our Real Estate Services business.

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

Okay, got it. Okay, and then -- so just on Leasing, as we go into 2019, you mentioned a fairly constant backdrop. And I think the commentary was a 5% gross absorption and you all were able to grow, I think, 15%, and so that's quite a bit of market share pickup. I mean, how do you think about the ability to continue to gain that much share as we look into 2019?

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

Well, we have been picking up a lot of market share over the last couple of years continuously, and frankly speaking, at the moment, we believe that we still have headroom to continue to do so. We don't see any reason for any pause coming to us. As I said to Mitch already, we have built a very, very strong platform, and that starts, kind of, to reinvigorate itself all the time. When you have great people working for you, other great people want to join, and that creates a very strong momentum.

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

Okay. And then, I guess, same thing on Capital Markets, following up on, I think, some of the comments from Mitch. Do you think that recruiting in market share is enough to produce growth in what you laid out as being a bit of a shrinking backdrop for '19?

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

Well, I mean, you can either recruit and grow market share or you can do M&A. We are looking at all ways of growing our business in our Capital Markets services. As you know, this is one of our strategic growth areas, which we have pointed out at Investor Day, and we are working on that topic.

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

Okay. With 0.3x net debt and an appetite to do strategic M&A, I mean, what does that pipeline look like? Is it better or worse than what it was 3, 6 months ago?

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

Well, there's a lot of availability in the market at the moment to do M&A, but one very important factor is that you keep your discipline on capital allocation. And whether we have low debt or higher debt levels, we always keep the same discipline here. And so that's what we are doing.

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

Okay. And then last question for me. I think if I look at your margin buildup year-over-year and I look at what you spent on technology and other investments that impacted margins, it seems like the dollar figure was something in the $60-or-so million mark -- $60-or-so million range. How do you think that looks in 2019, I guess, as one part of the question? And then the other is: what is the -- that as a growth rate percentage, particularly as we think about technology spending? Like, is it an up 2% number? A 10% number? I mean, how are those expenses growing?

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

Well, first and foremost, we have been very transparent around our journey up to 2025. We started off with a margin profile between 12% and 14% as an adjusted EBITDA margin. And in that range, depending on what the market allows us to do, we are investing heavily into our organization and technology, and going digital is a big chunk of it. And we have, as we called out here, raised our margin profile now to 12.5% to 14.5% because we are starting to see benefits coming in from all that investment, so that we can continue that investment path and, at the same time, increase

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our margin profile. And that's how you should think for 2019 and going forward. We have laid out a journey to 2025, what we want to do with the company and with the margin profile of the company. And as we move forward, we will continue to increase that and, at the same time, continue to invest in the platform and especially into the technology.

Operator

Your next question comes from Jade Rahmani with KBW.

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

I was wondering if you could give some color on the expectation for a 5% to 10% decline in investment activity in the market. For example, can you give any color on whether you saw any volatility in December and even January perhaps relative to typical seasonality or your expectations?

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

Well, in December, there was a bit more volatility in the market because our markets are also influenced by overall sentiment. And as you know, the public markets in December were pretty volatile, and that drives into our world as well.

January has started pretty strongly as the public markets have improved in January. So though I don't want to make a connection which is too close between the public market and our market's business, there is a slight correlation there.

With regards to the outlook for 2019, the 5% to 10%, this is the number which our researchers have come up with. And we always should keep in mind that we are currently trading at a very high volume level. This is true for Leasing and for Capital Markets. So when I see those numbers, which predict a 5% to 10% decline, frankly, that is not at all concerning to me because it's a decline from a very, very high level.

And then with regards to Capital Markets specifically for JLL, as you know, our market share in Capital Markets in the U.S. is still not where we want it to be, so this 5% to 10% wouldn't be an excuse for us for not growing our business.

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

And just to stay on the market for another moment. In terms of bid lists on transactions, are you seeing any changes of note? Are you seeing any decline in the number of bidders or perhaps concentrations in pricing perhaps at the lower end?

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

Well, this is not as straightforward. Sometimes, you see a little bit of a decrease in the bidder queue on a building, and then you have another product in the market and, all of a sudden, they are all going for that product again and you have a very strong bidding list. Overall, there's still a lot of capital which is trying to get into the real estate market. As you know, overall, we are new record levels of capital, which is sitting up the sideline, which wants to get into the real estate market. So I think the fundamental underlying trend is still very, very strong. And as I said, we had a bit of a volatility in December. But as we have seen now January coming in, at the moment, it is going back to normal, and that may also be influenced that, obviously, the expectations around interest rates in the U.S. have slightly changed with regards to the amount of inquiries we will see in 2019.

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

In terms of target market share for the U.S. Capital Markets, I agree that is a really large opportunity for JLL. Is that going to be executed based on strategic M&A or more strategic hiring?

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

Well, for the time being, we do a lot of strategic hiring. And if we have an opportunity for strategic M&A, we would be very happy to do so, but as I said before, only if we can speak to our principles around really disciplined capital allocation.

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

And what's the target in terms of market share? I think right now, you're probably ranked 6 or so.

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

Yes, we don't have a target in itself. Usually, in areas like Capital Markets and Leasing, we want to be #1 or #2 in any market in the world, which we have as our strategic markets. Now we are far off in the U.S. So we are -- we have still a long way to go, and we are working on it. Just stay tuned with us on that.

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

And in terms of operating leverage in the U.S. Capital Markets business, is it quite significant because of the number of Leasing offices that you already have open? Can you hire Capital Markets brokers and put them in those same offices? Or do you need to make any fixed-cost investment?

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

I mean, we have a very strong office footprint in the U.S., so we don't need to open any further offices over about the existing ones. So on that end, we can use our existing platform. The challenge is that you have to find talent with the right values, with the right culture and with that kind of clear discipline to try to get to an outstanding results for the clients. And if we can identify those type of people and get them into the organization, then that is a good outcome for us.

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

In terms of the dramatic growth that we have been seeing, particularly in the second half of 2018, how much of it is driven by co-working? And how much is also driven by the technology sector more broadly? And finally, how much is driven by new construction completions?

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

Well, clearly, I can say for us that the flex-based companies, as we would call them, have become important client base for us, and so quite a significant proportion of that additional growth is coming from them.

And the other piece, you already pointed it out, the technology sector. We have a high market share on the technology sector and they have been very active in the market, and that was another part of our growth. But we are focusing also on other industries which are doing really well. I mean, what you see is that despite all the talk about a potential decline in the economy, the successful companies are doing really well, and we tend to have a very strong client base amongst those companies. And so with that, we are also able to have that strong growth as we have shown in 2018.

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

Can you comment on the trends you're seeing in the APAC segment, particularly with respect to concerns about China's growth slowing?

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

I'm not quite sure whether I understood the first part of your sentence. What was the first part of your sentence?

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

What's your view regarding the overall macro environment in the APAC segment, and specifically with respect to concerns about China's growth slowing?

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

Well, I mean, there are a lot of smart people who are analyzing the growth of China. What we can see so far is that we still have a very healthy business. We added a significant amount of employees into our China business, and they are very busy. I think there is, for our industry, still a tremendous room to grow because Chinese companies are professionalizing. They have -- they also have high ambitions on their corporate real estate and the way they want to place their people in offices. And so there is a tremendous amount of services which we can deliver. If anything slows us down on China, it's the lack of talent. And we employ currently around 16,000 people in China, and we would be very happy to employ more if we could just find them. And so, so far, we haven't seen any impact from that discussions around China slowing down or the trade discussions between U.S. and China. But if that is going to come into play going forward, we may see something. But so far, so good, I would say.

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

Okay. Turning to the LaSalle segment. The fee revenue performance in the fourth quarter dramatically exceeded our projections, but adjusted EBITDA was close to what we modeled. So I'm wondering if in the expense lines, whether there was an increase driven by the acquisitions you completed in that segment or whether there was any mark-to-market impact within the securities business.

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

Well, it is partly driven by the fact that we had lower equity earnings, and that is driving that result in a different way than you might have expected it. I mean, there's also some timing with regards to expenses which have come into the fourth quarter. And so going forward -- I mean, as much as we, obviously, like those outsized incentive fees, but going forward, LaSalle's business will be much more normal again in its performance. So we are on a trajectory to increase our margin on the underlying annuity income. And we have made great progress over the last couple of years, and that will continue, but we will see, obviously, less incentive fees in 2019 than we had in 2018.

Operator

Your next question comes from David Ridley-Lane with Bank of America Merrill Lynch.

David Emerson Ridley-Lane - *BofA Merrill Lynch, Research Division - VP*

Wondering if you could provide a little more color on the Real Estate Services margins in 2019. Now that Integral has stabilized, do you have a sense of how much of a margin drive there was in 2018 that won't now be repeating in 2019?

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

Well, I can give you a high-level answer. We made tremendous progress on our Real Estate Services margin from '17 to '18, about 80 basis points, and we are pretty optimistic that we will continue to make progress on that in 2019. I can't give you the detail, how much of that will be driven by a further improvement of Integral. Frankly speaking, I mean, as much as it is an important investment in Europe, for the overall company, the impact is not that strong that we would have that percentage at hand, whether that -- how much of that progress will be driven by Integral.

David Emerson Ridley-Lane - *BofA Merrill Lynch, Research Division - VP*

Understood. And then I'll ask on the ERP and technology, spinning questions sort of a slightly different way. I know you've already been asked that, but is that an incremental drag to margins in 2019?

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

You said European technology spending?

Patricia Maxson - *Jones Lang LaSalle Incorporated - Executive VP, Chief Admin Officer, Interim CFO & Member of Global Executive Board*

ERP.

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

ERP?

Patricia Maxson - *Jones Lang LaSalle Incorporated - Executive VP, Chief Admin Officer, Interim CFO & Member of Global Executive Board*

Yes.

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

ERP. Sorry, I'm a European, so I tend to hear European. You mean ERP?

David Emerson Ridley-Lane - *BofA Merrill Lynch, Research Division - VP*

Yes.

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

I'll leave the question to Trish.

Patricia Maxson - *Jones Lang LaSalle Incorporated - Executive VP, Chief Admin Officer, Interim CFO & Member of Global Executive Board*

Yes, so this year, it was about half of our technology drag for 2018. And so looking into 2019, we do need to complete the EMEA and Asia-Pacific implementation for PeopleSoft. That actually will continue to be a spin for us. We don't anticipate that it's a tremendous increase over 2018, but we still may have some expenses that come in for that because we do -- as I said, we are completing that implementation in 2019.

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David Emerson Ridley-Lane - *BofA Merrill Lynch, Research Division - VP*

And then last one really quickly for me. When you say you expect LaSalle incentive fees to normalize, can you remind all the --- all of us, the level you expect to -- or the level you would characterize as normal for incentive fees and transaction fees?

Patricia Maxson - *Jones Lang LaSalle Incorporated - Executive VP, Chief Admin Officer, Interim CFO & Member of Global Executive Board*

Yes, so for -- I mentioned this earlier, we expect the LaSalle incentive fees to come somewhere in the range of $30 million to $50 million. That's a little bit lower than what you might think of as normal, though, that's difficult to really define, given the volatility.

Operator

Your next question comes from Stephen Sheldon with William Blair.

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

So you've given some commentary on tax spending, but just looking for a little more detail. I think you've been spending close to 8% of fee revenue on both base IT costs and strategic tech investments. So I guess, would you expect that to continue in 2019? And will the composition between those 2 categories, base IT and strategic, look much different? And I guess, specifically, are you seeing leverage in base IT costs that will allow you to invest more in the strategic tech side this year?

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

Exactly, that's what we are working for and that's what's happening. We have made tremendous progress over the last couple of years on our, what you call, base IT cost infrastructure, and we are making strides in pushing that down as a percentage to revenue. And at the same time, we are increasing our investment in client-facing applications, and that we'll continue to do so. I mean, we are targeting a spend which is where 8% is at the higher end, what you mentioned, 8%. But within that percentage spend, the client application piece is going up, and the infrastructure base IT piece is going down.

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

Got it. That's helpful. And then you talked about hiring in China and Japan that should helped trends in 2019 in Asia-Pacific. Can you provide some detail on which service lines you've been hiring?

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

In China, it's specifically around Capital Markets and the broader kind of transaction services. We have a very, very strong Facility Management and Property Management business there, and we are continuing to build more of the transactional side of services.

In Japan, it is across the board. But again, predominantly on the Leasing and Capital Markets side. We still have a long way to grow in Japan. Considering the overall GDP of Japan, the size of the economy, our business can continue to grow for many, many years at the same rate as it has been.

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

Got it. And then last one for me. I guess, just any update on the CFO search?

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

Well, I have a great CFO sitting next to me and she's smiling at me, so that's a good start. No, we are working on it, and we are making good progress, I would say. But again, it's quite similar to the discipline we are having around capital allocations. We are keeping our discipline here to find the person which is, ideally, the perfect fit for us. We are under no pressure to doing it because we are a great team as we are currently, but we are still working on it. Unfortunately, Trish will not continue as our CFO going forward.

Operator

Your next question comes from Marc Riddick with Sidoti.

Marc Frye Riddick - *Sidoti & Company, LLC - Business and Consumer Services Analyst*

So several of my questions were actually answered on some of the prior questions, but I did want to follow up a little bit on the acquisition of a marketplace. I suppose, I just wanted to get your general sense. I mean, I can understand the commentary around keeping your discipline on what you're looking for. But I guess, wanted to get maybe just sort of a high-level view on, kind of, what you see as available out there and, I mean, how you feel about the current multiples of things that might be attractive to you.

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

Well, at least in my carrier, I've never seen a market which has so many availabilities with regards to M&A as it currently has. I think that's probably quite normal. We are on a late cycle moment in a long upturned swing, and so a lot of companies are currently interested in finding a new home. And so we have quite a lot of work going on in analyzing the different opportunities. But we have been pretty clear which areas are of interest to us at our Investor Day, and that hasn't really changed.

With regards to multiples, great companies are expecting a strong multiple, and less-than-great companies, we are not interested in. And so that's the obvious squeeze. On the one hand, you don't want to overpay. On the other hand, you only want to buy really outstanding companies who are a good fit for JLL.

Marc Frye Riddick - *Sidoti & Company, LLC - Business and Consumer Services Analyst*

Okay. And then one thing I did want to circle back on is -- and I appreciated the commentary around the IT spending and the commentary around the ERP needs going into '19. I was wondering if there's any particular concentration of spend that we should be thinking about or how it might flow through the year to sort of be prepared for it.

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

Well, as we said, I mean, Trish just alluded to it, we are finishing up our ERP platform on the finance side in EMEA and APAC. We already finished on the HR side. So that is one area of concentration still.

And then with regards to client applications, we have given now, for the first time, a bit of information around the revenues we are expecting from those type of client applications, and we have pretty strong ambitions on that going forward. And so that will continue to be a real priority for us

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to invest into client applications which are driving direct revenues into the organization, next to those applications which are supporting kind of existing revenue streams which we have, like the [Next Room] Trish mentioned.

Operator

Your next question comes from Jade Rahmani with KBW.

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

On the strategic M&A side, do you see any compelling rationale for mergers between public companies in the commercial Real Estate Services sector?

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

Well, whether those companies are public or whether they are not public doesn't really make a difference for us. The question is: whether they are a great fit for us? And so on that end, that isn't anything which would bother us, whether they are public or whether they are not public. I think your question goes more directly to the question: is it -- does it make sense to kind of merge with a company which provides exactly the same services or whether you are complementing your services? And both can drive value. Obviously, complementing is an easier one to say yes to, but also doing something which is offering the same type of services makes sense if it offers you scale in a way which really then helps you to drive your costs down and strengthen your market position. We have done that only once to my knowledge of size, and that was in 2011, when we did in the U.K. King Sturge. King Sturge was doing exactly we were doing in the U.K. They were pretty much exactly the same size. And it really boosted our U.K. business at the time, and it was a great decision doing it. But that happens relatively rarely that you have those type of opportunities which make sense and drive value for your shareholders.

Operator

And there are no further questions at this time. I now turn the call back over to management for closing comments.

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

Well, thank you. With no further questions, we close today's call. Thank you for participating, and we look forward to speaking with you again following the first quarter.

Operator

Ladies and gentlemen, this does conclude the program. You may now disconnect. Everyone, have a wonderful day.

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