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Newmark Group, Inc. (NMRK)

Q1 2025 Earnings Call

CORPORATE PARTICIPANTS

Jason A. McGruder
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Barry M. Gosin
Chief Executive Officer, Newmark Group, Inc.

Michael J. Rispoli
Chief Financial Officer, Newmark Group, Inc.

Luis Alvarado
Chief Operating Officer, Newmark Group, Inc.

OTHER PARTICIPANTS

Alexander Goldfarb
Analyst, Piper Sandler & Co.

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

Julien Blouin
Analyst, Goldman Sachs & Co. LLC

Patrick Joseph O'Shaughnessy
Analyst, Raymond James & Associates, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good day and welcome to the Newmark Group First Quarter 2025 Financial Results. Today's conference is being recorded.

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

Jason A. McGruder

Head-Investor Relations, Newmark Group, Inc.

Thank you, operator and good morning. Newmark issued its first quarter 2025 financial results press release this morning. Unless otherwise stated, the results provided on today's call compare only the three months ending March 31, 2025, with the year earlier period. Except as otherwise specified, we will be referring to results only on a non-GAAP basis, including the terms adjusted earnings and adjusted EBITDA. Unless otherwise stated, any figures discussed today with respect to cash flow from operations refers to net cash provided by operating activities, excluding loan origination and sale activity.

We may also use the term cash generated by the business, which is the same operating cash flow measure before the impact of cash used for employee loans. Please refer to today's press release, the supplemental tables and the quarterly results presentation on our website for complete definitions of any non-GAAP terms, reconciliations of these items to the corresponding GAAP results and when, how and why management uses them for additional information on the cash flow measures, as well as relevant industry or economic statistics.

The outlook discussed today assumes no material acquisitions or meaningful changes to our stock price. Our expectations are subject to change, based on various macroeconomic, social, political and other factors. None of our targets or goals beyond 2025 should be considered formal guidance. Also, I remind you that information on this call contains forward-looking statements, including without limitation statements concerning our economic outlook and business.

Such statements are subject to risks and uncertainties which could cause our actual results to differ from expectations. Except as required by law, we undertake no obligation to update any forward-looking statements. For a complete discussion of the risks and other factors that may impact these forward-looking statements, see our SEC filings including but not limited to the risk factors and disclosures regarding forward-looking information on our most recent SEC filings, which are incorporated by reference.

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

Barry M. Gosin

Chief Executive Officer, Newmark Group, Inc.

Good morning and thank you for joining us. We are pleased to report another successful quarter, demonstrating robust growth and strong operational performance, which underscores our strategic vision and commitment to delivering value to our clients and stakeholders. Newmark's exceptional talent and industry leading insight led to our 22% increase in revenues and approximately 40% growth in our earnings metrics. This included another quarter of double-digit gains across every major business line. We grew capital markets by 33%, as Newmark once again outpaced the industry across both investment sales and origination, while continuing to advice on an increasing number of portfolio and entity M&A deals.

Leasing fees were up 31%, driven by increased activity in New York City, Boston and as well as a strong rebound in the San Francisco Bay area. We increased management and servicing revenues by over 10%, which reflected strong valuation and advisory growth. We also benefited from the expansion of services across our recurring business lines, such as asset management and servicing, underwriting and due diligence, dedicated staffing solutions and outsourced lease administration and property accounting.

Our continued focus on a strong balance sheet and cash flow generation has put the company in an excellent position to grow. We continue to enhance our capabilities in nearly all verticals and geographies while broadening and diversifying into more service lines and alternative property types. We have built a platform that is engineered to excel. Given our deep relationships with clients and the strength of our brand, we anticipate further market share gains over time. We recognize, however, that there are potential geopolitical headwinds that may have a dampening effect on industry activity. Despite recent market turbulence, we are excited to come to work every day to continue this odyssey of building on the foundation we have created for a scalable and sustainable enterprise.

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

Michael J. Rispoli

Chief Financial Officer, Newmark Group, Inc.

Thank you, Barry, and good morning. We had a strong start to the year with 21.8% growth in revenues and approximately 40% growth in our earnings metrics. Revenues were $665.5 million, compared with $546.5 million. We increased management services, servicing and other by 10.5%, the seventh consecutive period of solid year-on-year improvement. Leasing revenues were up by 31%, driven by strong double-digit growth in office and retail leasing volumes. Capital markets revenues grew by 32.7% as we continue to gain market share. This reflected 62.5% volume improvement with growth across every major property types, including 40% in our GSE/FHA origination volumes.

Turning to expenses, compensation increased by 21.8%, which reflected higher commission based revenues and costs related to Newmark's growth initiatives. Non-compensation expenses included higher pass-through costs and other items related to increased revenues. The company's tax rate for adjusted earnings was 14.3%, in line with full year guidance.

Moving to earnings, we increased adjusted EPS by 40% to $0.21 compared with $0.15. Adjusted EBITDA was $89.2 million, up 40.5% versus $63.5 million. Our adjusted EBITDA margin improved by approximately 180 basis points to 13.4%. With respect to share count, our fully diluted weighted average share count for adjusted earnings was down slightly to $255.3 million. Although we did not repurchase any shares during the quarter, we have $371.9 million remaining under our repurchase program. We continue to believe buybacks are prudent allocation of capital and anticipate further share repurchases.

Turning to the balance sheet, we ended the quarter with $157.1 million of cash and cash equivalents and 1.3 times net leverage. The changes from year-end 2024 reflected $100 million of incremental borrowing under our credit facility, offset by cash used with respect to the hiring of revenue generating professionals and normal seasonal first quarter movements in working capital.

Moving to guidance, our 2025 outlook remains unchanged, while our revenue pipeline continues to show growth into the second quarter, it is difficult to predict the impact, if any, the tariffs and interest rate volatility may have on our results. For the full year, we expect capital markets revenues to be better than the 9% midpoint of our guidance range. Management and servicing to perform roughly consistent with the first quarter and our leasing business to grow less than the midpoint of our revenue guidance range.

Lastly, we want to take a moment to congratulate Lou Alvarado on his recent promotion to Chief Operating Officer. Luis has been with the company since 2015 and has helped us deliver strong growth over the past decade. As always, Luis will be joining us for Q&A.

With that, I would now like to open the call for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] We will now take your first question coming from Alex Goldfarb with Piper Sandler.

Alexander Goldfarb
Analyst, Piper Sandler & Co.

Q

Hey. Good morning. Morning down there and first, Lou, congratulations, awesome times – that's awesome on the promotion.

Luis Alvarado
Chief Operating Officer, Newmark Group, Inc.

A

Thank you.

Alexander Goldfarb
Analyst, Piper Sandler & Co.

Q

So, the first the first question is, just Barry, I mean, obviously, what everyone wants to know is what your clients, your relationships, what they're saying, very strong first quarter we've seen from the office REITs. There doesn't seem to be any leasing slowdown. We've heard the same on the retail REIT so far. So, how do we interpret sort of this macro uncertainty with what you're seeing in the business? And do you have any anecdotes of people pulling back, leasing deals or stepping away from transactions, building sales, et cetera, anything that gives color to what's going on in the market?

Barry M. Gosin
Chief Executive Officer, Newmark Group, Inc.

A

And we're seeing deals go through – continue to go through. That's what we're seeing so far. And same with same with leases. We're not really seeing any firm change in making decisions. There, the CMBS market has slowed down, seems like the banks are putting out bridging the gap at this point. We're seeing some bank loans for the first time in some respects, but generally not. It's too early to tell. I mean, it's 100 days in. It's been an active 100 days. We'll see what happens over the next 90 days.

Alexander Goldfarb
Analyst, Piper Sandler & Co.

Q

And on the transaction front, have you seen people pulling building from the market or I mean, that would seem logical just given what's going on in the capital markets, are your view is people are still putting product out on the market to transact?

Barry M. Gosin
Chief Executive Officer, Newmark Group, Inc.

A

Generally, interest rate, if there was a perceived significant decline in interest rate, people might slow up putting things on the market, but we haven't really seen that. If the Fed indicated they drop interest rates by 50 basis points, you might see a change in the market, because people will expect cap rates to rise in light of a declining interest rates, but not really, not really. Right now, it's the uncertainty is annoying and concerning, but things are still trading.

Alexander Goldfarb
Analyst, Piper Sandler & Co.

Q

And then, Mike, just on the stock buybacks, you mentioned that in your opening comments. Again, just with the backdrop of the uncertain economy, the capital markets, et cetera, do you feel comfortable engaging in stock buybacks in the current or you would say, hey, we're better off to keep our cash on hand for the future rather than buying back stock?

Barry M. Gosin
Chief Executive Officer, Newmark Group, Inc.

A

Short answer is, I feel really comfortable buying back stock. I mean, you look at our balance sheet still really clean, low net leverage at 1.3 times. And we're pretty careful about how we manage our balance sheet and how we manage our capital. We made some investments in the first quarter into continuing to grow the business and you could see that in our cash flows. And so, we didn't buyback any stock, but I think you'll see us pivot to buying back stock as we move into the second quarter here.

Alexander Goldfarb
Analyst, Piper Sandler & Co.

Q

Thank you.

Operator: Again [Operator Instructions] We'll now move to our next question coming from Jade Rahmani from KBW.

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

Q

Thank you very much. You all have grown the management services part of the business and continue to do so. Can you talk about what differentiates Newmark in that business? What the core services are that you're providing and what's driving the growth there?

Barry M. Gosin
Chief Executive Officer, Newmark Group, Inc.

A

Well, we do a bunch of things that we think are different than our peers. We have a managed service program, we provide staffing. We are moving in and into the fund administration and property accounting business, which is a little different. So, it really puts us, it puts us squarely in partnership with our investor clients, providing them with service and giving them the ability to provide variable support. It fits with our strategy. We think it elevates our brand. It's a very sticky and value-added piece of business. We are still growing our property management and facility management as well.

And all that is growing where we're a lot more focused on it, because our superpower has been our investment advisory sales and loan origination business. That's what gives us the gravitas and the reputation and the elevation of our brand over the last 10 years. And in 2015, we had a 1.5% market share. We're now 9%, pushing up to 10%. I mean, that's a significant increase in market share in a big segment of the business which also has characteristics that make it incredibly advantageous to the same people that hire property managers, asset managers provide staffing, all those things, put us around the hoop with those clients.

And we think that now that we have continue to elevate and build, we think we're in a much more mature position to be able to take advantage of building more recurring revenue opportunities. And it's hiring the right people, going after the right business, having the right reputation, having good success. And we think we're doing all those things. And everything that we've done has indicated that and it continues to grow and it's going to build a head of steam.

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

Thanks very much. I wanted to ask about stock compensation, which was, I think outsized in the quarter, but may have included a one-time item, just the $21 million in GAAP charges related to Howard Lutnick that is called out in the press release, is that a one-time item? Do you expect any other charges related to him that investors should anticipate, would be helpful to know about that? Thanks.

Michael J. Rispoli
Chief Financial Officer, Newmark Group, Inc.
A

Sure. Hi, Jade, it's Mike. The stock comp in the quarter, I would say for the full year, we would expect it to be similar to last year. The Howard item is a one-time item, converting his remaining units into shares as he exited the company. So, we don't expect that to recur. And so, that's how we see the year playing out for stock comp.

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

Thanks very much.

Operator: We will now take your next question coming from Julien Blouin with Goldman Sachs.

Julien Blouin
Analyst, Goldman Sachs & Co. LLC
Q

Thank you and congratulations on the strong quarter. When I, when I think about the decision to maintain guidance, despite what was a pretty strong first quarter, granted, I know the back half of the year is where you derive the vast majority of your earnings for the year, but is that decision to maintain guidance really down to the broader macroeconomic uncertainty? Is there anything in April that sort of giving you pause or is it just sort of general conservatism at this point?

Michael J. Rispoli
Chief Financial Officer, Newmark Group, Inc.
A

Yeah. Hi, Julian. Certainly, we had a really strong start to the year and we're seeing our pipelines continue to build on a year-over-year basis. I would say, for Q2, we're seeing up about 10% or so in terms of our pipelines. Had the macro environment been different, we certainly would have been considering guiding towards the higher end of the range or perhaps even increasing guidance, but the macro environment is what it is. I would say that we have pretty good visibility through the first half of the year.

As Barry said, we're not seeing deals fall out of the pipeline at this point. We're seeing things close and when you think about the back half of the year, we now have 40% of our revenues and our earnings that are recurring and we have very good visibility into that. And so, really what that means is in the back half of the year, our transaction business is up low single digits to get to the midpoint of our guidance range, which isn't a lot, but given the macro environment, I think we're just taking a more cautious approach right now.

Julien Blouin
Analyst, Goldman Sachs & Co. LLC

Q

That's very helpful. And on that point of the pipelines in the second quarter, up 10% year-over-year, does that correlate pretty closely to what you would expect for transaction volumes or can there be a significant sort of spread between those two?

Michael J. Rispoli
Chief Financial Officer, Newmark Group, Inc.

A

Yeah, I think it's pretty consistent with what we would expect in terms of transaction volumes.

Julien Blouin
Analyst, Goldman Sachs & Co. LLC

Q

Okay.

Michael J. Rispoli
Chief Financial Officer, Newmark Group, Inc.

A

We're seeing really strong capital markets activity continuing into the second quarter, particularly on the debt side, where we continue to pick up market shares. So, as of right now, everything continues to look good.

Barry M. Gosin
Chief Executive Officer, Newmark Group, Inc.

A

We also have a – again, we are seeing opportunities in a segment of the market that we weren't playing in. We are now playing in new market, new categories, new types of business. We'll continue to elevate the brand. People call us for things they might not have called us for two years ago. And so, that's an incredibly encouraging scenario that is playing out over the next few years.

Julien Blouin
Analyst, Goldman Sachs & Co. LLC

Q

That's very helpful. All right. Thank you.

Operator: Your next question is coming from Patrick O'Shaughnessy with Raymond James.

Patrick Joseph O'Shaughnessy
Analyst, Raymond James & Associates, Inc.

Q

Hey. Good morning. So, Newmark hasn't done an acquisition in a while. Just curious, what's your current appetite for M&A versus continued broker team lift outs?

Michael J. Rispoli
Chief Financial Officer, Newmark Group, Inc.

A

Yeah. I guess we haven't said that 100% of our growth has been organic. We're careful about how we buy companies. It depends on the companies you buy. You buy a really big company, then you spend a lot of time with the friction involved in integrating lots of personalities, lots of duplicate activity. So, you get that on a big, that's a risky acquisition. On a bolt-on, if you get smaller companies, you're getting – the bulk of the spend is got has gone to people who are retiring and the real talent that drives the business. So, we navigate very carefully in how we bolt-on and tack-on.

So, we have found, although it has some implications on an accounting basis for acquiring talent that the cost of sales, acquisition of sales for us is much lower by going directly to talent and we've hired great talent. So, in some respects, what we think is when the dust settles, we will have a higher quality professional in our business. Now, that doesn't mean that we're not going to buy. There are things we are looking at and we think when the pipeline is appropriate, there is a whitespace that we can continue to fill to build out the platform on a global basis and we're doing it. And if buying makes sense, we'll buy. If acquiring talent makes sense, we'll acquire. We are very nimble in that respect.

Patrick Joseph O'Shaughnessy
Analyst, Raymond James & Associates, Inc.

Q

Okay, great. And then can I get your current thoughts on the outlook for multi-family? And then I guess Fannie and Freddie in particular, given some of the leadership changes there?

Michael J. Rispoli
Chief Financial Officer, Newmark Group, Inc.

A

I mean, the word coming out of the FHFA is generally consistent that the government, regardless of what side of the aisle you're on, wants more housing, needs and understands the shortage of housing in the United States. So, I don't think they're going to want to get in the way of creating housing. So, that seems to be the narrative coming out of Washington. The talk about privatization of Fannie and Freddie, it would be a three to four-year process to get it done. It'll be outside the realm of this administration before the benefits of doing it, really happen. And so, that's – and there's a history and precedent of that before as long as the implicit guarantee from the government to create housing is continues, it will have no impact. But nothing for the foreseeable future, 2026/2027.

Barry M. Gosin
Chief Executive Officer, Newmark Group, Inc.

A

Yeah. And I would add to that that we certainly had a strong year-over-year performance in terms of volumes in origination in the first quarter. On the debt side, we continue to see that building. We don't really see any slowdown in those markets at this point.

Michael J. Rispoli
Chief Financial Officer, Newmark Group, Inc.

A

Yeah, multifamily has not missed a beat in terms of demand. You have a shortage of housing. You also have the same metrics that have been happening for the last 10 years. People are buying houses later. There's more mobility. People rent for longer. And that's – and the ability to rely on a 30-year mortgage, paying down your mortgage and retiring off the value of the house is not really something that happens the way it used to happen in the 1960s and 1970s and 1980s. So, we think multifamily is going to continue to be an important asset class and continue to be strong. There'll be pockets where there'll be oversupply, but like any market that has an oversupply, but it's in general, multifamily is really a good category for, we think, a long time to come.

Patrick Joseph O'Shaughnessy
Analyst, Raymond James & Associates, Inc.

Q

All right. Terrific. Thank you.

Operator: We'll take your next question coming from Jade Rahmani with KBW.

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

Q

Thank you. I'm not sure if the tariff environment has impacted this, but competitive environment for recruiting has seemingly picked up quite a lot. I think Cushman & Wakefield outlined their plans and some of the teams they're hiring, I know Eastdil is also active as well. So, I just wanted to get your comment on the competitive environment, recruiting and Newmark's plans. I believe you do still plan to grow in terms of your commission driven revenue producing staff?

Barry M. Gosin
Chief Executive Officer, Newmark Group, Inc.

A

Okay. So, I mean, we're the go to company. People want to be at Newmark. That's look at everything we say and everything we do. We continue to hire, but we're not going to overcrowd ourselves. There are places where we have white space. We believe in high revenue per capita, more with less. That's part of our strategy. Our strategy isn't just more one word and so, we continue to hire. I mean, you just look at the people we hire and it's everyone has to hire, you have to constantly replenish your talent and train your talent and bring talent up from the bottom up.

So, we think we're incredibly competitive and most of the recruiting is going our way. And we think that's going to continue and it's going to continue to accelerate, which we've had in Europe, I mean, we opened Germany five months ago, six – we've signed our 54th contract. We're incredibly competitive. It's an exciting market. People are excited to see us in Europe as the kind of company that recognizes talent, respects professionals and is a good place to work.

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

Q

Thank you.

Operator: And it appears there are no additional questions at this time. I'll now turn the call back to you for your closing remarks.

Barry M. Gosin
Chief Executive Officer, Newmark Group, Inc.

Well, thank you, everyone, for joining us today. We hope to see you in the next quarter.

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