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NMRK.OQ - Q4 2024 Newmark Group Inc Earnings Call

EVENT DATE/TIME: FEBRUARY 14, 2025 / 3:00PM GMT

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PRESENTATION

Operator

Good day, and welcome to the Newmark Group's fourth quarter 2024 financial results. Today's conference is being recorded. At this time, I would like to turn the conference over to Head of Investor Relations, Jason McGruder. Please go ahead.

Jason McGruder - *Newmark Group Inc - Head of Investor Relations*

Thank you, operator, and good morning. Newmark issued its fourth quarter 2024 financial results press release this morning. Unless otherwise stated, the results provided on today's call compare only the 3 months ending December 31, 2024 with the year earlier period. Except as otherwise specified, we will be referring to our 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 cash flow -- sorry, net cash provided by operating activities, excluding GSE FHA loan origination and sales. 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 and updated definitions of any non-GAAP terms, reconciliation of these items to the corresponding GAAP results and how, when and why management uses it, for additional information on our cash flow measures as well as relevant industry or economic statistics.

The outlook discussed today assumes no material acquisitions or meaningful changes in 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, please see our SEC filings, including, but not limited to, the risk factors and disclosures regarding forward-looking information in 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 Gosin - *Newmark Group Inc - Chief Executive Officer*

Good morning, and thank you for joining us. The investments Newmark has made in talent and our platform over the year -- over the past 2 years drove double-digit top line improvement across every major business line in the quarter. We grew management and servicing by 21%, capital markets by 20% and leasing by 15%. Our capital markets platform materially outpaced the industry as we continued to expand our market share. Excluding the fourth quarter 2023 Signature transaction, Newmark increased volumes by 209% for mortgage brokerage, 85% for GSE origination, and 71% for investment sales.

For the year, we increased our U.S. debt market share by approximately 300 basis points to 9%, which is up by 6x compared with our 1.5% market share in 2015, which is when we started the business. These strong results validate our strategy of leading with talent. We are a key adviser to our clients, which continues to drive growth across our platform.

As we have said in the past, if you are great, you belong at Newmark. The company is positioned for success in an industry that is poised for growth over the next several years. We anticipate the following industry trends: the stabilization of interest rates; approximately $2.1 trillion of near-term U.S. debt maturities, and the narrowing of bid-ask spreads that are expected to drive double-digit gains in industry capital markets volumes; the ongoing strength and expected capital investments in the U.S. economy; the trend of institutional allocation to real estate as an asset class; the continued outsourcing of real estate services; the improving fundamentals for industrial, including the reshoring of manufacturing and investment in data centers fueled by artificial intelligence.

Additionally, we expect the following positive factors in the office sector: return to the workplace and growth in office employment; a reduction in the pipeline of new construction and ongoing conversion of office space into alternative uses. Newmark continues to elevate its brand and is the go-to adviser for complex transactions that require innovative solutions. This has driven our growth in leasing and capital markets and enables us to create new demand as our professionals execute sophisticated transactions on behalf of clients.

Our pipeline across all major business lines remains robust, and we expect momentum throughout the year. We anticipate strong revenue and earnings growth in 2025 and remain confident in meeting our target of at least $630 million of adjusted EBITDA by 2026.

I want to take a moment to discuss the recent nomination of Howard Lutnick for United States Secretary of Commerce. As many of you know, Howard announced that upon U.S. Senate confirmation, he will step down from his position at Cantor, BGC, and Newmark. It has been a privilege partnering with Howard to build Newmark into a powerhouse and a pleasure to work side-by-side with someone I can call my friend and adviser. In a highly competitive sector, Howard has helped Newmark make bold and decisive decisions that have catapulted our company's growth in the United States and our expansion abroad.

We are thankful for his partnership and the invaluable contributions he has made to the organization and are thrilled his expertise will serve and support the American people. We have spent the last 12 years building an incredible management team and a deep bench to support our continued growth. We look forward to the future and are excited about our prospects. With that, I'm happy to turn the call over to our CFO, Mike Rispoli.

Michael Rispoli - *Newmark Group Inc - Chief Financial Officer*

Thank you, Barry, and good morning. We grew our revenues 18.8% to $888.3 million. This performance is impressive, considering the challenging fourth quarter comparison we faced in each of our business lines, including the $39.5 billion Signature transaction. We increased revenues from management services, servicing and other by 21.1%, the sixth consecutive period of solid year-on-year improvement. We generated strong organic growth across nearly all of our management businesses.

Leasing revenues increased by 15.1% led by strong double-digit growth in office, where Newmark advised on many high-profile transactions. Capital markets revenues grew by 20%, which reflected strength across every major property type. Excluding the Signature transactions, Newmark increased total capital markets volumes by 113.2%, materially exceeding relevant industry growth metrics.

Turning to expenses. Compensation increased by 13.4%, which reflected higher commission-based revenues and other costs related to the growth in our management and servicing businesses. Non-compensation expenses included higher pass-through costs and increased warehouse interest expense, both of which were offset by associated revenues. Excluding the impact of these items, non-compensation expenses rose by 8.2%. The company's tax rate for adjusted earnings was 13.9% in the quarter and 14.1% for the year, in line with previous guidance.

Moving on to earnings. We increased adjusted EPS by 19.6% to $0.55. Adjusted EBITDA was $182.9 million, up 10.1%. Excluding the prior year favorable legal settlement, adjusted EBITDA was up 19.2% and our EBITDA margin was up slightly. On the same basis, our full year 2024 margin improved by approximately 55 basis points to 16.2%. Later, I will discuss our expectation for continued margin expansion.

With respect to share count, our fully diluted weighted average share count for adjusted earnings was 253.1 million, in line with guidance. During the quarter, we repurchased 2.1 million shares and units for $31.4 million. For the full year, we repurchased 18.6 million shares and units for $224.9 million at an average price of $12.09.

Turning to the balance sheet. We ended the year with $197.7 million of cash and cash equivalents and 1.1x net leverage. The balance sheet changes from year-end 2023 reflect $437.6 million of cash generated from the business, representing approximately 98% EBITDA conversion, as well as $123.4 million of incremental corporate debt.

This was offset by $211.9 million used primarily for investments in revenue-generating headcount, the return of $284.2 million of capital to shareholders, and other normal movements in working capital. With a healthy balance sheet, strong cash generation and growing earnings, Newmark is well positioned to invest for growth and return capital to shareholders.

Moving to guidance. Our outlook for full year 2025 compared with 2024 is as follows. We expect total revenues of between $2.9 billion and $3.1 billion, an increase of approximately 9% at the midpoint. We anticipate adjusted EPS between $1.40 and $1.50, up 14% to 22%. We expect our adjusted earnings tax rate to be between 14% and 16%, and we anticipate adjusted EBITDA in the range of $495 million to $545 million, an increase of 11% to 22%.

This outlook highlights Newmark's strong operating leverage. At the midpoint of our 2025 guidance range, we expect 16.5% adjusted EBITDA growth on a 9.1% increase in total revenues, representing at least 110 basis points of margin expansion. We continue to target at least $630 million in adjusted EBITDA and an additional 110 basis point margin expansion in 2026. This means that between '24 and 2026, we expect to improve our EBITDA margin by at least 220 basis points. Also, we are now introducing a 2026 goal of $1.75 of adjusted EPS, representing more than 40% earnings growth over the next 2 years. I would now like to open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Alexander Goldfarb Piper Sandler & Co.

Alexander Goldfarb - *Piper Sandler & Co. - Analyst*

Happy Friday. So 2 questions here. First, just on the G&A front, two-part question to this. How much of the earnings outlook, I guess, benefits from Howard not being in G&A anymore? And then second, with regards to the settlement, is there any material change in your D&O premiums?

Michael Rispoli - *Newmark Group Inc - Chief Financial Officer*

Sure. Of course, Howard moving on is reflected in our guidance, as is continuing to invest in the business and continuing to invest in AI to drive efficiencies over time. So that's all reflected, including any premium increases in our D&O.

Alexander Goldfarb - *Piper Sandler & Co. - Analyst*

Okay. Second question. Barry, you've talked -- spoken a lot and it was in your release about data centers and the growth that you guys are seeing in your platform. Just curious, as you look at data centers, it's a hot topic. There's the challenge of utility hookups, the time to bring these things online. I don't know how close or how far away they need to be from sort of their ultimate end user. But maybe you could just provide some perspective of the hype versus the challenges versus what's reasonable that we'll see.

Barry Gosin - *Newmark Group Inc - Chief Executive Officer*

We did over -- close to $17 billion in data centers last year and we expect to do more. The combination of reshoring, the CHIPS Act, the new administration, investing heavily in infrastructure and the advent of artificial intelligence makes the future look incredibly bright for that particular industry. And there are power issues over the long term. Those are being dealt with also, on the other hand, by us being involved in power acquisition, advanced manufacturing.

The nature of our business is we're designing it to solve and come up with the solutions on all those fronts, which includes power, which includes land, which includes the technology, which includes the financing, which includes the equity and all the -- and the right players and the hyperscalers and the users and the tenants. We are in an incredible position to take advantage of that and capture market share in that space. We saw decrees early, we acted early and a result, we're doing a significant amount of business in that space.

Alexander Goldfarb - *Piper Sandler & Co. - Analyst*

Okay. So it sounds like for you, the hype is real. Like it's a lot of this stuff that we read about will come to fruition versus it's, I don't want to say a bubble, but like right now there's a moment of euphoria, but in a few years, it will peter out?

Barry Gosin - *Newmark Group Inc - Chief Executive Officer*

I think it's more than euphoria. I mean, if you believe in AI, you believe in advanced manufacturing, you believe in semiconductors, you believe in robotics, you believe in America, you should believe in the reality of this vertical.

Operator

Patrick O'Shaughnessy with Raymond James.

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

So only $2 million of forgivable loan spend in the fourth quarter. Why was it so low in the period? And then what are your expectations for 2025?

Michael Rispoli - *Newmark Group Inc - Chief Financial Officer*

For the year, we spent over $200 million. That's the second consecutive year in a row where we invested heavily into the business and future growth. So the fourth quarter is just a point in time, it's 1 quarter. I think you have to look at over a period. I would say, looking ahead, we would expect to continue to invest at least that amount of money into growth in the company. It could be employee loans or it could be acquisitions. It just really depends on where we see the best return of capital on our investments.

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

Got it, thank you. To what extent does leadership turnover at the FHFA and potential changes to Fannie and Freddie's ownership structure impact your outlook for multifamily activity?

Barry Gosin - *Newmark Group Inc - Chief Executive Officer*

Well, certainly, if anything happened in terms of privatization or any change, there is a historic precedent for what happened. I mean, you still have loans. There's probably a 20 basis point change in spread historically. But the caps were the same. The accelerated loans and the importance of Freddie and Fannie was, before the conservatorship, was pretty important. We don't think that's going to change anytime soon.

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

Got it, thank you. And then last for me. Any views or any detail on how Howard Lutnick will divest his ownership?

Michael Rispoli - *Newmark Group Inc - Chief Financial Officer*

I think that as we put out in a press release when his Commerce Secretary appointment was originally announced, he doesn't expect to sell shares on the open market. Certainly, the confirmation hearing is coming up shortly and I'm sure we'll know more.

Operator

Julien Blouin Goldman Sachs Group, Inc.

Julien Blouin - *Goldman Sachs Group, Inc. - Analyst*

Congratulations on an outstanding quarter. I guess, can you help us understand how capital markets activity is trending year-to-date? And ultimately, sort of what sort of outlook is being baked into guidance? Or how are you thinking about 2025 after what was a really strong end to the year in '24?

Michael Rispoli - *Newmark Group Inc - Chief Financial Officer*

As Barry said in his prepared remarks, our pipelines remain strong across all of our businesses. Certainly, there's some headwinds in the market but our pipelines remain strong. And we see double-digit growth in capital markets over the next 2 years. So it would have been way better if there weren't the market headwinds.

Julien Blouin - *Goldman Sachs Group, Inc. - Analyst*

Okay, great. And I guess, specifically, maybe touching on industrial, we've heard from some of your peers around fears that trade policy uncertainty could lead to buyers and occupiers maybe pausing activity. I guess, do you have any sort of view on that? Are you seeing any signs of that yet?

Barry Gosin - *Newmark Group Inc - Chief Executive Officer*

Look, there's always fear in some camps about things. But we -- to our view that the reshoring, the investment in creating jobs in the United States will have a positive effect on the United States. We think that it's likely to be a positive. People look at inventories and supplies. Supply chain as a determiner of whether there is excess capacity in manufacturing, but those metrics are pretty good.

There was a little bit of an oversupply last year of industrial, and it was quieter last year, but I think that's going to accelerate in terms of the advanced manufacturing, the chips. Other aspects will replace any of that, any issue in terms of an oversupply. But we're encouraged by industrial.

Operator

(Operator Instructions)

Jade Rahmani Keefe, Bruyette, & Woods, Inc.

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

In terms of the pipeline of debt deals from banks, last year, clearly, you won the Signature deal, a record transaction. Do you anticipate any large loan portfolio sales from the banks? Can you talk to that trend, if it's a trend you see increasing broadly in the market?

Barry Gosin - *Newmark Group Inc - Chief Executive Officer*

Well, obviously, Basel requires banks to reserve a certain amount of capital if they're overweighted in their CRE book. I would suspect that fundamentally, many banks are overweight in real estate. But they're carefully titrating between earnings and capital, increasing their earnings and building their capital base, and the CRE overweight will probably trickle out over the next 5 years.

So the answer is yes but not in the same accelerated fashion that people might have predicted. We are slow and steady selling loans and structuring those in a way that has the least negative impact on the banking community. And in the financial crisis, what the Fed did was by lowering interest rates and allowing the banks to make the spread, they were able to reflate and shore up their capital.

And it's amazing how resilient and smart the Fed is with respect to doing that and preserving the integrity of our banking system. But there is an overweight and there is a movement of the debt market to private capital, both captive insurance companies, insurance companies in general, private equity debt funds, that's going to proliferate. So a big part of the -- what was traditionally bank finance will move over to the private world.

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

Thank you, and then in terms of your 2025 outlook, just wondering, I think you talked to double-digit growth in capital markets over the next 2 years. But could you perhaps tease out what your assumptions are for both capital markets and leasing in 2025? It would just be helpful to hear about what you're thinking.

Barry Gosin - *Newmark Group Inc - Chief Executive Officer*

Sure. Look, we're -- fundamentally, we have the benefit of building a company and having white space and attracting talent. Three years ago, we weren't necessarily -- 4 years ago, not necessarily in every conversation. We're in every conversation today. We're in every beauty contest. We're considered as sort of a go-to adviser. So there's a significant amount of opportunity for us to achieve market share that fights against the headwinds of the market.

So we're optimistic about that being accelerated over any headwinds. We think that's far greater than if we -- there is some pause because of interest rate moves, short-term interest rate moves. We've been able to demonstrate that. We continue to do that. We take the same approach in leasing. So leasing, the good news is that people are coming back to the office. The good news is people realize that the productivity -- there is a productivity decline when people don't show up. There is -- when you don't have a culture, what kind of business do you have?

So the anecdotes around that are moving in the right direction. They're not building much more office space. There is conversions of office space into residential and hotels, et cetera, which also bodes well. And there are new industries cropping up. The amount of new businesses, whether it's in the technology space, in the crypto space, in financial services has done pretty well, and they're generally expanding.

And the U.S. market has remained strong. So I think we, as a company, will deal with the headwinds. But this is a good place for the best people, and the best people garner the most opportunity. And as we continue to expand and attract brokers and professionals and advisers and bankers, investment bankers who want to be at a platform that gives them the kind of running room for the high-quality business, coupled with the overlay of high-quality solutions, we think all of that really plays well for us.

Michael Rispoli - *Newmark Group Inc - Chief Financial Officer*

So Jade, I would add that at the midpoint, we guided up 9% roughly on revenue. And I don't think you'll be shocked to hear that we think capital markets will grow a little faster than that. Our leasing, probably a little slower than that, and we think our management sort of in line. Those are the high-level assumptions.

Operator

Alexander Goldfarb Piper Sandler & Co.

Alexander Goldfarb - *Piper Sandler & Co. - Analyst*

Barry, you guys have had some good luck and success with your overseas expansion. Often, US firms go overseas and the profit margins suffer. So just sort of curious how you guys are looking overseas on a profit comparability versus the US, and if there have been any adjustments that you needed to make to ensure that you can drive the same sort of bottom line returns that you expect out of your U.S. platform.

Michael Rispoli - *Newmark Group Inc - Chief Financial Officer*

Alex, it's Mike. I'll start and then Barry will probably jump in. We're continuing to build our international business, so we just started building Germany in the last quarter or two. We started building France maybe 2 or 3 quarters ago. We bought Gerald Eve in the UK and now we've combined all of our UK companies together. I mean, our UK revenue in the fourth quarter was up 50% year-over-year. And so I think it's going to take time for some of the new countries to play out. We think the profit margins will be as good, if not better, internationally than what we're seeing in the US.

Barry Gosin - *Newmark Group Inc - Chief Executive Officer*

Yes, I agree. We don't believe that it's going to have -- long term, obviously, we're ramping up. We think that our profit margins could be certainly equal or better.

Operator

This does conclude the question-and-answer portion of today's call. At this time, I would like to turn the call over to Barry Gosin, CEO, for any closing comments.

Barry Gosin - *Newmark Group Inc - Chief Executive Officer*

Thank you for joining us today. I remain very excited about the company, and we look forward to updating you on our next quarterly call. So thank you.

Operator

This does conclude today's conference call. You may now disconnect.