

# **COLLIERS INTERNATIONAL GROUP INC.**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2018**

(in US dollars)

August 1, 2018

*The following Management's Discussion and Analysis ("MD&A") should be read together with the unaudited interim consolidated financial statements of Colliers International Group Inc. (the "Company" or "Colliers") for the three and six month periods ended June 30, 2018 and the Company's audited consolidated financial statements and MD&A for the year ended December 31, 2017. The interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("GAAP"). All financial information herein is presented in United States dollars.*

*The Company has prepared this MD&A with reference to National Instrument 51-102 – Continuous Disclosure Obligations of the Canadian Securities Administrators (the "CSA"). Under the US/Canada Multijurisdictional Disclosure System, the Company is permitted to prepare this MD&A in accordance with the disclosure requirements of Canada, which requirements are different from those of the United States. This MD&A provides information for the three and six month periods ended June 30, 2018 up to and including August 1, 2018.*

*Additional information about the Company can be found on SEDAR at [www.sedar.com](http://www.sedar.com) and on EDGAR at [www.sec.gov](http://www.sec.gov).*

### **Consolidated review**

We reported strong revenue growth for the second quarter ended June 30, 2018 due to a combination of recent business acquisitions and internal growth. Consolidated revenue growth was 14% relative to the same quarter in the prior year (11% measured in local currencies). Diluted net earnings per common share were \$0.60, versus \$0.29 in the prior year quarter, attributable to higher earnings, lower non-controlling interest (due to revenue mix) and lower income tax (due to lower US corporate tax rates). Adjusted earnings per share, which excludes the non-controlling interest redemption increment and amortization of intangible assets (among other items - see "Reconciliation of non-GAAP measures" below) for the second quarter was \$0.95, up 23% from \$0.77 in the prior year quarter. Both adjusted earnings per share and GAAP net earnings per share for the second quarter ended June 30, 2018 would have been approximately \$0.05 lower excluding changes in foreign exchange rates.

During the first six months of 2018, the Company acquired controlling interests in six businesses, three operating in the Americas (Utah; Manitoba; Pittsburgh, Pennsylvania), two operating in EMEA (Finland; Spain) and one operating in Asia Pacific (China). The total initial cash consideration for these acquisitions, net of cash acquired, was \$98.3 million.

On July 3, 2018, we acquired a controlling interest in a Danish commercial real estate brokerage firm. The initial cash consideration for this acquisition was \$18.1 million. On July 5, 2018, we divested a residential property management business in Finland receiving cash consideration of \$18.2 million.

On July 5, 2018, we completed the acquisition of a 75% equity interest in Harrison Street Real Estate Capital, LLC ("Harrison Street"). Harrison Street is a real estate investment management firm focused on demographic-based investing, primarily in the education, healthcare and storage sectors, with approximately \$15.6 billion in assets under management as of June 30, 2018. Harrison Street is headquartered in Chicago. Total initial cash consideration was \$451.7 million. Up to an additional \$100.0 million is payable in 2022 based on Harrison Street achieving specific earnings levels.

For both the three and six months ended June 30, 2018, revenue growth was led by Lease Brokerage in all three geographic regions.

(in thousands of US\$) (LC = local currency)	Three months ended				Six months ended			
	June 30		Growth in US\$ %	Growth in LC %	June 30		Growth in US\$ %	Growth in LC %
	2018	2017			2018	2017		
Outsourcing & Advisory	\$ 259,613	\$ 233,645	11%	8%	\$ 501,343	\$ 432,661	16%	11%
Lease Brokerage	221,889	180,384	23%	21%	389,623	325,212	20%	17%
Sales Brokerage	185,848	172,204	8%	5%	328,857	294,622	12%	8%
Total revenues	\$ 667,350	\$ 586,233	14%	11%	\$ 1,219,823	\$ 1,052,495	16%	12%

### Results of operations - three months ended June 30, 2018

Revenues for our second quarter were \$667.4 million, 14% higher than the comparable prior year quarter (11% measured in local currencies). Recent business acquisitions contributed 6% to revenue growth and internally generated revenues measured in local currencies were up 5%.

Operating earnings for the second quarter were \$45.6 million, versus \$41.2 million in the prior year period. The operating earnings margin was 6.8% versus 7.0% in the prior year quarter, on account of increased intangible asset amortization expense and acquisition-related items. Adjusted EBITDA (see “Reconciliation of non-GAAP measures” below) for the second quarter was \$69.4 million, up 15% versus \$60.3 million reported in the prior year quarter. Our Adjusted EBITDA margin was 10.4% of revenues, compared to 10.3% in the prior year quarter.

Depreciation expense was \$7.5 million, versus \$6.5 million recorded in the prior year quarter, with the increase attributable to investments to renew and expand office premises in the past year.

Amortization expense was \$8.8 million, versus \$7.9 million recorded in the prior year quarter, as a result of additional intangible assets acquired in conjunction with recent business acquisitions.

Net interest expense was \$3.9 million, versus \$3.3 million recorded in the prior year quarter, attributable to increased borrowings over the past year to fund business acquisitions and an increase in floating reference rates. The average interest rate on debt during the quarter was 3.5%, an increase from 3.1% in the prior year quarter.

The consolidated income tax expense for the quarter was \$12.9 million, relative to \$12.8 million the prior year quarter, reflecting effective tax rates of 31% and 33%, respectively. The effective tax rate was favourably impacted by lower US corporate tax rates that came into effect on January 1, 2018.

Net earnings for the quarter was \$28.8 million, versus \$26.0 million in the prior year quarter. The current period’s results were attributable to solid revenue growth from acquisitions and internally.

The Americas region’s revenues totalled \$388.6 million for the second quarter compared to \$346.5 million in the prior year quarter, up 12% (11% on a local currency basis). Local currency revenue growth was comprised of 7% internal growth and 4% growth from recent acquisitions. Internal growth was driven by Lease Brokerage, particularly on the US West region and in Canada. GAAP operating earnings were \$26.8 million, versus \$22.9 million in the prior year period. Adjusted EBITDA was \$36.2 million, versus \$32.9 million in the prior year quarter, up 10%.

EMEA region revenues totalled \$149.6 million for the second quarter compared to \$120.6 million in the prior year quarter, up 24% (15% on a local currency basis). Local currency revenue growth was comprised of 14% growth from recent acquisitions and 1% internal growth. Internal revenue growth was impacted by a decline in Outsourcing & Advisory services, particularly project management activity, more than offset by increases in Sales and Lease Brokerage. Foreign exchange tailwinds with respect to the Euro and UK pound sterling positively affected results on a US dollar reporting currency basis. GAAP operating earnings were \$14.0 million, versus \$11.8 million in the prior year quarter. Adjusted EBITDA was \$21.5 million, versus \$17.5 million in the prior year quarter.

Asia Pacific region revenues totalled \$128.8 million for the second quarter compared to \$118.7 million in the prior year quarter, up 9% (6% on a local currency basis). Local currency revenue growth was comprised of 4% growth from recent acquisitions and 2% internal growth. GAAP operating earnings were \$13.5 million, versus \$11.2 million in the prior year period, benefitting from operating leverage. Adjusted EBITDA was \$15.4 million, up from \$12.7 million in the prior year quarter.

The global corporate segment GAAP operating loss for the second quarter was \$8.7 million, relative to \$4.6 million in the prior period, with the current period impacted by transaction costs related to the Harrison Street acquisition. Corporate segment costs as reported in adjusted EBITDA were \$3.6 million in the second quarter, relative to \$2.8 million in the prior year period.

### **Results of operations - six months ended June 30, 2018**

Revenues for the six months ended June 30, 2018 were \$1.22 billion, 16% higher than the comparable prior year period (12% measured in local currencies). Business acquisitions contributed 7% to local currency revenue growth and internally generated revenues were up 5%.

Operating earnings for the six month period were \$61.3 million, relative to \$54.1 million in the prior year period. Our operating earnings margin for the six months ended June 30, 2018 was 5.0% versus 5.1% in the period year period. Year to date Adjusted EBITDA (see “Reconciliation of non-GAAP measures” below) was \$105.6 million, up 15% versus \$91.5 million reported in the prior year period. Our Adjusted EBITDA margin was 8.7% of revenues versus 8.7% of revenues in the prior year period, with operating leverage in Asia Pacific offset by costs related to planned investments in incremental revenue producers in EMEA.

We recorded depreciation expense of \$14.8 million for the six month period relative to \$12.4 million for the comparable prior year period. The increase was attributable to investments in technology and the impact of business acquisitions in the past year.

We recorded amortization expense of \$17.4 million for the six month period relative to \$14.0 million for the prior year period. The increase was attributable to intangible assets acquired in conjunction with recent business acquisitions.

Net interest expense for the six month period was \$6.9 million, up from \$6.2 million recorded in the prior year period. The increase was attributable to incremental borrowings over the past year to fund business acquisitions and an increase in floating reference rates. The average interest rate on debt during the period was 3.1%, versus 3.0% in the prior year period.

Consolidated income tax expense for the six month period was \$17.6 million, relative to \$17.1 million in the prior year period, reflecting effective tax rates of 32% and 34%, respectively. The effective tax rate was favourably impacted by lower US corporate tax rates that came into effect on January 1, 2018. The effective tax rate for the full year is expected to be approximately 30% to 32%.

Net earnings for the six month period were \$37.3 million, versus \$32.8 million in the prior year period. The current period’s results were attributable to solid revenue growth from acquisitions and internally as well as margin enhancements from operating leverage.

The Americas region’s revenues totalled \$717.1 million for the six months ended June 30, 2018 compared to \$630.3 million in the prior year quarter, up 14% (13% on a local currency basis). Local currency revenue growth was comprised of 7% growth from recent acquisitions and 6% internal growth. Internal growth was primarily driven by Lease Brokerage with strong performance in Canada and the United States. GAAP operating earnings were \$46.8 million, versus \$35.6 million in the prior year period, with the variance impacted by amortization of intangible assets acquired in connection with business acquisitions as well as acquisition related costs incurred, both in the prior year period. Adjusted EBITDA was \$62.6 million, up 12% versus \$55.4 million reported in the prior year period. EMEA region revenues totalled \$265.3 million for the six months ended June 30, 2018 compared to \$211.3 million in the prior year quarter, up 26% (up 13% on a local currency basis). Local currency revenue growth was comprised

of 13% growth from recent acquisitions and flat internal revenues. Internal revenues were impacted by a decline in Outsourcing & Advisory services, particularly project management activity. Foreign exchange tailwinds with respect to the Euro and UK pound sterling positively affected results on a US dollar reporting currency basis. GAAP operating earnings were \$4.4 million, versus \$10.8 million in the prior year period with earnings impacted by planned investments in incremental producers in major markets, revenue mix and acquisition-related costs and related amortization. Adjusted EBITDA was \$21.0 million, versus \$21.2 million in the prior year period.

Asia Pacific region revenues totalled \$236.6 million for the six months ended June 30, 2018 compared to \$209.9 million in the prior year period, up 13% (10% on a local currency basis), with growth driven by Lease Brokerage and Outsourcing & Advisory services. GAAP operating earnings were \$22.8 million, versus \$16.7 million in the prior year period, benefiting from operating leverage on higher revenues, particularly in Asia. Adjusted EBITDA was \$26.6 million, up from \$19.6 million in the prior year quarter.

The global corporate segment GAAP operating loss was \$12.7 million, relative to \$9.0 million in the prior period, and was impacted by transaction costs related to the Harrison Street acquisition and higher stock-based compensation costs. Corporate costs as presented in adjusted EBITDA were \$4.7 million, relative to \$4.6 million in the comparable prior year period.

### Summary of quarterly results (unaudited)

The following table sets forth our unaudited quarterly consolidated results of operations data. The information in the table below has been derived from unaudited interim consolidated financial statements that, in management's opinion, have been prepared on a consistent basis and include all adjustments necessary for a fair presentation of information. The information below is not necessarily indicative of results for any future quarter.

Quarter	Q1	Q2	Q3	Q4
(in thousands of US\$, except per share amounts)				
<b>YEAR ENDING DECEMBER 31, 2018</b>				
Revenues	\$ 552,473	\$ 667,350		
Operating earnings	15,745	45,569		
Net earnings	8,541	28,804		
Diluted net earnings per common share	0.13	0.60		
<b>YEAR ENDED DECEMBER 31, 2017</b>				
Revenues	\$ 466,263	\$ 586,233	\$ 618,798	\$ 763,906
Operating earnings	12,840	41,229	34,458	78,849
Net earnings	6,800	25,958	20,362	40,955
Diluted net earnings per common share	0.04	0.29	0.16	0.82
<b>YEAR ENDED DECEMBER 31, 2016</b>				
Revenues	\$ 376,108	\$ 482,536	\$ 462,052	\$ 576,028
Operating earnings	8,867	37,624	23,627	76,055
Net earnings	4,032	23,756	13,463	50,320
Diluted net earnings (loss) per common share	(0.19)	0.55	0.24	1.14
<b>OTHER DATA (see "Reconciliation of non-GAAP measures")</b>				
Adjusted EBITDA - 2018	\$ 36,140	\$ 69,427		
Adjusted EBITDA - 2017	31,252	60,258	\$ 55,281	\$ 96,034
Adjusted EBITDA - 2016	22,184	52,795	37,643	90,440
Adjusted EPS - 2018	0.45	0.95		
Adjusted EPS - 2017	0.36	0.77	0.66	1.36
Adjusted EPS - 2016	0.19	0.63	0.40	1.22
Note: New revenue guidance was adopted retrospectively effective January 1, 2018 and accordingly, comparative information for the year ended December 31, 2017 has been restated. 2016 data has not been restated.				

### Seasonality and quarterly fluctuations

The Company generates peak revenues and earnings in the month of December followed by a low in January and February as a result of the timing of closings on commercial real estate sales brokerage transactions. Revenues and earnings during the balance of the year are relatively even. These sales brokerage operations comprise approximately 30% of our annual consolidated revenues. Variations can also be caused by business acquisitions or dispositions which alter the consolidated service mix.

### Reconciliation of non-GAAP measures

In this MD&A, we make reference to “adjusted EBITDA” and “adjusted earnings per share”, which are financial measures that are not calculated in accordance with GAAP.

Adjusted EBITDA is defined as net earnings, adjusted to exclude: (i) income tax; (ii) other expense (income); (iii) interest expense; (iv) depreciation and amortization; (v) acquisition-related items; (vi) restructuring costs and (vii) stock-based compensation expense. We use adjusted EBITDA to evaluate our own operating performance and our ability to service debt, as well as an integral part of our planning and reporting systems. Additionally, we use this measure in conjunction with discounted cash flow models to determine the Company’s overall enterprise valuation and to evaluate acquisition targets. We present adjusted EBITDA as a supplemental measure because we believe such measure is useful to investors as a reasonable indicator of operating performance because of the low capital intensity of the Company’s service operations. We believe this measure is a financial metric used by many investors to compare companies, especially in the services industry. This measure is not a recognized measure of financial performance under GAAP in the United States, and should not be considered as a substitute for operating earnings, net earnings or cash flow from operating activities, as determined in accordance with GAAP. Our method of calculating adjusted EBITDA may differ from other issuers and accordingly, this measure may not be comparable to measures used by other issuers. A reconciliation of net earnings to adjusted EBITDA appears below.

(in thousands of US\$)	Three months ended		Six months ended	
	June 30		June 30	
	2018	2017	2018	2017
Net earnings	\$ 28,804	\$ 25,957	\$ 37,343	\$ 32,757
Income tax	12,859	12,799	17,575	17,126
Other income, net	(33)	(807)	(460)	(2,036)
Interest expense, net	3,939	3,279	6,856	6,221
Operating earnings	45,569	41,228	61,314	54,068
Depreciation and amortization	16,283	14,381	32,141	26,408
Acquisition-related items	5,741	3,310	7,995	7,519
Restructuring costs	347	309	416	1,041
Stock-based compensation expense	1,487	1,030	3,701	2,473
Adjusted EBITDA	\$ 69,427	\$ 60,258	\$ 105,567	\$ 91,509

Adjusted earnings per share is defined as diluted net earnings per common share, adjusted for the effect, after income tax, of: (i) the non-controlling interest redemption increment; (ii) amortization expense related to intangible assets recognized in connection with acquisitions; (iii) acquisition-related items; (iv) restructuring costs and (v) stock-based compensation expense. We believe this measure is useful to investors because it provides a supplemental way to understand the underlying operating performance of the Company and enhances the comparability of operating results from period to period. Adjusted earnings per share is not a recognized measure of financial performance under GAAP, and should not be considered as a substitute for diluted net earnings per share, as determined in accordance with GAAP. Our method of calculating this non-GAAP measure may differ from other issuers and, accordingly, this measure may not be comparable to measures used by other issuers. A reconciliation of net earnings to adjusted net earnings and of diluted net earnings per share to adjusted earnings per share appears below.

(in thousands of US\$)	Three months ended		Six months ended	
	June 30		June 30	
	2018	2017	2018	2017
Net earnings	\$ 28,804	\$ 25,957	\$ 37,343	\$ 32,758
Non-controlling interest share of earnings	(3,547)	(5,091)	(4,216)	(7,293)
Amortization of intangible assets	8,779	7,915	17,368	13,965
Acquisition-related items	5,741	3,310	7,995	7,519
Restructuring costs	347	309	416	1,041
Stock-based compensation expense	1,487	1,030	3,701	2,473
Income tax on adjustments	(2,550)	(2,456)	(4,973)	(4,466)
Non-controlling interest on adjustments	(1,206)	(885)	(2,050)	(1,729)
Adjusted net earnings	\$ 37,855	\$ 30,089	\$ 55,584	\$ 44,268

(in US\$)	Three months ended		Six months ended	
	June 30		June 30	
	2018	2017	2018	2017
Diluted net earnings per common share	\$ 0.60	\$ 0.29	\$ 0.72	\$ 0.32
Non-controlling interest redemption increment	0.03	0.25	0.11	0.33
Amortization of intangible assets, net of tax	0.14	0.13	0.28	0.22
Acquisition-related items	0.13	0.08	0.18	0.18
Restructuring costs, net of tax	0.01	-	0.01	0.02
Stock-based compensation expense, net of tax	0.04	0.02	0.09	0.06
Adjusted earnings per share	\$ 0.95	\$ 0.77	\$ 1.39	\$ 1.13

We believe that the presentation of adjusted EBITDA and adjusted earnings per share, which are non-GAAP financial measures, provides important supplemental information to management and investors regarding financial and business trends relating to the Company's financial condition and results of operations. We use these non-GAAP financial measures when evaluating operating performance because we believe that the inclusion or exclusion of the items described above, for which the amounts are non-cash or non-recurring in nature, provides a supplemental measure of our operating results that facilitates comparability of our operating performance from period to period, against our business model objectives, and against other companies in our industry. We have chosen to provide this information to investors so they can analyze our operating results in the same way that management does and use this information in their assessment of our core business and the valuation of the Company. Adjusted EBITDA and adjusted earnings per share are not calculated in accordance with GAAP, and should be considered supplemental to, and not as a substitute for, or superior to, financial measures calculated in accordance with GAAP. Non-GAAP financial measures have limitations in that they do not reflect all of the costs or benefits associated with the operations of our business as determined in accordance with GAAP. As a result, investors should not consider these measures in isolation or as a substitute for analysis of our results as reported under GAAP.

Percentage revenue variances presented on a local currency basis are calculated by translating the current period results of our non-US dollar denominated operations to US dollars using the foreign currency exchange rates from the periods against which the current period results are being compared. Percentage revenue variances presented on an internal growth basis are calculated assuming acquired entities were owned for the entire current period as well as the entire prior period. Revenue from acquired entities is estimated based on the operating performance of each acquired entity for the year prior to the acquisition date. We believe that these revenue growth rate methodologies provide a framework for assessing the Company's performance and operations excluding the effects of foreign currency exchange rate fluctuations and acquisitions. Since these revenue growth rate measures are not calculated under GAAP, they may not be comparable to similar measures used by other issuers.

### Liquidity and capital resources

Net cash used in operating activities for the six month period ended June 30, 2018 was \$30.2 million, versus \$21.4 million used in the prior year period. The cash usage reflects the seasonally slow first half of the year consistent with

historical patterns. We believe that cash from operations and other existing resources will continue to be adequate to satisfy the ongoing working capital needs of the Company.

For the six months ended June 30, 2018, capital expenditures were \$14.0 million. Based on our current operations, capital expenditures for the year ending December 31, 2018 are expected to be \$40 - \$42 million.

Net indebtedness as at June 30, 2018 was \$315.6 million, versus \$141.4 million at December 31, 2017. Net indebtedness is calculated as the current and non-current portion of long-term debt less cash and cash equivalents. The change in indebtedness was attributable to seasonal working capital usage, the purchase price for recent acquisitions and capital expenditures. We are in compliance with the covenants contained in our financing agreements as at June 30, 2018 and, based on our outlook for the balance of the year, we expect to remain in compliance with these covenants. We had \$820.7 million of available unused credit as of June 30, 2018 (\$369.0 million pro forma after the acquisition of Harrison Street on July 5, 2018).

On April 19, 2018, the Company entered into an amended and restated credit agreement with a syndicate of banks to provide a committed unsecured multi-currency revolving credit facility (the "Facility") of \$1.0 billion, replacing the prior credit facility of \$700.0 million. The Facility has a 5-year term ending April 18, 2023 (previously January 18, 2022). The applicable margin over floating reference rates is 1.25% to 2.50% (previously 1.50% to 2.75%) depending on certain leverage ratios and requires a commitment fee of 0.25% to 0.50% (previously 0.30% to 0.55%) of the unused portion depending on certain leverage ratios. At any time during the term, we have the right to increase the Facility by up to \$250.0 million (previously \$150.0 million), on the same terms and conditions as the existing Facility.

On May 17, 2018, the Company entered into a note purchase agreement with a group of institutional investors to issue €10 million of senior unsecured notes with a fixed interest rate of 2.23% (the "Senior Notes"). The proceeds from the Senior Notes were received on May 30, 2018 and were used to repay indebtedness under the Facility. The Senior Notes have a 10-year term ending May 30, 2028.

On May 10, 2018, the Company's Board of Directors declared a dividend of \$0.05 per Common Share (being the Subordinate Voting Shares and Multiple Voting Shares) to shareholders of record on June 29, 2018. This dividend was paid on July 11, 2018.

In relation to acquisitions completed during the past three years, we have outstanding contingent consideration, assuming all contingencies are satisfied and payment is due in full, totaling \$98.8 million as at June 30, 2018 (December 31, 2017 - \$91.5 million). The contingent consideration liability is recognized at fair value upon acquisition and is updated to fair value each quarter, unless it contains an element of compensation, in which case such element is treated as compensation expense over the contingency period. The contingent consideration is based on achieving specified earnings levels, and is paid or payable after the end of the contingency period, which extends to December 2021. We estimate that approximately 85% of the contingent consideration outstanding as of June 30, 2018 will ultimately be paid.

The following table summarizes our contractual obligations as at June 30, 2018:

Contractual obligations (in thousands of US\$)	Payments due by period				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Long-term debt	\$ 418,318	\$ 756	\$ 139	\$ 173,262	\$ 244,161
Interest on long-term debt	86,693	12,173	24,298	23,451	26,770
Capital lease obligations	1,519	858	661	-	-
Contingent acquisition consideration	49,814	14,102	34,176	1,536	-
Operating leases	348,219	80,320	126,873	79,041	61,985
Purchase commitments	<u>13,404</u>	<u>9,404</u>	<u>4,000</u>	-	-
Total contractual obligations	\$ 917,967	\$ 117,613	\$ 190,147	\$ 277,290	\$ 332,916

At June 30, 2018, we had commercial commitments totaling \$7.7 million comprised of letters of credit outstanding due to expire within one year.

### **Redeemable non-controlling interests**

In most operations where managers are also minority owners, the Company is party to shareholders' agreements. These agreements allow us to "call" the minority position at a value determined with the use of a formula price, which is in most cases equal to a multiple of trailing two-year average earnings, less debt. Minority owners may also "put" their interest to the Company at the same price, with certain limitations including (i) the inability to "put" more than 33.3% or 50% of their holdings in any twelve-month period and (ii) the inability to "put" any holdings for at least one year after the date of our initial acquisition of the business or the date the minority shareholder acquired the shares, as the case may be. The total value of the minority shareholders' interests (the "redemption amount"), as calculated in accordance with the shareholders' agreements as of June 30, 2018, was \$156.6 million (December 31, 2017 - \$145.5 million).

The amount recorded on our balance sheet under the caption "Redeemable non-controlling interests" ("RNCI") is the greater of: (i) the redemption amount (as above) and (ii) the amount initially recorded as RNCI at the date of inception of the minority equity position. Increases or decreases to the formula price of the underlying shares are recognized in the statement of earnings as the NCI redemption increment. As at June 30, 2018, the RNCI recorded on the balance sheet was \$156.6 million. The purchase prices of the RNCI may be satisfied in cash or in Subordinate Voting Shares of Colliers. If all RNCI were redeemed with cash on hand and borrowings under the Facility, the estimated accretion to diluted net earnings per share for the six months ended June 30, 2018 would be \$0.17 and the accretion to adjusted EPS would be \$0.06.

### **Off-balance sheet arrangements**

The Company does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on the Company's financial performance or financial condition other than the payments which may be required to be made under the sale of control arrangement contained in the restated management services agreement with Colliers, Jayset Management CIG Inc. and Jay S. Hennick, a description of which is set out in Note 13 to the June 30, 2018 unaudited consolidated financial statements and the commitments and contingencies detailed in Note 20 to the December 31, 2017 audited consolidated financial statements.

### **Critical accounting estimates**

The preparation of consolidated financial statements requires management to make estimates and assumptions with respect to the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. These estimates and assumptions are based upon management's historical experience and are believed by management to be reasonable under the circumstances. Such estimates and assumptions are evaluated on an ongoing basis and form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ significantly from these estimates. Our critical accounting estimates have been reviewed and discussed with our Audit & Risk Committee. There have been no material changes to our critical accounting estimates from those disclosed in our MD&A for the year ended December 31, 2017.

### **Quarterly income tax provision**

Each quarter, we estimate our income tax on the interim consolidated financial statements using an estimate of the effective tax rate for the full year which is based on forecasted earnings by country, expected enacted statutory tax rates, and estimated tax adjustments. We evaluate our annual effective tax rate estimate on a quarterly basis to reflect changes in forecasted earnings, geographical mix of earnings, and legislative actions on statutory tax rates and other relevant matters effective in the quarter and which legislation is enacted.

The tax effect of discrete items occurring in the quarter also impacts our effective tax rate.

## **Impact of recently adopted accounting standards**

### *Revenue from contracts with customers*

Beginning in May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers*, as well as several related ASUs (collectively, the “Revenue Guidance”). The Revenue Guidance clarifies the principles for recognizing revenue and develops a common revenue standard for GAAP and International Financial Reporting Standards. The Revenue Guidance, codified as Accounting Standards Codification Topic No. 606 (“ASC 606”) has been adopted retrospectively effective January 1, 2018 and accordingly, comparative information for the year ended December 31, 2017 has been restated.

The primary changes, as well as the impact on the financial position and results of operations for the comparative year ended December 31, 2017, are described below.

#### (a) Accounting for Lease Brokerage revenues

Under previous GAAP, leasing brokerage revenues were deferred until the related contingency (e.g. tenant occupancy) was resolved. Under ASC 606, in certain cases revenue will be recognized earlier since the Company’s performance obligation will typically be satisfied upon lease execution.

#### (b) Accounting for reimbursable expenses related to the Company’s property management activities

Under the previous GAAP, reimbursable expenses contemplated both performance and payment risk when evaluating whether a principal or agent relationship existed between the Company and its customers. Under ASC 606, principal versus agent indicators were revised with a focus on control over the services provided by third-party service providers. As a result, the revenues related to the Company’s property management activities increased by \$146,269 and the related cost of revenues increased by \$146,269 with no net impact on earnings.

#### (c) Presentation of contract balances

The Company has revised the presentation of certain amounts in the balance sheet to reflect the adoption of ASC 606, with increases to contract balances and decreases to unbilled revenues and unearned revenues associated with the change in lease brokerage revenue recognition.

Adoption of the standard using the full retrospective method resulted in the restatement of certain previously reported results. These include the recognition of additional revenue and an increase in income tax expense, along with increasing contract balances and accrued expenses. For a chart detailing the impact on the Company’s previously reported results for the year ended December 31, 2017 see note 3 of the related interim consolidated financial statements:

## **Impact of recently issued accounting standards, not yet adopted**

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. This ASU affects all aspects of lease accounting and has a significant impact to lessees as it requires the recognition of a right-of-use asset and a lease liability for virtually all leases including operating leases. In addition to balance sheet recognition, additional quantitative and qualitative disclosures will be required. The Company has catalogued and abstracted key terms of its leases and has selected a software solution to assist with the additional accounting and disclosures required. The Company’s assets and liabilities will be impacted by the recognition of a right-of-use asset and lease liability. Related balance sheet ratios will also be impacted. Covenant ratio calculations under the Company’s revolving credit facility will however not be impacted, as they will continue to be based on the accounting standards in place as of December 31, 2017. The Company will adopt this ASU effective January 1, 2019, using the modified retrospective transition method.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles – Goodwill and Other: Simplifying the Accounting for Goodwill Impairment* to remove Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. Under this guidance, a goodwill impairment will now be the amount by which a reporting unit’s carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The standard is effective for annual and interim periods beginning after December 15, 2019, with early adoption permitted. The Company is currently assessing the impact of this ASU on its financial statements.

In August 2017, the FASB issued ASU No. 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*, which increases the scope of hedge accounting for both financial and nonfinancial strategies. The standard is effective for annual and interim periods beginning after December 15, 2018, with early adoption permitted. The Company is currently assessing the impact of this ASU on its financial statements and does not anticipate a material impact as the Company's interest rate swaps are currently accounted for as cash flow hedges, are deemed to be effective as hedges and are already reported in other comprehensive income.

### **Impact of IFRS**

On January 1, 2011, many Canadian companies were required to adopt IFRS. In 2004, in accordance the rules of the CSA, our predecessor, FirstService Corporation ("Old FSV"), elected to report exclusively using US GAAP and further elected not to adopt IFRS on January 1, 2011. Under the rules of the CSA, we are permitted to continue preparing financial statements in accordance with US GAAP going forward.

### **Financial instruments**

We use financial instruments as part of our strategy to manage the risk associated with interest rates and currency exchange rates. We do not use financial instruments for trading or speculative purposes. On April 11, 2017 we entered into interest rate swap agreements to convert the LIBOR floating interest rate on \$100.0 million of US dollar denominated Facility debt into a fixed interest rate of 1.897%. Hedge accounting is being applied to these interest rate swaps.

### **Transactions with related parties**

As at June 30, 2018, the Company had \$7.7 million of loans receivable from non-controlling shareholders (December 31, 2017 - \$8.1 million). The majority of the loans receivable represent amounts assumed in connection with acquisitions and amounts issued to non-controlling interests to finance the sale of non-controlling interests in subsidiaries to senior managers. The loans are of varying principal amounts and interest rates which range from nil to 4%. These loans are due on demand or mature on various dates up to 2026, but are open for repayment without penalty at any time.

### **Outstanding share data**

The authorized capital of the Company consists of an unlimited number of preference shares, issuable in series, an unlimited number of Subordinate Voting Shares and an unlimited number of Multiple Voting Shares. The holders of Subordinate Voting Shares are entitled to one vote in respect of each Subordinate Voting Share held at all meetings of the shareholders of the Company. The holders of Multiple Voting Shares are entitled to twenty votes in respect of each Multiple Voting Share held at all meetings of the shareholders of the Company. Each Multiple Voting Share is convertible into one Subordinate Voting Share at any time at the election of the holders thereof.

As of the date hereof, the Company has outstanding 37,869,092 Subordinate Voting Shares and 1,325,694 Multiple Voting Shares. In addition, as at the date hereof 1,935,275 Subordinate Voting Shares are issuable upon exercise of options granted under the Company's stock option plan.

On July 16, 2018, the Company announced a Normal Course Issuer Bid ("NCIB") effective from July 18, 2018 to July 17, 2019. The Company is entitled to repurchase up to 2,800,000 Subordinate Voting Shares on the open market pursuant to the NCIB. Any shares purchased under the NCIB will be cancelled.

### **Canadian tax treatment of dividends**

For the purposes of the enhanced dividend tax credit rules contained in the Income Tax Act (Canada) and any corresponding provincial and territorial tax legislation, all dividends (and deemed dividends) paid by us to Canadian residents on our Subordinate Voting Shares and Multiple Voting Shares are designated as "eligible dividends". Unless stated otherwise, all dividends (and deemed dividends) paid by us hereafter are designated as "eligible dividends" for the purposes of such rules.

### **Changes in internal controls over financial reporting**

There have been no changes in our internal controls over financial reporting during the three and six month periods ended June 30, 2018 that have materially affected or are reasonably likely to materially affect our internal controls over financial reporting.

### **Legal proceedings**

Colliers is involved in various legal claims associated with the normal course of operations and believes it has made adequate provision for such legal claims.

### **Spin-off risk**

Although the Spin-off is complete, the transaction exposes Colliers to certain ongoing risks. The Spin-off was structured to comply with all the requirements of the public company "butterfly rules" in the Income Tax Act (Canada). However, there are certain requirements of these rules that depend on events occurring after the Spin-off is completed or that may not be within the control of Colliers and/or FirstService. If these requirements are not met, Colliers could be exposed to significant tax liabilities which could have a material effect on the financial position of Colliers. In addition, Colliers has agreed to indemnify FirstService for certain liabilities and obligations related to its business at the time of the Spin-off. These indemnification obligations could be significant. These risks are more fully described in the Management Information Circular of Old FSV dated March 16, 2015 which is available under Colliers' SEDAR profile at [www.sedar.com](http://www.sedar.com).

### **Forward-looking statements and risks**

This MD&A contains forward-looking statements with respect to expected financial performance, strategy and business conditions. The words "believe," "anticipate," "estimate," "plan," "expect," "intend," "may," "project," "will," "would," and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. These statements reflect management's current beliefs with respect to future events and are based on information currently available to management. Forward-looking statements involve significant known and unknown risk and uncertainties. Many factors could cause our actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. Factors which may cause such differences include, but are not limited to those set out below, those set out above under "Spin-off risk" and those set out in detail in the "Risk factors" section of the Company's Annual Information Form:

- Economic conditions, especially as they relate to commercial and consumer credit conditions and business spending, particularly in regions where our operations may be concentrated.
- Commercial real estate property values, vacancy rates and general conditions of financial liquidity for real estate transactions.
- Trends in pricing and risk assumption for commercial real estate services.
- The effect of significant movements in average cap rates across different property types.
- A reduction by companies in their reliance on outsourcing for their commercial real estate needs, which would affect our revenues and operating performance.
- Competition in the markets served by the Company.
- The ability to attract new clients and to retain major clients and renew related contracts.
- The ability to retain and incentivize revenue producing staff.
- Increases in wage and benefit costs.
- The effects of changes in interest rates on our cost of borrowing.
- Unexpected increases in operating costs, such as insurance, workers' compensation and health care.
- Changes in the frequency or severity of insurance incidents relative to our historical experience.
- The effects of changes in foreign exchange rates in relation to the US dollar on the Company's Canadian dollar, Euro, Australian dollar and UK pound denominated revenues and expenses.

- Our ability to identify and make acquisitions at reasonable prices and successfully integrate acquired operations.
- The ability to execute on, and adapt to, information technology strategies and trends.
- The ability to comply with laws and regulations related to our global operations, including real estate licensure, labour and employment laws and regulations, as well as the anti-corruption laws and trade sanctions.
- Political conditions, including political instability, elections, referenda, trade policy changes, immigration policy changes or any outbreak or escalation of hostilities or terrorism and the impact thereof on our business.
- Changes in government laws and policies at the federal, state/provincial or local level that may adversely impact our businesses.

We caution that the foregoing list is not exhaustive of all possible factors, as other factors could adversely affect our results, performance or achievements. The reader is cautioned against undue reliance on these forward-looking statements. Although we believe that the assumptions underlying our forward-looking statements are reasonable, any of the assumptions could prove inaccurate and, therefore, there can be no assurance that the results contemplated in such forward-looking statements will be realized. The inclusion of such forward-looking statements should not be regarded as a representation by the Company or any other person that the future events, plans or expectations contemplated by the Company will be achieved. We note that past performance in operations and share price are not necessarily predictive of future performance. We disclaim any intention and assume no obligation to update or revise any forward-looking statement even if new information becomes available, as a result of future events or for any other reason.

#### **Additional information**

Additional information about Colliers, including our Annual Information Form for the year ended December 31, 2017, is available on SEDAR at [www.sedar.com](http://www.sedar.com) and on EDGAR at [www.sec.gov](http://www.sec.gov). Further information about us can also be obtained at [www.colliers.com](http://www.colliers.com).