

# **COLLIERS INTERNATIONAL GROUP INC.**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2019**

(in US dollars)

November 1, 2019

*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 nine month periods ended September 30, 2019 and the Company's audited consolidated financial statements and MD&A for the year ended December 31, 2018. 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 nine month periods ended September 30, 2019 up to and including November 1, 2019.*

*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).*

*This MD&A includes references to "adjusted EBITDA" and "adjusted EPS", which are financial measures that are not calculated in accordance with GAAP. For a reconciliation of these non-GAAP measures to the most directly comparable GAAP financial measures, see "Reconciliation of non-GAAP financial measures".*

### **Consolidated review**

Consolidated revenue growth for our third quarter ended September 30, 2019 was 3% relative to the same quarter in the prior year (5% measured in local currency), from a combination of business acquisitions and internally generated growth. Diluted net earnings per common share were \$0.74 versus \$0.41 in the prior year quarter with the increase impacted by a reduction in non-controlling interest redemption increment stemming from translation of Euro-denominated non-controlling interests. 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 third quarter was \$1.04, up 13% from \$0.92 in the prior year quarter. Adjusted earnings per share and GAAP net earnings per share for the quarter ended September 30, 2019 would have been approximately \$0.03 higher excluding the impact of changes in foreign exchange rates.

During the first nine months of 2019, we acquired a majority interest in a commercial real estate services firm operating in central and southeast Virginia and completed acquisitions of Colliers International affiliates in Charlotte, North Carolina and Sweden. The total initial cash consideration for these acquisitions, net of cash acquired, was \$23.7 million.

Subsequent to the end of the third quarter, on October 15, 2019, we completed the acquisition of a majority interest in Synergy Property Development Services, a project management firm in India, for an initial cash consideration of \$55.6 million.

For both the three and nine month periods ended September 30, 2019, revenue growth was led by Investment Management as well as Outsourcing & Advisory in all three geographic regions.

(in thousands of US\$) (LC = local currency)	Three months ended				Nine months ended			
	September 30		Growth in US\$ %	Growth in LC %	September 30		Growth in US\$ %	Growth in LC %
	2019	2018			2019	2018		
Outsourcing & Advisory	\$ 277,741	\$ 258,673	7%	10%	\$ 817,763	\$ 755,882	8%	12%
Lease Brokerage	218,754	229,294	-5%	-3%	653,912	618,692	6%	8%
Sales Brokerage	200,515	195,925	2%	4%	515,983	523,872	-2%	1%
Investment Management	39,873	31,829	25%	26%	129,865	37,098	NM	NM
Total revenues	\$ 736,883	\$ 715,721	3%	5%	\$ 2,117,523	\$ 1,935,544	9%	12%

### Results of operations - three months ended September 30, 2019

Revenues for our third quarter were \$736.9 million, 3% higher than the comparable prior year quarter (5% measured in local currency). Acquisitions contributed 3% to local currency revenue growth while internally generated revenues were up 2%, led by Outsourcing & Advisory as well as Investment Management, partially offset by modest declines in Lease Brokerage against a strong prior year quarter.

Operating earnings for the third quarter were \$48.2 million, versus \$42.0 million in the prior year period. The operating earnings margin was 6.5% versus 5.9% in the prior year quarter driven by higher contribution from Investment Management, service mix and lower discretionary expenses. Adjusted EBITDA (see “Reconciliation of non-GAAP measures” below) for the third quarter was \$84.3 million, up 16% versus \$72.7 million reported in the prior year quarter. Our adjusted EBITDA margin improved to 11.4% of revenues, compared to 10.2% in the prior year quarter.

Depreciation expense was \$8.0 million, in-line with \$7.9 million recorded in the prior year quarter.

Amortization expense was \$14.9 million, versus \$15.3 million recorded in the prior year quarter.

Net interest expense was \$7.3 million, versus \$6.9 million recorded in the prior year quarter, attributable to increased borrowings over the past year to fund business acquisitions and an increase in the applicable margin over floating reference rates due to greater financial leverage. The average interest rate on debt during the quarter was 3.8%, relative to 3.2% in the prior year quarter.

The consolidated income tax expense for the quarter was \$12.9 million, relative to \$10.3 million the prior year quarter, reflecting effective tax rates of 31% and 29%, respectively impacted by the earnings mix, with an increase in earnings before income tax in certain higher tax rate jurisdictions. The effective tax rate for the full year is expected to be approximately 28% to 30%.

Net earnings for the quarter were \$28.7 million, versus \$25.4 million in the prior year quarter.

The Americas region’s revenues totaled \$424.3 million for the third quarter compared to \$404.6 million in the prior year quarter, up 5% (5% in local currency). Local currency revenue growth was 5%, all from acquisitions, with 8% internal growth in Outsourcing & Advisory offset by a decline in Lease Brokerage. In the comparative prior year quarter, internal revenue growth was a very strong 9% balanced among all service lines. Adjusted EBITDA was \$38.8 million, versus \$33.3 million in the prior year quarter, with margins higher due to service mix and lower discretionary expenses. GAAP operating earnings were \$26.5 million, versus \$24.4 million in the prior year period.

EMEA region revenues totaled \$138.8 million for the third quarter compared to \$146.3 million in the prior year quarter, down 5% (-1% in local currency). Local currency revenue growth was comprised of an internal decline of 3% offset by 2% growth from acquisitions. Internal revenues were impacted by a decline in Lease Brokerage for the quarter mostly due to timing, with a significant number of transactions expected to be recorded in the fourth quarter. Foreign exchange headwinds negatively impacted revenue growth by 4%. Adjusted EBITDA was \$12.6 million, versus \$17.3 million in the prior year quarter, with the decline attributable to lower revenues and service mix. GAAP operating earnings were \$5.1 million, versus \$9.4 million in the prior year quarter.

Asia Pacific region revenues totaled \$133.5 million for the third quarter compared to \$132.5 million in the prior year quarter, up 1% (5% in local currency). Local currency internal revenue growth was 4%, led by Outsourcing & Advisory, with 1% growth from acquisitions. Foreign exchange headwinds impacted revenue growth by 4%. Adjusted EBITDA was \$18.6 million, relative to \$17.8 million in the prior year quarter. GAAP operating earnings were \$17.2 million, versus \$16.2 million in the prior year quarter.

Investment Management revenues for the third quarter were \$39.9 million compared to \$31.8 million in the prior year quarter, up 25%. Local currency revenue growth of 26% was all internally generated and reflected incremental management fees from new capital commitments completed year to date. Pass-through revenue from historical carried interest represented \$0.5 million for the third quarter versus \$2.1 million in the prior year quarter. Adjusted EBITDA was \$15.9 million relative to \$9.6 million in the prior year quarter. Operating earnings, which are impacted by acquisition-related intangible asset amortization, were \$9.3 million in the quarter, versus \$2.4 million in the prior year quarter. Assets under management stood at \$30.6 billion as of September 30, 2019, up 18% from \$25.9 billion in the third quarter of 2018.

The global corporate segment GAAP operating loss for the third quarter was \$10.0 million, relative to \$10.4 million in the prior period. Unallocated global corporate costs as reported in adjusted EBITDA were \$1.7 million in the third quarter, relative to \$5.3 million in the prior year period.

### **Results of operations - nine months ended September 30, 2019**

Revenues for the nine months ended September 30, 2019 were \$2.12 billion, 9% higher than the comparable prior year period (12% measured in local currency). Acquisitions contributed 8% to local currency revenue growth and internally generated revenues were up 4%.

Operating earnings for the nine month period were \$118.8 million, relative to \$103.3 million in the prior year period. Our operating earnings margin for the nine months ended September 30, 2019 was 5.6% versus 5.3% in the period year period. Year to date Adjusted EBITDA (see “Reconciliation of non-GAAP measures” below) was \$215.2 million, up 21% versus \$178.2 million reported in the prior year period. Our Adjusted EBITDA margin was 10.2% of revenues versus 9.2% of revenues in the prior year period, primarily due to the impact of higher margin Investment Management revenues attributable to the acquisition of Harrison Street Real Estate Capital, LLC (“Harrison Street”), completed in July 2018.

We recorded depreciation expense of \$24.5 million for the nine month period relative to \$22.7 million for the comparable prior year period. The increase was attributable to increased investments in office leaseholds and the impact of business acquisitions in the past year.

We recorded amortization expense of \$44.8 million for the nine month period relative to \$32.6 million for the prior year period, with the increase primarily attributable to the acquisition of Harrison Street.

Net interest expense for the nine month period was \$22.8 million, up from \$13.8 million recorded in the prior year period. The increase reflects incremental borrowings over the past year to fund business acquisitions and an increase in the applicable margin over floating reference rates due to greater financial leverage. The average interest rate on debt during the period was 3.8%, versus 3.3% in the prior year period.

Consolidated income tax expense for the nine month period was \$27.3 million, relative to \$27.8 million in the prior year period, reflecting effective tax rates of 28% and 31%, respectively attributable to higher earnings before income taxes from lower tax jurisdictions.

Net earnings for the nine month period were \$69.7 million, versus \$62.7 million in the prior year period.

The Americas region’s revenues totaled \$1.20 billion for the nine months ended September 30, 2019 compared to \$1.12 billion in the prior year period, up 7% (8% in local currency). Local currency revenue growth was comprised of 6% growth from acquisitions and 2% internal growth. Internal growth was driven by strength in our Outsourcing & Advisory and Lease Brokerage service lines in both the US and Canada. Adjusted EBITDA was \$101.2 million

versus \$95.9 million reported in the prior year period, with the increase driven by a favourable service mix and benefits from incremental investments in talent acquisition completed earlier this year. GAAP operating earnings were \$68.3 million, versus \$71.2 million in the prior year period, primarily due to higher amortization of intangible assets related to recent acquisitions and other acquisition-related costs.

EMEA region revenues totaled \$410.9 million for the nine months ended September 30, 2019 compared to \$406.4 million in the prior year period, up 1% (up 7% in local currency). Local currency revenue growth was comprised of 5% internal growth and 2% growth from recent acquisitions. Internal revenue growth was driven by an increase in Outsourcing & Advisory services, especially project management. Foreign exchange headwinds impacted revenue growth by 6%. Adjusted EBITDA was \$29.2 million versus \$39.5 million in the prior year period due to revenue mix and ongoing planned investments in talent acquisition in major markets. GAAP operating earnings were \$5.8 million, versus \$14.9 million in the prior year period.

Asia Pacific region revenues totaled \$370.9 million for the nine months ended September 30, 2019 compared to \$369.1 million in the prior year period, up nearly 1% (6% in local currency). Local currency revenue growth was comprised of 5% internal growth, driven by Outsourcing & Advisory services, and 1% growth from recent acquisitions. Foreign exchange headwinds impacted revenue growth by 5%. Adjusted EBITDA was \$43.7 million versus \$44.4 million in the prior year period. GAAP operating earnings were \$39.0 million, flat versus \$39.0 million in the prior year period.

Investment Management revenues for the nine months ended September 30, 2019 were \$129.9 million compared to \$37.1 million in the prior year period. The growth reflects the year to date impact of the Harrison Street acquisition. Internal revenue growth of 24%, reflected incremental management fees from new capital commitments completed year to date. Pass-through revenue from historical carried interest represented \$16.0 million for the nine months ended September 30, 2019 versus \$2.1 million in the prior year period. Adjusted EBITDA was \$45.4 million relative to \$8.4 million in the prior year period. Operating earnings, which are impacted by acquisition-related intangible asset amortization, were \$25.2 million in the quarter, versus \$1.2 million in the prior year period.

The global corporate segment GAAP operating loss was \$19.5 million, relative to \$23.1 million in the prior period. Unallocated global corporate costs as presented in adjusted EBITDA were \$4.3 million, relative to \$10.0 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.

<b>Quarter</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>
(in thousands of US\$, except per share amounts)				
<b>YEAR ENDING DECEMBER 31, 2019</b>				
Revenues	\$ 635,123	\$ 745,517	\$ 736,883	
Operating earnings	13,398	57,198	48,176	
Net earnings	5,463	35,575	28,673	
Diluted net earnings per common share	0.04	0.60	0.74	
<b>YEAR ENDED DECEMBER 31, 2018</b>				
Revenues	\$ 552,473	\$ 667,350	\$ 715,721	\$ 889,883
Operating earnings	15,745	45,569	41,956	98,128
Net earnings	8,541	28,804	25,384	65,847
Diluted net earnings per common share	0.13	0.60	0.41	1.33
<b>YEAR ENDED DECEMBER 31, 2017</b>				
Revenues	\$ 466,263	\$ 586,233	\$ 618,798	\$ 763,905
Operating earnings	12,840	41,229	34,458	78,849
Net earnings	6,800	25,958	20,362	40,955
Diluted net earnings (loss) per common share	0.04	0.29	0.16	0.82
<b>OTHER DATA (see "Reconciliation of non-GAAP measures")</b>				
Adjusted EBITDA - 2019	\$ 43,571	\$ 87,323	\$ 84,262	
Adjusted EBITDA - 2018	36,140	69,427	72,665	\$ 133,203
Adjusted EBITDA - 2017	31,252	60,258	55,281	96,033
Adjusted EPS - 2019	0.51	1.10	1.04	
Adjusted EPS - 2018	0.45	0.95	0.92	1.77
Adjusted EPS - 2017	0.36	0.77	0.66	1.36

**Seasonality and quarterly fluctuations**

The Company generates peak revenues and earnings in the month of December followed by a low in January and February primarily as a result of the timing of closings on sales brokerage transactions. Revenues and earnings during the balance of the year are relatively even. These sales brokerage operations comprise approximately 25% 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		Nine months ended	
	September 30		September 30	
	2019	2018	2019	2018
Net earnings	\$ 28,673	\$ 25,384	\$ 69,711	\$ 62,727
Income tax	12,868	10,257	27,270	27,832
Other income, net	(663)	(581)	(985)	(1,041)
Interest expense, net	7,298	6,896	22,775	13,753
Operating earnings	48,176	41,956	118,771	103,271
Depreciation and amortization	22,835	23,161	69,281	55,303
Acquisition-related items	8,867	6,271	18,765	14,265
Restructuring costs	2,826	-	3,141	416
Stock-based compensation expense	1,558	1,277	5,199	4,978
Adjusted EBITDA	\$ 84,262	\$ 72,665	\$ 215,157	\$ 178,233

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		Nine months ended	
	September 30		September 30	
	2019	2018	2019	2018
Net earnings	\$ 28,673	\$ 25,384	\$ 69,711	\$ 62,727
Non-controlling interest share of earnings	(6,069)	(4,073)	(13,900)	(8,290)
Amortization of intangible assets	14,878	15,255	44,835	32,624
Acquisition-related items	8,867	6,271	18,765	14,265
Restructuring costs	2,826	-	3,141	416
Stock-based compensation expense	1,558	1,277	5,199	4,978
Income tax on adjustments	(6,524)	(5,440)	(14,740)	(10,413)
Non-controlling interest on adjustments	(2,507)	(1,929)	(7,099)	(3,979)
Adjusted net earnings	\$ 41,702	\$ 36,745	\$ 105,912	\$ 92,328

(in US\$)	Three months ended		Nine months ended	
	September 30		September 30	
	2019	2018	2019	2018
Diluted net earnings per common share	\$ 0.74	\$ 0.41	\$ 1.37	\$ 1.13
Non-controlling interest redemption increment	(0.18)	0.13	0.02	0.24
Amortization of intangible assets, net of tax	0.23	0.23	0.69	0.52
Acquisition-related items	0.16	0.12	0.38	0.30
Restructuring costs, net of tax	0.05	-	0.06	0.01
Stock-based compensation expense, net of tax	0.04	0.03	0.13	0.12
Adjusted earnings per share	\$ 1.04	\$ 0.92	\$ 2.65	\$ 2.32

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 no impact from acquired entities in the current and prior periods. Revenue from acquired entities, including any foreign exchange impacts, are treated as acquisition growth until the respective anniversaries of the acquisitions. 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.

We use the term assets under management ("AUM") as a measure of the scale of our Investment Management operations. AUM is defined as the gross market value of operating assets and the projected gross cost of development properties of the funds, partnerships and accounts to which we provide management and advisory services, including capital that such funds, partnerships and accounts have the right to call from investors pursuant to capital

commitments. Our definition of AUM may differ from those used by other issuers and as such may not be directly comparable to similar measures used by other issuers.

### **Liquidity and capital resources**

The Company generated cash flow from operating activities of \$123.2 million for the nine month period ended September 30, 2019 compared to \$68.4 million in the prior year period. Adjusting for the cash proceeds generated from the structured accounts receivable facility (the “AR Facility”) as well as collections of the deferred purchase price related to AR Facility, net cash flow from operating activities for the nine month period ended September 30, 2019 was \$20.7 million. The decrease in cash from operations is primarily attributable to timing of accounts payable, accrued expenses and accrued compensation. 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 nine months ended September 30, 2019, capital expenditures were \$31.3 million. Based on our current operations, capital expenditures for the year ending December 31, 2019 are expected to be \$45 - \$50 million.

Net indebtedness as at September 30, 2019 was \$509.2 million, versus \$545.1 million at December 31, 2018. 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 September 30, 2019 and, based on our outlook for the balance of the year, we expect to remain in compliance with these covenants. We had \$616.9 million of available unused credit as of September 30, 2019.

On April 4, 2019, we extended the credit agreement for our Revolving Credit Facility of \$1.0 billion with a new 5-year term maturing on April 30, 2024 (from April 30, 2023) and certain amendments were made to increase the flexibility of the Company’s debt capital structure.

On April 4, 2019, we amended our Euro-denominated 2.23% senior unsecured notes due 2028 (the “Senior Notes”) to make certain amendments to increase the flexibility of our debt capital structure. These amendments were similar to the amendments made to our Revolving Credit Facility, which ranks equal in seniority to the Senior Notes.

Net cash outflow from the AR Facility, related to the repurchase of selected US and Canadian trade accounts receivable (the “Receivables”), was \$1.7 million during the quarter ended September 30, 2019. The AR Facility is recorded as a sale of accounts receivable, and accordingly sold Receivables are derecognized from the consolidated balance sheet.

On May 16, 2019, 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 28, 2019. This dividend was paid on July 9, 2019.

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, totalling \$198.0 million as at September 30, 2019 (December 31, 2018 - \$206.9 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 fair value of contingent consideration recorded on the consolidated balance sheet as at September 30, 2019 was \$89.3 million (December 31, 2018 - \$93.9 million). 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 March 2023. We estimate that approximately 85% of the contingent consideration outstanding as of September 30, 2019 will ultimately be paid.

The following table summarizes our contractual obligations as at September 30, 2019:

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	\$ 609,947	\$ 5,924	\$ 53	\$ 375,794	\$ 228,176
Interest on long-term debt	98,750	20,494	40,590	19,008	18,657
Finance lease obligations	921	583	337	1	-
Contingent acquisition consideration	89,310	23,930	61,444	3,936	-
Operating leases obligations	356,707	81,252	125,434	80,146	69,875
Purchase commitments	25,445	14,681	10,764	-	-
Co-investment Commitments	<u>8,736</u>	<u>8,736</u>	-	-	-
Total contractual obligations	\$ 1,189,816	\$ 155,600	\$ 238,622	\$ 478,885	\$ 316,709

At September 30, 2019, we had commercial commitments totaling \$7.2 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 September 30, 2019, was \$292.6 million (December 31, 2018 - \$316.0 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 September 30, 2019, the RNCI recorded on the balance sheet was \$323.4 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 nine months ended September 30, 2019 would be \$0.28 and the accretion to adjusted EPS would be \$0.25.

### 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 16 to the September 30, 2019 unaudited 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, 2018.

### **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**

On January 1, 2019, the Company adopted Financial Accounting Standards Board (“FASB”) Accounting Standard Codification Topic 842, *Leases* (“ASC 842”). ASC 842 requires the recognition of operating lease right-of-use assets and lease liabilities for virtually all premises and equipment leases on the consolidated balance sheet, with no impact on earnings. The Company adopted ASC 842 effective January 1, 2019 without adjusting comparative periods and recorded a \$261.3 million right-of-use asset and corresponding \$294.6 million lease liability as of September 30, 2019. The recognition of the lease liability did not impact the Company’s financial covenants under our Revolving Credit Facility or Senior Notes, since the underlying debt agreements include provisions that nullify the impact of changes in accounting standards.

On January 1, 2019, the Company adopted Accounting Standards Update (“ASU”) No. 2017-12 *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*, with no material impact on its consolidated financial statements.

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

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses*. This ASU creates a new framework to evaluate financial instruments, such as trade receivables, for expected credit losses. This new framework replaces the existing incurred loss approach and is expected to result in more timely recognition of credit losses. The standard is effective for annual and interim periods beginning after December 15, 2019. The Company is currently assessing the impact of this ASU on its consolidated financial statements.

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. The Company is currently assessing the impact of this ASU on its consolidated financial statements.

In February 2018, the FASB issued ASU No. 2018-02, *Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. This ASU provides an option to reclassify stranded tax effects within accumulated other comprehensive income to retained earnings in each period in which the effect of the change in the U.S. federal corporate income tax rate in (or portion thereof) is recorded. The standard is effective for annual and interim periods beginning after December 15, 2019. The Company is currently assessing the impact of this ASU on its consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40)*. This ASU aligns the capitalizing of implementation costs incurred in relation to a hosting arrangement with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. It also requires that these capitalized costs are to be expensed over the term of the hosting arrangement and to the same line as the hosting arrangement. The standard is effective for annual and interim periods beginning after

December 15, 2019. The Company is currently assessing the impact of this ASU on its consolidated financial statements.

### **Impact of IFRS**

On January 1, 2011, many Canadian companies were required to adopt IFRS. In 2004, in accordance with 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 debt into a fixed interest rate of 1.897%. In December 2018, the Company entered into interest rate swap agreements to convert the LIBOR floating interest rate on \$100.0 million of US dollar denominated debt into a fixed interest rate of 2.7205% plus the applicable margin. Hedge accounting is being applied to these interest rate swaps.

### **Transactions with related parties**

As at September 30, 2019, the Company had \$3.7 million of loans receivable from non-controlling shareholders (December 31, 2018 - \$6.5 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 4.0%. 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 38,378,117 Subordinate Voting Shares and 1,325,694 Multiple Voting Shares. In addition, as at the date hereof 1,710,750 Subordinate Voting Shares are issuable upon exercise of options granted under the Company’s stock option plan.

On July 16, 2019, the Company announced a Normal Course Issuer Bid (“NCIB”) effective from July 18, 2019 to July 17, 2020. The Company is entitled to repurchase up to 2,900,000 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 nine month periods ended September 30, 2019 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**

On June 1, 2015, the predecessor to our Company, FirstService Corporation (“Old FSV”), completed a plan of arrangement (the “Spin-off”) which separated Old FSV into two independent publicly traded companies – Colliers International Group Inc., a global leader in commercial real estate services and new FirstService Corporation (“FirstService”), a North American leader in residential property management and related services. Under the Spinoff, Old FSV shareholders received one Colliers share and one FirstService share of the same class as each Old FSV share previously held.

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.
- The impact of changes in the market value of assets under management on the performance of our Investment Management business.
- 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.

- Integration of the recently acquired Harrison Street operations and any further Investment Management acquisitions.
- The ability to attract new clients and to retain major clients and renew related contracts.
- The ability to retain and incentivize advisors.
- 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 Euro, Canadian dollar, Australian dollar and UK pound sterling 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 and 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, 2018, 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).