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# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**Washington, DC 20549**

# FORM 10-Q

**(Mark One)**

☐ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended March 31, 2023**

**OR**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from___________to___________**

**Commission File Number: 001-36155**

# MARCUS & MILLICHAP, INC.
**(Exact name of registrant as specified in its Charter)**

| | |
|---|---|
| **Delaware** | **35-2478370** |
| **(State or Other Jurisdiction of Incorporation or Organization)** | **(I.R.S. Employer Identification No.)** |
| **23975 Park Sorrento, Suite 400 Calabasas, California** | **91302** |
| **(Address of Principal Executive Offices)** | **(Zip Code)** |

**(818) 212-2250**
**(Registrant's telephone number, including area code)**

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|---|---|---|
| **Common Stock, par value $0.0001 per share** | **MMI** | **New York Stock Exchange** |

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☐ No ☐

Indicate by checkmark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter time period that the registrant was required to submit such files). Yes ☐ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

| | | | |
|---|---|---|---|
| Large accelerated filer | ☐ | Accelerated filer | ☐ |
| Non-accelerated filer | ☐ | Smaller reporting company | ☐ |
| Emerging growth company | ☐ | | |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes☐ No ☐

Number of shares of common stock, par value $0.0001 per share, of the registrant issued and outstanding as of May 2, 2023 was 38,476,404 shares.

**MARCUS & MILLICHAP, INC.**
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## PART I. FINANCIAL INFORMATION

### Item 1. Financial Statements

**MARCUS & MILLICHAP, INC.**
**CONDENSED CONSOLIDATED BALANCE SHEETS**
**(in thousands, except for shares and par value)**

| | March 31, 2023 (unaudited) | December 31, 2022 |
|---|---|---|
| Assets | | |
| Current assets: | | |
| Cash, cash equivalents, and restricted cash | $ 228,026 | $ 235,873 |
| Commissions receivable | 9,782 | 8,453 |
| Prepaid expenses | 8,740 | 9,411 |
| Income tax receivable | 18,053 | 8,682 |
| Marketable debt securities, available-for-sale (includes amortized cost of $133,178 and $254,682 at March 31, 2023 and December 31, 2022, respectively, and $0 allowance for credit losses) | 132,520 | 253,434 |
| Advances and loans, net | 3,045 | 4,005 |
| Other assets, current | 5,052 | 7,282 |
| Total current assets | 405,218 | 527,140 |
| Property and equipment, net | 28,223 | 27,644 |
| Operating lease right-of-use assets, net | 107,891 | 87,945 |
| Marketable debt securities, available-for-sale (includes amortized cost of $73,823 and $72,819 at March 31, 2023 and December 31, 2022, respectively, and $0 allowance for credit losses) | 70,493 | 68,595 |
| Assets held in rabbi trust | 9,953 | 9,553 |
| Deferred tax assets, net | 37,427 | 41,321 |
| Goodwill and other intangible assets, net | 54,551 | 55,696 |
| Advances and loans, net | 179,443 | 169,955 |
| Other assets, non-current | 17,293 | 15,859 |
| Total assets | $ 910,492 | $ 1,003,708 |
| Liabilities and stockholders' equity | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | $ 12,392 | $ 11,450 |
| Deferred compensation and commissions | 46,253 | 75,321 |
| Operating lease liabilities | 16,911 | 16,984 |
| Accrued bonuses and other employee related expenses | 6,578 | 38,327 |
| Other liabilities, current | 20,781 | 9,933 |
| Total current liabilities | 102,915 | 152,015 |
| Deferred compensation and commissions | 34,422 | 64,461 |
| Operating lease liabilities | 82,768 | 65,109 |
| Other liabilities, non-current | 8,229 | 8,614 |
| Total liabilities | 228,334 | 290,199 |
| Commitments and contingencies | — | — |
| Stockholders' equity: | | |
| Preferred stock, $0.0001 par value: | | |
| Authorized shares – 25,000,000; issued and outstanding shares – none at March 31, 2023 and December 31, 2022, respectively | — | — |
| Common stock, $0.0001 par value: | | |
| Authorized shares – 150,000,000; issued and outstanding shares – 38,876,354 and 39,255,838 at March 31, 2023 and December 31, 2022, respectively | 4 | 4 |
| Additional paid-in capital | 132,905 | 131,541 |
| Retained earnings | 551,696 | 585,581 |
| Accumulated other comprehensive loss | (2,447) | (3,617) |
| Total stockholders' equity | 682,158 | 713,509 |
| Total liabilities and stockholders' equity | $ 910,492 | $ 1,003,708 |

*See accompanying notes to condensed consolidated financial statements.*

**MARCUS & MILLICHAP, INC.**
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**
**(in thousands, except per share amounts)**
***(Unaudited)***

| | Three Months Ended March 31, 2023 | Three Months Ended March 31, 2022 |
|---|---|---|
| *Revenue:* | | |
| Real estate brokerage commissions | $ 135,046 | $ 286,909 |
| Financing fees | 15,868 | 26,453 |
| Other revenue | 3,878 | 6,102 |
| Total revenue | 154,792 | 319,464 |
| *Operating expenses:* | | |
| Cost of services | 95,427 | 196,768 |
| Selling, general and administrative | 72,219 | 74,535 |
| Depreciation and amortization | 3,207 | 3,911 |
| Total operating expenses | 170,853 | 275,214 |
| Operating (loss) income | (16,061) | 44,250 |
| Other income, net | 4,810 | 450 |
| Interest expense | (215) | (160) |
| (Loss) income before (benefit) provision for income taxes | (11,466) | 44,540 |
| (Benefit) provision for income taxes | (5,633) | 11,757 |
| Net (loss) income | $ (5,833) | $ 32,783 |
| | | |
| *(Loss) earnings per share:* | | |
| Basic | $ (0.15) | $ 0.82 |
| Diluted | $ (0.15) | $ 0.81 |
| Weighted average common shares outstanding: | | |
| Basic | 39,200 | 39,989 |
| Diluted | 39,200 | 40,474 |

*See accompanying notes to condensed consolidated financial statements.*

**MARCUS & MILLICHAP, INC.**
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME**
**(in thousands)**
***(Unaudited)***

| | Three Months Ended March 31, | |
|---|---|---|
| | 2023 | 2022 |
| Net (loss) income | $ (5,833) | $ 32,783 |
| *Other comprehensive income (loss):* | | |
| Marketable debt securities, available-for-sale: | | |
| Change in net unrealized gains (losses) | 1,116 | (2,357) |
| Less: reclassification adjustment for net losses (gains) included in other income, net | — | (84) |
| Net change, net of tax of $366 and $(838) for the three months ended March 31, 2023, and 2022, respectively | 1,116 | (2,441) |
| Foreign currency translation gain (loss), net of tax of $0 for each of the three months ended March 31, 2023 and 2022, respectively | 54 | (59) |
| Total other comprehensive income (loss) | 1,170 | (2,500) |
| Comprehensive (loss) income | $ (4,663) | $ 30,283 |

*See accompanying notes to condensed consolidated financial statements.*

**MARCUS & MILLICHAP, INC.**
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**
**(in thousands, except for shares)**
***(Unaudited)***

| | Three Months Ended March 31, 2023 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Preferred Stock | | Common Stock | | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive (Loss) Income | Total |
| | Shares | Amount | Shares | Amount | | | | |
| Balance at December 31, 2022 | — | $ — | 39,255,838 | $ 4 | $ 131,541 | $ 585,581 | $ (3,617) | $ 713,509 |
| Net and comprehensive (loss) income | — | — | — | — | — | (5,833) | 1,170 | (4,663) |
| Dividend | — | — | — | — | — | (10,284) | — | (10,284) |
| *Stock-based award activity* | | | | | | | | |
| Stock-based compensation | — | — | — | — | 5,011 | — | — | 5,011 |
| Issuance of common stock for vesting of restricted stock units | — | — | 293,873 | — | — | — | — | — |
| Shares withheld related to net share settlement of stock-based awards | — | — | (113,434) | — | (3,647) | — | — | (3,647) |
| Repurchases of common stock | — | — | (559,923) | — | — | (17,768) | — | (17,768) |
| Balance as of March 31, 2023 | — | $ — | 38,876,354 | $ 4 | $ 132,905 | $ 551,696 | $ (2,447) | $ 682,158 |

| | Three Months Ended March 31, 2022 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Preferred Stock | | Common Stock | | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total |
| | Shares | Amount | Shares | Amount | | | | |
| Balance at December 31, 2021 | — | $ — | 39,692,373 | $ 4 | $ 121,844 | $ 573,546 | $ 910 | $ 696,304 |
| Net and comprehensive income (loss) | — | — | — | — | — | 32,783 | (2,500) | 30,283 |
| Dividend | — | — | — | — | — | (52,136) | — | (52,136) |
| *Stock-based award activity* | | | | | | | | |
| Stock-based compensation | — | — | — | — | 3,856 | — | — | 3,856 |
| Issuance of common stock for vesting of restricted stock units | — | — | 167,263 | — | — | — | — | — |
| Shares withheld related to net share settlement of stock-based awards | — | — | (64,237) | — | (2,918) | — | — | (2,918) |
| Balance as of March 31, 2022 | — | $ — | 39,795,399 | $ 4 | $ 122,782 | $ 554,193 | $ (1,590) | $ 675,389 |

*See accompanying notes to condensed consolidated financial statements.*

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**MARCUS & MILLICHAP, INC.**
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(in thousands)**
***(Unaudited)***

| | Three Months Ended March 31, | |
|---|---|---|
| | 2023 | 2022 |
| Cash flows from operating activities | | |
| Net (loss) income | $ (5,833) | $ 32,783 |
| Adjustments to reconcile net (loss) income to net cash used in operating activities: | | |
| Depreciation and amortization | 3,207 | 3,911 |
| Noncash lease expense | 6,003 | 5,961 |
| Credit loss recovery | (1) | (167) |
| Stock-based compensation | 5,011 | 3,856 |
| Deferred taxes, net | 3,529 | 1,104 |
| Unrealized foreign exchange losses (gains) | 65 | (151) |
| Net realized gains on marketable debt securities, available-for-sale | — | (113) |
| Other non-cash items | 52 | 11 |
| Changes in operating assets and liabilities: | | |
| Commissions receivable | (1,318) | 3,430 |
| Prepaid expenses | 671 | 2,850 |
| Advances and loans | (8,271) | (25,084) |
| Other assets | (2,961) | (794) |
| Accounts payable and accrued expenses | 2,390 | 1,308 |
| Income tax receivable and payable | (9,371) | 10,189 |
| Accrued bonuses and other employee related expenses | (31,750) | (33,990) |
| Deferred compensation and commissions | (57,605) | (65,384) |
| Operating lease liabilities | (4,571) | (5,031) |
| Other liabilities | (454) | (2,224) |
| Net cash used in operating activities | (101,207) | (67,535) |
| Cash flows from investing activities | | |
| Acquisition of businesses, net of cash received | — | (12,500) |
| Purchases of marketable debt securities, available-for-sale | (67,042) | (40,551) |
| Proceeds from sales and maturities of marketable debt securities, available-for-sale | 187,258 | 61,970 |
| Issuances of employee notes receivable | (10) | (71) |
| Payments received on employee notes receivable | 13 | 18 |
| Purchase of property and equipment | (2,863) | (1,883) |
| Net cash provided by investing activities | 117,356 | 6,983 |
| Cash flows from financing activities | | |
| Taxes paid related to net share settlement of stock-based awards | (3,647) | (2,918) |
| Dividends paid | (441) | — |
| Principal payments on stock appreciation rights liability | (1,945) | (1,761) |
| Principal payments on deferred and contingent consideration | (1,283) | (1,264) |
| Cash paid for stock repurchases | (16,699) | — |
| Net cash used in financing activities | (24,015) | (5,943) |
| Effect of currency exchange rate changes on cash, cash equivalents, and restricted cash | 19 | 50 |
| Net decrease in cash, cash equivalents, and restricted cash | (7,847) | (66,445) |
| Cash, cash equivalents, and restricted cash at beginning of period | 235,873 | 382,140 |
| Cash, cash equivalents, and restricted cash at end of period | $ 228,026 | $ 315,695 |
| Supplemental cash flow disclosures: | | |
| Interest paid during the period | $ 393 | $ 499 |
| Income taxes paid, net | $ 209 | $ 464 |
| Supplemental disclosures of noncash investing and financing activities: | | |
| Unpaid purchases of property and equipment | $ 510 | $ 406 |
| Right-of-use assets obtained in exchange for operating lease liabilities | $ 25,910 | $ 7,771 |
| Measurement period adjustment of acquisition related contingent consideration | $ — | $ 66 |

*See accompanying notes to condensed consolidated financial statements.*

MARCUS & MILLICHAP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
*(Unaudited)*

## 1. Description of Business and Basis of Presentation

### Description of Business

Marcus & Millichap, Inc. (the "Company," "Marcus & Millichap," or "MMI"), a Delaware corporation, is a brokerage firm specializing in commercial real estate investment sales, financing, research and advisory services. As of March 31, 2023, MMI operates 80 offices in the United States and Canada through its wholly-owned subsidiaries, including the operations of Marcus & Millichap Capital Corporation.

### *Reorganization and Initial Public Offering*

MMI was formed in June 2013 in preparation for Marcus & Millichap Company ("MMC") to spin-off its majority-owned subsidiary, Marcus & Millichap Real Estate Investment Services, Inc. ("MMREIS"). Prior to the initial public offering ("IPO") of MMI, all of the preferred and common stockholders of MMREIS (including MMC and employees of MMREIS) contributed all of their outstanding shares to MMI, in exchange for new MMI common stock. As a result, MMREIS became a wholly-owned subsidiary of MMI. Thereafter, MMC distributed 80.0% of the shares of MMI common stock to MMC's shareholders and exchanged the remaining portion of its shares of MMI common stock for cancellation of indebtedness of MMC. MMI completed its IPO on November 5, 2013.

### Basis of Presentation

The financial information presented in the accompanying unaudited condensed consolidated financial statements, has been prepared in accordance with rules and regulations of the U.S. Securities and Exchange Commission ("SEC") for quarterly reports on Form 10-Q and Article 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles ("U.S. GAAP") for complete financial statements. In the opinion of management, the accompanying unaudited condensed consolidated financial statements and notes include all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the condensed consolidated financial position, results of operations and cash flows for the periods presented. These unaudited condensed consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements and notes thereto, including the Company's accounting policies for the year ended December 31, 2022 included in the Company's Annual Report on Form 10-K filed on February 28, 2023 with the SEC. The results of the three months ended March 31, 2023 are not necessarily indicative of the results to be expected for the year ending December 31, 2023, for other interim periods or for future years.

### *Consolidation*

The accompanying condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

### *Use of Estimates*

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the related disclosures at the date of the condensed consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

### *Concentrations of Credit Risk*

Financial instruments that potentially subject the Company to a concentration of credit risk principally consist of cash, cash equivalents, and restricted cash, investments in marketable debt securities, available-for-sale, security deposits (included under other assets, non-current) and commissions receivable, net. Cash, cash equivalents, and restricted cash are placed with high-credit quality financial institutions and invested in high-credit quality money market funds and commercial paper. Concentrations and ratings of marketable debt securities, available-for-sale are limited by the approved investment policy.

To reduce its credit risk, the Company monitors the credit standing of the financial institutions money market funds that represent amounts recorded as cash, cash equivalents, and restricted cash. The Company historically has not experienced any significant losses related to cash, cash equivalents, and restricted cash.

In September 2021, the Company entered into a Strategic Alliance (“Strategic Alliance”) with M&T Realty Capital Corporation (“MTRCC”) pursuant to which the Company has agreed to provide loan opportunities that may be funded through MTRCC’s Delegated Underwriting and Servicing Agreement (“DUS Agreement”) with the Federal National Mortgage Association (“Fannie Mae”) that requires MTRCC to guarantee a portion of each loan funded. On a loan-by-loan basis, the Company, at its option, can indemnify a portion of MTRCC’s guarantee obligation of loan opportunities presented to and closed by MTRCC through the DUS Agreement. The Company manages and limits the concentration of risk related to the guarantees assumed by monitoring the underlying property type, geographic location, credit of the borrowers, underlying debt service coverage, and loan to value ratios.

The Company derives its revenue from a broad range of real estate investors, owners, and users in the United States and Canada, none of which individually represents a significant concentration of credit risk. The Company maintains allowances, as needed, for estimated credit losses based on management’s assessment of the likelihood of collection. For the three months ended March 31, 2023 and 2022, no transaction represented 10% or more of total revenue. Further, while one or more transactions may represent 10% or more of commissions receivable at any reporting date, amounts due are typically collected within 10 days of settlement and, therefore, do not expose the Company to significant credit risk.

During the three months ended March 31, 2023 and 2022, the Company’s Canadian operations represented2.9% and 2.2% of total revenue, respectively.

During each of the three months ended March 31, 2023 and 2022, no office represented 10% or more of total revenue.

***Revenue Recognition***

The Company generates real estate brokerage commissions by acting as a broker for real estate owners or investors seeking to buy or sell interests in commercial properties and generates financing fees from securing financing on purchase transactions, from refinancing its clients’ existing mortgage debt and other ancillary fees associated with financing activities, including, but not limited to, debt and equity advisory services, loan sales, due diligence services, guarantee fees, and loan performance fees.

*Real Estate Brokerage Commissions*

Contracts for representing buyers and sellers of real estate are usually negotiated on a transaction-by-transaction basis. The consideration associated with the successful outcome remains constrained until the completion of a transaction which occurs at the close of escrow. At that time, the Company's performance is complete, and revenue is recorded.

*Financing Fees*

Contracts for representing potential borrowers are usually negotiated on a transaction-by-transaction basis. The consideration associated with the successful outcome remains constrained until the completion of a transaction which occurs at the time the loan closes. At that time, the Company recognizes revenue related to the transaction. The Company’s fee arrangements, with an exception for guarantee obligations, do not include terms or conditions that require the Company to perform any service or fulfill any obligation once the loan closes.

*Loan Performance Fees* - For loans originated through the Strategic Alliance with MTRCC, the Company receives variable consideration in the form of loan performance fees based on a portion of the servicing fees expected to be received under the servicing contract for servicing the loan. As the Company is not obligated to perform any servicing functions and has no further obligations related to the transaction giving rise to the loan performance fees, the estimated value of the loan performance fees to be received is recorded at the time the loan closes and are collected over the estimated term of the related loan. Any changes in the estimate of loan performance fees to be received are recorded in revenue in the period the estimate changes.

*Guarantee Obligations* - For certain loans originated through the Strategic Alliance with MTRCC, the Company may agree, at its option, to indemnify MTRCC for a portion of MTRCC's obligations for loans sold to Fannie Mae. For these loans, the Company allocates a portion of the transaction price and records a loan guarantee obligation based on its fair value. Revenue for this stand-ready obligation is recorded on a straight-line basis over the term of the estimated guarantee period and is recorded in financing fees in the condensed consolidated statements of operations. The guarantee obligation is capped at 16.7% of any unpaid principal balance in excess of the collateral securing such loan. For these loans, the Company is required to pledge cash in a restricted bank account in support of the guarantee obligation. The Company records an allowance for estimated losses related to the loans subject to the guarantee considering the risk characteristics of the loan, the loan's risk rating, historical loss experience, potential adverse situations affecting individual loans and other forecasted information as appropriate.

*Mortgage Servicing* - The Company recognized mortgage servicing revenue upon the acquisition of a servicing contract. The Company recorded servicing fees when earned, provided the loans were current and the debt service payments were made by the borrowers. As of September 30, 2022, the Company no longer owns any mortgage servicing rights.

*Other Revenue*

Other revenue includes fees generated from consulting and advisory services, as well as referral fees from other real estate brokers, and fees are recognized when services are provided, or upon closing of the transaction.

## 2. Property and Equipment, Net

Property and equipment, net consisted of the following (in thousands):

| | March 31, 2023 | December 31, 2022 |
|---|---|---|
| Computer software and hardware equipment | $ 44,786 | $ 42,617 |
| Furniture, fixtures and equipment | 26,906 | 26,453 |
| Less: accumulated depreciation and amortization | (43,469) | (41,426) |
| | $ 28,223 | $ 27,644 |

Depreciation expense for property and equipment was $2.0 million and $1.9 million for the three months ended March 31, 2023 and 2022, respectively.

**3. Investments in Marketable Debt Securities, Available-for-Sale**

Amortized cost, allowance for credit losses, gross unrealized gains (losses) in accumulated other comprehensive (loss) income and fair value of marketable debt securities, available-for-sale, by type of security consisted of the following (in thousands):

| | March 31, 2023 | | | | |
|---|---|---|---|---|---|
| | Amortized Cost | Allowance for Credit Losses | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| *Short-term investments:* | | | | | |
| U.S. treasuries | $ 56,992 | $ — | $ 8 | $ (561) | $ 56,439 |
| Corporate debt | 75,935 | — | 5 | (97) | 75,843 |
| Asset-backed securities (“ABS”) and other | 251 | — | — | (13) | $ 238 |
| | $ 133,178 | $ — | $ 13 | $ (671) | $ 132,520 |
| *Long-term investments:* | | | | | |
| U.S. treasuries | $ 18,083 | $ — | $ — | $ (501) | $ 17,582 |
| U.S. government sponsored entities | 586 | — | — | (56) | 530 |
| Corporate debt | 45,869 | — | 72 | (2,368) | 43,573 |
| ABS and other | 9,285 | — | 10 | (487) | 8,808 |
| | $ 73,823 | $ — | $ 82 | $ (3,412) | $ 70,493 |

| | December 31, 2022 | | | | |
|---|---|---|---|---|---|
| | Amortized Cost | Allowance for Credit Losses | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| *Short-term investments:* | | | | | |
| U.S. treasuries | $ 135,688 | $ — | $ 14 | $ (1,153) | $ 134,549 |
| Corporate debt | 118,135 | — | 1 | (95) | 118,041 |
| ABS and other | 859 | — | — | (15) | $ 844 |
| | $ 254,682 | $ — | $ 15 | $ (1,263) | $ 253,434 |
| *Long-term investments:* | | | | | |
| U.S. treasuries | $ 21,434 | $ — | $ — | $ (719) | $ 20,715 |
| U.S. government sponsored entities | 602 | — | — | (66) | 536 |
| Corporate debt | 44,214 | — | 21 | (2,877) | 41,358 |
| ABS and other | 6,569 | — | — | (583) | 5,986 |
| | $ 72,819 | $ — | $ 21 | $ (4,245) | $ 68,595 |

MARCUS & MILLICHAP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
*(Unaudited)*

The Company’s investments in marketable debt securities, available-for-sale, that have been in a continuous unrealized loss position, for which an allowance for credit losses has not been recorded, by type of security consisted of the following (in thousands):

| | March 31, 2023 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 months | | 12 months or greater | | Total | |
| | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses |
| U.S. treasuries | $ 40,966 | $ (740) | $ 10,973 | $ (322) | $ 51,939 | $ (1,062) |
| U.S. government sponsored entities | — | — | 528 | (56) | 528 | (56) |
| Corporate debt | 81,967 | (500) | 22,814 | (1,965) | 104,781 | (2,465) |
| ABS and other | 2,222 | (25) | 5,699 | (475) | 7,921 | (500) |
| | $ 125,155 | $ (1,265) | $ 40,014 | $ (2,818) | $ 165,169 | $ (4,083) |

| | December 31, 2022 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 months | | 12 months or greater | | Total | |
| | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses |
| U.S. treasuries | $ 73,055 | $ (1,232) | $ 66,144 | $ (640) | $ 139,199 | $ (1,872) |
| U.S. government sponsored entities | 447 | (46) | 87 | (20) | 534 | (66) |
| Corporate debt | 130,816 | (1,909) | 10,681 | (1,063) | 141,497 | (2,972) |
| ABS and other | 4,710 | (314) | 2,091 | (284) | 6,801 | (598) |
| | $ 209,028 | $ (3,501) | $ 79,003 | $ (2,007) | $ 288,031 | $ (5,508) |

Gross realized gains and losses from the sales of the Company’s marketable debt securities, available-for-sale, consisted of the following (in thousands):

| | Three Months Ended March 31, | |
|---|---|---|
| | 2023 | 2022 |
| Gross realized gains [(1)] | $ — | $ 113 |
| Gross realized losses [(1)] | $ — | $ — |

(1) Recorded in other income, net in the condensed consolidated statements of operations. The cost basis of securities sold were determined based on the specific identification method.

The Company invests its excess cash in a diversified portfolio of fixed and variable rate debt securities to meet current and future cash flow needs. All investments are made in accordance with the Company’s approved investment policy. As of March 31, 2023, the portfolio had a weighted average credit rating of AA and a weighted term to contractual maturity of 1.9 years, with 209 securities in the portfolio representing an unrealized aggregate loss of $4.1 million or 2% of amortized cost, and a weighted average credit rating of AA.

As of March 31, 2023, the Company performed an impairment analysis and determined an allowance for credit losses was not required. The Company determined that it did not have an intent to sell and it was not more likely than not that the Company would be required to sell any security based on its current liquidity position, or to maintain compliance with its investment policy, specifically as it relates to minimum credit ratings. The Company evaluated the securities with an unrealized loss considering severity of loss, credit ratings, specific credit events during the period since acquisition, overall likelihood of default, market sector, potential impact from the current economic environment, including interest rates, geopolitical unrest and a review of an issuer’s and securities’ liquidity and financial strength, as needed. The Company concluded that it would receive all scheduled interest and principal payments. The Company, therefore, determined qualitatively that the unrealized loss was related to changes in interest rates and other market factors and therefore no allowance for credit losses was required.

Amortized cost and fair value of marketable debt securities, available-for-sale, by contractual maturity consisted of the following (in thousands, except weighted average data):

| | March 31, 2023 | | December 31, 2022 | |
|---|---|---|---|---|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Due in one year or less | $ 133,179 | $ 132,520 | $ 254,683 | $ 253,434 |
| Due after one year through five years | 55,922 | 54,034 | 56,507 | 54,169 |
| Due after five years through ten years | 14,067 | 12,867 | 13,435 | 11,850 |
| Due after ten years | 3,833 | 3,592 | 2,876 | 2,576 |
| | $ 207,001 | $ 203,013 | $ 327,501 | $ 322,029 |
| Weighted average contractual maturity | | 1.9 years | | 1.1 years |

Actual maturities may differ from contractual maturities because certain issuers have the right to prepay certain obligations with or without prepayment penalties.

## 4. Acquisitions, Goodwill and Other Intangible Assets

Goodwill is recorded as part of the Company's acquisitions and primarily arose from the acquired assembled workforce and brokerage and financing sales platforms. The Company expects all of the goodwill to be tax deductible, with the tax-deductible amount of goodwill related to the contingent and deferred consideration to be determined once the cash payments are made to settle any contingent and deferred consideration. The goodwill resulting from acquisitions is allocated to the Company's one reporting unit.

Goodwill and intangible assets, net consisted of the following (in thousands):

| | March 31, 2023 | | | December 31, 2022 | | |
|---|---|---|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Net Book Value | Gross Carrying Amount | Accumulated Amortization | Net Book Value |
| Goodwill and intangible assets: | | | | | | |
| Goodwill | $ 37,931 | $ — | $ 37,931 | $ 37,914 | $ — | $ 37,914 |
| Intangible assets [(1)] | 32,304 | (15,684) | 16,620 | 32,287 | (14,505) | 17,782 |
| | $ 70,235 | $ (15,684) | $ 54,551 | $ 70,201 | $ (14,505) | $ 55,696 |

(1) Total weighted average amortization period was 4.1 years and 4.5 years as of March 31, 2023 and December 31, 2022, respectively.

The Company recorded amortization expense for intangible assets of $1.2 million for both the three months ended March 31, 2023 and 2022.

The changes in the carrying amount of goodwill consisted of the following (in thousands):

| | | Three Months Ended March 31, 2023 |
|---|---|---|
| Beginning balance | $ | 37,914 |
| Additions from acquisitions | | — |
| Impact of foreign currency translation | | 17 |
| Ending balance | $ | 37,931 |

In the three month period ended March 31, 2022, the Company recorded $4.0 million of goodwill in connection with an acquisition.

Estimated amortization expense for intangible assets by year for the next five years and thereafter consisted of the following (in thousands):

| | | March 31, 2023 |
|---|---|---|
| Remainder of 2023 | $ | 3,435 |
| 2024 | | 4,091 |
| 2025 | | 3,873 |
| 2026 | | 2,156 |
| 2027 | | 1,736 |
| Thereafter | | 1,329 |
| | $ | 16,620 |

The Company evaluates goodwill for impairment annually in the fourth quarter. In addition to the annual impairment evaluation, the Company evaluates at least quarterly whether events or circumstances have occurred in the period subsequent to the annual impairment testing, which indicate that it is more likely than not an impairment loss has occurred. The Company evaluates its intangible assets that have finite useful lives whenever an event or change in circumstances indicates that the carrying value of the asset may not be recoverable.

As of March 31, 2023, the Company considered the impact of economic conditions and evaluated its goodwill and intangible assets for impairment testing. The Company estimated the recoverability of the intangible assets by comparing the carrying amount of each asset to the future undiscounted cash flows that the Company expects the asset to generate. The sum of the undiscounted expected future cash flows was greater than the carrying amount of the intangible assets. The Company concluded that as of March 31, 2023, there was no impairment of its intangible assets or goodwill.

**5. Selected Balance Sheet Data**

**Allowances on Advances and Loans**

Allowance for credit losses for advances and loans as of March 31, 2023 and December 31, 2022 was $848,000 and $791,000, respectively.

**Other Assets**

Other assets consisted of the following (in thousands):

| | Current | | Non-Current | |
|---|---|---|---|---|
| | March 31, 2023 | December 31, 2022 | March 31, 2023 | December 31, 2022 |
| Security deposits | $ — | $ — | $ 1,645 | $ 1,625 |
| Employee notes receivable | 1 | 6 | — | — |
| Securities, held-to-maturity[(1)] | — | — | 9,500 | 9,500 |
| Loan performance fee receivable | 1,063 | 766 | 5,670 | 4,261 |
| Prepaid lease costs and other | 3,988 | 6,510 | 478 | 473 |
| | $ 5,052 | $ 7,282 | $ 17,293 | $ 15,859 |

(1) Securities, held-to-maturity, are expected to mature on September 1, 2024 and accrue interest based on the1-year treasury rate.

**Deferred Compensation and Commissions**

Deferred compensation and commissions consisted of the following (in thousands):

| | Current | | Non-Current | |
|---|---|---|---|---|
| | March 31, 2023 | December 31, 2022 | March 31, 2023 | December 31, 2022 |
| Stock appreciation rights ("SARs") liability[(1)] | $ 2,480 | $ 2,323 | $ 10,847 | $ 13,137 |
| Commissions payable to investment sales and financing professionals | 42,648 | 72,247 | 16,384 | 45,156 |
| Deferred compensation liability[(1)] | 527 | 493 | 7,191 | 6,168 |
| Other | 598 | 258 | — | — |
| | $ 46,253 | $ 75,321 | $ 34,422 | $ 64,461 |

(1) The SARs and deferred compensation liabilities become subject to payout at the time the participant is no longer considered a service provider. As a result of the retirement of certain participants, estimated amounts to be paid to participants within the next twelve months have been classified as current.

***SARs Liability***

Prior to the IPO, certain employees of the Company were granted SARs under a stock-based compensation program assumed by MMC. In connection with the IPO, the SARs agreements were revised, the MMC liability of $20.0 million for the SARs was frozen as of March 31, 2013 and was transferred to MMI through a capital distribution. The SARs liability will be settled with each participant in ten annual installments in January of each year upon retirement or termination from service, or in full upon consummation of a change in control of the Company.

Under the revised agreements, MMI is required to accrue interest on the outstanding balance beginning on January 1, 2014, at a rate based on the10-year treasury note, plus 2%. The rate resets annually. The rates at January 1, 2023 and 2022 were5.79% and 3.63%, respectively. MMI recorded interest expense related to this liability of $190,000 and $135,000 for the three months ended March 31, 2023 and 2022, respectively.

Estimated payouts within the next twelve months for participants that have separated from service have been classified as current. During the three months ended March 31, 2023 and 2022, the Company made total payments of $2.3 million and $2.2 million, respectively, consisting of principal and accumulated interest.

***Commissions Payable***

Certain investment sales and financing professionals can earn additional commissions after meeting certain annual revenue thresholds. These commissions are recognized as cost of services in the period in which they are earned as they relate to specific transactions closed. The Company may defer payment of certain commissions, at its election, for up to three years. Commissions that are not expected to be paid within twelve months are classified as long-term.

***Deferred Compensation Liability***

A select group of management is eligible to participate in the Marcus & Millichap Deferred Compensation Plan (the "Deferred Compensation Plan"). The Deferred Compensation Plan is a non-qualified deferred compensation plan that is intended to comply with Section 409A of the Internal Revenue Code and permits participants to defer compensation up to the limits set forth in the Deferred Compensation Plan. Amounts are paid out generally when the participant is no longer a service provider; however, an in-service payout election is available to participants. Participants may elect to receive payouts as a lump sum or quarterly over a two to fifteen-year period. The Company elected to fund the Deferred Compensation Plan through Company-owned variable life insurance policies. The Deferred Compensation Plan is managed by a third-party institutional fund manager, and the deferred compensation and investment earnings are held as a Company asset in a rabbi trust, which is recorded in assets held in rabbi trust in the accompanying condensed consolidated balance sheets. The assets in the trust are restricted unless the Company becomes insolvent, in which case the trust assets are subject to the claims of the Company's creditors. The Company may also, in its sole and absolute discretion, elect to withdraw at any time a portion of the trust assets by an amount by which the fair market value of the trust assets exceeds 110% of the aggregate deferred compensation liability represented by the participants' accounts. Estimated payouts within the next twelve months for participants that have separated from service or elected an in-service payout have been classified as current. During the three months ended March 31, 2023 and 2022, the Company made total payments to participants of $48,000 and $365,000 respectively.

The assets held in the rabbi trust are carried at the cash surrender value of the variable life insurance policies, which represents its fair valueThe net change in the carrying value of the assets held in the rabbi trust and the net change in the carrying value of the deferred compensation liability, each exclusive of additional contributions, distributions and trust expenses, consisted of the following (in thousands):

| | Three Months Ended March 31, | |
|---|---|---|
| | 2023 | 2022 |
| Increase (decrease) in the carrying value of the assets held in the rabbi trust [1] | $ 458 | $ (525) |
| (Increase) decrease in the net carrying value of the deferred compensation obligation[2] | $ (433) | $ 532 |

[1] Recorded in other income, net in the condensed consolidated statements of operations.
[2] Recorded in selling, general and administrative expense in the condensed consolidated statements of operations.

**Other Liabilities**

Other liabilities consisted of the following (in thousands):

| | Current | | Non-Current | |
|---|---|---|---|---|
| | March 31, 2023 | December 31, 2022 | March 31, 2023 | December 31, 2022 |
| Deferred consideration | $ 2,323 | $ 3,633 | $ 1,510 | $ 1,486 |
| Contingent consideration | 2,256 | 1,726 | 4,787 | 5,341 |
| Dividends payable | 10,531 | 612 | 1,528 | 1,603 |
| Stock repurchase payable | 1,634 | 565 | — | — |
| Other | 4,037 | 3,397 | 404 | 184 |
| | $ 20,781 | $ 9,933 | $ 8,229 | $ 8,614 |

## 6. Related-Party Transactions

### Shared and Transition Services

Certain services are provided to the Company under a Transition Services Agreement (“TSA”) between MMC and the Company. The TSA is intended to provide certain services until the Company acquires these services separately. Under the TSA, the Company incurred net costs (charge-back) during the three months ended March 31, 2023 and 2022 of $(25,000) and $12,000, respectively. These amounts are included in selling, general and administrative expense in the accompanying condensed consolidated statements of operations.

### Brokerage and Financing Services with the Subsidiaries of MMC

MMC has wholly or majority owned subsidiaries that buy and sell commercial real estate properties. The Company performs certain brokerage and financing services related to transactions of the subsidiaries of MMC. For the three months ended March 31, 2023 and 2022, the Company earned real estate brokerage commissions and financing fees of $441,000 and $1,598,000, respectively, from transactions with subsidiaries of MMC related to these services. The Company incurred cost of services of $264,000 and $954,000, respectively, related to these revenues.

### Operating Lease with MMC

The Company extended its operating lease with MMC for a single-story office building located in Palo Alto, California, which expires in May 2032. The related operating lease cost was $297,000 and $333,000 for the three months ended March 31, 2023 and 2022, respectively. Operating lease cost is included in selling, general and administrative expense in the accompanying condensed consolidated statements of operations. The related operating lease right-of-use asset, net and operating lease liability as of March 31, 2023 was $8,860,000 and $9,094,000, respectively and as of December 31, 2022 was $9,041,000 and $9,262,000, respectively.

### Amounts due to (from) MMC

As of March 31, 2023 and December 31, 2022, the Company recorded a receivable of $4,000 and a payable of $79,000 with MMC, respectively. These amounts are included in other assets, current and accounts payable and accrued expenses, respectively, in the accompanying condensed consolidated balance sheets.

### Other

The Company makes advances to non-executive employees from time-to-time. At March 31, 2023 and December 31, 2022, the aggregate principal amount for employee notes receivable was $1,000 and $6,000, respectively, which is included in other assets, current in the accompanying condensed consolidated balance sheets. See Note 5 - "Selected Balance Sheet Data".

As of March 31, 2023, George M. Marcus, the Company’s founder and Chairman, beneficially owned approximately 39% of the Company’s issued and outstanding common stock, including shares owned by Phoenix Investments Holdings, LLC and the Marcus Family Foundation II.

## 7. Fair Value Measurements

U.S. GAAP defines the fair value of a financial instrument as the amount that would be received from the sale of an asset in an orderly transaction between market participants at the measurement date. The Company is responsible for the determination of fair value and the supporting methodologies and assumptions. The Company uses various pricing sources and third parties to provide and validate the values utilized.

The degree of judgment used in measuring the fair value of financial instruments is generally inversely correlated with the level of observable valuation inputs. Financial instruments with quoted prices in active markets generally have more pricing observability and less judgment is used in measuring fair value. Financial instruments for which no quoted prices are available have less observability and are measured at fair value using valuation models or other pricing techniques that require more judgment.

Assets recorded at fair value are measured and classified in accordance with a fair value hierarchy consisting of the three “levels” based on the observability of inputs available in the marketplace used to measure the fair values as discussed below:

- *Level 1*: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
- *Level 2*: Quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability; or
- *Level 3*: Unobservable inputs reflect management’s best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model. Management estimates include certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

**Recurring Fair Value Measurements**

The Company values its investments including commercial paper and floating net asset value money market funds recorded in cash, cash equivalents, and restricted cash, investments in marketable debt securities, available-for-sale, assets held in the rabbi trust, deferred compensation liability and contingent and deferred consideration at fair value on a recurring basis.

Fair values for investments included in cash, cash equivalents, and restricted cash and marketable debt securities, available-for-sale were determined for each individual security in the investment portfolio and all securities are Level 1 or 2 measurements as appropriate.

Fair values for assets held in the rabbi trust and related deferred compensation liability were determined based on the cash surrender value of the company owned variable life insurance policies and underlying investments in the trust, and are Level 2 and Level 1 measurements, respectively.

Contingent consideration in connection with acquisitions, is carried at fair value and determined on a contract-by-contract basis, calculated using unobservable inputs based on a probability of achieving EBITDA and other performance requirements, and is a Level 3 measurement. Deferred consideration in connection with acquisitions is carried at fair value and calculated using a discounted cash flow estimate with the only remaining condition on such payments being the passage of time, and is a Level 2 measurement.

Assets and liabilities carried at fair value on a recurring basis consisted of the following (in thousands):

| | March 31, 2023 | | | | December 31, 2022 | | | |
|---|---|---|---|---|---|---|---|---|
| | Fair Value | Level 1 | Level 2 | Level 3 | Fair Value | Level 1 | Level 2 | Level 3 |
| **Assets:** | | | | | | | | |
| Assets held in rabbi trust | $ 9,953 | $ — | $ 9,953 | $ — | $ 9,553 | $ — | $ 9,553 | $ — |
| Cash equivalents [1]: | | | | | | | | |
| Commercial paper | $ 39,213 | $ — | $ 39,213 | $ — | $ 41,324 | $ — | $ 41,324 | $ — |
| Money market funds | 135,353 | 135,353 | — | — | 139,025 | 139,025 | — | — |
| | $ 174,566 | $ 135,353 | $ 39,213 | $ — | $ 180,349 | $ 139,025 | $ 41,324 | $ — |
| Marketable debt securities, available-for-sale: | | | | | | | | |
| *Short-term investments:* | | | | | | | | |
| U.S. treasuries | $ 56,439 | $ 56,439 | $ — | $ — | $ 134,549 | $ 134,549 | $ — | $ — |
| Corporate debt | 75,843 | — | 75,843 | — | 118,041 | — | 118,041 | — |
| ABS and other | 238 | — | 238 | — | 844 | — | 844 | — |
| | $ 132,520 | $ 56,439 | $ 76,081 | $ — | $ 253,434 | $ 134,549 | $ 118,885 | $ — |
| *Long-term investments:* | | | | | | | | |
| U.S. treasuries | $ 17,582 | $ 17,582 | $ — | $ — | $ 20,715 | $ 20,715 | $ — | $ — |
| U.S. government sponsored entities | 530 | — | 530 | — | 536 | — | 536 | — |
| Corporate debt | 43,573 | — | 43,573 | — | 41,358 | — | 41,358 | — |
| ABS and other | 8,808 | — | 8,808 | — | 5,986 | — | 5,986 | — |
| | $ 70,493 | $ 17,582 | $ 52,911 | $ — | $ 68,595 | $ 20,715 | $ 47,880 | $ — |
| **Liabilities:** | | | | | | | | |
| Contingent consideration | $ 7,043 | $ — | $ — | $ 7,043 | $ 7,067 | $ — | $ — | $ 7,067 |
| Deferred consideration | $ 3,833 | $ — | $ 3,833 | $ — | $ 5,119 | $ — | $ 5,119 | $ — |
| Deferred compensation liability | $ 7,718 | $ 7,718 | $ — | $ — | $ 6,661 | $ 6,661 | $ — | $ — |

(1) Included in cash, cash equivalents, and restricted cash on the accompanying condensed consolidated balance sheets.

There were no transfers in or out of Level 3 during the three months ended March 31, 2023 and 2022.

During the three months ended March 31, 2023, the Company considered current and future interest rates and the probability of achieving EBITDA and other performance targets in its determination of fair value for the contingent consideration. The Company is uncertain as to the extent of the volatility in the unobservable inputs in the foreseeable future. Deferred consideration in connection with acquisitions is carried at fair value and calculated using a discounted cash flow estimate with the only remaining condition on such payments being the passage of time.

As of March 31, 2023 and December 31, 2022, contingent and deferred consideration had a maximum undiscounted payment to be settled in cash or stock of $19.6 million and $21.3 million, respectively. Assuming the achievement of the applicable performance criteria and/or service and time requirements, the Company anticipates these payments will be made over the next one to five-year period. Changes in fair value are included in selling, general and administrative expense in the condensed consolidated statements of operations.

A reconciliation of contingent consideration measured at fair value on a recurring basis consisted of the following (in thousands):

| | Three Months Ended March 31, | |
|---|---|---|
| | 2023 | 2022 |
| Beginning balance | $ 7,067 | $ 9,312 |
| Contingent consideration in connection with acquisitions | — | — |
| Change in fair value of contingent consideration | 226 | 51 |
| Payments of contingent consideration | (250) | — |
| Ending balance | $ 7,043 | $ 9,363 |

Quantitative information about the valuation technique and significant unobservable inputs used in the valuation of the Company's Level 3 financial liabilities measured at fair value on a recurring basis consisted of the following (dollars in thousands):

| | Fair Value at March 31, 2023 | Valuation Technique | Unobservable inputs | Range (Weighted Average)[1] | |
|---|---|---|---|---|---|
| Contingent consideration | $ 7,043 | Discounted cash flow | Expected life of cash flows | 0.2-4.6 years | (2.4 years) |
| | | | Discount rate | 6.0%-6.7% | (6.3%) |
| | | | Probability of achievement | 0.0%-100.0% | (94.9%) |

| | Fair Value at December 31, 2022 | Valuation Technique | Unobservable inputs | Range (Weighted Average)[1] | |
|---|---|---|---|---|---|
| Contingent consideration | $ 7,067 | Discounted cash flow | Expected life of cash flows | 0.4-4.8 years | (2.7 years) |
| | | | Discount rate | 6.0%-7.0% | (6.5)% |
| | | | Probability of achievement | 0.0%-100.0% | (95.4)% |

[1] Unobservable inputs were weighted by the relative fair value of the instruments.

**Nonrecurring Fair Value Measurements**

In accordance with U.S. GAAP, from time to time, the Company measures certain assets at fair value on a nonrecurring basis. The Company reviews the carrying value of intangibles, goodwill and other assets for indications of impairment at least annually. When indications of potential impairment are identified, the Company may be required to determine the fair value of those assets and record an adjustment for the carrying amount in excess of the fair value determined. Any fair value determination would be based on valuation approaches, which are appropriate under the circumstances and utilize Level 2 and Level 3 measurements as required.

**8. Stockholders' Equity**

**Common Stock**

As of March 31, 2023 and December 31, 2022, there were38,876,354 and 39,255,838 shares of common stock, $0.0001 par value, issued and outstanding, which included unvested restricted stock awards ("RSAs") issued to non-employee directors, respectively. See Note 11 – "(Loss) Earnings per Share" for additional information.

On February 9, 2023, the Board of Directors declared a semi-annual regular dividend of $0.25 per share, or $10.3 million, payable on April 6, 2023, to stockholders of record at the close of business on March 14, 2023.

As of March 31, 2023, the dividend payable was $12.0 million, of which $9.8 million was paid on April 6, 2023, and $2.2 million remains to be paid upon vesting of stock awards. This payable of $12.0 million is recorded in other liabilities, current and other liabilities, non-current in the condensed consolidated balance sheets. See Note 5 – "Selected Balance Sheet Data."

**Preferred Stock**

The Company has 25,000,000 authorized shares of preferred stock with a par value $0.0001 per share. At March 31, 2023 and December 31, 2022, there were no preferred shares issued or outstanding.

**Accumulated Other Comprehensive (Loss) Income**

Amounts reclassified from accumulated other comprehensive (loss) income are included as a component of other income, net or selling, general and administrative expense, as applicable, in the condensed consolidated statements of operations. The reclassifications were determined on a specific identification basis.

The Company has not provided for U.S. taxes on unremitted earnings of its foreign subsidiary as it is operating at a loss and has no earnings and profits to remit. As a result, deferred taxes were not provided related to the cumulative foreign currency translation adjustments.

**Repurchases of Common Stock**

On August 2, 2022, the Company's Board of Directors authorized a common stock repurchase program of up to $70 million. During the three months ended March 31, 2023, the Company repurchased and retired 559,923 shares of common stock for $17.8 million, at an average cost of $31.73 per share, of which $1.6 million was for shares repurchased but not settled as of March 31, 2023. As of March 31, 2023, $22.6 million remained authorized for repurchases under the stock repurchase program.

## 9. Stock-Based Compensation Plans

**2013 Omnibus Equity Incentive Plan**

The Company's Board of Directors adopted the 2013 Omnibus Equity Incentive Plan (the "2013 Plan"), which became effective upon the Company's IPO. In February 2017, the Board of Directors amended and restated the 2013 Plan, which was approved by the Company's stockholders in May 2017. Grants are made from time to time by the compensation committee of the Company's Board of Directors at its discretion, subject to certain restrictions as to the number and value of shares that may be granted to any individual. In addition, non-employee directors receive annual grants under a director compensation policy. The compensation committee of the Company's Board of Directors has the option to grant dividend equivalents to unvested grants. Any dividend equivalents granted to unvested awards are paid to the participant at the time the related grants vest. As of March 31, 2023, there were 3,466,957 shares available for future grants under the 2013 Plan.

On February 9, 2023, the Board of Directors declared a semi-annual regular dividend of $0.25 per share payable on April 6, 2023, to stockholders of record at the close of business on March 14, 2023. The Compensation Committee granted dividend equivalents to all unvested grants as of the record date. As of March 31, 2023, $2.2 million remains to be paid upon vesting of stock awards, including $0.5 million related to the semi-annual regular dividend declared on February 9, 2023.

***Awards Granted and Settled***

Under the 2013 Plan, the Company has issued RSAs to non-employee directors and restricted stock units ("RSUs") to employees and independent contractors. RSAs vest over a one-year period from the date of grant, subject to service requirements. RSUs generally vest in equal annual installments over a five-year period from the date of grant or earlier as approved by the compensation committee of the Company's Board of Directors. Dividend equivalents granted for unvested stock awards are paid at the time the stock awards vest. Any unvested awards and dividend equivalents are canceled upon termination as a service provider. As of March 31, 2023, there were no issued or outstanding options, SARs, performance units or performance share awards under the 2013 Plan.

During the three months ended March 31, 2023, 293,873 shares of RSUs vested, with 113,434 shares of common stock withheld to pay applicable required employee statutory withholding taxes based on the market value of the shares on the vesting date. The shares withheld for taxes were returned to the share reserve and are available for future issuance in accordance with provisions of the 2013 Plan. Unvested RSUs will be settled through the issuance of new shares of common stock.

***Outstanding Awards***

Activity under the 2013 Plan consisted of the following (dollars in thousands, except weighted average per share data):

| | Shares | Weighted-Average Grant Date Fair Value Per Share |
|---|---|---|
| Nonvested shares at December 31, 2022[1] | 1,741,461 | $ 42.14 |
| Granted | 456,028 | 35.78 |
| Vested | (293,873) | 42.70 |
| Forfeited/canceled | (2,821) | 41.54 |
| Nonvested shares at March 31, 2023[1] | 1,900,795 | $ 40.53 |

(1) Nonvested RSUs will be settled through the issuance of new shares of common stock.

As of March 31, 2023, the Company had unrecognized stock-based compensation relating to RSUs and RSAs of approximately $71.4 million, which is expected to be recognized over a weighted-average period of 3.88 years.

**Employee Stock Purchase Plan**

In 2013, the Company adopted the 2013 Employee Stock Purchase Plan (“ESPP”). The ESPP is intended to qualify under Section 423 of the Internal Revenue Code and provides for consecutive, non-overlapping six-month offering periods. The offering periods generally start on the first trading day on or after May 15 and November 15 of each year. Qualifying employees may purchase shares of the Company stock at a 10% discount based on the lower of the market price at the beginning or end of the offering period, subject to IRS limitations. The Company determined that the ESPP was a compensatory plan and is required to expense the fair value of the awards over each six-month offering period.

The ESPP initially had 366,667 shares of common stock reserved, and 136,912 shares of common stock remain available for issuance as of March 31, 2023. The ESPP provides for annual increases in the number of shares available for issuance under the ESPP, equal to the lesser of (i) 366,667 shares, (ii) 1% of the outstanding shares on such date, or (iii) an amount determined by the compensation committee of the Board of Directors. Pursuant to the provisions of the ESPP, the Board of Directors has determined to not provide for any annual increases to date. As of March 31, 2023, total unrecognized compensation cost related to the ESPP was $27,000 and is expected to be recognized over a weighted average period of 0.12 years.

**SARs and DSUs**

Prior to the IPO, certain employees were granted SARs. As of March 31, 2013, the outstanding SARs were frozen at the liability amount, and will be paid out to each participant in installments upon retirement or departure under the terms of the revised SARs agreements. To replace beneficial ownership in the SARs, the difference between the book value liability and the fair value of the awards was granted to plan participants in the form of deferred stock units (“DSUs”), which were fully vested upon receipt and will be settled in actual stock at a rate of 20% per year if the participant remains employed by the Company during that period (otherwise all unsettled shares of stock upon termination from service will be settled five years from the termination date, unless otherwise agreed to by the Company). In the event of death or termination of service after reaching the age of 67, 100% of the DSUs will be settled. As of December 31, 2022, all DSUs were settled.

**Summary of Stock-Based Compensation**

Components of stock-based compensation are included in selling, general and administrative expense in the condensed consolidated statements of operations and consisted of the following (in thousands):

| | Three Months Ended March 31, 2023 | Three Months Ended March 31, 2022 |
|---|---|---|
| ESPP | $ 55 | $ 56 |
| RSUs and RSAs | 4,956 | 3,800 |
| | $ 5,011 | $ 3,856 |

## 10. Income Taxes

The Company’s effective tax rate for the three months ended March 31, 2023 and 2022 was49.1% and 26.4%, respectively. The Company provides for the effects of income taxes in interim financial statements based on the Company’s estimate of its annual effective tax rate for the full year, which is based on forecasted income by jurisdiction where the Company operates, adjusted for any tax effects of items that relate discretely to the period, if any.

The provision for income taxes differs from the amount computed by applying the U.S. federal statutory rate to income before provision for income taxes and consisted of the following (dollars in thousands):

| | Three Months Ended March 31, | | | |
|---|---|---|---|---|
| | 2023 | | 2022 | |
| | Amount | Rate | Amount | Rate |
| Income tax (benefit) expense at the federal statutory rate | $ (2,408) | 21.0 % | $ 9,353 | 21.0 % |
| State income tax (benefit) expense, net of federal benefit | (739) | 6.4 % | 2,033 | 4.6 % |
| (Windfall) shortfall tax benefits, net related to stock-based compensation | 654 | (5.7)% | (306) | (0.7)% |
| Change in valuation allowance | 227 | (2.0)% | (104) | (0.2)% |
| Permanent and other items [1] | (3,367) | 29.4 % | 781 | 1.7 % |
| | $ (5,633) | 49.1 % | $ 11,757 | 26.4 % |

(1) Permanent items relate principally to compensation charges, qualified transportation fringe benefits, meals and entertainment, and other items principally related to the effect of providing taxes in the interim financial statements based on the estimated full year effective tax rate.

## 11. (Loss) Earnings per Share

Basic and diluted (loss) earnings per share for the three months ended March 31, 2023 and 2022, respectively consisted of the following (in thousands, except per share data):

| | Three Months Ended March 31, 2023 | Three Months Ended March 31, 2022 |
|---|---|---|
| Numerator (Basic and Diluted): | | |
| Net (loss) income | $ (5,833) | $ 32,783 |
| Change in value for stock settled consideration | 18 | (63) |
| Adjusted net (loss) income | $ (5,815) | $ 32,720 |
| Denominator: | | |
| *Basic* | | |
| Weighted average common shares issued and outstanding | 39,211 | 39,721 |
| Deduct: Unvested RSAs [1] | (11) | (13) |
| Add: Fully vested DSUs [2] | — | 281 |
| Weighted average common shares outstanding | 39,200 | 39,989 |
| Basic (loss) earnings per common share | $ (0.15) | $ 0.82 |
| *Diluted* | | |
| Weighted average common shares outstanding from above | 39,200 | 39,989 |
| Add: Dilutive effect of RSUs, RSAs & ESPP [5] | — | 396 |
| Add: Contingently issuable shares [3][5] | — | 89 |
| Weighted average common shares outstanding | 39,200 | 40,474 |
| Diluted (loss) earnings per common share | $ (0.15) | $ 0.81 |
| Antidilutive shares excluded from diluted earnings per common share [4] | 1,608 | 778 |

(1) RSAs were issued and outstanding to the non-employee directors and have a one-year vesting term subject to service requirements. See Note 9 – "Stock-Based Compensation Plans" for additional information.
(2) Shares are included in weighted average common shares outstanding as the shares are fully vested but have not yet been delivered. See Note 9 – "Stock-Based Compensation Plans" for additional information.
(3) Relates to contingently issuable stock settled consideration.
(4) Primarily pertaining to RSU grants to the Company's employees and independent contractors.
(5) Shares related to the Company's RSUs, RSAs, ESPP, and contingently issuable shares were excluded from the weighted average common shares outstanding for the quarter ended March 31, 2023 because inclusion of such shares would be antidilutive in a period of loss.

## 12. Commitments and Contingencies

### Credit Agreement

On June 18, 2014, the Company entered into a credit agreement with Wells Fargo Bank, National Association (the "Credit Agreement"). On May 31, 2022, the Company executed an amended and restated Credit Agreement (the "First Amended and Restated Credit Agreement") to extend the maturity date of the Credit Agreement on substantially the same terms and conditions as the original credit facility. The First Amended and Restated Credit Agreement provided for a $60.0 million principal amount senior secured revolving credit facility that was guaranteed by all of the Company's domestic subsidiaries (the "Credit Facility"), which was scheduled to mature on August 1, 2022. On July 28, 2022, the Company entered into the Second Amended and Restated Credit Agreement, which provides for a three-year extension of its Credit Facility with Wells Fargo Bank, National Association on principally the same terms and conditions as the extension signed in May 2022. The new agreement matures on June 1, 2025.

The Company may borrow, repay and reborrow amounts under the Credit Facility until its maturity date, at which time all amounts outstanding under the Credit Facility must be repaid in full. Borrowings under the Credit Agreement are available for general corporate purposes and working capital. The Credit Facility includes a $10.0 million sublimit for the issuance of standby letters of credit of which $533,000 was utilized at March 31, 2023. Borrowings under the Credit Facility will bear interest at the Daily Simple SOFR rate plus a spread of between 1.00% to 1.25% depending on the Company's total funded debt to EBITDA as defined in the Credit Agreement. In connection with the amendments of the Credit Agreement, the Company paid bank fees and other expenses, which are being amortized over the remaining term of the Credit Agreement. The Company pays a commitment fee of up to 0.1% per annum, payable quarterly, based on the amount of unutilized commitments under the Credit Facility. The amortization and commitment fee is included in the interest expense in the accompanying condensed consolidated statements of operations and was $25,000 for both the three months ended March 31, 2023 and 2022. As of March 31, 2023, there were no amounts outstanding under the Credit Agreement.

The Credit Facility contains customary covenants, including financial and other covenant reporting requirements and events of default. Financial covenants require the Company, on a combined basis with its guarantors, to maintain (i) an EBITDAR Coverage Ratio (as defined in the Credit Agreement) of not less than 1.25:1.0 as of each quarter end, determined on a rolling four-quarter basis, and (ii) total funded debt to EBITDA not greater than 2.0:1.0 as of each quarter end, determined on a rolling four-quarter basis, and also limits investments in foreign entities and certain other loans. The Credit Facility is secured by substantially all assets of the Company, including pledges of 100% of the stock or other equity interest of each subsidiary except for the capital stock of a controlled foreign corporation (as defined in the Internal Revenue Code), in which case no such pledge is required. As of March 31, 2023, the Company was in compliance with all financial and non-financial covenants and has not experienced any limitation in its operations as a result of the covenants.

**Strategic Alliance**

The Company, in connection with the Strategic Alliance with MTRCC, has agreed to provide loan opportunities that may be funded through MTRCC's DUS agreement with Fannie Mae. MTRCC's agreement with Fannie Mae requires MTRCC to guarantee a portion of each funded loan. On a loan-by-loan basis, the Company, at its option, can indemnify a portion of MTRCC's guarantee obligation of loan opportunities presented to and closed by MTRCC. As of March 31, 2023, the Company has agreed to a maximum aggregate guarantee obligation of $89.2 million relating to loans with an unpaid balance of $535.0 million. The Company would be liable for its maximum aggregate guarantee obligation only if all of the loans for which it is providing a guarantee to MTRCC were to default and all of the collateral underlying these loans were determined to be without value at the time of settlement. As of March 31, 2023 and December 31, 2022, the Company has recorded an allowance for loss-sharing obligations of $496,000 and $275,000, respectively, and pledged $41,000 and $16,000, respectively, in a restricted bank account in support of the guarantee obligation.

**Other**

In connection with certain agreements with investment sales and financing professionals, the Company may agree to advance amounts to such professionals upon reaching certain time and performance goals. Such commitments as of March 31, 2023 aggregated $17.7 million.

**13. Subsequent Events**

Between March 31, 2023 and May 2, 2023, the Company repurchased an additional 401,462 shares of common stock for $12.7 million under the stock repurchase program pursuant to a Rule 10b5-1 trading plan.

On May 2, 2023, the Company's Board of Directors approved an additional $70 million to repurchase common stock under its stock repurchase program. After accounting for shares repurchased through April 28, 2023, and the increased authorization, the Company has approximately $80 million available to repurchase shares under its program. No time limit has been established for the completion of the program, and the repurchases are expected to be executed from time to time, subject to general business and market conditions and other investment opportunities, through open market purchases or privately negotiated transactions, including through Rule 10b5-1 plans.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

*Unless the context requires otherwise, the words "Marcus & Millichap," "MMI," "we," the "Company," "us" and "our" refer to Marcus & Millichap, Inc., and its consolidated subsidiaries.*

### Forward-Looking Statements

The following discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of many factors, including but not limited to further interest rate changes, rising inflation, and geopolitical unrest. The results of operations for the three months ended March 31, 2023 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2023, or for any other future period. The following discussion should be read in conjunction with the unaudited condensed consolidated financial statements and the notes thereto included in Item 1 of this Form 10-Q and in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2022 filed with the SEC on February 28, 2023, including the "Risk Factors" section and the consolidated financial statements and notes included therein.

### Overview

We are a leading national brokerage firm specializing in commercial real estate investment sales, financing, research and advisory services. We have been the top commercial real estate investment broker in the United States based on the number of investment transactions for more than 16 years. As of March 31, 2023, we had 1,864 investment sales and financing professionals that are primarily exclusive independent contractors operating in 80 offices, who provide real estate brokerage and financing services to sellers and buyers of commercial real estate assets. During the three months ended March 31, 2023, we closed 1,807 investment sales, financing and other transactions with total sales volume of approximately $10.4 billion, respectively. During the year ended December 31, 2022, we closed 12,272 investment sales, financing and other transactions with total sales volume of approximately $86.3 billion.

We generate revenue by collecting real estate brokerage commissions upon the sale, and fees upon the financing, of commercial properties, and by providing equity advisory services, loan sales, loan guarantees and consulting and advisory services. Real estate brokerage commissions are typically based upon the value of the property and financing fees are typically based upon the size of the loan. During the three months ended March 31, 2023, approximately 87% of our revenue was generated from real estate brokerage commissions, 10% from financing fees and 3% from other real estate related services.

We divide commercial real estate into four major market segments, characterized by price:

- Properties priced less than $1 million;
- Private client market: properties priced from $1 million to up to but less than $10 million;
- Middle market: properties priced from $10 million to up to but less than $20 million; and
- Larger transaction market: properties priced from $20 million and above.

We are the industry leader in serving private clients in the $1-$10 million private client market segment, which contributed approximately 67% and 56% of our real estate brokerage commissions during the three months ended March 31, 2023 and 2022, respectively. The following table sets forth the number of transactions, sales volume and revenue by commercial real estate market segment for real estate brokerage:

| Real Estate Brokerage | Three Months Ended March 31, 2023 | | | 2022 | | | Change | | |
|---|---|---|---|---|---|---|---|---|---|
| | Number | Volume (in millions) | Revenue (in thousands) | Number | Volume (in millions) | Revenue (in thousands) | Number | Volume (in millions) | Revenue (in thousands) |
| <$1 million | 183 | $ 116 | $ 5,038 | 206 | $ 128 | $ 5,787 | (23) | $ (12) | $ (749) |
| Private Client Market ($1 – <$10 million) | 970 | 3,254 | 90,503 | 1,606 | 5,696 | 161,031 | (636) | (2,442) | (70,528) |
| Middle Market ($10 – <$20 million) | 66 | 900 | 17,368 | 184 | 2,503 | 46,760 | (118) | (1,603) | (29,392) |
| Larger Transaction Market (≥$20 million) | 60 | 2,862 | 22,137 | 141 | 8,878 | 73,331 | (81) | (6,016) | (51,194) |
| | 1,279 | $ 7,132 | $ 135,046 | 2,137 | $ 17,205 | $ 286,909 | (858) | $ (10,073) | $ (151,863) |

**Factors Affecting Our Business**

Our business and our operating results, financial condition and liquidity are significantly affected by the number and size of commercial real estate investment sales and financing transactions that we close in any period. The number and size of these transactions are affected by our ability to recruit and retain investment sales and financing professionals, identify and contract properties for sale, and identify those that need financing and refinancing. We principally monitor the commercial real estate market through four factors, which generally drive our business. The factors are the economy, commercial real estate supply and demand, capital markets, and investor sentiment and investment activity.

***The Economy***

Our business is dependent on economic conditions within the markets in which we operate. Changes in the economy on a global, national, regional or local basis can have a positive or negative impact on our business. Economic indicators and projections related to job growth, unemployment, interest rates, retail spending and consumer confidence trends can have a positive or negative impact on our business. Overall market conditions, including global trade, interest rate changes, inflation, and job creation, can affect investor sentiment and, ultimately, the demand for our services from investors in real estate.

Economic uncertainty continues to weigh on the investor perspective. Although numerous key economic indicators, such as job creation, the unemployment rate and GDP growth, remain modestly positive, many investors still anticipate a recession. Inflationary pressure remains above the Federal Reserve target, but several key measurements have sustained their downward movement with the Producer Price Index (PPI), a key forward-looking inflation indicator, tightening to 2.7%. Following the Federal Reserve's 25 basis points increase in May, we believe the combination of easing inflation, tighter credit markets and more modest economic growth indicators has the potential to curtail further Federal Reserve rate increases.

Various economic indicators continue to send mixed signals about the near-term economic outlook. The two best-known indicators of an ensuing recession remain in contradiction. The treasury rate yield curve inverted early in the fourth quarter last year, and short-term treasury rates remain higher than longer-term rates, signaling a possible downturn. However, the 3.5% unemployment rate has moved little, remaining near its 54-year low as of March 2023, indicating continued labor market strength. Other measures are mixed as well. The manufacturing outlook index suggests a contraction, and a variety of confidence indicators are low. Meanwhile, job creation, inflation-adjusted personal consumption, inflation-adjusted disposable income and other metrics suggest growth. This inconsistency among indicators has confounded economist forecasts for 2023, resulting in a variety of contradictory outlooks. Within that context, many commercial real estate investors remain on the sidelines as they await clarity and a stabilization of interest rates.

***Commercial Real Estate Supply and Demand***

Our business is dependent on the willingness of investors to invest in or sell commercial real estate, which is affected by many factors beyond our control. These factors include the supply of commercial real estate, coupled with user demand for these properties, and the performance of real estate assets, when compared with other investment alternatives, such as stocks and bonds.

In the first quarter of 2023, national average office occupancy levels continued to decline as hybrid work and working from home eroded office space demand. Apartment and industrial occupancies remain above their long-run average, but each nudged 30 basis points lower, despite positive space demand due to record construction levels. Retail occupancy overall remained stable, but local neighborhood and community shopping center occupancy levels increased modestly. At present, retail occupancy levels are on par with pre-pandemic levels.

Overall, commercial and multifamily residential space demands have been trending below average as consumer and business sentiment remain constrained. Although numerous economic indicators remain positive, the combination of elevated inflation, heightened recession risk and the perception that the banking sector could face a crisis continue to weigh on confidence levels. Rent growth has been tempered by these same forces, in turn moderating the aggressiveness of investment buyer underwriting. This coupled with the substantial increase in interest rates is causing the bid-ask spread between buyers and sellers to widen. First quarter commercial real estate transaction activity was significantly reduced from the generally strong levels of last year, prior to the Federal Reserve's aggressive tightening cycle. Economic crosscurrents and continuing questions about the Federal Reserve's rate policies have created hurdles for investors. Looking forward, much will depend on the economic metrics that come in ahead of the June Federal Reserve meeting. The Federal Reserve has indicated that their next decision will be data dependent, and if they are satisfied with the trajectory of the inflation indicators, they could signal at least a temporary end to their rate increases, which could support increased stability in the commercial real estate transaction market.

***Capital Markets***

Credit and liquidity issues in the financial markets have a direct impact on the flow of capital to the commercial real estate market. Real estate purchases are often financed with debt, and as a result, credit and liquidity impact transaction activity and prices. Movements of interest rates in one direction, whether increasing or decreasing, could adversely or positively affect the operations and income potential of commercial real estate properties, as well as lender and equity underwriting for real estate investments. These changes directly influence investor demand for commercial real estate investments. Furthermore, the use of debt or loan-to-value ratios can shift along with lender confidence and underwriting standards. At times of heightened uncertainty or liquidity issues, loan-to-values decline, requiring buyers to provide more equity and take more risk to close deals.

The capital markets remain at the heart of the commercial real estate transaction slowdown. The combination of sharply higher interest rates with tighter lender underwriting and reduced loan-to-value standards have restrained market liquidity and forced investors to recalibrate their underwriting. This has exacerbated the buyer/seller expectation gap and restrained trading.

The Federal Reserve's aggressive series of rate hikes have sent shockwaves through the financial markets. The rapid rate increases disrupted bank balance sheets, inciting several high-profile bank failures and placing many others at risk. Within this context, commercial real estate lending has been tightened significantly. While the 10-year treasury rate has fallen to the mid-3 percent range, many lenders have installed lending rate floors that have resulted in widened lender spreads and higher interest rates for borrowers. Although debt capital remains available for most property types, the underwriting has become more stringent, the loan-to-value percentages have tightened and the lending rates have tended to be higher. This has forced investors to underwrite acquisitions with higher cap rates, in turn weighing on property values. As a result, fewer property owners are bringing their assets to market, instead choosing to hold the properties until more clarity emerges and the market stabilizes.

The Federal Reserve's rate decisions in May and June could significantly impact the market. Should the Federal Reserve signal at least a temporary end to their rate increases, lenders may begin to rein in their spreads, thereby reducing mortgage rates. Investors may begin to underwrite assets more aggressively, potentially narrowing the buyer/seller expectation gap. However, if the Federal Reserve continues to signal an intention to raise rates further, many lenders and investors may sustain their more conservative practices. In addition, concerns regarding commercial property loan performance and potential defaults have increased in recent weeks, particularly for office properties. Although overall systemic risk appears limited given healthy property fundamentals in most property types, this adds to a conservative stance among lenders in general. We believe record capital on the sidelines, eventual clarity on the factors outlined above and an end to the tightening cycle will result in a recovery in transaction volumes. The timing of such a recovery is difficult to predict.

***Investor Sentiment and Investment Activity***

We facilitate investors' buying, selling, and financing properties in order to generate commissions. Investors' desires and need to engage in real estate transactions are dependent on many factors that are beyond our control. The economy, supply and demand for properly positioned properties, available credit and market events impact investor sentiment and, therefore, transaction velocity. In addition, our private clients, who make up the largest source of revenue, are often motivated to buy, sell and/or refinance properties due to personal circumstances, such as death, divorce, partnership breakups and estate planning.

Commercial real estate sales activity remains constrained as tightened lender underwriting, elevated debt capital prices, elevated recession risk and broad-based market uncertainty have weighed on investor decisions. A significant volume of investment capital remains on the sidelines waiting for increased economic, financial market and commercial real estate pricing clarity. The Federal Reserve's interest rate decisions and messaging at their May and June meetings could play a pivotal role in the market outlook and whether investors choose to transact. Once investors re-engage in the market, it will likely take time to navigate the price discovery process and for sales activity to revive.

Office properties, particularly those in the urban core, face the greatest uncertainty and the greatest challenges in acquiring debt financing. Apartment financing, underpinned by Fannie Mae and Freddie Mac, has generally been the most attainable, with typically lower interest rates than other property types. However, the large apartment development pipeline and reduced housing demand are currently weighing on apartment sales. "Defensive" assets — such as single-tenant net lease properties backed by high-credit tenants — and medical office assets continue to receive buyer interest, but sales of these types of properties have also fallen as the flow of 1031 exchange capital coming from other property types has diminished. Ultimately, the market velocity will be dictated by a combination of the economic outlook, Federal Reserve action, interest rates and the narrowing of the buyer/seller expectation gap. If the Federal Reserve signals an end to their rate increases and the economy avoids a significant recession, we believe commercial real estate sales activity should move toward its historical norm in the latter part of 2023.

**Key Financial Measures and Indicators**

***Revenue***

Our revenue is primarily generated from our real estate investment sales business. In addition to real estate brokerage commissions, we generate revenue from financing fees and from other revenue, which are primarily comprised of consulting and advisory fees.

Because our business is transaction oriented, we rely on investment sales and financing professionals to continually develop leads, identify properties to sell and finance, market those properties and close the sale timely to generate a consistent flow of revenue. While our sales volume is impacted by seasonality factors, the timing of closings is also dependent on many market and personal factors unique to a particular client or transaction, particularly clients transacting in the $1-$10 million private client market segment. These factors can cause transactions to be accelerated or delayed beyond our control. Further, commission rates earned are generally inversely related to the value of the property sold. As a result of our expansion into the middle and larger transaction market segments, we have seen our overall commission rates fluctuate from period-to-period as a result of changes in the relative mix of the number and volume of investment sales transactions closed in the middle and larger transaction market segments as compared to the $1-$10 million private client market segment. These factors may result in period-to-period variations in our revenue that differ from historical patterns.

A small percentage of our transactions include retainer fees and/or breakage fees. Retainer fees are credited against a success-based fee paid upon the closing of a transaction or a breakage fee. Transactions that are terminated before completion will sometimes generate breakage fees, which are usually calculated as a set amount or a percentage of the fee we would have received had the transaction closed.

*Real Estate Brokerage Commissions*

We earn real estate brokerage commissions by acting as a broker for commercial real estate owners seeking to sell or investors seeking to buy properties. Revenue from real estate brokerage commissions is recognized at the close of escrow.

*Financing Fees*

We earn financing fees by securing financing on purchase transactions or by securing refinancing of our clients' existing mortgage debt. We recognize financing fee revenue at the time the loan closes, and we have no remaining significant obligations in connection with the transaction.

To a lesser extent, we also earn fees on loan performance, equity advisory services, loan sales, loan guarantees and ancillary services associated with financing activities. We recognize guarantee fees over the term of the guarantee and other fees when we have no further obligations, generally upon the closing of a transaction. During the three months ended March 31, 2022, we generated mortgage servicing fees through the provision of collection, remittance, recordkeeping, reporting and other related mortgage servicing functions, activities and services. We recognized mortgage servicing revenue upon the acquisition of a servicing obligation.

*Other Revenue*

Other revenue includes fees generated from consulting, advisory and other real estate services performed by our investment sales professionals, as well as referral fees from other real estate brokers. Revenue from these services is recognized as they are performed and completed.

***Operating Expenses***

Our operating expenses consist of cost of services, selling, general and administrative expenses and depreciation and amortization. The significant components of our expenses are further described below.

*Cost of Services*

The majority of our cost of services expense is variable commissions paid to our investment sales professionals and compensation-related costs related to our financing activities. Commission expenses are directly attributable to providing services to our clients for investment sales and financing services. Most of our investment sales and financing professionals are independent contractors and are paid commissions; however, because there are some who are initially paid a salary and certain of our financing professionals are employees, costs of services also include employee-related compensation, employer taxes and benefits for those employees. The commission rates we pay to our investment sales and financing professionals vary based on individual contracts negotiated and are generally higher for the more experienced professionals. Some of our most senior investment sales and financing professionals can also earn additional commissions after meeting certain annual financial thresholds. These additional commissions are recognized as cost of services in the period in which they are earned. Payment of a portion of these additional commissions are generally deferred for a period of one to three years, at our election, and paid at the beginning of the second, third or fourth calendar year. Cost of services also includes referral fees paid to other real estate brokers where we are the principal service provider. Cost of services, therefore, can vary based on the commission structure of the independent contractors that closed transactions in any particular period.

*Selling, General and Administrative Expenses*

The largest expense component within selling, general and administrative expenses is personnel expenses for our management team and sales and support staff. In addition, these costs include facilities costs (excluding depreciation and amortization), staff related expenses, sales, marketing, legal, telecommunication, network, data sources, transaction costs related to acquisitions, expensing of capital used to acquire and retain talent, changes in fair value for contingent and deferred consideration and other administrative expenses. Also included in selling, general and administrative are expenses for stock-based compensation to non-employee directors, employees and independent contractors (i.e. investment sales and financing professionals) under the Amended and Restated 2013 Omnibus Equity Incentive Plan ("2013 Plan") and the 2013 Employee Stock Purchase Plan ("ESPP").

*Depreciation and Amortization Expense*

Depreciation expense consists of depreciation recorded on our computer software and hardware and furniture, fixture and equipment. Depreciation is provided over estimated useful lives ranging from three to seven years for assets. Amortization expense consists of (i) amortization recorded for the 2022 period on our mortgage servicing rights ("MSRs") using the interest method over the period that servicing income is expected to be received and (ii) amortization recorded on intangible assets amortized on a straight-line basis using a useful life between one and seven years.

*Other Income, Net*

Other income, net primarily consists of interest income, net gains or losses on our deferred compensation plan assets, realized gains and losses on our marketable debt securities, available-for-sale, foreign currency gains and losses and other non-operating income and expenses.

*Interest Expense*

Interest expense primarily consists of interest expense associated with the stock appreciation rights ("SARs") liability, and our Credit Agreement.

*(Benefit) Provision for Income Taxes*

We are subject to U.S. and Canadian federal taxes and individual state and local taxes based on the income generated in the jurisdictions in which we operate. Our effective tax rate fluctuates as a result of the change in the mix of our activities in the jurisdictions in which we operate due to differing tax rates in those jurisdictions and the impact of permanent items, including compensation charges, qualified transportation fringe benefits, uncertain tax positions, meals and entertainment and tax-exempt deferred compensation plan assets. Our (benefit) provision for income taxes includes the windfall tax benefits and shortfall expenses, net, from shares issued in connection with our 2013 Plan and ESPP.

We record deferred taxes, net based on the tax rate expected to be in effect at the time those items are expected to be recognized for tax purposes.

**Results of Operations**

Following is a discussion of our results of operations for the three months ended March 31, 2023 and 2022. The tables included in the period comparisons below provide summaries of our results of operations. The period-to-period comparisons of financial results are not necessarily indicative of future results.

***Key Operating Metrics***

We regularly review a number of key metrics to evaluate our business, measure our performance, identify trends affecting our business, formulate financial projections and make strategic decisions. We also believe these metrics are relevant to investors' and others' assessment of our financial condition and results of operations. During the three months ended March 31, 2023 and 2022, we closed more than 1,800 and 2,900 investment sales, financing and other transactions, respectively, with total sales volume of approximately $10.4 billion and $21.0 billion, respectively. Such key metrics for real estate brokerage and financing activities (excluding other transactions) are as follows:

| *Real Estate Brokerage* | Three Months Ended March 31, 2023 | Three Months Ended March 31, 2022 |
|---|---|---|
| Average Number of Investment Sales Professionals | 1,782 | 1,856 |
| Average Number of Transactions per Investment Sales Professional | 0.72 | 1.15 |
| Average Commission per Transaction | $ 105,587 | $ 134,258 |
| Average Commission Rate | 1.89 % | 1.67 % |
| Average Transaction Size (in thousands) | $ 5,576 | $ 8,051 |
| Total Number of Transactions | 1,279 | 2,137 |
| Total Sales Volume (in millions) | $ 7,132 | $ 17,205 |

| *Financing* (1) | Three Months Ended March 31, 2023 | | Three Months Ended March 31, 2022 |
|---|---|---|---|
| Average Number of Financing Professionals | 92 | | 84 |
| Average Number of Transactions per Financing Professional | 3.03 | | 6.19 |
| Average Fee per Transaction | $ 46,548 | | $ 43,144 |
| Average Fee Rate | 0.75 | % | 0.84 |
| Average Transaction Size (in thousands) | $ 6,189 | | $ 5,115 |
| Total Number of Transactions | 279 | | 520 |
| Total Financing Volume (in millions) | $ 1,727 | | $ 2,660 |

(1) Operating metrics exclude certain financing fees not directly associated to transactions.

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***Comparison of Three Months Ended March 31, 2023 and 2022***

Below are key operating results for the three months ended March 31, 2023 compared to the three months ended March 31, 2022 (dollars in thousands):

| | Three Months Ended March 31, 2023 | Percentage of Revenue | Three Months Ended March 31, 2022 | Percentage of Revenue | Change | | |
|---|---|---|---|---|---|---|---|
| | | | | | Dollar | | Percentage |
| Revenue: | | | | | | | |
| Real estate brokerage commissions | $ 135,046 | 87.2 % | $ 286,909 | 89.8 % | $ (151,863) | -52.9 % | (52.9)% |
| Financing fees | 15,868 | 10.3 | 26,453 | 8.3 | (10,585) | -40.0 % | (40.0)% |
| Other revenue | 3,878 | 2.5 | 6,102 | 1.9 | (2,224) | -36.4 % | (36.4)% |
| Total revenue | 154,792 | 100 | 319,464 | 100 | (164,672) | -51.5 % | (51.5)% |
| Operating expenses: | | | | | | | |
| Cost of services | 95,427 | 61.6 | 196,768 | 61.6 | (101,341) | -51.5 % | (51.5)% |
| Selling, general and administrative | 72,219 | 46.7 | 74,535 | 23.3 | (2,316) | -3.1 % | (3.1)% |
| Depreciation and amortization | 3,207 | 2.1 | 3,911 | 1.2 | (704) | -18.0 % | (18.0)% |
| Total operating expenses | 170,853 | 110.4 | 275,214 | 86.1 | (104,361) | -37.9 % | (37.9)% |
| Operating (loss) income | (16,061) | (10.4) | 44,250 | 13.8 | (60,311) | 136.3 % | (136.3)% |
| Other income, net | 4,810 | 3.1 | 450 | 0.1 | 4,360 | 968.9 % | 968.9 % |
| Interest expense | (215) | (0.1) | (160) | 0.0 | (55) | 34.4 % | 34.4 % |
| (Loss) income before (benefit) provision for income taxes | (11,466) | (7.4) % | 44,540 | 13.9 | (56,006) | 125.7 % | (125.7)% |
| (Benefit) provision for income taxes | (5,633) | (3.6) % | 11,757 | 3.7 | (17,390) | 147.9 % | (147.9)% |
| Net (loss) income | $ (5,833) | (3.8) % | $ 32,783 | 10.3 % | $ (38,616) | 117.8 % | (117.8)% |
| Adjusted EBITDA (1) | $ (7,423) | (4.8) % | $ 51,852 | 16.2 % | $ (59,275) | 114.3 % | (114.3)% |

(1) Adjusted EBITDA is not a measurement of our financial performance under U.S. generally accepted accounting principles ("U.S. GAAP") and should not be considered as an alternative to net income, operating income or any other measures derived in accordance with U.S. GAAP. For a definition of Adjusted EBITDA and a reconciliation of Adjusted EBITDA to net income, see "Non-GAAP Financial Measure."

*Revenue*

Our total revenue was $154.8 million for the three months ended March 31, 2023 compared to $319.5 million for the same period in 2022, a decrease of $164.7 million, or 51.5%. Total revenue decreased as a result of decreases in real estate brokerage commissions, financing fees and other revenue, as described below. See "Factors Affecting Our Business" section for additional market information.

*Real estate brokerage commissions.* Revenue from real estate brokerage commissions decreased to $135.0 million for the three months ended March 31, 2023 from $286.9 million for the same period in 2022, a decrease of $151.9 million, or 52.9%. The sales volume decreased by 58.5% and the number of transactions decreased by 40.1%, which drove a decrease of revenue of 43.8% in the Private Client Market and a decrease of 67.1% in the combined Middle Market and Larger Transaction Market. The average commission rate increased by 22 basis points in the first quarter of 2023 compared to the same quarter in 2022, as a result of a shift in the proportion of transactions to the Private Client Market from the Middle Market and Larger Transaction Market as Private Client Market transactions typically earn higher commission rates.

*Financing fees.* Revenue from financing fees decreased to $15.9 million for the three months ended March 31, 2023 from $26.5 million for the same period in 2022, a decrease of $10.6 million, or 40.0%, resulting primarily from a 46.3% decrease in the number of financing transactions, partially offset by a 7.9% increase in the average fee per transaction. The average fee rate declined by 9 basis points due to an increase in the average transaction size of 21.0% as a result of an increase in the percentage of larger size financing transactions, which typically earn lower commission rates.

*Other revenue.* Other revenue decreased to $3.9 million for the three months ended March 31, 2023 from $6.1 million for the same period in 2022, a decrease of $2.2 million, or 36.4%. The decrease was primarily driven by decreases in consulting and advisory services during the three months ended March 31, 2023, compared to the same period in 2022.

*Total Operating Expenses*

Our total operating expenses were $170.9 million for the three months ended March 31, 2023 compared to $275.2 million for the same period in 2022, a decrease of $104.4 million, or 37.9%. Cost of services decreased by $101.3 million and selling, general, and administrative expenses decreased by $2.3 million, as described below. Cost of services are variable commissions paid to our investment sales professionals and compensation-related costs in connection with our financing activities.

*Cost of services.* Cost of services decreased to $95.4 million for the three months ended March 31, 2023 from $196.8 million for the same period in 2022, a decrease of $101.3 million, or 51.5%. The decrease was primarily due to decreased commission expenses driven by the related decreased revenue noted above. Cost of services as a percentage of total revenue remained constant at 61.6% for the same period in 2023 and 2022.

*Selling, general, and administrative expense.* Selling, general and administrative expense for the first quarter of 2023 decreased to $72.2 million, from $74.5 million compared to the same period in the prior year, a decrease of $2.3 million or 3.1%. The change was primarily due to a reduction in compensation related costs, specifically performance-based bonuses for the first quarter of 2023, partially offset by an increase in business development, marketing, other support and expensing of capital related to the long-term retention of our sales and financing professionals

*Depreciation and amortization expense.* Depreciation and amortization expense decreased by $0.7 million, or 18.0%, to $3.2 million in March 31, 2023 from $3.9 million in the same period in the prior year. The decrease was principally due to the additional amortization of mortgage servicing rights recorded during the first quarter of 2022 due to the cancellation notices received on certain servicing contracts.

*Other Income, Net*

Other income, net increased to $4.8 million for the three months ended March 31, 2023 from $0.4 million for the same period in 2022. The increase of $4.4 million was primarily driven by an increase of $3.7 million in income from investments and a favorable change of $1.0 million in the value of our deferred compensation plan assets that are held in a rabbi trust.

*Interest Expense*

Interest expense increased by an immaterial amount for the three months ended March 31, 2023 compared to the same period in 2022, and primarily relates to interest expense on the Company's SARs liability.

*(Benefit) provision for Income Taxes*

The benefit for income taxes was $5.6 million for the three months ended March 31, 2023, compared to a provision for income taxes of $11.8 million for the same period in 2022. The effective income tax rate for the three months ended March 31, 2023, was 49.1% compared to 26.4% for the same period in 2022. The effective income tax rate increased primarily due to proportionally larger permanent nondeductible items in relation to decreased projected pre-tax income.

**Non-GAAP Financial Measure**

In this quarterly report on Form 10-Q, we include a non-GAAP financial measure, adjusted earnings before interest income/expense, taxes, depreciation and amortization, stock-based compensation and other non-cash items, or Adjusted EBITDA. We define Adjusted EBITDA as net (loss) income before (i) interest income and other, including net realized gains (losses) on marketable debt securities, available-for-sale and cash, cash equivalents, and restricted cash, (ii) interest expense, (iii) (benefit) provision for income taxes, (iv) depreciation and amortization, and (v) stock-based compensation. We use Adjusted EBITDA in our business operations to evaluate the performance of our business, develop budgets and measure our performance against those budgets, among other things. We also believe that analysts and investors use Adjusted EBITDA as a supplemental measure to evaluate our overall operating performance. However, Adjusted EBITDA has material limitations as a supplemental metric and should not be considered in isolation, or as a substitute for analysis of our results as reported under U.S. GAAP. We find Adjusted EBITDA to be a useful management metric to assist in evaluating performance, because Adjusted EBITDA eliminates items related to capital structure, taxes and non-cash items. In light of the foregoing limitations, we do not rely solely on Adjusted EBITDA as a performance measure and also consider our U.S. GAAP results. Adjusted EBITDA is not a measurement of our financial performance under U.S. GAAP and should not be considered as an alternative to net income, operating income or any other measures calculated in accordance with U.S. GAAP. Because Adjusted EBITDA is not calculated in the same manner by all companies, it may not be comparable to other similarly titled measures used by other companies. A reconciliation of the most directly comparable U.S. GAAP financial measure, net income, to Adjusted EBITDA is as follows (in thousands):

| | Three Months Ended March 31, | |
|---|---|---|
| | 2023 | 2022 |
| Net (loss) income | $ (5,833) | $ 32,783 |
| Adjustments: | | |
| Interest income and other [1] | (4,390) | (615) |
| Interest expense | 215 | 160 |
| (Benefit) provision for income taxes | (5,633) | 11,757 |
| Depreciation and amortization | 3,207 | 3,911 |
| Stock-based compensation | 5,011 | 3,856 |
| Adjusted EBITDA | $ (7,423) | $ 51,852 |

(1) Other includes net realized gains (losses) on marketable debt securities available-for-sale.

**Liquidity and Capital Resources**

Our primary sources of liquidity are cash, cash equivalents, and restricted cash, cash flows from operations, marketable debt securities, available-for-sale and, if necessary, borrowings under our Credit Agreement. In order to enhance yield to us, we have invested a portion of our cash in money market funds and fixed and variable income debt securities, in accordance with our investment policy approved by the Board of Directors. Certain of our investments in money market funds may not maintain a stable net asset value and may impose fees on redemptions and/or gating fees. To date, the Company has not experienced any restrictions or gating fees on its ability to redeem funds from money market funds. Although we have historically funded our operations through operating cash flows, there can be no assurance that we can continue to meet our cash requirements entirely through our operations, cash, cash equivalents, and restricted cash, proceeds from the sale of marketable debt securities, available-for-sale or availability under our Credit Agreement.

***Cash Flows***

Our total cash, cash equivalents, and restricted cash balance decreased by $7.8 million to $228.0 million at March 31, 2023, compared to $235.9 million at December 31, 2022. The following table sets forth our summary cash flows for the three months ended March 31, 2023 and 2022 (in thousands):

| | Three Months Ended March 31, | |
|---|---|---|
| | 2023 | 2022 |
| Net cash flows used in operating activities | $ (101,207) | $ (67,535) |
| Net cash flows provided by investing activities | 117,356 | 6,983 |
| Net cash flows used in financing activities | (24,015) | (5,943) |
| Effect of currency exchange rate changes on cash, cash equivalents, and restricted cash | 19 | 50 |
| Net decrease in cash, cash equivalents, and restricted cash | (7,847) | (66,445) |
| Cash, cash equivalents, and restricted cash at beginning of period | 235,873 | 382,140 |
| Cash, cash equivalents, and restricted cash at end of period | $ 228,026 | $ 315,695 |

*Operating Activities*

Cash flows used in operating activities were $101.2 million for the three months ended March 31, 2023 compared to $67.5 million for the same period in 2022. The $33.7 million increase in cash flows used in operating activities for the three months ended March 31, 2023 compared to the same period in 2022 was primarily due to decreased operating income as discussed above. The cash flows from operating activities are also affected by the timing of certain cash receipts and payments.

*Investing Activities*

Cash flows provided by investing activities were $117.4 million for the three months ended March 31, 2023 compared to $7.0 million for the same period in 2022. The $110.4 million increase in cash provided by investing activities for the three months ended March 31, 2023 compared to the same period in 2022 was primarily due to a net increase of $98.8 million in net proceeds from sales and maturities of securities in 2023 compared to the same period in 2022, as well as the 2022 acquisition of a business for $12.5 million, with no corresponding outflow in the current period.

*Financing Activities*

Cash flows used in financing activities were $24.0 million for the three months ended March 31, 2023 compared to $5.9 million for the same period in 2022. The $18.1 million additional cash flow used in financing activities for the three months ended March 31, 2023 compared to the same period in 2022 was primarily due to $16.7 million in stock repurchases in 2023, which did not occur in the 2022 period.

*Liquidity*

We believe that our existing balances of cash, cash equivalents, and restricted cash, cash flows expected to be generated from our operations, proceeds from the sale of marketable debt securities, available-for-sale and borrowings available under the Credit Agreement (defined below) will be sufficient to satisfy our operating requirements for at least the next 12 months. If we need to raise additional capital through public or private debt or equity financings, strategic relationships or other arrangements, this capital might not be available to us in a timely manner, on acceptable terms, or at all. Our failure to raise sufficient capital when needed could prevent us from funding acquisitions or otherwise financing our growth or operations. As of March 31, 2023, cash, cash equivalents, and restricted cash and marketable debt securities, available-for-sale, aggregated $431.0 million, and we had $59.5 million of borrowing capacity under our Credit Agreement.

***Credit Agreement***

We have a Credit Agreement with Wells Fargo Bank, National Association for a $60.0 million principal amount senior secured revolving credit facility that is guaranteed by all of our domestic subsidiaries and matures on June 1, 2025 (the “Credit Agreement”). The Company is monitoring covenant compliance on a regular basis to ensure continued compliance with the Credit Agreement. See Note 12 – “Commitments and Contingencies” of our Notes to Condensed Consolidated Financial Statements for additional information on the Credit Agreement.

**Off Balance Sheet Arrangements**

The Company, in connection with the Strategic Alliance with M&T Realty Capital Corporation (“MTRCC”), has agreed to provide loan opportunities that may be funded through MTRCC’s agreement with Fannie Mae which requires MTRCC to guarantee a portion of each funded loan. On a loan-by-loan basis, the Company, at its option, can assume a portion of MTRCC’s guarantee obligation to Fannie Mae of loan opportunities presented to and closed by MTRCC. As of March 31, 2023, the Company has agreed to a maximum aggregate guarantee obligation of $89.2 million relating to loans with an unpaid balance of $535.0 million. The maximum guarantee obligation is not representative of the actual loss we would incur. The Company would be liable for this amount only if all of the loans for which it is providing a guarantee to MTRCC were to default and all of the collateral underlying these loans was determined to be without value at the time of settlement. The Company records a loan-loss obligation and is required to provide cash collateral to MTRCC for this obligation.

### Material Cash Requirements

There have been no material changes in our commitments under contractual obligations, as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2022 through the date the condensed consolidated financial statements were issued, other than for the payment on April 6, 2023 of a semi-annual regular dividend of $0.25 per share on outstanding common stock declared by our Board of Directors in the first quarter of 2023 on February 9, 2023, aggregating $10.3 million.

### Inflation

Our commissions and other variable costs related to revenue are primarily affected by real estate market supply and demand, which may be affected by uncertain or changing economic and market conditions, including inflation/deflation arising in connection with and in response to various macroeconomic factors and impact of rising interest rates on the broader economy.

The annual inflation rate in the U.S. increased to 9.1% in June 2022, the highest annual inflation rate since November 1981, but has since decreased to 5.0% in March 2023. In response to the elevated inflation levels, the Federal Reserve has increased the federal funds rate by 500 basis points through May 3, 2023. In the wake of several bank failures and continued concerns in the banking system, the Federal Reserve has sustained their tapered rate increases, fueling speculation that they may soon pause their upward pressure on the overnight rate. As a byproduct of the rapid increases in interest rates since March 2022, lenders have tightened their underwriting standards and raised rates substantively, adversely impacting commercial real estate transactions. Although inflation is still elevated and well above the Federal Reserve’s target rate, it appears to be on a downward trend. Services and wage inflation, however have yet to deliver a measurable downturn. Both of these types of inflation affect commercial real estate operators, increasing their operating costs. Sustained elevated interest rates and inflation would be expected to have a negative impact on client demand for commercial real estate.

### Critical Accounting Policies; Use of Estimates

We prepare our financial statements in accordance with U.S. GAAP. In applying many of these accounting principles, we make assumptions, estimates and/or judgments that affect the reported amounts of assets, liabilities, revenues and expenses in our condensed consolidated financial statements. We base our estimates and judgments on historical experience and other assumptions that we believe are reasonable under the circumstances. These assumptions, estimates and/or judgments, however, are often subjective and our actual results may change based on changing circumstances or changes in our analyses. If actual amounts are ultimately different from our estimates, the revisions are included in our results of operations for the period in which the actual amounts become known. There were no significant changes in our critical accounting policies, as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2022.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

We maintain a portfolio of investments in a variety of fixed and variable debt rate securities, including U.S. Treasuries, U.S. government sponsored entities, corporate debt, asset-backed securities and others. As of March 31, 2023, the fair value of investments in marketable debt securities, available-for-sale was $203.0 million. The primary objective of our investment activity is to maintain the safety of principal and to provide for future liquidity requirements while maximizing yields without significantly increasing risk. While some investments may be securities of companies in foreign countries, all investments are denominated and payable in U.S. Dollars. We do not enter into investments for trading or speculative purposes. While our intent is not to sell these investment securities prior to their stated maturities, we may choose to sell any of the securities for strategic reasons including, but not limited to, anticipated capital requirements, anticipation of credit deterioration, duration management and because a security no longer meets the criteria of our investment policy. We do not use derivatives or similar instruments to manage our interest rate risk. We seek to invest in high quality investments. The weighted average rating (exclusive of cash, cash equivalents, and restricted cash) was AA as of March 31, 2023. Maturities are maintained consistent with our short-, medium- and long-term liquidity objectives.

Currently, our portfolio of investments predominantly consists of fixed interest rate debt securities; however, a portion of our investment portfolio may consist of variable interest rate debt securities. Our investments in fixed interest rate debt securities are subject to various market risks. Changes in prevailing interest rates may adversely or positively impact their fair market value should interest rates generally rise or fall. Accordingly, we also may have interest rate risk with variable interest rate debt securities as the income produced may decrease if interest rates fall. Contraction in market liquidity may adversely affect the value of portions of our portfolio and affect our ability to sell securities in the time frames required and at acceptable prices. Uncertainty in future market conditions may raise market participant's expectations of returns, thus impacting the value of securities in our portfolio as well. The following table sets forth the impact on the fair value of our investments as of March 31, 2023 from changes in interest rates based on the weighted average duration of the debt securities in our portfolio (in thousands):

| Change in Interest Rates | Approximate Change in Fair Value of Investments Increase (Decrease) |
|---|---|
| 2% Decrease …................. | $ 4,695 |
| 1% Decrease …................. | $ 2,347 |
| 1% Increase …................. | $ (2,346) |
| 2% Increase …................. | $ (4,692) |

Due to the nature of our business and the manner in which we conduct our operations, we believe we do not face any material interest rate risk with respect to other assets and liabilities, equity price risk or other market risks. The functional currency of our Canadian operations is the Canadian dollar. We are exposed to foreign currency exchange rate risk for the settlement of transactions of the Canadian operations as well as unrealized translation adjustments. Historically foreign exchange rate risk has not been material.

## Item 4. Controls and Procedures

### Evaluation of Disclosure Controls and Procedures

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f), including maintenance of (i) records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets, and (ii) policies and procedures that provide reasonable assurance that (a) transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, (b) our receipts and expenditures are being made only in accordance with authorizations of management and our Board of Directors, and (c) we will prevent or timely detect unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements.

Our management, with the supervision and participation of our chief executive officer ("CEO") and chief financial officer ("CFO"), has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a- 15(e) and 15d- 15(e) under the Exchange Act), as of the end of the period covered by this Form 10-Q, based on the criteria established under the Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Based on such evaluation, our management has concluded that as of March 31, 2023, our disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the SEC, and that such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

### Changes in Internal Control over Financial Reporting

There have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended March 31, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. We have not experienced any significant impact to our internal controls over financial reporting despite the fact that a number of our employees and independent contractors are still working remotely. The design of our processes and controls allow for remote execution with accessibility to secure data. Given the current environment, we are continually monitoring and assessing the design and operating effectiveness on our internal controls.

# PART II. OTHER INFORMATION

## Item 1. Legal Proceedings

We are involved in claims and legal actions arising in the ordinary course of our business, some of which involve claims for damages that are substantial in amount. Most of these litigation matters are covered by our insurance policies, which contain deductibles, exclusions, claim limits and aggregate policy limits. Such litigation and other proceedings may include, but are not limited to, actions relating to commercial relationships, standard brokerage disputes like the alleged failure to disclose physical or environmental defects or property expenses or contracts, the alleged inadequate disclosure of matters relating to the transaction like the relationships among the parties to the transaction, potential claims or losses pertaining to the asset, vicarious liability based upon conduct of individuals or entities outside of our control, general fraud claims, conflicts of interest claims, employment law claims, including claims challenging the classification of our sales professionals as independent contractors, claims alleging violations of state consumer fraud statutes and intellectual property. While the ultimate liability for these legal proceedings cannot be determined, we review the need for an accrual for loss contingencies quarterly and record an accrual for litigation related losses where the likelihood of loss is both probable and estimable. We do not believe, based on information currently available to us, that the final outcome of these proceedings will have a material adverse effect on our consolidated financial position, results of operations or cash flows.

## Item 1A. Risk Factors

There have been no material changes from the risk factors described in our Annual Report on Form 10-K for the year ended December 31, 2022.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

**Purchases of Equity Securities by the Issuer**

On August 2, 2022, our Board of Directors authorized a common stock repurchase program of up to $70 million. As of March 31, 2023, $22.6 million of common stock remains eligible for repurchase under the program.

Share repurchase activity during the three months ended March 31, 2023 was as follows:

| Periods | Total Number of Shares Purchased(1) | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs(2) |
|---|---|---|---|---|
| January 1, 2023 - January 31, 2023 | — | $ — | — | $ 40,381,973 |
| February 1, 2023 - February 28, 2023 | 41,650 | $ 34.31 | 41,650 | $ 38,952,810 |
| March 1, 2023 - March 31, 2023 | 518,273 | $ 31.53 | 518,273 | $ 22,614,153 |
| Total | 559,923 | | 559,923 | $ 22,614,153 |

(1) Excludes shares withheld for employee taxes upon vesting of stock-based awards. Stock repurchases under our program may be made through open market and privately negotiated transactions at times and in such amounts as management deems appropriate. The timing and actual number of shares repurchased will depend on a variety of factors including price, corporate and regulatory requirements, capital availability and other market conditions. The stock repurchase program does not have an expiration date and may be limited or terminated at any time without prior notice.

(2) On May 2, 2023, the Company's Board of Directors approved an additional $70 million to repurchase common stock under its stock repurchase program, resulting in approximately $80 million available to repurchase shares under its program, after considering shares repurchased subsequent to March 31, 2023.

## Item 3. Defaults Upon Senior Securities

None.

## Item 4. Mine Safety Disclosures

Not Applicable.

**Item 5. Other Information**

Not Applicable.

**Item 6. Exhibits**

| Exhibit No. | Description |
|---|---|
| 31.1* | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2* | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1** | Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(b) under the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101* | The following financial statements from the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2023, formatted in Inline XBRL: (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Operations, (iii) Condensed Consolidated Statements of Comprehensive Income, (iv) Condensed Consolidated Statements of Stockholders' Equity, (v) Condensed Consolidated Statements of Cash Flows, and (vi) Notes to Condensed Consolidated Financial Statements, tagged as blocks of text and including detailed tags. |
| 104* | Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101) |

* Filed herewith.
** Furnished, not filed.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**Marcus & Millichap, Inc**.

| | | | |
|---|---|---|---|
| Date: | May 5, 2023 | By: | /s/ Hessam Nadji |
| | | | Hessam Nadji<br>President and Chief Executive Officer<br>(Principal Executive Officer) |
| Date: | May 5, 2023 | By: | /s/ Steven F. DeGennaro |
| | | | Steven F. DeGennaro<br>Chief Financial Officer<br>(Principal Financial Officer) |

**Exhibit 31.1**

**Certification of Chief Executive Officer of Marcus & Millichap, Inc. pursuant to**
**Rule 13a-14(a) under the Exchange Act,**
**as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Hessam Nadji, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Marcus & Millichap, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 5, 2023

/s/ Hessam Nadji

Hessam Nadji
President and Chief Executive Officer

**Exhibit 31.2**

**Certification of Chief Financial Officer of Marcus & Millichap, Inc. pursuant to Rule 13a-14(a) under the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Steven F. DeGennaro, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Marcus & Millichap, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 5, 2023

/s/ Steven F. DeGennaro

Steven F. DeGennaro
Chief Financial Officer

**Exhibit 32.1**

**Certifications of Chief Executive Officer and Chief Financial Officer of Marcus & Millichap, Inc. Pursuant to Rule 13a-14(b) under the Exchange Act and 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the quarterly report of Marcus & Millichap, Inc. on Form 10-Q for the period ended March 31, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Hessam Nadji, President and Chief Executive Officer of the Company, and Steven F. DeGennaro, Chief Financial Officer of the Company, certify, to the best of our knowledge, pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

| | | |
|---|---|---|
| Date: | May 5, 2023 | /s/ Hessam Nadji |
| | | Hessam Nadji<br>President and Chief Executive Officer<br>(Principal Executive Officer) |
| Date: | May 5, 2023 | /s/ Steven F. DeGennaro |
| | | Steven F. DeGennaro<br>Chief Financial Officer<br>(Principal Financial Officer) |