IWG International Workplace Group

FIRST QUARTER TRADING STATEMENT – 2 May 2017

IWG plc, the global leader in the fast-growing Workspace-as-a-Service (WaaS) sector, today issues its trading statement for the period ended 31 March 2017.

Group performance

In the three months ended 31 March 2017, Group revenues increased 9.1% to £580.7m from £532.5m in the corresponding period last year. At constant exchange rates this represented a 1.5% decrease.

As anticipated, a mature revenue decline of 2.5% and closures impact of 2.9% were offset by additions to the portfolio in 2016 and 2017 of 3.9% as well as the benefits the Group received from the tailwind of prevailing exchange rates of 10.6%.

Overall trading remains in line with management's expectations.

Mature performance

Our Mature business, which now includes the 537 openings in 2015, totals 2,626 locations, representing approximately 90% of our global portfolio.

Revenues for the three months ended 31 March 2017 from our Mature business (centres opened on or before 31 December 2015), decreased 2.5% at constant currency to £556.0m (up 8.0% at actual exchange rates). An improvement, as expected, on the revenue decline of 6.1% in Q4 2016, reflecting the improvement in sales activity and the addition of the 2015 openings which are still maturing financially.

Year-on-year mature occupancy for the three months ended 31 March 2017 increased 0.6 percentage points on a like-for-like basis to 74.9%, reflecting the strong improvement in the occupancy of the 2015 additions as expected.

Improving sales activity trends

The trends of improving sales activity we reported at the end of 2016 have broadened across a number of key markets. In addition to the early pick-up in the US and key major European markets at the start of this year, we are now seeing improving activity in the UK and several markets in Asia Pacific. This reinforces our view that we anticipate an improvement in performance throughout the course of the year.

Strong returns on investment

The Group's focus remains on building long-term shareholder value through delivering attractive returns from our existing business and continuing with the disciplined investment in new locations. Returns on a 12-month rolling basis, for those locations open on or before 31 December 2013 have shown some further modest improvement to 21.9%. This improvement has been driven by continued operational leverage.

Cash generation

Underlying cash generation[1] for the three months to 31 March 2017 was £33.2m, a reduction of £23.2m on the corresponding period in the prior year. This reflects timing factors around the quarter end date on working capital this year and, as previously reported, the specific programmes undertaken last year to unlock working capital, which resulted in Q1 2016 in an additional inflow of approximately £20.0m.

The Group had net debt at 31 March 2017 of £173.5m, an increase on the 31 December 2016 position of £151.3m. This reflects the outflow in working capital, in what is a seasonally weaker quarter, as well as the increased net investment in growth (including some selective property purchases compared to a property disposal in the comparable period last year) and the increase in the repurchase of shares to be held in treasury.

Network development

During the first quarter, we added 51 new locations to our global network, with a focus on EMEA and the Americas. Net growth capital investment[2] in the first quarter was £51.1m. This investment included £9.4m spent on acquiring properties in which we will establish centres. These 51 new locations represent approximately 0.8m sq ft of additional space, taking the total network at 31 March 2017 to over 48m sq ft. These new locations, of which 11 were Spaces, were predominately organic openings and over 40% were partnering deals with property-owners.

We have continued, where appropriate, to take the opportunity to refresh some of our existing estate, which has led to small number of further closures. In addition to this, several locations were removed from our network following the cessation of a management agreement, the impact of which will be negligible on future financial performance. Overall, this resulted in a net reduction of 18 locations to 2,908 as at 31 March 2017 (31 December 2016: 2,926 locations). Total co-working / workstations (including non-consolidated) however increased to 481,599, (476,123 as at 31 December 2016)[3]. This increase reflects the 2017 location additions and actions to improve space optimisation, which together mitigated the effect of the closures during Q1 2017

As at 28 April 2017 we had visibility on net growth capital expenditure for 2017 of approximately £130m (including the recent property purchases), 250 locations and 4.0m sq ft of additional space. Our pipeline of locations in our Spaces co-working format remains strong. These locations represent over 15% of the total number of locations in the pipeline but with each Spaces' location being larger than a traditional Regus location, they account for approximately 40% of the net growth investment.

With the continued success we are experiencing in partnering with property-owners, over half of the locations in the pipeline represent these more capital efficient ways of expanding the network.

Summary

We are encouraged by the improving trends in sales activity, which supports our expectation that performance will gradually improve throughout the course of the year.

Our approach to growth investment continues to be disciplined and flexible. After being even more selective during 2016, we see an opportunity to increase the number of new locations this year, particularly within our Spaces co-working format, which is addressing an underserved segment of the WaaS market. Our approach to risk management remains rigorous and we are encouraged by the increase in more capital efficient growth we now see in the pipeline for 2017.

Looking forward to the remainder of 2017, we remain confident of delivering a full year performance in line with management's expectations.

[1] Underlying cash generation is cash generated before the investment in growth capital expenditure, dividend payments and the purchase of shares

[2]Net capital expenditure in new locations equals gross capital expenditure less any contributions received towards fit-out costs

Capital Expenditure (£m)	**Q1 2017 New Locations**	**Q1 2017 Maintenance**	**Q1 2017 Total**
Gross Capital Expenditure	67.5	19.5	87.0
Net Capital Expenditure	51.1	12.3	63.4

[3]Consolidated co-working seats / workstations as at 31 March 2017 were 463,288 (31 December 2016: 451,176)

Conference call details

IWG plc will be hosting a call for analysts and investors at 08.30 BST this morning. Details are set out below:

Dial in number: +44 (0) 20 7192 8000
Conference ID: 11811068

There will also be a replay facility available for 7 days after the call (until 9 May, 11.30am):

Dial in number: +44 (0) 1452 550 000
Playback ID: 11811068

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This trading update contains certain forward looking statements with respect to the operations of IWG plc. These statements and forecasts involve risk and uncertainty because they relate to events and depend upon circumstances that may or may not occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements and forecasts. Nothing in this announcement should be construed as a profit forecast.