IWG International Workplace Group

THIRD QUARTER TRADING STATEMENT – 2 November 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 30 September 2017.

Group performance

As previously announced on 19 October 2017, the anticipated sales improvement in the third quarter from the increase in sales activity was weaker than expected and resulted in a pause in the recovery of the Mature business. In the UK, our important London business weakened but outside of London we experienced growth in mature revenues. Our performance outside the UK showed progress but lower than originally anticipated, with some impact from recent natural disasters. Accordingly, the Board revised its expectations for Group operating profit for 2017 to a range of £160m to £170m.

In the three months ended 30 September 2017, revenue growth across all our open centres (excluding closed centres) increased 4.4% at constant currency. For the total Group (including closed centres), revenue increased to £585.7m compared with £566.9m in the corresponding period last year, an increase of 2.5% at constant currency rates (up 3.3% at actual rates). This represents a sequential improvement over the previous two quarters. This was led by EMEA with high single digit growth, the Americas with mid-single digit growth, low single digit growth in Asia Pacific and with a low single digit decline in the UK overall.

For the nine months ended 30 September 2017, Group revenue increased to £1,755.5m compared with £1,644.5m for the same period last year, an improvement of 0.5% at constant currency rates (up 6.7% at actual rates). A mature revenue decline of 1.9% and closures impact of 2.4% were offset by additions to the portfolio in 2016 and 2017 of 4.8% and a benefit from prevailing exchange rates of 6.2%.

Mature performance

Our Mature business revenue declined 1.8% at constant currency to £538.8m (down 1.0% at actual exchanges rates) for the three months ended 30 September 2017. Consequently, the decline in mature revenues for the nine months to 30 September 2017 has remained similar to the first half with a decline of 1.9% at constant currency to £1,640.0m (up 4.2% at actual exchange rates). Whilst this was disappointing, the very strong uplift in sales activity for October would suggest that this is in part potentially a timing issue.

Year-on-year mature occupancy for the same period improved 0.3 percentage points on a like-for-like basis to 74.9%, reflecting the strong improvement in the occupancy of the 2015 additions as expected.

Strong returns on investment

The Group's key 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 last 12-month rolling basis for those locations open on or before 31 December 2013 have remained well above the Group's weighted average cost of capital, at 19.9%. The 2014, 2015 and 2016 year group expansions have all shown improvement on the returns reported with the interim results. This also reflects the positive impact of increased sales activity on our newer locations which are developing strongly.

Cash generation

Underlying cash generation[1] for the nine months to 30 September 2017 was £129.6m. The cash generation in the prior year of £208.9m benefited from the specific programmes undertaken last year to unlock working capital, which resulted in an additional inflow of

approximately £50m. This year net maintenance capital expenditure has increased from £29.3m to £44.2m as, where appropriate, we have continued to take the opportunity to refresh some of our existing locations.

The Group had net debt at 30 September 2017 of £316.1m, a small increase on the 30 June 2017 position of £306.5m. This is after increased investment in growth and further share repurchases through the third quarter.

Network development

During the third quarter, we added 47 new locations to our global network. Net growth capital investment[2] in the third quarter was £44.4m. In the nine months ended 30 September 2017 the Group has added 196 new locations primarily through the roll out of our successful Regus brand and the addition of 31 new Spaces locations. Net growth capital expenditure was £224.1m, including approximately £110m on property, as previously reported. These 196 new locations represent approximately 3.6m sq. ft. of additional space, taking the Group's total network at 30 September 2017 to over 50.5m sq. ft. Of the total organic openings, over 50% were partnering deals with property-owners.

Overall, there has been a net increase of 109 locations to 3,035 as at 30 September 2017 (31 December 2016: 2,926 locations). Total co-working / workstations (including non-consolidated) increased to 511,398, (501,254 as at 30 June 2017)[3].

We continue to anticipate opening approximately 310 new locations in 2017 and net growth capital investment of approximately £250m (including the investment in property). These locations add approximately 5.8m sq. ft. of additional space. Our pipeline of locations in our Spaces co-working format is strong with approximately 50 anticipated to be opened this year which represent approximately one-third of the additional space as these are generally larger locations. In addition, we now expect to incur incremental net growth capital expenditure in 2017 of approximately £30m related to a strong pipeline of new openings scheduled for early 2018.

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

Summary

The Board remain very positive about the opportunity for the WaaS market and our leading position within it. The Board therefore intends to continue to invest further in growing our national networks, especially in relation to leveraging our network to benefit corporate account customers, where we have won further new contracts. We are also investing in our development capabilities to establish a strong pipeline of growth in future years. In the short-term, however, as previously reported, this will lead to additional overhead costs and new centre losses due to the timing of openings.

Our approach to growth investment continues to be disciplined and flexible. We are pleased to see good growth in the number of new locations this year, particularly within our Spaces co-working format, which is addressing an exciting 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 the balance of 2017 and beyond.

[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

Growth Capital Expenditure (£m)	H1 2017	Q3 2017	YTD 2017	H1 2016	Q3 2016	YTD 2016
	Growth*	Growth	Growth*	Growth	Growth	Growth
Gross Growth Capital Expenditure	210.3	59.8	270.1	106.8	61.0	167.8
Net Growth Capital Expenditure	179.7	44.4	224.1	83.1	43.1	126.2

* Including approximately £110m on property

[3]Consolidated co-working seats / workstations as at 30 September 2017 were 491,310 (30 June 2017: 481,773)

Conference call details

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

Dial-in number: **+44 (0) 20 7192 8016**
Access PIN: **5259939**

There will also be a replay facility available for 7 days after the call until 9 November 2017, 11.30am:

Dial-in number: +44 (0)145 255 0000
Access PIN: 5259939

This announcement contains inside information.

For further information, please contact:

IWG plc Tel: + 41 (0) 41 723 2353
Mark Dixon, Chief Executive Officer
Dominik de Daniel, Chief Financial Officer & Chief Operating Officer
Wayne Gerry, Group Investor Relations Director

Brunswick Tel: + 44 (0) 20 7404 5959
Nick Cosgrove
Simone Selzer

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.