

CAPITAL MARKETS DAY

20 SEPTEMBER 2017



STRATEGY



The market context: a developing industry offering substantial growth prospects

- Growing customer awareness of workspace-as-a-service sector, driving increasing demand
- Numerous customer types emerging - based on size, industry and specifications
- Well-funded new entrants providing localised competition to IWG, but also reinforcing customer awareness of the sector
- IWG's business model has been refined over three decades to deliver optimal risk management and material competitive advantages
- Substantial growth ahead for industry participants, with IWG expected to outperform
- Improving growth dynamics within IWG's business and clear plans to maintain or improve our industry-leading capital efficiency
- Confident in the long-term opportunities for IWG



IWG as global industry leader: clear advantages from our scale

- Diversification - geographic, regional vs city, customer
- Capital deployment – ability to prioritise capital deployment to the highest performing geographies
- Capital efficiency - IWG as the preferred industry partner
- Cost advantages - superior centre level economics, through leverage of group functions
- Customer service - able to use multiple brands and leading IT platform to integrate best with our customers
- Risk-management - able to manage risks with group skill and scale
- Consolidation - the natural consolidator as competitors succeed or fail



The opportunity

Circa \$29 trillion¹

- Huge industry
- Highly fragmented
- c. 8m office workers in the UK²
- c. 30m office workers in US³
- Ripe for disruption in a digital world

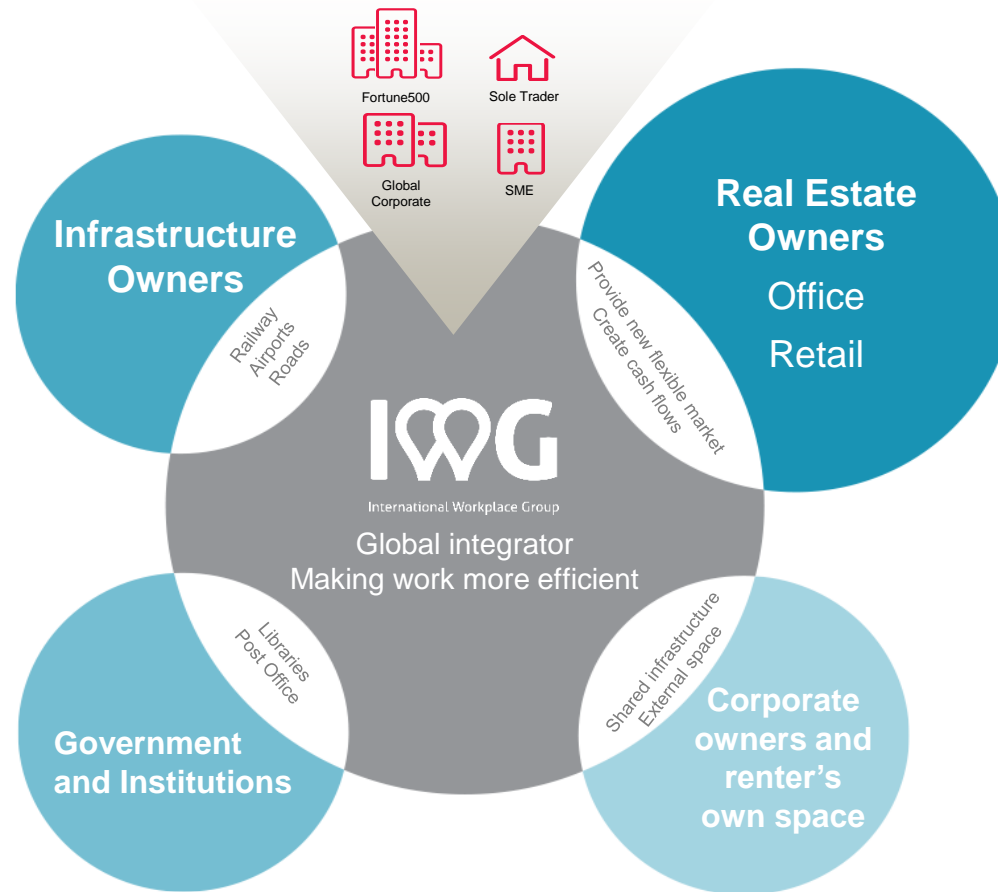
Commercial Real Estate market

1 – Savills Commercial Research

2 – Office for National Statistics (ONS)

3 – Henry J Kaiser Foundation – State Health Facts

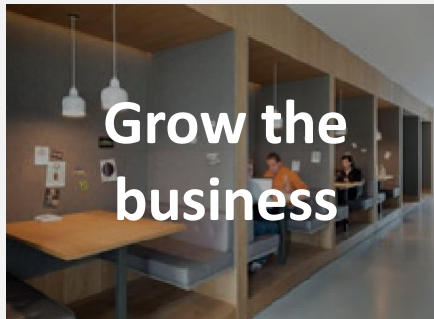
Repackaging the industry



A capital light growth company that can distribute cash

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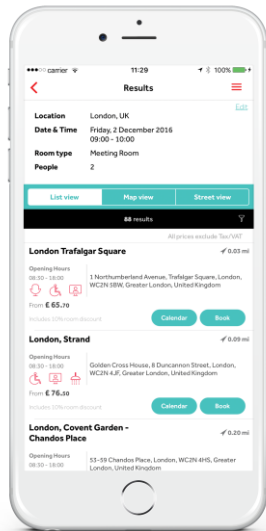
Our approach



Supporting our customers' needs

Customer

Digital



Physical



Support



Manilla
Dallas
Barcelona
Kuala Lumpur

Digital platform underpins business success

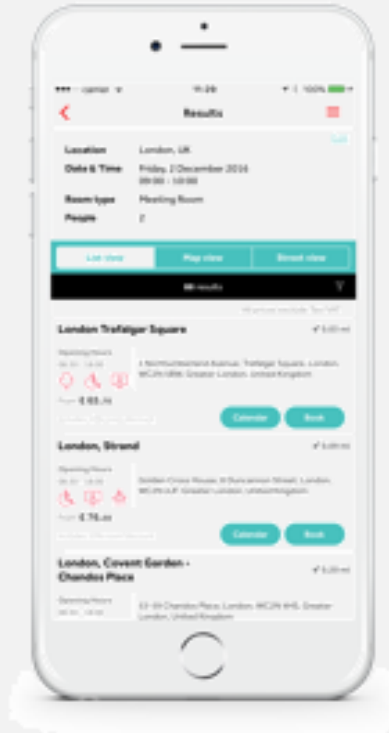
Digital platform – app world



Customer app



Corporate customer app



Team member app



Broker app

Digital platform underpins business success

Developing national networks and formats globally



Regus St Marys Axe, London



Spaces Opéra Garnier Paris



Spaces Ballpark, Denver



Spaces Ropewalks Liverpool



Regus Utrecht, WTC Papendorp

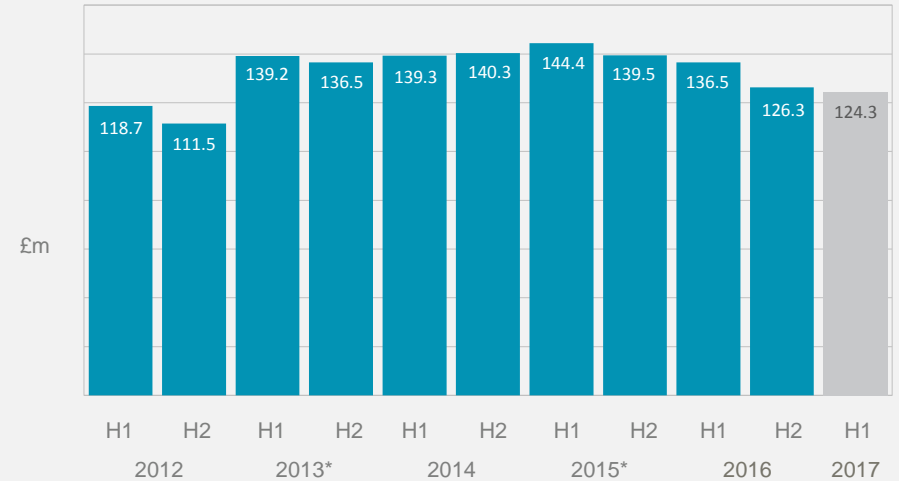


Regus Amsterdam, Vinoly

Continuous focus on costs

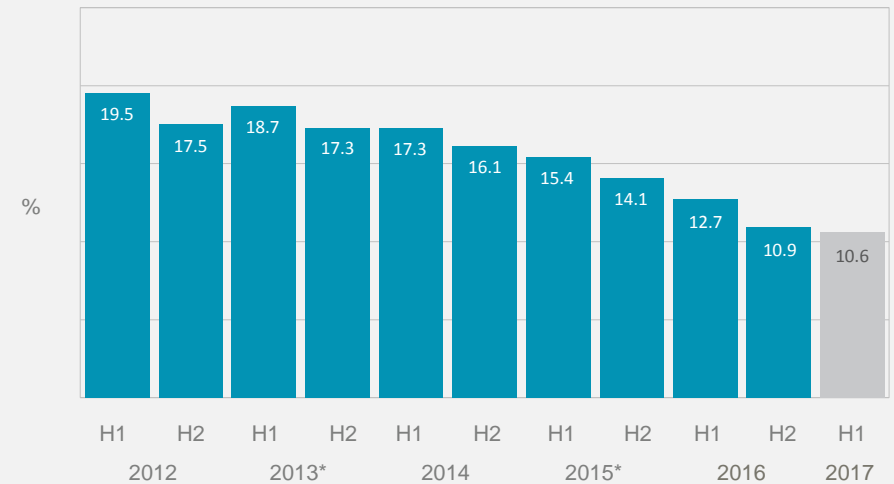
- One business 24/7
- Ongoing process of continued efficiency engineering
- Lower customer interaction cost
- Much improved customer service
- More procurement benefits expected in 2018
- Much more scalable

Total overheads (£m at actual rates)



* Excluding non-recurring items

Total overheads as a % of revenue



* Excluding non-recurring items

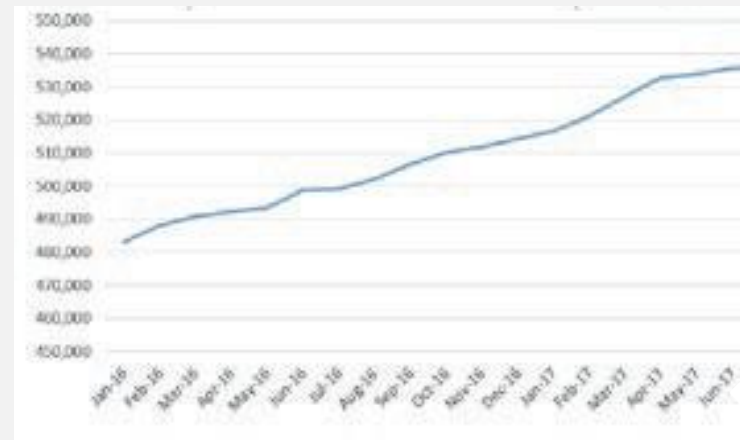
Creating a scalable business

* Excluding non-recurring items

Revenue growth

- Format and brand pick-up
- Product innovation
- Improved sales structure
- Improved marketing
- Retention focus
- More “drop in” users
- Corporate accounts
- Outsourcing

Growth in paying members



Growth in workplace recovery



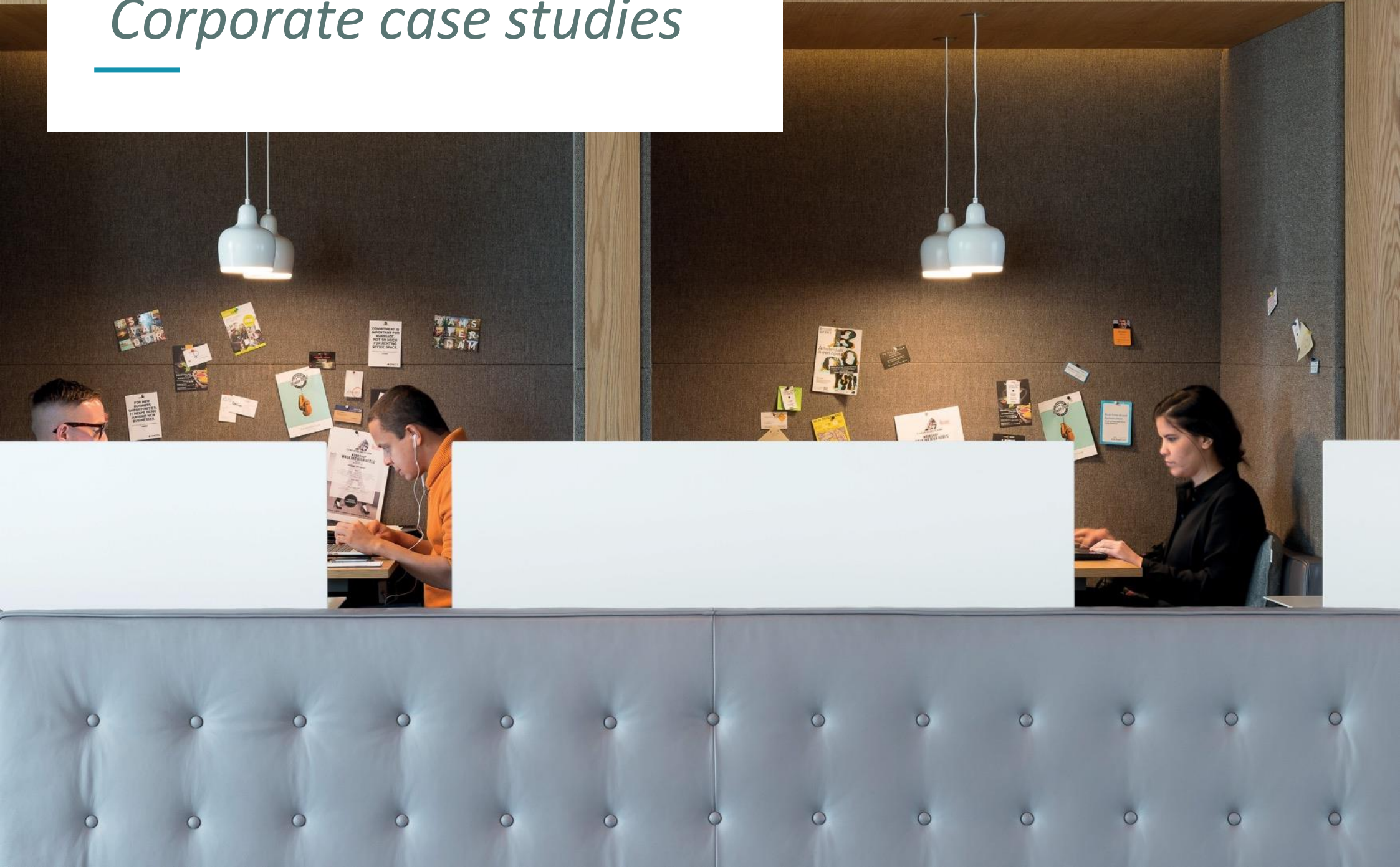
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CORPORATE SALES



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Corporate case studies



Case study 1

Global leader in network solutions

Adding expertise to the planning process to right-size space in line with utilisation

- **Tasked with reducing global property spend by 5 – 10% per annum**
- **Previous focus on larger sites** – no assessment on the collective savings that could be achieved across the small office portfolio
- **Average utilisation just 55%** – great opportunity for cost savings through improving workspace efficiency
- **Minimal ongoing investment** – making workspaces unattractive, impacting ability to recruit and retain talent
- **Implementing an IWG flexible workspace solution** using a combination of dedicated and shared space
- **Realised significant savings** whilst ensuring employees are provided with the facilities they require to maintain productivity
- **Pipeline of 30-40 locations** – realise savings of 30%+



Case study 2

Major European airline

Roll-out of hub and spoke model to reduce spend and increase efficiency

- **Major restructure consolidating business support functions** – resulting in vacant space across its branch locations worldwide
- **Requirement to minimize commercial risk by injecting more agility into the portfolio** and enabling employees to work more flexibly and not be tied to one location
- **Migrating 40+ global branch locations** from traditional leases to a Regus “hub and spoke” model allowing the airline to take only the space it needs for desk based workers and provide mobile workers with drop-in space at any Regus location worldwide
- **Migration of the first branch offices** – has realised savings of c.£1.5m in property rental and facility management costs by
- ensuring that the airline is only paying for the space it uses.



Case study 3

Leading Global technology corporation

Remove unnecessary capex from the balance sheet

- **Assess the viability of eliminating property capex** from the balance sheet
- **Wanted to introduce a 100% flexible solution** – employees able to take advantage of drop-in space & shared facilities at any one of IWGs locations.
- **Initial pilot established savings of c. \$1m** – employee satisfaction levels of 96%
- **Programme now being rolled out** across selective locations
- **Expands the talent pool** - proves that it is not a necessity for employees to live within the vicinity of an office to be productive



Case study 4

Online retail leader

Rapid expansion and new market entry using IWG flexible workspace

- **Constantly expanding its global footprint** at short notice evolving its brand and product mix
- **An IWG workspace solution provides** cost-effective, risk-free space to support testing and expansion for requirements of 5 – 200+ employees
- **IWG's ability to react, find and implement** solutions anywhere in the world , in a matter of days, has inspired client confidence & loyalty
- **Currently 90+ locations are operational** – with c.30/40 being added each year
- **IWG is the only organisation** that can provide the coverage and responsiveness of service to achieve the clients' goals



FINANCIALS



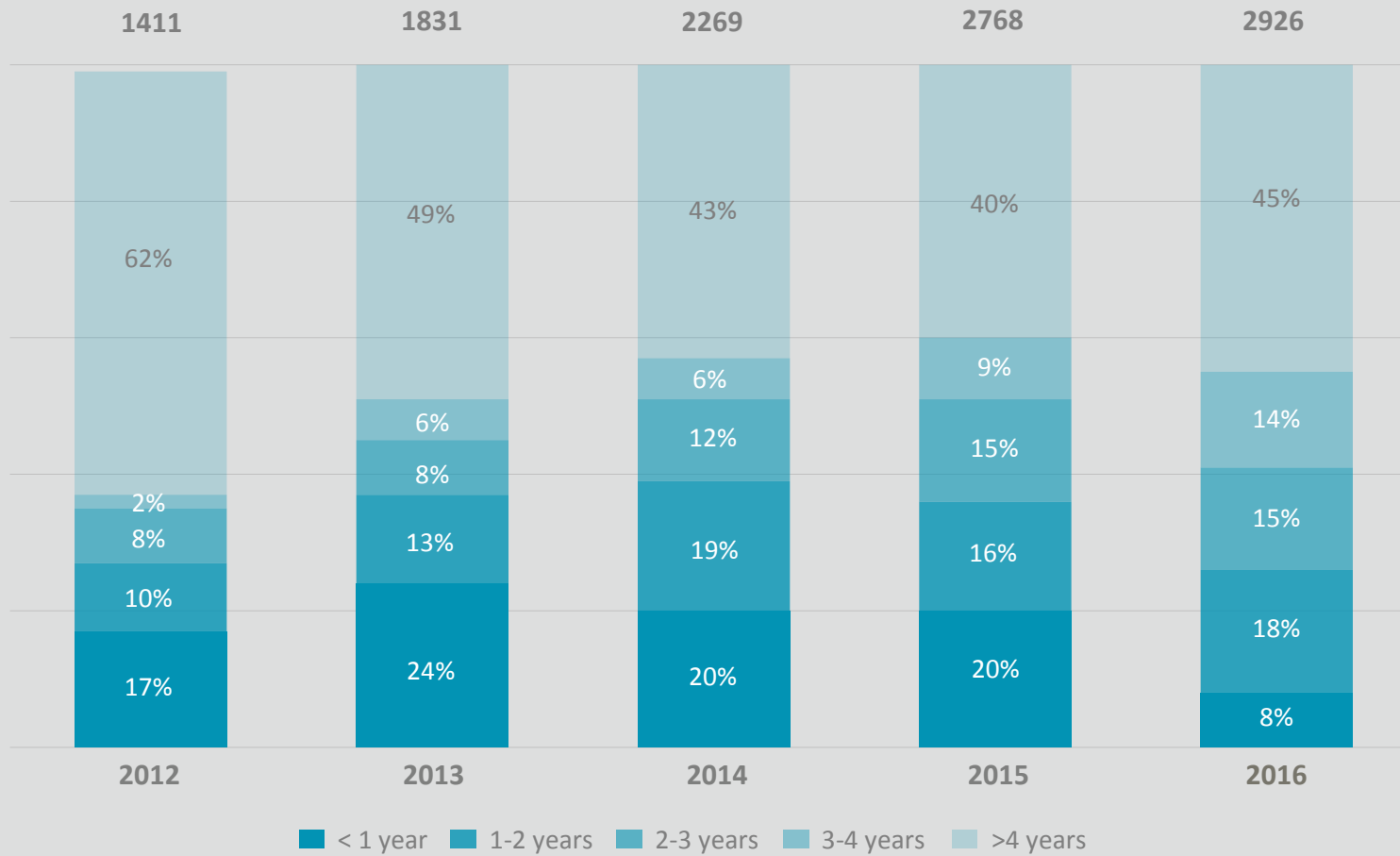
Cash flow

£ million	2012	2013	2014	2015	2016
Operating profit	90.2	90.8	104.3	144.8	186.2
Depreciation and amortisation	69.1	97.5	120.5	145.2	194.5
Group EBITDA	159.3	188.3	224.8	290.0	380.7
Working capital	46.4	64.1	80.3	103.5	104.2
Less: growth related landlord contributions	(24.5)	(60.4)	(47.0)	(59.8)	(66.1)
Maintenance capex expenditure	(48.1)	(53.2)	(53.8)	(74.9)	(86.7)
	133.1	138.8	204.3	258.8	332.1
Taxation	(13.9)	(17.1)	(20.9)	(29.1)	(31.5)
Finance costs	(2.4)	(5.5)	(13.5)	(13.2)	(16.1)
Other items	(4.4)	(0.8)	5.7	(0.8)	1.6
Cash flow before capital growth expenditure	112.4	115.4	175.6	215.7	286.1
Cash flow before growth capex per share (p)	11.9	12.2	18.6	23.1	30.8
Cash flow before growth capex yield*	4.1%	4.2%	6.5%	8.0%	10.7%
Average share price per year (p).	161	228	213	219	255
Yield on average price per year	7.4%	5.4%	8.7%	10.5%	12.1%

* Based on average share price year to date of 288p

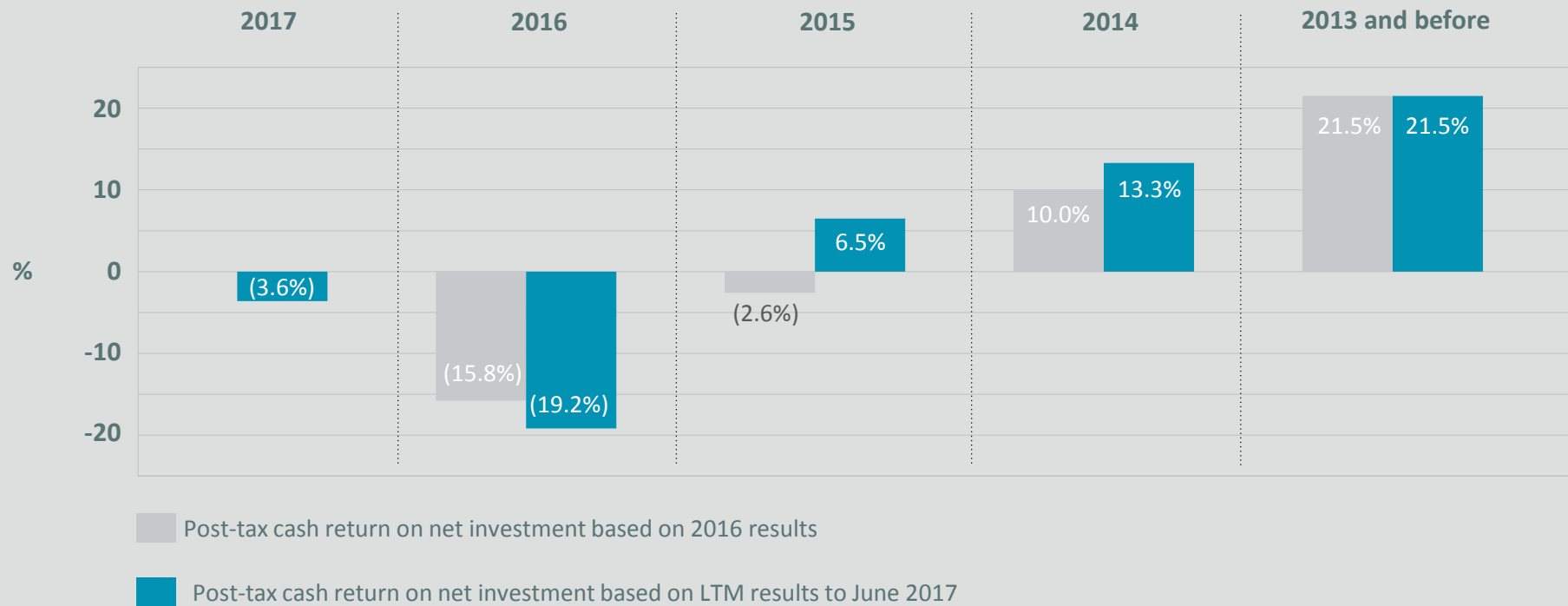
Centre maturity

Number of Centres in different year groups

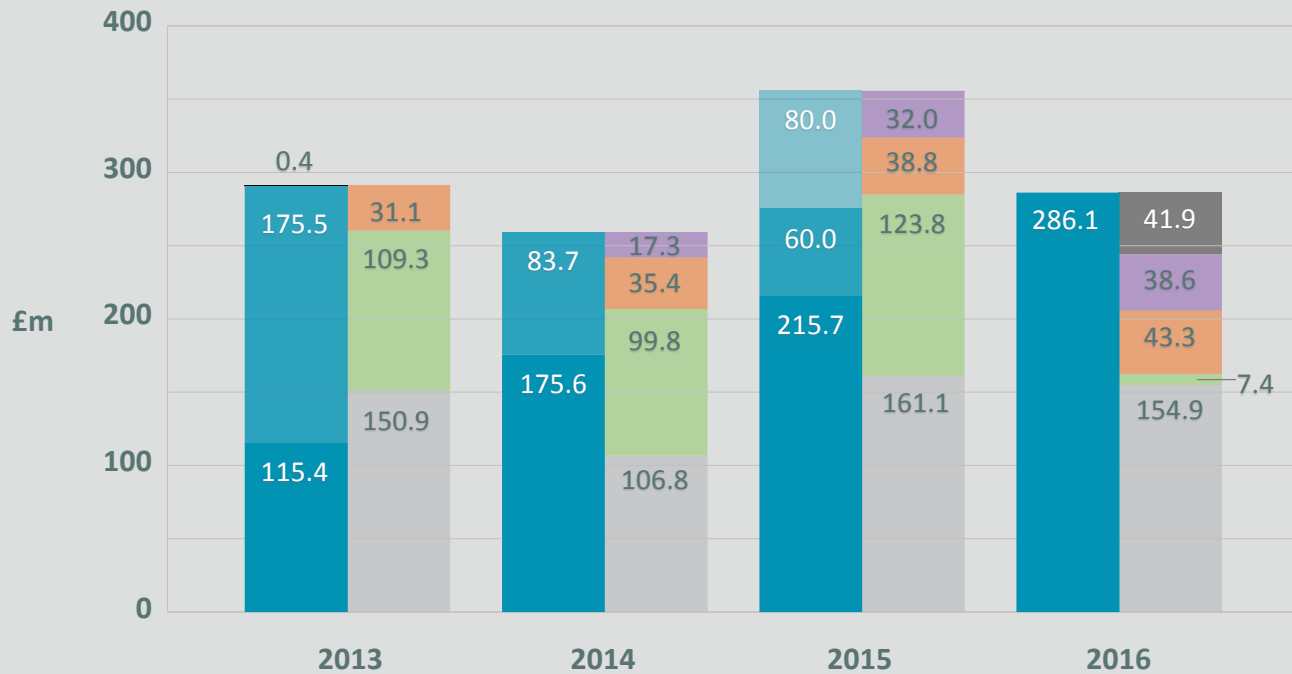


Returns development

NCO Year Group



Cash utilisation



Source of funding

- Net disposal proceeds
- Corporate financing activities
- Additional funding
- Cash flow before capital growth expenditure

Use of funding

- Additional cash
- Corporate financing activities
- Dividend
- Net growth capital expenditure – Acquisition
- Net growth capital expenditure – Organic

Deal types and profile

Deal type	Capital intensity	Risk	Returns	Abs. cash
Conventional	Medium	Medium	2 – 3x WACC	High
Partnership	Lower	Lower	Good	Medium
Franchise / Management agreement	Zero	Lowest	Good	Low
Business acquisition	Higher	s/t: low - l/t: medium	Clearly above WACC but below organic conventional	High
Freehold (very opportunistic)	Initially high	Medium / higher	Medium term: high	High

IFRS 16 SUMMARY



IFRS16 Leases

Background

- Effective from 1 January 2019
- The standard removes the concept of operating and finance leases, instead requiring leasing arrangements in general to be recorded on the balance sheet.
- This requires a “Right-of-use-asset” and a related “lease liability” to be recognised for each lease.
- These balances are based primarily on the present value of the cash flows of the leasing arrangement, but also takes into consideration items such as:
 - Initial direct costs (i.e. commissions, legal costs)
 - Lease incentives received
- The cash flows used in the calculation **include** both fixed payments **and** variable lease payments (i.e. payments based on an index or CPI) which can be reliably measured.
 - Variable payments which cannot be reliably measured (i.e. where they are based on the future share of profit or revenue from a centre) are **excluded** from the calculation and recognised as a rental expense (i.e. no change from current accounting practice).
- Exemptions do exist in respect of:
 - Short term leases (leases with a lease term less than 12 months); and
 - The lease of small assets (where not highly interrelated with other leased assets)

IFRS16 Leases

Key differences between IFRS 16 and IAS 17

	IAS 17	IFRS 16
Lease definition and recognition	<p>Recognises two classes of leases:</p> <ul style="list-style-type: none"> • Operating leases – held off balance sheet • Finance leases – recognised on the balance sheet 	<p>Adopts a single model for all leases, with a right-of-use asset and corresponding finance lease liability recognised on the balance sheet.</p>
Conceptual approach	<p>The standard considers which party enjoys the risks and rewards associated with the asset.</p>	<p>This standard considers which party has the right to control the use of the asset.</p>
Measurement	<ul style="list-style-type: none"> • Operating leases are recognised as an expense on a straight-line basis over the lease term. • Finance lease assets and liabilities are initially measured at the fair value of the leased property or, if lower, the present value of the minimum lease payments. 	<ul style="list-style-type: none"> • Measures the initial lease liability of all leases at the present value of the lease payments that are not paid at the date. The lease payments are discounted using the implicit rate if known, otherwise, the incremental borrowing rate. • The corresponding right-of-use asset is measured based on the initial lease liability, adjusted for specific items such as direct costs, etc.

IFRS16 Leases

Illustrative example – IFRS 16 versus IAS 17

Asset is leased for 3 years beginning 01.01.X1

Total lease value is £6,300

Three annual rental payments of £2,100 at the beginning of the year

Discount rate @ 4.00%

PV of minimum lease payments			Right of Use Asset			Lease liability			
Cash	Factor	PV	Opening	Depreciat ion expense	Closing	Opening	Paid	Interest Expense	Closing
01.01.X1 (2,100)	1.0000	(2,100)	01.01.X1 6,061	(2,020)	4,041	01.01.X1 6,061	(2,100)	158	4,119
01.01.X2 (2,100)	0.9615	(2,019)	01.01.X2 4,041	(2,020)	2,020	01.01.X2 4,119	(2,100)	81	2,100
01.01.X3 (2,100)	0.9246	(1,942)	01.01.X3 2,020	(2,020)	0	01.01.X3 2,100	(2,100)	0	0
(6,300)		(6,061)		(6,061)			(6,300)	239	

IAS 17 (Current requirement)					
	Initial	Year 1	Year 2	Year 3	Total
Cash payments		2,100	2,100	2,100	6,300
Income statement					
Rental expense		2,100	2,100	2,100	6,300
Depreciation expense		-	-	-	-
Impact on Operating profit		2,100	2,100	2,100	6,300
Finance cost		-	-	-	-
Impact on profit before tax		2,100	2,100	2,100	6,300
Balance Sheet					
Right-of-use asset	-	-	-	-	
Lease liability	-	-	-	-	

IFRS 16 (Effective from 1/1/2019)					
	Initial	Year 1	Year 2	Year 3	Total
Cash payments		2,100	2,100	2,100	6,300
Income statement					
Rental expense		-	-	-	-
Depreciation expense		2,020	2,020	2,020	6,061
Impact on Operating profit		2,020	2,020	2,020	6,061
Finance cost		158	81	0	239
Impact on profit before tax		2,179	2,101	2,020	6,300
Balance Sheet					
Right-of-use asset	6,061	4,041	2,020	0	
Lease liability	(6,061)	(4,119)	(2,100)	(0)	

IFRS16 Leases

Implications for IWG plc

Significant impact:

Balance sheet as a result of the right-of-use asset and related finance lease recognised.

Income statement:

- Due to the elimination of the historical rental expense and the recognition of a depreciation charge (which will be lower than the historical rental expense); and
- Finance costs will include the unwinding of the present value impact on the related finance lease liabilities. This was previously zero for operating leases.
- Profit after tax and EPS will be impacted by the front-loading of the present value impact

No impact:

Cash flow as the lease payments do not change.

IFRS16 Leases

IFRS 16 – The opportunity for us

- IFRS 16 will be an additional catalyst to support strong structural market growth as our WaaS solution will provide an additional benefit, namely optimized balance sheet exposure, as
 - we provide a service and service agreements aren't covered under IFRS 16 (no B/S exposure)but even if the client considers that our contract is a lease obligation, B/S optimization potential exists, as
 - the majority of our contracts are short-term (no B/S exposure for the client)
 - could be considered as a lease of small assets (no B/S exposure for the client)
 - contract terms over 12months for flexible space will in general still be significantly lower than contract terms for conventional space (optimized B/S exposure)
- As a consequence, we expect that corporates will start to focus on their “core-leases”, reduce non-core leases and/or optimize lease-terms and at the same time the need for permanent office space is furthermore challenged.

With our national networks and global footprint as well as our wide product range we are best positioned to benefit from this change.

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INVESTING FOR GROWTH



Commitment to growth

- **Structural growth sector**
- **IWG is the largest player in fragmented market**
- **Why do we continue to grow?**
 - Scale advantages
 - High returns on incremental investment
 - National networks
- **IWG is well positioned for growth**



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IWG – Well positioned for growth



Growth planning

- **Growth must be well planned**
- **Strategic Plan gives clear view of:**
 - National networks
 - How to get there
- **Tactical overlay:**
 - Opportunities/Risks
- **Plans evolve as the opportunity evolves**
- **Success measured against plan**



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IWG Brands



Regus™



SPACES.



Signature



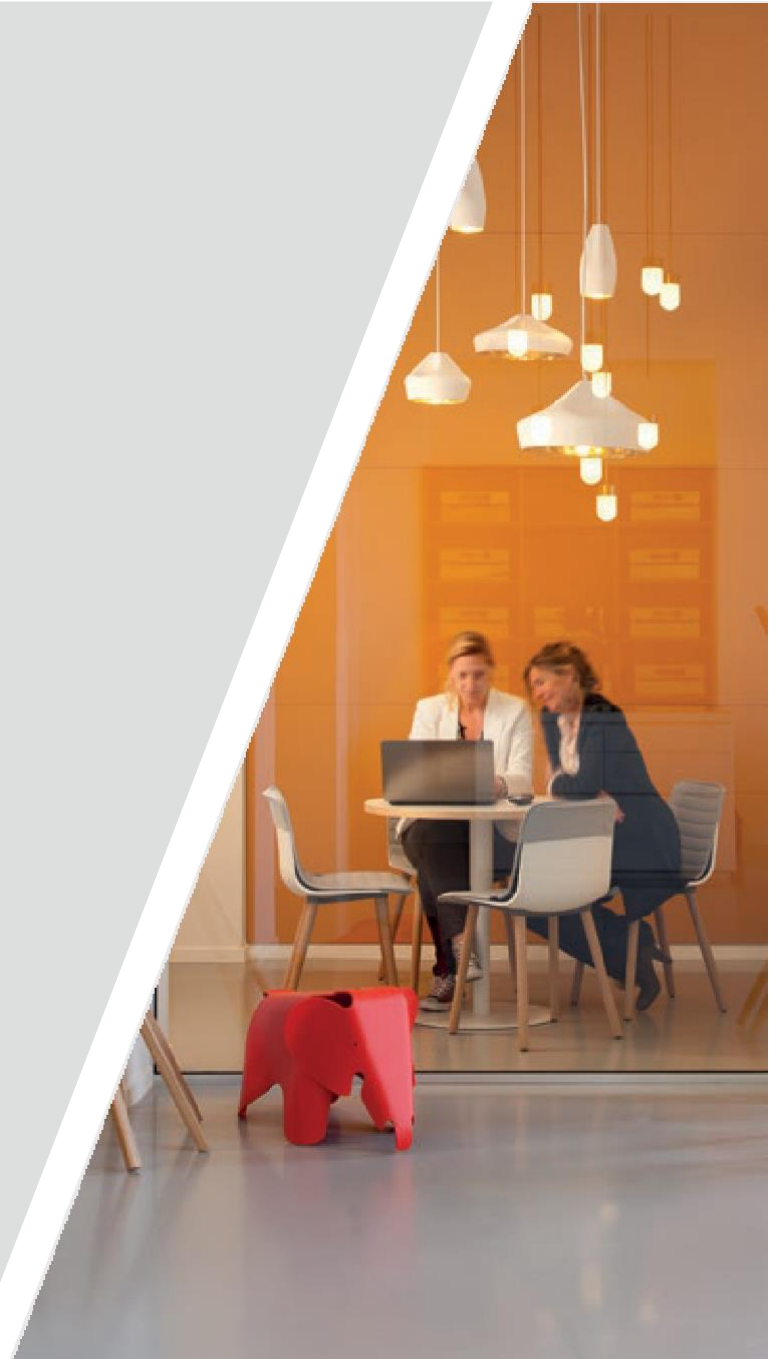
openoffice



BASEPOINT



Managed
Office
Solutions



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Spaces



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IWG Brands



Regus™



SPACES.



Signature



No 18



openoffice



BASEPOINT



Managed
Office
Solutions



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No. 18



No 18

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Partners

- **Significant growth opportunity**
- **Strategic decision to partner**
 - Share the economics
 - Share the risks
 - Share the returns
- **Partnership strategy is working**
- **Multiple locations**



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Entra

- Listed on Oslo stock exchange
- Market Capitalisation: £2bn
- 1.3m sqm of space



Disciplined growth & investment

- **Attractive business model**
- **Committed to growth**
 - National Networks
- **Positioned for growth**
 - Brands
 - Partners
 - Portfolios
- **But we must remain disciplined**
- **Risk-adjusted returns**



SUMMARY



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Clear strategy

3300
centres

115
countries

550,000
members

c. 50m sq ft

- Revenue Growth
- Cost Leader
- Multibrand
- ROI driven growth
- National Networks
- Global Network
- Strong Cash Generation

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Q & A

