THIRD QUARTER TRADING UPDATE

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THIRD QUARTER TRADING UPDATE - 6 November 2018

IWG plc, the global operator of leading co-work and workspace companies, today issues its trading update for the period ended 30 September 2018.

Highlights

- Strong Q3 open centre revenue growth of 13.2% at constant currency
- Improvement in Q3 mature revenue growth, up 3.9% at constant currency and a further improvement on Q2
- Mature occupancy improved 70bp to 74.3% in Q3
- Underlying cash generation for the year-to-date of £120.3m
- Net debt of £433.9m after net growth investment of £204.9m year-to-date
- 204 new locations added year-to-date, including 75 new Spaces and bringing this format to 154 locations in total
- Visibility on 2018 net growth capital expenditure unchanged at £230m, representing c. 6.7m sq. ft., c. 22% more space than added in 2017, and 275 locations
- Improved franchising momentum, with 115 committed locations to date and a strong pipeline
- The Board remains confident that the Group will deliver a full year result in line with management's expectations

Improved third quarter performance

In the three months ended 30 September 2018, revenue growth across all our open centres (excluding closed centres) increased 13.2 % at constant currency. For the total Group (including closed centres), Q3 revenue increased to £637.9m compared with £585.7m in the same period last year, an increase of 10.2% at constant currency, representing a sixth quarterly sequential improvement in the rate of growth. This improvement was reasonably broad-based including good performances in the US, EMEA and Asia Pacific. The UK remains disappointing but actions to improve the business are firmly in place.

Our mature business revenue increased 3.9% at constant currency to £565.1m for the three months ended 30 September 2018, (Q3 2017: £549.8m). As anticipated, the improved sales activity has translated into a further improvement in our revenue performance in the third quarter, with high single-digit growth in the Americas and EMEA, our two largest regions which represent approximately two-thirds of mature revenue.

Year-on-year mature occupancy for the three months to 30 September 2018 improved 0.7 percentage points on a like-for-like basis to 74.3%.

Solid year-to-date performance

For the nine months ended 30 September 2018, Group revenue increased to £1,841.9m compared with £1,755.5m for the same period last year, an improvement of 8.1% at constant currency.

Mature revenue for the nine months ended 30 September 2018 was £1,660.6m, compared to £1,663.3m for the same period in 2017. Eliminating the impact of foreign exchange movements, mature revenue increased 2.9% at constant currency, an improvement over the 2.4% growth rate reported for the first half. This encouraging performance was driven by good sequential improvement in the pre-2016 estate and the continued development of the 2016-year group additions.

Strong returns on investment

We have maintained a clear focus on disciplined investment into new opportunities to deliver attractive returns to drive long-term shareholder value creation. Returns on a 12-month rolling basis, for those locations open on or before 31 December 2013, were 17.5%, well above the Group's weighted cost of capital.

Healthy cash flow generation and prudent funding

Underlying cash generation[1] for the nine months to 30 September 2018 was £120.3m after an increase in net maintenance capital expenditure from £44.2m to £53.2m which reflects our programme to refresh some of our existing locations, particularly in the UK.

The Group had net debt at 30 September 2018 of £433.9m. This is an increase of £50.7m on the 30 June 2018 net debt position of £383.2m which reflects the continued investment in growth and the previously announced share buyback programme. During the third quarter we acquired 8.8m shares for a total consideration of £20.9m. The Group continues to have approximately £140m of freehold and long-leasehold property assets on the balance sheet.

Continued network development

During the third quarter, we increased the pace of growth with net growth capital investment[2] of £74.8m which resulted in the addition of 72 new locations to our global network. In the nine months ended 30 September 2018 the Group has added 204 new locations primarily through the roll out of our Regus brand and the addition of 75 new locations in our Spaces format, which at 30 September 2018 totalled 154 locations. Net growth capital expenditure in the nine months to 30 September 2018 was £204.9m, including investment in locations which are yet to open. The 204 new locations added in the year-to-date represent approximately 4.7m sq. ft. of additional space, taking the Group's total network at 30 September 2018 to over 55.8m sq. ft. Approximately one third of the new locations were various forms of partnering deals.

As anticipated and reflecting our network refurbishment programme as well as the natural expiration of leases, a further 25 locations were closed in the third quarter, taking the total number of closures for the nine months ended 30 September 2018 to 71 locations.

Overall in the year-to-date there has been a net increase of 133 locations to 3,258 as at 30 September 2018 (31 December 2017: 3,125 locations).

Franchising momentum accelerating

Partnering is an important way of building our national networks and our franchising activities are moving forward with increasing momentum. In the third quarter we signed agreements covering the development of 25 locations over the near-term, taking the total in the year-to-date to 29 and 115 in total for the Group. Having initially developed our franchising model primarily in the developing markets, we are now experiencing growing interest in our developed markets. We have a very strong pipeline of franchise opportunities.

Pipeline visibility

We continue to anticipate investing approximately £230m in net growth capital expenditure during 2018, representing about 275 new locations. These locations will add around 6.7m sq. ft. of additional space; which represents approximately 22% more flexible workspace than the Group added in 2017.

Summary

As anticipated, the improving trend in sales activity has led to sequential improvements in revenue growth as occupancy and price in the mature business increase and our newer locations develop strongly. Our forward order book has strengthened and we expect to continue to see the benefit of this in the fourth quarter.

We remain very confident in the structural, long-term growth of the flexible workspace market and that IWG, as global market leader with a highly diversified business, will continue to strengthen its position through its cost-efficient business model, strong cash generation and healthy balance sheet.

The Board continues to explore a range of potential strategic opportunities to deliver increased value and returns for shareholders. We will continue to take a targeted approach to growing our business, ensuring we commit resources which will deliver attractive returns. We expect increased franchising activity and our current pipeline of franchise opportunities is strong across both existing and new geographies. We are also in discussions with a number of interested parties who wish to partner with us across entire countries.

The Board remains confident that the Group will deliver a full year result 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

Growth Capital Expenditure (£m)	H1 2018	Q3 2018	YTD 2018	H1 2017*	Q3 2017	YTD 2017*
Gross Growth Capital Expenditure	191.8	113.2	305.0	210.3	59.8	270.1
Net Growth Capital Expenditure	130.1	74.8	204.9	179.7	44.4	224.1

* Including approximately £110m on property

Maintenance Capital Expenditure (£m)	H1 2018	Q3 2018	YTD 2018	H1 2017	Q3 2017	YTD 2017
Gross Maintenance Capital Expenditure	49.7	20.8	70.5	44.8	19.7	64.5
Net Maintenance Capital Expenditure	39.2	14.0	53.2	24.4	19.8	44.2

[3] Consolidated co-working seats / workstations as at 30 September 2018 were 567,349 (30 June 2018: 551,062)
Total co-working / workstations (including non-consolidated increased to 588,445 (30 June 2018: 571,390)

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 8000**
Access PIN: **7677996**

A replay facility will be available until 11am on 13 November 2018:

Dial-in number: +44 (0)3333 009 785
Access PIN: 7677996

This announcement contains inside information.

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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.

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