

## THIRD QUARTER TRADING STATEMENT

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### THIRD QUARTER TRADING STATEMENT - 5 November 2019

IWG plc, the leading global operator of co-work and workspace brands, today issues its trading update for the period ended 30 September 2019.

#### ***Continuing strong revenue growth, excellent franchising and enterprise account momentum and strong financial position***

##### **Key Highlights<sup>1</sup>**

- Q3 Open centre revenue up 15.5%<sup>2</sup> (19.5% at actual rates), all regions contributing strongly
- Q3 Pre-2018<sup>3</sup> revenue up 3.3%<sup>2</sup> (7.0% at actual rates)
- Q3 Pre-2018<sup>3</sup> occupancy up 2.2 percentage points to 76.4% from 74.2% in Q3 2018
- Excellent franchising momentum; strategic partnerships signed in Japan, Taiwan and Switzerland
- 27 franchise partners across 22 countries, with a combined commitment of over 400 locations
- Improving UK momentum, with positive Q3 Pre-2018<sup>3</sup> revenue growth and strong occupancy gains
- Continued strong growth in enterprise accounts
- 66 new locations added in Q3, taking worldwide total to 3,348 locations
- Cash flow<sup>4</sup> pre-growth to 30 September 2019 of £466.4m, 52.1p per share
- Share repurchase programme commenced - 5.5m shares acquired in Q3 for £22.4m
- Net debt<sup>4</sup> substantially reduced year-to-date to £301.2m; Net Debt to EBITDA of 0.8x

##### **Third quarter performance<sup>1</sup>**

Sales activity across the Group remains very buoyant and this continues to drive our strong revenue growth trend. In the three months ended 30 September 2019 revenue growth across all our open centres increased 15.5% at constant currency (19.5% at actual rates). Total revenue for the Group (including closed centres and adjusted for discontinued activities) increased to £692.3m compared with £611.6m in the same period last year, an increase of 9.4% at constant currency (13.2% at actual rates). This performance continues to be driven by the Americas and EMEA, our two largest markets and very encouraging contributions from the 2018 and 2019 centre additions.

Revenue from ancillary services also continues to grow strongly. Approximately 27% of Group revenue is currently derived from these services. We believe that this provides a strong and unique competitive advantage which underpins our profitable, cash generative business model.

Pre-2018 revenue in the three months to 30 September increased to £591.4m from £552.8m in the comparable quarter last year. This represents a constant currency increase of 3.3% (7.0% at actual rates). Encouragingly the UK has started to contribute to the pre-2018 revenue growth and this provides an early indication that the actions we have implemented are starting to have a positive impact.

Pre-2018 occupancy improved year-on-year, up 2.2 percentage points on a like-for-like basis to 76.4%, with particularly strong performances in Brazil, China, India, North America, Spain, Switzerland and the UK. This is the highest level of mature occupancy since Q4 2016.

##### **Year-to-date performance<sup>1</sup>**

For the nine months to 30 September 2019, revenue growth across all our open centres was strong at 15.4% at constant currency (18.3% at actual rates). Total Group revenue increased to £1,990.1m compared with £1,767.9m (adjusted for discontinued operations) for the same period last year, an increase of 9.9% at constant currency (12.6% at actual rates).

Pre-2018 revenue for the nine months to 30 September 2019 increased to £1,724.8m from £1,607.1m, an increase at constant currency of 4.7%, (7.3% at actual rates). Pre-2018 occupancy improved 3.1 percentage points on a like-for-like basis to 76.0%.

##### **Network development**

During the third quarter, we added 66 new organic locations and 2.2m sq. ft. of additional space to our global network, with net growth capital investment<sup>5</sup> of £64.4m. In the nine months ended 30 September 2019 the Group has added 180 new locations, approximately one-third by partnering, and 5.2m sq. ft. of space, taking the Group's total network at 30 September 2019 to 60.4m sq. ft. and 3,348 locations worldwide. This includes the opening of 82 new Spaces locations and 3.5m sq. ft. of new space. Net growth capital investment in the nine months to 30 September 2019 was £249.9m.

In addition to the organic development of the network, we are seeing increasing opportunities to grow the scale of the business and further advance our multi-brand strategy through M&A. Where it makes strategic sense, we are ready to use our strong financial position to undertake such activity. Recently in the UK we acquired Clubhouse, a multi-location meeting room and membership business, from the administrator for a nominal sum. We expect to grow this brand in the years to come.

This year we have been increasingly proactive and accelerated the rationalisation of the network, where locations no longer fit into our network or were unlikely to contribute to value creation. We rationalised approximately 4% of the network in the nine months to 30 September 2019. Although this impacts profitability in the short term (by £27.9m for the year to date), it will deliver improved returns and value creation in the future. This focus is expected to continue in the fourth quarter and into the early part of 2020.

At the end of October 2019, we had visibility on net growth capital expenditure for the whole of 2019 of approximately £280m, 260 locations and 7.5m sq. ft. of new space.

### **Excellent franchising momentum**

We continue to experience excellent momentum in our franchising activities. Following the master franchise agreements in Japan, Taiwan and Switzerland, in total we have 27 franchise partners across 22 countries, with combined commitments of over 400 new centre locations.

During the third quarter we entered into our second strategic partnership with TKP with the divestment of our Taiwan business for a gross consideration of £22.7m and related exclusive master franchise agreement for that territory. This has been supplemented with strong traction in our traditional franchise activities. In the third quarter we added two new franchise partners, in Southern Germany and the Cayman Islands. Together with Taiwan, these franchises included commitments to open over 30 new locations. This continuation of excellent momentum brings the year to date progress to eight new franchisees and commitments for new centres to over 210.

As reported on 4 November 2019 we have entered into a strategic partnership in Switzerland with the J. Safra Group and the P. Peress Group. This transaction follows similar deals completed earlier this year between IWG and TKP. IWG will receive gross consideration of CHF 120m for the entire issued share capital of IWG's subsidiaries in Switzerland, which had 38 flexible co-working locations as at 30 September 2019. We have also entered into a long-term master franchise agreement which provides the franchise partner with exclusive rights to the use of IWG's brands in Switzerland. The partner will continue to operate the existing centres under IWG's brands and operating platform and has committed to a development plan which will add significantly to IWG's centre network in Switzerland.

With the increasing interest in our partnering approach from a diverse range of parties across our regions, we anticipate reporting on further deals in the future to continue to unlock value for our shareholders.

### **Strong financial position**

The Group has substantially strengthened its financial position in the nine months to 30 September 2019, reaching a relatively low third quarter net debt to EBITDA leverage ratio of 0.8x. This has been achieved by a combination of our strong trading performance, excellent profit to cash conversion and pivot to franchising.

The net debt position at 30 September 2019, excluding the lease liabilities under IFRS 16, was £301.2m, which represents a substantial decrease on the 31 December 2018 position of £460.8m. This reflects the receipt of the proceeds from the Japan and Taiwan partnering transactions but not the recently announced partnering transaction in Switzerland, where completion is expected to occur at the end of November 2019.

During the third quarter we also acquired approximately 5.5m shares for a total consideration of £22.4m under the recently announced £100m share repurchase programme.

This strong and improved financial standing places the Group in a position of strength to capitalise on opportunities that may arise in the future to create further shareholder value.

### **Summary<sup>1</sup>**

Strong sales activity has continued to drive good revenue momentum. Open centre revenue, a good indicator of future performance, increased by 15.5% in the third quarter and 15.4% for the nine months to 30 September 2019, at constant currency. Growth in the pre-2018 revenue for the nine months of 4.7% at constant currency reflects a further improvement in occupancy in both the centres opened in 2017 and those opened in earlier years. Occupancy for the nine months to 30 September 2019 improved 3.1 percentage points to 76.0%.

Also encouraging for future Group performance is the strong development of the newer centres. Locations opened in 2018 are developing strongly and those opened in the current year are already exhibiting the potential to be even better than the 2018 cohort of openings.

The strong momentum of our enterprise accounts business has had a beneficial impact on the average initial duration of our customer contracts, which has strengthened our forward order book. We expect to see the benefit of this in future quarters.

We have a very strong pipeline of franchising opportunities across the globe, with excellent progress made in our pivot to a franchising business model and we look forward to reporting on further progress on this strategy.

We remain very confident in the structural, long-term growth in the flexible workspace market and IWG's leading position within it, which we continue to extend. We believe our transition to a franchising model by partnering with a growing and diverse range of third parties will deliver a quicker and more asset light approach to growth, which benefits all stakeholders. We are making excellent progress in shaping the business to benefit from this significant growth opportunity. We continue to invest in our leading global platform and management to support our strategy and look forward to the rest of the year with confidence.

<sup>1</sup>Excluding the financial performance of Japan and Taiwan, franchised during 2019 and now disclosed as discontinued operations under IFRS accounting standards.

<sup>2</sup>At constant currency.

<sup>3</sup>Pre-2018 refers to the performance in the reported period for all operations opened on or before 31 December 2017 and were open throughout the period. Previously referred to as the mature performance.

<sup>4</sup>Presented on a pre-IFRS 16 basis.

<sup>5</sup>Net capital expenditure in new locations equals gross capital expenditure less any contributions received towards fit-out costs.

#### **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  
Conference ID: 1499033

There will also be a replay facility available until 1.30pm GMT on 12 November 2019:

Dial in number: +44 (0) 33 3300 9785  
Playback ID: 1499033

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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