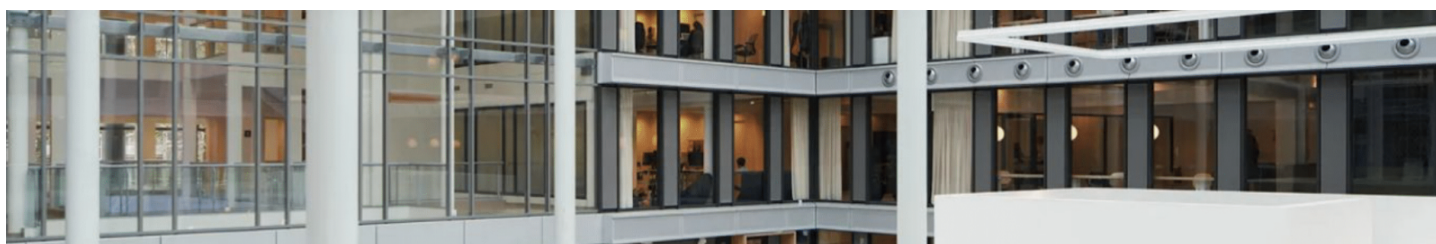


International Workplace Group (LSE: IWG)

Symmetry

Analyst: Itai Parnes
Date: January 12th, 2024
Current Stock Price: 1.80 GBP
Current Price Target: 10.44 GBP
2030 Price Target: 20.01 GBP (~41% IRR)

Disclaimer Itai (see full Symmetry disclaimer at the end of the report):

The following is an investment report on IWG (IWG:LN) written by Itai Parnes for Symmetry Invest, located in Aalborg, Denmark. The report was written by Itai while he was an intern at Symmetry Invest from December 2023 to January 2024. This report should not be construed as investment advice. At the time of the completion of this report (January 12th, 2024), the stock price of IWG was 1.80 GBP.

IWG currently presents a highly asymmetric risk-reward opportunity

1000%+ Upside Potential:

Equity Fair Value	
Implied Current-Day Fair EV	11,608,867.4
NPV of Proceeds From Full Conversion of 2027 Bond	239,054.7
Net Cash (Debt) 2022 YE, Excl. Leases & Excl. Convertible Bond	-394,000.0
Net Retirement Benefits (Obligations) 2022 YE	-2,000.0
Net Provisions Assets (Liabilities) 2022 YE	-74,000.0
Current Target Equity Value	**11,377,922.1**
Implied Fair P/E, Pre-IFRS 16	N/M
Fully Diluted Shares Outstanding (Including Convertible), In Thousands	1,090,178.0
Current Target Per Share Value (Pence)	**1,043.7**
Current Stock Price (Pence)	180.0
Upside	**479.8%**
2030 YE Implied Fair EV	18,156,024.9
Implied Fair EV/EBITDA, Pre-IFRS 16	14.6
Implied Fair EV/EBIT, Pre-IFRS 16	17.2
Implied Fair EV/Cash Flow From Operations, Pre-IFRS 16	18.0
Implied Fair EV/Maintenance FCF, Pre-IFRS 16	19.7
Implied Fair EV/FCF Post-Growth Investments, Pre-IFRS 16	21.1
2030 YE Target Equity Value	**22,470,580.2**
Implied Fair P/E, Pre-IFRS 16	23.6
2030 YE Fully Diluted Shares Outstanding, In Thousands	1,122,883.3
2030 YE Target Per Share Value (Pence)	**2,001.2**
Current Stock Price (Pence)	180.0
7-Year Upside	**1011.8%**
7-Year IRR	**41.1%**

Strong Downside Protection:

- 62%+ upside using highly bearish MFA valuation method
- 26%+ upside in extremely conservative private equity valuation approach
- 218%+ upside using precedent transaction of a lower-quality comparable approach

Reasons to Own IWG:

- Market leader in an industry with high barriers to scale and 15%+ structural growth
- Best-in-class business model with strong competitive advantages
- In the midst of a transformation to a capital-light business model (CROCCI, a cash flow-based return on capital-proxy, has the potential to increase from 5.5% in 2022 to 21.4% in 2030)
- Best-in-class CEO who is strongly aligned with shareholders
- Highly-compelling valuation: Potential for the stock to be an eleven-bagger over the next seven years (>40% IRR)
- Strong downside protection
- Valuable and unique collection of digital assets
- Clear and meaningful upcoming catalysts

Introduction: International Workplace Group (IWG) has two operating segments, which I will refer to as Core IWG (including all operations other than Worka) and Worka. Both segments occupy a part of the flex space value chain. Flex space includes office space for coworking: an arrangement that has workers from various companies working alongside one another in shared office space (more for individuals and SMBs). Flex space also includes flex office, which is when a certain workspace is dedicated solely to a single company, but employees of that company are not allocated to a unique workstation (more for larger businesses and multinational enterprises). Flex office is typically associated with hybrid working - a work schedule that is split between working remotely from home and working in the office. A typical hybrid work schedule may, for example, have employees working from home one day per week, from a satellite office three days per week, and from the company's main office one day per week. An example of this can be seen below:

Traditional Working	Monday	Tuesday	Wednesday	Thursday	Friday
Employee 1	Main Office	Main Office	Main Office	Main Office	Main Office
Employee 2	Main Office	Main Office	Main Office	Main Office	Main Office
Employee 3	Main Office	Main Office	Main Office	Main Office	Main Office
Employee 4	Main Office	Main Office	Main Office	Main Office	Main Office
Employee 5	Main Office	Main Office	Main Office	Main Office	Main Office
Total Office Space	**5 Office Seats**	**5 Office Seats**	**5 Office Seats**	**5 Office Seats**	**5 Office Seats**
Hybrid Working	Monday	Tuesday	Wednesday	Thursday	Friday
Employee 1	Sateillete Office	Sateillete Office	Main Office	Sateillete Office	Work From Home
Employee 2	Main Office	Sateillete Office	Sateillete Office	Work From Home	Sateillete Office
Employee 3	Sateillete Office	Sateillete Office	Work From Home	Main Office	Sateillete Office
Employee 4	Sateillete Office	Work From Home	Sateillete Office	Sateillete Office	Main Office
Employee 5	Work From Home	Main Office	Sateillete Office	Sateillete Office	Sateillete Office
Total Main Office	1 Main Office Seat	1 Main Office Seat	1 Main Office Seat	1 Main Office Seat	1 Main Office Seat
Total Sateillete Office (Cheaper)	3 Sateillete Office Seats	3 Sateillete Office Seats	3 Sateillete Office Seats	3 Sateillete Office Seats	3 Sateillete Office Seats
Total Office Space	**4 Office Seats**	**4 Office Seats**	**4 Office Seats**	**4 Office Seats**	**4 Office Seats**

(Based on a fictitious example)

The growth rate of the flex space industry is accelerating, from a 7% CAGR during 2010-2020 to a projected 15-20%+ CAGR during 2020-2030. As a result, the amount of flex space as a % of total office space is expected to grow from 2% in 2020 to 13.3% in 2030, according to JLL estimates, with the potential for a much higher long-term penetration of 30%+ (according to CBRE). It is important to note that nearly the entirety of this growth will come from the conversion of existing traditional office space to the flex format, which makes the growth secular in nature (rather than the cyclical growth pattern of new builds).

The rapid-pace adoption of flex space is driven by flex space simply being a far superior value proposition for both employers and employees when compared to the customary alternative of traditional office leases.

Flex working is a win-win situation

Employer Benefits:

- Higher office occupancy and flexibility
- Cheaper office costs per square foot
- Higher employee productivity and satisfaction
- Significant emissions reductions

Employee Benefits:

- Higher employee satisfaction
- Significant reduction in commuting time and expenses
- Significant emissions reductions

Employer Benefits:

1) Significantly higher office occupancy and flexibility - A traditional office lease often has a duration of close to a decade and comes with a fixed amount of office space. This is highly problematic, especially for companies that are significantly upsizing or downsizing. For example, a fast-growing company that is planning to double its employee base over the next five years may have traditionally signed a 10-year

lease with double the space that it currently needs. Alternatively, a company that significantly downsizes midway through its traditional lease contract will typically continue to need to pay for its originally signed office space, which is now far too large for the size of its newly reduced workforce (refer to this article for examples of this in San Francisco). As a result of such inefficiencies, along with those caused by the distribution of employee sickness, employee vacations, and corporate travel typically being clustered around certain times of the year, the average company using traditional leases has ~25% of their office seats empty on average. Flex space, by comparison, typically has a contract duration of approximately one year (although large enterprises tend to sign 3 year deals, whereas small companies tend to sign <1 year deals). This allows for much greater flexibility and a much smaller % of empty office seats.

2) Significantly cheaper per square foot office costs - Flex working typically involves employees spending a much larger percentage of their workweek at satellite offices as compared to a traditional work schedule. Whereas a company's main offices tend to be situated in the most expensive areas of a city (its central business district), satellite offices are commonly located in less expensive areas of a city, or even in suburbs or rural towns. The result: a company's average office costs per square foot tend to significantly decrease with the adoption of flex working - leading to large cost savings.

3) Higher employee productivity - IWG claims 46% higher employee retention with the adoption of flex working and various studies demonstrate that it also leads to higher employee satisfaction.

As a result of these added efficiencies, among other smaller advantages, the real estate firm Colliers estimated that companies that transition to using flex save an average of 16% when compared to those using traditional leases (Global Workplace Analytics estimated the saving to be $11k per employee). Anecdotally, Cisco claims to have saved $500M+ since switching to a flex office model in 2017. This is despite flex operators, like IWG, charging a 20-30%+ premium versus comparable traditional office space on a per square foot basis.

Employee Benefits:

1) Employee satisfaction - As mentioned previously, employee satisfaction tends to be significantly higher with a flexible working arrangement.

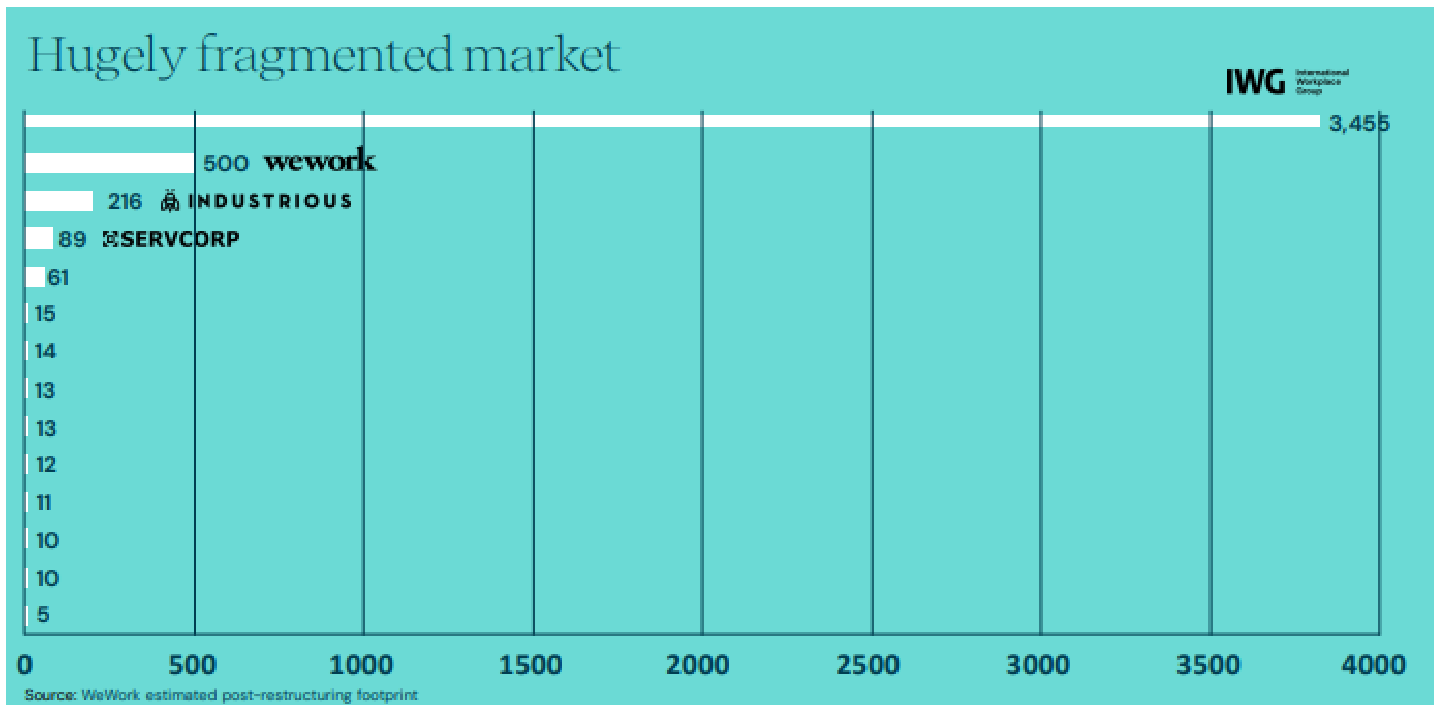
2) Significantly lower commuting time and expenses - On average, employees save $3,250 on work-related expenses and 91 hours of commuting time per year by adopting flex working. A key part of this can be the use of satellite offices, which are additional offices that are separate from an organization's main office. As these offices are geographically separated from the main office, whether in a different area of the city in which the main office is located, the suburbs of that same city, another town, or even another country, such offices can be closer to the homes of an organization's employee base, especially if the organization has a large network of satellite offices.

Flex space is also frequently the best solution for many landlords. The pandemic catalyzed a permanent change in the way in which individuals work in many parts of the world. Employers discovered that employees could be highly productive working from locations besides a company's main office, while employees experienced the possibility and value of a shorter commute to work. As such, office vacancies are at a record high, not only in North America, but also in Europe and in the APAC region (see Appendix Exhibit #1). Furthermore, the overall office market is not expected to recover in the long-term: demand for office-space is

projected to be 13% lower in 2030 than in 2019, according to McKinsey. Therefore, a landlord converting a portion of his/her office building to flex can better allow him/her to participate in the high growth flex industry, while also potentially leading to a sizable increase in the value of his/her building.

Finally, flex working offers significant environmental benefits: having the potential to reduce workspace-related emissions (including emissions from employee commuting) by up to 70% in the U.K. and up to 87% in the U.S, according to IWG. This is very significant, especially when taking into account the growing importance of carbon neutrality not only for employees and employers, but also for suppliers, customers, investors, and society at large.

Core IWG - Industry Overview: Core IWG is the largest flex space operator globally. The global flex space market is extremely fragmented with the average operator only having 1.3 locations and a few million dollars of revenue. As shown below, IWG is by far and away the largest company in the industry with ~3,500 locations (~15% market share), as compared to second-place WeWork's estimated 500 locations (including the effect of its bankruptcy restructuring) and third-place Industrious's 216 locations. No other competitor has 100 locations or more.



However, it is important to note that IWG has not only a much larger business than its competitors, but also a higher quality business. There are various reasons for this:

1) Hub-And-Spoke Model - Unlike WeWork and Industrious, whose locations are highly city-centric, IWG has historically built out its network of office locations in a hub-and-spoke model (with the hubs being in the city centers and the spokes being in other areas of those same cities and in adjacent suburbs and towns), which is demonstrated in Appendix Exhibit #2. As I mentioned earlier, satellite offices can be a key part of hybrid working, but in order for them to be truly effective, they must be closer to the homes of an organization's workforce than that organization's main office. IWG's hub-and-spoke model helps to ensure that this is frequently the case, which simply cannot be said of IWG's competitors.

2) National and International Scale - IWG has an unparalleled global flex office supply network, which spans across ~120 countries (more than triple that of WeWork) and has the most locations of any flex operator in practically all of those 120 countries. This frequently leads to IWG being the only operator that can meet all of the needs of multinational corporations, which strongly prefer to contract with only one flex provider globally (to ensure global interoperability and for efficiency's sake). As such, IWG frequently has a monopoly in the market of global enterprise flex space contracts, and the returns from such contracts reflect this. While multinationals certainly receive a significantly larger discount per square foot of office space rented compared to start-ups and SMEs, multinationals also tend to have a significantly higher LTV/CAC than smaller clients. There are several reasons for this. For one, the CAC is much lower: acquiring 500 small clients that need one seat each requires a much larger salesperson team and more salaried hours than acquiring one multinational client with a 500 desk order. Secondly, the LTV is significantly higher: both because multinationals tend to sign three-year contracts, as opposed to the <1 year average contract duration of smaller clients, and because contract renewal rates for multinationals are much higher than for smaller clients (due to multinationals having a much higher survival rate than smaller companies and because IWG's competitors can typically provide an attractive solution for smaller clients, but not for multinationals, as only IWG's location network meets these multinationals' requirements). As such, mini-monopoly contracts, such as those IWG signed with International Airlines Group, Deloitte, and NTT, are likely some of IWG's most lucrative contracts on a ROIC basis. Furthermore, as a large proportion of traditional long-term office lease contracts expires within the next several years (see Appendix Exhibit #3), demand from multinationals for flex office space should experience strong growth (driven by the preference of both these companies and their workers for flex working over traditional offices) - largely benefitting IWG.

3) Economies of Scale - According to Deskmag, only 42% of coworking spaces globally are profitable. A large reason for this is because the coworking industry has low barriers to entry, but high barriers to scale. As the largest player in the industry, IWG has several economies of scale advantages. First, IWG has greater purchasing power than competitors and, therefore, receives larger discounts on purchased goods. An example of this is with office furniture, a category in which IWG is the second-largest purchaser globally (after the U.S. government). Secondly, IWG also benefits from economies of scale for SG&A costs. As shown in Appendix Exhibit #4, SG&A fell from 18.5% of revenue in 2013 to 10.3% in 2018 (post-2018 the trend is less comparable due to IWG's revenue base becoming more capital-light). There are many drivers of such efficiencies, but just to name a few: a greater density of locations in a territory allows for significantly higher utilization of regional managers in that territory and the proprietary technologies that IWG offers (such as an app for customers to book workspaces and workspace recovery tools) can be rolled out to new centers at a very low marginal development cost.

4) Ancillary Revenue Exposure - Ancillary revenue refers to the revenue that a flex operator generates aside from base tenant agreements. Sources of such revenues can include anything from tea, coffee, and food to printing, parking, IT services, and secretarial services (IWG has 120 such lines of revenues). For IWG, ancillary revenue makes up ~26% of a location's revenue (used to be 27-28% but a portion of this was transferred to Worka, which will be discussed in the *Worka - Industry & Company Overview* Section), as compared to WeWork's 7% and Industrious's <7%. It is worth mentioning that this is not an exact apples-to-apples comparison: WeWork, for example, is famous for including all sorts of perks into its base tenant agreements (such as unlimited drinks), which would not be considered ancillary revenues. However, even taking this into account, IWG's ancillary revenue exposure being so much higher than competitors likely highlights that it has a superior and more diversified revenue

stream. This becomes even more apparent when looking at the breakdown of IWG's ancillary revenue by category. Only about 25% of IWG's ancillary revenue is space-related, such as the booking of meeting rooms. The other 75% is non-space-related, which includes IT services, telephone services, secretarial services, and call answering services. Such functions tend to be highly centralized and frequently require significant fixed investments, but limited marginal costs. As such, while it is perhaps possible for large flex operators like WeWork and Industrious to gradually approach IWG's ancillary revenue exposure, smaller competitors do not have the scale to make such investments. And, as ancillary revenues have a significantly higher underlying ROIC and margin level than base tenant agreement revenues, small competitors tend to operate relatively poor-quality businesses.

5) Brand Diversity - Unlike WeWork and Industrious, both of which essentially operate under a single brand, IWG operates across four key brands (and 19 brands in total). As such, IWG's approach to customer segmentation is superior to competitors. IWG's four key brands are: 1) Regus - the company's base brand (76% of locations), 2) Spaces - IWG's hip brand that is essentially a more productivity-focused version of a WeWork (13% of locations), 3) HQ - IWG's lower-tier brand (5% of locations), and 4) Signature - IWG's top-tier brand (2% of locations).

6) Lower Risk Leases - One of the most commonly held beliefs about the flex space industry is that it has a serious duration mismatch risk, with short-term assets and long-term liabilities (contracts with the customers of flex operators averaging only one-year, while flex operators sign decade-long traditional lease deals with landlords). This can indeed pose a serious risk, in fact it was one of the primary causes of Regus's (the former name for IWG) bankruptcy in the early 2000s. However, Mark Dixon (the founder and CEO of IWG) learned from these mistakes and transformed IWG's lease agreement structure to mitigate such risks. Nowadays, 96% of IWG's leases are flexible (meaning that they are either terminable at IWG's option within six months and/or are located in a segregated legal entity). Such agreements provide significant operational flexibility, allowing IWG to swiftly exit locations that are either individually underperforming or are struggling due to a severe event like COVID. They also provide IWG with strong negotiating power with landlords. An example of a SPV that IWG uses to insulate the main corporate entity from risk can be seen here. Of course, such agreements expose the landlord to significant risk, with some landlords even suing IWG for bankrupting such entities during the pandemic. However, IWG has historically almost always emerged victorious in such lawsuits and IWG has stated that outstanding legal disputes are not expected to have a material impact on the group. Indeed, it is worth noting that such SPV structures are commonplace in other industries with a revenue-real estate cost duration mismatch, such as with restaurants, hotels, and fitness companies. Furthermore, it is worth noting that while WeWork still has less SPV exposure than IWG today, ~82% of WeWork's leases are also already in a SPV structure, which is expected to increase over time. As such, landlords are increasingly being forced to accept the risk of dealing with a SPV if they want to contract with a flex operator, which, as previously mentioned, can have significant advantages when compared to traditional leases.

It is also helpful to provide a brief overview of each of IWG's two main competitors:

WeWork: Chances are that if you ask someone what word they most associate with coworking, he/she will say WeWork. This is likely WeWork's greatest advantage, its brand continues to be popular, especially with start-ups. However, WeWork's reputation has likely deteriorated recently with enterprise clients, who tend to value predictability and reliability. WeWork has proven to be neither, recently entering into bankruptcy and

planning to close 100s of its locations. The causes of the bankruptcy are numerous. One cause, for example, is WeWork's heavy reliance on large (on average ~3x as large as the average IWG location) CBD-centric leases. Many of the leases for such locations were signed during the U.S. CBD-office peak in 2019, leaving WeWork with an unmanageably high cost structure in markets where office vacancy has greatly increased and office pricing has greatly decreased as compared to before the pandemic (like New York City, San Francisco, etc.). Additionally, WeWork, with its startup culture and funding from venture capital, attempted to use a blitzscaling approach. While such an approach frequently works for technology start-ups, it has not been effective in the flex space market, with WeWork instead simply burning tens of billions of dollars without establishing the path to outsized mature-state profitability and ROIC levels. WeWork's bankruptcy brings about several positive tailwinds for IWG. First, WeWork's significant reduction in its real estate footprint (projected to decrease from close to 800 locations pre-bankruptcy to 500 locations post-bankruptcy) further cements IWG's scale advantages. Secondly, WeWork's post-restructuring plan suggests limited portfolio growth. IWG, meanwhile, is on-track to greatly accelerate expansion over the coming years, as will be discussed in the next section of the write-up. This should, once again, meaningfully increase IWG's scale advantage versus WeWork. And finally, WeWork's post-restructuring plan also suggests a much greater focus on profitability going forward, part of which will likely come from higher pricing (ending WeWork's historical irrationally-low pricing behavior). IWG should benefit from this higher pricing, which will likely occur through some mix of occupancy (dissatisfied WeWork customers switching to IWG) and pricing benefits.

Industrious: Relatively little is publicly-known about Industrious, as it is not a publicly-listed company. For an investment of ~$330M, CBRE acquired a 40% stake in the company, which I estimate to have ~10% of IWG's revenues. Industrious appears to be well-managed, with significant, yet sustainable growth. As such, I do believe that Industrious has the potential to grow faster than WeWork going forward, although I think that its growth (in terms of the number of locations added per year) will still be significantly less than IWG's.

To summarize this industry analysis, I agree with Mark Dixon's prediction that the flex industry should develop into a 2-4 player oligopoly. IWG will likely be by far and away the largest player within the industry, which will become even more evident when discussing IWG's growth plans in the next section of the write-up.

Core IWG - Company Overview: Core IWG has more than 8 million members across ~3,500 locations. As of FY2022, revenue exposure was 41% Americas, 33% non-UK EMEA, 16% UK, and 10% APAC. Revenue by customer type is not disclosed, but I am able to reasonably estimate that enterprise clients make up 55-60% of total revenues. This is larger than the 45-50% of total flex demand that is driven by enterprises, which is reasonable when taking into account that IWG has 83% of Fortune 500 companies as customers. All IWG locations use one of the following three operational models:

Conventional: As of FY2022, I estimate that conventional locations accounted for ~88% of IWG spaces. Conventional locations are those where IWG signs a long-term lease, builds out the space and then re-lets it to clients on a shorter-term basis. Conventional locations are attractive in that they allow IWG to fully capture the unit economics of a location, with a mid-20s after-tax ROIC level at maturity. However, building out conventional centers requires significant capital investment from IWG (averaging 590k GBP per center), which makes this strategy ill-suited for IWG's future ambition of adding 1,000+ locations annually (as it would require IWG to raise hundreds of millions of GBPs from either debt or equity annually).

Franchise: As of FY2022, I estimate that franchise locations accounted for ~9.5% of IWG spaces. Franchise locations are entirely from master franchise agreements (MFAs). MFAs are agreements that IWG (the owner of

the franchise brand) signs with a third-party to allow that third-party to become a franchisor itself of IWG locations in a specific territory. IWG signed MFAs for Japan, Switzerland, and Taiwan in 2019, although the Taiwan MFA was eventually sold back to IWG. No additional MFAs have been signed since 2019. At first, this was due to the disruption from the pandemic, but now it is a result of IWG management deciding that utilizing managed partnership agreements (the third operational model of IWG locations) is a better way for IWG to monetize its growth prospects and industry-leading position. IWG has historically struck MFAs at a 2-3.5x multiple of revenue in the sold-off territory (payable to IWG at the time in which the MFA is established), as well as a perpetual 4-8% royalty rate on the revenue generated in that territory (both from existing IWG locations and those opened in the future). Franchisees (and the master franchisor, if it has not franchised out all of the locations in its territory) are responsible for a majority of both the capital expenditure costs and the operational costs of franchised locations. As such, I estimate that IWG generates a >80% gross margin on the fees that it receives from franchise locations. This is supported by IR confirming that fees from such locations currently have an ~70% EBITDA margin, and stating that this margin should increase significantly over time due to operational leverage.

Managed/Partnered: As of FY2022, I estimate that managed partnership locations accounted for ~2.5% of IWG spaces. As previously mentioned, in a traditional IWG location, IWG signs a traditional long-term lease with a landlord and then builds out that space and re-lets it to clients on a shorter-term basis. For a managed partnership location, by comparison, IWG does not sign a traditional long-term lease with the landlord: instead it simply manages a direct flex lease agreement between the landlord and flex tenants. This can be riskier for the landlord, as his/her average lease duration will decline significantly. However, the 20-30% premium per sq. ft. that is typically paid for flex contracts vs. traditional leases means that a landlord that converts a portion of his/her space to flex (that is managed by IWG) often earns superior risk-adjusted returns and profits to one who does not. This holds true even when taking into account the various additional costs that the landlord is responsible for under a managed partnership agreement with IWG, which include: 1) Paying for the vast majority of the upfront CapEx that is needed to convert a traditional lease location to a flex location, 2) Paying for the vast majority of maintenance CapEx, 3) Paying for a large portion of operating costs, 4) Paying an initial signing fee to IWG, which I estimate to be 17.5k GBP on average per location, and 5) Paying an ongoing royalty, which averages to 15.5% of revenue. Additionally, due to the aforementioned competitive advantages that Core IWG uniquely possesses, partnering with IWG also tends to be more successful for the landlord than trying to operate flex purely in-house.

Going forward, the vast majority of IWG's expansion should come from managed/partnered locations, which present the most compelling growth avenue for IWG. This is because IWG gets to capture more of the economics from a managed partnership model than from a franchise model, while still being able to grow in a capital-light fashion. Therefore, management is planning to add ~1,000 managed partnership locations per year, which will likely account for >90% of location growth going forward. Results to date have been promising, with 582 managed partnership locations signed in Q1-Q3 of 2023 (40% more than in the entirety of 2022), however, this is clearly a KPI to continue monitoring going forward.

Worka - Industry & Company Overview: Worka is IWG's collection of digital assets, all of which occupy a part of the flex space value chain. The largest single asset within this collection is The Instant Group, which IWG acquired an 86.6% stake in for slightly less than 270M GBP (pre-synergy EBITDA multiple of ~10x) in March 2022. The remaining 13.4% of The Instant Group is held by Instant's management team from before the acquisition, who has also continued to manage the company post-acquisition. The Instant Group has two primary businesses. The first is the world's largest independent flex space brokerage business, which can be

found here. This business is similar to Booking.com or Airbnb, but for booking workspaces. Bookings tend to skew relatively short-term (approximately 90% of bookings are for one year or less), suggesting that the user base of instantoffices.com skews towards startups and SMEs, rather than large enterprises and multinationals. Instant Office's revenue model is based on a 10% cut on bookings, which is collected from the flex operator, and from monetization of the data on its website. Instant Group also has a managed partnership business, which operates in a similar fashion to IWG's managed partnership business and can be found here. It is important to note that IWG also has a variety of other flex space brokerage websites, such as Coworker and EasyOffices (all of which are included in the Worka segment). As a result, Worka accounts for approximately one-eighth of the global digital brokerage market for flex spaces.

Another major Worka asset is Davinci Virtual: a virtual office provider. A more comprehensive overview of virtual offices can be found in this article, but, essentially, a virtual office is simply something like a registered physical address or mail handling or call forwarding: all of which lack physical workspace for workers. The cost to Davinci of providing such services is relatively low (limited work hours needed), leading to very high incremental margins for Davinci. Furthermore, as the cost of virtual offices (typically $600-$4,200 per year) is a relatively small cost when compared to the total cost of operating a business, retention rates for virtual offices tend to be quite high. IWG also has additional websites that offer virtual offices, such as Regus Virtual Offices. For all of these services, revenue and profits are allocated 50-50 between Core IWG and Worka. As a result, it is important to note that while IWG management previously stated that conventional locations should earn a 30% contribution margin at maturity, this was before the Worka segment existed (so these conventional locations had all of the associated virtual office revenues and profits). As such, the target contribution margin for mature conventional locations is now 27%.

Worka also has a variety of smaller digital assets such as HometoWork, Rovva, and Meetingo. All in all, Worka is a fast-growing high-margin business that should be able to grow revenue at a mid-teens CAGR (in-line with industry growth), while having >50% incremental gross profit margins and >40% incremental EBITDA margins.

It is difficult to find true comparables to Worka's digital business, due to its diversified nature. However, in regard to The Instant Group, the largest competitor is Upflex. Leading shareholders of Upflex include WeWork, Newmark, and Cushman & Wakefield. It is important to note, however, that Upflex is vastly inferior to Worka in several key ways. First, Upflex's location network is much smaller, with 10,000+ locations vs. Worka's 30,000+. A key reason for this is that essentially all of the major flex operators list their spaces on Worka (including WeWork), while IWG refuses to list its spaces on Upflex. Additionally, Upflex only operates a B2B business, whereas The Instant Group operates both a B2B and a B2B2C one. And finally, while The Instant Group is solidly profitable, Upflex is struggling in this regard.

Management Team & Ownership:

CEO: Mark Dixon is the CEO and founder of IWG. He has been entrepreneurial from a young age: dropping out of high school at age 16 to pursue a variety of ventures (including operating a sandwich delivery business, selling encyclopedias, and becoming a miner in Australia). At age 29, he sold his hamburger stand for 800,000 GBP and relocated to Brussels. While dining at a Brussels restaurant, he noticed how business people would meet customers and suppliers in coffee shops, despite the inherent disadvantages of such non-dedicated spaces. It was there that Mark Dixon came up with what would eventually become IWG: opening the first Regus location in September 1989. IWG (then-called Regus) has certainly had its ups and downs (such as having to declare bankruptcy for the U.S. division of Regus in the early 2000s) since then. Yet, Mark Dixon has

consistently learned from such setbacks, continuously refining his strategy as a result of them. As a result, he is the most talented and knowledgeable executive in the flex space industry today.

CFO: Charlie Steel is the CFO of IWG (since November 2022). He was previously CFO of publicly-listed Babylon (November 2017 to October 2022), a now-defunct digital health services provider, Global Head of Corporate Development at CMC Markets (September 2014 to November 2017), and Vice President at Deutsche Bank (October 2008 to August 2014). IWG has historically had significant CFO turnover, with four CFOs since late 2015. However, after examining the matter, I believe that everything is above board and that this trend occurred due to a unique set of circumstances (such as disruptions from COVID and other exogenous factors), although it is impossible to be certain, of course.

Corporate culture: Decision-making at IWG is highly centralized - Mark Dixon must approve of every major decision (such as the opening of a new center). While this model certainly has some drawbacks (such as a heightened level of bureaucracy), it has been key to ensuring IWG's high quality-consistency and operational excellence (essentially the opposite of WeWork's "move fast and break things" ideology, which, while perhaps great in technology, is not the best in a CapEx heavy industry like flex).

Insider ownership: Mark Dixon is the only insider with significant stock: he holds ~28.8% of the shares outstanding. For what it's worth, it is clear from speaking with those that know Mark Dixon well that he believes that the current intrinsic value of the company is at least 10 GBP per share. Additionally, it is worth noting that, as part of an equity issuance that occurred in the midst of the pandemic (May 2020), Mark Dixon bought 91M GBP worth of shares at a price per share 33% higher than the current stock price.

Valuation: My DCF valuation of IWG, which reflects what I estimate IWG to be worth in a successful capital-light expansion scenario, as well as a thorough description of the assumptions underlying that DCF, can be found in the section of the write-up immediately preceding the Appendix. In such a scenario, I project IWG to have a current intrinsic value of 10.44 GBP per share (480% upside). By YE 2030, I believe that the company can be an eleven-bagger, with an underlying IRR of >40%.

It is also key to note that I believe that IWG has significant downside protection. This can be seen through three alternative, and purposefully highly conservative, valuation methods.

1) Highly bearish MFA scenario: During FY2022, I estimate that IWG had 2,446M GBP of conventional location revenue. Even if IWG sold a MFA for this entire network at only 1x revenue (significantly below the 2-3.5x sales multiple of MFA deals historically) and received only a 4% royalty on top-line sales from the network (at the low end of the historical 4-8% range), IWG would be worth 2.93 GBP. This is more than 62% upside on the current stock price and includes an unrealistically conservative assumption that the master franchisor (and underlying franchisees) does not grow IWG's existing network at all. Furthermore, this valuation attributes no value to the ~400 capital-light locations in the IWG network at the end of FY2022, nor does it attribute any value to Worka - the combination of which is easily worth another 1 GBP per share, even in a pessimistic scenario.

2) Conservative private equity valuation approach: In 2018, when the outlook on flex was significantly less bullish than is the case currently and IWG's TTM revenues were ~15% lower than those of FY2022, Brookfield and Onex approached IWG with a 2.7B GBP takeover offer. This offer was rejected by IWG as it grossly undervalued the company. Assuming that IWG was sold for this grossly insufficient price

today, and attributing no value to The Instant Group assets that were acquired since then, IWG's intrinsic value per share would still be nearly 26% more than the current stock price.

3) Precedent transaction of lower-quality comparable: As previously mentioned, CBRE acquired 40% of Industrious, which is ~10% the size of IWG, for ~$330M. Even without a control premium and without taking into account that IWG is a far superior business to Industrious, this would imply that IWG is worth 6.47B GBP (or 5.72 GBP/share, corresponding to 218% upside). This excludes the value of IWG's capital-light network and of Worka, which, as previously mentioned, likely adds at least another 1 GBP per share to fair value, even in a highly pessimistic scenario.

Why Does This Opportunity Exist?:

- Forced selling by large shareholders: Due to large redemptions from clients, Toscafund has been forced to sell large amounts of its IWG shares, particularly over the last several months. The fund used to own 16.8% of IWG's shares outstanding, but has been forced to reduce its holding to 11.7% (much of this selling has occurred since late August). For context, this reduction in shares is approximately equal to an entire month of IWG's average trading volume and, as such, likely put significant downward pressure on IWG's stock price.

- Overfocus on occupancy levels: Historically, a KPI for IWG was average total occupancy (average occupied square feet divided by available square feet). In regard to this, many analysts penalize IWG, saying that its recovery is trailing due to Q1-Q3 2023 average occupancy stagnating at around 270bps lower than FY2019 average occupancy levels. What this analysis misses, however, is that revenue from the individual booking of meeting rooms and from drop-ins to locations of IWG global-access members is not included in occupancy, yet has grown very meaningfully since 2019. As such, I estimate that on an adjusted-basis, IWG is already close to its 2019 occupancy levels. It is also worth noting that management recently introduced a new KPI that offers a more comprehensive view of the productivity of conventional locations: RevPAR (revenue per room), which should gradually re-focus investors.

- Misunderstanding of mature location contribution margin potential: Another important KPI historically has been mature conventional location contribution margins. Historically, management's target for such locations has been 30%. By contrast, I estimate that average mature conventional location contribution margins will be slightly below 22% for FY2023. At first glance, this appears to be a disappointing 73% of management's target. However, as previously discussed in the write-up and as many analysts fail to realize, on a like-for-like basis management's target for these locations would now be 27%, due to the reorganization of corporate segments (half of virtual office revenue being transferred to Worka). As such, mature conventional location contribution margins have already recovered to >80% of management's target and should increase further in the coming years due to more rational pricing from WeWork, normalization of ancillary revenues, and further portfolio optimization.

- Misunderstood lease accounting: At first glance, IWG appears to be a heavily levered company with 6.6B GBP of net debt as of FY2022. However, the vast majority of this debt is comprised of leases, which, as previously mentioned, are almost entirely breakable. As such, it is more appropriate to view IWG's net debt on a pre-IFRS 16 basis, which reduces net debt to 394M GBP (as of FY2022, treating the convertible entirely as equity).

- Under-appreciated business transformation: IWG looks like a poor-quality business today with a FY2022 5.5% CROCCI, but this should nearly quadruple to 21.4% by 2030 - largely due to IWG's transformation to a highly capital-light business model.

- General cyclicality and office fears

Risks:

- Execution risk: IWG management has clearly overpromised and underdelivered several times in recent history. The company downgraded guidance in three of the last six years (FY2017, FY2021, and FY2022), but, to be fair, these misses were primarily caused by factors outside of the company's control (i.e., the pace of demand recovery as the pandemic eased) in conjunction with the company's high operating leverage. Regardless, it is evident that Mark Dixon has created significant long-term value for IWG shareholders, and I expect overall strong execution from here on out, albeit with some hiccups along the way.

- Cannibalization: There is the potential, of course, that as IWG opens new centers, it will somewhat cannibalize the company's existing centers. However, management are very cognizant of this and believe that the sheer amount of whitespace in the rapidly-growing flex industry, as well as IWG's plan to have 90% of future location openings be in non-CBD locations, should lead to very limited cannibalization in the coming decade.

- Oversupply of flex: As the flex industry has low barriers to entry, it is possible that the market will be over-supplied some time in the future. Such a supply-demand imbalance would, of course, put pressure on pricing. However, as smaller players in the industry have a significantly higher cost structure than larger competitors, over time these small players would likely be forced out of the industry - restoring supply and pricing to an equilibrium.

- Reputation with landlords: Of course, landlords are not thrilled when IWG essentially unilaterally decides to exit a lease agreement with them. However, as previously noted, the shift to hybrid and the increasing use of SPVs by many of the large flex operators leaves landlords with little choice. Furthermore, historically this has not been a significant issue (such as in this example, where IWG was able to sign a lease with another landlord literally across the street from where it had just bankrupted a SPV).

- Legal risk: See point #6 in the *Core IWG - Industry Overview* Section for a discussion of this risk.

- Competition from large flex providers: See *Core IWG - Industry Overview* Section for a discussion of this risk.

- Competition from landlords: I believe that conventional landlords will find it difficult to directly compete in the flex industry. The expertise needed to successfully manage a flex client is quite simply very different from that needed to manage a traditional long-term lease (requiring different sales, customer service, construction, and infrastructure processes). And, as empirical evidence demonstrates, landlords have tended to view partnering with a large flex operator as a value-add strategy: whether it be CBRE's

acquisition of 40% of Industrious or the strong YTD interest from landlords for IWG's managed partnership offerings.

- Worka independence: When IWG acquired The Instant Group, there were significant concerns regarding whether The Instant Group would continue to operate in an impartial manner. Core IWG competitors were concerned that The Instant Group would begin to prioritize IWG's own listings over those of competitors and that IWG would pry into competitors' data on the platform in order to gain a competitive edge. However, IWG's management team decided to, rather intelligently, have the platform continue to be run completely independently from the rest of IWG (and for it to continue being run by The Instant Group's original CEO and CFO). As such, competitors were reassured of the platform's independence and have maintained their listings and normal operations on the platform. However, it is clearly a good idea to continue monitoring this risk going forward.

- Upflex competition: See *Worka - Industry & Company Overview* Section for a discussion of this risk.

- CFO current situation/history: See *Management Team & Ownership* Section for a discussion of this risk. It is also worth noting that former CFO Eric Hageman continues to speak very positively about IWG to this day.

Catalysts:

- Reporting currency: From Q1 2024, IWG has made the decision to begin reporting in USD instead of GBP. This should better match IWG's reporting currency to the company's revenue base, leading to less exchange rate volatility in reported results.

- Adopting U.S. GAAP: IWG will make a decision in H1 of 2024 about whether to adopt U.S. GAAP. The company currently uses IFRS reporting, which unlike U.S. GAAP, requires operating leases to be included in net financial debt (refer to the *Why Does This Opportunity Exist?* Section for a discussion on why U.S. GAAP's standard of excluding operating leases from net debt is more appropriate for IWG). Additionally, differences in the treatment of leases between the two accounting standards also leads to differences in the PNL, with the U.S. GAAP income statement likely being more indicative of IWG's true economic reality. As such, IWG can likely make it easier for investors to understand its financials by switching to U.S. GAAP, which according to recent comments by management, is very likely.

- U.S. listing: There is a significant chance that IWG re-lists on the NASDAQ or NYSE in the next 12 to 18 months. Management is actively considering this option and is ramping up investor relations activity within the U.S. (i.e., the latest Capital Markets Day being held in New York City, as opposed to the company's history of hosting such events in London).

- Cyclical recovery in mature location earnings: See *Assumptions* Section immediately preceding the appendix for a discussion of this catalyst.

- End of Toscafund selling: Once Toscafund has finished selling down the requisite amount of IWG shares, it will eliminate a substantial portion of the current downward pressure on the stock price.

- Aggressive share repurchases and dividend reinstatement: IWG's transition to a capital-light model should lead to very substantial amounts of FCF being generated over the coming years, which IWG's management team plans to use for value-creating buybacks and a reinstatement of a regular dividend (both of which were in place before the pandemic hit).

- Worka monetization: IWG management originally planned to monetize (through a divestiture or spinoff) the company's Worka stake by the end of 2023, largely due to the Worka independence concerns mentioned in the *Risks* Section of the write-up. However, with these concerns largely subsiding, management now believes that monetizing this stake three to five years from now will create more value for shareholders. The NPV of this monetization alone (assuming that 100% of Worka is sold off) could easily be worth more than the entirety of IWG's current EV, in my opinion.

DCF Valuation:

IWG:LN, All in GBP (Thousands)	2022	2023	2024	2025	2026	2027	2028	2029	2030
Color Code - Black: Published Data, Red - Internal Estimates, Blue - Calculations									
Locations:									
Conventional Locations	2,946	2,946	2,996	3,046	3,096	3,146	3,196	3,246	3,296
Managed/Partnered Locations (Total Opened) YE	83	487	1,342	2,342	3,342	4,342	5,342	6,342	7,342
Managed/Partnered Locations (Total Opened) Mid-Year	N/D	285	915	1,842	2,842	3,842	4,842	5,842	6,842
Of Which Mature Locations	N/D	43	83	487	1,342	2,342	3,342	4,342	5,342
Of Which Immature Locations	N/D	242	832	1,355	1,500	1,500	1,500	1,500	1,500
Managed/Partnered Locations (Total Signed)	487	1,243	2,243	3,243	4,243	5,243	6,243	7,243	8,243
Franchised Locations YE	316	346	376	406	436	466	496	526	556
Franchised Locations Mid-Year	N/D	331	361	391	421	451	481	511	541
Of Which Mature Locations	N/D	286	316	346	376	406	436	466	496
Of Which Immature Locations	N/D	45	45	45	45	45	45	45	45
Total Location Count (Opened)	3,345	3,779	4,714	5,794	6,874	7,954	9,034	10,114	11,194
YoY Growth	0.9%	13.0%	24.7%	22.9%	18.6%	15.7%	13.6%	12.0%	10.7%
Revenue Per Location:									
Conventional Locations	831	911	953	996	1,031	1,068	1,105	1,144	1,184
Implied Price Index (% of Pre-COVID Levels)	95.0%	103.2%	107.3%	111.6%	115.0%	118.4%	122.0%	125.6%	129.4%
Average Managed/Partnered/Franchise System Revenue Per Mature Location	N/D	592	619	647	670	693	718	743	769
Average Managed/Partnered/Franchise System Revenue Per Immature Location	N/D	444	464	485	502	520	538	557	577
Managed/Partnered Initial Fee	N/D	17.5	17.9	18.2	18.6	18.9	19.3	19.7	20.1
Managed/Partnered Royalty (% Of Location Revenue), For Both Mature & Immature	N/D	15.5%	15.5%	15.5%	15.5%	15.5%	15.5%	15.5%	15.5%
Franchise Royalty (% Of Location Revenue)	N/D	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Total Revenue:									
Conventional Locations Total	2,446,767	2,685,051	2,831,047	3,009,677	3,167,030	3,331,728	3,504,090	3,684,453	3,873,166
Gross Managed/Partnered System Revenue	N/D	132,904	437,356	972,752	1,652,508	2,403,983	3,206,246	4,061,938	4,973,823
Of Which From Mature Locations	N/D	25,456	51,372	315,137	898,932	1,623,919	2,398,763	3,226,072	4,108,576
Of Which From Immature Locations	N/D	107,448	385,985	657,615	753,576	780,064	807,483	835,866	865,247
Gross Franchise System Revenue	N/D	189,292	216,473	245,736	274,469	304,918	337,169	371,310	407,435
Of Which From Mature Locations	N/D	169,312	195,584	223,896	251,862	281,516	312,945	346,234	381,478
Of Which From Immature Locations	N/D	19,980	20,889	21,840	22,607	23,402	24,224	25,076	25,957
Managed/Partnered Initial Fees	N/D	13,230	17,850	18,207	18,571	18,943	19,321	19,708	20,102
Managed/Partnered Royalties, Mature Locations	N/D	3,946	7,963	48,846	139,334	251,708	371,808	500,041	636,829
Managed/Partnered Royalties, Immature Locations	N/D	16,654	59,828	101,930	116,804	120,910	125,160	129,559	134,113
Managed/Partnered Total	N/D	33,830	85,640	168,984	274,710	391,560	516,290	649,308	791,045
Franchise Royalties, Mature Locations	N/D	10,159	11,735	13,434	15,112	16,891	18,777	20,774	22,889
Franchise Royalties, Immature Locations	N/D	1,199	1,253	1,310	1,356	1,404	1,453	1,505	1,557
Franchise Total	N/D	11,358	12,988	14,744	16,468	18,295	20,230	22,279	24,446
Capital-Light Total	33,233	45,188	98,629	183,728	291,178	409,855	536,520	671,587	815,491
Worka	271,000	352,000	440,000	539,000	646,800	759,990	892,988	1,026,936	1,180,977
YoY Growth	N/A	29.9%	25.0%	22.5%	20.0%	17.5%	17.5%	15.0%	15.0%
Total Revenue	2,751,000	3,082,239	3,369,676	3,732,405	4,105,008	4,501,573	4,933,598	5,382,976	5,869,634
Reconciliation to Systems Revenue	335,000	277,008	555,201	1,034,760	1,635,799	2,299,046	3,006,895	3,761,661	4,565,767
Total System-Wide Revenue	3,086,000	3,359,247	3,924,877	4,767,165	5,740,807	6,800,619	7,940,493	9,144,637	10,435,401
Total System-Wide Revenue, Excl. Worka	2,815,000	3,007,247	3,484,877	4,228,165	5,094,007	6,040,629	7,047,505	8,117,701	9,254,424

Contribution Margin:									
Conventional Locations	17.0%	21.5%	22.8%	24.0%	24.3%	24.5%	24.8%	24.9%	25.0%
Managed/Partnership Initial Fees	N/D	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
Managed/Partnership Royalties, Mature Locations	N/D	86.0%	86.0%	86.0%	86.0%	86.0%	86.0%	86.0%	86.0%
Managed/Partnership Royalties, Immature Locations	N/D	81.4%	81.4%	81.4%	81.4%	81.4%	81.4%	81.4%	81.4%
Managed/Partnered Total	N/D	57.9%	69.0%	76.1%	79.6%	81.4%	82.4%	83.1%	83.6%
Franchise Royalties, Mature Locations	N/D	86.0%	86.0%	86.0%	86.0%	86.0%	86.0%	86.0%	86.0%
Franchise Royalties, Immature Locations	N/D	81.4%	81.4%	81.4%	81.4%	81.4%	81.4%	81.4%	81.4%
Franchise Total	N/D	85.5%	85.6%	85.6%	85.6%	85.7%	85.7%	85.7%	85.7%
Capital Light Locations	67.0%	64.9%	71.2%	76.9%	79.9%	81.6%	82.5%	83.2%	83.6%
Worka	50.9%	44.0%	46.5%	48.0%	49.0%	49.5%	50.0%	50.3%	50.5%
Company-Wide Contribution Margin	20.9%	24.7%	27.3%	30.1%	32.1%	33.9%	35.6%	37.0%	38.3%
Total Center Contribution:									
Conventional Locations	414,727	577,286	644,063	722,322	768,005	816,273	867,262	916,508	968,292
Managed/Partnership Initial Fees	N/D	2,646	3,570	3,641	3,714	3,789	3,864	3,942	4,020
Managed/Partnership Royalties, Mature Locations	N/D	3,394	6,850	42,018	119,857	216,522	319,834	430,142	547,809
Managed/Partnership Royalties, Immature Locations	N/D	13,550	48,677	82,932	95,034	98,374	101,832	105,412	109,117
Managed/Partnered Total	N/D	19,590	59,096	128,592	218,605	318,685	425,531	539,495	660,946
Franchise Royalties, Mature Locations	N/D	8,739	10,095	11,556	12,999	14,530	16,152	17,870	19,689
Franchise Royalties, Immature Locations	N/D	975	1,020	1,066	1,104	1,142	1,183	1,224	1,267
Franchise Total	N/D	9,714	11,114	12,622	14,103	15,672	17,335	19,094	20,956
Capital-Light Total	22,273	29,304	70,211	141,214	232,708	334,357	442,865	558,589	681,902
Worka	138,000	154,880	204,600	258,720	316,932	376,195	446,494	516,036	596,393
Company-Wide Gross Profit	575,000	761,470	918,874	1,122,256	1,317,645	1,526,825	1,756,622	1,991,132	2,246,587
% of Company-Wide Revenue	20.9%	24.7%	27.3%	30.1%	32.1%	33.9%	35.6%	37.0%	38.3%
Reported Net Income Reconciliation:									
Company-Wide Gross Profit	575,000	761,470	918,874	1,122,256	1,317,645	1,526,825	1,756,622	1,991,132	2,246,587
SG&A (Overhead) Excl. Worka	-350,000	-374,500	-400,715	-428,765	-458,779	-490,893	-525,256	-562,024	-601,365
% of Total System Revenue, Excl. Worka	12.4%	12.5%	11.5%	10.1%	9.0%	8.1%	7.5%	6.9%	6.5%
% of Conventional Location Revenue	14.3%	13.9%	14.2%	14.2%	14.5%	14.7%	15.0%	15.3%	15.5%
SG&A Worka	-56,000	-65,000	-75,750	-86,056	-96,800	-106,140	-118,017	-130,584	-144,267
% of Worka Revenue	20.7%	18.5%	17.2%	16.0%	15.0%	14.0%	13.2%	12.7%	12.2%
Total SG&A	-406,000	-439,500	-476,465	-514,821	-555,578	-597,033	-643,272	-692,608	-745,632
Company-Defined Adj. Operating Profit	169,000	321,970	442,409	607,435	762,067	929,793	1,113,350	1,298,525	1,500,955
Additional Adjustments	-22,000	0	0	0	0	0	0	0	0
Reported Operating Profit	147,000	321,970	442,409	607,435	762,067	929,793	1,113,350	1,298,525	1,500,955
Net Finance Expense	-252,000	-340,000	-342,276	-347,472	-353,233	-359,579	-366,533	-374,118	-382,355
Of Which Non-Lease Net Interest Expense	-38,000	-60,000	-51,429	-42,858	-34,287	-25,716	-17,145	-8,574	0
Of Which Other Expenses (Primarily Consisting of Lease Net Interest Expense)	-214,000	-280,000	-290,847	-304,614	-318,946	-333,863	-349,388	-365,544	-382,355
EBT	-105,000	-18,030	100,133	259,963	408,834	570,214	746,817	924,407	1,118,600
Income Tax Expense	-16,000	2,704	-15,020	-38,994	-61,325	-85,532	-112,023	-138,661	-167,790
Implied Tax Rate	N/M	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
Profit (Loss) From Continuing Operations	-121,000	-15,325	85,113	220,968	347,509	484,682	634,794	785,746	950,810
Profit (Loss) From Discontinued Operations	1,000	0	0	0	0	0	0	0	0
Reported Net Income (Loss)	-120,000	-15,325	85,113	220,968	347,509	484,682	634,794	785,746	950,810
% of Company-Wide Revenue	N/M	N/M	2.5%	5.9%	8.5%	10.8%	12.9%	14.6%	16.2%

Free Cash Flow:									
Company-Defined Adj. Operating Profit	169,000	321,970	442,409	607,435	762,067	929,793	1,113,350	1,298,525	1,500,955
% of Company-Wide Revenue	6.1%	10.4%	13.1%	16.3%	18.6%	20.7%	22.6%	24.1%	25.6%
Less: Worka's Management 13.4% Economic Stake in Worka	-10,988	-12,044	-17,266	-23,137	-29,498	-36,187	-44,016	-51,650	-60,585
Plus: Non-Worka D&A (Excl. Lease Depreciation)	330,000	307,935	285,870	263,804	241,739	219,674	197,609	175,544	153,478
Plus: Worka Amortization of Acquisition-Related Assets, Adjusted For Worka Non-Control	14,722	12,882	11,042	9,201	7,361	5,521	3,681	1,840	0
Plus: Other Worka D&A, Adjusted For Worka Non-Controlling Interest	11,258	13,067	15,228	17,300	19,460	21,338	23,726	26,252	29,003
Less: Net Finance Expense	-252,000	-340,000	-342,276	-347,472	-353,233	-359,579	-366,533	-374,118	-382,355
Less: Income Tax Expense	-16,000	2,704	-15,020	-38,994	-61,325	-85,532	-112,023	-138,661	-167,790
Less: Decrease (Increase) In Working Capital	-82,000	-82,000	-82,000	-82,000	-84,000	-86,000	-78,000	-70,000	-62,000
Of Which Decrease (Increase) In Base Working Capital Change	22,000	22,000	22,000	22,000	20,000	18,000	16,000	14,000	12,000
Of Which Related to the Amortization of Partner Contributions	-104,000	-104,000	-104,000	-104,000	-104,000	-104,000	-94,000	-84,000	-74,000
Firm Operating Cash Flow, Pre-IFRS 16 Proxy	163,992	224,515	297,986	406,137	502,572	609,027	737,793	867,731	1,010,706
% of Company-Wide Revenue	6.0%	7.3%	8.8%	10.9%	12.2%	13.5%	15.0%	16.1%	17.2%
Plus: Non-Controlling Interest Portion of Worka CapEx	1,876	2,178	2,538	2,883	3,243	3,556	3,954	4,375	4,833
Less: Net Maintenance CapEx	-90,000	-80,000	-75,500	-78,295	-81,172	-84,133	-87,179	-90,314	-93,539
Of Which Gross Maintenance CapEx	-101,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Of Which Partner Contributions Offset	11,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Firm Free Cash Flow Excl. Growth Investments, Pre-IFRS 16 Proxy	75,868	146,692	225,024	330,725	424,643	528,450	654,567	781,792	922,000
% of Company-Wide Revenue	2.8%	4.8%	6.7%	8.9%	10.3%	11.7%	13.3%	14.5%	15.7%
Less: Net Growth CapEx	-141,000	-66,000	-47,000	-54,289	-55,375	-56,482	-57,612	-58,764	-59,939
Of Which Gross Growth CapEx	-180,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Of Which Partner Contributions Offset	39,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Firm Free Cash Flow, Pre-IFRS 16 Proxy	-65,132	80,692	178,024	276,436	369,268	471,968	596,956	723,028	862,061
% of Company-Wide Revenue	N/M	2.6%	5.3%	7.4%	9.0%	10.5%	12.1%	13.4%	14.7%
Discounted Free Cash Flow:									
Net Present Value Multiple (Assumes 10% Discount Rate)	N/A	100.0%	90.9%	82.6%	75.1%	68.3%	62.1%	56.4%	51.3%
Discounted Free Cash Flow	N/A	80,692	161,840	228,460	277,437	322,361	370,663	408,131	442,374
CROCCI (Cash Return on Cash Capital Invested), Pre-IFRS 16:									
Firm Operating Cash Flow Proxy, Pre-IFRS 16 Proxy	163,992	224,515	297,986	406,137	502,572	609,027	737,793	867,731	1,010,706
Plus: Worka's Management 13.4% Economic Stake in Worka	10,988	12,044	17,266	23,137	29,498	36,187	44,016	51,650	60,585
Plus: Worka Amortization of Acquisition-Related Assets Of Worka Non-Controlling Interes	2,278	1,993	1,709	1,424	1,139	854	570	285	0
Plus: Other Worka D&A Of Worka Non-Controlling Interest	1,742	2,022	2,356	2,677	3,011	3,302	3,671	4,062	4,488
Operating Cash Flow Proxy Including Worka Non-Controlling Interest, Pre-IFRS 16	179,000	240,574	319,317	433,375	536,220	649,370	786,050	923,729	1,075,779
Net PP&E + Net Intangibles + Accumulated D&A of PP&E & Intangibles, Excl. Leases	3,327,000	3,473,000	3,595,500	3,728,084	3,864,631	4,005,245	4,150,036	4,299,114	4,452,592
Net Working Capital	-43,000	39,000	121,000	203,000	287,000	373,000	451,000	521,000	583,000
Gross Cash Invested, Pre-IFRS 16	3,284,000	3,512,000	3,716,500	3,931,084	4,151,631	4,378,245	4,601,036	4,820,114	5,035,592
CROCCI, Pre-IFRS 16	5.5%	6.9%	8.6%	11.0%	12.9%	14.8%	17.1%	19.2%	21.4%
EBITDA:									
Company-Wide EBITDA, Pre-IFRS 16	315,000	379,870	467,766	597,227	715,832	846,619	993,217	1,140,964	1,305,569
% of Company-Wide Revenue	11.5%	12.3%	13.9%	16.0%	17.4%	18.8%	20.1%	21.2%	22.2%
% of Total System Revenue	10.2%	11.3%	11.9%	12.5%	12.5%	12.4%	12.5%	12.5%	12.5%
Worka EBITDA	112,000	119,844	159,185	203,266	251,104	301,070	360,124	417,890	485,617
% of Worka Revenue	41.3%	34.0%	36.2%	37.7%	38.8%	39.6%	40.3%	40.7%	41.1%

2030 Terminal Value:	
Conventional Centers Contribution	968,292
% of Total Non-Worka Contribution	58.7%
Fair Value Multiple	15.0
Conventional Fair Value	14,524,373
Managed/Partnered Centers Contribution	660,946
% of Total Non-Worka Contribution	40.1%
Fair Value Multiple	20.0
Managed/Partnered Fair Value	13,218,921
Franchise Centers Contribution	20,956
% of Total Non-Worka Contribution	1.3%
Fair Value Multiple	20.0
Franchise Fair Value	419,126
Worka	596,393
Fair Value Multiple	15.0
Worka Fair Value	8,945,900
Overhead (Excl. Worka)	-601,365
Assigned Multiple (Based On Weighted Center Contribution)	17.1
Overhead (Excl. Worka) Fair Value	-10,262,975
Overhead (Worka)	-144,267
Assigned Multiple (Based On Weighted Center Contribution)	15.0
Overhead (Worka) Fair Value	-2,164,006
Net Finance Expenses, Excl. Non-Lease Interest Expense	-382,355
Assigned Multiple (Based On Weighted Center Contribution)	17.1
Net Finance Expenses, Excl. Non-Lease Interest Expense Fair Value	-6,525,314
Terminal Fair Value	18,156,025
NPV of Fair EV:	
Sum of FCF (2023-2030)	3,558,434
NPV of Sum of FCF (2023-2030)	2,291,956
Terminal Fair Value	18,156,025
NPV of Terminal Fair Value	9,316,912
Implied Current-Day Fair EV	11,608,867

Equity Fair Value	
Implied Current-Day Fair EV	11,608,867
NPV of Proceeds From Full Conversion of 2027 Bond	239,055
Net Cash (Debt) 2022 YE, Excl. Leases & Excl. Convertible Bond	-394,000
Net Retirement Benefits (Obligations) 2022 YE	-2,000
Net Provisions Assets (Liabilities) 2022 YE	-74,000
Current Target Equity Value	**11,377,922**
Implied Fair P/E, Pre-IFRS 16	N/M
Fully Diluted Shares Outstanding (Including Convertible), In Thousands	1,090,178
Current Target Per Share Value (Pence)	**1,044**
Current Stock Price (Pence)	180
Upside	**479.8%**
2030 YE Implied Fair EV	18,156,025
Implied Fair EV/EBITDA, Pre-IFRS 16	14.6
Implied Fair EV/EBIT, Pre-IFRS 16	17.2
Implied Fair EV/Cash Flow From Operations, Pre-IFRS 16	18.0
Implied Fair EV/Maintenance FCF, Pre-IFRS 16	19.7
Implied Fair EV/FCF Post-Growth Investments, Pre-IFRS 16	21.1
2030 YE Target Equity Value	**22,470,580**
Implied Fair P/E, Pre-IFRS 16	23.6
2030 YE Fully Diluted Shares Outstanding, In Thousands	1,122,883
2030 YE Target Per Share Value (Pence)	**2,001**
Current Stock Price (Pence)	180
7-Year Upside	**1011.8%**
7-Year IRR	**41.1%**

Assumptions:

- **Normalized Inflation Assumption:** 2% p.a.
- **Conventional Locations Growth:** Low growth (50 locations per year after 2023)
- **Managed/Partnered Locations Growth:** In-line with management guidance from CMD presentation
- **Franchised Locations Growth:** Low-to-medium growth (30 locations per year)
- **Location Maturity:** Assumes that it takes 18 months for a location to mature, which is conservative (it likely takes closer to 15 months)
- **Average Managed/Partnered/Franchise System Revenue Per Mature Location:** Consistent with CMD presentation. Significantly smaller than for conventional locations due to the size of managed/partnered and franchised locations being significantly smaller than conventional ones.
- **Per Location Revenue Growth:** ~3.8% CAGR from 2023-2030. Consists of 3% per year pricing growth, 0.5% per year ancillary revenue growth (in real terms), and another 1% benefit (coming through as a mix of occupancy and price) only in 2024 and 2025 to account for more rational pricing from WeWork. The growth rate in ancillary revenue suggests that ancillary revenue as a % of location revenue averages 30% by 2030, which is consistent with my discussions with IR.
- **Revenue Per Immature Location:** Assumed to be, on average, 75% of the mature location average. This is based on occupancy data estimates that I obtained from expert calls.
- **Managed/Partnered Initial Signing Fee:** 17,500 GBP, grows at the rate of inflation.
- **Managed/Partnered Royalty Fee:** 15.5% of revenue, in-line with management guidance and expert calls.
- **Franchise Royalty:** 6% of revenue, in-line with data from expert calls.
- **New Master Franchise Agreements:** No additional MFA territories sold off by IWG. This is in-line with communication by management, who have stated that they will only add significant MFA territories if they can be sold off at an extremely attractive valuation.
- **Worka Revenue Growth Rate:** 16.2% from 2021-2030, a deceleration from the ~20% CAGR of The Instant Group from 2019-2021. Roughly in-line with the growth rate of the flex industry, probably lower.
- **Conventional Location Contribution Margin:** Expands from 21.5% in FY2023 to 25.0% in FY2030. This is fairly conservative, management's 27% mature location contribution margin target would imply that this should essentially reach 27% by 2030 (as practically all conventional locations should be mature by then). Increase is driven primarily by more rational pricing by WeWork, as well as from the normalization of ancillary revenues and further portfolio optimization.
- **Managed/Partnered Initial Signing Fees Contribution Margin:** Conservatively assumed to be 20%, but there is limited data available on this. Salespeople get paid from initial signing fees as a commission for signing up new locations.
- **Managed/Partnered Mature Location Royalties Contribution Margin:** 86.0% as per management guidance in the CMD presentation.
- **Managed/Partnered Immature Location Royalties Contribution Margin:** 81.4%, assumes that the amount that IWG contributes to running a managed partnership location does not depend on whether that location is mature.
- **Franchise Mature & Immature Location Royalties Contribution Margin:** Assumed to be the same as for managed/partnered locations, as IR has confirmed that both operating models should have similar EBITDA margins once managed partnerships reaches scale.
- **Worka Contribution Margin:** Gradually expands from 44.0% in 2023 to 50.5% in 2030. This is fairly conservative, as it is less than management's 51.0% target for 2028.

- **SG&A (Overhead) Excluding Worka:** Grows by 7% p.a., which appears consistent with YTD and management commentary.
- **Worka SG&A:** Gradually decreases as a % of revenue to result in a 41.1% EBITDA margin by 2030, conservative as compared to management's 42% 2028 target (even when taking into account that I am 100bps below management's 2028 Worka gross margin target).
- **Non-Lease Net Interest Expense:** Assumes a gradual net reduction of non-lease debt to 0.
- **Other Net Finance Expenses:** These primarily consist of lease interest expenses, which I grow at a rate of 3% (estimated per-location lease increase p.a.) and by the growth rate in the number of conventional locations. The per-location growth rate in leases may, of course, be higher than 3% p.a., but then this would be offset with higher revenue growth per location in my model.
- **Assumed Tax Rate:** 15% tax rate, based on the global minimum tax rate of 15% (higher than the corporate tax rate in the Swiss canton of Zug, where IWG is domiciled).
- **Non-Worka D&A:** Gradually decreases from 2022 level to IWG's normalized CapEx level.
- **Worka Amortization:** Split into the amortization of acquisition-related assets, which should gradually decrease to 0, and other amortization, which I increase in-line with Worka's SG&A increase.
- **Change in Working Capital:** Comprised of change in base working capital and working capital changes related to the amortization of partner contributions, with forecasts being consistent with my discussions with IR.
- **Net Maintenance CapEx:** In-line with management guidance for FY2023 and FY2024, then increased by the growth rate of conventional locations multiplied by inflation (a bit more conservative than management guidance perhaps).
- **Net Growth CapEx:** In-line with management guidance for FY2023 and FY2024, then increased by the growth rate of total locations multiplied by inflation (a bit more conservative than management guidance perhaps). Only exception is in 2024, where I do not multiply by inflation as IWG should derive mix benefits from opening a substantially higher proportion of capital-light locations in 2024 than in 2023.
- **Discount Rate:** Assumed to be 10%.
- **Terminal Value Pre-IFRS 16 EBIT Multiples:** 15x multiple for conventional centers (roughly in-line with Whitbread), 20x for managed/partnered and franchised centers (roughly in-line with Hilton and Marriott, and at a discount to FirstService Corp.), and 15x for Worka (a couple of turns discount to Booking.com and Expedia). Negative fair values from overhead and non-lease interest finance expenses are based on the contribution weightings of the various segments. Overall, such segment multiples imply that the fair value of IWG in 2030 is 21.1x 2030 FCFF (after growth investments), which, as IWG can likely grow FCF at a mid-to-high single-digit CAGR from 2030-2040 (TAM is 20,000-30,000 locations globally as opposed to the 11,194 that I am projecting at YE2030), seems appropriate, if not cheap.

With my model, I arrive at ~993M GBP of company-wide EBITDA by 2028, significantly higher than management's guidance for 1B USD. However, IR did inform me that management's guidance contains a very large margin of safety when compared to internal expectations and, as such, I believe that my estimate is appropriate.

Appendix:

<u>Exhibit #1 - Global office vacancies are at a record high</u>

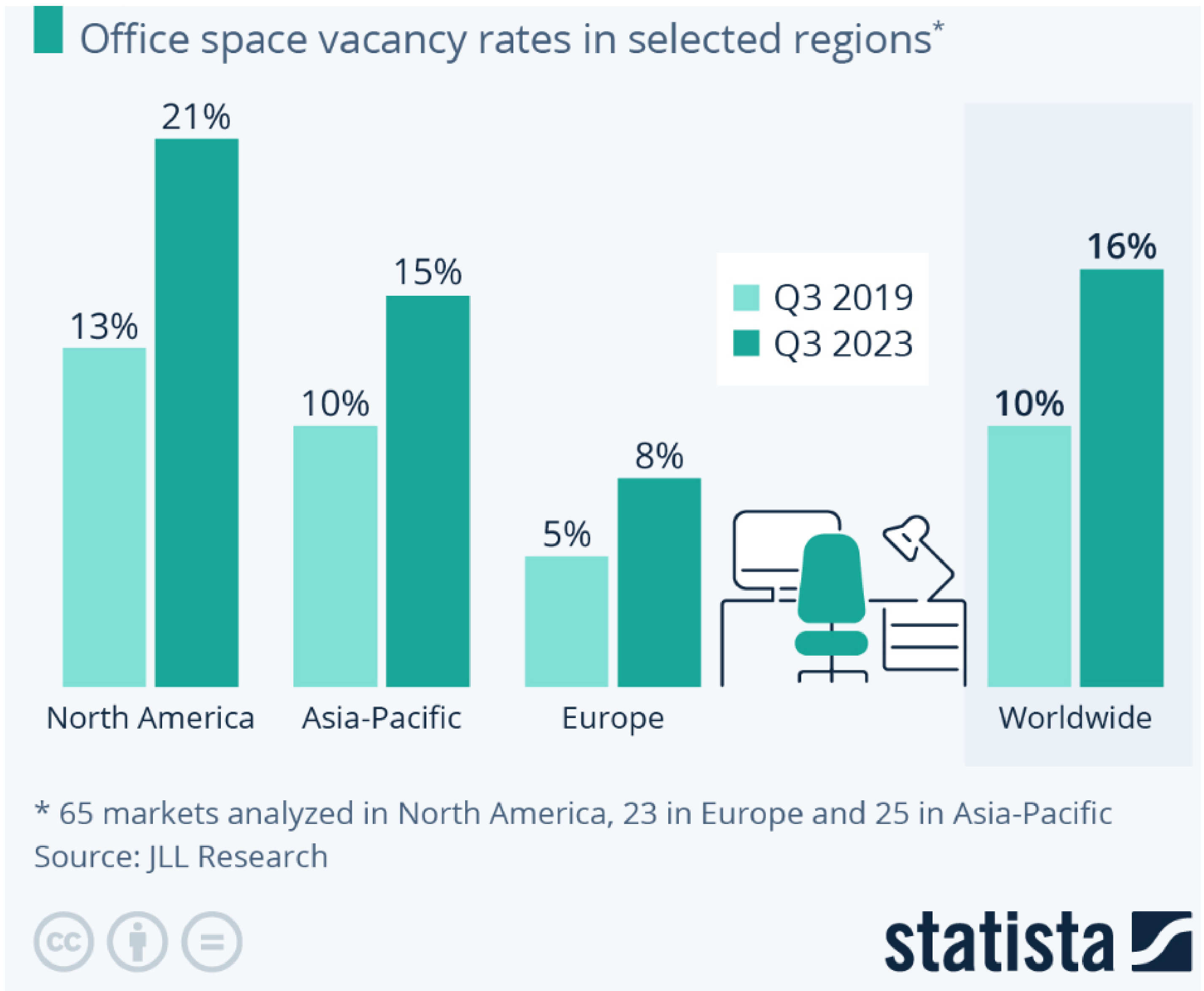


Exhibit #2: Examples of IWG's hub-and-spoke network:

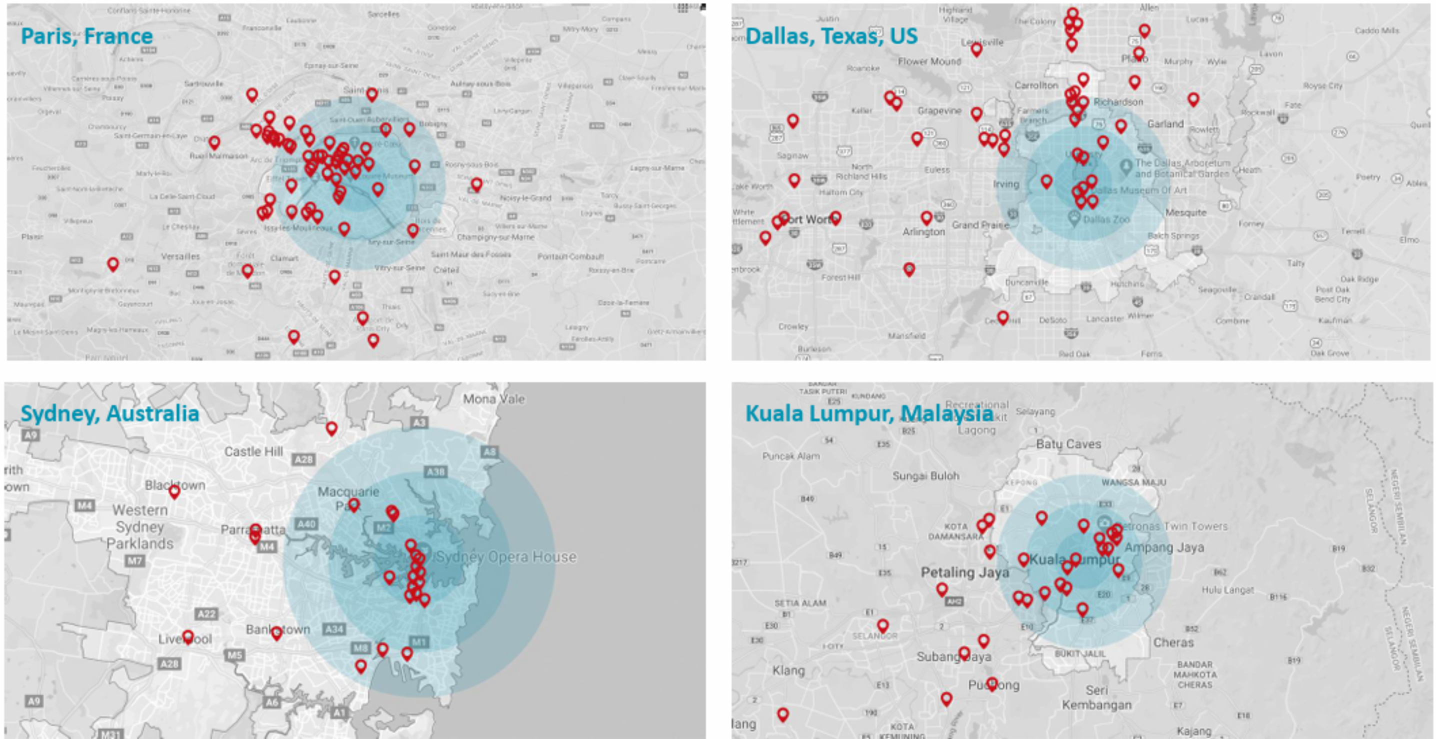


Exhibit #3: There are major upcoming traditional lease expirations, which should drive flex growth

CMBS Major Lease Expirations by Year
Office and Mixed Use Collateral
As of April 2023

CRED iQ

Aggregate Square Feet (Millions): -, 10, 20, 30, 40, 50, 60, 70

\# of Leases: -, 500, 1,000, 1,500, 2,000, 2,500, 3,000, 3,500

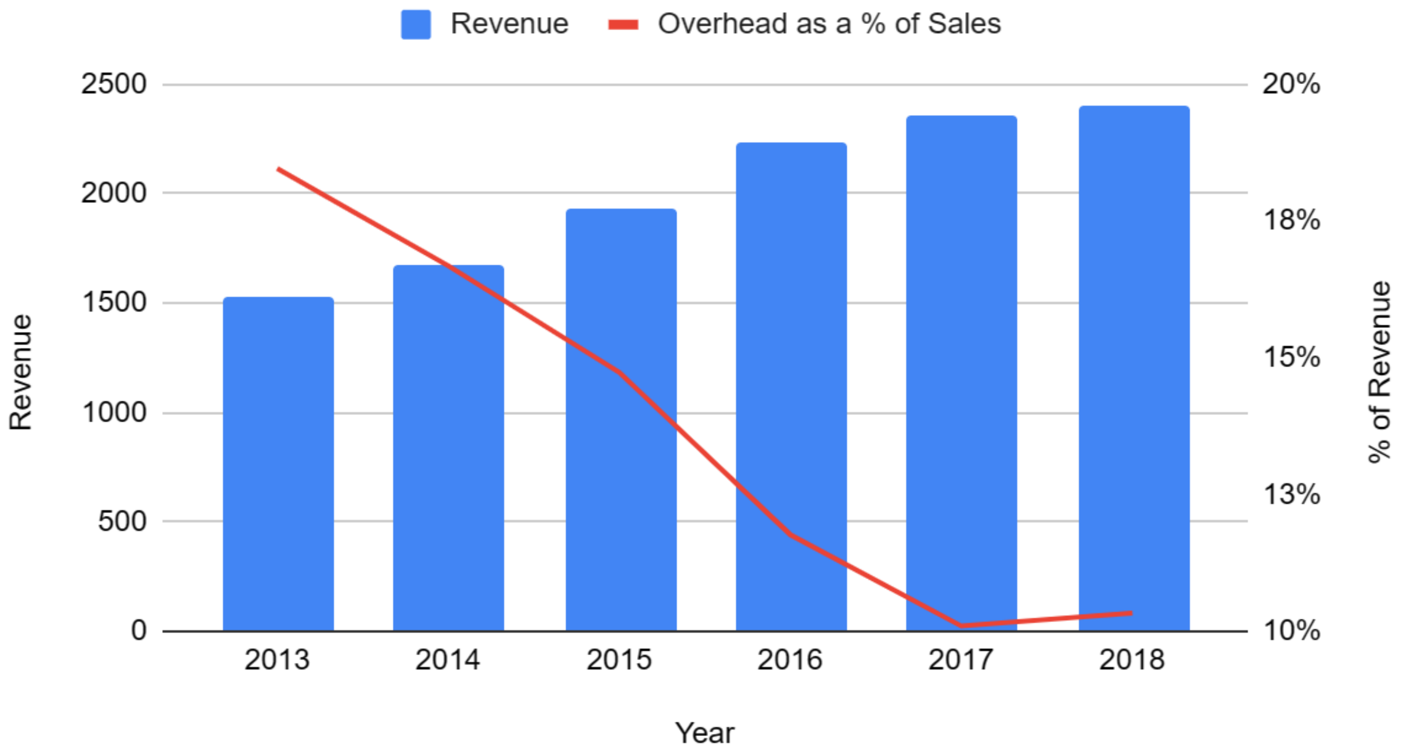
Lease Expiration Year: 2021 & Before, 2022, 2023, 2024, 2025, 2026, 2027, 2028, 2029, 2030, 2031, 2032, 2033, 2034

Aggregate Square Feet — # of Leases

Source: cred-iq.com

(Note: This graph is only for U.S. office real estate, but is fairly representative of the global office market)

Exhibit #4: IWG has demonstrated significant SG&A leverage



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