

## FUNDAMENTALLY DIFFERENT: WE VS. IWG PLC + A HEADSTART ON EARNINGS

In this edition, we take a deep dive into the fundamentals of The We Company (WE) vs. its Belgian competitor, International Workplace Group (IWG plc), discuss the Updater - our time-saving earnings tool, highlight our participation at Vancouver's Up the Down Dinner and plans for the November UVA Investor Conference...and remind you that we're hiring!

## THE WOES OF 2019 IPOs: What we can learn from WE by knowing IWG

Over the past few months, there's been a steady hum across our favorite news platforms on the ups and downs, and the all-the-way downs of The We Company (WE). In the month of September alone, [Matt Levine](#) of [MoneyStuff](#) discussed the IPO topic in fourteen of his daily e-newsletters, nine of which featured The We Company in the main headline. More buzz followed in the coming weeks when Adam Neumann stepped down as CEO, and the company announced its retraction of a very creative S-1 and an indefinite delay to the IPO.

The dramatic story of WE doesn't come as much surprise, as the poor stock performances of companies - like Uber (UBER), Lyft (LYFT), Slack (WORK), and Smile Direct Club (SDC) - have made investors wary of unprofitable unicorns. But behind The We Company's allure of fruit water, upscale coffee and unlimited beer taps, are hard numbers that investors can analyze to get a true sense of how the business operates. With The We Company adding to the 2019 roster of disappointing, over-hyped IPOs, we decided this would be a good opportunity to understand why. So, we turned our focus on what we know best: fundamentals.

At Canalyst, we remain neutral on positions, yet we believe that clean data plus a solid understanding of comps are at the core of good investing. To shine some light on what happened to The We Company, we pulled up our pre-IPO model (available on our portal following the S-1 filing) and looked at how the company stacks up against its more mature and profitable European competitor, International Workplace Group, (IWG plc).

The Summary tab of a Canalyst model provides a quick overview of any company's operational data, margins, and cash flow, among many other stats. In the below examples, we see that IWG had 602,500 available workstations at the end of H1-2019 with an occupancy rate of 69.4%. The We Company had 604,000 workstations at the end of Q2-2019 with an occupancy rate of 87.3%. In those same periods, IWG was able to generate £3,751 per available workstation while The We Company generated \$483 USD – a difference of roughly \$4,000 USD per workstation.

IWG PLC	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18	Jun-19
Reports	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	H1-2019
<b>Company-Specific Operational Data</b>											
Total Americas Revenue, mm	423.8	436.9	477.5	535.9	639.7	677.9	779.2	923.0	984.8	1,048.5	583.7
Total EMEA Revenue, mm	306.2	281.2	301.7	301.2	337.9	369.5	406.6	476.8	540.5	630.8	345.5
Total Asian Pacific Revenue, mm	132.3	141.7	169.1	195.9	225.1	242.0	289.1	363.2	383.2	412.2	166.9
Total UK Revenue, mm	191.4	178.9	212.6	211.8	329.1	386.1	449.2	462.1	440.0	438.9	202.3
Total Other Revenue, mm	1.4	1.7	1.7	1.3	1.7	0.6	2.9	8.3	3.8	4.9	4.0
Total Revenue, mm	1,055.1	1,040.4	1,162.6	1,244.1	1,533.5	1,676.1	1,927.0	2,233.4	2,352.3	2,535.4	1,302.4
Total Americas Gross Profit Margin, %	21.3%	22.7%	27.3%	28.2%	24.6%	22.0%	21.9%	17.4%	15.6%	16.6%	20.4%
Total EMEA Gross Profit Margin, %	27.1%	23.4%	22.9%	25.5%	23.9%	21.4%	22.3%	21.3%	18.0%	18.9%	16.5%
Total Asian Gross Profit Margin, %	30.5%	25.7%	26.4%	28.3%	25.6%	25.0%	20.1%	18.6%	17.2%	14.8%	6.5%
Total UK Gross Profit Margin, %	9.7%	7.4%	14.9%	17.3%	24.2%	24.3%	24.0%	23.9%	19.0%	12.8%	1.8%
Total Other Gross Profit Margin, %	71.4%	82.4%	82.4%	92.3%	94.1%	183.3%	-6.9%	71.1%	47.4%	6.1%	137.5%
Total Gross Profit Margin, %	22.3%	19.6%	24.0%	25.8%	24.4%	22.9%	22.2%	20.1%	17.1%	16.1%	15.1%
Total Americas Weighted Average Workstations, 000s	72.3	74.3	80.1	90.6	115.0	131.7	149.4	173.9	188.7	203.4	210.6
Total EMEA Weighted Average Workstations, 000s	34.3	36.1	38.5	41.5	47.0	61.3	77.9	92.0	105.9	135.2	164.5
Total Asian Weighted Average Workstation	21.4	23.4	27.8	34.6	47.2	58.9	78.6	95.1	101.0	112.6	104.5
Total UK Weighted Average Workstations, 000s	33.5	34.9	38.3	37.8	50.6	60.0	65.7	72.5	81.5	96.7	107.1
Total Weighted Average Workstations, 000s	161.5	168.7	184.6	204.5	259.8	311.9	371.6	433.5	477.1	542.3	586.6
Total Americas Occupancy Rate, %	78.4%	79.0%	86.5%	85.3%	80.3%	77.7%	78.5%	73.4%	72.3%	72.0%	73.9%
Total EMEA Occupancy Rate, %	78.6%	76.1%	81.6%	79.3%	78.6%	74.4%	73.9%	73.8%	73.1%	69.4%	68.1%
Total Asian Pacific Occupancy Rate, %	75.1%	75.8%	81.6%	78.7%	74.3%	74.2%	74.0%	70.1%	69.4%	67.8%	65.8%
Total UK Occupancy Rate, %	77.1%	74.3%	83.7%	82.7%	82.3%	82.3%	80.7%	75.0%	71.5%	67.3%	66.0%
Total Occupancy Rate, %	77.7%	76.9%	84.2%	82.5%	79.3%	77.3%	77.0%	73.0%	71.7%	69.6%	69.4%
REVPWA, £	£ 6535	£ 6168	£ 6297	£ 6085	£ 5903	£ 5374	£ 5186	£ 5152	£ 4931	£ 4632	£ 2220
REVPWO, £	£ 7479	£ 7447	£ 6895	£ 6907	£ 6928	£ 6626	£ 6643	£ 7230	£ 7219	£ 7160	£ 3751

<b>The We Company</b>											
Ticker: WE US											
Last Price (USD)	\$ 125.00										
Real-Time Stock Price: Bloomberg	OFF	366	365	90	91	92	92	365		90	91
Model Sheet Currency: USD		Dec-16	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Dec-18	Mar-19	Jun-19	
		FY2016	FY2017	Q1-2018	Q2-2018	Q3-2018	Q4-2018	FY2018	FY2018	Q1-2019	Q2-2019
<b>Operating Stats - Workstation and Membership Analysis</b>											
Open Workstation capacity BoP, 000s		107	214	251	301	354	354	214	466	548	
Net Change in Open Workstation capacity, 000s		107	37	50	53	112	112	252	82	56	
Open Workstation capacity EoP, 000s		107	214	251	301	354	466	466	548	604	
Open Workstation capacity Average of Period, 000s		107	161	233	276	328	410	340	507	576	
Memberships BoP, 000s		87	186	219	268	319	319	186	401	466	
Net Change in Memberships, 000s			33	49	51	82	82	215	65	61	
Memberships EoP, 000s		87	186	219	268	319	401	401	466	527	
Average Memberships in Period, 000s			137	203	244	294	360	294	434	497	
Capacity Utilization, EoP Memberships vs Capacity, %		81.3%	86.9%	87.3%	89.0%	90.1%	86.1%	86.1%	85.0%	87.3%	
Membership/Service Revenue per Member, \$/month/avg member		\$ 529.2	\$ 535.7	\$ 581.6	\$ 615.1	\$ 643.8	\$ 518.3	\$ 518.3	\$ 483.0	\$ 483.8	

A few rows below, we see that The We Company has consistently negative EBITDA margins (ranging from -50% to -70%), with the cash flow summary revealing that they have issued debt and equity to sustain their negative cash flow from operations. In contrast, IWG has historically posted positive EBITDA margins (ranging from 15-17%) with positive cash flow from operations. The divestiture line also highlights the sale of IWG's Japanese operations to TKP Corp, which sent its shares up by about 20%.

<b>The We Company</b>											
Reports											
Margin Analysis											
OPEX (adj. for SBC) Margin, %		125.4%	104.8%	107.5%	93.9%	103.2%					
SG&A (adj. for SBC) Margin, %		39.9%	48.6%	64.3%	56.5%	65.6%					
EBITDA Margin, %		-65.3%	-53.5%	-71.8%	-50.8%	-68.8%					
Adjusted EBITDA Margin, %		-64.9%	-52.1%	-64.3%	-56.4%	-64.9%					
<b>Cash Flow Analysis</b>											
Operating Cash Flow before WC		(288.0)	(451.4)	(1,205.8)	(535.7)	(565.7)					
Capex		(776.1)	(1,024.0)	(2,055.0)	(599.0)	(657.8)					
Core FCF, Pre Div		(1,064.0)	(1,475.4)	(3,260.8)	(1,071.9)	(1,203.5)					
Dividend Paid		-	-	-	-	-					
Core FCF, Post Div		(1,064.0)	(1,475.4)	(3,260.8)	(1,071.9)	(1,203.5)					
Acquisitions		(2.9)	(251.8)	(213.0)	(877.3)	(107.4)					
Divestiture		-	-	-	-	-					
Change in WC		464.9	695.4	1,029.1	374.1	381.8					
New Equity Issuance		681.1	1,706.7	3.5	1.9	32.4					
New Debt Issuance		(31.3)	(11.4)	1,595.6	2,086.4	955.2					
Other Items		36.2	927.2	838.5	256.2	2.7					
Change in Cash Position		84.0	1,590.8	(7.2)	823.4	61.3					

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<b>Margin Analysis</b>											
COGS Margin (Excluding D&A), %	70.7%	73.3%	69.6%	68.7%	69.3%	70.3%	70.5%	71.3%	74.0%	74.8%	75.7%
SGA Margin, %	15.8%	18.8%	19.3%	18.1%	17.8%	16.0%	13.3%	11.5%	10.0%	10.0%	11.1%
R&D Margin, %				0.4%	0.5%	0.5%	0.3%	0.1%			
EBITDA Margin, %	13.4%	7.8%	11.2%	12.9%	12.4%	13.2%	15.7%	17.0%	15.9%	15.4%	13.2%
Adjusted EBITDA Margin, %	13.5%	7.7%	11.1%	12.8%	12.3%	13.4%	15.8%	17.0%	16.0%	15.4%	12.8%
<b>Cash Flow Analysis</b>											
Operating Cash Flow before WC	136.9	68.2	113.0	134.5	166.3	187.2	238.8	328.7	347.0	344.3	112.6
Capex	(46.9)	(75.5)	(124.1)	(169.2)	(248.9)	(205.4)	(311.5)	(313.8)	(344.9)	(579.6)	(291.1)
Core FCF, Pre Div	90.0	(6.3)	(11.1)	(34.7)	(82.6)	(18.2)	(72.7)	14.9	2.1	(235.3)	(178.5)
Dividend Paid	(19.0)	(23.2)	(25.0)	(28.2)	(31.1)	(35.4)	(38.8)	(43.3)	(48.5)	(153.7)	(38.9)
Core FCF, Post Div	71.0	(28.5)	(36.1)	(62.9)	(113.7)	(53.6)	(111.5)	(28.4)	(44.4)	(289.0)	(217.4)
Acquisitions	(0.6)	(19.4)	(14.0)	(50.1)	(125.3)	(101.4)	(110.0)	(15.7)	(60.0)	(9.2)	(9.3)
Divestiture	0.2	0.3	(1.8)	1.5	-	7.3	93.5	19.4	0.5	4.8	302.1
Change in WC	(39.4)	10.6	50.8	46.4	64.1	80.3	99.5	104.2	44.2	16.6	86.1
New Equity Issuance	(0.4)	(8.0)	(1.2)	(2.0)	(3.4)	(17.3)	(32.0)	(31.6)	(46.9)	(38.3)	1.3
New Debt Issuance	(0.3)	(0.6)	(3.1)	3.1	129.8	76.6	52.6	(70.2)	92.8	176.9	(192.0)
Other Items	(44.9)	34.7	8.7	(1.2)	0.9	(3.8)	(1.0)	8.5	4.7	2.4	1.3
Change in Cash Position	(14.4)	(10.9)	3.3	(65.2)	(47.6)	(11.9)	(8.9)	(13.8)	4.9	14.0	(27.9)

Similar to other unprofitable unicorns that actually went public this year, The We Company has managed multi-digit revenue growth during its last two fiscal years. This growth, however, has been made possible through significant capital expenditures. While IWG, which is more geographically diverse, has a total of five segments, three of which — Americas, Asian Pacific and EMEA (Europe, Middle East, and Africa) — are, posting positive annual growth since FY2013. Its UK segment is currently struggling with back-to-back years of negative revenue growth and its lowest annual gross profit margin since FY2010.

Total Revenues, mm	436.1	886.0	342.2	421.6	482.3	575.7	1,821.8	728.3	807.1
Operating Stats - Contribution Margin (\$-1)									
Membership and service revenue, mm	434.4	866.9	325.5	388.5	454.0	529.4	1,697.3	628.1	720.6
Total Location Operating Expenses, mm	433.2	814.8	288.2	347.8	405.1	480.1	1,521.1	582.9	650.1
Contribution margin including SBC and non-cash GAAP straight-line lease cost, mm	1.2	52.1	37.3	40.7	48.9	49.3	176.2	45.3	70.6
Add back: Stock Based Comp, mm	(2.0)	(18.7)	(2.8)	(3.6)	(3.1)	(13.3)	(22.8)	(22.7)	(3.3)
Contribution margin including non-cash GAAP straight-line lease cost, mm	3.2	70.8	40.1	44.3	52.0	62.6	199.0	67.9	73.9
Add back: Straight line rent, mm	(92.7)	(162.3)	(55.0)	(62.2)	(69.4)	(81.5)	(268.1)	(102.2)	(96.0)
Contribution margin excluding non-cash GAAP straight-line lease cost, mm	95.9	233.1	95.1	106.5	121.4	144.2	467.1	170.1	169.8
Contribution margin including non-cash GAAP straight-line lease cost, %	0.7%	8.2%	12.3%	11.4%	11.4%	11.8%	11.7%	10.8%	10.2%
Contribution margin excluding non-cash GAAP straight-line lease cost, %	22.1%	26.9%	29.2%	27.4%	26.7%	27.2%	27.5%	27.1%	23.6%