COMMENTARY

December 5, 2014

Dear clients and colleagues,

Thematic investing is an important part of our investment process. Regus, a company we initiated in our portfolios this year, addresses the growing trend of outsourcing and globalization.

Regus is the world's largest provider of workspace solutions. It offers workstations, office support services, and communication access through 2100 business centers across 100 different countries. In addition to utilizing the facilities, customers can request professional support services such as catering, mail delivery, office supplies and more. The majority of its revenue is derived from clients renting workstations, but a multitude of other services can be bundled. Small and medium enterprises account for 70% of its client base, but a large number of blue chips use its services as well (Google, Toshiba, GlaxoSmithKline, Danone,..).

Founded in 1989, Regus has been listed on the London Stock Exchange since 2000. Its founder and current CEO, Mark Dixon, owns approximately 34% of the company.

Market Size

The serviced office market is very fragmented. The Office Business Center Association estimates that there are approximately 2100 centers in operation in the UK only. Based on that figure, we evaluate Regus' market share to be close to 17%.

After looking at market research and surveys, we have come to realize the importance of the serviced office market:

- By 2015, 1.3 billion workers out of 3.1 billion will be mobile
- 55% of all office desks are unoccupied during the typical work day
- The annual cost per desk in western cities is approximately $19,000/year
- 66% of workers would rather take a pay cut for more work flexibility
- 59% of workers have the right tools to work outside of the workplace

Growth strategy

Although Regus dominates its industry, the penetration of the serviced office market within the traditional office market is still low, especially in fast-growing cities. For that reason, we believe that the serviced office market still has tremendous growth potential ahead.

Regus has managed to open 888 new centers in the past two years. While these new centers represent 40% of the totality of its centers, they generate only 20% of total revenue. As of 2015, more than 400 centers will move into the mature portfolio category, which should significantly improve operating profit. The transition from new centers to mature ones has a positive impact on occupancy rate, top line, and overhead costs. Mature centers generate 15% operating margins as opposed to 5% margins at the group level.

In addition, Regus should occasionally make small bolt-on acquisitions to expand in some specific markets. We expect these acquisitions to remain relatively small in size.

Competitive advantages

With a global presence and a network of 2100 centers, Regus is more than 10 times the size of its closest competitor. There are regional operators and single center rivals out there, but zero that operate on the same global scale. Regus' global network can definitely be appealing for larger corporations wishing to establish consistent standards amongst their workforce.

In this context of globalization, where businesses are expanding and allocating more resources to new territories, flexibility becomes an important decision factor. Regus offers an interesting and cost-effective alternative to conventional office leasing. Indeed, it allows customers to reduce their infrastructure costs up to 60% and remove leases from their balance sheet. With corporations constantly under pressure to improve their efficiencies, Regus' value proposition is quite appealing.

Risk

Regus remains vulnerable to macroeconomic cycles. During a financial downturn, it can be impacted by weaker occupancy rates, while having to commit on leasing liabilities.

We expect that the serviced office market will continue to grow in the years to come. Global operators like Regus should clearly benefit.

The Global Alpha Team