MOI GLOBAL

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BESTIDEAS

1 MAIN CAPITAL

MOI Best Ideas Conference

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Overview

The fund

1 Main Capital is a long-biased investment partnership, founded by Yaron Naymark.

Objective

Generate an attractive risk-adjusted return, while minimizing the risk of permanent capital impairment using a fundamental approach to equity investing.

Experience

Yaron has accumulated over a decade of investing experience, primarily at multi-billion-dollar value-oriented public and private equity firms.

Strategy

Concentrated investments primarily in high-quality, attractively-valued, growing businesses.

Find situations where:

- CORE: The long-term prospects of a business or equity security are underappreciated or misunderstood by investors (collectively, the market); or
- OPPORTUNISTIC: The business and/or natural investor base of a security are undergoing an element of change or temporary dislocation that will cause investors to re-value the security in the near term.

Industry Focus

Generalist, with strong focus on easily understood, predictable, high quality, growing businesses.

Alignment

Yaron has nearly all his net worth invested in the fund.

Portfolio Manager
Background

Yaron Naymark

is the founder and portfolio manager of 1 Main Capital, a boutique investment firm founded in 2018. 1 Main Capital makes concentrated investments in high-quality reasonably valued businesses with long reinvestment runways and in special situations that are experiencing a temporary dislocation or undergoing an element of change that will cause investors to revalue an investment in the near term.

Prior to founding 1 Main Capital, Yaron accumulated more than a decade of experience, including investing roles at multi-billion-dollar value-oriented public and private equity firms. Yaron is a South Florida native, a lover of the outdoors, and currently lives in Connecticut with his wife, son and dog.

2008	2010	2013	2014	2018
University of Florida B.S. and M.S., Finance Minor in Entrepreneurship	Citi Analyst, Leveraged Finance Non-investment grade debt financings and restructurings	H.I.G. Capital Associate, LBO Group Private equity investing	Altalis Capital Analyst, L/S Equity	Glenhill Capital Senior Analyst, L/S Equity	1 Main Capital Founder and Portfolio Manager

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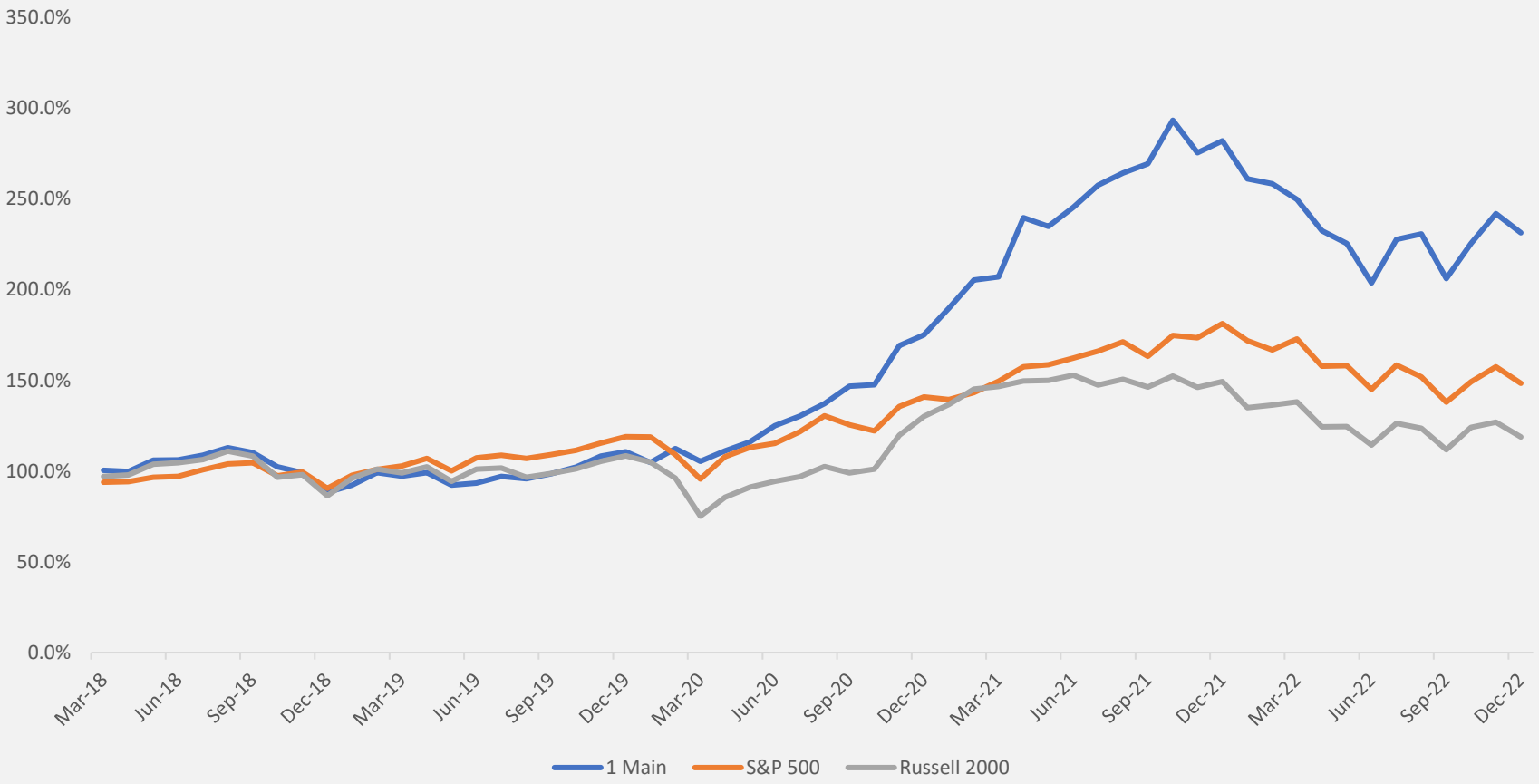
Historical Performance



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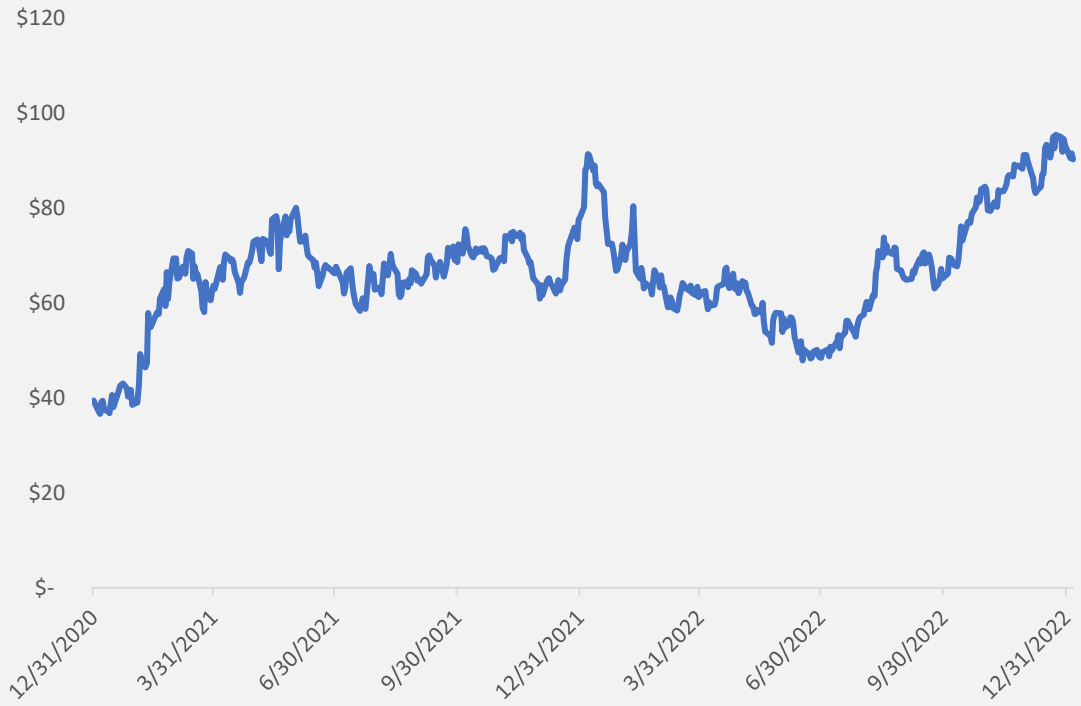
The perfect investment

- The perfect investment only exists in theory - in the real world, security selection is about assessing ongoing tradeoffs between price vs. risks, and the impact of a security on the broader portfolio.
- Good business.
  - Simple to understand such that it is predictable over longer periods.
  - Has a market leadership position in durable / growing end markets.
  - High returns on capital / strong unit economics that are defensible.
  - Well regarded by stakeholders (employees, customers, suppliers, capital partners, regulators).
- Competent / aligned management.
  - Large portion of their net worth invested in the business, but without full control of it.
  - Make thoughtful / rational business decisions based on all available information.
- Well capitalized – strong balance sheets allows companies to play offense in periods of uncertainty.
- Margin of safety.
  - Having line of site to meaningful unlevered earnings or free cash flow.
  - Targeting high IRRS using conservative underwriting assumptions for profitability and exit multiples.

Prior Manual of Ideas pitches

KKR & Co (Jun 2019)

RCI Hospitality (Jan 2021)



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Today's pitch: IWG

- International Workplace Group (LSE: IWG) is the global leader in flexible workspace solutions.
- IWG has over 8 million members across >3k locations in 120 countries.
  - Next largest competitor (WeWork) has 777 locations.
- Founded as Regus in 1989, today it operates 20 brands such as Regus, Spaces, HQ.
- Founder / CEO, Mark Dixon, owns ~30% of the company.
- The office market is moving towards flexible – 2% of total space today, should grow to a double-digit share over time – shift has accelerated with mass adoption of Zoom / Teams.
- IWG is undergoing a business mix transformation – most of its growth is coming from capital-light locations where it collects a management fee and/or royalty from partners.
- At current prices, IWG is trading for 7x 2023E maintenance FCF, while still recovering from covid-related occupancy / price reductions.
- FCF should grow 20% per year while business mixes towards higher ROIC cap-light revenues.
- I believe that maintenance FCFPS and the FCF multiple can each double over the next 3 years.

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Attractive business model

- Strong value proposition for users / corporate clients.
  - Short / flexible leases.
  - No need to pay for underutilized space today to ensure capacity for future growth.
  - Employees that have ability to work closer to home with shorter commute times are happier, easier to hire and more likely to be retained.
- Helps building owners, who are seeing rising vacancies, fill their locations.
- Conventional locations come with attractive unit economics for IWG.
- Partnered / franchised unit economics require no capital investment from IWG.

(£ in thousands)	Mature Conventional Center
Build-out costs	£ 400
Revenue	£ 1,000
EBITDA	£ 300
margin	30.0%
Maint capex	-£ 75
Taxes	-£ 50
NOPAT	£ 175
ROIC	44%

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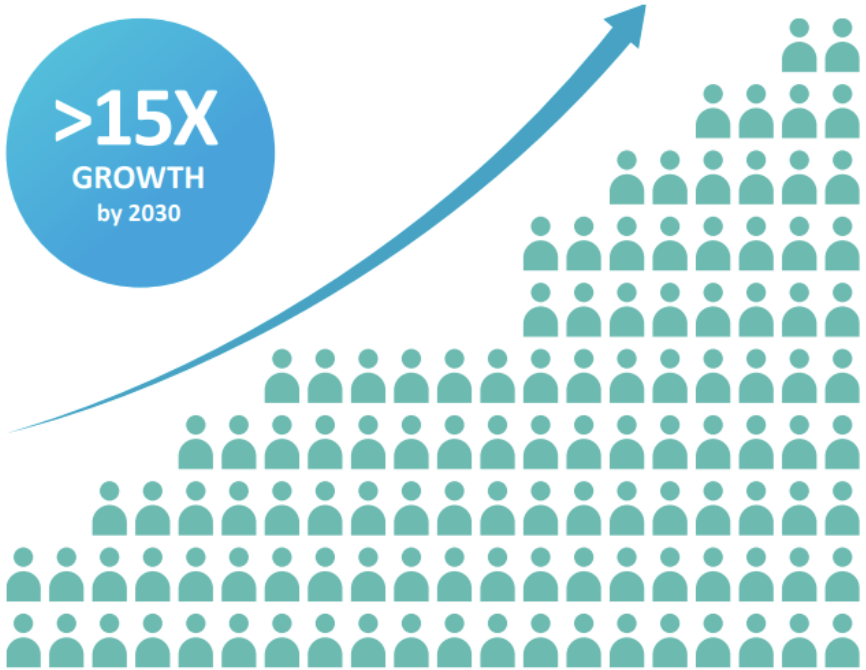
Secular growth

Market growth dynamics



30% of global office space **WILL BE FLEXIBLE BY 2030**, compared to <2% TODAY[4]

90% of **EMPLOYEES WANT FLEXIBILITY** in where and when they work[1]

89% of companies report **BETTER RETENTION** rates because of their **FLEXIBLE WORK OPTIONS**[2]

88% of companies are planning a **FULL SHIFT** to **FLEXIBLE WORKING**[3]

1. HR Report, 90% Of Office Workers Say They Want More Flexibility
2. CC, 45 Flexible Working Statistics: 2020/2021 Data, Trends & Predictions
3. Microsoft, New Future of Work Report
4. JLL, The Impact of Covid19 on Flexible Space

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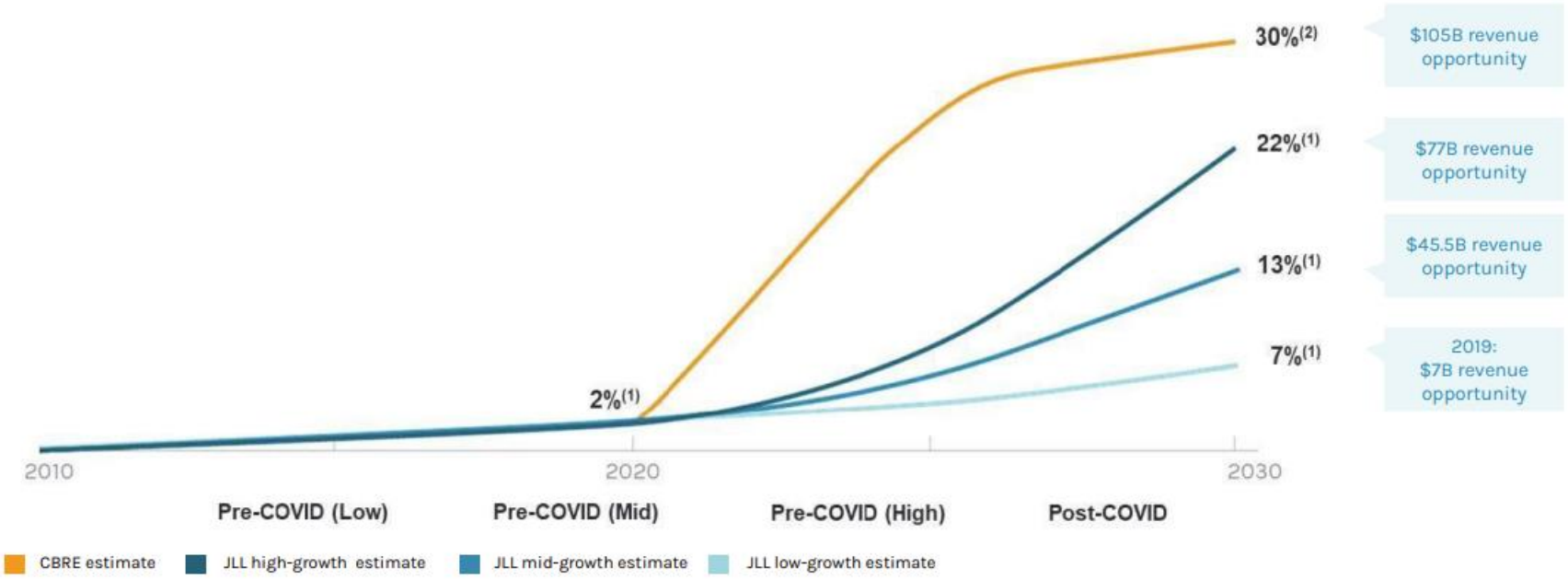
Secular growth

TAM for Space-as-a-Service

U.S. Flexible Workspace Penetration as % of 3.5B office supply RSF[1][2]



1. CBRE "Let's Talk About Flex" (2019). Reflects growth of U.S. Rentable Square Footage from year-end 2019 to 2030E.
2. JLL "The impact of COVID-19 on flexible space" (2020).

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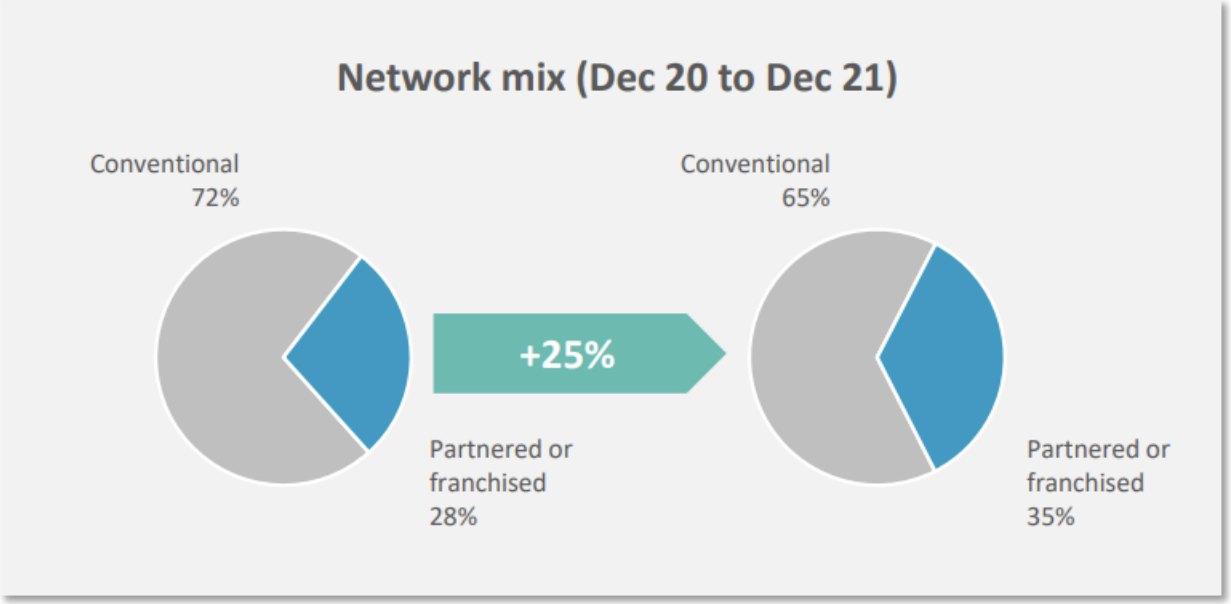
Mix shift towards cap light

- Cap light locations are a mix management contracts (~75% of cap light) and franchise agreements (25%).
- Most new cap light agreements are management contracts.

- ✓ Strategy of moving to capital-light franchise and partnered centres is working
- ✓ Growing fee income
- ✓ Significant de-risking of the network in 2021
- ✓ 25% increase in capital-light centres
- ✓ Growing pipeline of new openings planned for 2022, comprising c. 85% partnered and franchised
- ✓ Target of **50% partnered and franchised** by the end of 2022



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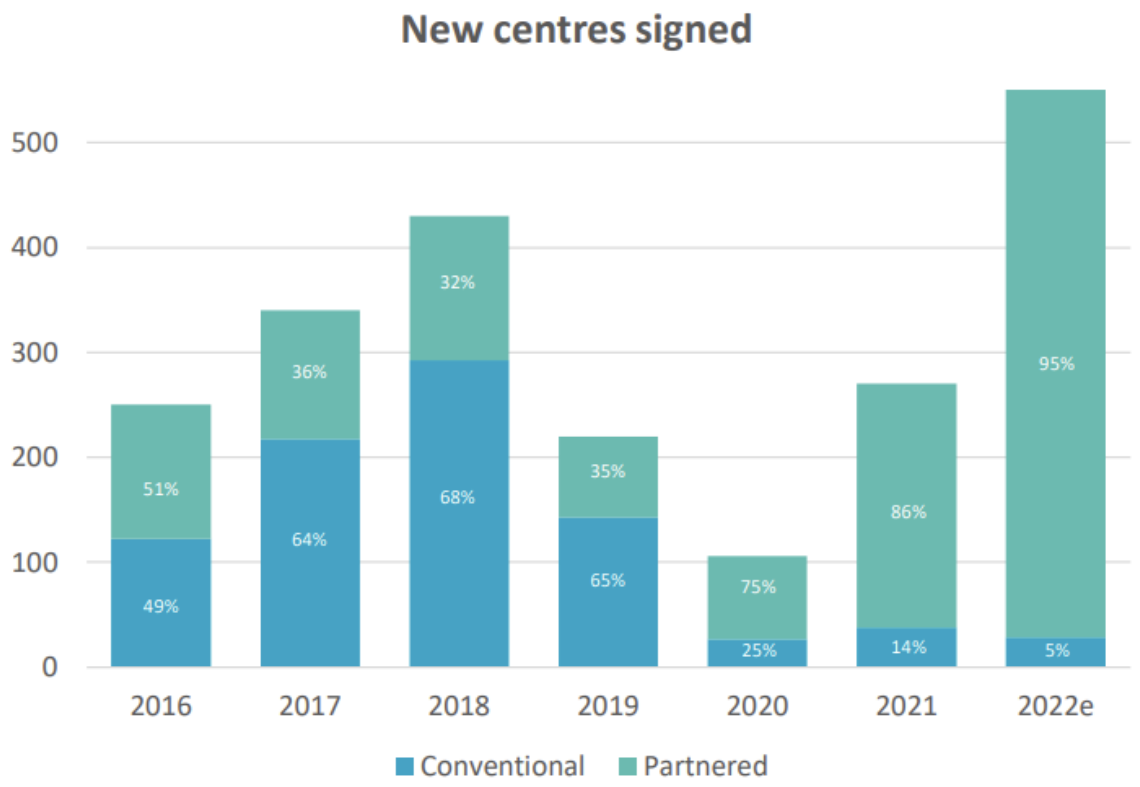
Mix shift towards cap light



- ✓ Line of sight to 500+ signings in FY22
- ✓ H1 - 70 openings with 76% partnered or franchised
- ✓ Franchise and partnered deals on track to be close to 50% by year end
- ✓ Fully de-risked portfolio with 96% risk managed
- ✓ **Only £16m net investment by IWG in new centres opened in H1 2022** (£29m in H1 2021)

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Mix shift towards cap light

- 1k of IWG's 3k locations are cap light today.
- The company guided to 500 new cap light signings in 2022, with an acceleration into 2023.
- While these new locations may take some time to come online, this implies IWG's cap light segment can accelerate to 50% growth in the coming years.
  - A typical cap light location that is fully managed by IWG should generate around £100k of annual operating profit for the company.
  - A typical franchised location (managed by someone other than IWG) should generate around £50k of annual operating profit for the company.
  - In total, cap light unit growth should add approximately £50m of annual EBITDA and £ 40m of annual free cash flow once they are fully ramped.

							Run-rate		
	2016	2017	2018	2019	2020	2021	1H'22	Q3'22	Q4'22
Cap light signings	128	122	134	76	76	241	215	580	990

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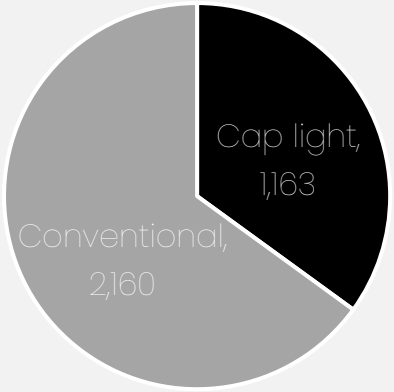
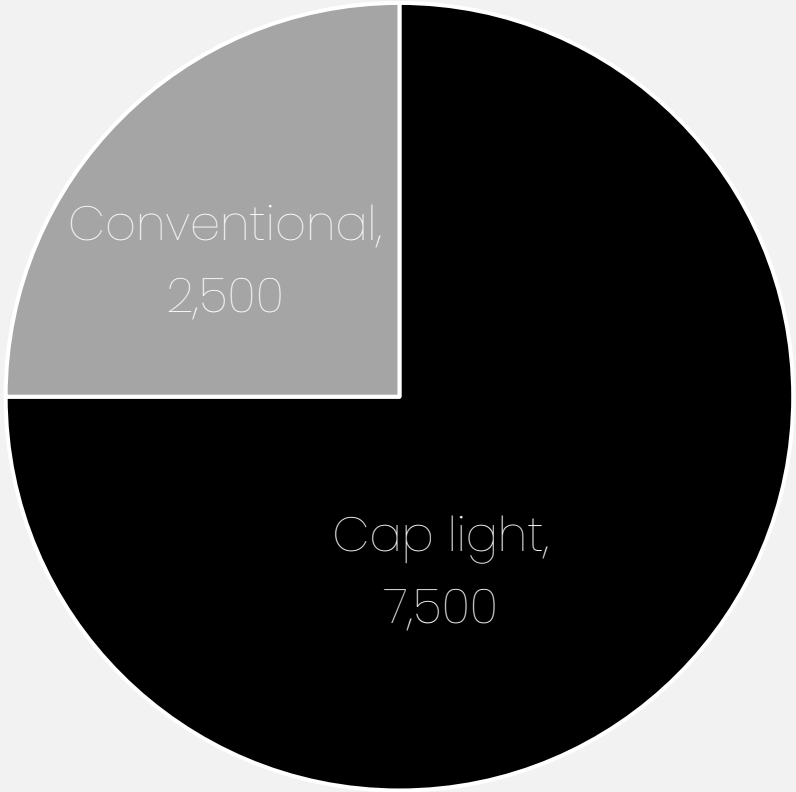
Illustrative future mix

2021A



Future



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Cap light: a potential comp

- Cap light contracts are essentially property management agreements for the flex office market.
- Overcapacity in the office market is driving more building owners to consider converting their space into flex format.
- Partnering with IWG allows the building owners to outsource + leverage IWG's expertise built over 30+ years in flex market.

FSV CN Equity | 96) Actions | 97) Export | 98) Settings | Financial Analysis

39) ADJ FirstService Corp ASC 842 Periods 16 Annuals Cur FRC (USD)

1) Key Stats | 2) I/S | 3) B/S | 4) C/F | 5) Ratios | 6) Segments | 7) Addl | 8) ESG | 9) Custom

12) BBG GAAP Highlights | 13) Company Model | 14) Earnings | 15) Enterprise Value | 16) EV Ex Operating Leases | 17) Multiples | 18) Per Share

In Millions of USD except Per Share	2017 Y	2018 Y	2019 Y~	2020 Y	2021 Y	Current	2022 Y Est	2023 Y Est
12 Months Ending	12/31/2017	12/31/2018	12/31/2019	12/31/2020	12/31/2021	01/10/2023	12/31/2022	12/31/2023
P/E	48.30	36.44	–	65.12	66.98	47.69	31.31	27.90
Average	67.67	51.28	48.85	65.12	82.05			
High	78.50	60.34	56.84	65.12	96.18			
Low	48.30	36.44	35.05	65.12	63.89			
EV/EBITDA	19.39	16.05	–	21.96	27.64	19.80	19.48	17.51
Average	20.09	20.39	22.13	22.54	27.95			
High	22.95	23.62	26.12	22.54	32.38			
Low	15.84	16.04	15.55	22.54	22.16			
EV/EBIT	27.16	22.69	–	38.33	45.99	35.42	31.94	25.77
Average	28.29	28.56	31.29	39.35	48.77			
High	32.33	33.08	36.92	39.35	56.52			
Low	22.30	22.68	21.98	39.35	38.68			

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Instant Offices

- In early 2022, IWG acquired Instant Offices.
- The company has since begun to merge its digital assets into Instant.
- Instant's missions is to become the AirBNB of flex office market – by being a marketplace that matches flex landlords with flex tenants around the world.
  - Currently has >30k buildings in 175 countries and >40 languages.
- Instant currently generates £60m of EBITDA, though IWG has not yet fully contributed all its digital assets into the business.
  - I expect Instant to exit 2023 at £100m EBITDA run-rate.
- According to a press release at the time of its acquisition by IWG, "The Instant business has grown by 25% Compound Annual Growth Rate in the last 5 years."
- In November of 2022, Reuters reported that CVC and several other buyout firms have approached IWG to buy Instant – at a rumored valuation of £1.5 billion.
- If Instant is not sold to a buyout shop, it will likely be IPO'd or spun off at some point in 2023/24.

Cheap on run-rate FCF

- I expect 2023 maintenance FCF of £250.
- As 500 cap light locations fully ramp up, there is line of sight to £40m+ annual growth in FCF on top of SSS growth at the existing locations and growth from Instant.

(£ in thousands)	2022E	Exit Run-rate Q3'22	2023E
EBITDA	£ 305	£ 360	£ 400
Maint capex	-£ 100	-£ 100	-£ 100
Interest	-£ 30	-£ 30	-£ 30
Taxes	-£ 20	-£ 20	-£ 20
Maint FCF	£ 155	£ 210	£ 250
Growth capex	-£ 170	-£ 70	-£ 70
M&A	-£ 296	£ -	£ -
Reported FCF	-£ 311	£ 140	£ 180
Maint FCF multiple	11.2	8.3	7.0
Reported FCF multiple	N/A	12.4	9.7

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Misunderstood balance sheet

- New IFRS accounting standards require IWG to classify its lease liabilities as debt.
- IWG appears highly levered.
- However, 96% of IWG's leases are either signed by segregated legal entities or terminable at the company's option within 6 months.
- 2/3 of the company's leases are not inflation-linked, meaning they become more valuable in an inflationary environment as the company is able to reprice its customers annually at higher rates, while its lease liabilities remain constant.
- As the business continued to mix away from conventional locations into management contracts the balance sheet should optically improve.

	Current		YE 2023E	
	IFRS 16	Excl leases	IFRS 16	Excl leases
Net debt	£ 7,175	£ 723	£ 7,250	£ 550
Net leverage				
Run-rate EBITDA	19.9	2.0	20.1	1.5
2023E EBITDA	17.9	1.8	18.1	1.4

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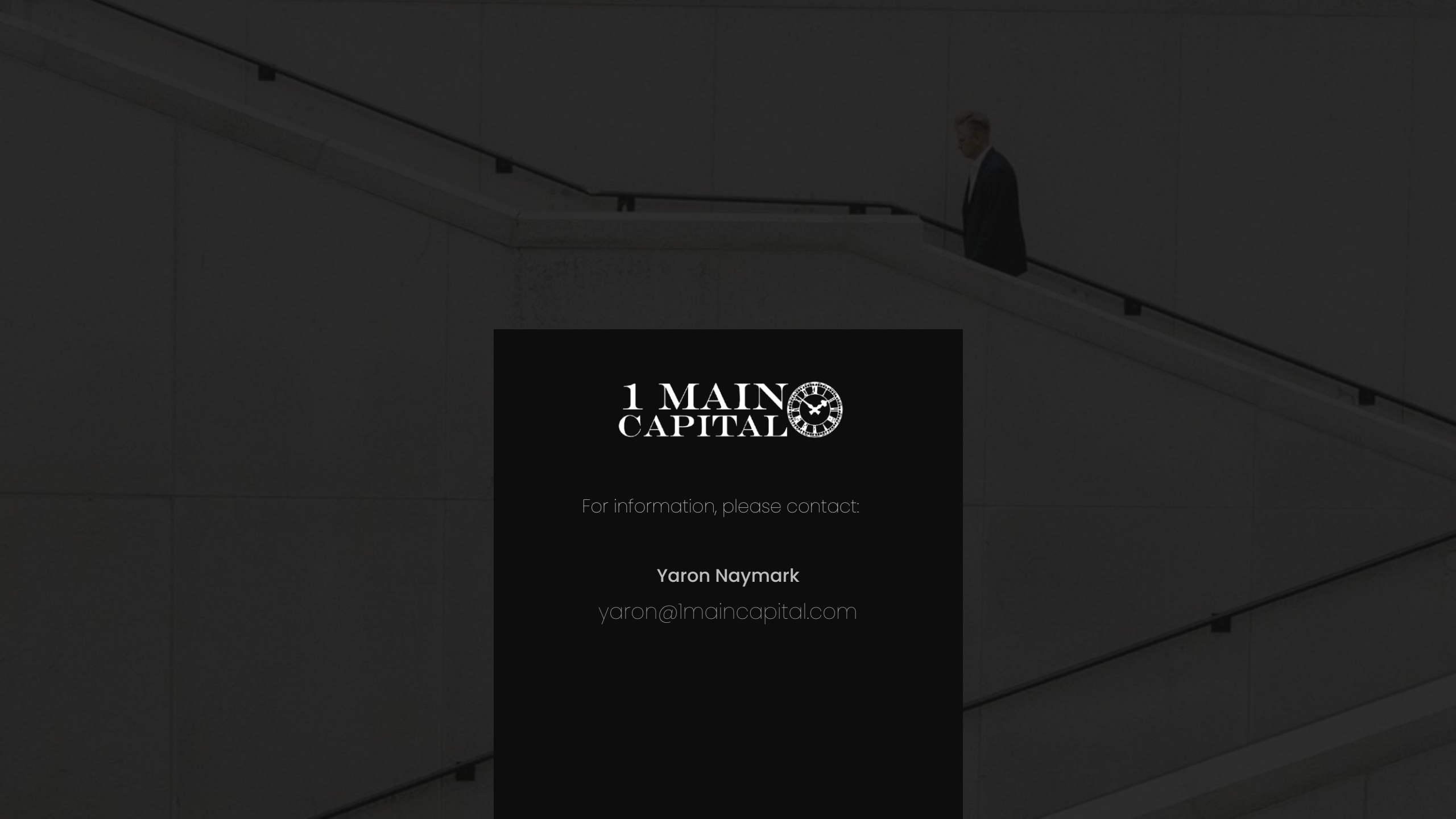
Catalysts and Risks

- Catalysts:
  - Cyclical recovery in mature location earnings.
  - Growth in locations.
  - Mix shift towards cap light.
  - Sale / IPO of Instant.
  - Buybacks / dividends as cash flow grows.
- Risks:
  - Recession drives demand for office space lower.
  - Competition in flex market heats up.
  - Founder / CEO has a lot of influence over direction of the company and may choose to make bad capital allocation decisions (I believe this is unlikely).



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