

Servcorp Limited

FY 2018 Results Presentation

Wednesday 22 August 2018

Presented by:
Mr. Marcus Moufarrige, Chief Operating Officer



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Servcorp's dividend guidance and related statements in this presentation are subject to Servcorp's forecast assumptions being met.

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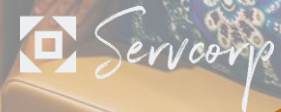
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Overview

Introduction

The flexible workspace industry (as it is now known) has seen unprecedented change as commercial real estate experiences significant disruption. Whilst this brings new competition and certain challenges, Servcorp believes it brings immense opportunity. We believe global flexible workspace will grow from 5% of all commercial real estate to 20% in the medium term. Our opportunity is to transition from being the premium provider of this space in a niche market to the premium provider of this space in a more mainstream market. This transition and transformation has impacted our short term performance in some markets, but we believe Servcorp's investment in strategic initiatives will position us to capitalise on significant long term opportunities.



FY18 Result

Underlying NPBT \$37.9m, down \$10.3m

	Underlying FY18 A\$m	Statutory FY18 A\$m	Statutory FY17 A\$m	FY18 v FY17	Constant FX
Revenue	314.4	314.4	329.6	↓ 5%	↓ 3%
Operating expenses	(276.5)	(276.5)	(281.4)	↓ < 1%	
Strategic initiative expenses	-	(5.8)	-		
Net profit before tax	37.9	32.1	48.2	↓ 34%	
Income tax expense	(9.0)	(22.0)	(7.5)	↓	
Net profit after tax	28.9	10.1	40.7	↓	
Net tangible assets per share^A		\$2.43	\$2.56	↓ 5%	
Earnings per share (cents)		10.2	41.4	↓	

A. 30 June 2018 and 2017 respectively

FY18	A\$	Franking
Final dividend per share	0.13	25%
Total dividend per share	0.26	16%

FY18 Result (cont'd)

□ Operating performance

- Net operating cash flows \$50.1m, down \$4.3m on FY17
- Statutory NPBT \$32.1m, down \$16.1m on FY17; within FY18 NPBT guidance of between \$30.0m and \$35.0m
- One-off strategic initiative expenses incurred in FY18 of \$5.8m
- Underlying NPBT \$37.8m (FY17: \$48.2m)
- Excluding the performance of the USA, Like for Like performance is flat on FY17

□ Strong balance sheet and stable outlook

- Cash balances of \$97.1m, down 10%, driven by \$5.2m strategic initiative cash out flows and \$7.3m share buyback program
- Net operating cash flows before tax 194% of FY18 NPBT, enabling self-funded capital expenditure and sustained dividends
- No external net debt
- FY19 NPBT guidance of between \$34.0m to \$40.0m, FY19 new floor operating losses of between \$4.0m and \$5.0m and FY19 net operating cash flows exceeding \$50.0m
- Final dividend of 13.00 cps, declared for FY18, 25% franked
- Forecast dividends of 26.00 cps for FY19 (13.00 cps in each half); franking levels are uncertain



Strategic Initiatives

Long term value

- **3rd party consultation and market review**
- **Focus on long term value**
- **Responding to competitive pressures**
- **Executed initiatives include change of look and feel and customer experience**
- **Remain focused on generating recurring net operating cash flows**

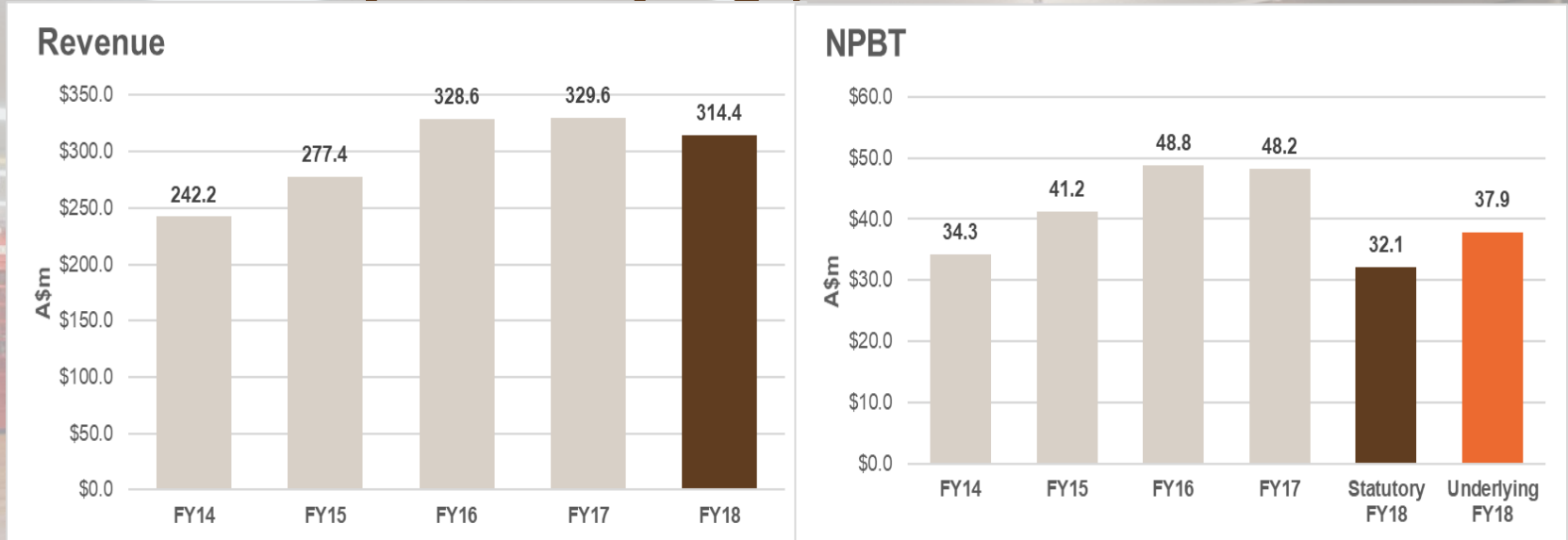
Statutory Position

Balance sheet and Cash flow

Balance Sheet	Jun-18 A\$m	Jun-17 A\$m	Cash Flow	FY18 A\$m	FY17 A\$m
Cash	93.4	104.4	Opening cash 1 July	104.4	95.8
Trade receivables	43.9	41.7	Net operating cash flows	50.1	54.4
PP&E	134.1	125.8	Net investing cash flows	(30.3)	(23.0)
Goodwill	14.8	14.8	Net financing cash flows	(33.4)	(20.5)
Deferred tax asset	24.5	33.6	Foreign exchange movements	2.7	(2.4)
Other assets	71.0	70.4	Closing cash 30 June	93.4	104.4
Total assets	381.7	390.7			
Trade payables	87.5	79.5			
Provisions	8.3	7.6			
Deferred tax liabilities	1.0	1.2			
Other liabilities	34.7	35.2			
Total liabilities	131.5	123.5			
Net assets	250.2	267.2			

Performance

Satisfactory underlying performance



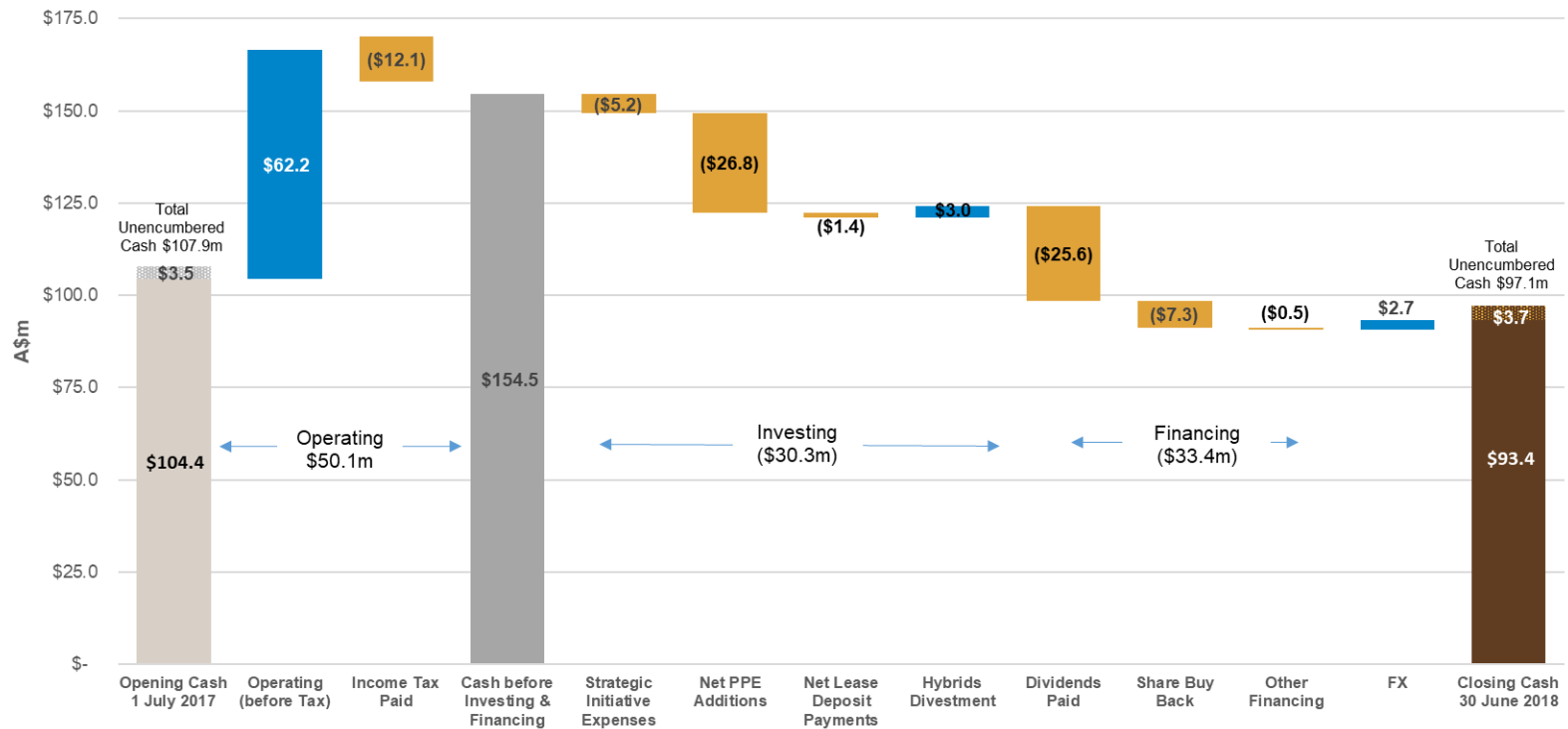
- **FY18 NPBT of \$32.1m underpinned by a strong North Asia result offset by the underperformance of the USA, Saudi Arabia and Singapore and \$5.8m of one-off expenses relating to strategic initiatives**
- **Underlying NPBT of \$37.9m excluding \$5.8m of one-off strategic initiatives expenses**
- **Following a USA Federal corporate tax rate reduction in December 2017 from 35% to 21%, and a review of the carried forward loss recoverability, the tax expense includes a one-off, non-cash \$13.0m adjustment relating to the USA deferred tax asset.**

Positioning

Healthy cash flow & liquidity

- Cash flows generated from operations of \$50.1m, down \$4.3m
- Cash balances of \$97.1m

Cashflow & Liquidity



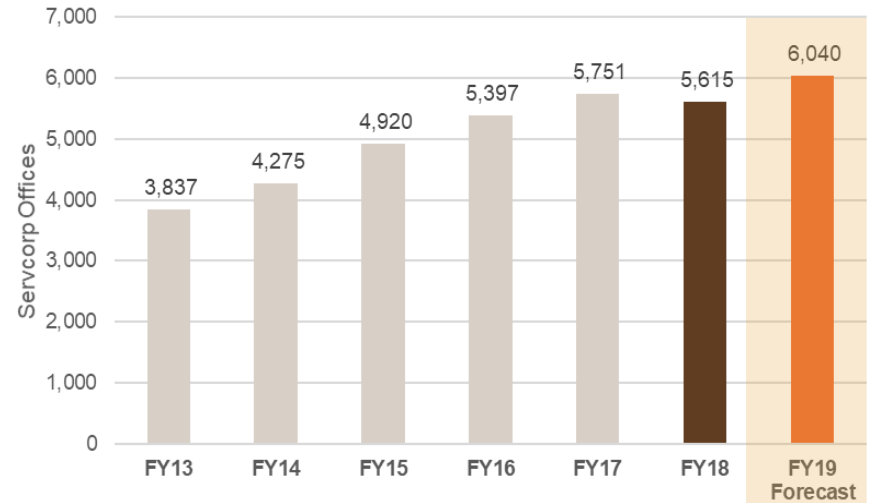
Servcorp Capacity

Servcorp Coworking

- Our investment in reshaping our portfolio to modernise current fit-outs and enhance our coworking offering is progressing well
- We have completed 61 locations and expect to complete a further 18 locations during the remainder of calendar 2018
- The early results from these fit-outs are encouraging
- We are adding 7.5% to capacity during FY19 including our first location in Germany
- New floors comprise two locations in Japan and one in Saudi Arabia. There will be further capacity added stemming from an expansion to our existing location in Mayfair, London
- FY18 new locations:
 - ❖ Mercury Tower in Bangkok (opened in November 2017)
 - ❖ Louis Vuitton in Beirut (opened in December 2017)

Our global footprint encompasses 154 floors, in 54 cities across 24 countries

Servcorp Capacity



Segment Performance

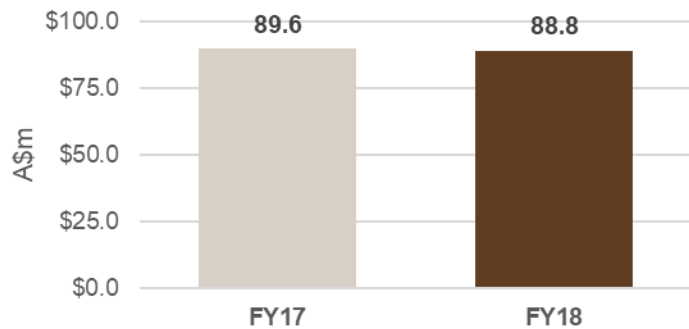
Global overview

Segment	Revenue		Revenue Growth		Profit / (Loss)		Margin	
	A\$m		%		A\$m		%	
	FY18	FY17	Actual	Constant FX	FY18	FY17	FY18	FY17
Australia, New Zealand & South East Asia	88.8	89.6	(1%)		7.2	6.4	8%	7%
North Asia	108.7	107.1	1%		24.0	21.4	22%	20%
Europe & Middle East	78.6	84.4	(7%)		10.0	14.9	13%	18%
USA	32.8	34.4	(5%)		(9.4)	(5.8)	(29%)	(17%)
Others	0.6	0.8	-		(0.5)	-	-	-
Total	309.5	316.3	(2%)	(1%)	31.3	36.8	10%	12%
Total excluding USA	276.8	281.9	(2%)		40.7	42.6	15%	15%

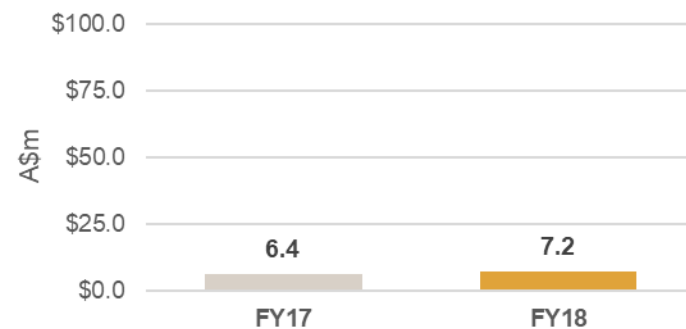
Operating Summary by Segment

ANZ and South East Asia (ANZSEA)

ANZ & South East Asia Revenue



ANZ & South East Asia NPBT

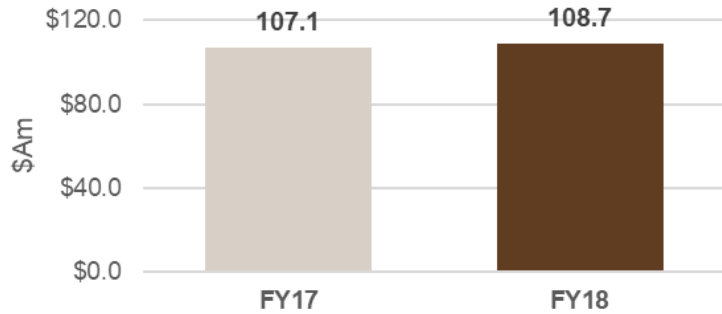


- NPBT performance in ANZ / SEA increased by 13%
- Singapore and Indonesia underperformed while the balance of the region is healthy

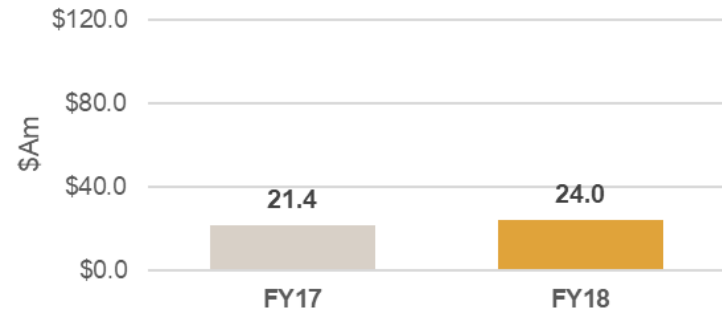
Operating Summary by Segment (cont'd)

North Asia

North Asia Revenue



North Asia NPBT

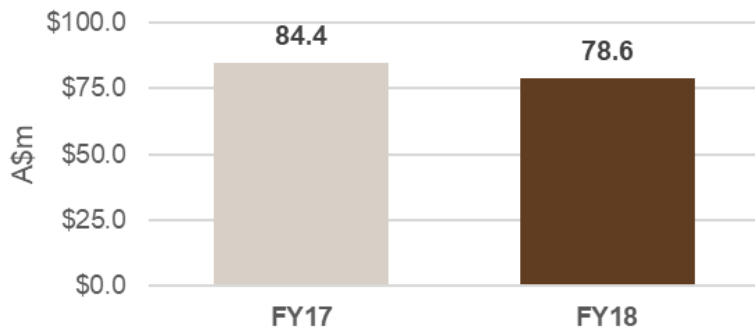


- North Asia as a whole produced an outstanding result
- NPBT for FY18 was \$24.0m, up 12% from \$21.4m in FY17

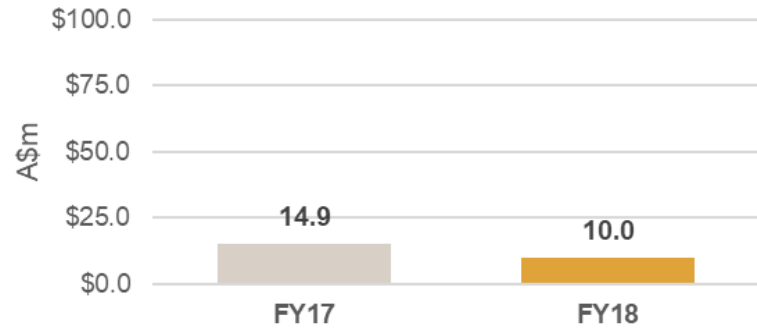
Operating Summary by Segment (cont'd)

Europe and Middle East (EME)

Europe & Middle East Revenue



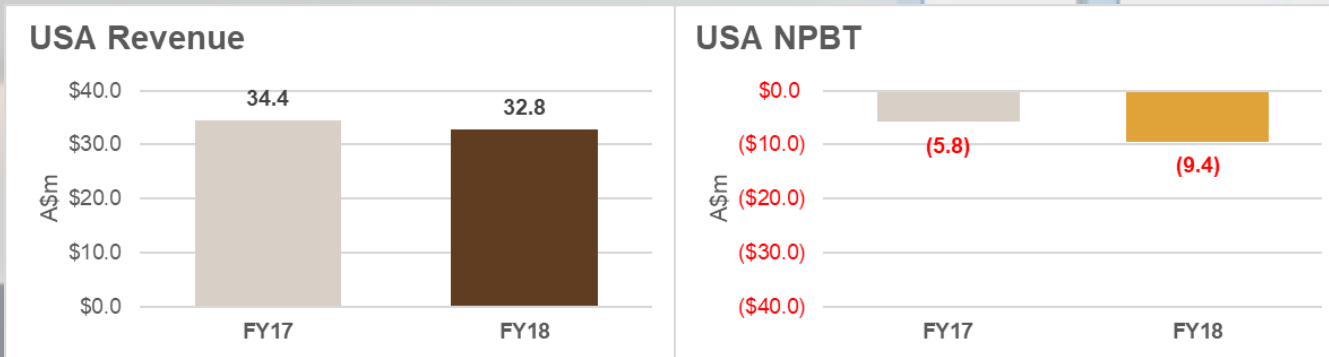
Europe & Middle East NPBT



- Like for Like floors in the Europe and Middle East segment produced a weaker result in FY18 mainly due to tough markets in Saudi Arabia partially offset by a solid UK result
- The UAE also had a tough year given the oversupply of office space particularly in Abu Dhabi
- Despite geo-political difficulties Qatar and Iran continue to perform and Turkey performed to expectations

Operating Summary by Segment (cont'd)

USA



- **Slower than expected progress**
- **New market initiatives showing early positive signs**
- **Market becoming more educated**
- **Tax write down does not impact cash**
- **We still believe there is significant potential**

Dividend

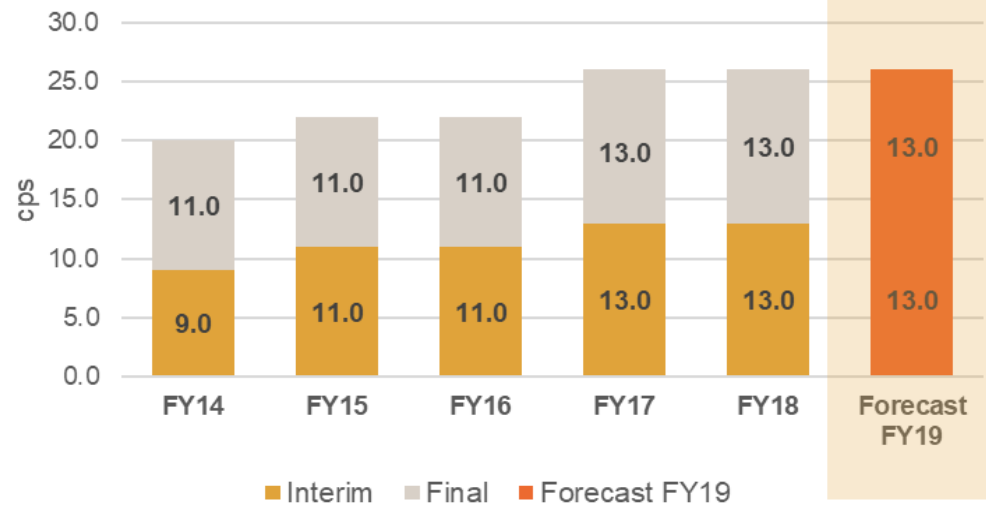
Final FY18 dividend

- Final dividend payable of 13.0 cps, 25% franked
- Total FY18 dividends payable of 26.0 cps, 16% franked

Forecast FY19 dividend^A

- Dividends of 26.0 cps (13.0 cps each half) are anticipated to be paid for FY19
- FY19 franking levels are uncertain

Dividends paid (cents per share)



A. Subject to currencies remaining constant, global financial markets remaining stable and no unforeseen circumstances.

Outlook

FY19 NPBT guidance^A is between \$34.0m and \$40.0m, FY19 new floor operating losses of between \$4.0m and \$5.0m and FY19 net operating cash flows exceeding \$50.0m.

Reflecting Directors' confidence in Servcorp's future, dividends of 26.0 cps (13.0 cents in each half) are anticipated to be maintained in FY19, however future franking levels are uncertain.

Despite our recent challenges, we remain optimistic due to our unique strategic positioning, global reach, technology platform, longstanding track record, impressive cash generation and strong net cash position; all of which reinforce our confidence in Servcorp's potential to continue to drive healthy returns for our shareholders.



A. Subject to currencies remaining constant; global financial markets remaining stable and no unforeseen circumstances.



QUESTIONS & ANSWERS