

# ASX AND MEDIA RELEASE

## SERVCORP REPORTS STRONG FIRST HALF 2020 PERFORMANCE

### NET PROFIT AFTER TAX OF \$14.8 MILLION

### FREE CASH FLOW \$36.7 MILLION

- Strong first half performance, with all key metrics higher on previous corresponding period (pcp)
- Record revenue and other income of \$178.8 million, up 9% on pcp (constant currency, up 6%)
- Underlying net profit before tax<sup>1</sup> up 47% to \$21.0 million, underlying net profit after tax<sup>2</sup> of \$16.9 million vs \$11.6 million net profit after tax in the first half of FY2019
- Free cash flow of \$36.7 million, up 20% on pcp<sup>3</sup>
- Strong balance sheet with 31 December 2019 cash balance of \$75.9 million, no external debt
- Interim dividend of 11.0 cents per share, up 10% on previous forecast, 25% franked<sup>4</sup>
- Expected final dividend of 11.0 cents per share, up 10% on previous forecast<sup>5</sup>
- Reconfirm FY2020 guidance: net profit before tax of \$36 to \$40 million and Free Cash to exceed \$65 million

Servcorp Limited ABN 97 089 222 506 (SRV) today released its half year results for the six months ended 31 December 2019.

Servcorp reported first half FY2020 revenue and other income of \$178.8 million, up 9% on the (pcp) and 6% on a constant currency basis. Underlying net profit before tax of \$21.0 million was underpinned by a strong performance in Europe and the Middle East, and a solid North Asian contribution, which was partly offset by losses in the United States.

The first half FY2020 result highlighted Servcorp's strong balance sheet and cash flow generation from operations. Free cash increased by \$6.0 million to \$36.7 million. At 31 December 2019, Servcorp had cash balances of \$75.9 million, an increase of \$9.7 million from 30 June 2019, which reflected the improved operating performance across most of the Company's global footprint.

Servcorp founder and Chief Executive, Alf Moufarrige, said the strength of the Company's first half result was evident across all key metrics including occupancy, operating margins, net profit after tax and free cash.

"The strong first half performance shows that our strategic focus on delivering a premium offering in the flexible workplace sector has paid off. Like for Like floor occupancy increased by 3 percentage points to 76%, with all floor occupancy of 76% at 31 December 2019. Capital expenditure was significantly lower during the half due to the substantial completion of our investment to modernise current fit-outs to incorporate coworking spaces. This investment is successfully meeting the expectations of the modern workforce.

<sup>1</sup> Underlying Net Profit before Tax (NPBT) excludes \$2.1m of restricted earnings and provisions

<sup>2</sup> Underlying Net Profit after Tax (NPAT) excludes \$2.1m of restricted earnings and provisions

<sup>3</sup> Net operating cash flows before tax minus cash rent paid to landlords for the current period

<sup>4</sup> Payable on 2 April 2020. No foreign conduit income attributed to the dividend

<sup>5</sup> Franking levels remain uncertain

Mr Moufarrige said, “given our strong balance sheet and cash flow generation, the Board has decided to increase the interim dividend to 11.0 cents per share. Our priority for the remainder of FY2020 is to drive further revenue growth as we continue to deliver a compelling offering to our clients across 52 cities and 22 countries.”

### **Office capacity**

Servcorp’s global footprint now encompasses 145 floors, in 52 cities across 22 countries. During the first half we consolidated several locations, closing floors in Auckland, Bangkok, Brisbane, Chengdu and Jakarta. Net capacity at the end of FY2020 is expected to remain relatively flat. Two new floors are scheduled to open in the second half of the year, in Manila and Shanghai.

### **Coworking**

The significant investment made to improve Servcorp’s coworking offering and modernise our fit-outs is materially complete. Ninety locations have been upgraded to date, with a further five scheduled for the current financial year, and business cases for an additional ten locations currently under assessment. During the first half of FY2020, the Company spent \$3.9 million, and estimates an additional potential investment of \$3.5 million in the second half of the financial year.

### **Regional Overview**

#### Australia, New Zealand and South East Asia

While revenue was down by 3% compared with the previous corresponding period, segment performance increased by 148% driven largely by continued improvement in South East Asia generally. Like for Like Cash Earnings<sup>6</sup> decreased 2% for the period. Floors were closed in Auckland, Bangkok, Brisbane and Jakarta.

#### North Asia

North Asia produced a good result, with revenue up 13% to \$66.4 million. The poor performance of Hong Kong and Thailand saw Like for Like cash earnings decreasing 13% over the period. One floor in the Chinese city of Chengdu was closed.

#### Europe and the Middle East

Revenue rose 21% in the half and Like for Like Cash Earnings increased 164% to \$10.3 million. Like for Like floors delivered a significantly improved result, largely driven by solid performances in Saudi Arabia and the UAE.

#### USA

The USA continues to underperform. While there were some good intermittent sales months during calendar year 2019, performance has deteriorated materially during the first half of FY2020. The Board and senior management continue to be intensely focussed on correcting the underperformance in the USA.

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<sup>6</sup> On 1 July 2019, Servcorp adopted the new accounting standard *AASB 16 – Leases*. Following the adoption the calculation of EBITDA has been materially impacted and we have therefore introduced “Cash Earnings” which is “EBITDA minus cash rent paid”. EBITDA still applies to the pcp.

## FY2020 Outlook

The strong first half performance recorded by Servcorp is forecast to continue into the second half of the financial year, and an ongoing increase in occupancies is expected. The first 6 weeks of the second half have been particularly encouraging. While Servcorp faces significant challenges in the United States, and uncertainties around the impact of the coronavirus in Asia, our experienced management team and diversified business provide stability in the flexible workspace sector.

Servcorp is the market leader in the flexible workplace industry. We have taken advantage of the greater awareness in this sector generated by the emergence of new entrants.

The Directors are confident about the future of the global business, supported by the Company's significant current cash balance of approximately \$94.0 million and an increased dividend in FY2020 by 10% in each half. The Board is confirming FY2020 net profit before tax guidance of between \$36 million and \$40 million, and continues to expect FY2020 Free Cash to exceed \$65 million. Forecasts are subject to currencies remaining constant, global financial markets remaining stable, and no other unforeseen circumstances.

This ASX announcement is approved and authorised by the Board of Directors of Servcorp Limited.

### For more information contact

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|--------------------------|-------------------------|
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### Results Presentation

Tuesday 25 February 2020 at 4:30pm  
Level 63 MLC Centre, 19 Martin Place, Sydney

| <b>Dial-in facility</b>    | <b>Online webinar</b>                              |
|----------------------------|--|
| Australia: +61 2 8355 1054 | If you wish to join the online meeting click below |
| Access Code: 590-366-386   | <a href="#">Register now!</a>                      |

or email [kate.mullineaux@servcorp.com.au](mailto:kate.mullineaux@servcorp.com.au) by midday on Tuesday 25 February 2020