Servcorp Limited

1H20 Results Presentation

Tuesday 25 February 2020

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Happiness in business is:

A COMMUNITY TO WORK WITH

A TEAM TO DELEGATE TO

SIMPLE IT SOLUTIONS THAT WORK

A RECEPTIONIST TO ANSWER YOUR CALLS

Headlines

Resilient 1H20 performance with all key metrics up on pcp

- Revenue and other income up 9% to $178.8m
- Underlying NPBT up 47% to $21.0m
- Free Cash up 20% to $36.7m
- Occupancy up 3 percentage points to 76%

Strong balance sheet

- Cash balances at 31 December 2019 of $75.9m, up $9.7m on 30 June 2019; driven by improved operating performance in most regions offset by the USA
- Free Cash 175% of Underlying 1H20 NPBT of $21.0m, supporting self-funded capital expenditure and increased dividends in FY20
- No external debt
- 1H20 interim dividend of 11.00 cps confirmed (up 10% on previous forecast), 25% franked
- 2H20 final dividend of 11.00 cps expected (up 10% on previously announced); franking levels are uncertain

1H20 Result

Underlying NPBT $21.0m, up 47%

	Underlying[A] 1H20 A$m	Underlying[A] 1H19 A$m	1H20 v 1H19	Statutory 1H20 A$m	Statutory 1H19 A$m
Revenue and other income	**176.6**	161.6	↑ 9%	**178.8**	164.2
Operating expenses	**(155.6)**	(147.4)	↑ 6%	**(159.9)**	(170.3)
Net profit / (loss) before tax	**21.0**	14.2	↑ 47%	**18.9**	(6.1)
Income tax expense	**(4.1)**	(2.6)	↑ 58%	**(4.1)**	(6.7)
Net profit / (loss) after tax	**16.9**	11.6	↑ 46%	**14.8**	(12.8)

	1H20	1H19
Net tangible assets per share[B]	**$2.13**	$2.32
Earnings per share (cents)	**15.3**	(13.2)

FY20	**A$**	**Franking**
Interim dividend per share	**0.11**	25%
Expected[C] final dividend per share	**0.11**	Uncertain

A. *Underlying result excludes earnings generated and provisions recorded by a member of the consolidated entity operating in a politically restricted country with exchange controls. 1H19 has been restated accordingly.*

B. *31 December and 30 June respectively*

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

Statutory Position

Balance sheet and Cash flow

Balance Sheet	Dec-19 A$m	Jun-19 A$m
Cash	74.6	65.1
Trade receivables	43.9	46.4
PP&E	[A]502.7	145.6
Goodwill	13.8	13.8
Deferred tax asset	45.3	27.1
Other assets	65.5	74.0
Total assets	**745.8**	**372.0**
Trade payables	53.2	88.1
Provisions	8.6	8.6
Deferred tax liabilities	2.2	1.2
Lease liabilities	[A]422.7	-
Other liabilities	39.0	35.5
Total liabilities	**525.7**	**133.4**
Net assets	**220.1**	**238.6**

Cash Flow	1H20 A$m	1H19 A$m
Opening cash 1 July	65.1	93.4
Net operating cash inflows	[A]100.7	23.6
Net investing cash flows	(5.9)	(35.9)
Net financing cash outflows	(85.6)	(12.4)
Foreign exchange movements	0.3	3.1
Closing cash 30 June	**74.6**	**71.8**

Free Cash Reconciliation	1H20 A$m	1H19 A$m
Net operating cash inflows	100.7	23.6
Tax paid	6.4	7.1
Cash rent paid current period	(70.4)	-
Free Cash	**36.7**	**30.7**

A. Reflects the impact of adoption of AASB16 – Leases from 1 July 2019

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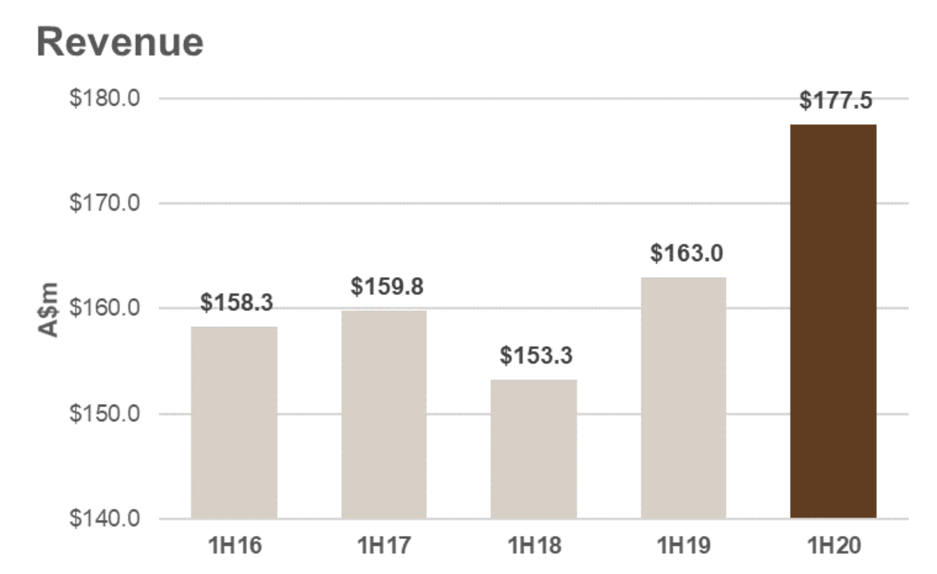
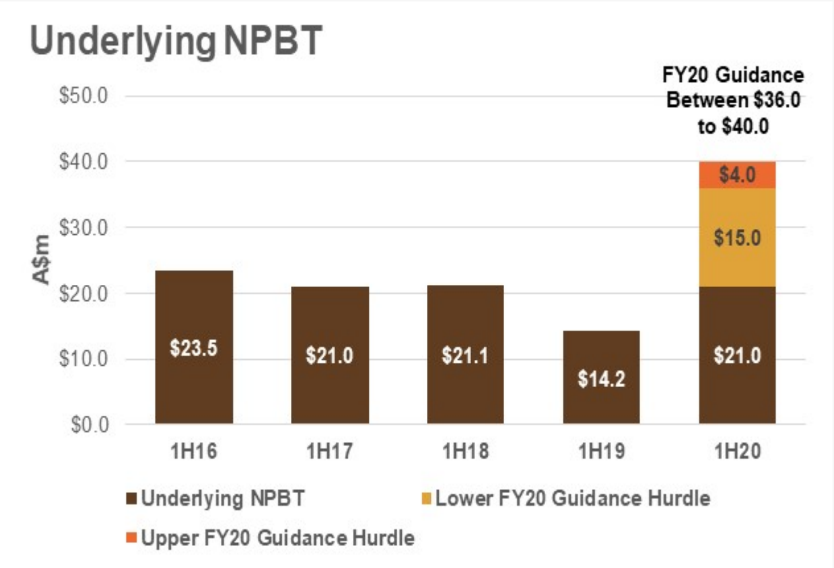
Performance

Satisfactory underlying operating performance

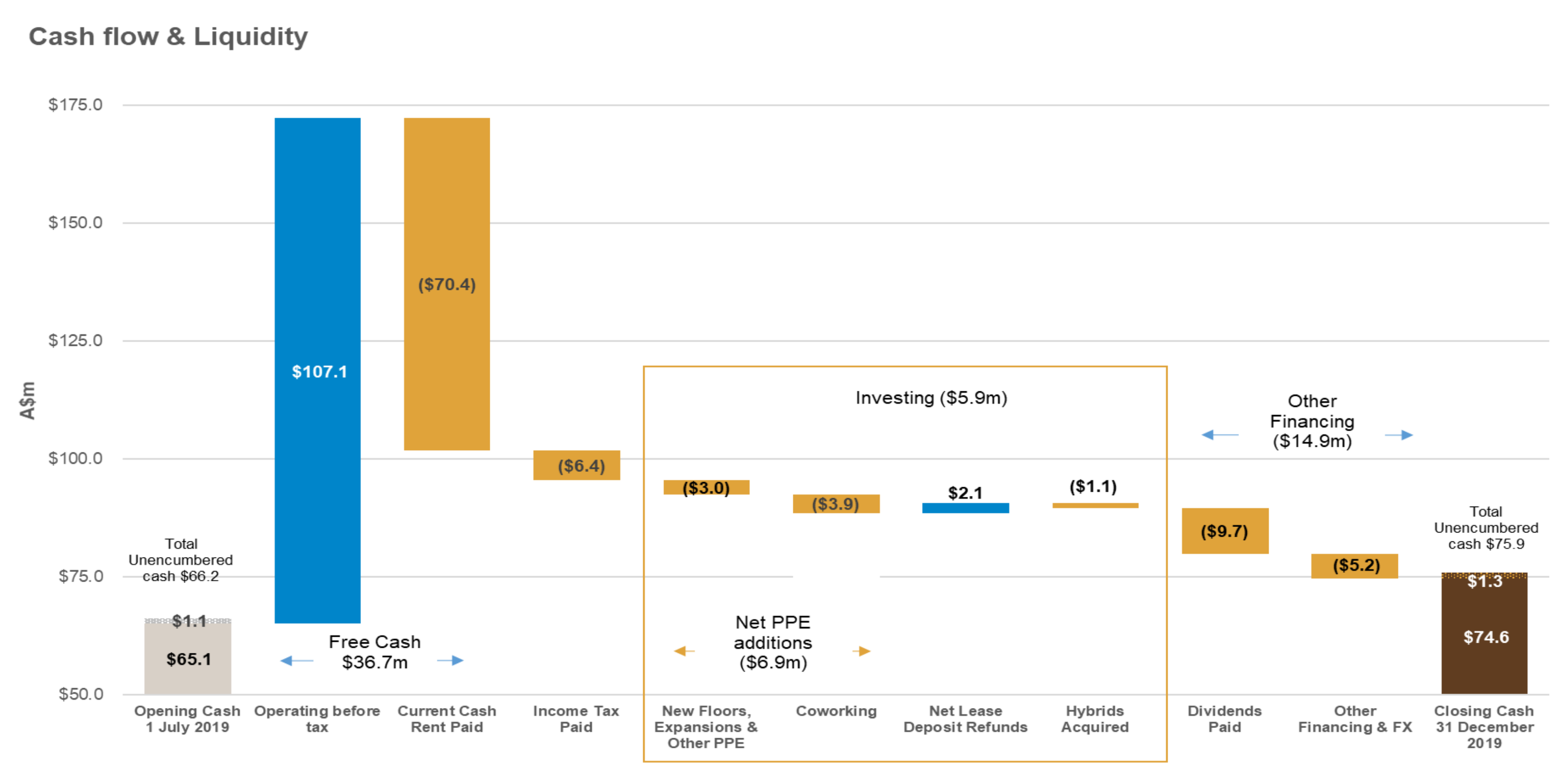




- **We produced a record revenue of $177.5m, up 9% on 1H19**
- **1H20 Underlying NPBT of $21.0m (up 47% on 1H19) was underpinned by a strong EME result, a solid contribution from parts of North Asia offset by USA losses**

Positioning

Healthy cash flow & liquidity

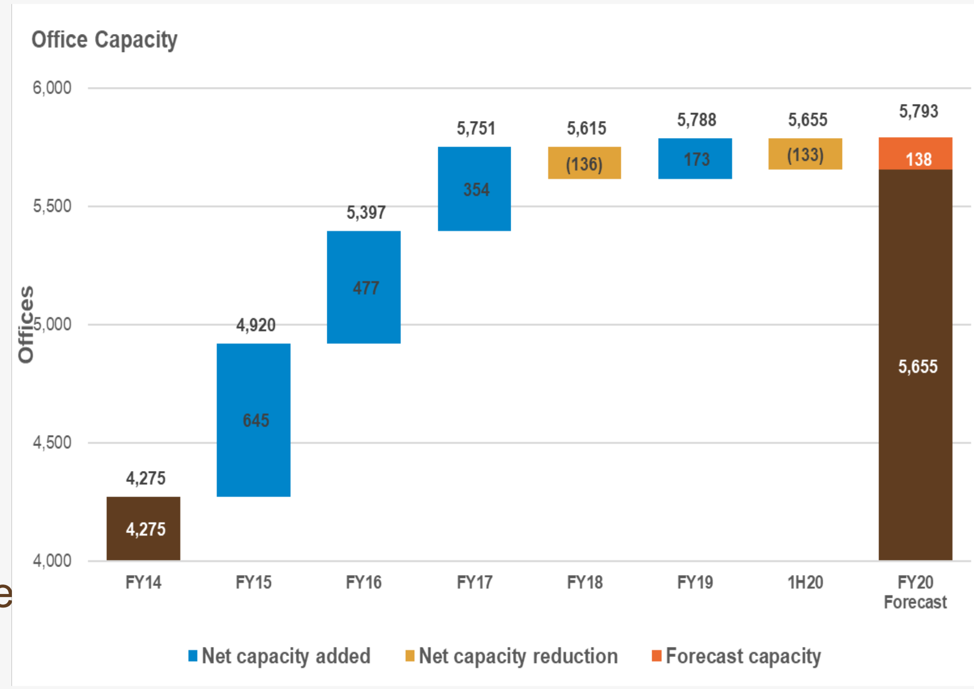


- **Free Cash for 1H20 is $36.7m, up $6.0m on 1H19 of $30.7m**

Servcorp Capacity
Global Footprint

Our global footprint encompasses 145 floors, in 52 cities across 22 countries

- During 1H20 we consolidated several locations closing floors in Auckland, Bangkok, Brisbane, Chengdu and Jakarta
- Two new floors are scheduled to open in Manilla and Shanghai in 2H20
- Net capacity at the end of FY20 is forecast to remain relatively flat on FY19 capacity
- Like for Like floors occupancy was 76% at 31 December 2019 (30 June 2019: 73%). All floors occupancy was 76% at 31 December 2019 (30 June 2019: 72%)



Servcorp Capacity

Coworking

- Our investment in reshaping our portfolio to modernise current fit-outs and enhance our coworking offering is mostly complete
- To date we have completed 90 of the previously identified locations and are committed to complete a further 5 locations during 2H20 and are assessing business cases for an additional 10 locations
- In 1H20 we spend $3.9m and depending on any amendments to the selection of floors, we estimate an additional investment of approximately $3.5m in 2H20

Segment Performance

Global overview

Segment	Revenue A$m		Segment Profit / (Loss) A$m		Like for Like Cash Earnings[B] A$m		Margin %	
	1H20	1H19	1H20	1H19	1H20	1H19	1H20	1H19
ANZ & SEA	**43.8**	45.0	**9.9**	4.0	**9.0**	9.1	**23%**	9%
North Asia	**66.4**	58.9	**10.3**	13.4	**13.2**	15.2	**15%**	23%
EME[A]	**45.8**	37.7	**5.4**	0.6	**10.3**	3.9	**12%**	2%
USA	**18.7**	19.4	**(5.9)**	(3.9)	**(3.3)**	(0.6)	**(31%)**	(20%)
Others	**1.2**	0.3	**0.9**	0.1	**1.2**	0.3	**76%**	41%
Total[A]	**175.9**	161.3	**20.7**	14.3	**30.4**	27.9	**12%**	9%
Total excluding USA[A]	**157.2**	141.9	**26.5**	18.2	**33.7**	28.5	**17%**	13%

1H20 revenue expressed in constant currency terms (i.e. at 1H20 exchange rates) increased by 6% compared to 1H19

A. *Excludes revenue and profit by a member of the consolidated entity operating in a politically restricted country with exchange controls.*
B. *Cash Earnings calculated as EBITDA minus Cash Rent paid. 1H19 is EBITDA only.*

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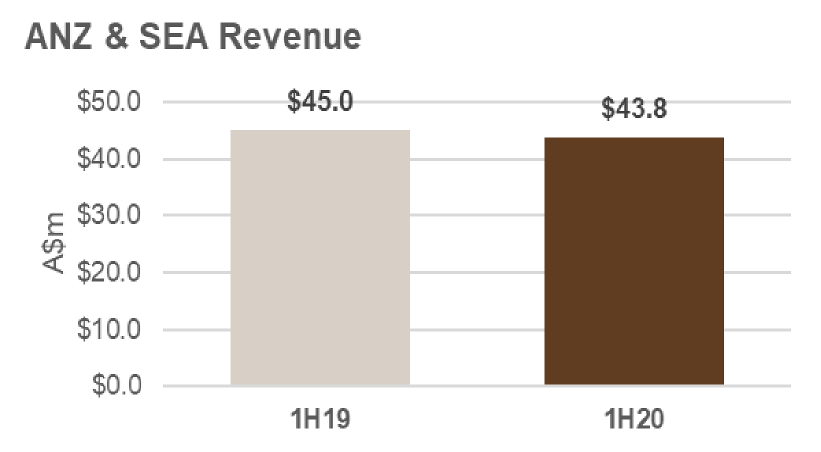
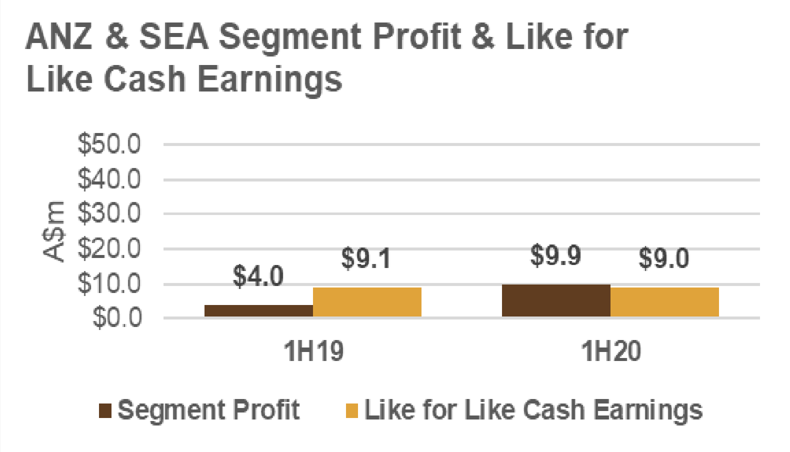
Operating Summary by Segment

ANZ and South East Asia (ANZSEA)



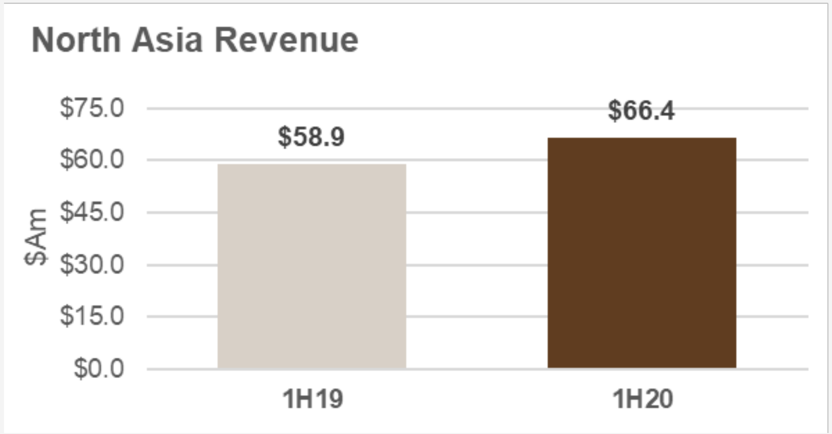


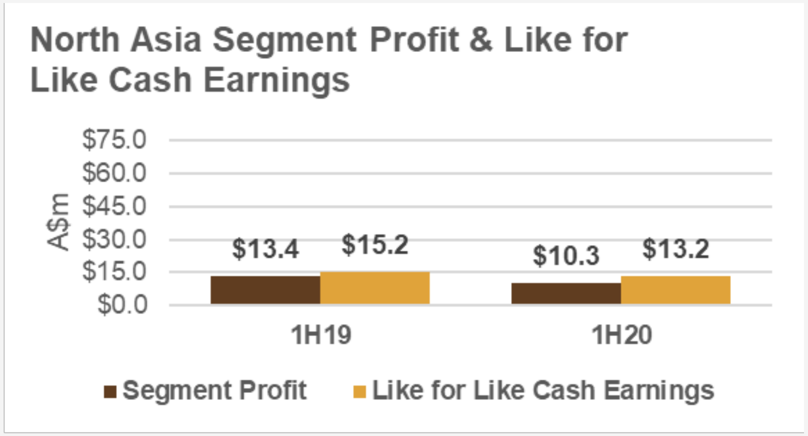
- **While revenue was down 3% on 1H19, segment performance in ANZ / SEA increased by 148% driven largely by continued improvement in SEA generally**
- **Like for Like Cash Earnings[A] decreased 2% for the same period owing largely to floor closures in Auckland, Bangkok, Brisbane and Jakarta in 1H20**

A. *Cash Earnings calculated as EBITDA minus Cash Rent paid. 1H19 is EBITDA only.*

Operating Summary by Segment (cont'd)

North Asia



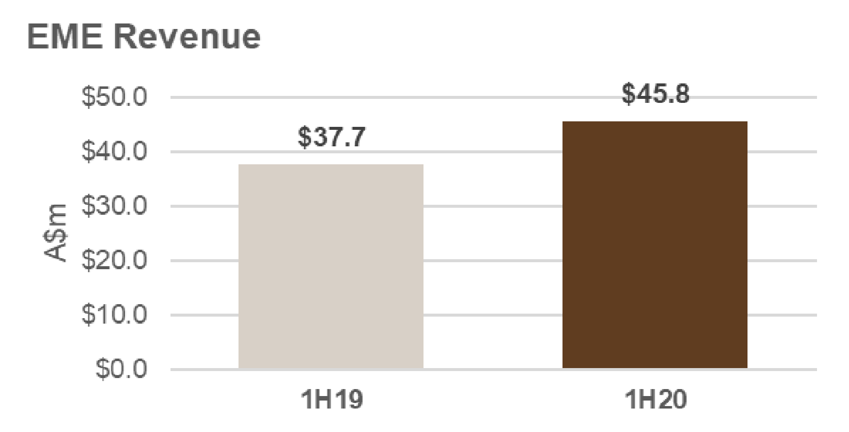


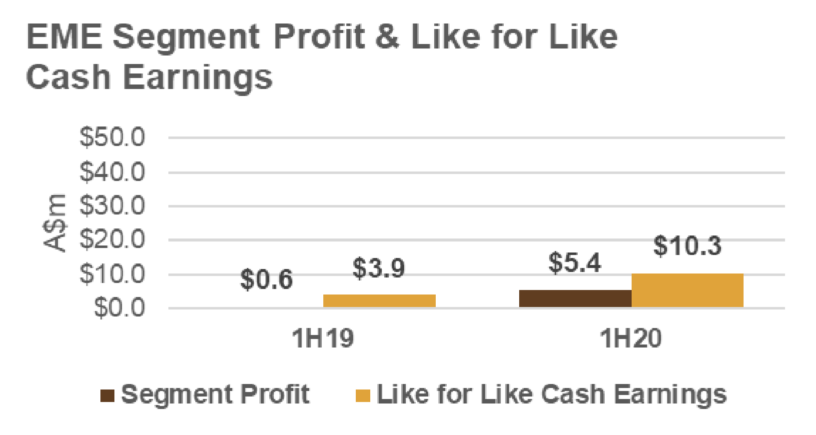
- **North Asia as a whole produced a good result**
- **Revenue for 1H20 was up 13% to $66.4m compared to 1H19**
- **Like for Like Cash Earnings[A] decreased 13% for the same period driven by the poor performance of Hong Kong and Thailand**
- **We closed one floor in Chengdu during 1H20**

A. *Cash Earnings calculated as EBITDA minus Cash Rent paid. 1H19 is EBITDA only.*

Operating Summary by Segment (cont'd)

Europe and Middle East (EME)



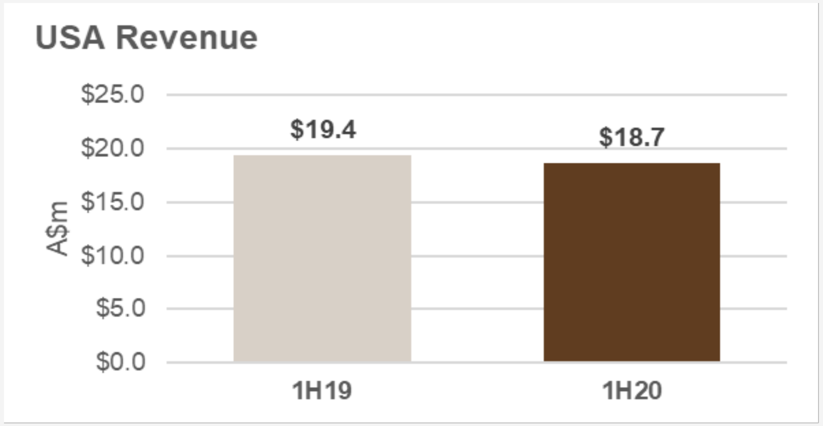


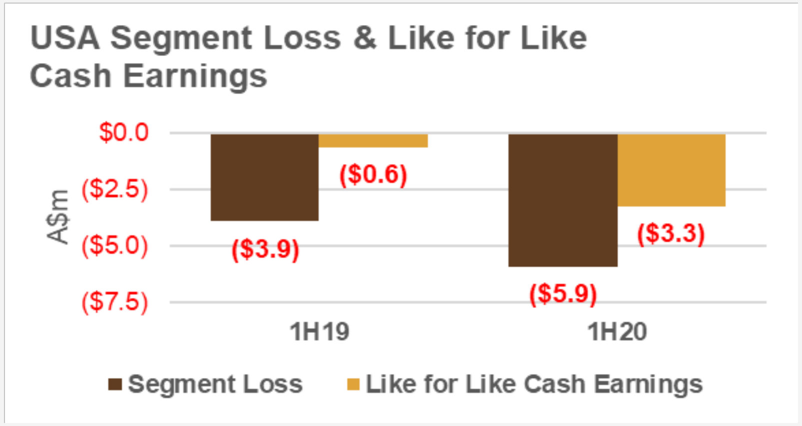
- **Like for Like floors in the EME segment produced a significantly improved result in 1H20 largely driven by solid performances of Saudi Arabia and UAE**
- **Revenue was up 21% in 1H20 and Like for Like Cash Earnings[A] increased 164% to $10.3m**

A. Cash Earnings calculated as EBITDA minus Cash Rent paid. 1H19 is EBITDA only.

Operating Summary by Segment (cont'd)

USA





- **The USA continues to produce losses. Like for Like Cash Earnings[A] worsened from negative $0.6m in 1H19 to negative $3.3m in 1H20**
- **While the USA had some good intermittent sales months during calendar year 2019, its performance has deteriorated materially during 1H20. The CEO has spent a significant amount of time in the USA in the last 3 months and along with USA senior management, is intensely focused on correcting its continued lack of performance**

A. Cash Earnings calculated as EBITDA minus Cash Rent paid. 1H19 is EBITDA only.

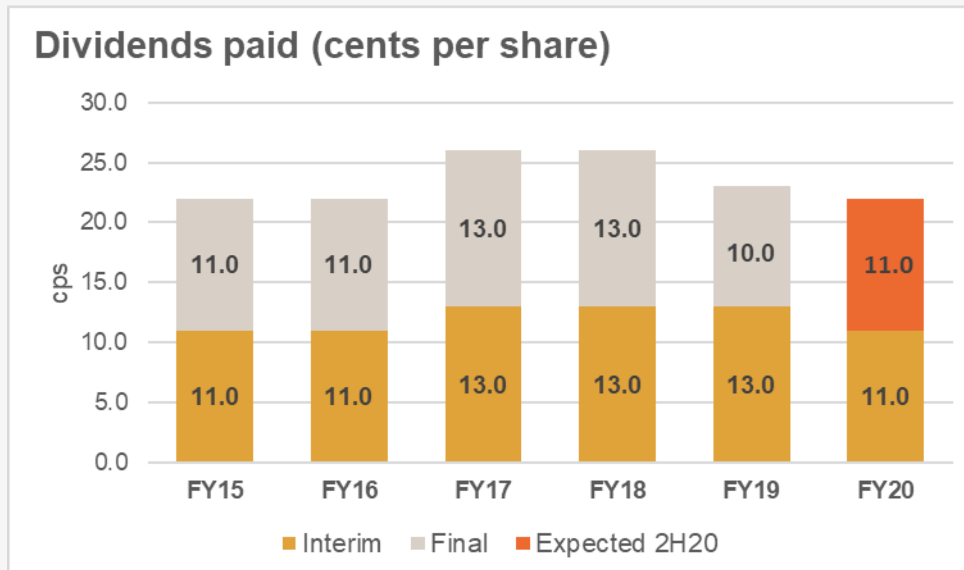
Dividend

Interim FY20 dividend

- Interim dividend payable of 11.0 cps (up 10% on previous forecast), 25% franked, payable on 2 April 2020

Expected FY20 dividend[A]

- Final dividend of 11.0 cps is expected to be paid for FY20
- Franking levels are uncertain



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

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AASB16 – Leases Key Messages

No impact on our business

- **No Impact on**
  - Our economics
  - Cash
  - How the business is managed

- **Significant impact on financial reporting**
  - Leases brought on to the balance sheet
  - Positive NPBT impact over time; not material in FY20
  - Supplementary information relating to the transition to the new accounting standard is set out in the Servcorp Consolidated Interim Financial Report for the period ended 31 December 2019

- **Applies to**
  - Transitional adjustments made 1 July 2019
  - FY20 first year of reporting under new standard

Outlook

FY20 guidance[A] reaffirmed

Notwithstanding the losses incurred in the USA, our first half performance has been strong. All key metrics are improved on the prior corresponding period including occupancy, operating margins, NPAT and Free Cash. Importantly the trend is continuing into the second half of FY20.

We continue to face significant challenges in the USA and likely headwinds in Asia (particularly China) in light of the coronavirus outbreak. We have experienced management and a diversified business, both providing stability in this changing flexible workspace landscape.

Users in the flexible workspace industry are more educated than ever before however Servcorp remains recognised as the market leader.

Servcorp has a strong, diversified global business and is in a financially sound position with current cash balances of approximately $94.0 million. Accordingly we reaffirm FY20 NPBT guidance of between $36.0m and $40.0m and FY20 Free Cash to exceed $65.0m.

Further, expressing confidence in the future of our business, we have increased the interim dividend and the expected final dividend to 11.00 cps each.

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

QUESTIONS & ANSWERS