

CHAIRMAN'S ADDRESS

2019 ANNUAL GENERAL MEETING

ADDRESS BY MR BRUCE CORLETT AM
CHAIRMAN, SERVCORP LIMITED
13 NOVEMBER 2019

Ladies and Gentlemen,

The 2019 financial year saw the flexible workspace industry remain highly competitive and continue to experience unprecedented change and disruption. Our focus is staying ahead of this changing competitive landscape by continuing to invest in our unparalleled technology platform, modernisation of fit-outs and enhancement of coworking offerings.

Results

Revenue for the year was \$337.2 million, an increase of 8% on 2018, and a Servcorp record. Net profit before tax for the year was \$12.5 million, a decrease of 61%; we were encouraged by the second half net profit before tax of \$18.4 million, exceeding second half public guidance of between \$14.0 million and \$18.0 million. Net profit after tax was \$5.4 million, with earnings per share of 5.6 cents.

Net profit before tax was impacted by \$1.9 million in one-off, unbudgeted restructure costs and write-offs, \$18.7 million of asset and goodwill impairment, and excludes \$1.1 million of restricted earnings. Excluding these significant items, which do not reflect the real operating performance of our business, underlying net profit before tax was \$32.0 million.

During the 2019 financial year the business generated net operating cash of \$51.0 million, an increase of 2% on 2018. Cash and investment balances at 30 June 2019 were \$73.0 million, a decrease of 30% on 2018; \$66.2 million of this balance was unencumbered and the Company has no external debt.

These cash balances are after significant continued investment in reshaping our portfolio to modernise current fit-outs to incorporate coworking, together with new floors and expansion. Having strong cash balances enables Servcorp to take advantage of opportunities as they arise, particularly in disrupted markets.

Unencumbered cash balances as at 31 October are approximately \$69.1 million.

In October, the Company paid a final dividend of 10.0 cents per share, franked to 60%; this dividend was 25% above the public guidance, primarily due to the record free cash flow in the second six months of the 2019 financial year. Total dividends for the 2019 financial year were 23.0 cents per share; resulting in a payout to shareholders of approximately \$22.3 million.

Outlook

This takes me to the outlook for the 2020 financial year.

When we released our 2019 financial year results in August, we forecast that net profit before tax would be between \$36.0 million and \$40.0 million in the 2020 financial year. This represents our view that the overall business has stabilised.

Free cash (net operating cash flow before tax) in the 2020 financial year is expected to exceed \$65.0 million. We continue to have a dedicated focus on maintaining strong liquidity, minimal debt and generating positive net operating cashflows; we will never put Servcorp's ongoing sustainability at risk.

I can report that trading for the first quarter of the 2020 financial year is generally in line with forecast.

There are some encouraging signs for the future. We have a number of outstanding businesses which are outperforming; led by Japan, Saudi Arabia and the United Kingdom. Our Australian business continues to make a solid contribution. Most of our other businesses are generally stable and showing signs of improvement.

Our United States operations continue to disappoint and their performance in the first quarter of the 2020 financial year is materially behind forecast. Clearly we have to change our business model. This will be a major management focus for the balance of the 2020 financial year.

Notwithstanding the poor performance of our United States operations, we confirm our 2020 financial year public guidance of net profit before tax between \$36.0 million and \$40.0 million, subject as always to currencies remaining constant, global financial markets remaining stable and no unforeseen circumstances.

The global flexible workspace industry continues to grow at a compound rate of 20%, but remains highly competitive. Competition may be fierce, but no competitor can match Servcorp's focus on building the infrastructure that clients need to succeed in the digital age. We have absolute confidence that our product is better; our team is highly motivated and we can provide what our clients need to help make their businesses succeed.

Dividends

I now turn to dividends.

Directors anticipate the level of dividends for the 2020 financial year will be 20.0 cents per share, representing 10.0 cents per share in each half. At this stage, franking levels are uncertain.

Whilst always ensuring we retain strong net cash balances, we will continue to reward shareholders with a healthy dividend flow when prudently possible.

Dividend projections are always subject to unforeseen circumstances.

Non-Executive Director appointment

As announced to the ASX on 27 August, Servcorp has appointed Mr Tony McGrath as a new independent non-executive Director. Tony comes with a lifetime of experience in the Australian financial sector, specialising in corporate restructuring and governance advisory related matters.

We are confident he will make a meaningful contribution to Servcorp's future. We recommend you support Tony's election as a Director when we put that resolution later in the meeting.

Farewell

It was with regret that I decided not to seek re-election as a Director at this annual general meeting.

It has been my privilege to serve as Chair of this great Company for the past 20 years but, as I turned 75 in September this year, it is time for me to pass the baton.

We are fortunate that The Hon. Mark Vaile AO, who has been a Director since 2011, will take my place as Chairman at the conclusion of this meeting. Mark is a distinguished Australian with a proven record as a leader. He has great commercial judgment and will lead the Company well.

Close

On behalf of the Board, I want to acknowledge the outstanding efforts of our CEO, Alf Moufarrige; our leadership group; and all the Servcorp team members for their dedication and commitment during the past year of continued disruption in the flexible workspace industry.

I also want to thank and acknowledge the support that my fellow non-executive Directors have provided, for the benefit of the Company, during the entire period of my Chairmanship.

We remain optimistic due to our unique strategic positioning; global reach; technology platform; longstanding track record; strong cash generation; and substantial net cash position. These all reinforce our confidence in Servcorp's ability to continue to drive healthy, long-term returns for our shareholders, and thereby maintain our position as the world's premium provider of Workspace Solutions.

We thank you, our shareholders, for your continuing support. We look to the future with optimism.