Servcorp Limited

FY20 Results Presentation

Tuesday 25 August 2020

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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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COVID-19 Impact

The consequences of the COVID-19 pandemic for the flexible workspace industry have been unprecedented. In response, Servcorp has rapidly adapted to the present environment across our global footprint, with the first priority being to protect the health and safety of our team and clients.

While the first three quarters of FY20 delivered a solid start to the financial year, the subsequent spread of COVID-19 significantly impacted trading conditions from late March. Since this time, occupancy has been materially impacted, falling 7 percentage points from its highest point at 76% to 69% at 30 June 2020. Virtual office clients were also impacted however this client base has now somewhat stabilised. There has been a severe impact to coworking and we expect the recovery to take significantly longer than our serviced and virtual office offerings.

We have been sympathetic to the impact COVID-19 has had on the way we live and work, and continue to work closely with our clients who have been genuinely impacted, to provide them with the necessary support to manage through the pandemic and beyond.

Leading up to the COVID-19 pandemic Management had already committed to, and executed a global footprint consolidation. However, the pandemic forced some further footprint reduction, particularly in the USA where we closed 12 locations. We believe our consolidated global footprint will allow us to better navigate the current and future economic uncertainty stemming from the COVID-19 pandemic as well as capitalise on the recovery.

COVID-19 Response

Servcorp is well positioned to manage through a range of potential recovery scenarios:

❑ A strong liquidity position

Since 2010 Servcorp has conservatively maintained a strong balance sheet. This conservatism will provide a buffer in handling the liquidity pressures brought on by COVID-19. Currently we have in excess of $100.0m in cash and no external debt.

❑ Tightly controlled operating expenditure

Implementation of cost reduction initiatives across our operations were enacted promptly in March resulting in a lower operating cost base. We believe in sharing the financial downside of the COVID-19 pandemic impact with our landlords through rental abatements, deferrals or other type of rental relief. Negotiations continue with all landlords, with approximately 26% of our portfolio resolved to date.

Our global headcount has been reduced by approximately 20% and there have been temporary salary reductions of up to 20% in place including the Executive and Directors.

❑ Strict capital expenditure allocation

Other than maintenance, all capital expenditure programs have been temporarily suspended. That said, we do see medium term opportunities for growth particularly in mature markets with proven management performance. Any future allocation of capital will ultimately depend on the certainty of the post COVID-19 recovery period within each market.

❑ Unique technology platforms

Servcorp's technology platforms are market-unique and well placed to attract new clients post COVID-19. In particular, our best-in-market virtual product makes working from home seamless. Through our OneFone technology clients have uninterrupted access to landline telephone infrastructure and our team will answer calls 24 hours a day as directed thereby minimising the impact of any potential loss of business.

Despite COVID-19 challenges, we remain cautiously optimistic due to our unique positioning, global reach, technology platforms, longstanding track record and cash generation ability.

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

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Headlines

Strong underlying performance despite COVID-19 trading conditions in 4Q20

- Revenue and other income up 5%
- Continued Operations revenue up 11%
- Underlying[1] NPBT up 17%
- Underlying Free Cash up 3%
- Operating performance in the first 9 months of FY20 up 17%

Resilient balance sheet

- Cash balances at 30 June 2020 of $101.4m, up $35.2m on 30 June 2019; driven by strong performance before the COVID-19 pandemic
- Cash balances currently in excess of $100.0m
- Underlying Free Cash 176% of Underlying FY20 NPBT, providing some buffer to navigate through COVID-19, supporting self-funded capital expenditure and dividends
- No external net debt
- Healthy cash generation enabling a FY20 final dividend of 9.0 cps, unfranked

1. "Underlying" is a non-statutory measure and is the primary reporting measure used by the CEO, CFO, COO & Board of Directors for the purpose of assessing the performance of our business.

FY20 Result

Underlying NPBT $37.5m, up 17%

	Underlying[A] FY20	Underlying[A] FY19	FY20 v FY19	Statutory FY20	Statutory FY19
	A$m			A$m	
Revenue and other income	**327.4**	295.2	↑ 11%	**352.9**	337.2
Operating expenses	**(289.9)**	(263.2)	↑ 10%	**(337.3)**	(324.7)
Net profit before tax	**37.5**	32.0	↑ 17%	**15.6**	12.5
Income tax expense	**(6.9)**	(2.8)	↑ *nmf*	**(8.7)**	(7.1)
Net profit after tax	**30.6**	29.2	↑ 5%	**6.9**	5.4

	Statutory FY20	Statutory FY19
Net tangible assets per share	**$2.14**	$2.32
Earnings per share	**$0.09**	$0.06

FY20	A$	Franking
Expected[B] final dividend per share	**0.09**	none
Interim dividend per share	**0.11**	25%

A. Underlying" is a non-statutory measure and is the primary reporting measure used by the CEO, CFO, COO & Board of Directors for the purpose of assessing the performance of our business.
In FY20 Underlying NPBT excludes $2.0m in one-off, COVID-19-related restructure costs, $19.4m of deconsolidation losses and $0.5m of restricted losses

B. Subject to currencies remaining constant, continued strong cash generation, and the continued impacts of the COVID-19 pandemic on our operations.

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Statutory Position

Balance sheet and Cash flow

Balance Sheet	Jun-20 A$m	Jun-19 A$m
Cash	99.9	65.1
Trade receivables	31.1	46.4
PP&E	[A]476.4	145.6
Goodwill	13.8	13.8
Deferred tax asset	37.0	27.1
Other assets	65.7	74.0
Total assets	**723.9**	**372.0**
Trade payables	44.8	88.1
Provisions	10.0	8.6
Deferred tax liabilities	-	1.2
Lease liabilities	[A]414.4	-
Other liabilities	23.8	35.5
Total liabilities	**503.0**	**133.4**
Net assets	**221.0**	**238.6**

Cash Flow	FY20 A$m	FY19 A$m
Opening cash 1 July	65.1	93.4
Net operating cash inflows	[A]182.3	51.0
Net investing cash flows	(18.0)	(52.1)
Net financing cash outflows	(133.0)	(24.4)
Foreign exchange movements	3.4	(3.0)
Closing cash 30 June	**99.9**	**65.1**

Underlying[B] Free Cash Reconciliation	FY20 A$m	FY19 A$m
Net operating cash inflows	182.3	51.0
Tax paid	9.4	11.1
Total Cash Rent adjustments	[A](128.9)	-
Restructure costs and write-offs	3.4	1.9
Underlying Free Cash	**66.1**	**64.0**

A. *Reflects the impact of adoption of AASB16 – Leases from 1 July 2019.*
B. *Refer to the Appendix 4E MD&A for a detailed reconciliation of statutory cash flows to Free Cash to Underlying Free Cash.*

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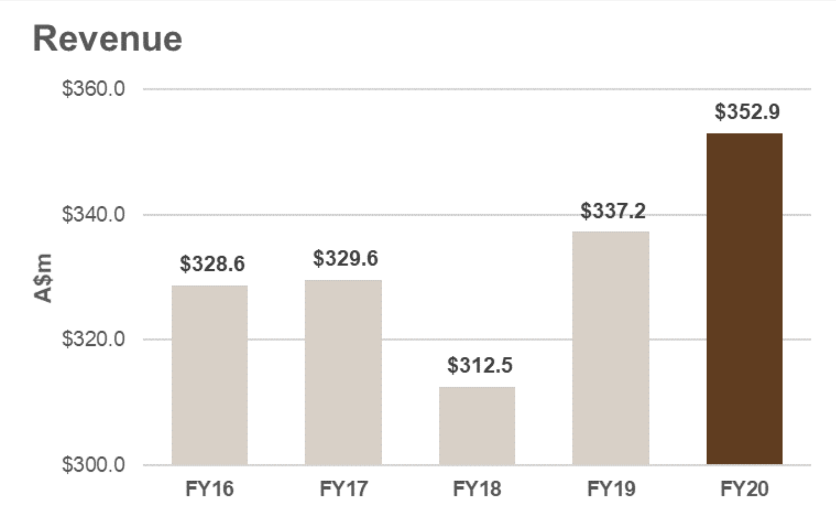
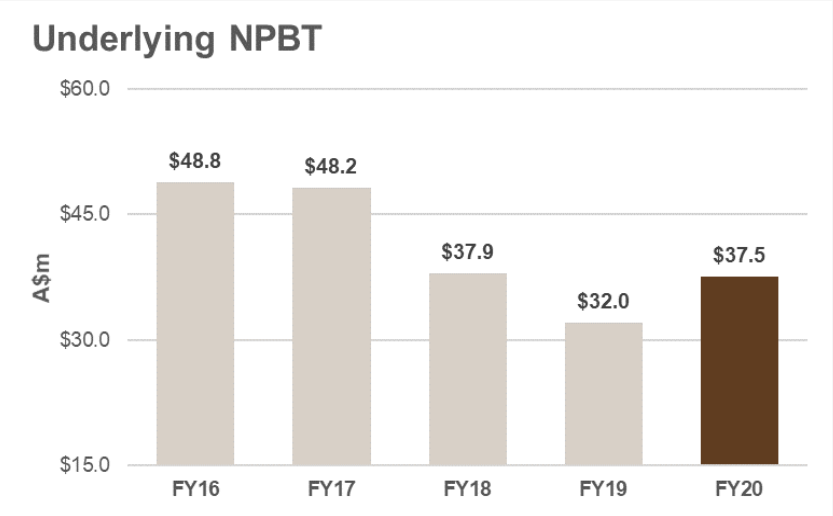
Performance

Satisfactory underlying operating performance





- FY20 Revenue of $352.9m up 5% from $337.4m – a new Servcorp record. FY20 Continued operations revenue of $327.5m was up 11% on the pcp
- FY20 Underlying NPBT of $37.5m underpinned by a strong North Asia result, improved results in the Middle East and United Kingdom offset by the underperformance of the USA and challenging trading conditions stemming from the COVID-19 pandemic in 4Q20

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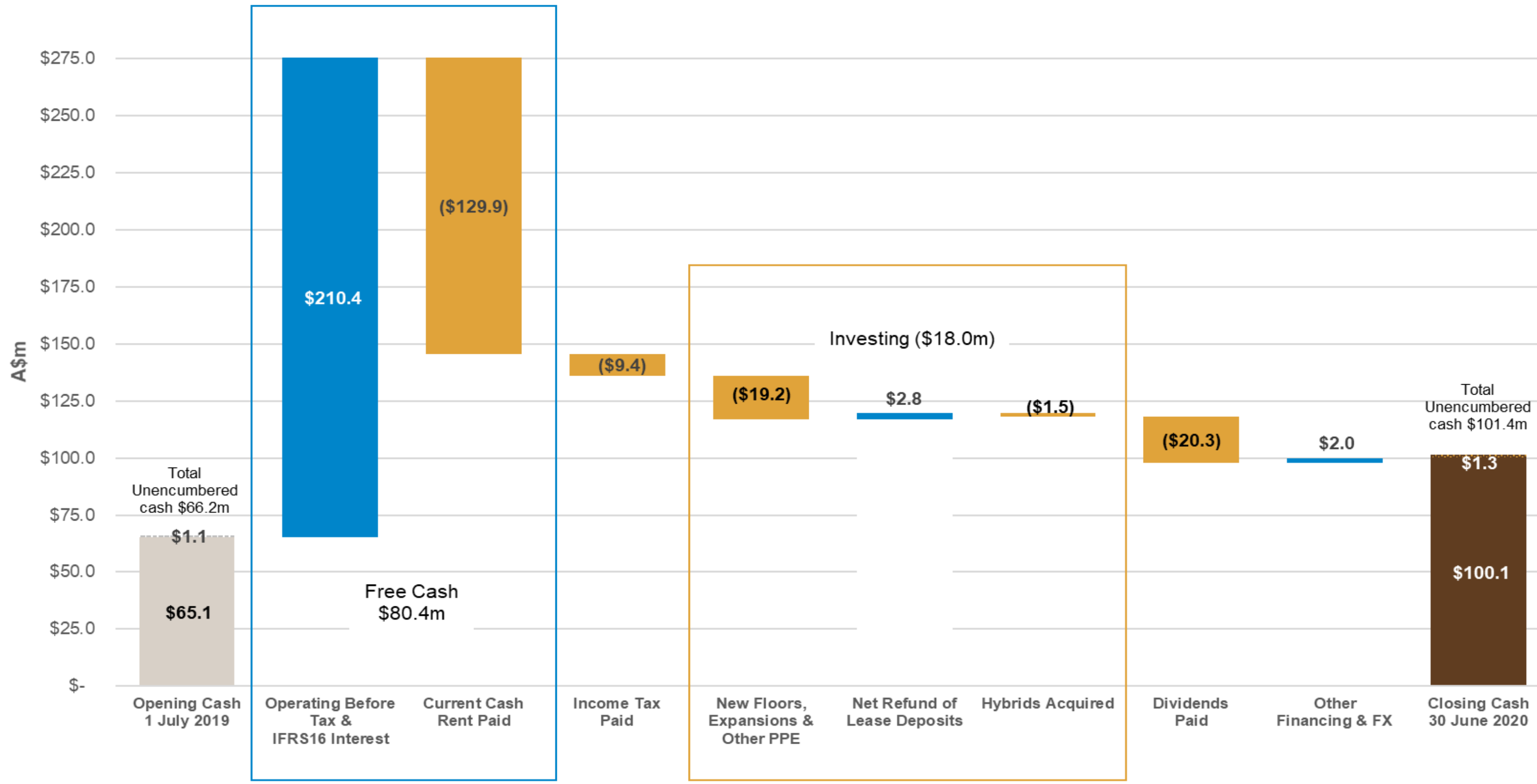
Positioning

Healthy cash flow & liquidity

Cash Flow & Liquidity

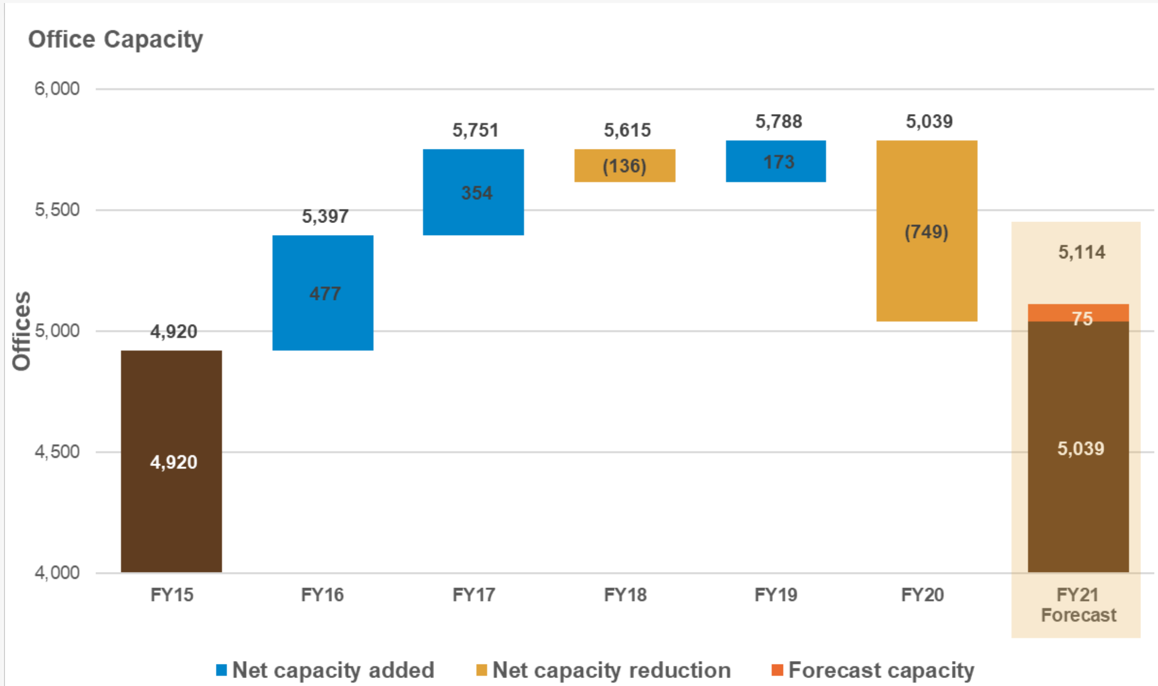
Cash $101.4m, up $35.2m from $66.2m at 30 June 2019



Servcorp Capacity
Global Footprint

Our global footprint encompasses 126 floors, in 43 cities across 21 countries

- During the first three quarters of FY20 we opened new floors in New York City and Shanghai and expanded existing locations in Brisbane and Hobart.
- In FY20 we reduced capacity across 29 floors. Net capacity decreased by 779 offices in FY20 to 5,039 and FY21 capacity will increase to 5,114 stemming from a new floor opening in Manilla and a closure of our Park Avenue location in New York City in 1Q21.
- No further committed floor openings at this time.



- Like for Like floors occupancy was 69% at 30 June 2020 (30 June 2019: 73%). All floors occupancy was 69% at 30 June 2020 (30 June 2019: 72%).
- July 2020 all floors occupancy was 70%

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Servcorp Capacity

Coworking

Recent growth in the flexible workspace industry has been underpinned by the expansion of coworking spaces. The COVID-19 pandemic has had a significant impact on coworking.

Given the nature of coworking and its inherent lack of social distancing, coworking is expected to take significantly longer to recover from COVID-19.

We are still of the view that coworking is an important part of not only our offering but the industry too and that our investment in reshaping our portfolio for coworking will realise a return on investment in the longer term.

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
  - Special concessions relating to COVID-19 rent abatements
  - Supplementary information relating to the transition to the new accounting standard is set out in the Servcorp Consolidated Financial Report for the year ended 30 June 2020
- **Applies to**
  - Transitional adjustments made 1 July 2019
  - FY20 first year of reporting under new standard

Segment Performance

Global overview

Segment	Like for Like[A] Revenue A$m		Like for Like Segment Profit / (Loss) A$m		Like for Like Cash Earnings[B] A$m		Margin %	
	FY20	FY19	FY20	FY19	FY20	FY19	FY20	FY19
ANZ & SEA	**79.5**	82.0	**10.3**	9.5	**20.0**	18.5	**13%**	12%
North Asia	**130.9**	110.8	**23.0**	29.7	**32.2**	28.3	**18%**	27%
EME	**91.6**	77.2	**21.7**	8.8	**26.4**	13.3	**24%**	11%
USA	**23.0**	24.5	**(6.9)**	(3.9)	**(3.9)**	(0.4)	**(30%)**	(16%)
Others	**2.4**	0.8	**0.3**	0.2	**5.7**	2.4	**13%**	25%
Total	**327.4**	295.3	**48.4**	44.3	**80.4**	62.1	**15%**	15%
Total excluding USA	**304.4**	270.8	**55.3**	48.2	**84.3**	62.5	**18%**	18%

Like for like FY20 revenue expressed in constant currency terms (i.e. at FY20 exchange rates) increased by 5% compared to FY19

A. Like for Like include results for floors that were open in both the current and comparative reporting periods i.e. it excludes new floor openings in the current reporting period and closed floors.

B. Cash Earnings calculated as EBITDA minus Cash Rent paid. FY19 is EBITDA only.

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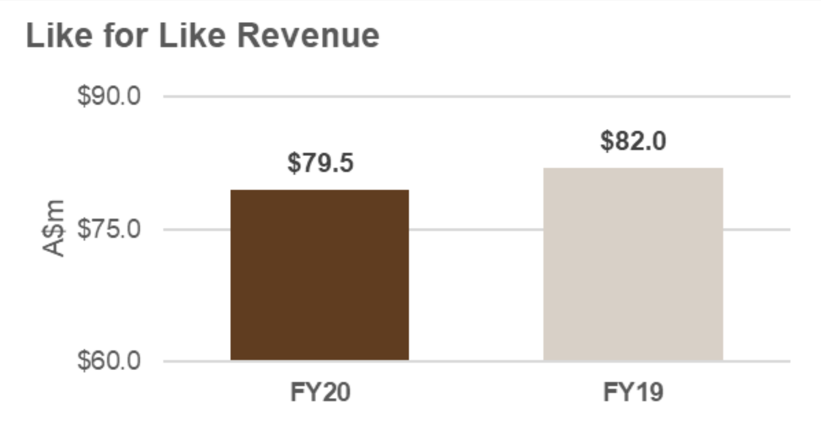
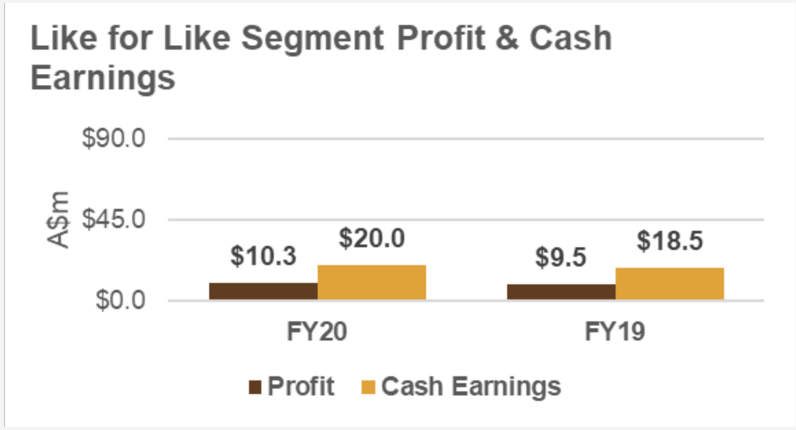
Operating Summary by Segment

ANZ and South East Asia (ANZSEA)



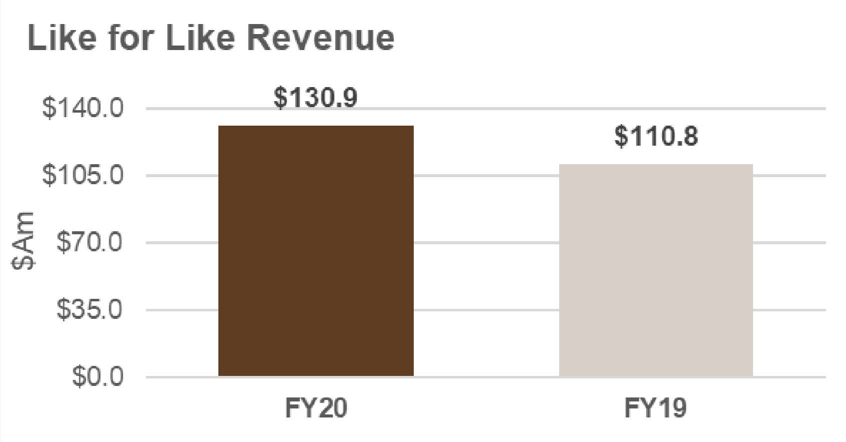


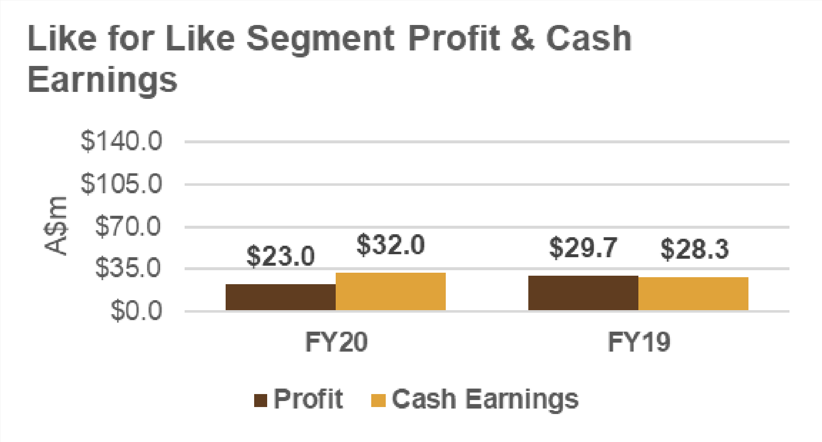
- Like for Like segment profit in ANZ & SEA was up 8% in FY20, slowed in the third quarter of FY20 as a result of the impact of the COVID-19 pandemic. Thailand performed poorly in FY20.
- Like for Like Cash Earnings [A] were up 8% in FY20 compared to FY19. We closed 7 floors in the region in FY20.

A. *Cash Earnings calculated as EBITDA minus Cash Rent paid. FY19 is EBITDA only.*

Operating Summary by Segment (cont'd)

North Asia



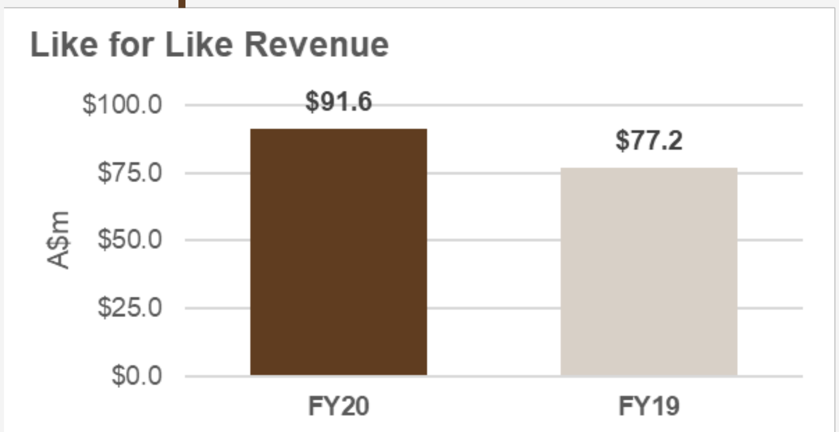


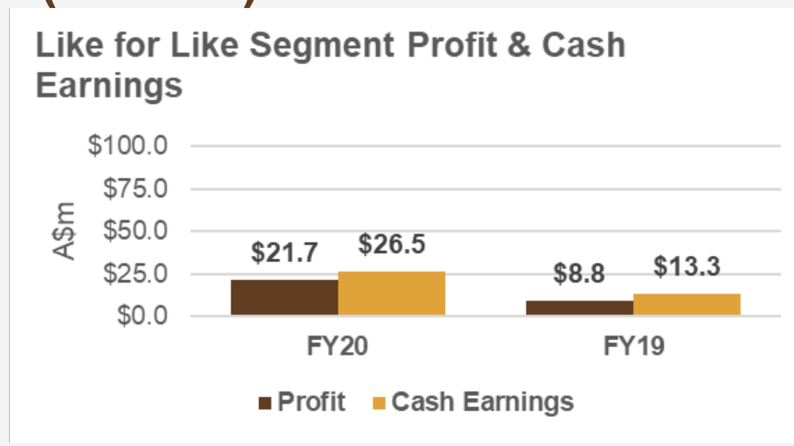
- Despite the impact of COVID-19 North Asia as a whole produced a solid result with the drag on profit attributed to China (including Hong Kong).
- Like for like revenue was up 18% from $110.8m to $130.9m.
- Like for Like Cash Earnings[A] increased 14% in FY20 compared to FY19.
- We closed 5 floors in the region in FY20 including 4 in China.
- Through the year Management has focused on consolidating our footprint in China and depending on the COVID-19 recovery trajectory, we expect to see China return to healthy profitability in FY21.

A. Cash Earnings calculated as EBITDA minus Cash Rent paid. FY19 is EBITDA only.

Operating Summary by Segment (cont'd)

Europe and Middle East (EME)





- Despite the impact of COVID-19 EME produced an outstanding result with significant contributions from Saudi Arabia, UAE and Qatar partially offset by a poor performance from France.
- Like for Like segment profit and revenue were up 19% and 147% respectively in FY20.
- Like for Like Cash Earnings[A] doubled in FY20 compared to FY19.

A. *Cash Earnings calculated as EBITDA minus Cash Rent paid. FY19 is EBITDA only.*

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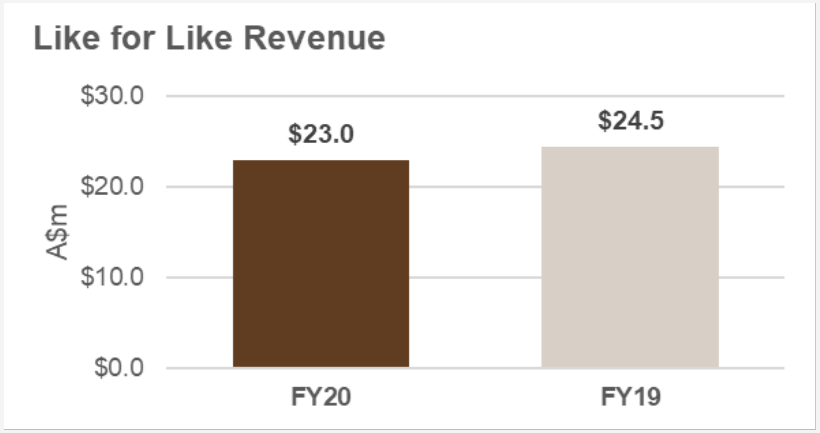
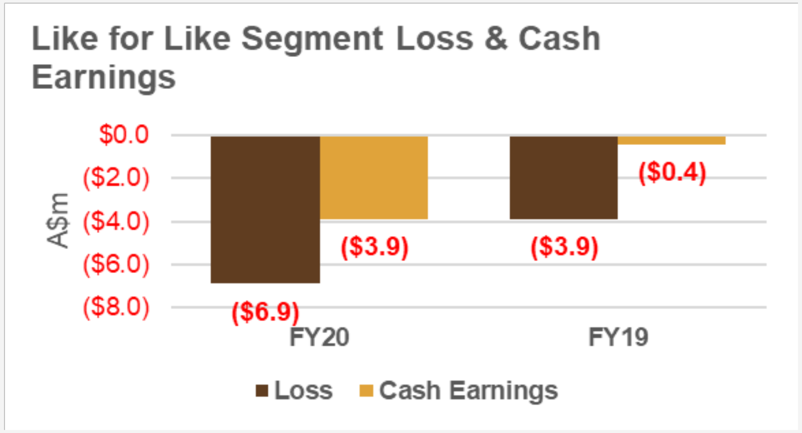
Operating Summary by Segment (cont'd)

USA





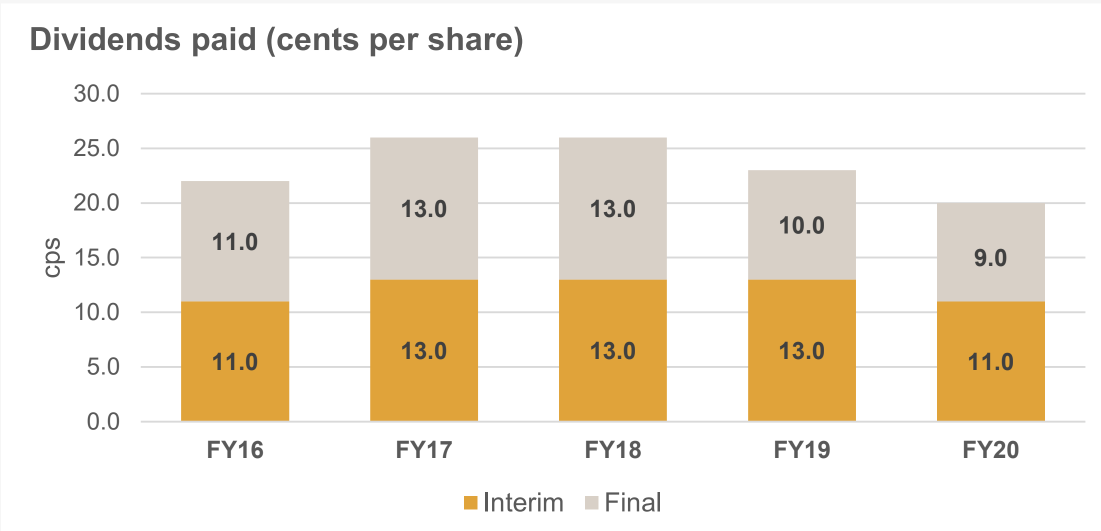
- Implemented some significant structural changes in our USA business.
- Replaced the General Manager in the USA. Ms. Colleen Susini (based in New York) joined us in April and comes with extensive flexible workspace industry experience.
- We closed 12 floors across 8 cities resulting in a deconsolidation loss of $14.3m (split $4.5m cash and $9.8m non-cash).
- A smaller footprint, concentrated in 3 cities on the east coast and Houston in Texas, will allow Management to focus on improving performance.
- Any improvement in trading conditions in the short to medium term are heavily dependent on the COVID-19 recovery path.
- Like for Like basis revenue and Cash Earnings[A] were both down on FY19 performance.

A. Cash Earnings calculated as EBITDA minus Cash Rent paid. FY19 is EBITDA only.

Dividend

Final FY20 dividend

- **Final dividend payable of 9.0 cps, unfranked, payable on 1 October 2020**



FY21 dividend

- **FY21 dividends are uncertain however, we would expect to make dividend payments consistent with our long term history and commitment to shareholders.**

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Outlook

COVID-19 and the next 12 months

While it remains unclear how long global COVID-19 restrictions will continue, and the recovery profiles as restrictions are eased, Servcorp's operations are likely to remain adversely impacted at least in the short term.

The focus for the next 12 months is on controllable measures:

- Continued focus on controlling operating expenditure, including finalising the rental relief programs with each landlord.
- Ensuring we maintain strong liquidity.
- Making clients feel safe through full, unwavering adherence to any government requirements.
- Preparing for recovery in each market in which we operate.
- Looking for opportunities for growth in mature markets with proven management performance.

Outlook (cont'd)

Medium Term

We have undertaken a detailed review of our business.

For FY21 we anticipate that even at a low case, Servcorp will remain profitable, consequently, we expect the underlying business to continue to generate substantial Underlying Free Cash[A]. In those circumstances we would expect to make dividend payments consistent with our long term history and commitment to shareholders.

At this time, given the current economic environment, we consider it prudent that the FY20 final dividend be reduced from previously expected 11.0 cps to 9.0 cps, unfranked.

We expect COVID-19 to continue to significantly impact the way we live and work for the foreseeable future. When we emerge from the COVID-19 pandemic, we envisage that flexible workspaces will be more important than ever, so we will continue to tailor our offering to serve those ever-evolving trends.

Despite the COVID-19 challenges we are facing, we remain cautiously optimistic due to our unique positioning, global reach, technology platforms, longstanding track record and cash generation ability.

A. Subject to currencies remaining constant, continued strong cash generation, and the continued impacts of the COVID-19 pandemic on our operations.

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QUESTIONS

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ANSWERS