Servcorp Limited

FY21 Results Presentation

Thursday 26 August 2021

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Disclaimer

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FY21 in Review

The impact of COVID-19 on the flexible workspace industry has been unprecedented. Servcorp's response to the existing global environment has been swift and we continue to manage through the pandemic by prioritising:

- **A strong liquidity position**
  Current cash balances in excess of $110.0m in cash and no external debt.
- **Tightly controlled operating expenditure**
  Cost reduction initiatives across our operations have lowered our operating cost base by 24% compared to pcp.
- **Strict capital expenditure allocation**
  All capital expenditure programs were temporarily suspended through FY21. However looking to the medium term and opportunities for growth, particularly in mature markets with proven management performance, there is allocation of capital for some growth in FY22.
- **Unique technology platforms**
  Servcorp's technology platforms are market-unique and well placed to attract new clients this post COVID-19 environment. In particular, our best-in-market virtual product makes working from home seamless.
- **Vaccination of the team**
  Encouraging team members to be vaccinated by allowing paid time off and, where necessary, paying for vaccinations.

The COVID-19 pandemic continues to make trading conditions difficult across every market in which we operate. Occupancy levels through FY21 have been relatively stable, Mature[A] floor occupancy finishing the year at 73%. While the COVID-19 pandemic had a significant impact on coworking initially, our investment pre-COVID in refurbishing reception areas has played a substantial part in our ability to hold serviced office occupancy above 70%.

There remains continued downward price pressure across our global footprint. Virtual office client numbers have almost recovered to pre-COVID levels. The restructuring of coworking and virtual office has allowed us to operate globally and ensure adherence to social distancing requirements. In the last two months coworking uptake has increased significantly in areas that are not either in state of emergency or in lockdown. We are also seeing higher coworking enquiries where vaccination rates are above 60%.

Despite the COVID-19 challenges, we remain cautiously optimistic. The roll out of the vaccine across markets in which we operate, as well as impacts of fiscal stimulus, are supporting economic activity, with both business and consumer confidence slowly returning to pre-COVID levels in some markets. We are confident that when we emerge from the COVID-19 pandemic, the flexible workspace industry will be more important than ever before.

Servcorp is uniquely positioned, has a global reach, best-in-market technology platforms, a longstanding track record and strong cash generation ability to emerge post-COVID a stronger performer in the flexible workspace industry.

A. Refer glossary on page 12 of Appendix 4E MD&A

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

Headline

Reasonable underlying FY21 performance despite difficult COVID-19 trading conditions

- Underlying Free Cash $49.9m (down 25%)
- Revenue and other income[A] down 22%
- Mature revenue down 17% (constant currency down 10%)
- Underlying[B] NPBT down 20%
- Statutory NPBT up 83%
- FY21 final dividend of 9.0 cps, unfranked, 100% conduit foreign income

Balance sheet

- Cash balances at 30 June 2021 of $97.0m, down $4.4m on 30 June 2020 driven substantially by a strong Australian dollar and $8.0m downward cash balance revaluations
- Cash balances currently in excess of $110.0m
- Underlying Free Cash 166% of Underlying FY21 NPBT, providing some buffer to navigate through COVID-19, supporting maintenance capital expenditure and dividends
- No external net debt
- Strong cash generation enabling a FY21 final dividend of 9.0 cps, unfranked

A. Excluding $2.4m (FY20: $1.1m) JobKeeper subsidy revenue and other income was down 22%; JobKeeper is disclosed in the 30 June 2021 Financial Report as revenue.
B. "Underlying" is a non-statutory measure and is the primary reporting measure used by the CEO, CFO, COO & Board of Directors for assessing the performance of our business.

FY21 Result

Statutory NPAT $22.1m, up 219%

Profit & Loss	Underlying[A] FY21 A$m	Underlying[A] FY20 A$m	FY21 v FY20		Statutory FY21 A$m	Statutory FY20 A$m	FY21 v FY20	
Revenue and other income	**275.7**	352.9	22%	↓	**275.2**	352.9	22%	↓
Operating expenses	**(245.7)**	(315.4)	22%	↓	**(247.2)**	(337.3)	27%	↓
Net profit before tax	**30.0**	37.5	20%	↓	**28.5**	15.6	83%	↑
Income tax expense	**(6.4)**	(6.9)	7%	↓	**(6.4)**	(8.7)	26%	↓
Net profit after tax	**23.6**	30.6	23%	↓	**22.1**	6.9	219%	↑

	FY21	FY20
Net tangible assets per share[B]	**$1.93**	$2.14
Earnings per share (cents)	**22.9**	7.2

FY21	A$	Franking
Expected[C] final dividend per share	**0.09**	none
Interim dividend per share	**0.09**	none

A. Underlying" is a non-statutory measure and is the primary reporting measure used by the CEO, CFO, COO & Board of Directors for assessing the performance of our business. FY21 operating expenses before $1.5m of net non-cash impairment of assets; FY20 before $21.9m of restricted earnings, restructure costs and deconsolidation losses

B. At 30 June respectively

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

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Statutory Position

Balance sheet and Cash flow

Balance Sheet	Jun-21 A$m	Jun-20 A$m
Cash	93.8	99.9
Trade receivables	24.0	31.1
PP&E & ROUA	392.4	476.4
Goodwill	13.8	13.8
Deferred tax asset	38.3	37.0
Other assets	62.5	65.7
Total assets	**624.8**	**723.9**
Trade payables	35.4	44.8
Provisions	11.0	10.0
Current lease liabilities	88.0	104.4
Non-current lease liabilities	260.7	310.0
Other liabilities	28.6	33.8
Total liabilities	**423.7**	**503.0**
Net assets	**201.1**	**221.0**

Cash Flow	FY21 A$m	FY20 A$m
Opening cash 1 July	99.9	65.1
Net operating cash inflows	151.2	182.3
Net investing cash flows	(7.0)	(18.0)
Net financing cash outflows	(142.3)	(133.0)
Foreign exchange movements	(8.0)	3.4
Closing cash 30 June	**93.9**	**99.9**

Underlying Free Cash[A] Reconciliation	FY21 A$m	FY20 A$m
Net operating cash inflows	151.2	182.3
Add: tax paid	10.2	9.4
Net Cash Rent adjustments	(114.4)	(129.0)
Restructure costs[B]	2.9	3.4
Underlying Free Cash	**49.9**	**66.1**

A. Refer to the Appendix 4E MD&A for a detailed reconciliation of statutory cash flows to Free Cash to Underlying Free Cash.

B. Is $2.9m (FY20: $1.4m) paid in relation to the USA deconsolidation accounted for in FY20.

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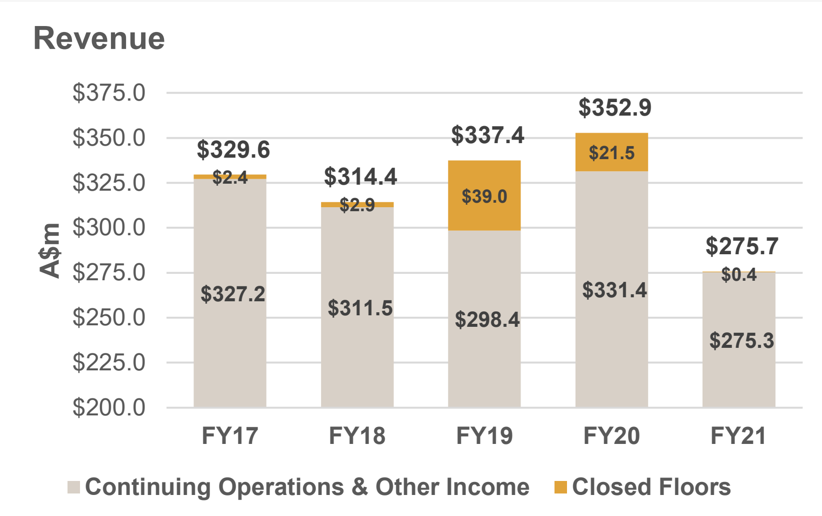
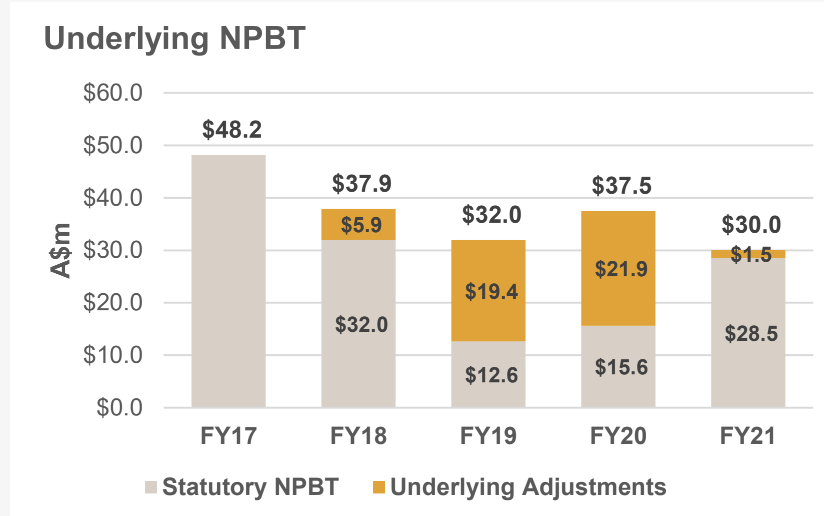
Performance

Underlying operating performance





- FY21 revenue $275.7m, down 22%
- Revenue from continuing operations[A] and other income[B] $275.3m, down 17%[C]
- Reflects tough COVID-19 trading conditions partially offset by the benefits of the global footprint consolidation undertaken in FY20.

- FY21 Underlying NPBT $30.0m, down 20%
- FY21 NPBT was underpinned by:
  - a solid North Asia performance
  - a reasonable EME performance
  - a poor ANZ & SEA result
  - reduced losses in the USA.

A. Refer to the segment information note B1 in the FY21 Financial Report
B. Excluding $2.4m (FY20: $1.1m) JobKeeper subsidy, revenue from continuing operations and other income was down 17% on FY20.
C. Revenue from continuing operations and other income decreased 10% compared to FY20 on constant currency basis.

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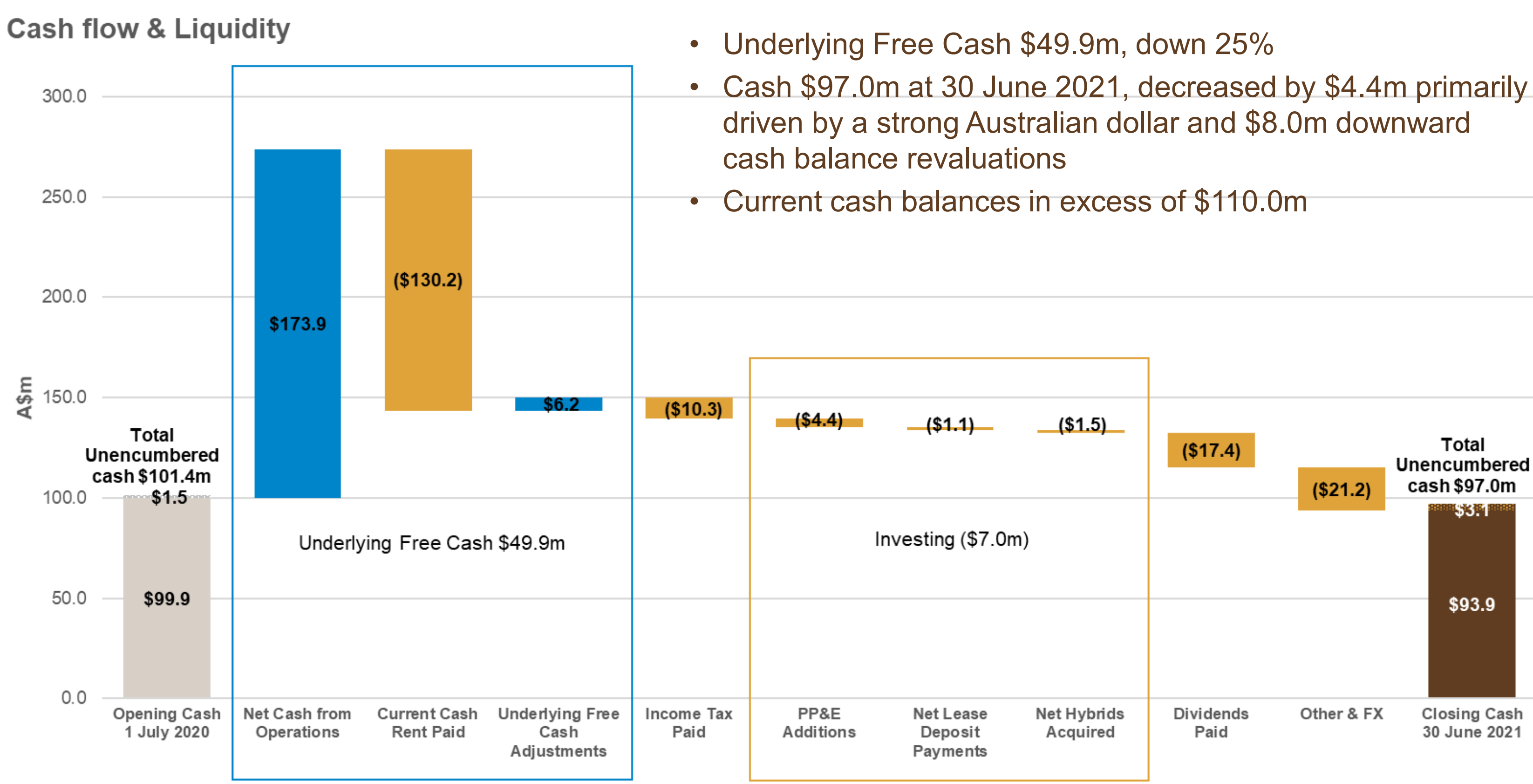
Positioning

Cash flow & liquidity



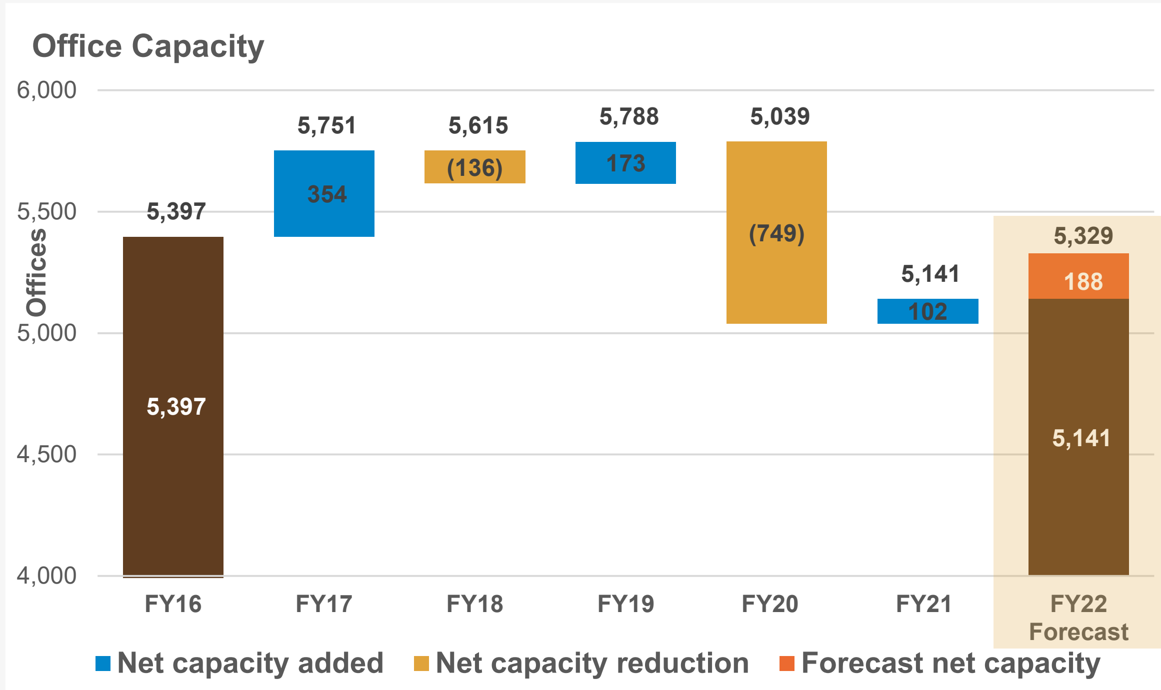
- Underlying Free Cash $49.9m, down 25%
- Cash $97.0m at 30 June 2021, decreased by $4.4m primarily driven by a strong Australian dollar and $8.0m downward cash balance revaluations
- Current cash balances in excess of $110.0m

Servcorp Capacity

Global Footprint

Our global footprint encompasses 125 floors, in 43 cities across 21 countries

- In FY21 we opened one floor in Manila & closed two floors (Al Khobar & NYC).
- Net capacity increased by 102 offices to 5,141.
- FY22 capacity is forecast to increase by 188 offices to 5,329
- New floors in Macquarie Park, Parramatta, Riyadh & Tokyo offset by closures in Hong Kong, Manila & Parramatta.
- Mature floor occupancy 73% & all floor occupancy 72% at 30 June 2021 (30 June 2020: both 69%).



- Mature floor occupancy at 31 July 2021 was 72% & all floor occupancy was 71%.

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Servcorp Capacity

Coworking

Recent growth in the flexible workspace industry has been underpinned by the expansion of coworking spaces. While the COVID-19 pandemic had a significant impact on coworking initially, our investment pre-COVID in refurbishing reception areas has played a substantial part in our ability to hold serviced office occupancy above 70%.

The restructuring of coworking and virtual office has allowed us to operate globally and ensure adherence to social distancing requirements. In the last two months coworking uptake has increased significantly in areas that are not either in state of emergency or in lockdown. We are also seeing higher coworking enquiries where vaccination rates are above 60%.

There is no doubt coworking is an important part of not only our offering but also the industry and that our investment in reshaping our portfolio for coworking will realise a return on investment in the longer term.

Segment Performance

Global overview

Segment	Mature[A] Revenue A$m		Revenue Growth %		Mature NPBT[B] A$m		Mature Cash Earnings[C] A$m		Margin %	
	FY21	FY20	Actual	Constant FX	FY21	FY20	FY21	FY20	FY21	FY20
ANZSEA[D]	67.1	80.0	(16%)	(14%)	2.5	9.9	5.3	15.1	4%	12%
USA	13.4	23.0	(42%)	(24%)	(4.5)	(6.9)	(2.7)	(4.5)	(34%)	(30%)
EME	71.1	91.6	(22%)	(15%)	5.8	22.0	11.6	29.5	8%	24%
North Asia	117.5	130.6	(10%)	(3%)	24.0	13.4	35.5	29.2	20%	10%
Total	**269.1**	**325.2**	**(17%)**	**(10%)**	**27.8**	**38.5**	**49.6**	**69.3**	**10%**	**12%**

A. Mature means floors that were open in both the current and comparative reporting periods. A floor is categorised as Mature at the earlier of 24 months from the date it becomes operational or 3 months consecutive operating profit. For the avoidance of doubt, Mature excludes closed floors.

B. Excludes non-cash impairment

C. Cash Earnings calculated as EBITDA minus Cash Rent paid.

D. Mature: Revenue, Segment Profit and Cash Earnings include $1.1m JobKeeper subsidy (FY20: $0.5m) relating to Australian operations.

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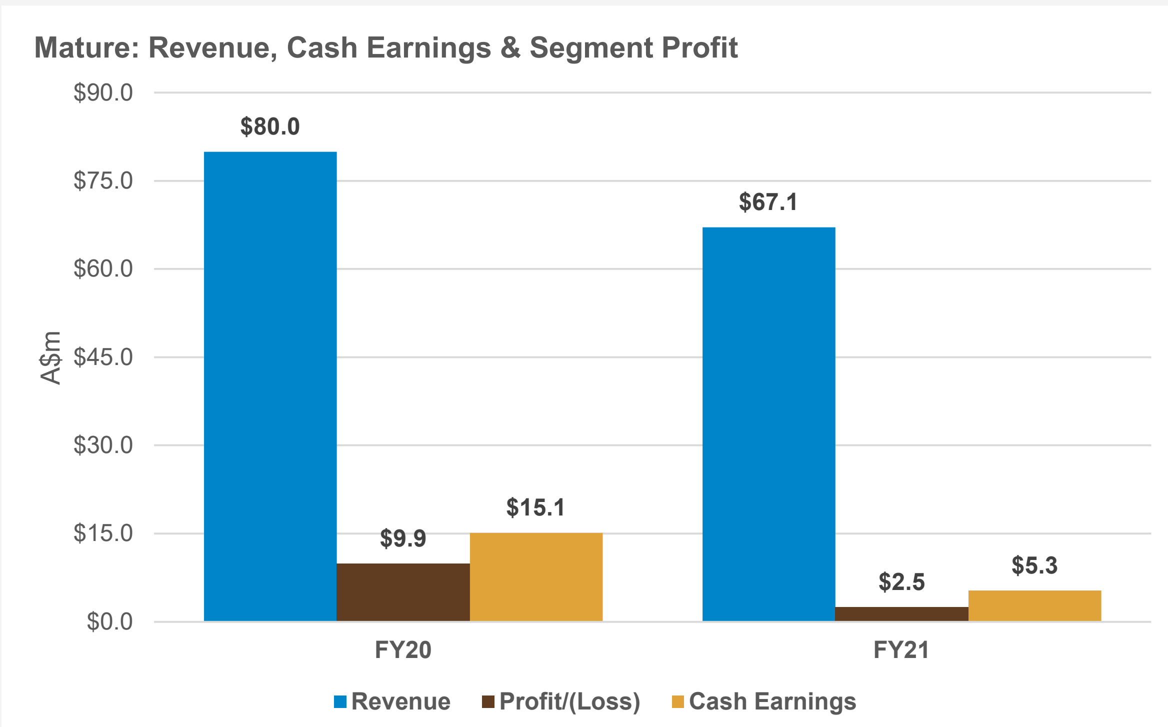
Operating Summary by Segment

ANZ and South East Asia[A] (ANZSEA)

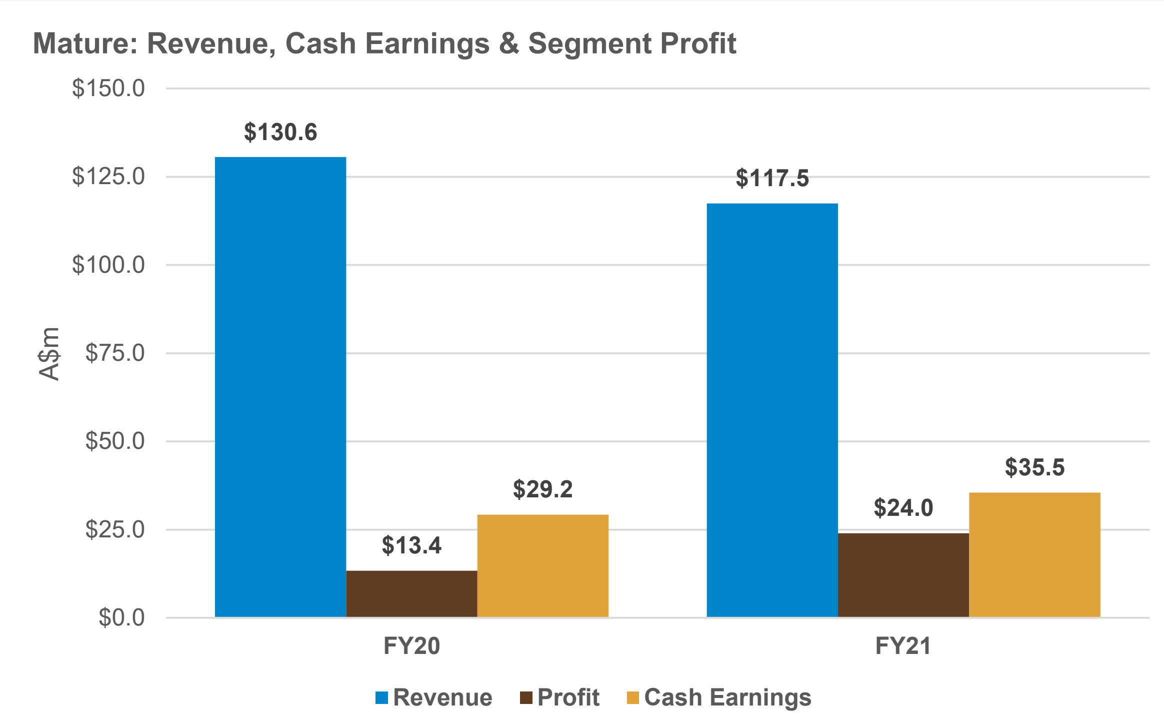


- FY21 Mature Revenue and Segment Profit were down 16% and 75% respectively with operations having been substantially impacted by COVID-19.
- However, the region was cash flow positive producing Mature Cash Earnings of $5.3m, down $9.8m compared to FY20.
- The FY21 non-cash asset impairment for the region was $1.9m and is not included in the Mature Segment Profit.
- The region impaired $0.9m of assets in Malaysia, $1.6m of assets in the Philippines and reversed previously impaired assets in Singapore of $0.6m.

A. Mature: Revenue, Segment Profit and Cash Earnings include $1.1m JobKeeper subsidy (FY20: $0.5m) relating to Australian operations.

Operating Summary by Segment (cont'd)

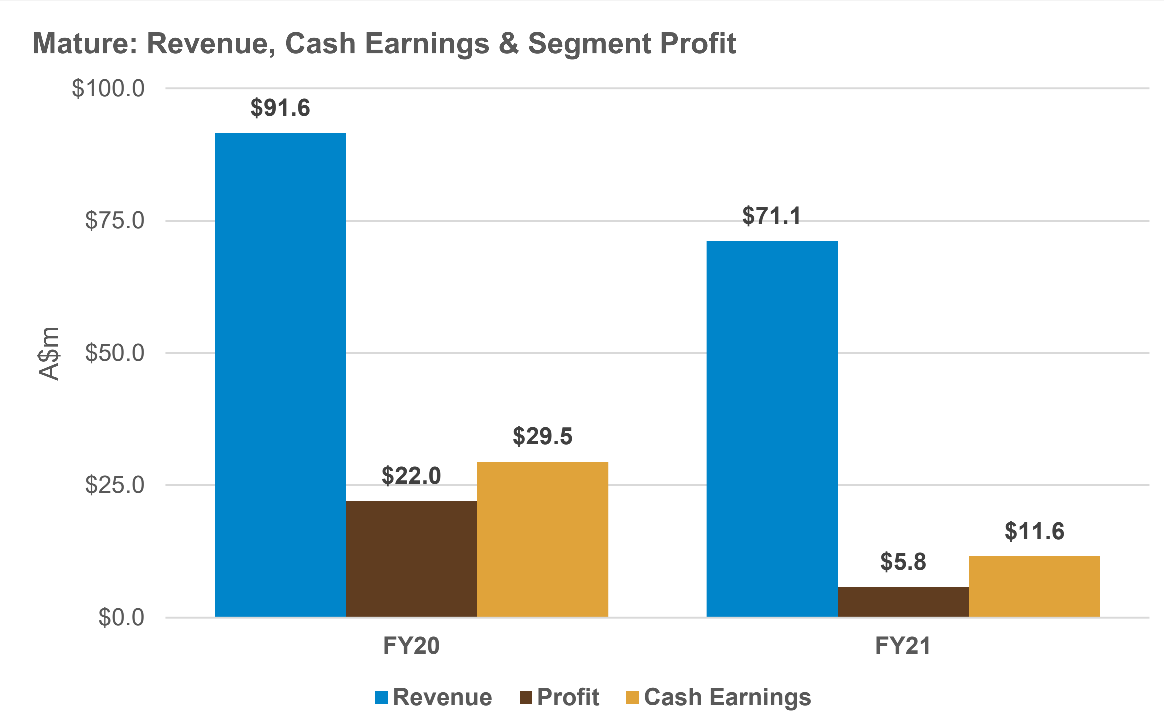
North Asia



- 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).
- Mature Revenue was down 10% from $130.6m to $117.5m. In line with Mature Segment Profit, Mature Cash Earnings increased 21% in FY21 compared to FY20.
- China recorded a $0.5m non-cash impairment of assets in FY21 which is not included in the Mature Segment Profit.

Operating Summary by Segment (cont'd)

Europe and Middle East (EME)



- EME was substantially impacted by COVID-19. Mature Revenue and Mature Cash Earnings were down 22% and 61% respectively in FY21 compared to FY20.
- Mature Segment Profit was down $16.2m in FY21 compared to FY20 however the region remained cash flow positive.
- The FY21 non-cash asset impairment reversal for the region was $1.0m and is not included in the Mature Segment Profit.
- EME impaired $0.5m of assets in France, $0.1m in Kuwait and reversed previously impaired assets in UAE of $1.6m.

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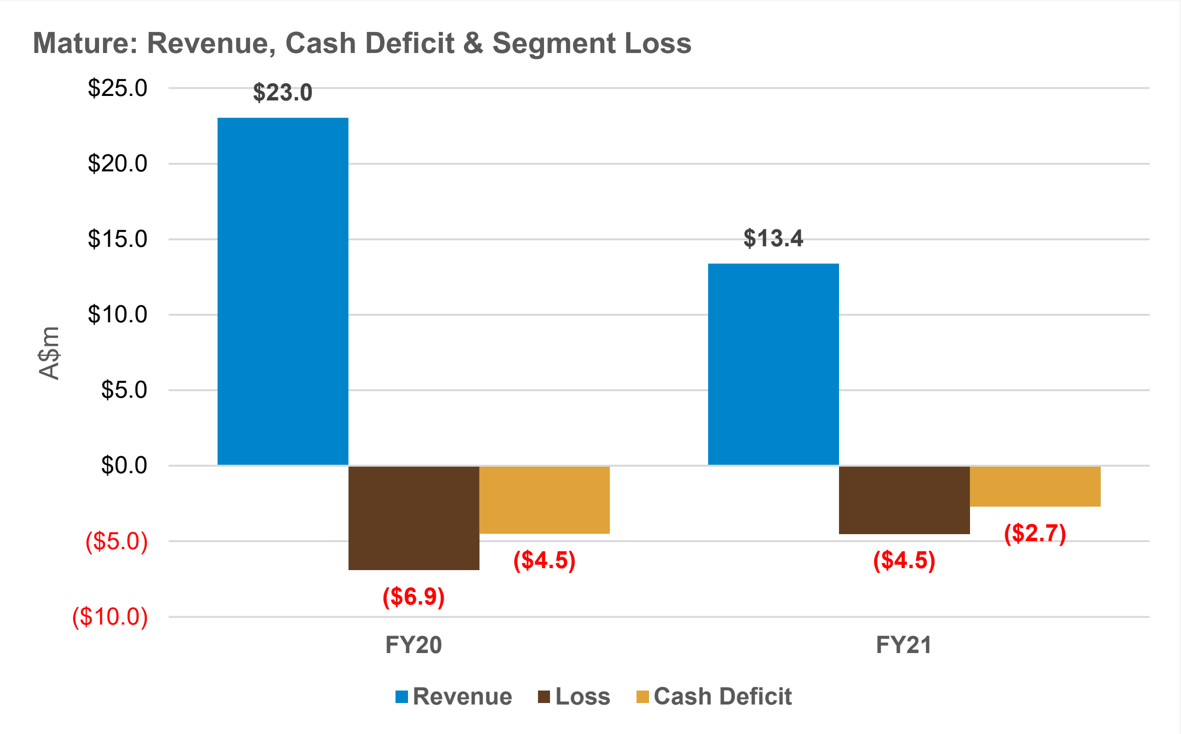
Operating Summary by Segment (cont'd)

USA



- As a result of the restructure in FY20 the smaller USA footprint concentrated in three cities on the east coast and Houston in Texas, means the USA has had less of an impact on the global performance.
- The USA's vaccine rollout has accelerated the country to some sense of post-COVID normality, particularly in the last quarter of FY21.
- The USA recovery path is long but we feel the current size of our operations are better able to withstand near-term uncertainty.

- Mature Revenue of $13.4m was down 42% however Mature Cash Deficit was $2.7m in FY21 compared to $4.5m in FY20. The region reported a Mature Segment Loss of $4.5m, a 35% improvement on FY20.

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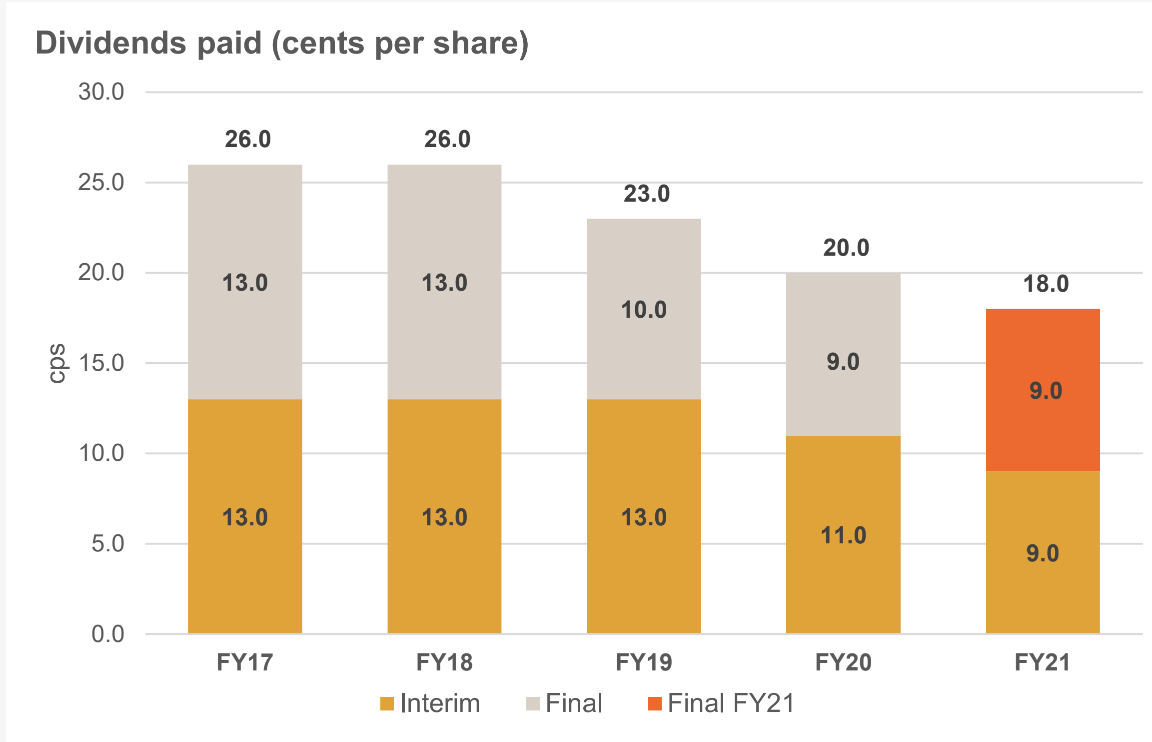
Dividend

Final FY21 dividend

- **Final dividend payable of 9.0 cps, unfranked, payable on 7 October 2021**

FY22 dividend[A]

- **FY22 dividends are uncertain however, we would expect to make dividend payments consistent with our long term history and commitment to shareholders**



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

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Outlook

FY22 Guidance[A]

While it remains unclear how long the path to a post-COVID world is, we remain optimistic. The roll out of the vaccine across markets in which we operate, as well as impacts of fiscal stimulus, are supporting economic activity, with both business and consumer confidence slowly returning to pre-COVID levels in some markets. We have already committed to some growth in FY22 and continue to look for further opportunities for growth in mature markets with proven management performance.

Given our view and subject to no worsening near-term COVID-impacts combined with increasing vaccination programs, in **FY22 Mature[B] NPBIT[C] guidance is between $33.0m and $36.0m**.

In line with this guidance and performance, **in FY22 we expect to produce more than $50.0m in Underlying Free Cash**. In those circumstances, we would expect to continue to make dividend payments consistent with FY21 dividends and our long-term history and commitment to shareholders.

A. **Forecasts and future dividends are subject to currencies remaining constant, continued strong cash generation, and the continued impacts of COVID-19 on our operations.**
B. *Mature means floors that were open in both the current and comparative reporting periods. A floor is categorised as Mature at the earlier of 24 months from the date it becomes operational or 3 months consecutive operating profit. For the avoidance of doubt, Mature excludes closed floors.*
C. *NPBIT is net profit before non-cash impairment of assets and tax*

Outlook (cont'd)

Path to Post-COVID World

In order to achieve our guidance[A] and cash flow forecasts[A] we remain focused on controlling operating expenditure, maintaining strong liquidity and encouraging team members and clients to be vaccinated. Furthermore we are prepared for recovery in each market in which we operate and in some markets we have identified further opportunities for growth.

COVID-19 continues to significantly impact the way we live and work for the foreseeable future. We still are of the view that when we emerge from COVID-19, 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 remain optimistic due to our unique positioning, worldwide reach, experienced global team, technology platforms, longstanding track record and cash generation.

A. Forecasts and future dividends are subject to currencies remaining constant, continued strong cash generation, and the continued impacts of COVID-19 on our operations.

QUESTIONS & ANSWERS