Servcorp Limited

1H21 Results Presentation

Wednesday 24 February 2021

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Presented by: Mr. Alf Moufarrige, Chief Executive Officer

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COVID-19

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 range of potential recovery scenarios:

- **A strong liquidity position**

  Current cash balances in excess of $100.0m in cash and no external debt.
- **Tightly controlled operating expenditure**

  Cost reduction initiatives across our operations have lowered our operating cost base by approximately 20% compared to the prior corresponding period.
- **Strict capital expenditure allocation**

  All capital expenditure programs remain temporarily suspended. That said, several medium term opportunities for growth particularly in mature markets with proven management performance are likely. 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 this post COVID-19 environment. In particular, our best-in-market virtual product makes working from home seamless.

The COVID-19 pandemic continues to make trading conditions difficult across every market we operate. While occupancy levels through the first half of FY21 have been relatively stable at 70%, there is downward price pressure across our global footprint. Although virtual office client numbers are still lower than pre-COVID numbers, they have moved forward in the first half of FY21 from 30 June 2020. Coworking is severely impacted with the recovery expected to take significantly longer than our other product offerings.

Despite the COVID-19 challenges, we remain cautiously optimistic. The imminent 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.

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

- **1H21 performance reflecting challenging COVID-19 trading conditions and global economic environment**
  - Underlying Free Cash down 14%
  - Revenue and other income[A] down 22%
  - Like for Like revenue down 14% (constant currency down 11%)
  - Underlying[B] NPBT down 10%
  - FY21 interim dividend of 9 cps, 100% conduit foreign income

- **Balance sheet**
  - Cash balances at 31 December 2020 of $90.1m, down $11.3m on 30 June 2020; driven largely by a strengthening Australian dollar and $7.8m in downward cash balance revaluations
  - Cash balances currently in excess of $100.0m
  - Underlying Free Cash 155% of Underlying 1H21 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 interim dividend of 9.0 cps, unfranked

A. Excludes $2.0m JobKeeper subsidy; JobKeeper is disclosed in the Interim Financial Report for 31 December 2020 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.

1H21 Result

Underlying NPBT $19.0m, down 10%

	Underlying[A]		1H21 v	Statutory	
	1H21	1H20	1H20	1H21	1H20
	A$m			A$m	
Revenue and other income	**140.0**	178.3	22%	**142.0**	178.3
Operating expenses	**(121.0)**	(157.3)	23%	**(124.1)**	(159.4)
Net profit before tax	**19.0**	21.0	10%	**17.9**	18.9
Income tax expense	**(2.9)**	(4.1)	29%	**(2.5)**	(4.1)
Net profit after tax	**16.1**	16.9	5%	**15.4**	14.8

Net tangible assets per share[B]	**$1.98**	$2.14
Earnings per share (cents)	**15.9**	15.3

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

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.*
   i. *Revenue and other income in 1H21 excludes $2.0m JobKeeper subsidy*
   ii. *Operating expenses in 1H21 before $1.1m of net non-cash impairment of assets and in 1H20 before $2.1m of restricted earnings and provisions*

B. *31 December and 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	Dec-20 A$m	Jun-20 A$m
Cash	87.1	99.9
Trade receivables	23.0	31.1
PP&E	427.4	476.4
Goodwill	13.8	13.8
Deferred tax asset	37.3	37.0
Other assets	67.1	65.7
Total assets	**655.7**	**723.9**
Trade payables	36.2	44.8
Provisions	7.5	10.0
Current lease liabilities	93.7	104.4
Non-current lease liabilities	282.6	310.0
Other liabilities	30.0	33.8
Total liabilities	**450.0**	**503.0**
Net assets	**205.8**	**221.0**

Cash Flow	1H21 A$m	1H20 A$m
Opening cash 1 July	99.9	65.1
Net operating cash inflows	68.0	91.0
Net investing cash flows	(2.4)	(5.9)
Net financing cash outflows	(70.6)	(75.9)
Foreign exchange movements	(7.8)	0.3
Closing cash 31 December	**87.1**	**74.6**

Underlying Free Cash[A] Reconciliation	1H21 A$m	1H20 A$m
Net operating cash inflows	68.0	91.0
Add: tax paid	7.5	6.4
Net Cash Rent adjustments	(49.0)	(63.2)
Restructure costs[B]	2.9	-
Underlying Free Cash	**29.4**	**34.2**

A. *Refer to the Appendix 4D MD&A for a detailed reconciliation of statutory cash flows to Free Cash to Underlying Free Cash.*
B. *Includes $2.9m paid in relation to the USA deconsolidation accounted for in FY20.*

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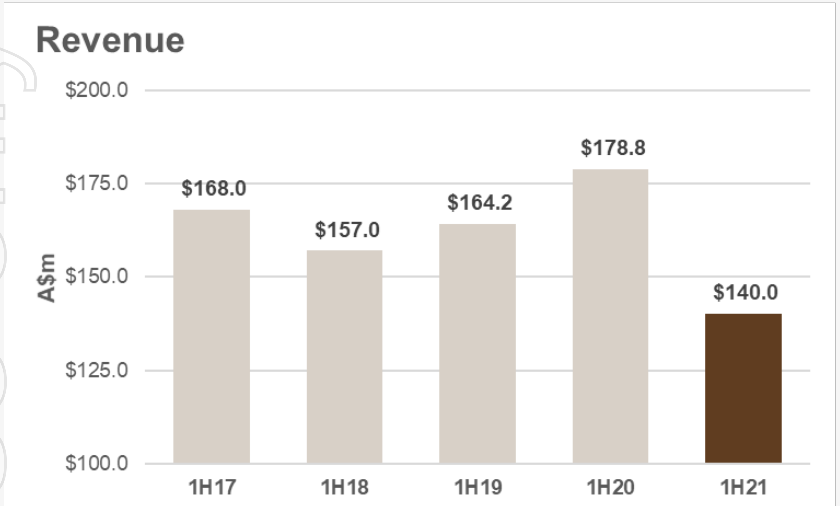
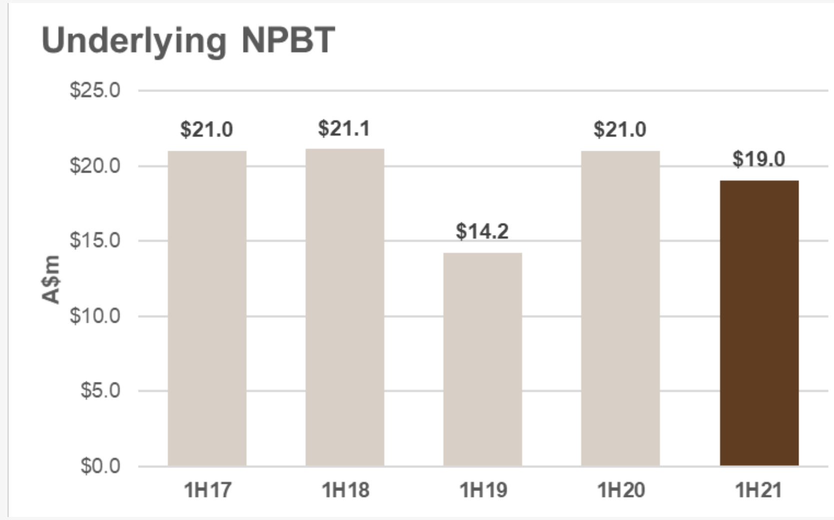
Performance

Underlying operating performance

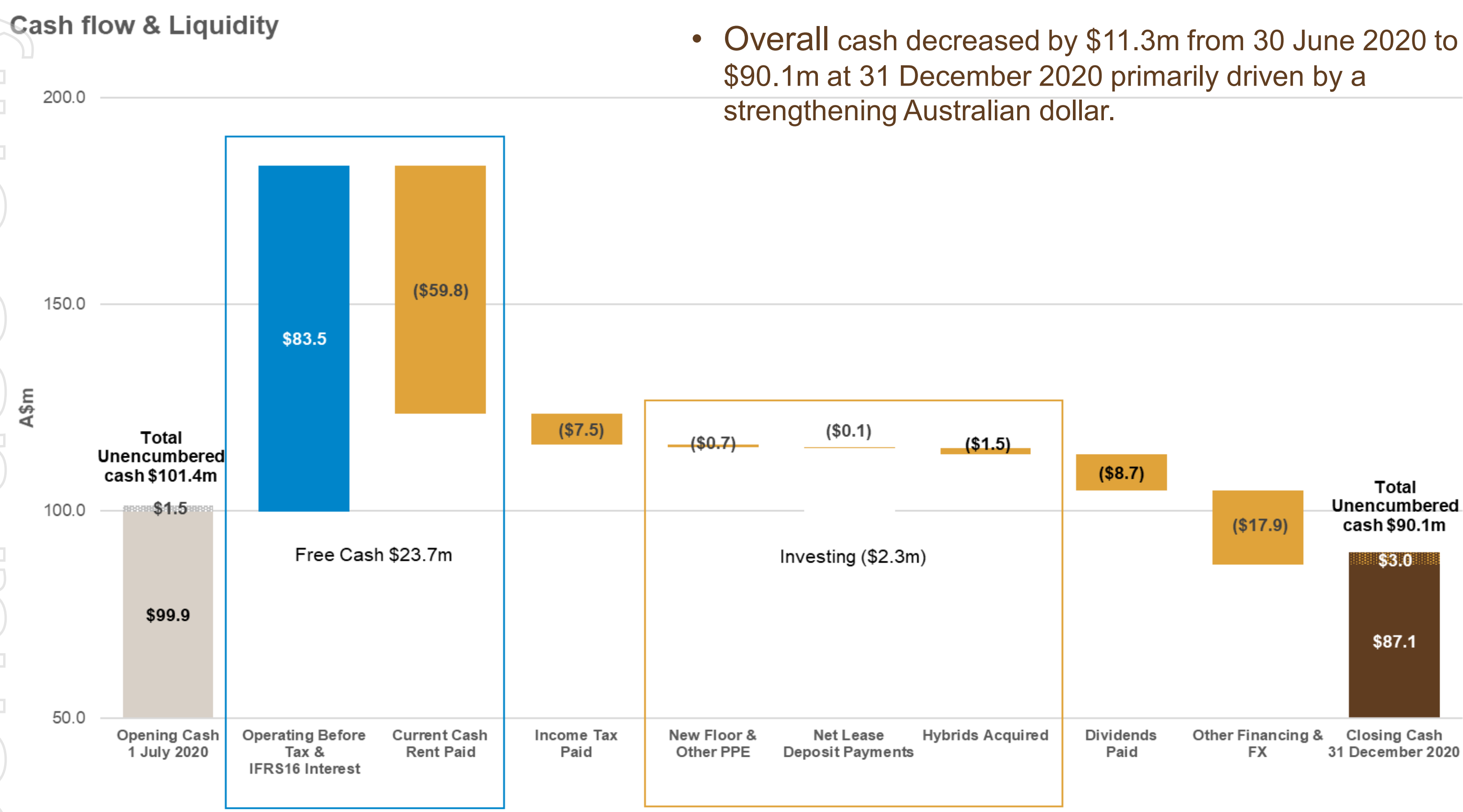




- 1H21 revenue $140.0m (excluding $2.0m JobKeeper subsidy), down 22% on 1H20. Like for Like revenue $139.7m, down 14% (down 11% on a constant currency basis) reflecting the benefits of the global footprint consolidation undertaken in FY20.
- 1H21 Underlying NPBT $19.0m (down 10% on 1H20) was underpinned by solid EME and North Asia performances combined with reduced losses in the USA offset by losses in ANZ & SEA.

Positioning

Cash flow & liquidity



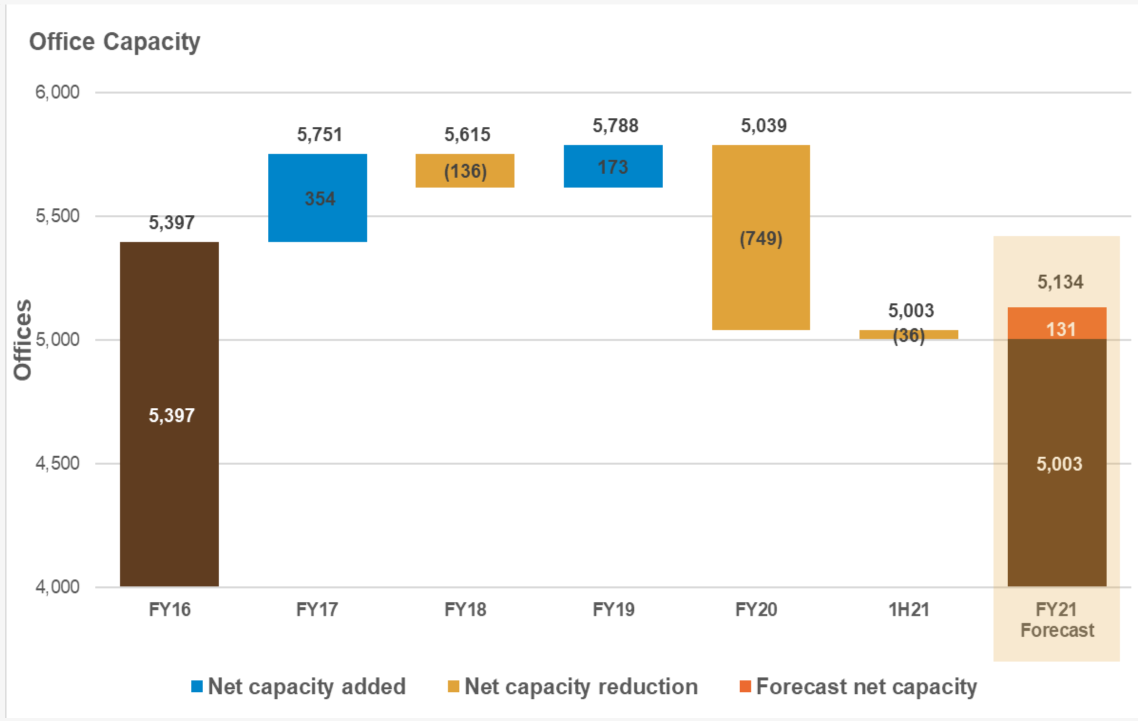
- Overall cash decreased by $11.3m from 30 June 2020 to $90.1m at 31 December 2020 primarily driven by a strengthening Australian dollar.

Servcorp Capacity

Global Footprint

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

- In 1H21 we closed two floors, Park Avenue in New York City and Al Hugayet in Al Khobar.
- Net capacity decreased by 36 offices to 5,003 and FY21 capacity is forecast to increase to 5,134 stemming from new floor openings in Manila and Parramatta.
- No further committed floor openings at this time.
- Like for Like floors occupancy was 71% and all floors occupancy was 70% at 31 December 2020 (30 June 2020: both 69%).
- Like for Like floors occupancy at 31 January 2021 was 69%.



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Servcorp Capacity

Coworking

The COVID-19 pandemic continues to have a significant impact on coworking.

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

We continue to hold the view that coworking is an important part of not only our offering but also the industry and that our past investment in reshaping our portfolio for coworking will realise a return on investment in the longer term.

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 %	
	1H21	1H20	1H21	1H20	1H21	1H20	1H21	1H20
ANZ & SEA	**32.9**	41.3	**0.1**	7.7	**4.9**	9.2	**0%**	19%
North Asia	**61.5**	63.1	**13.7**	10.2	**15.0**	12.4	**22%**	16%
EME	**36.7**	45.5	**6.2**	5.8	**9.6**	12.2	**17%**	13%
USA	**7.2**	10.8	**(2.5)**	(2.6)	**(0.1)**	(0.8)	**(35%)**	(24%)
Others	**0.8**	1.2	**-**	0.9	**nmf**	nmf	**nmf**	nmf
Total	**139.2**	161.9	**17.4**	22.1	**29.4**	33.0	**13%**	14%

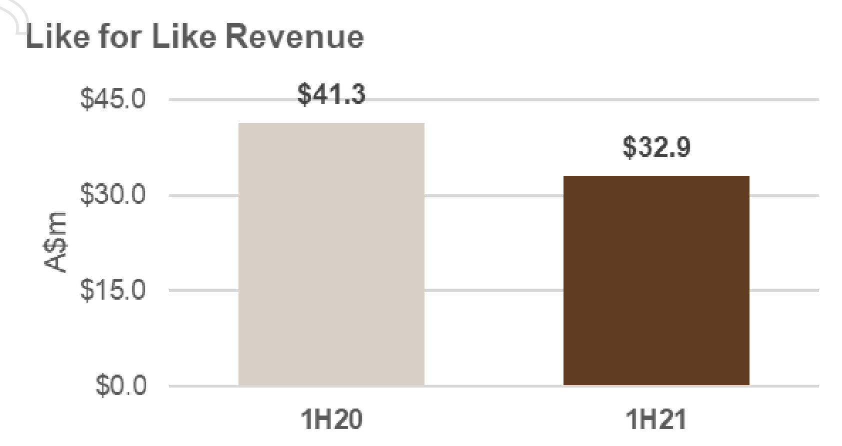
Like for like 1H21 revenue decreased by 11% compared to 1H20 on a constant currency basis.

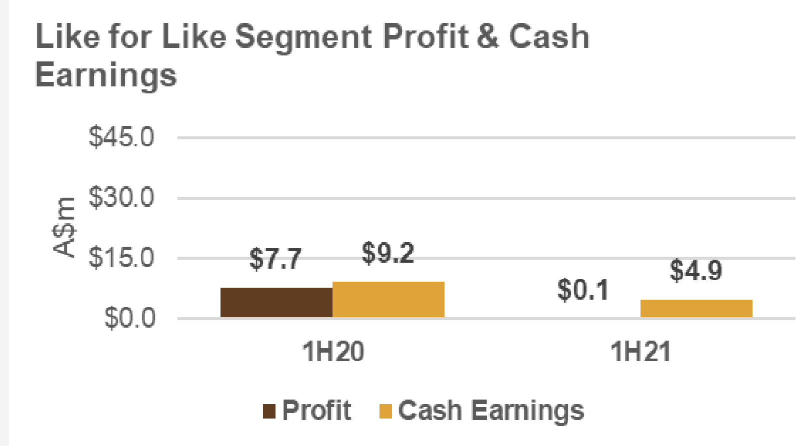
A. *Like for Like include results for floors that were open in both the current and comparative reporting periods i.e. it excludes new floor openings in the current reporting period and closed floors.*

B. *Cash Earnings calculated as EBITDA minus Cash Rent paid.*

Operating Summary by Segment

ANZ and South East Asia (ANZSEA)





- Excluding the JobKeeper subsidy, Like for Like revenue is down 20% in 1H21 having been impacted by COVID-19.
- Similarly Like for Like Segment Profit was down 98% in 1H21 however, the region was cash flow positive, producing Like for Like Cash Earnings of $4.9m, down 47% compared to pcp.
- In 1H21 ANZ & SEA impaired $0.9m of assets in Malaysia and reversed previously impaired assets in Singapore of $0.6m. The net non-cash asset impairment for the region was $0.3m and is not included in the Like for Like Segment Profit.

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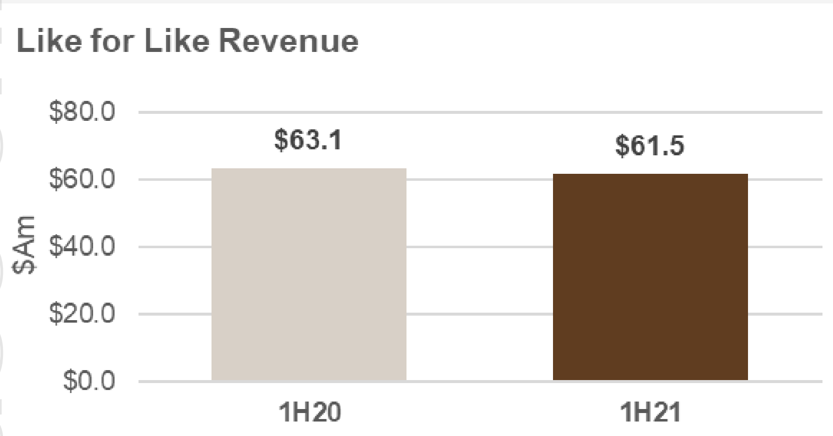
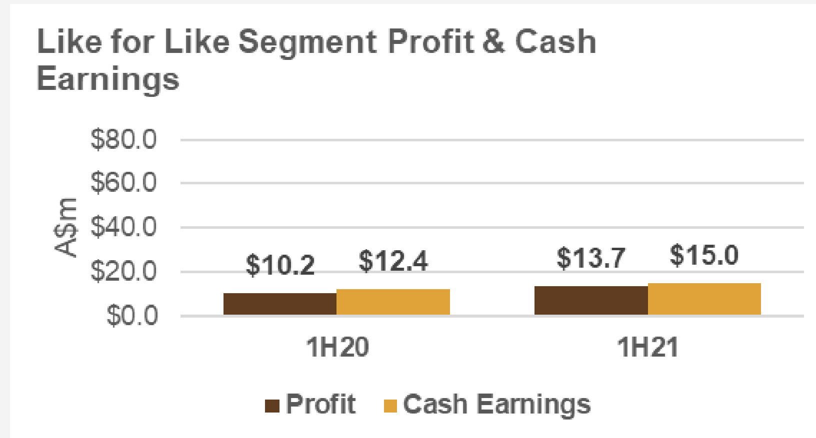
Operating Summary by Segment (cont'd)

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 down 3% from $63.1m to $61.5m.
- Like for Like Cash Earnings increased 21% in 1H21 compared to 1H20.
- In 1H21 North Asia recorded a $0.5m non-cash impairment of assets in China which is not included in the Like for Like Segment Profit.

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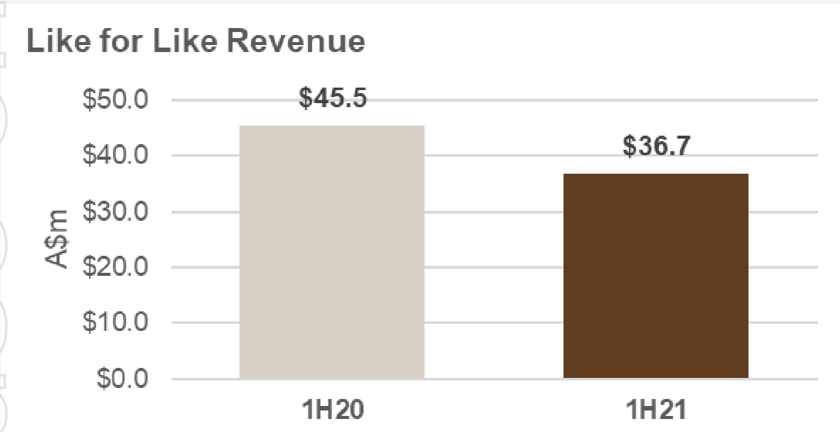
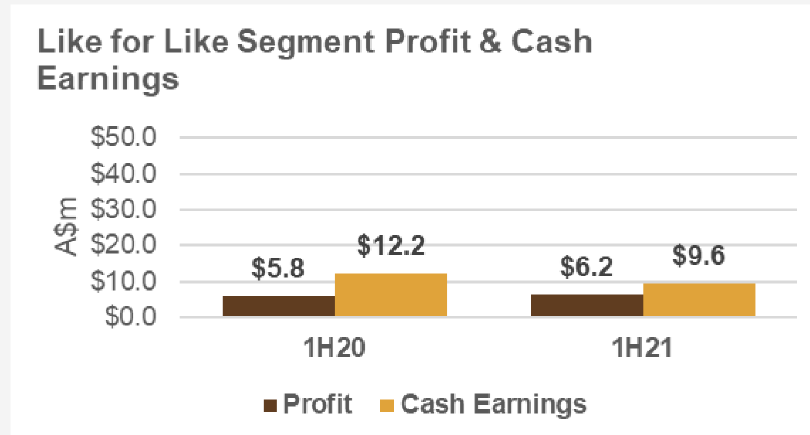
Operating Summary by Segment (cont'd)

Europe and Middle East (EME)

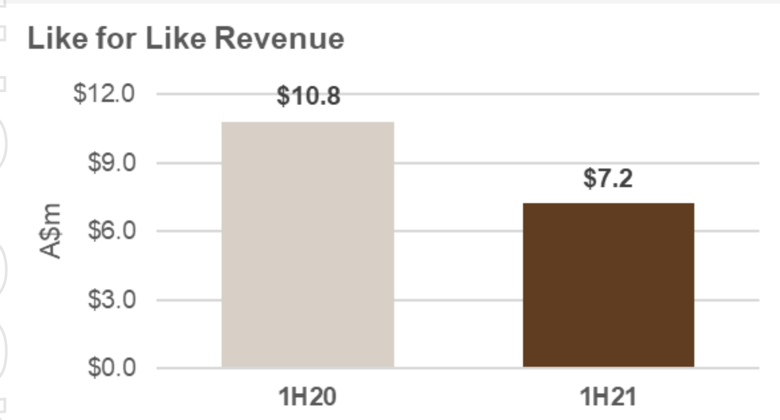


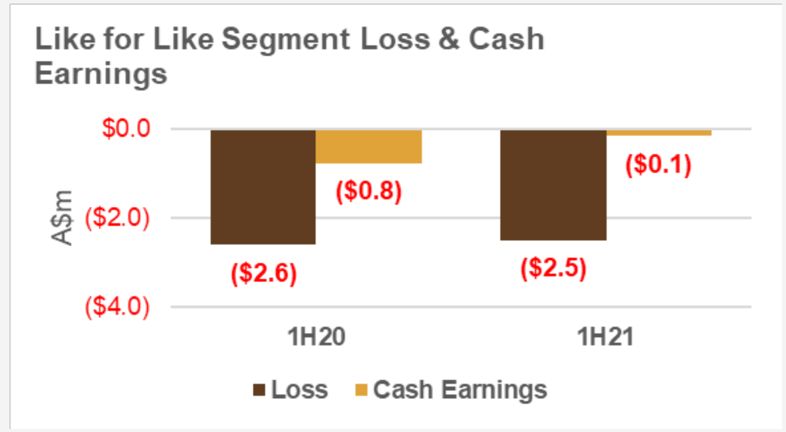


- Despite the impact of COVID-19 EME produced a reasonable result with contributions from Saudi Arabia, UK and Qatar partially offset by an under performance from France.
- Like for Like revenue and Like for Like Cash Earnings were down 19% and 22% respectively in 1H21 compared to the prior corresponding period.
- Like for Like Segment Profit was up 7% in 1H21 driven by improved margins in the region.
- In 1H21 EME impaired $1.9m of assets in France and Kuwait and reversed previously impaired assets in UAE of $1.6m. The net non-cash asset impairment for the region was $0.3m and is not included in the Like for Like Segment Profit.

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 has been severely impacted by COVID-19 as well as political distractions following the elections in November 2020. The recovery path is long but we feel the current size of our operations are better able to withstand near-term uncertainty.
- On a Like for Like basis revenue was down 33%.
- Like for Like Cash Earnings was virtually breakeven in 1H21 compared to 1H20.
- The region reported a Like for Like Segment Loss of $2.5m, flat on 1H20.

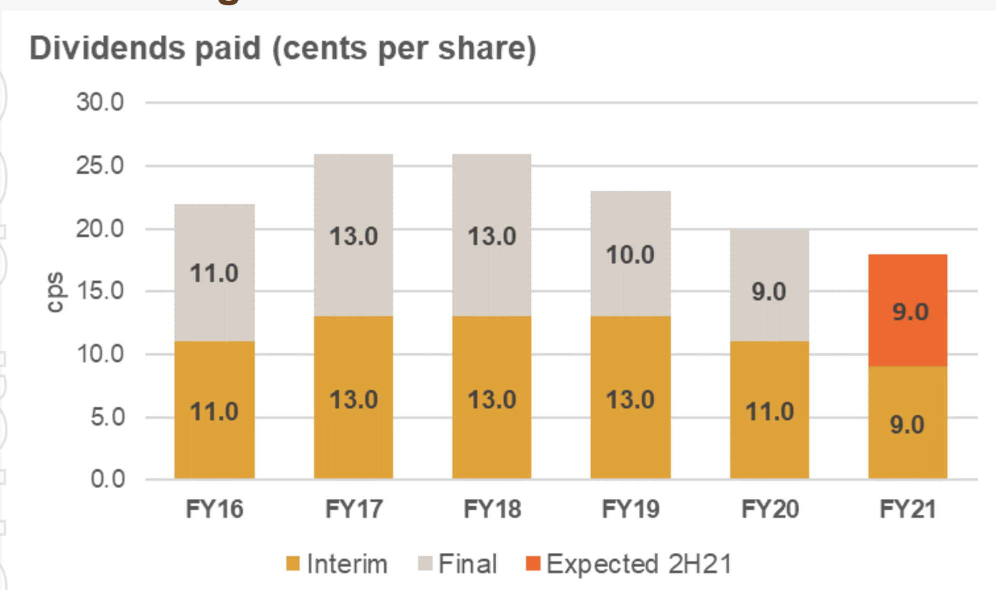
Dividend

Interim FY21 dividend

- Interim dividend payable of 9.0 cps, unfranked, payable on 7 April 2021

Expected FY21 dividend[A]

- Final dividend of 9.0 cps is expected to be paid for FY21
- Franking levels are uncertain



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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Outlook

COVID-19 and the next 12 months

While it remains unclear how long the global COVID-19-led recession will last, we remain cautiously optimistic. The imminent 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.

That said Servcorp's operations are likely to remain adversely impacted at least for the remainder of calendar 2021.

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

- Controlling operating expenditure.
- Maintaining 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)

FY21 & Post-COVID

For the remainder of FY21 we anticipate sustained difficult trading conditions however, even at a low case, the underlying business will remain profitable[A] and cash generating. In those circumstances, we would expect to continue to make dividend payments[A] consistent with the FY21 interim dividend and our long-term history and commitment to shareholders.

COVID-19 will continue to significantly impact the way we live and work for the foreseeable future. We still are of the view that 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.

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

QUESTIONS
&
ANSWERS