

CHAIRMAN'S ADDRESS

2017 ANNUAL GENERAL MEETING

ADDRESS BY MR BRUCE CORLETT AM
CHAIRMAN, SERVCORP LIMITED
8 NOVEMBER 2017

Ladies and Gentlemen,

The 2017 financial year saw many challenges in the Workspace Solutions Market, however your Company reported record levels of revenue and net profit after tax.

Results

Revenue for the year was \$329.6 million, an increase of 0.3% on 2016, and up 2.7% in constant currency terms. Net profit before tax increased 16% on like for like floors. Net profit after tax increased to \$40.7 million, resulting in earnings per share of 41.4 cents, an increase of 3% on 2016.

Servcorp's financial strength underpins its success. During the 2017 financial year, the business generated strong net operating cash surpluses of \$54.4 million. Cash and investment balances at 30 June 2017 were \$118.8 million, an increase of 4% on 2016; \$107.9 million of this balance was unencumbered and the Company has negligible debt. Current unencumbered cash balances remain strong at \$108.8 million.

The Company paid a final dividend of 13.0 cents per share, franked to 50%, bringing total dividends for the year to 26.0 cents per share; a payout to shareholders of approximately \$25.6 million. This is an increase of 18% over dividends paid in the previous financial year and reflects Directors' confidence in the future.

Global Expansion

I now turn to our global expansion.

Over the last seven years, Servcorp has increased its office stock by a compounding annual growth rate of 10%.

In the 2017 financial year, we continued to expand organically, but with a measured approach, increasing capacity by 7%; we opened seven new floors across six countries, and two existing floors were expanded. Our new floor in Barangaroo, Sydney has been extremely successful.

In the 2018 financial year, we will continue to focus on increasing overall occupancy of existing office stock across the business. At this point, we have committed to only two new floors – in Bangkok and Lebanon.

Our focus in 2017 also turned to growth of our Professional Coworking concept in key locations around the globe. Our focus on our Coworking model is at the forefront of our business plans for 2018, with plans to roll it out across 50 locations; 17 locations have already been completed and 13 more are scheduled to be completed by the end of this calendar year.

Our CEO and COO will provide more detail of our Coworking product in their presentations.

Outlook

This takes me to the outlook for the 2018 financial year.

When we released our 2017 results in August, we forecast that net profit before tax would be between \$45 million and \$55 million in the 2018 financial year. Trading for the first quarter of the current financial year is, excluding the USA, generally in line with expectations.

The USA continues to be our primary focus. While the first quarter results for the USA are disappointing, Serviced and Virtual Office sales have improved since June 2017, and management is confident this trend will continue.

Accordingly, we confirm our 2018 financial year guidance of net profit before tax between \$45 million and \$55 million, subject as always to currencies remaining constant, global financial markets remaining stable and no unforeseen circumstances.

The Workplace Solutions Market

Our industry is in unprecedented transition; we are seeing many new participants and as a result the global shared workspace market is growing rapidly.

- Servcorp continues to make a significant investment in our information technology platform;
- We have a premium location offering;
- We have proven experience in this sector;
- We have a developed Servcorp Community platform enabling collaboration between our growing client base. We have successfully deployed the Servcorp Community in 12 countries, in multiple languages, which connects our clients worldwide; and the rollout is continuing. This has already created real client to client benefits.

These factors make Servcorp a strong, diversified global business that differentiates us from other shared workspace providers. We are in a strong financial position to maximise our premium products in this expanding market.

ACCC Action

I wish to make some observations about the action ACCC has initiated against Servcorp. As the matter is before the courts, I cannot go into too much detail.

The ACCC has alleged that a number of terms contained in our agreements with clients are unfair, and therefore void under the unfair contract terms regime of the Australian Consumer Law, which came into effect in November 2016.

Servcorp maintains that its agreements are negotiable contracts and do not constitute standard form contracts regulated by the unfair contracts regime. Whether this is found to be the case or not, Servcorp does not intend to operate with agreements that are considered to be unfair to small business, or indeed to any business.

Servcorp is an incubator of small business, and over the 39 years of its operations in Australia, and globally, it has assisted many small businesses to establish themselves and grow into successful operations. It has never been our intention, or practice, to inhibit or be unfair to any client. Accordingly, Servcorp has offered to engage with the ACCC in a constructive dialogue to address its concerns. Servcorp has also amended its agreements and is introducing these changes in discussion with its clients.

We consider Servcorp to be a leader in the Workspace Solutions market and this includes showing leadership in not only complying with the letter of the law, but also with the spirit of the law.

Regardless of the outcome of the action, Servcorp will seek to work closely with the ACCC and the Government to ensure our contracts are fair, and in line with the intention of the law.

Wallis Graham

I was recently delighted to announce the appointment of Wallis Graham as a new independent non-executive Director.

Wallis knows the USA market well, across various sectors, and brings significant and relevant financial, strategic and international expertise to Servcorp and will add a diversity of experience and thought to the Board. Her current involvement in several community and philanthropic endeavours aligns well with Servcorp's values and service culture.

We are confident Wallis will make a significant contribution to the Board and the Company.

Dividends

I now turn to dividends.

Directors anticipate that shareholders can expect to receive dividends totalling not less than 26.0 cents per share in respect of the 2018 financial year. At this stage, franking levels are uncertain.

Dividend projections are always subject to unforeseen circumstances.

Close

On behalf of the Board, I want to acknowledge the outstanding efforts of our CEO, Alf Moufarrige, and our leadership group and all the Servcorp team members for their dedication and commitment during this period of unprecedented transition. Due to their efforts, we continue to maintain our position as the world's premium provider of Serviced Office, Virtual Workspace and Coworking solutions.

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