

# Servcorp Limited Analyst Presentation

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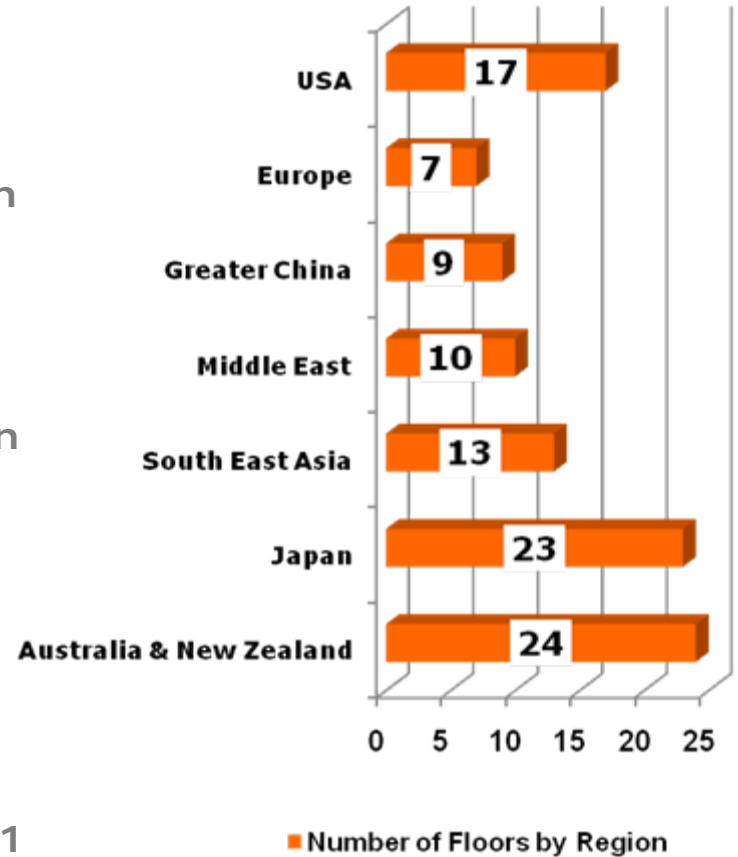
Wednesday 23 February 2011

 **SERVCORP**

# Operational Highlights H1 2011

- Mature floor NPBT of \$13.32 million (in line with guidance)
- Immature floor loss of \$13.34 million
- NPBT of \$0.12 million
- Virtual Office package growth of 7%
- Cash balance (unencumbered) of \$97.00 million as at 31 December 2010
- Cash balances at 30 June 2011 are expected to exceed original projections
- Strong net operating cash flows of \$8.85 million
- The strong AUD has enabled management to purchase Capex at favourable rates
- 27 Virtual Office V.I.P. floors opened across 19 cities in 8 countries
- Closure of 1 full floor and 2 half floors
- 103 floors in 43 cities in 20 countries open at 31 December 2010

**Number of Floors  
as at 31 December 2010 = 103**

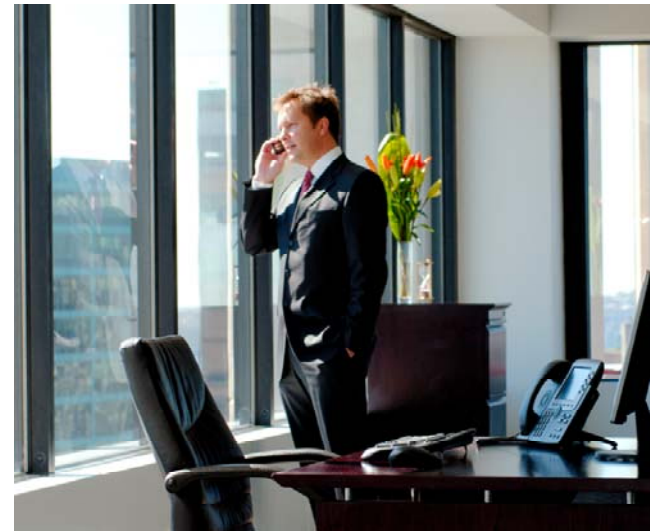


# Financial Results – H1 2011

	Six Months Ended 31 December 2010	Six Months Ended 31 December 2009	%	Constant Currency %
	<i>\$AUD 000's</i>	<i>\$AUD 000's</i>		
<b>Revenue</b>	<b>89,360</b>	<b>84,034</b>	<b>6%</b>	<b>8%</b>
<b>Mature Floor Net Profit Before Tax</b>	<b>13,318</b>	<b>12,045</b>	<b>11%</b>	
Total Immature Floor Loss	(13,342)	(8,966)		
Office Squared Gain / (Loss)	147	(1,208)	112%	
<b>Total Net Profit Before Tax</b>	<b>123</b>	<b>1,871</b>	<b>(93%)</b>	
	As at 31 December 2010	As at 30 June 2010	%	%
	<i>\$AUD 000's</i>	<i>\$AUD 000's</i>		
<b>Net Assets</b>	<b>199,090</b>	<b>212,610</b>	<b>(6%)</b>	
<b>Cash Balance (unencumbered)</b>	<b>97,000</b>	<b>121,030</b>	<b>(20%)</b>	
Net Tangible Assets (per share)	\$1.87	\$2.01		
Interim Dividends (cents per share)	5.00 cps	5.00 cps		

# Mature Business

- Trading conditions were very difficult in Q1 2011
- Revenues and margins improved in Q2 2011 in several locations
- Two large traditional floors became mature and are performing strongly
  - Abu Dhabi, UAE
  - 2IFC, Hong Kong
- Average occupancy increased to 78% for H1 2011 from 76% in H1 2010
- A strong AUD during the period has had a negative impact on consolidated AUD revenues
- We expect to see continued improvement and stronger performance in our mature business in H2 2011



# Virtual Office Business

- Continued growth of Virtual Office – package growth of 7% during H1 2011 (annualised 14%)
- Virtual Office revenue increased by 16% for H1 2011
- Virtual Office revenue increased by 19% on a constant currency basis compared to H1 2010
- Virtual Office package growth was slower than anticipated during H1 2011
- Anticipate reaching the target of 29,000 packages during April 2011
- We are expecting stronger Virtual Office package growth in H2 2011 and onward

 **SERVCORP** | Virtual Office  
*Everything but the office®*

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[www.servcorpvirtual.net](http://www.servcorpvirtual.net)

# Around The World 2010 - 2011

## AUSTRALIA & NEW ZEALAND

- Australia and New Zealand have continued to perform strongly
- Revenues and margins have continued to increase in most capital cities
- Virtual Office memberships increased
- 1 floor closed in H1 2011
- A new floor opened in the new market of Hobart
- 4 floors in Australia and New Zealand were immature during H1 2011
- 4 additional floors are due to open in Australia and New Zealand in H2 2011
- We expect strong revenue growth in the mature and immature businesses in H2 2011



# Around The World 2010 - 2011

## JAPAN

- The Japanese Serviced Office market continues to be competitive and very difficult
- Virtual Office package memberships continued to grow
- Given the broader economic climate Management are satisfied with the performance
- 1.5 floors closed in H1 2011
- Opened 3 new floors in Japan including 1 floor in the new market of Yokohama
- 6 floors were immature in Japan during H1 2011
- Anticipate that performance of mature and immature floors will improve modestly during H2 2011



# Around The World 2010 - 2011

## GREATER CHINA

- Greater China, in particular Hong Kong, were significantly impacted by the global financial crisis
- Business confidence has recovered substantially
- Now seeing an improvement in revenues and margins
- Our large landmark floor in 2IFC, Hong Kong (82 offices) became mature in H1 2011
- Three floors were immature during H1 2011
- One large traditional floor will open in Guangzhou
- An additional Virtual Office V.I.P. floor will open in Shanghai during H2 2011
- We expect both the mature and immature floors to perform strongly during H2 2011





# Around The World 2010 - 2011

## SOUTHEAST ASIA

- Southeast Asia was significantly impacted by the global financial crisis
- Markets in Singapore and Kuala Lumpur are now recovering
- The Serviced Office market in Bangkok continues to be stable
- 1 floor was opened in the new market of Manila during H1 2011
- 1 large traditional floor opened in Singapore during January 2011
- We expect strong performance in Singapore from mature and immature operations
- We expect Thailand to remain stable and to see a modest improvement in Malaysia
- Leases in two of our large locations in Singapore were negotiated at rates 30% below current market levels



# Around The World 2010 - 2011

## MIDDLE EAST

- Abu Dhabi became mature in H1 2011 and is now making profits
- Dubai has softened considerably
- The performance of Doha remains challenging
- Recent civil unrest in Bahrain may have an adverse impact on its results
- 3 new floors were opened in new markets in Beirut, Istanbul and Riyadh
- 1 additional floor was also opened in Dubai
- Overall 6 floors were immature in the Middle East during H1 2011
- 1 new floor opened in January 2011 in the new market of Al Khobar, Saudi Arabia
- An additional traditional floor will open in Turkey in April 2011
- Despite the unrest in the Middle East we do not anticipate this will have a material affect on our results in FY 2011



# Around The World 2010 - 2011

## EUROPE

- European business sentiment continues to be depressed
- The Serviced Office market continues to be difficult
- 1 traditional floor in London was immature during H1 2011
- Virtual Office V.I.P. floors will open in London and Brussels during H2 2011
- We expect a slow improvement in results in Europe for H2 2011



# Around The World 2010 - 2011

## USA

- The greatest opportunity and difficulties have been experienced in the USA
- This is the best opportunity Servcorp has ever had to establish a meaningful presence in the USA
- Rents have been negotiated at or near the bottom of the market
- Openings have taken longer and building and training new teams has been a challenge
- We are approximately six months behind our initial expectations
- Losses in the USA are substantially higher than originally anticipated
- There is still risk from:
  - The speed of economic recovery
  - The impact of aggressive competition
- 15 floors opened during H1 2011 in the USA
- 17 floors were immature at 31 December 2010
- As at 23 February 2011 there are 21 floors open in 11 cities giving us critical mass
- We expect revenue to continue to increase in H2 2011



# Around The World 2010 - 2011

## INDIA FRANCHISE

- The Indian market has recovered from the effects of the global financial crisis
- Servcorp has no direct capital exposure to the Indian market
- Servcorp's Franchisee is now seeing an improvement in revenues and profitability
- Seeing a modest increase in revenues and profits from the franchise operation

## OFFICE SQUARED

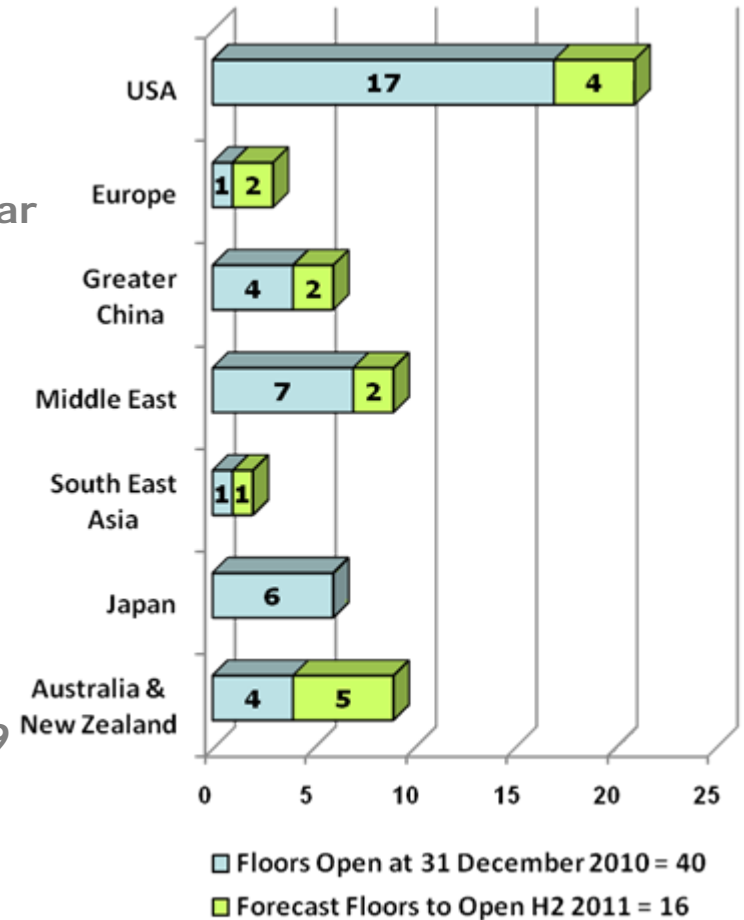
- The Office Squared business has been significantly scaled back
- Operations in Malaysia and China were closed down in H1 2011
- Management are now focusing on our core business



# Global Expansion – Update

- The major expansion across multiple regions has been very challenging
- Disappointed by the level of recovery experienced, especially in the USA
- Overall we have experienced costs in line with expansion budgets
- We have executed the majority of leases at or near the bottom of the market
- Office and Virtual revenues in some locations have lagged behind expectations, particularly in new markets:
  - due to slower global activity recovery
  - the business opening delays
  - pressures of managing such a large growth program in such a short period
- 27 new Virtual Office VIP floors opened across 19 cities in 8 countries in H1 2011
- Opened in 3 new countries, Lebanon, Turkey and The Philippines
- An additional 16 floors are committed to open in H2 2011

Expansion Update by Region  
New Floors Open



# Global Expansion – Update Continued

- Expect to open a total of 43 floors in FY 2011 (12 more than originally projected)
- Expect to have 56 floors open in 26 new cities in 7 new countries as part of this expansion programme by 30 June 2011
- In 2012 we will consolidate operations in new and existing markets
- At 31 December 2010 there were 103 floors in 43 cities in 20 countries
- At 23 February 2011 there are 110 floors in 46 cities in 20 countries
- Immature floor losses were \$(13.34) million in H1 2011
- Losses are higher than expected for the following reasons:
  - We opened 5 more Virtual Office V.I.P. floors than expected (Original target was 22 for H1 2011)
  - Office sales take up rates were lower than expected for four of the large traditional floors
  - The Middle East and the USA have substantially underperformed
- Despite the delays experienced, we now believe we are on the right marketing and sales track
- Management continue to have confidence in the Virtual Office V.I.P. business model
- We are now restricting new openings, to new floors in established and profitable locations where we are confident expansion will be expeditiously profitable

# FY 2011 Revised Outlook

- As advised at Servcorp's AGM trading conditions were showing early signs of improvement in Q2 2011
- It is anticipated that the improvement in revenues and margins will continue into H2 2011
- FY 2011 was always intended to be a major construction period for the company
- In FY 2012 we will consolidate operations in new and existing markets
- We reaffirm mature floor NPBT guidance for FY 2011 of \$30.00 million. This forecast assumes currencies remain constant and global financial markets remain stable



## FY 2011 Revised Outlook Continued

- Europe and the USA are recovering at a slower pace than originally anticipated. As a result our immature floors in these regions have been adversely impacted
- We have revised likely outcomes for the balance of FY 2011 which has resulted in an increased level of immature floor losses
- Forecast immature losses will be approximately \$(30.00) million for FY 2011:
  - An additional 12 floors are expected to open during FY 2011
  - This includes 3 large traditional Serviced Office floors opening in Singapore, Guangzhou and Istanbul during H2 2011. (The original projection was 31 new floors, comprising 30 Virtual Office V.I.P. floors and 1 large traditional floor)
  - The difficulties experienced in Serviced and Virtual Office take up in new markets means we are approximately six months behind our revenue projections
  - This lag in revenue will have a direct impact on our immature floor loss in H2 2011
- This forecast assumes currencies remain constant and global financial markets remain stable

# FY 2011 Revised Outlook Continued

- Management continue to have confidence in the Virtual Office V.I.P. business model
- We have built the floors and have a strong global presence
- We are satisfied with the overall progress of new floor rollouts
- Our focus is solely on sales, growing Office and Virtual Office revenue

## Dividend FY 2011

- Interim Dividend (Declared) - 5.00 cents per share (fully franked)
- Final Dividend (Anticipated) - 5.00 cents per share  
(subject to currencies remaining constant and the global financial market remaining stable)

## Dividend Outlook

- Given our expected improvement in performance we anticipate an FY 2012 interim dividend of 7.5 cents per share (subject to currencies remaining constant and the global financial market remaining stable)
- Dividend levels thereafter will be maintained at this level or increased
- In the medium term we expect to adopt an attractive dividend payout ratio based on growth in earnings and cash flows