

# **CHAIRMAN'S ADDRESS**

## **2014 ANNUAL GENERAL MEETING**

**ADDRESS BY MR BRUCE CORLETT AM**  
**CHAIRMAN, SERVCORP LIMITED**  
**13 NOVEMBER 2014**

Ladies and Gentlemen,

2014 was a good year.

The Company's substantial global expansion program, which commenced in 2009, is now creating the desired momentum in revenue growth and improving margins, resulting in an increase in shareholder wealth.

It is gratifying to see that the equity market is beginning to recognise our improved operating performance. This time last year our share price was \$4.00 per share and as at close of business last night it was \$5.60.

### **Results**

Revenue for the year was \$242.2 million, an increase of 17% on 2013. Net profit before tax increased to \$34.3 million, up 24% on 2013, an increase of 35% in like for like terms. Net profit after tax increased to \$26.3 million, resulting in an increase in earnings per share to 26.8 cents, up 24% on 2013.

Revenue and profit growth was achieved across a majority of geographic segments. Most pleasing was our performance in the Middle East and Japan, and the continued improvement in the USA.

Servcorp's financial strength underpins its success. During the 2014 financial year, the business generated strong net operating cash surpluses of \$40.2 million. Cash and investment balances at 30 June 2014 were \$108.8 million; \$93.5 million of this balance was unencumbered and the Company has negligible debt. Current unencumbered cash balances remain strong at \$86.84 million; this is after payment of the final dividend of \$10.8 million.

The Company paid a final dividend of 11.0 cents per share, franked to 35%, bringing total dividends for the year to 20.0 cents per share; a payout to shareholders of approximately \$19.7 million. This final dividend was slightly higher than the level previously anticipated; Directors had indicated the final dividend may be a fully franked 9.0 cents per share. Due to reduced profits in Australia and resultant lower tax payments, the Company's franking ability was significantly reduced. Accordingly, Directors agreed that an increased dividend was warranted in order to partly compensate for the tax impact of the lower franking credit.

Level 63 MLC Centre, 19-29 Martin Place, Sydney NSW 2000 Australia  
**T** +61 2 9231 7616 **F** +61 2 9231 7665 **ABN** 97 089 222 506 **SERVCORP.COM.AU**

## Global Expansion

I now turn to our global expansion.

In the 2014 financial year, we focussed on reducing vacancy across the Serviced Office portfolio. This year, we opened six new floors across six countries. This meant that, in the 60 months to June 2014, 78 new floors have been opened, and Servcorp's operations have been expanded into seven new countries.

Our focus in 2014 also turned to expansion of existing floors, with five floors having their capacity increased. In all, total office capacity increased by 11% during the financial year.

In the 2015 financial year, we will remain focussed on growing office capacity, reducing vacancy and improving margins across the business.

We expect to open approximately nine large floors in the 2015 financial year. At this point, we have committed to nine leases. Three new floors have already opened - in Canberra, Qatar and Kuala Lumpur – and three floors have been expanded in Los Angeles, Boston and San Francisco. New floors in Abu Dhabi and London will open before Christmas, and floors in Jeddah and Dammam, together with our two most prestigious locations in One Mayfair Place, London and One World Trade Center, New York, are expected to open in the second half of the financial year.

Office capacity is expected to grow by approximately 10% in the current financial year.

Alf will take you through the detail of our global expansion in his address.

## Outlook

This takes me to the outlook for the 2015 financial year.

When we released our 2014 results in August, we forecast that growth in net profit before tax would be not less than 15% in the 2015 financial year. Trading for the first quarter in the current financial year is in line with expectations and accordingly we confirm this guidance, subject as always to currencies remaining constant, global financial markets remaining stable and no unforeseen circumstances.

Over the last five years, we have substantially enhanced our global footprint and, as the economy improves, we are well positioned to take advantage of the recovery in global business sentiment. Our current vacancy levels give us a significant opportunity to grow our revenues from our existing stock.

## Dividends

I now turn to dividends.

Directors anticipate that shareholders can expect to receive dividends totalling not less than 22.0 cents per share in respect of the 2015 financial year. This would represent a further increase of 10% on the increased dividends paid in respect of the 2014 financial year.

At this stage, franking levels are uncertain due to the reduced Australian earnings. Alf will comment on the performance of the Australian business during his address. Suffice to say, we are starting to see some improvement in this important part of our operations.

Dividend projections are always subject to unforeseen circumstances.

### **Remuneration Report**

Directors undertook a comprehensive review of executive remuneration during the year.

The Company recorded a first strike with respect to voting on the Remuneration Report for the year ended 30 June 2013, and Directors acknowledged that some shareholders were obviously not happy with certain aspects of Servcorp's remuneration arrangements in place at that time. CRA Plan Managers Pty Ltd was engaged to review the remuneration structures and incentive plans. Over recent weeks, I have also met with a number of shareholders and proxy advisor CGI Glass Lewis. The Directors believe Servcorp's approach to non-executive director and executive KMP remuneration going forward is balanced, fair and equitable and designed to achieve an alignment of interests between executive reward, shareholder expectations and financial return.

The proxy votes lodged with respect to the 2014 Remuneration Report indicate that shareholders who are qualified to vote overwhelmingly support the Company's remuneration framework. More than 31 million votes were registered in support of the Remuneration Report and just over 224,000 votes were registered against; a 99.13% vote in favour. Full details of voting will be disclosed during the formal business of the meeting.

### **Close**

Notwithstanding significant levels of global political and economic uncertainty, Servcorp has been able to continue its global growth thanks to critical mass, a highly skilled, committed and experienced management team, supported by an outstanding IT platform and proprietary product offerings. To quote our CEO, we have built a sustainable, growing, profitable business.

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

We thank you, our shareholders, for your continuing support.