

CEO'S ADDRESS

2019 ANNUAL GENERAL MEETING

ADDRESS BY MR ALF MOUFARRIGE AO
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Our Chairman, Bruce Corlett, is leaving, which is an historic event for Servcorp, as he has been around since we listed in 1999.

He and Rick Holliday-Smith have been great mentors and advisors of Servcorp and its operations. If you reflect upon Servcorp's performance we've paid \$282 million in dividends and we've only needed to raise \$168 million, and we have cash in the bank.

When we opened our Japan operation with \$1 million and got it to break even we spent \$12 million while our main competitor WeWork has announced investment in Tokyo alone of \$2.5 billion. I won't delve too deeply into the WeWork operation except to say that now, as they try to restructure, they say they are an enterprise business where they take 30 to 100 people in one working space, whereas Servcorp as an operation takes 1 to 10. While we anticipate we will lose a small number of the enterprise clients we think that there is a massive market out there for the product that we have. We have never seen such great demand and the one thing we have to thank WeWork for is educating this industry and the people out there to the advantages of shared workspace.

The first couple of months of the current financial year have been great after a really tough period. Revenue looks like it's going to rise between 8-10%, and we should comfortably make our projected numbers on what I see and on forward sales.

As I reflect on Servcorp, I go back to Joan Salter who was our very first General Manager who built an all-woman team to open our business centres, first in Australia and then Singapore. Now we are in 24 countries, with 18 controlled by female team members. Those countries include the UK, Germany, Lebanon, UAE, Qatar, Hong Kong, China, Malaysia, Singapore, India, the Philippines, Thailand, Turkey and Australia.

About 80% of our frontline team members are women and I would like to give you some more detail about some of them.

If you start at the top of the world we have Lesley, a British lady who runs a great operation in London. There are more office operators in the business we are in, per square metre, in London than anywhere else in the world and this year the operation will be one of our most profitable.

Of the top 5 floors, two of them are in Japan and one of them is Mayfair which is run by Laura Watson. Then we've got Melusine in Brussels, Meltem in Germany and Olga's operation in Japan which has 25 of our 150 centres and makes about 40% of our profit.

Damla is in Turkey, Fabienne runs Iran, Qatar and Lebanon. Anna Chavez has been with Servcorp for almost 8 years and runs South East Asia and China, which is giving her a bit of a hard time, but we are giving her a lot of support. Krystle runs Hong Kong and Liane, who runs 29 operations in Australia, has been with us for 39 years.

That loyalty to Servcorp is a feature of our business. Over 30% of these Manager's across the world have been with us for more than 10 years. Sometimes people underestimate the value of the people in the Servcorp team.

We have encountered significant competition. As Regus appeared everyone thought we were going to go broke and our share price dropped to a \$1, then WeWork appeared and the share price tanked again. In fact, I was introduced to someone at a restaurant in Hunters Hill as, "the man that was going to be sent broke by WeWork" and I thought that was pretty good.

The General Manager of Paris, Brussels and the UAE is David; he is a French National and knows how to run the Middle East, and is making a massive difference to that operation.

Charlie runs the USA, and while we haven't yet solved the problem of the USA, when I look at the rest of the world we are booming so that covers the losses. I personally think we have hit rock bottom in the USA and if we can't turn it around in the next 6 months I will take drastic action.

I keep being asked about my succession plan. I previously decided I wasn't going to die – I got that line from the guy who ran WeWork, "I'm never going to die and I'm going to be king of the world"- but I am now seriously looking at who is in the market and within Servcorp for somebody to take a lot of the responsibility.

Overall we are in a great position. Our revenue last month and the month before hit \$30 million which means we are going to be up between 8-10%, possibly a little more, and our costs are pretty close to fixed.

We are a Company which has significant ethnic diversity, with over 40 nationalities spanning numerous religious sectors. Interestingly we have more Buddhist representation than any other religion simply because Japan is Buddhist of course, as well as Buddhists in China and Thailand. And with our operations in the Middle East we have a lot of Muslim managers, and of course there are many Christian managers.

What is wonderful about Servcorp is when those Managers get together every couple of years they are just Servcorp people. All of the differences go out the window and so you get the Shias, the Sunnis, the Maronites, and Orthodox; all together they are just the Servcorp team.

As Bruce is leaving, I would like to thank him for the role he has played. Every one of the Senior Management team has known that Bruce has been an approachable Chairman that they can sit and talk to. Anyone who has complaints can pick the telephone up, he will always respond to emails, and I don't think there is a team member in Servcorp that doesn't believe that they could approach Bruce.

Our new Chairman, Mark Vaile, has been a Director for 8 or 9 years, but he has been around Servcorp for a lot longer than that. With my son Taine, he was instrumental in opening Servcorp in the Middle East. My view on the Middle East is that it is going to continue to power on, and while Japan will remain our main profit centre, the Middle East will come a close second and Australia will come in third.

With the current debate about the impact of Brexit on the UK, everyone is saying that businesses will move out of London's financial hub; where are they going to go, there's nowhere to go. Are they going to go to Frankfurt? It's got 1% space, they can't go to Holland because Amsterdam's got 1%. If you take London as a city, it is twice the size of Amsterdam and Frankfurt combined and we have only got 1% so that's 2% which equates to 5% of the London market. From my perspective they are not going anywhere. So I think we are going to be in good shape in London, and Europe will be one of the places that Servcorp will target.

In terms of the outlook, I believe Servcorp will probably have a record free cash year of \$65 million. That means if we pay our 20 cent dividend, which is about \$20 million dollars, we should be in a comfortable position to look at new locations. The only new locations I will take are the ones where the management team can run downhill, in great locations like the new one we opened in Nijubashi. It will also need some talented young lady executives.

It's been a great year and I thank our total team for their efforts.