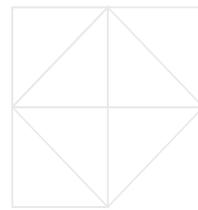




AUSTRALIAN BUSINESS GROWTH MONITOR



OCTOBER 2014



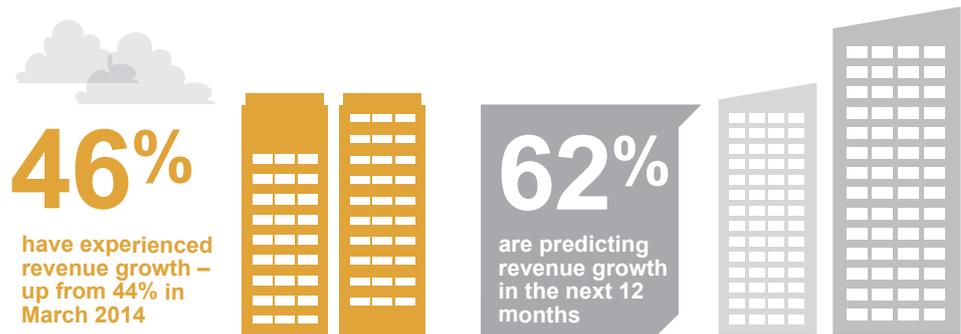
EXECUTIVE SUMMARY

The Australian economy is rebounding. Organisations in most sectors are seeing a return to better results as growth returns to their business, to their partners and to their clients.

This encouraging news is at the centre of Servcorp's latest Australian Business Growth Monitor. The study, conducted online in early September 2014 among 513 executive managers and business owners, is the third in a twice-yearly series, which tracks business growth in Australia.

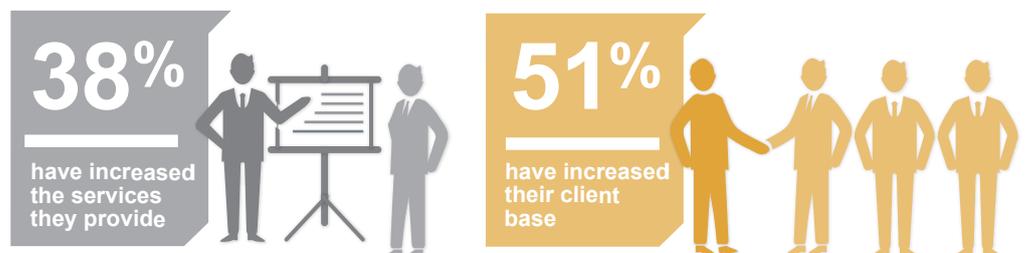
The previous March 2014 Australian Business Growth Monitor described a stagnant economy that had barely moved since the preceding July 2013 survey period. Despite concerns expressed at that time, the business owners and managers we surveyed remained upbeat that the economy was poised to rebound. This optimism was driven in part by the 'green shoots' shown by some of Australia's most important industries.

Our recent survey has revealed that an increasing number of Australian businesses are indeed recovering from the recent downturn, with 46% of survey respondents actually growing. This represents a small but significant 2% increase in businesses reporting growth compared to six months ago. More encouraging still, 62% of the organisations that participated in our survey are predicting revenue growth in the next 12 months.



It is heartening to note that this growth does not simply represent an increase in income. Revenue growth has been accompanied by an increase in:

- the number of services they provide their clients
- the number of clients they have



EXECUTIVE SUMMARY

The Reserve Bank of Australia (RBA) supported this modest growth outlook in its most recent quarterly report on the domestic economy, stating “consumption grew faster than income over the year, which was accompanied by increases in wealth driven by higher dwelling and equity prices.”¹ This shift is further supported by the National Australia Bank (NAB), which reported that: “There are signs that growth may be strengthening in Q3. NAB business conditions have been well into positive territory since June. In August, business conditions retraced much of their recent sharp gain, although the environment remains better than earlier in the year and business confidence is still solid.”²

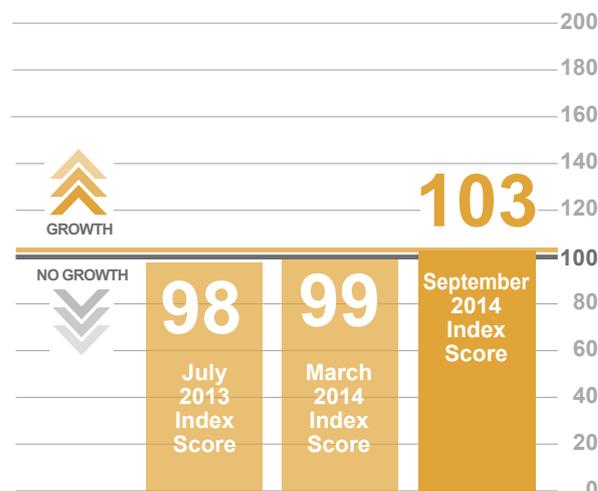
Our survey found a number of other modest improvements to performance and sentiment; significant not because of any dramatic change, but because of the consistency of optimism the results reveal. Despite this upturn, more needs to be done to encourage long-term sustainability. Specifically, there was a strong and widespread belief that governments, the Australian Tax Office and the banks do not do enough to help businesses grow in Australia. There also remains an underlying reticence to expand internationally for a number of reasons.

About the index

The Servcorp Australian Business Growth Monitor is a regular survey exploring business growth in Australia. It is conducted twice yearly by Galaxy Research on behalf of Servcorp, the Australian-owned global provider of executive Serviced and Virtual offices.

It includes an index of business growth, which looks at current and future performance, as well as the different factors both impacting and contributing to business growth among Australian companies.

An index score below 100 indicates a low level of growth, with many businesses showing little or no growth and a significant proportion not expecting a turnaround anytime soon. An index score above 100 indicates that the business community is succeeding, with many companies growing and confident of continued growth. The Servcorp Australian Business Growth Monitor thereby provides a pulse on business performance.



Ahead of the Index

In the Servcorp Australian Business Growth Monitor, 46% of businesses have reported growth. Servcorp clients – who have access to flexible, Serviced and Virtual office services – have performed well ahead of other businesses generally, with 72% reporting revenue growth in the last year.

Running with the bulls

Servcorp clients are especially bullish about future prospects, with 86% predicting growth in the year ahead, including 38% anticipating strong revenue growth. This compares with 62% of businesses across the survey predicting growth.

1 RBA. <http://www.rba.gov.au/publications/smp/2014/aug/pdf/dom-eco-cond.pdf>, published 7 August 2014

2 NAB. <http://business.nab.com.au/wp-content/uploads/2014/09/australia-and-the-world.pdf>, published 11 Sept 2014

TRENDS & ISSUES

Beyond the headline figures around growth, the Servcorp Australian Business Growth Monitor also examines the trends and issues that are impacting growth in the business sector – looking in-depth at the challenges that businesses face, as well as opportunities to drive revenue.

Balancing act

Businesses want both federal and state governments to put more focus on supporting them, rather than returning budgets to surplus at all costs. One of the dominant and recurring messages from business owners and managers was the belief that a balanced budget is not as important as encouraging and developing competitive advantage for businesses:

54%

believe the Government should focus on increasing competitiveness



35%

believe the Government should focus on balancing the budget

41%

believe reducing taxes for small businesses should be the Government's number one priority



Prior to the 2014 federal budget, there was widespread speculation that the promised tax cuts for small business would be deferred. However, when the budget was brought down on 13 May 2014, it was generally received as positive for small and medium-sized businesses.^{3 4}

Now, with an unpredictable Senate vowing to block many of the Government's spending cuts, there is increasing pressure on the nation's tax base that has business leaders concerned that broad-based tax increases may actually be on the way. Additionally, a report from MYOB has confirmed several measures that have recently brought relief to SMEs, including instant asset write-offs and accelerated deduction for motor vehicles, will now be repealed.⁵ A small but significant 15% of those surveyed want the Government's number one priority to be to ensure there is no increase in the rate of GST.

Tax cuts or not, the majority of business owners and managers (65%) would also like the Government to offer support to specific industry sectors in which Australia may have a competitive advantage over other countries.

This is further supported by the Business Council of Australia. In July 2014, BCA President Catherine Livingstone stated:

"If Australia is to stay competitive and support jobs and prosperity, then policy must be more focused on the specific requirements of each sector of our economy to maximise their comparative advantages."⁶

Ms Livingstone also said governments needed to develop and maintain a deeper understanding of the dynamics of the economy at the sector level, stating:

"Every policy should be designed to support and extend Australia's economic strengths by building on sectors with a comparative advantage and helping others to transition with minimum disruption."

³ MYOB. <http://myob.com.au/blog/what-the-2014-federal-budget-means-for-small-businesses/>, published 14 May 2014

⁴ NAB. <http://business.nab.com.au/what-the-federal-budget-means-for-australian-small-business-6483/>, published 15 May 2014

⁵ MYOB. <http://myob.com.au/blog/8-tax-changes-for-small-businesses-in-2014/>, published May 2014

⁶ BCA. <http://www.bca.com.au/newsroom/actions-needed-to-build-australias-comparative-advantages>, published 28 July 2014

TRENDS & ISSUES

Moreover, our survey pointed to a widely-held belief that governments and financial institutions could do more to support small business growth:

66% believe state governments aren't doing enough to support growth

64% believe the Federal Government isn't doing enough to support growth



62% believe the ATO doesn't do enough to help business grow



56% do not think banks do enough to help businesses grow



Expansion: The road to nowhere?

Few Australian businesses are looking to expand beyond their current locations. For 53% of those surveyed, this means that the local Australian market is the sum-total of their focus.

Why is this the case? With optimism and revenue up, now would seem the perfect opportunity to grow through expansion. Indeed, in its August Statement on Monetary Policy, the RBA declared that "Australian financial conditions remain very accommodative".⁷ Our survey reveals, however, that only 41% of businesses are of the opinion there is potential for international expansion.

Does this show a lack of ambition, or even of courage, on the part of Australia's business leaders?

A quick scan of economic activity across our major trading partners shows little cause for cold feet. According to the RBA, "While there are differences across countries, the pace of economic growth of Australia's major trading partners (MTPs) over the past year has been a little above its historical average."⁸

It would be easy to conclude that Australian businesses are risk averse. However our survey has uncovered another less troublesome explanation: a quarter of Australian businesses (25%) believe that there are sufficient business opportunities in Australia, making it unnecessary to look for business in new markets.

⁷ RBA. <http://www.rba.gov.au/publications/smp/2014/aug/pdf/overview.pdf>, published 7 August 2014

⁸ RBA. <http://www.rba.gov.au/publications/smp/2014/aug/pdf/intl-eco-dev.pdf>, published 7 August 2014

TRENDS & ISSUES

With the domestic market providing sufficient opportunities, some cautious businesses see no need to make the shift offshore.

However, caution and uncertainty is also a factor:



Australian businesses that see potential overseas would do well to access the many government and private services designed to ease entry into foreign markets, and not let fear and uncertainty get in the way of growth and future success.

Taking advantage of flexible expansion

44% of Servcorp's clients have increased the office space they leased in the past 12 months, minimising the risks of expansion by taking advantage of Servcorp's flexible approach to serviced office space and virtual office services. This is in contrast to just 17% of businesses across the survey reporting an increase in business space.

Northern exposure

While companies with a turnover of less than \$1 million are attracted to New Zealand (40%), larger companies see greater potential in South East Asia (48%). Servcorp clients, regardless of size, are also more likely to see greater potential for expansion into South East Asia (44%) than New Zealand (33%).



SUMMARY

The September 2014 Servcorp Australian Business Growth Monitor reveals that business performance and business confidence are both higher than in the previous survey from March 2014. Almost half of the businesses surveyed have reported real growth, and almost two-thirds anticipate growth in the next period.

There remains an underlying concern in the business community about the priorities of both state and federal governments, with a widespread belief that the Government is putting efforts to balance the budget ahead of policies and actions that will drive real business growth in the future.

Larger Australian businesses are shifting their focus to South East Asia. However, while most businesses actually see no potential for international expansion, due to a combination of conservatism, lack of understanding about how to do business overseas and a satisfaction with the growth potential of domestic markets.

With the expectation of better times ahead and favourable domestic business conditions, now might be the time for Australian businesses to seriously consider expanding. While many predict a stagnant labour market in the near future, increasing headcount, expanding office space or taking the big step of establishing an office, or virtual office, in an overseas market might be just the kick-along local businesses need.



SERVCORP

About Servcorp

Servcorp Ltd (SRV:ASX), is Sydney based and the world's leading provider of executive serviced offices, virtual offices and superior IT and business infrastructure solutions, operating 140 locations across 52 cities in 21 countries. A multiple award winning Australian business, Servcorp is Australia's second-largest exporter of services.

More than just an office, Servcorp's serviced and virtual offices make it possible for businesses to succeed and grow. From SMEs to large global brands, Servcorp can help to establish your business and position your company for success. Its premium serviced office suites offer unrivalled technology, services and support staff in the best locations across Australia and the rest of the world for as long as you want and for less than it costs to have a traditional office.