

Servcorp team on a virtual high

Report Khia Mercer

The Moufarrige family may be best known for its serviced-office business but it got its start with suits and ties in regional Australia. Indeed, it was in the late 1960s when Alf Moufarrige introduced menswear to Mudgee. Aptly named "Alf", Moufarrige's first foray into business was quick to yield results and he soon opened a second store in Dubbo.

But ever the entrepreneur, he quickly learned the limits of retailing and shifted his focus to the burgeoning property market, creating serviced-office provider Servcorp in the late 1970s.

He went about building the business with his sons, Taine and Marcus, who have played a central role in the firm since its inception.

While they don't always agree, it's clear that a shared entrepreneurial spirit is the driving force behind Servcorp's expansion plans.

The business wants to increase its size almost threefold in the next three years. Last week, the company raised \$80 million to fund expansion. The capital raising reduced the family stake, although its shareholder base remains above the 50 per cent mark.

Servcorp has always been a business in a hurry. At the time of its public listing 10 years ago, Servcorp operated 33 floors of office space across eight countries. It now has 67 floors in 13 countries. The Moufarriges hope to more than double this growth rate and plan to operate 100 new floors over the next three to four years. It's a cracking pace, but Taine believes it is achievable.

"We had a few hiccups along the way, I guess everybody does, in terms of market conditions after we floated," he says. "We got a bit excited and tried to expand probably a little bit quickly."

Servcorp paid \$20 million in dividends in fiscal 2009 as both a reward for shareholders' loyalty and an incentive to stick with the company as it launches into its expansion phase.

Difficult trading conditions continue to pressure earnings in the near term and Servcorp recently warned the burden of its expansion plans would weigh on profits in fiscal 2010. It booked a \$34.1 million net profit in fiscal 2009, up from \$33.8 million the previous year.

Since June 30, Servcorp has signed six new leases in Japan, Kuwait, Hong Kong, London,

Chicago and Singapore and is negotiating with officials for approval to launch its Virtual Office project in Bahrain.

Virtual Office gives clients access to a Servcorp-managed corporate office via the internet.

Servcorp Asia general manager and chief investment officer Marcus says: "We're not fly-by-nighters - we have had a really conservative approach. Yes, we have fallen victim to over-expansion at times but we've taken a long-term view that at some stage technology will allow us to build a buffer against that."

Servcorp plans to use its cash reserves - about \$84 million at June 30 - to help finance expansion, much of it in the form of virtual office floors.

Lower fixed costs and upfront capital outlays are two features of the virtual office floors, which are expected to achieve margin uplift and improve shareholder returns over the medium term.

While regulations may have prevented competitors from expanding into offshore markets, the Moufarrige family's finely tuned powers of persuasion have enabled the company to expand its foothold rapidly in Asia and the Middle East.

Marcus says: "When we first

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Marcus Moufarrige

went into Shanghai, the actual principle of subletting was illegal. That's a pretty substantial regulatory hurdle because it's the fundamentals of our business.

"We explained our aim was to help foreign companies invest in China and they looked at reviewing the laws. If you read the letter of the law in China now, subletting is still illegal unless subletting is the business you're in. Regulation is challenging, but it keeps competitors out as well."

The scalability of Servcorp's Virtual Office product is expected to facilitate a relatively seamless transition into the investment technology business, and the bulk of its expansion strategy is pegged to take place in the first 12 months.

"The expansion that has taken place revolves around a combination of virtual and physical facilities and it's very, very difficult for a competitor to compete with us on that front," Marcus says. "We are not competing in a traditional property market any more and that is what our entire expansion is about."

The company plans to crack the US market as it expands its virtual office product.



Taine and Marcus
Moufarrige have
aggressive
expansion plans.