



Appendix 4C and Quarterly Activities Report

Quarterly report for entities subject to Listing Rules 4.7B and 4.7C

19 January 2022

December 2021 Quarterly activities report

Megaport Limited (ASX: MP1) has today released the December 2021 quarter Appendix 4C and Quarterly activities report.

In 2Q FY22, Megaport drove strong Monthly Recurring Revenue (MRR) growth, up \$0.6M and 7% QoQ, to \$9.2M in December 2021. Underlying MRR¹ grew \$518K for the quarter. Total revenue for the quarter was \$26.6M, up 8% compared to 1Q FY22. Annualised recurring revenue at 31 December 2021 was \$110M.

During the quarter ended 31 December 2021, Megaport sold 1,191 new services, up 5% QoQ for total services of 24,362. The company sold 12 Megaport Virtual Edges (MVE), increasing 42.9% QoQ for a total of 40 sold MVEs via Megaport's direct sales initiatives. The company has positioned MVE to support indirect channel growth with the launch of MVE on Cisco's Global Price List (GPL), and the announcement of two additional SD-WAN partners in the quarter - VMware and Aruba.

Megaport announced a partnership with its second major Value Added Distributor (VAD), TD SYNEX in the quarter ended 31 December 2021. With the completion and launch of the PartnerVantage programme, Megaport has on-boarded 22 indirect channel partners up to 31 December 2021.

2Q FY22 highlights:

- MRR for the month of December 2021 was \$9.2M, an increase of \$0.6M, or 7% QoQ.
- Revenue for the quarter was \$26.6M, an increase of \$2.0M or 8% QoQ.
- Customers at the end of the quarter were 2,455, an increase of 123, or 5% QoQ.
- Total Ports at the end of the quarter were 8,523, an increase of 439, or 5% QoQ.
- Total VXC's at the end of the quarter were 13,713, an increase of 677, or 5% QoQ.
- Total MCR's at the end of the quarter were 603, an increase of 60, or 11% QoQ.
- Total MVE's at the end of the quarter were 40, an increase of 12, or 43% QoQ.
- Total Services² at the end of the quarter were 24,362, an increase of 1,191, or 5% QoQ.
- Average Revenue per Port in December 2021 was \$1,074, an increase of \$16, or 2% QoQ
- At the end of December 2021, the Company's cash position was \$105M.

Long-term deal commitments formed a majority of net new additions in the quarter with 64% of net new Ports being acquired with committed terms of between 12 and 36 months. This represents a growing trend of customers using Megaport to connect long-term IT solutions and taking advantage of the ability to rapidly connect those services.

¹ Underlying MRR is the QoQ growth in MRR excluding the estimated impact of FX movements.

² Total Services comprise Ports, Virtual Cross Connections (VXC's), Megaport Cloud Router (MCR), Megaport Virtual Edge (MVE) and Internet Exchange (IX).

2Q FY22 saw continued growth in Monthly Recurring Revenue (MRR), up \$605K and 7% QoQ, to \$9.2M in December 2021. Underlying MRR³ grew \$518k for the quarter. New customer and Port growth was the strongest of any 2Q performance. The second quarter is prone to seasonal buying patterns limited by holiday periods and end-of-year budget cycles. Strong new customer and Port growth has historically established a foundation for subsequent services revenue growth.

The Company has sold 40 MVEs as of 31 December, supporting SD-WAN connectivity services for 16 customers utilising integrations with all five Megaport SD-WAN partners as customers connect branch locations to the Megaport Software Defined Network for on-demand connectivity.

Product Updates

In the Quarter, Megaport announced an additional two SD-WAN partners, Aruba and VMware, bringing the total number of providers available on the MVE platform to five. Combined, these providers cover more than 70%⁴ of the SD-WAN infrastructure market.

The Company launched its PartnerVantage portal, VantageHub, for indirect channel partners. PartnerVantage is a world-class partner programme that enables indirect channel partners to sell and provision Megaport services on behalf of their customers, with all the requisite materials, commercial terms and conditions, co-marketing support, education, and billing information on one platform to facilitate an easy process for the partners to grow their business. With development initiated in March 2021, the PartnerVantage programme reimaged the indirect channel experience for reselling NaaS and incorporating Megaport services into a holistic offering that makes cloud consumption easy.

Megaport signed partnership agreements with two of the leading global Value Added Distributors (VAD), Arrow and TD SYNEX in the quarter.

Integration of InnovoEdge following the acquisition on 10 August, 2021 continues at pace, and we expect to be showcasing the capability for additional orchestration and automation for greater end-to-end control of network and IT resources at our upcoming technical demonstration day.

Please refer to the 2Q FY22 Global Update lodged with ASX on 19 January 2022 for a more detailed business update.

³ Underlying Growth in MRR is the QoQ growth in MRR excluding the estimated impact of FX movements.

⁴ IDC Worldwide SD-WAN Infrastructure Market Shares, 2020

2Q FY22 Cash Flow Commentary

Operating Activities

Receipts from customers were \$28.7M (previous quarter: \$26.4M), an increase of \$2.3M or 9% QoQ. The higher collections are attributed to revenue growth and the continued improvement in collections. The DSO improved from 24 days to 23 days QoQ.

Product manufacturing and operating costs comprise costs for data centre power and space, physical cross connect fees, bandwidth and dark fibre, network operation and maintenance, and channel commissions which directly relate to generating service revenue. Network operating cash outflows were \$10.3M (previous quarter: \$10.1M), an increase of \$0.2M, or 3% QoQ, reflecting a stable cost base despite a higher increase in revenue. Installed Data centres count was 411, an increase of 5 QoQ.

Advertising and marketing payments were \$0.6M (previous quarter: \$0.6M), stable QoQ. 1Q had some prepaid expenses, partly offset by travel expenses paid in 2Q as we saw a gradual return of travel and conference activities in 2Q following global easing of Covid-19 restrictions. The annual PTC networking event is scheduled for late January 2022, an initial spend for the event was prepaid in 2Q. The Covid-19 situation is evolving and continues to be monitored closely.

Payments for leased assets were \$1.8M (previous quarter: \$1.4M), an increase of \$0.4M or 28% QoQ. This represents the principal and interest cash outflows related to the contracts that are classified as "Leases" under AASB 16 Leases.

Staff costs paid were \$13.2M (previous quarter: \$14.9M), a decrease of \$1.7M or 11% QoQ. 1Q included an incremental cost of \$2.6M relating to the cash settlement of the FY21 annual performance based incentives (\$4.2M relating to FY21 performance based incentives and sales commissions in 1Q, compared to \$1.6M sales commissions in 2Q). This was partly offset by an increase of \$1M in 2Q relating to annual salaries review and net impact of new hires in the quarter as well as full impact of the 1Q hires. Headcount increased to 300, a net increase of 14 QoQ, hiring continues to be focused on areas focussed on supporting the build out of the indirect Channel program.

Administration and corporate payments were \$6.7M (previous quarter: \$5.7M), an increase of \$1M or 18% QoQ. 2Q includes the annual insurance prepayment of \$2.8M. 1Q included \$2M in one off payments that included \$1.4M prepayment for the administrative element of multi year licenses to operate our network and \$0.6M professional fees related to the InnovoEdge Inc. acquisition.

Investing Activities

Capital expenditure was \$4.1M (previous quarter: \$11M), a decrease of \$6.9M or 62% QoQ. \$2.3M of this quarter's payments relate to core and capacity upgrades of existing network that includes upgrades in support of the 100Gbs and 400Gbs roll out, \$1.4M vendor financed equipment purchases for the continued extension of MVE capability and capacity on our network, and upgrades of end of life equipment in to support the implementation of the next generation SDN. The remainder relates to inventory purchases for future expansion.

Investment in intellectual property was \$3.2M (previous quarter: \$3.1M), an increase of \$0.1M or 3% QoQ. 2Q spend includes \$0.8M spent on development of the VantageTransact, the PartnerVantage portal. PartnerVantage is Megaport's scale up, scale out program that was initiated in March 2021 and launched in 2Q. This is a world class programme aimed at driving revenue and business growth via channel sales by supporting Megaport's indirect partners to resell Megaport services. Other spend in 2Q mainly relates to integration of other channel partners that include VMWare and Aruba as well as further integration with Cisco, phase 2 of the MVE platform development and other ongoing internal projects.

Financing Activities

Proceeds from the exercise of options of \$3.5M (previous quarter: \$1.7M) represent the exercise of share options by employees.

Proceeds from borrowings of \$1.3M (previous quarter: \$7.8M) represent the latest drawdown under the vendor financing facility (refer to item 7 below for more details). \$10.8M of the \$35M vendor financing facility was undrawn as at the end of the quarter.

Repayments of borrowings was \$1.8M (previous quarter: \$1.3M), reflecting the instalment payments of the amount drawn under the vendor financing facility (refer to Item 7 below for more details).

Cash Position

Cash and bank balances at the end of the quarter were \$104.6M.

Payments to related parties of the entity and their associates

The amounts included in item 6 relate to the remuneration of directors and their associates, and the shared services and network operating services provided by companies controlled by or associated with the Chairman.

Appendix 4C
Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

Megaport Limited

ABN

46 607 301 959

Quarter ended ("current quarter")

31 December 2021

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	28,665	55,042
1.2 Payments for		
(a) research and development	(354)	(637)
(b) product manufacturing and operating costs	(10,329)	(20,381)
(c) advertising and marketing	(565)	(1,183)
(d) leased assets	(1,851)	(3,296)
(e) staff costs	(13,235)	(28,136)
(f) administration and corporate costs	(6,670)	(12,318)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	18	36
1.5 Interest and other costs of finance paid	(431)	(798)
1.6 Income taxes (paid)/received	(17)	(17)
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	-	-
1.9 Net cash used in operating activities	(4,769)	(11,688)

Appendix 4C
Quarterly cash flow report for entities subject to Listing Rule 4.7B

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities	-	(10,401)
(b) businesses	-	-
(c) property, plant and equipment	(4,123)	(15,111)
(d) investments	-	-
(e) intellectual property	(3,175)	(6,250)
(f) other non-current assets	-	-
2.2 Proceeds from disposal of:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	16	16
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	-	-
2.3 Cash flows from loans to other entities	-	-
2.4 Dividends received (see note 3)	-	-
2.5 Other (provide details if material)	-	-
2.6 Net cash used in investing activities	(7,282)	(31,746)

3. Cash flows from financing activities		
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
3.2 Proceeds from issue of convertible debt securities	-	-
3.3 Proceeds from exercise of options	3,522	5,232
3.4 Transaction costs related to issues of equity securities or convertible debt securities	(33)	(84)
3.5 Proceeds from borrowings	1,285	9,096
3.6 Repayment of borrowings	(1,756)	(3,092)
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other (provide details if material)	-	-
3.10 Net cash from financing activities	3,018	11,152

Appendix 4C
Quarterly cash flow report for entities subject to Listing Rule 4.7B

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	114,205	136,312
4.2	Net cash from /(used in) operating activities (item 1.9 above)	(4,769)	(11,688)
4.3	Net cash used in investing activities (item 2.6 above)	(7,282)	(31,746)
4.4	Net cash from financing activities (item 3.10 above)	3,018	11,152
4.5	Effect of movement in exchange rates on cash held	(546)	596
4.6	Cash and cash equivalents at end of period	104,626	104,626

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	104,626	114,205
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	104,626	114,205

6.	Payments to related parties of the entity and their associates	Current quarter \$A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	792
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

7. Financing facilities available

Note: the term "facility" includes all forms of financing arrangements available to the entity.

Add notes as necessary for an understanding of the sources of finance available to the entity

7.1 Loan facilities

7.2 Credit standby arrangements

7.3 Other (vendor financing facility)

7.4 Total financing facilities

	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1	-	-
7.2	-	-
7.3	35,000	24,187
7.4	35,000	24,187

7.5 Unused financing facilities available at quarter end

10,813

7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.

The Group has a \$35.0M vendor financing facility to fund the purchase of network equipment and payment of software licenses. The facility is governed by an Instalment Purchase Agreement. The facility does not carry interest and is repayable via equal instalments over 36 months from each drawdown date. The loan is secured by a bank guarantee charged over \$5.7M in cash and cash equivalents. The vendor financing facility outstanding balance at the reporting date was \$13.6M (Previous quarter: \$7.7M), and \$1.3M was repaid in the quarter (previous quarter: \$1.1M).

8. Estimated cash available for future operating activities

\$A'000

8.1 Net cash used in operating activities (Item 1.9)

(4,769)

8.2 Cash and cash equivalents at quarter end (Item 4.6)

104,626

8.3 Unused finance facilities available at quarter end (Item 7.5)

10,813

8.4 Total available funding (Item 8.2 + Item 8.3)

115,439

8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)

24

8.6 If Item 8.5 is less than 2 quarters, please provide answers to the following questions:

8.6.1 Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

Answer:

n.a.

Appendix 4C
Quarterly cash flow report for entities subject to Listing Rule 4.7B

8.6.2 Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer:

n.a.

8.6.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer:

n.a.

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date: 19 January 2022

Authorised by the Board.

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, AASB 107: Statement of Cash Flows apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.