



## **Appendix 4C and Quarterly Activities Report**

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

### 28 April 2023

The Group lodged its Appendix 4C and Quarterly Activities Report for 1Q FY23 and 2Q FY23 in US Dollars. During 3Q FY23, the Board reassessed the appropriate reporting currency based on the transactions and balances that make up the Group's financial information, the users of the Group's financial information, and the overall organisational strategic focus for the next 18 months. As a result of the reassessment, the Group is reverting to Australian Dollars (" \$" or "AU\$") as its reporting currency for 3Q FY23 onwards. Therefore, this Appendix 4C and Quarterly Activities Report provides figures in AU\$.

### Business Update

In 3Q FY23, the Company added 607 new services, including 188 customer ports<sup>1</sup>, 34 MCRs, and 25 MVEs. Monthly Recurring Revenue ("MRR") grew 14% QoQ, up \$1.7M to \$14.1M in March 2023. Excluding the foreign exchange impact of a weakening Australian Dollar, underlying MRR grew \$1.6M, or 13%, mostly driven by Cloud VXC repricing. Total revenue for the quarter was \$38.1M, up 3% compared to 2Q FY23. Megaport delivered a reported EBITDA<sup>2</sup> for 3Q FY23 of \$7.2M (normalised<sup>3</sup> \$5.0M) compared to \$2.4M (normalised \$2.4M) for 2Q FY23. This is the fourth consecutive quarterly period Megaport has reported positive EBITDA. Cash burn for the quarter was \$8.9M, with cash and bank balances at the end of the period of \$48.6M.

### Cloud VXC Repricing

Reflecting significantly increased costs of interconnecting to legacy cloud on-ramps over recent years, management implemented an increase in the price of its Cloud VXCs globally in March 2023 to align pricing with the respective increase in costs.

The Cloud VXC price adjustment delivered a net increase in revenue of approximately \$1.2M in the month of March, which was higher than initial estimates (in January) of \$8.0M-\$10.0M annualised. This is predominantly due to lower than expected churn of services by customers. While some churn is expected over the coming months, this result underscores the "stickiness" of Megaport services. After reseller commissions and partner revenue shares, this initiative is expected to continue to deliver approximately \$1M per month of additional positive cash flow

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<sup>1</sup> Customer Ports exclude consolidation of legacy strategic ports as part of our transition to 100Gb cloud on-ramp interconnections. Net ports additions were 22 in 3QFY23 and 203 in 2QFY23.

<sup>2</sup> Reported Earnings Before Interest Tax Depreciation and Amortisation ("Reported EBITDA") represents operating results excluding equity-settled employee and related costs, foreign exchange gains and losses, gains and losses on disposal of plant and equipment, and certain non-recurring non-operational expenses including restructuring and associated costs.

<sup>3</sup> Normalised Earnings Before Interest Tax Depreciation and Amortisation ("Normalised EBITDA") represents reported EBITDA that has been adjusted (reduced) for certain one off accrual reversals.

## **Quarterly Activities Report**

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contribution to net margin. It is noted that this improvement in revenue will impact receipts from April onwards as clients were invoiced at the end of March.

### **Cost-out Program**

The cost-out program announced in January this year has so far delivered a total of \$3M in annualised cost savings, and has contributed to an improvement in 3Q FY23 cash flow. A further \$4M in annualised cost savings has been identified, with these savings expected to be realised by the end of the 2023 financial year and fully recognised during FY24.

### **Organisational Review and Executive Changes**

During the quarter, Vincent English ceased his role as Chief Executive Officer (“CEO”). Bevan Slattery was appointed as interim CEO on 7 March 2023 and will remain in this role until Michael Reid commences as CEO on 15 May 2023. Mr Reid brings 19 years of industry experience to Megaport. He joins Megaport from Cisco, where he currently serves as Chief Revenue Officer for ThousandEyes, one of Cisco’s fastest growing SaaS businesses.

In addition, Sean Cassidy left the position of Chief Financial Officer (“CFO”) during the quarter, and Leticia Dorman was appointed as interim CFO while the Company undertakes a global executive search to fill the CFO role.

In March and April 2023, the Company conducted an organisational review, which together with the cost-out program is designed to streamline operations, drive greater operating leverage, and improve overall cash generation by the business.

The organisational review will simplify and reshape Megaport’s organisational structure by removing 50 roles across the business. This will reduce workforce costs by approximately \$10M on an annualised basis commencing in May 2023, driving improved operating leverage, and providing a better balance of revenue growth, profitability and cash generation. A one-time charge of approximately \$3M will be recognised in 4Q FY23 with respect to termination benefits to be paid to those employees impacted by the organisational restructure.

These changes, while challenging, were required to strongly position Megaport for the future, and balance the many interests of all stakeholders. While these decisions have impacted staff collectively and individually, they do not diminish their numerous contributions made to the Company. Megaport will support impacted employees, and provide them with termination benefits and appropriate assistance.

## **3Q FY23 Cash Flow Commentary**

### **Operating Activities**

Receipts from customers were \$40.9M (previous quarter: \$35.9M), an increase of \$5.0M or 14% QoQ. Days sales outstanding (“DSO”) of 29 days remains within Megaport’s standard payment terms of 30 days. Megaport’s debtors’ ageing profile improved with balances greater than 90 days decreasing by \$1.2M; the key driver of this decrease being the receipt of payments from a key customer that was outstanding at the end of 2Q FY23. 55% of outstanding accounts were aged less than 30 days.

Megaport’s 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 a total of \$15.3M (previous quarter: \$11.3M), an increase of \$4.0M or 35% QoQ. The one-off increase is predominantly due to a decision in March to make consistent, on-time monthly payments to suppliers. Accordingly, approximately \$5.2M of payments made during 3Q FY23 relate to invoices received during 2Q FY23. There were no significant network expansion costs incurred in the quarter. Cash outflows during the quarter included approximately \$9.5M of network costs, \$2.6M of partner commissions, and \$0.5M of payments relating to a support contract.

Advertising and marketing payments were \$1.5M (previous quarter: \$1.4M), an increase of \$0.1M QoQ. Payments during 3Q FY23 included payments for subscription services, advertising and digital marketing services, and payments in relation to various conference events.

Staff costs paid were \$14.3M (previous quarter: \$15.6M), a decrease of \$1.3M or 8% QoQ. The decrease primarily relates to 2Q FY23 containing a one off payroll tax payment of \$0.7M, an additional \$0.3M of wages capitalised QoQ, and slightly reduced employee benefits expenses during 3Q FY23.

Administration and corporate payments were \$7.2M (previous quarter: \$7.2M), remaining consistent QoQ. Significant payments in 3Q FY23 included \$1.0M of consulting and professional services including audit, tax, risk advisory and legal services received during 2Q and 3Q FY23, \$1.4M of insurance instalment payments, \$0.7M of annual licence and subscription fees, \$0.7M of rent related expenses and \$0.5M relating to travel and accommodation.

### **Investing Activities**

Net capital expenditure was \$5.3M (previous quarter: \$0.1M). When excluding a one off reclassification between capital expenditure and network costs that occurred in 2Q FY23, underlying capital expenditure in 2Q FY23 was \$4.0M. Therefore, the gross increase in capital expenditure from 2Q FY23 to 3Q FY23 was largely attributable to \$2.0M of vendor-financed equipment purchases for inventory stock.

## **Quarterly Activities Report**

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Investment in intellectual property was \$3.5M (previous quarter: \$4.5M), a decrease of \$1.0M or 22% QoQ. 3Q FY23 expenditure included spend on key projects including \$0.8M in further development of MegaportONE, \$0.8M in security enhancements, \$0.8M relating to other internal improvement projects in relation to software and network architecture, and \$0.2M relating to the development of the corporate website.

### **Financing Activities**

Net proceeds from borrowings were an inflow of \$2.1M (previous quarter: \$3.6M outflow). This represents the latest drawdown under interest free vendor financing (refer to item 7 below for more details).

Repayments of borrowings was \$1.9M (previous quarter: \$1.9M), reflecting instalment payments of the amount drawn under interest free vendor financing (refer to item 7 below for more details).

Payments of the principal portion of lease liabilities were \$2.1M (previous quarter: \$2.7M). This represents the principal cash outflows related to the contracts that are classified as "Leases" under AASB 16 Leases.

### **Cash Position**

Cash and bank balances at the end of the quarter were \$48.6M.

### **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 and interim CEO.

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

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**Name of entity**

Megaport Limited

**ABN**

46 607 301 959

**Quarter ended ("current quarter")**

31 March 2023

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$AU'000</b>	<b>Year to date (9 months) \$AU'000</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	40,888	114,416
1.2 Payments for		
(a) research and development	(246)	(559)
(b) product manufacturing and operating costs	(15,345)	(37,007)
(c) advertising and marketing	(1,518)	(4,604)
(d) staff costs	(14,282)	(49,908)
(e) administration and corporate costs	(7,198)	(18,924)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	141	437
1.5 Income taxes paid	(17)	(71)
1.6 Government grants and tax incentives	-	-
<b>1.7 Net cash from operating activities</b>	<b>2,423</b>	<b>3,780</b>

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

<b>Consolidated statement of cash flows</b>		<b>Current quarter</b>	<b>Year to date</b>
		<b>\$AU'000</b>	<b>(9 months)</b>
			<b>\$AU'000</b>
<b>2.</b>	<b>Cash flows from investing activities</b>		
2.1	Payments to acquire:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	(5,292)	(16,151)
	(d) investments	-	-
	(e) intellectual property	(3,543)	(11,708)
	(f) other non-current assets	-	-
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	1	7
	(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)	-	-
<b>2.6</b>	<b>Net cash used in investing activities</b>	<b>(8,834)</b>	<b>(27,852)</b>

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

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$AU'000</b>	<b>Year to date (9 months) \$AU'000</b>
<b>3. Cash flows from financing activities</b>		
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	11	79
3.4 Transaction costs related to issues of equity securities or convertible debt securities	-	(23)
3.5 Proceeds from borrowings	2,062	4,210
3.6 Repayment of borrowings	(1,870)	(5,491)
3.7 Transaction costs related to loans and borrowings	(259)	(447)
3.8 Dividends paid	-	-
3.9 Payments of the principal portion of lease liabilities	(2,143)	(7,338)
3.10 Interest and other costs of finance paid	(488)	(1,619)
<b>3.11 Net cash used in financing activities</b>	<b>(2,687)</b>	<b>(10,629)</b>

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$AU'000</b>	<b>Year to date (9 months) \$AU'000</b>
<b>4. Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1 Cash and cash equivalents at beginning of period	57,506	82,545
4.2 Net cash from operating activities (item 1.7 above)	2,423	3,780
4.3 Net cash used in investing activities (item 2.6 above)	(8,834)	(27,852)
4.4 Net cash used in financing activities (item 3.11 above)	(2,687)	(10,629)
4.5 Effect of movement in exchange rates on cash held	230	794
<b>4.6 Cash and cash equivalents at end of period</b>	<b>48,638</b>	<b>48,638</b>

**Appendix 4C**

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

<b>5. Reconciliation of cash and cash equivalents</b> at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	<b>Current quarter \$AU'000</b>	<b>Previous quarter \$AU'000</b>
5.1 Bank balances	48,638	57,506
5.2 Call deposits	-	-
5.3 Bank overdrafts	-	-
5.4 Other (provide details)	-	-
<b>5.5 Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>48,638</b>	<b>57,506</b>

**6. Payments to related parties of the entity and their associates**

- 6.1 Aggregate amount of payments to related parties and their associates included in item 1
- 6.2 Aggregate amount of payments to related parties and their associates included in item 2

<b>Current quarter \$AU'000</b>
604
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**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)
- 7.4 Total financing facilities**

<b>Total facility amount at quarter end \$AU'000</b>	<b>Amount drawn at quarter end \$AU'000</b>
-	-
-	-
35,000	32,138
<b>35,000</b>	<b>32,138</b>

**7.5 Unused financing facilities available at quarter end**

<b>2,862</b>
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**Appendix 4C**  
**Quarterly cash flow report for entities subject to Listing Rule 4.7B**

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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's Board of Directors has approved for the Company to avail of up to \$35M vendor financing to fund the purchase of network equipment and payment of software licences. This is governed by a number of Instalment Payment Agreements (IPAs). These agreements do not carry interest and are separately repayable via equal instalments over 36 months from each drawdown date. The agreements are collectively secured by a bank guarantee charged over \$5.7M in cash and cash equivalents.

The vendor financing outstanding balance at the reporting date is split between balances relating to capital expenditure and amounts relating to operating expenditure:

- Balance of capital expenditure: \$12.0M (Previous quarter: \$12.0M), with \$1.9M being repaid in the quarter (previous quarter: \$1.9M).
- Balance of operating expenditure: \$4.8M (Previous Quarter: \$5.3M), with \$0.5M being repaid in the quarter (previous quarter: \$0.4M).

Undrawn financing available, represents the gross (initial) amount of new Instalment Payment Agreements the Company can avail itself of under the self-imposed limit. On termination of an existing IPA on the 36th payment, the gross (initial) amount of that IPA replenishes this available amount.

<b>8.</b>	<b>Estimated cash available for future operating activities</b>	<b>\$AU'000</b>
8.1	Net cash from operating activities (Item 1.7)	2,423
8.2	Cash and cash equivalents at quarter end (Item 4.6)	48,638
8.3	Unused finance facilities available at quarter end (Item 7.5)	2,862
8.4	Total available funding (Item 8.2 + Item 8.3)	51,500
<b>8.5</b>	<b>Estimated quarters of funding available (Item 8.4 divided by Item 8.1)</b>	<b>n/a</b>

*Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.*

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**

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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: 28 April 2023

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.