



Appendix 4C and Quarterly Activities Report

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

26 October 2023

Megaport reports record EBITDA¹ of \$15.0M, Positive Cash Flow from Operating Activities² of \$10.7M, and an increase of Net Cash³ of \$5.6M in 1Q FY24, driven by solid growth in Annual Recurring Revenue⁴ and continued tight cost control.

Brisbane, AUSTRALIA 26 October, 2023 Megaport Limited (ASX: MP1) has today released the September 2023 quarter Appendix 4C and Quarterly Activities Report which includes its quarterly Key Performance Indicators to 30 September 2023, and provides a global market update.

Executive Summary

Total revenue for the quarter was \$46.5M, up \$2.2M or 5% compared to 4Q FY23. Megaport exited 1Q FY24 with record Annual Recurring Revenue (ARR)⁴ of \$189.8M in September 2023, up \$11.2M or 6% QoQ. Excluding the impact of foreign exchange tailwinds from a weakening Australian dollar, underlying ARR grew \$5.2M or 3% in the quarter.

Megaport delivered record EBITDA¹ of \$15.0M for 1Q FY24, up \$14.0M compared to 1Q FY23, and up \$3.2M or 27% compared to Normalised EBITDA¹ of \$11.8M in 4Q FY23. Cash Flow from Operating Activities² was an inflow of \$10.7M in 1Q FY24, an increase of \$4.3M or 67% QoQ. Cash balance at 30 September 2023 increased to \$55.2M, up \$6.7M or 14% QoQ. Megaport generated positive Net Cash Flow³ of \$5.6M in 1Q FY24, up \$3.3M or 143% compared to 4Q FY23. Net Cash³ increased by 17% to \$38.9M at quarter end.

During the quarter ended 30 September 2023, Megaport sold 674 net new services, up 2% QoQ for total services of 31,190. Net new customer ports increased by 135, an increase of 1% to 9,307. ARR per customer increased by 6% to \$66,284.

1 Earnings Before Interest Tax Depreciation and Amortisation represents operating results excluding equity-settled employee and related costs, foreign exchange gains and losses, gains and losses on disposal of property, plant and equipment, and certain non-recurring non-operational expenses. Prior to 1Q FY24, EBITDA was normalised (adjusted or reduced) for certain one-off accrual reversals.

2 Cash Flow from Operating Activities is calculated in line with the consolidated statement of cash flows reported in the half-year and year end financial statements.

3 Net Cash Flow is the change in Net Cash over the period. Net cash = cash at bank less debt (including vendor finance facility). As at 30 September 2023 Net Cash comprised cash at bank of \$55.2M less the amount outstanding under vendor finance facility of \$16.3M.

4 Annual Recurring Revenue (ARR) is the recurring revenue expected over a 12 month period, calculated as Monthly Recurring Revenue for the last month of the period x 12, and excludes any non-recurring or one-off revenue.

Quarterly Activities Report

Key Performance Metrics

Megaport delivered continued growth in recurring revenue and total services across all regions as the world's leading Network as a Service provider.

Key metrics⁵ to 30 September 2023:

	Quarterly Performance						YoY% Change ⁶
	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	QoQ % Change	
ARR (A\$M)	139.3	148.3	169.5	178.6	189.8	6%	36%
Revenue (A\$M)	33.7	37.0	38.1	44.3	46.5	5%	38%
Customers	2,700	2,739	2,811	2,856	2,863	0%	6%
ARR per customer (A\$)	51,591	54,142	60,283	62,539	66,284	6%	28%
Total Services ⁷	28,326	29,088	29,695	30,516	31,190	2%	10%
Customer ports ⁸	8,573	8,902	9,025	9,172	9,307	1%	9%
Ports	9,606	9,809	9,831	9,963	10,099	1%	5%
VXCs	16,385	16,978	17,522	18,112	18,638	3%	14%
MCR	772	768	802	848	866	2%	12%
MVE	95	94	119	159	158	-1%	66%

Business Update

Following the successful implementation of the cost-out program in 2H FY23, the key focus in 1Q FY24 has been the investment in the go-to-market (GTM) engine to drive future top-line growth. This investment includes more than 20 new sales and marketing roles, with more than half quota-bearing sales roles. 90% of this headcount is now in place, with the remaining roles on track to be filled in 2Q FY24. New hires include sales executives and sales leaders, as well as positions in sales operations, solution architects, customer success, internet exchange sales, and global data centre operator sales. This investment provides Megaport with the right talent to drive revenue in its fastest-growing markets and deliver a sustained improvement in the penetration of its products within its existing customer base.

⁵ A summary of Megaport's historical KPIs and metrics can be found on our website at <https://www.megaport.com/investor/business-overview/#kpis>.

⁶ Change in the yearly performance at 30 September 2023 to the prior corresponding period ended 30 September 2022.

⁷ Total Services comprise Ports, Virtual Cross Connections (VXCs), Megaport Cloud Router (MCR), Megaport Virtual Edge (MVE) and Internet Exchange (IX).

⁸ Customer Ports exclude consolidation of legacy strategic ports as part of our transition to 100Gb cloud on-ramp interconnections.

Quarterly Activities Report

Megaport's unrivalled global footprint continues to grow, with a 400G backbone upgrade well progressed.

Additionally, Megaport is excited to announce that in recent months the Company has been quietly upgrading its most dense customer data centre locations with network equipment to deliver large-scale 100G customer port availability; an initiative named Project Centurion. As of November this year, large-scale 100G port services will be available in locations which represent the majority of our existing 10G customers' ports. Furthermore, Megaport is pleased to announce that starting November, it will also be offering VXC's up to 25G across most major locations globally and up to 100G across select markets early in the new year.

Over the coming months, Megaport will continue to open data centres in new locations and markets, expanding its serviceable footprint to new countries to meet customer demand. Megaport is driving Internet Exchange expansion throughout the US, recently launching in Charlotte, and will roll out eight additional locations by the end of 3Q FY24.

Based on customer demand, in 2Q FY24, Megaport will also launch its new Internet Product, allowing customers to add enterprise internet to their networks in less than 60 seconds.

Megaport ONE Beta was made publicly available in early September. This new SaaS platform offers networking, compute, and orchestration capabilities through a single pane of glass, so users can oversee and simplify management of even the most complex infrastructure.

During the quarter, Megaport Reach was launched as a rapid, cost-effective way for data centre operators to deploy to new locations, bringing the cloud to their facilities in under 90 days. This edge deployment strategy is designed to be an attractive proposition to data centre operators looking to quickly and efficiently improve the cloud connectivity available to their customers.

In early 2Q FY24, Megaport launched Global WAN as a Service, offering customers a holistic approach to networking, combining three remarkable solutions: Hybrid Cloud Connectivity, Cross-Cloud Connectivity, and Virtual PoPs (Points of Presence) across the globe. This gives customers an agile, secure network that is ready to meet the high-speed demands of the digital and AI age.

Conclusions and Outlook

Michael Reid, Megaport CEO, stated, "Our commitment to achieving sustainable and profitable growth remains strong. With record EBITDA and positive net cash flow in line with our guidance, 1Q FY24 has set the tone for the year. While the rebuild and recovery of momentum will take time, our investment in go-to-market strategies, increased sales headcount, network enhancements, and the introduction of new products underscore our dedication to delivering exceptional value for our customers and propelling our Annual Recurring Revenue growth.

"I'm thrilled to reveal the details of Project Centurion. This provides our customers the ability to upgrade to 100G ports, enhancing their cloud connection capacity tenfold and catering to the world's increasing AI connectivity needs. Additionally, there's already a demand for us to deliver 100G VXC's, and to meet this existing demand as well as the exploding connectivity demands of tomorrow, we are rolling out a suite of higher speed VXC options across major locations globally.

"Our customer-wide survey shed light on why leading global companies use Megaport and how they leverage our services. A key insight is that too many of our customers primarily use Megaport for basic connectivity. This provides us, and those customers, with an opportunity to accelerate their digital transformation utilising the power of Megaport's network solutions to enable their hybrid cloud, cross-cloud, and global WAN requirements.

"I am also excited to see the high calibre individuals we have attracted to the sales team. As our go-to-market efforts intensify, I look forward to the impact they make on our sales trajectory.

"Finally, I am delighted that following the completion of a global executive search, Leticia Dorman was appointed to the role of Chief Financial Officer in early October. Leticia brings 17 years' of experience in finance roles, recently with Brisbane Airport Corporation and previously with Megaport. Her profound understanding of Megaport's business, strategic thinking, commercial acumen, and unwavering commitment to financial discipline add substantial value to our leadership team as we continue to drive profitable growth."

1Q FY24 Cash Flow Commentary

Operating Activities

Receipts from customers were \$47.9M (previous quarter: \$44.0M), an increase of \$3.9M or 9% QoQ. Days sales outstanding (DSO) increased to 38 days as a result of continued commercial discussions with a key revenue share partner, who commenced settlement of aged amounts in early October 2023.

Network operating cash outflows were a total of \$17.7M (previous quarter: \$16.1M), an increase of \$1.6M or 10% QoQ. The increase QoQ predominantly relates to back payments made to a key revenue share partner during the quarter, as part of finalising renewal of the partnership agreement. This payment was in addition to a 12-month prepayment to a new network supplier. Total cash outflows during the quarter included approximately \$12.1M of network costs, \$5.1M of partner commissions and revenue share, and \$0.5M of payments relating to a support contract.

Advertising and marketing payments were \$0.7M (previous quarter: \$0.7M), remaining stable QoQ.

Staff costs paid were \$13.3M (previous quarter: \$16.6M), a decrease of \$3.3M or 20% QoQ. The QoQ decrease primarily relates to the settlement of termination benefits in 4Q FY23 to employees impacted by the Company's organisational restructuring.

Administration and corporate payments were \$5.0M (previous quarter: \$4.0M), an increase of \$1.0M or 25% QoQ as a result of the timing of payments and a number of annual expenses that are paid at the beginning of the financial year. Significant payments in 1Q FY24 included \$1.3M of consulting and professional services, including audit and tax fees following the completion of the FY23 audit, as well as company secretarial and legal costs to support the Board and management changes that followed the prior year reorganisation, \$0.5M of annual licence and subscription fees, \$0.4M of insurance payments, \$0.4M of annual compliance costs, \$0.2M relating to travel and accommodation and \$0.1M of rent-related expenses.

Investing Activities

Capital expenditure on property, plant and equipment (PPE) was \$3.4M (previous quarter: \$1.4M). \$2.1M of the spend during the quarter related to the purchase of inventory that was funded under a vendor financing arrangement, with the remaining expenditure during the quarter consisting of upgrades to existing capacity.

Investment in intellectual property predominantly relates to internal staff time that has been capitalised towards key projects. 1Q FY24 expenditure was \$2.5M (previous quarter: \$3.5M), a decrease of \$1.0M or 29% QoQ. The quarterly expenditure included \$0.7M in further development of Megaport ONE and \$1.1M relating to other internal improvement projects for software and network architecture.

Financing Activities

Proceeds from the exercise of employee options was \$1.3M for the quarter.

Proceeds from borrowings in 1Q FY24 of \$3.8M represent the most recent drawdowns under the vendor finance facility (previous quarter: no drawdowns). \$1.7M of drawdowns relates to financing of PPE capital expenditure from FY23, and the remaining drawdowns are for PPE capital expenditure during the quarter.

Repayments of borrowings were \$2.0M (previous quarter: \$1.7M), reflecting instalment payments under the vendor financing facility. Refer to item 7 below for more details.

Payments of the principal portion of lease liabilities were \$1.4M (previous quarter: \$0.1M). This represents the principal cash outflows related to the contracts that are classified as “Leases” under AASB 16 *Leases*. 4Q FY23 included a one-off reclassification of \$1.5M for amounts previously accounted for as leases that had been reclassified to operating expenditure. When excluding the impact of this reclassification, 4Q FY23 cash payments for leases were \$1.6M.

Cash Position

Megaport’s cash balance at 30 September 2023 was \$55.2M, up \$6.7M from 30 June 2023. Under the vendor financing facility⁹ of \$16.3M during the quarter, there were drawdowns of \$3.8M and repayments of \$2.7M, resulting in a net increase of \$1.1M QoQ. The sum of which resulted in an overall net cash position at the end of the quarter was \$38.9M, up 17% compared to the previous quarter.

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.

⁹ Amounts owing under the vendor financing differ from the amounts included in liabilities in the statement of financial position due to the impact of imputed interest.

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")

30 September 2023

Consolidated statement of cash flows	Current quarter \$AU'000	Year to date (3 months) \$AU'000
1. Cash flows from operating activities		
1.1 Receipts from customers	47,931	47,931
1.2 Payments for		
(a) research and development	(310)	(310)
(b) product manufacturing and operating costs	(17,702)	(17,702)
(c) advertising and marketing	(664)	(664)
(d) staff costs	(13,248)	(13,248)
(e) administration and corporate costs	(4,982)	(4,982)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	157	157
1.5 Income taxes paid	(529)	(529)
1.6 Government grants and tax incentives	-	-
1.7 Net cash from operating activities	10,653	10,653

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

Consolidated statement of cash flows	Current quarter \$AU'000	Year to date (3 months) \$AU'000
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(3,386)	(3,386)
(d) investments	-	-
(e) intellectual property	(2,515)	(2,515)
(f) other non-current assets	-	-
2.2 Proceeds from disposal of:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	1	1
(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	(5,900)	(5,900)

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

Consolidated statement of cash flows		Current quarter \$AU'000	Year to date (3 months) \$AU'000
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	1,327	1,327
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	-
3.5	Proceeds from borrowings	3,798	3,798
3.6	Repayment of borrowings	(2,012)	(2,012)
3.7	Transaction costs related to loans and borrowings	(94)	(94)
3.8	Dividends paid	-	-
3.9	Payments of the principal portion of lease liabilities	(1,371)	(1,371)
3.10	Interest and other costs of finance paid	(464)	(464)
3.11	Net cash from financing activities	1,184	1,184

Consolidated statement of cash flows		Current quarter \$AU'000	Year to date (3 months) \$AU'000
4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	48,455	48,455
4.2	Net cash from operating activities (item 1.7 above)	10,653	10,653
4.3	Net cash used in investing activities (item 2.6 above)	(5,900)	(5,900)
4.4	Net cash from financing activities (item 3.11 above)	1,184	1,184
4.5	Effect of movement in exchange rates on cash held	772	772
4.6	Cash and cash equivalents at end of period	55,164	55,164

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

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 \$AU'000	Previous quarter \$AU'000
5.1 Bank balances	55,164	48,455
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)	55,164	48,455

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

	Current quarter \$AU'000
6.1 Aggregate amount of payments to related parties and their associates included in item 1	743
6.2 Aggregate amount of payments to related parties and their associates included in item 2	-

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

	Total facility amount at quarter end \$AU'000	Amount drawn at quarter end \$AU'000
7.1 Loan facilities	-	-
7.2 Credit standby arrangements	-	-
7.3 Other (vendor financing)	31,157	16,302
7.4 Total financing facilities	31,157	16,302

7.5 Unused financing facilities available at quarter end

-

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

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 aggregate facilities of \$31.2M represents amounts provided by the vendor for financing equipment. This is governed by a number of Instalment Payment Agreements (IPAs). These IPAs are each repayable via equal instalments over 36 months from the drawdown date. The agreements are collectively secured by a bank guarantee charged over \$5.7M in cash and cash equivalents.

The drawn facility amount of \$16.3M represents the net amount of the facility outstanding after repayments.

The Board has approved a total of drawn facilities of up to \$25M to fund the purchase of network equipment and payment of software licences, which is \$8.7M above the amount drawn under the vendor facility. We expect further funding to be available if required.

8.	Estimated cash available for future operating activities	\$AU'000
8.1	Net cash from operating activities (Item 1.7)	10,653
8.2	Cash and cash equivalents at quarter end (Item 4.6)	55,164
8.3	Unused finance facilities available at quarter end (Item 7.5)	-
8.4	Total available funding (Item 8.2 + Item 8.3)	55,164
8.5	Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	n/a

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.

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.

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

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: 26 October 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.