speedcast

# Speedcast International Limited

ACN 600 699 241

Preliminary Financial Report and Appendix 4E

for the Year Ended 31 December 2019

**Speedcast International Limited**

**Preliminary Financial Report and Appendix 4E for the year ended 31 December 2019**

Contents

# Results for Announcement to the Market

| | 31 Dec 2019<br>US$'000 | 31 Dec 2018 Restated<br>US$'000 | Change<br>US$'000 | % |
|---|---|---|---|---|
| Revenue from ordinary activities | 722,317 | 611,923 | 110,394 | 18.0 |
| Loss after income tax benefit/(expense) for the year* | (459,758) | (6,840) | (452,918) | n/a |
| Loss from ordinary activities after tax attributable to members* | (459,921) | (6,921) | (453,000) | n/a |
| Total comprehensive income/(loss) attributable to members* | (469,241) | (19,461) | (449,780) | n/a |

**Dividends**

| | Amount per Security | Franked amount per Security |
|---|---|---|
| Final dividend | Nil | Nil |
| Interim dividend | Nil | Nil |

No dividend has been declared for the year ended 31 December 2019.

**NTA backing**

| | 31 Dec 2019<br>cents (US$) | 31 Dec 2018 Restated<br>cents (US$) |
|---|---|---|
| Net tangible asset backing per security* | (198) | (183) |
| Total net asset backing per security* | (85) | 114 |

Net tangible assets are defined as the net assets of the Group excluding goodwill and intangibles.

The number of shares on issue at 31 December 2019 was 239,741,258 (2018: 239,426,631).

* The current period has been impacted by the first-time adoption of the new accounting standard AASB16 – Leases but the comparative has not been adjusted as the Company applied the modified retrospective approach.

**Explanation of Results**

Please refer to the Financial Overview section for an explanation of the results.
All amounts are stated in thousands of US$ unless otherwise specified.

# Financial Overview

## Results

Financial information for the Maritime and EEM reporting segment for 2018 was restated with respect to the treatment of revenue for certain customer contracts as well as the finalisation of acquisition accounting for business combinations in 2018 under AASB 3. Refer note 17, Changes to prior period information of the preliminary financial report for details.

| Results | 2019 US$'000 | 2018 Restated US$'000 |
|---|---|---|
| **Revenue from ordinary activities** | **722,317** | **611,923** |
| | | |
| **EBITDAI*** | **68,203** | **110,553** |
| Impairment charges | (413,797) | - |
| **EBITDA** | **(345,594)** | **110,553** |
| Amortisation charges | (51,162) | (40,003) |
| Depreciation charges | (53,758) | (37,513) |
| **EBIT** | **(450,514)** | **33,037** |
| Finance costs | (43,666) | (39,066) |
| **Pre-tax loss** | **(494,180)** | **(6,029)** |
| Tax | 34,422 | (811) |
| **Net profit / (loss) after tax** | **(459,758)** | **(6,840)** |

* **Earnings before Interest, Tax, Depreciation, Amortisation and Impairment**

Revenue increased by $110.4 million or 18% to $722.3 million (2018 (restated): $611.9 million). The revenue in 2019 includes the full year impact of acquisitions completed in 2018.

Statutory loss for the year after tax increased by $453.0 million to a loss of $459.8 million (2018 (restated): loss of $6.8 million). The loss for the current year includes non-cash impairment charges of $413.8 million.

## Other Financial Metrics

The statutory results include costs which are significant either because of their size or nature. These include non-cash impairments and write downs, acquisition-related transaction costs, integration and restructuring costs, gains or losses on foreign exchange settlements and bandwidth costs associated with technology disruptions.

To provide users with additional information regarding the Group's performance excluding these Significant Items and to help understand the impact of these events on the results of the Group, key elements of the Group's performance are reported in the table below on a basis which excludes Significant Items, together with a reconciliation to the statutory result.

| Results excluding Significant Items | 2019 US$'000 | 2018 Restated US$'000 |
|---|---|---|
| **Revenue from ordinary activities** | **722,317** | **611,923** |
| **Adjusted EBITDAI** | **121,778** | **120,860** |
| Impairment charges | - | - |
| **Adjusted EBITDA** | **121,778** | **120,860** |
| Amortisation charges | (51,162) | (40,003) |
| Depreciation charges | (53,758) | (37,513) |
| **Adjusted EBIT** | **16,858** | **43,344** |
| Finance costs | (42,728) | (28,831) |
| **Adjusted pre-tax loss** | **(25,870)** | **14,513** |
| Tax | (2,009) | (5,962) |
| **Adjusted net profit/(loss) after tax** | **(27,879)** | **8,551** |
| Significant Items net of tax | (431,879) | (15,391) |
| **Statutory net profit/(loss) after tax (including Significant Items)** | **(459,758)** | **(6,840)** |

| Details of Significant Items | 2019 US$'000 | 2018 Restated US$'000 |
|---|---|---|
| Redundancy and other business restructuring and integration costs | 16,528 | 6,311 |
| Corporate action & transaction costs | 5,516 | 4,354 |
| Bandwidth costs associated with technology disruption | 9,165 | - |
| Write down of assets | 7,570 | - |
| Gain on extinguishment of interest rate hedges | - | (3,031) |
| (Gain)/loss on foreign exchange translation | 14,796 | 2,673 |
| **Total Significant Items impacting EBITDAI** | **53,575** | **10,307** |
| Impairment charges | 404,770 | - |
| Impairment of IT systems and other assets | 9,027 | - |
| Accelerated amortisation of capitalised facility fees and other finance costs | 938 | 10,235 |
| **Total Significant Items before tax** | **468,310** | **20,542** |
| Income tax on Significant Items | (36,431) | (5,151) |
| **Total Significant Items after tax** | **431,879** | **15,391** |

## Audit Report

This preliminary financial report is based on the financial statements which are in the process of being audited.

The Directors note that an emphasis of matter is expected to be included in the auditor's report in relation to a material uncertainty related to going concern in the event that the Company is not able to secure sufficient additional funding.

**Speedcast International Limited**
**Consolidated statement of profit or loss and other comprehensive income**
**For the year ended 31 December 2019**

| | Note | Consolidated 31 Dec 2019 US$'000 | Consolidated 31 Dec 2018 Restated US$'000 |
|---|---|---|---|
| **Revenue from ordinary activities** | 2 | 722,317 | 611,923 |
| Other income | 3 | 2,000 | 3,292 |
| Expense | 4 | (1,174,831) | (582,178) |
| Finance costs | 5 | (43,666) | (39,066) |
| **Loss before income tax benefit / (expense)** | | (494,180) | (6,029) |
| Income tax benefit / (expense) | | 34,422 | (811) |
| **Loss after income tax benefit / (expense) for the year** | | (459,758) | (6,840) |
| Attributable to: | | | |
| Owners of the Company | | (459,921) | (6,921) |
| Non-controlling interests | | 163 | 81 |
| | | (459,758) | (6,840) |
| **Other comprehensive income/(loss)** | | | |
| **Item that may be reclassified to profit and loss** | | | |
| Currency translation difference | | 3,099 | (7,132) |
| Changes in fair value of cash flow hedges | | (12,534) | (3,272) |
| **Item that may not be reclassified to profit and loss** | | | |
| Change in fair value of cancelled interest rate swap cash flow hedges | | - | (2,121) |
| Other comprehensive income/(loss) for the year, net of tax | | (9,435) | (12,525) |
| **Total comprehensive income/(loss) for the year** | | (469,193) | (19,365) |
| Attributable to: | | | |
| Owners of the Company | | (469,241) | (19,461) |
| Non-controlling interests | | 48 | 96 |
| **Earnings per share** | | | |
| Basic (loss)/profit per share (cents) | | (191.89) | (2.89) |
| Diluted (loss)/profit per share (cents) | | (191.89) | (2.89) |

*The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes*

**Speedcast International Limited**
**Consolidated statement of financial position**
**As at 31 December 2019**

| | Note | Consolidated 31 Dec 2019 US$'000 | Consolidated 31 Dec 2018 Restated US$'000 |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 7 | 58,430 | 79,786 |
| Trade and other receivables | | 231,949 | 215,737 |
| Inventories | | 29,809 | 31,934 |
| Income tax receivable | | - | 4,470 |
| Total current assets | | 320,188 | 331,927 |
| **Non-current assets** | | | |
| Property, plant and equipment | | 174,178 | 141,735 |
| Goodwill and intangible assets | | 274,509 | 721,079 |
| Deferred tax | | 52,732 | 24,551 |
| Other receivables | | 1,144 | 2,489 |
| Total non-current assets | | 502,563 | 889,854 |
| **Total assets** | | 822,751 | 1,221,781 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | | 269,198 | 257,182 |
| Borrowings | 8 | 662,474 | 5,543 |
| Income tax payables | | 7,388 | 3,441 |
| Lease liabilities | | 8,087 | - |
| Total current liabilities | | 947,147 | 266,166 |
| **Non-current liabilities** | | | |
| Borrowings | 8 | 6,504 | 633,258 |
| Trade and other payables | | 12,228 | 23,462 |
| Derivative liabilities | | 18,683 | 6,199 |
| Deferred tax liabilities | | 4,626 | 19,703 |
| Lease liabilities | | 36,316 | - |
| Total non-current liabilities | | 78,357 | 682,622 |
| **Total liabilities** | | 1,025,504 | 948,788 |
| **Net assets/(liabilities)** | | (202,753) | 272,993 |
| **Equity** | | | |
| Equity | 9 | 365,534 | 365,128 |
| Other reserves | | (18,641) | (10,330) |
| Accumulated losses | | (553,131) | (85,242) |
| Equity/(deficiency) attributable to the owners of Speedcast International Limited | | (206,238) | 269,556 |
| Non-controlling interest | | 3,485 | 3,437 |
| **Total equity/(deficiency)** | | (202,753) | 272,993 |

*The above consolidated statement of financial position should be read in conjunction with the accompanying notes*

**Speedcast International Limited**
**Consolidated statement of changes in equity**
**For the year ended 31 December 2019**

| | Contributed equity US$'000 | Accumulated losses US$'000 | Other reserves US$'000 | Non-controlling interests US$'000 | Total equity US$'000 |
|---|---|---|---|---|---|
| **Consolidated** | | | | | |
| Balance at 1 January 2018 | 364,690 | (64,787) | 1,190 | 705 | 301,798 |
| Profit for the year (restated) | - | (6,921) | - | 81 | (6,840) |
| Other comprehensive loss | - | - | (12,540) | 15 | (12,525) |
| Dividends (note 10) | - | (13,534) | - | - | (13,534) |
| Employee share scheme – issue of shares (note 9) | 438 | - | (438) | - | - |
| Employee share scheme – value of employee services | - | - | 1,458 | - | 1,458 |
| Business Combinations | - | - | - | 2,636 | 2,636 |
| Balance at 31 December 2018 (restated) | 365,128 | (85,242) | (10,330) | 3,437 | 272,993 |

| | Contributed equity US$'000 | Accumulated losses US$'000 | Other reserves US$'000 | Non-controlling interests US$'000 | Total equity US$'000 |
|---|---|---|---|---|---|
| **Consolidated** | | | | | |
| Balance at 1 January 2019 | 365,128 | (85,242) | (10,330) | 3,437 | 272,993 |
| Profit/(loss) for the year | - | (459,921) | - | 163 | (459,758) |
| Other comprehensive loss | - | - | (9,320) | (115) | (9,435) |
| Dividends (note 10) | - | (7,968) | - | - | (7,968) |
| Employee share scheme – issue of shares (note 9) | 406 | - | (406) | - | - |
| Employee share scheme – value of employee services | - | - | 1,415 | - | 1,415 |
| Balance at 31 December 2019 | 365,534 | (553,131) | (18,641) | 3,485 | (202,753) |

**Speedcast International Limited**
**Consolidated statement of cash flows**
**For the year ended 31 December 2019**

| | Consolidated 31 Dec 2019 US$'000 | Consolidated 31 Dec 2018 Restated US$'000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Cash receipts from customers | 745,783 | 640,166 |
| Cash paid to suppliers | (665,337) | (526,764) |
| Business acquisition costs | (5,516) | (3,796) |
| Proceeds from cancellation of interest rate swap | - | 3,031 |
| Interest income | 265 | 316 |
| Finance costs paid | (35,618) | (30,693) |
| Taxes paid | (1,524) | (14,774) |
| Net cash from operating activities | 38,053 | 67,486 |
| **Cash flows from investing activities** | | |
| Payments for acquisition of businesses, net of cash acquired | (11,667) | (154,059) |
| Payments for property, plant and equipment | (45,526) | (48,591) |
| Payments for intangible assets | (9,193) | (12,575) |
| Proceeds from disposal of property, plant and equipment | - | 818 |
| Net cash used in investing activities | (66,386) | (214,407) |
| **Cash flows from financing activities** | | |
| Proceeds from borrowings, net of transaction costs | 43,066 | 629,325 |
| Repayment of borrowings | (20,004) | (443,080) |
| Dividend paid | (7,968) | (12,768) |
| Repayments of obligations under finance leases | (471) | (224) |
| Net cash from financing activities | 14,623 | 173,253 |
| Net increase/(decrease) in cash and cash equivalents | (13,710) | 26,332 |
| Cash and cash equivalents at the beginning of the financial year | 79,786 | 54,844 |
| Effects of exchange rate changes on cash and cash equivalents | (7,646) | (1,390) |
| Cash and cash equivalents at the end of the financial year | 58,430 | 79,786 |

*The above consolidated statement of cash flows should be read in conjunction with the accompanying notes*

## 1. Accounting policies

The Company is a for-profit entity for the purpose of preparing the financial statements.

The accounting policies adopted are consistent with the previous financial year with the exception of those stated in note 16.

### (a) Basis of preparation

This Preliminary Financial Report and Appendix 4E has been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the Corporations Act 2001 as well as in compliance with ASX reporting requirements.

The Financial Report has been prepared under the historical cost convention and on the basis that Speedcast is a going concern, able to realise assets in the ordinary course of business and settle liabilities as and when they are due.

The Group has experienced challenging operating conditions during the period to 31 December 2019. The Group's loss after tax for the twelve month period ended 31 December 2019 was $459.8 million (2018: restated loss of $6.8 million). The net cash from operations for the twelve month period to 31 December 2019 was a cash inflow of $38.1 million (2018: inflow of $67.5 million). This included the impact of a deterioration in working capital and the impact of certain non-recurring cash costs.

As at 31 December 2019 the Group had an excess of total liabilities over total assets of $202.7 million and an excess of current liabilities over current assets of $645.0 million, having reclassified its borrowings as current liabilities.

In addition, the impacts of the COVID-19 pandemic is expected to have a negative effect on the Group's future earnings and cash flows and to result in further impairment charges, albeit it is not possible to quantify the effect at this time.

Without the resolution of the liquidity and recapitalisation issues described below there exists a material uncertainty that the Group will be able to continue as a going concern.

The Group's borrowing arrangements at 31 December 2019 are detailed in Note 8. At 31 December 2019, the Group had drawn $78.2 million of borrowings under the Revolving Credit Commitments of $100 million set out in the Syndicated Facility ("Revolving Credit Facility"). After adjusting for other uses of the Revolving Credit Facility, the Group had $7.8 million available to be drawn at 31 December 2019. The Group's key borrowing facilities mature in 2023 (for the $100 million Revolving Credit Facility) and 2025 (for the $591.4 million Term Loans). The Revolving Credit Facility includes a single net leverage covenant which applies only when 35% or more of the Revolving Credit Facility has been drawn on by the Company.

Based on the unaudited results for the year it is likely that the Company would not satisfy the net leverage covenant as required by the Revolving Credit Facility. In light of the fact that the Company had not obtained a waiver of the potential covenant breach at balance date the Directors have classified the borrowings as current liabilities.

The Company is currently negotiating the terms of a forbearance agreement with its existing lenders. The forbearance agreement is expected to provide for, among other things, forbearance in respect of non-payment of the interest and amortisation payment due to the lenders on 31 March 2020 and any potential breach of the net leverage covenant as at 31 December 2019. The forbearance is intended to assist with the Company's liquidity position, to provide stability and to allow ongoing trading while the terms of the interim funding are finalised.

The Company is also engaged with its suppliers in respect of certain payments due to suppliers that are overdue. The Company is discussing with suppliers the scheduling for payment of these overdue amounts and the ongoing support and provisions of services by suppliers to the Company as it continues to progress its options in respect of a broader recapitalisation and restructuring of the Company.

In addition, the Company will require additional funding in the short term. With equity market conditions precluding a meaningful equity raising, the Company has appointed Moelis Australia Limited to advise on its funding and recapitalisation alternatives. The Company is engaged in discussions with its existing lenders and third parties in respect of the provision of this funding.

Obtaining additional funding will allow Speedcast to continue operating on a going concern basis and to engage with its lenders, suppliers and other stakeholders regarding a restructuring or recapitalisation of the Company. Any such restructuring or recapitalisation will seek to reduce overall leverage of the Company.

**1. Accounting policies (continued)**

Based on the expectation that the Forbearance Agreement will be signed, the Company will obtain the required interim funding and that a satisfactory recapitalisation will be achieved, the Directors have prepared this Financial Report on a going concern basis. This Financial Report does not include adjustments relating to the recoverability and classification of recorded asset amounts, or to the amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

However, there is no guarantee that the Forbearance Agreement will be signed, that the Company will obtain the required interim funding or that a satisfactory restructuring or recapitalisation will be achieved. These factors give rise to material uncertainty as to whether the company will continue as a going concern, and therefore whether it will realise its assets and extinguish its liabilities in the ordinary course of business and in the amounts stated in the financial report.

Notwithstanding the uncertainties set out above, the directors believe at the date of this report that there are reasonable grounds to continue to consider the going concern basis of preparation is appropriate.

**(b) Rounding of amounts**

The Company is of a kind referred to in the ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the Directors' Report and financial statements. Amounts in the Directors' Report and financial statements have been rounded off in compliance with that class order to the nearest thousand dollars.

## 2. Revenue from ordinary activities

| Consolidated - 31 Dec 2019 | Maritime US$'000 | Energy US$'000 | EEM US$'000 | Government US$'000 | Total US$'000 |
|---|---|---|---|---|---|
| Managed network services | 217,139 | 127,033 | 112,787 | 123,877 | 580,836 |
| Managed network services – Equipment rental | 9,573 | 25,984 | 1,740 | 81 | 37,378 |
| Wholesale VoIP | - | - | 20,844 | - | 20,844 |
| Equipment sales and installation | 21,411 | 11,469 | 25,160 | 25,219 | 83,259 |
| Total revenue from ordinary activities | 248,123 | 164,486 | 160,531 | 149,177 | 722,317 |

| Consolidated - 31 Dec 2018 Restated | Maritime US$'000 | Energy US$'000 | EEM US$'000 | Government US$'000 | Total US$'000 |
|---|---|---|---|---|---|
| Managed network services (restated) | 186,726 | 128,450 | 83,321 | 90,564 | 489,061 |
| Managed network services – Equipment rental | 9,061 | 19,742 | 2,878 | 240 | 31,921 |
| Wholesale VoIP | - | - | 23,957 | - | 23,957 |
| Equipment sales and installation (restated) | 15,705 | 10,082 | 34,746 | 6,451 | 66,984 |
| Total revenue from ordinary activities (restated) | 211,492 | 158,274 | 144,902 | 97,255 | 611,923 |

Revenue of US$9,269,000 for Maritime for FY18 was reclassified from equipment sales and installation to managed network services for consistency with current period presentation.

### 3. Other income

| | Consolidated 31 Dec 2019 US$'000 | Consolidated 31 Dec 2018 Restated US$'000 |
|---|---|---|
| Gain on extinguished interest rate hedges | - | 3,031 |
| Gain on disposal of tangible and intangible assets | 2,000 | 261 |
| Total | 2,000 | 3,292 |

### 4. Expenses

| | Consolidated 31 Dec 2019 US$'000 | Consolidated 31 Dec 2018 Restated US$'000 |
|---|---|---|
| Cost of equipment and bandwidth services | 403,740 | 336,931 |
| Loss on foreign exchange translation | 14,796 | 2,673 |
| Staff costs | 119,348 | 95,680 |
| Other expenses | 118,230 | 69,378 |
| Depreciation expense | 53,758 | 37,513 |
| Amortisation expense | 51,162 | 40,003 |
| Impairments | 413,797 | - |
| | 1,174,831 | 582,178 |

### 5. Finance costs

| | Consolidated 31 Dec 2019 US$'000 | Consolidated 31 Dec 2018 Restated US$'000 |
|---|---|---|
| Finance income | 593 | 696 |
| Finance cost | (44,259) | (39,762) |
| Total | (43,666) | (39,066) |

### 6. Operating Segments

#### Identification of reportable segments

The Group has identified its operating segments based on the reports reviewed by the Chief Executive Officer ("CEO") that are used to make strategic decisions. All of the entities within the Group generate income from the provision of managed network services, wholesale VoIP and equipment in various geographical markets. The Group has two operating segments: Speedcast Government, which operates under a Proxy Board, and Speedcast Non-Government (the rest of the Group). In 2018, the Group identified one operating segment, Speedcast Group. Speedcast Government was identified as separate operating segment in 2019 due to expansion of this part of the business after the Globecomm acquisition. The Group has aggregated the Speedcast Government and Speedcast Non-Government operating segments into one reporting segment as the segments meet the criteria for aggregation.

The CEO also monitors revenues by vertical being Maritime, Energy, Government and Enterprise and Emerging Markets ("EEM") and the information reviewed is consistent with that presented in note 2.

## 6. Operating Segments (continued)

Costs are not allocated across verticals. Accordingly, no vertical view of profitability is available.

### Geographical information

The table below presents geographical information of total revenue based on customers' geography. Where revenue relates to a vessel, revenue is included in the Maritime category.

| | Maritime US$'000 | Australia US$'000 | Pacific Islands US$'000 | EMEA and other US$'000 | Asia US$'000 | Americas US$'000 | Total US$'000 |
|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | |
| 2019 | 248,123 | 48,864 | 33,907 | 40,359 | 47,796 | 303,268 | 722,317 |
| 2018 (restated) | 211,492 | 70,557 | 39,127 | 73,060 | 29,326 | 188,361 | 611,923 |

The table below presents geographical information of the Group's non-current assets.

| | Maritime US$'000 | Australia US$'000 | Pacific Islands US$'000 | EMEA and Other US$'000 | Asia US$'000 | Americas US$'000 | Total US$'000 |
|---|---|---|---|---|---|---|---|
| **Property, plant & equipment** | | | | | | | |
| As at 31 December 2019 | 25,819 | 8,219 | 408 | 21,513 | 20,725 | 97,494 | 174,178 |
| As at 31 December 2018 | 20,684 | 8,607 | 577 | 17,000 | 22,194 | 72,673 | 141,735 |

## 7. Cash and cash equivalents

| | Consolidated 31 Dec 2019 US$'000 | Consolidated 31 Dec 2018 Restated US$'000 |
|---|---|---|
| Cash on hand | 25 | 44 |
| Cash at bank and in hand | 58,304 | 79,035 |
| Cash on deposit | 101 | 707 |
| | 58,430 | 79,786 |

Cash and cash equivalents includes US$8,882,745 (2018: US$10,764,000) which is restricted by legal or contractual arrangements.

## 8. Borrowings

Interest payable on the facilities is subject to a floating margin component. This exposes the Group to interest rate risk. To hedge this risk and as a requirement of the agreement, the Group has entered into interest rate swaps contracts.

At 31 December 2019, interest-bearing bank loans and overdrafts were due for payment as follows:

| | 31 Dec 19<br>US$'000 | 31 Dec 18<br>Restated<br>US$'000 |
|---|---|---|
| Bank loans due for repayment within 1 year | 673,538 | 7,658 |
| Less: Prepaid facility fees - current | (11,064) | (2,115) |
| Borrowings (net) - current | 662,474 | 5,543 |
| | | |
| Bank loans due for repayment: | | |
| - after 1 year but within 5 years | 6,504 | 76,971 |
| - after 5 years | - | 567,414 |
| Less: Prepaid facility fees - non-current | - | (11,127) |
| Borrowings (net) - non-current | 6,504 | 633,258 |
| | | |
| Total borrowings (net) | 668,978 | 638,801 |

## 9. Equity

### Contributed equity

| | 2019<br>Number of shares | US$'000 | 2018<br>Number of shares | US$'000 |
|---|---|---|---|---|
| Balance as at 1 January | 239,426,631 | 365,128 | 238,992,149 | 364,690 |
| Issue of shares in fulfilment of LTIP schemes | 314,627 | 406 | 434,482 | 438 |
| | | | | |
| Balance at 31 December | 239,741,258 | 365,534 | 239,426,631 | 365,128 |

The Group does not have a limited amount of authorised capital or par value in respect of its shares.

## 10. Dividends

| | 2019<br>US$'000 | 2018<br>US$'000 |
|---|---|---|
| **Dividends declared during the year** | | |
| Interim dividend declared for the year ended (2019: AUD Nil, 2018: AUD 2.4 cents) | - | 4,252 |
| Final dividend declared for the year ended (2018: AUD 4.8 cents, 2017: AUD 4.8 cents) | 7,968 | 9,282 |
| | | |
| | 7,968 | 13,534 |

On 5 February 2020, the Board decided not to declare a final dividend for the year ended 31 December 2019.

## 11. Earnings per share

| | 2019 Cents | 2018 Cents |
|---|---|---|
| Basic profit per share attributable to ordinary equity holders of the Group | (191.89) | (2.89) |
| Diluted profit per share attributable to ordinary equity holders of the Group | (191.89) | (2.89) |

| | 2019 Number | 2018 Number |
|---|---|---|
| Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share | 239,684,367 | 239,374,306 |
| Weighted average number of Restricted Management Rights and Long Term Incentive Plan Rights | 3,618,338 | 2,374,988 |
| Weighted average number of ordinary shares and potential ordinary shares | 243,302,705 | 241,749,294 |

Weighted average number of Restricted management Rights and Long Term Incentive Plan Rights are considered anti-dilutive and therefore are not included in the denominator when calculating diluted profit per share attributable to ordinary equity holders of the group.

## 12. Business combinations

**Current year acquisitions**
There were no significant business combinations during the twelve months ended 31 December 2019.

**Prior year acquisitions**

**Globecomm Systems Inc.**

On 14 December 2018, Speedcast completed the acquisition of Globecomm through the purchase of 100% of the share capital of HCT Acquisition LLC the parent entity of the Globecomm group.

The purchase price allocation was finalised within the 12 month period under AASB 3. As a result, goodwill for the consolidated entity decreased by US$2.6 million compared to the initial assessment as at 14 December 2018.

| | Provisional US$'000 | Final US$'000 | Movement US$'000 |
|---|---|---|---|
| Total consideration | 144,676 | 144,676 | - |
| Cash and cash equivalents (unrestricted) | 11,173 | 11,173 | - |
| Cash and cash equivalents (restricted) | 2,356 | 2,356 | - |
| Other current assets | 28,228 | 25,428 | (2,800) |
| Non-current assets | 73,744 | 86,216 | 12,472 |
| Liabilities assumed | (44,169) | (53,342) | (9,173) |
| Total identified net assets | 71,333 | 71,831 | 499 |
| Goodwill | 73,343 | 72,845 | (499) |

The decrease in other current assets mainly represents provisions for receivables and inventories. The increase in non-current assets mainly results from the fair value assessment of customer and other intangible assets. Liabilities increased mainly as a result of recognising provisions for certain onerous supply contracts with customers.

Globecomm contributed revenues of US$7.2 million and a profit of US$0.3 million to the Group during the period from acquisition to 31 December 2018.

**In Aria!**

On the 30 October 2018, Speedcast acquired 20% of the share capital of In Aria! Limited whilst at the same time obtaining a call option for the remaining 80% of the share capital. Control is exercised through the substantive rights to acquire the remaining 80% of the company for a price that is not prohibitive. Speedcast has not exercised its right to increase its investment in In Aria! in the 12 months ended 31 December 2019.

## 12. Business combinations (continued)

| | Provisional and final US$'000 |
|---|---|
| Total consideration | 1,364 |
| Cash and cash equivalents | 2,626 |
| Other current assets | 1,469 |
| Non-current assets | 2,402 |
| Liabilities assumed | (3,217) |
| Non-controlling interests | (2,636) |
| Total identified net assets | 644 |
| Goodwill | 720 |

The goodwill is attributable to the expected future profitability and expertise of In Aria!, as well as the synergies expected to be achieved from integrating the business into the Group and Speedcast's sales channels. No goodwill is expected to be deductible for tax purposes.

Speedcast have opted to recognise the non-controlling interest at the proportionate share of the fair value of the net identifiable assets at the date of the acquisition.

In Aria! contributed revenues of $0.3 million and a profit of $0.1 million to the Group during the period from acquisition to 31 December 2018.

## 13. Contingent liabilities

The Group's Brazilian subsidiary, CapRock Comunicações do Brasil Ltda has a number of tax appeals before the Courts concerning claims by the local tax authorities for additional telecommunication services taxes (ICMS/FUST/FUNTTEL) covering the periods July 2005 – December 2017. The additional taxes being claimed for these periods exceed $190m BRL (US$44m) of which $172m BRL (US$40m) is indemnified by the vendor Harris Corporation, Delaware (USA).

The company's appeals await hearing before the 1st level decision of the Courts. On the basis of its investigations the company remains of the opinion that its legal position is strong and that it is not considered probable that the Company will experience any material negative financial obligation as a result of these proceedings.

Speedcast is a party to a number of contracts with satellite operators that require Speedcast to purchase a minimum amount of satellite bandwidth or to install satellite operator services at a minimum number of Speedcast sites each year (**Take or Pay Contracts**). Entering into Take or Pay Contracts allows Speedcast to guarantee lower supplier costs, including bandwidth costs, than would otherwise be achievable.

There is a risk that if Speedcast's revenues or business decline, or it is unable to meet the satellite operators' minimum volume commitments, it may be obliged to pay operators for unused bandwidth. Where possible Speedcast offsets such liability through similarly structured arrangement with its customers.

## 14. Impairment

### Impairment considerations

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of the recoverable amount. Where the carrying value of an asset exceeds its recoverable amount, the asset is considered and is written down to its recoverable amount. For the purposes of assessing impairment, assets are allocated to cash-generating units (CGUs), which are the lowest level of assets for which separately identifiable cash flows can be attributed. For the year ended 31 December 2019, the Group has two CGUs that consist of a unit of the Group managed under a proxy board in the US (Speedcast Government CGU) and then the remaining business (Speedcast Non-Government CGU). The previous aggregation of assets for identifying the CGU utilised as at 31 December 2018 identified only one CGU, consistent with the rationale noted in disclosure note 6.

**14. Impairment (continued)**

The recoverable amount is the greater of fair value less costs of disposal (FVLCD) or the asset's value in use (VIU). In assessing FVLCD, the recoverable amount of a CGU is assessed using market based valuation techniques such as discounted cash flow analysis, comparable transactions and observable trading multiples. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate.

As a result of the impairment testing, the Group recognised impairment losses of US$404.8 million during the year ended 31 December 2019 on write-down of goodwill allocated to Non-Government businesses. There were no reversals of impairment losses recognised during the year ended 31 December 2019.

**Goodwill and goodwill impairment testing**

Goodwill represents the excess of purchase consideration over the fair value of net assets acquired in a business combination. Goodwill is allocated to CGUs for which separately identifiable cash flows can be attributed. The majority of the Group's goodwill relates to historic acquisitions including Harris CapRock, Ultisat, and Globecomm. The Ultisat goodwill and a portion of the Globecomm goodwill has been allocated to the Speedcast Government CGU. All other goodwill remaining has been allocated to the Speedcast Non-Government CGU.

| | 31 Dec 2019 | 31 Dec 2018 Restated |
|---|---|---|
| | US$'000 | US$'000 |
| **Carrying Value of Goodwill** | | |
| Speedcast Government CGU | 111,706 | 111,706 |
| Speedcast Non-Government CGU (pre impairment) | 440,577 | 446,450 |
| Impairment of Speedcast Non-Government CGU | (404,770) | - |
| Total | 147,513 | 558,156 |

**Key assumptions used**

The recoverable amount of the Speedcast Non-Government CGU was calculated on the basis of value in use using a discounted cash flow model. Future cash flows were projected for five years, with key assumptions being: for both the Non-Government CGU and the Government CGU the 2020 budget was used as the initial year of the model. Other assumptions included capital expenditure forecasts, discount rates, terminal growth rates, and future technology paths. No benefit for any transformation activity or programs was assumed.

The recoverable amount was based on a terminal growth rate of 2.0% being applied. The terminal growth rate is determined based on the long-term anticipated growth rate of the business and an after-tax discount rate of 12.0% was utilised.

For the Speedcast Non-Government CGU, a compounded annual growth rate of 1.0% was applied to revenue for the next four years beyond the 2020 budget.

The assumptions used were based on circumstances that existed at 31 December 2019. The impacts of the COVID-19 pandemic and the resultant change in the Group's financial circumstances are considered to be a non-adjusting event and have not been reflected in the impairment models used in preparing the financial statements for the year ended 31 December 2019. It is not possible to quantify the impact on the Group's future earnings and cash flows at this time. Refer note 15 for further details.

**Sensitivity**

The estimates and judgements included in the calculations (including the five year projected business plan period and terminal value) are based on historical experience and other factors, including management's and the Board's expectations of future events that are believed to be reasonable under the current circumstances.

The inherent nature of projected results means that, by definition, the resulting accounting estimates will seldom equal the related actual results. The recoverable amount is particularly sensitive to key assumptions including EBITDA growth and the discount rate.

**14. Impairment (continued)**

The Speedcast Government CGU was evaluated and required no impairment based on the assumptions used. The Group has identified reasonably possible changes in the assumptions that could cause an impairment.. The Speedcast Government CGU has headroom of $6.2m. An unfavourable 0.6% change in the EBITDA CAGR or increase of the discount rate of 0.5% would result in the headroom being eliminated.

The Group evaluated impairment of the Speedcast Non-Government CGU as follows using a 12% discount rate and a 2% long term growth rate:

| | Impact on Impairment of a +0.5% change in EBITDA CAGR US$'000 | Impact on Impairment of a -0.5% change in EBITDA CAGR US$'000 | Impact on Impairment of a +0.5% change in discount rate US$'000 | Impact on Impairment of a -0.5% change in discount rate US$'000 |
|---|---|---|---|---|
| Non-Government CGU | 15,865 | 15,582 | (9,538) | 10,542 |

**15. Events after the reporting period**

**Management changes**

The Company announced on 3 February 2020 that the Board had accepted the resignation of Mr Pierre-Jean Beylier effective from 1 February 2020 and that the Board had appointed Mr Peter Shaper and Mr Joe Spytek as co-CEOs on an interim basis.

The Company also announced on 18 March 2020 that that Mr Peter Shaper would be appointed Chief Executive Officer on a permanent basis and Mr Joe Spytek would be appointed President & Chief Commercial Officer on a permanent basis.

**FY20 performance affected by COVID-19**

COVID-19 has had a substantial impact on the cruise industry over the past month, which is anticipated to continue for the near term. With cruise being a key market segment for Speedcast, this downturn has negatively affected the Company's earnings outlook for the current financial year. Speedcast is not yet able to provide a reliable outlook for the performance of the business in FY20.

Having regard to the financial difficulties facing the Group and the impact of the COVID-19 pandemic on Speedcast's operations and capital markets more broadly it is likely the Group will incur further impairments to carrying values of assets, in particular: accounts receivable; the carrying value of tax losses reflected in the Group's tax assets; and intangible assets.

The Company has implemented a range of other measures around Business Continuity Planning, security and safety of its sites; and to ensure that – where team members are travelling to other sites – appropriate precautions are being observed. Speedcast's key interest remains the health and well-being of its people, and its customers' and suppliers' people. The Company anticipates that a cost of the necessary measures will be some delay and dislocation in operations as the Company works to resolve the range of issues this pandemic has created.

**Going concern**

The Company's circumstances in relation to going concern have changed since the end of the financial year. Refer note 1 for details.

## 16. New accounting standards

### AASB 16 - Leases

AASB 16 - Leases became effective for the reporting period commencing on 1 January 2019. The new standard requires lessees to recognise all leases on balance sheet. Operating leases are recognised in form of right-of-use (ROU) assets within property, plant and equipment, as well as current and non-current lease liabilities.

The Group has adopted AASB 16 under the modified retrospective approach. Under this approach, the cumulative effect of adopting the new standard was recognised as an adjustment to the opening balance of retained earnings on 1 January 2019. No restatement of comparative information is required under the standard.

Lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as at 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 3.73%.

A reconciliation of the Group's undiscounted operating lease commitments at 31 December 2018 to lease liabilities recognised on transition at 1 January 2019 has been set out below.

| | Consolidated US$'000 |
|---|---|
| Operating lease commitments disclosed as at 31 December 2018 | 62,295 |
| Discounted using the lessee's incremental borrowing rate at the date of initial application | (8,160) |
| Add: adjustments as a result of a different treatment of extension, termination and other options | 8,964 |
| Lease liability recognised as at 1 January 2019 | 63,099 |

Of which are:

| | |
|---|---|
| Current lease liabilities | 8,675 |
| Non-current lease liabilities | 54,424 |

The associated RoU assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments and onerous lease provisions relating to these leases recognised in the balance sheet as at 31 December 2018.

The recognised right-of-use assets relates predominantly to property leases including office space, warehouses and rooftop areas.

In applying AASB 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review;
- accounting for operating leases with a remaining lease term of less than 12 months and leases for which the underlying asset is of low value;
- excluding initial direct costs for the measurement of the ROU asset at the date of initial application; and
- use of hindsight when determining the lease term for contracts containing optional periods.

For the year ended 31 December 2019 the impact of adopting AASB 16 Leases resulted in an increase of EBITDA of US$8.8 million. Depreciation charges of US$9.7 million as well as interest unwind of US$1.8 million were recognised in the Group's consolidated statement of profit or loss.

### AASB 2019-3 Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform

In October 2019 the Australian Accounting Standards Board released AASB 2019-3 Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform which allows the Group to apply specific amendments to AASB 9 - Financial Instruments allowing the continuation of hedge accounting relationships affected by the interest rate benchmark reform.

**16. New accounting standards (continued**

LIBOR is currently scheduled for discontinuation at 31 December 2021 and will be replaced by an alternative risk free benchmark and it meets the AASB 2019-3 definition of a market wide benchmark interest rate reform. The Group's existing floating bank facilities and the Group's associated interest rate swaps are linked to USD LIBOR with notional value of US$419.7m. These hedge relationships will be affected by the interest rate benchmark reform as LIBOR will cease after 31 December 2021. The relief provided by AASB 2019-3 applies during the period before the replacement of the existing interest rate benchmark by an alternative risk free rate. The Group has early adopted AASB 2019-3 as of 1 October 2019.

The group is monitoring ongoing developments in the reform and in discussion with lenders and derivative counterparty banks to assess the impact of the interest rate benchmark reform.

## 17. Changes to prior period information

### Change in accounting policy

During the course of 2019, the Company has been engaged with ASIC as part of its routine review of company financial reporting. The review has focused on the interpretation and application of Accounting Standards regarding the timing of the recognition of revenues from one of Speedcast's major customers.

During 2018, the customer requested, and the Company agreed to provide, certain services that were in addition to the services specified in the then current contract between the parties. The pricing for those services was negotiated as part of a contemporaneous negotiation of an extension of the customer contract for a three year period commencing December 2018.

Under Speedcast's accounting policy, the arrangements were interpreted such that the revenue was recognised in respect of the FY18 services in the FY18 year.

ASIC considers that the revenue should have been recognised over the term of the new three year contract signed in December 2018.

Speedcast has agreed to change its accounting policy and restate the FY18 comparatives in this financial report in line with ASIC's interpretation.

The restatement does not impact the total amount of revenue that will be recognised by the Company, and that the Company will receive under the contracts, but simply the timing of the recognition of the revenue.

### Restatement

The Company has reassessed revenue recognised on a major project in the financial year ended 31 December 2018. As a result, the Company has restated the comparative information accordingly.

### Finalisation of provisional business combination accounting

Prior year information was restated for acquisition accounting adjustments in accordance with AASB 3 Business Combinations referrable to the acquisition of Globecomm Systems Inc. on 14 December 2018 (refer note 12. Business Combinations).

### Reclassifications

Certain comparative amounts have been re-classified for consistency with current period presentation.

## 17. Changes to prior period information (continued)

The effect of these restatements is set out below:

| Consolidated Statement of Profit or Loss and Other Comprehensive Income (extract) | 31 Dec 2018 As originally presented US$'000 | Change in accounting policy US$'000 | Restatement US$'000 | Finalisation of provisional business combination accounting US$'000 | Reclassifi-cations | 31 Dec 2018 Restated US$'000 |
|---|---|---|---|---|---|---|
| Revenue from continuing operations | 623,095 | (7,792) | (3,000) | - | (380) | 611,923 |
| Profit/(loss) before income tax | 4,764 | (7,792) | (3,000) | - | - | (6,029) |
| Income tax expense | (2,836) | 2,026 | - | - | - | (811) |
| Profit after tax | 1,928 | (5,766) | (3,000) | - | - | (6,838) |

| Consolidated Statement of Financial Position (extract) | 31 Dec 2018 As originally presented US$'000 | Change in accounting policy US$'000 | Restatement US$'000 | Finalisation of provisional business combination accounting US$'000 | Reclassifi-cations | 31 Dec 2018 Restated US$'000 |
|---|---|---|---|---|---|---|
| Current assets | 345,538 | (7,792) | (3,000) | (2,800) | (19) | 331,927 |
| Non-current assets | 874,480 | 2,026 | - | 11,973 | 1,375 | 889,854 |
| Current liabilities | 262,278 | - | - | 5,372 | (1,484) | 266,166 |
| Non-current liabilities | 675,980 | - | - | 3,801 | 2,841 | 682,622 |
| Net assets | 281,760 | (5,766) | (3,000) | - | - | 272,993 |

## Corporate Information

### Directors

| | |
|---|---|
| Mr. John Angus Mackay (Chair) | resigned as Chairman 27 August 2019 |
| | resigned as Director 30 September 2019 |
| Mr. Stephe Wilks (Chair) | appointed as Director 27 August 2019 |
| | appointed as Chairman 27 August 2019 |
| Mr. Pierre-Jean Joseph Andre Beylier | resigned as Director effective 1 February 2020 |
| Mr. Grant Scott Ferguson | |
| Mr. Peter Edward Jackson | |
| Mr. Michael Martin Malone | |
| Ms. Caroline Van Scheltinga | resigned as Director 27 September 2019 |
| Mr. Peter Shaper | appointed as Director 27 September 2019 |
| Mr. Joe Spytek | appointed as Director 27 September 2019 |

### Company Secretary

| | |
|---|---|
| Mr. Dominic Gyngell | |
| Mr. Clive Cuthell | resigned 22 November 2019 |
| Mr. Peter Myers | appointed 22 November 2019 |

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Speedcast International Limited shares are listed on the Australian Securities Exchange (ASX) under the ASX code SDA.