Event: SATS 47th Annual General Meeting

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Speaker: President and CEO, Mr Alex Hungate

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Alex Hungate: We would all have preferred to have met in person, but these are unusual times. The deadly, COVID-19 pandemic has threatened public health, is disrupting our society, and undermining our economy. For SATS, the grounding of the majority of the commercial aviation fleet has confronted us with perhaps the greatest challenge in our history.

Slide 1: So I want to share some slides with you now, and discuss with you the measures that we have taken to protect our company during this crisis, and how we are positioning it to emerge stronger over the next few years.

Slide 2: The first slide shows how SATS grew strongly in volume terms last year. Even with the slowdown from the effects of the pandemic in our fourth quarter, that is the first calendar quarter of 2020, SATS recorded healthy, full-year volume growth in food and gateway, with just a small decline in cargo volumes from the US-China trade war. However, in the first quarter of this financial year, aviation passenger and flight volumes all but evaporated.

Slide 3: On the next slide, you can see how this impacted quarterly revenues. Our growth strategy had been showing good results, with healthy revenue growth in the first three quarters of last year of over 11% year-on-year. The pandemic changed this trajectory, from fourth quarter. resulting in total revenue growth of 6% for the full year. This was followed in the first quarter this year by an even more dramatic fall of over $250 million from the previous year.

April was the cruellest month for aviation with volumes touching lows across the world, with slow gradual increases in volumes since then. We took early, decisive measures to decrease operating expenditures by over $160 million, or 40%, in the first quarter from the prior year, helped by government relief measures in several markets. Even without government reliefs, staff costs in the first quarter were lower than last year by one third, with Management and Board leading from the front by volunteering pay cuts from 1 March 2020.

Slide 4: This Financial Summary slide shows the net impact on profitability. The fall in profits in fourth quarter of last year was mainly due to over $50 million of provisions and impairments that the Company decided to take to reflect the difficult outlook for a pandemic-hit, aviation industry. The $43 million loss in the first quarter of this year was due to the steep reduction in revenue, despite the efforts to right-size the cost base that I spoke about earlier. With the outlook for aviation still uncertain, we also took proactive measures to preserve cash and raise debt.

Slide 5: Let's look at our balance sheet now. We were in a net cash position at the end of the last financial year: that is, our cash reserves total more than the debt that we owe. We remained in a net cash position at the end of the first quarter also, which shows the resilience of our balance sheet. However, since SATS is unprofitable, and not generating positive cash flow, and the trajectory of the pandemic remains uncertain, we decided not to pay a final dividend last year. Therefore, the payout for the year remains 6 cents per share, paid as an interim dividend last December.

The trajectory of the recovery continues to be uncertain and therefore we cannot give an exact timing for the resumption of dividends. The priority for us is to achieve profitability without government support, and have positive cash flow after interest expense and critical capital expenditures. Thereafter, dividend payout will be considered alongside investment in growth opportunities, as usual.

Slide 6: Unfortunately, the share price has taken a hit since the onset of the pandemic. Our Total Shareholder Return had been tracking considerably above the STI until the pandemic hit. Even now, the five-year returns remain 17% above the STI, but of course, going forward, we would like to improve on that performance. So let's turn to look to the future now.

Slide 7: The future for aviation looks difficult for the next few years. IATA forecasts that passenger volumes, as measured in Revenue Passenger Kilometres flown, will not return to 2019 levels until 2024. With this muted outlook and all the uncertainty about the trajectory of the pandemic, we cannot afford to wait for the recovery in aviation volumes. So, over the last six months, SATS has undertaken the largest redeployment of people in our history: supporting public health, essential services and supplies, multi-skilling and re-skilling our people for a digital future, and powering new growth engines.

Slide 8: One bright spot, relatively speaking, is air cargo. Global cargo Tonne Kilometres flown were down only 13% due to the pandemic vs. almost 80% for Passenger Kilometres. IATA forecasts that global air cargo revenue will in fact grow this year by 8%. Our airline customers have recognised our strengths in this growing business, with multiple awards and new contracts in the past quarter, like Qatar Airways, Malaysia Airlines and Spring GDS, the eCommerce arm of the Dutch national post office. SATS has been digitising our cargo handling operations across the region, and broadening our operations to include eCommerce and perishable cargo handling.

COVID-19 has exposed the vulnerabilities of supply chains across the world, driving up the premium for resilience, especially for medical and food supplies. SATS' investment in state-of-the-art perishable and pharmaceutical handling facilities and certification, positions it well to extend market leadership. The penetration of eCommerce grew during the pandemic, so we shall continue to use technology to drive seamless, traceable eCommerce airfreight handling with airlines, forwarders, agents, integrators, shippers and the eCommerce giants.

Slide 9: I had mentioned earlier that SATS grew overall revenue by 11% over the first three quarters of last year. This growth was driven by non-aviation segments which grew 22% over the same period. Those same non-aviation segments continued to grow 50% year-on-year during the fourth quarter and then accelerated to 73% during the first quarter of this year. What's more, the non-aviation businesses generated 10% post-tax margin overall in the first quarter. These growth numbers are proof points that our new growth engines are starting to work. The pandemic drove a lot of customers to buy ready-to-eat meals. You can see that the Asia market is estimated to grow by almost one third this year.

SATS is already targeting this market in China with customers such as Alibaba's Hema and Aldi supermarkets. In Singapore, we have started distributing Europastry breads and Dots doughnuts into retail chains and developed product extensions for our Farmpride brand. We have also been building our *digital integrated supply chain* to enable scale economies in food sourcing, production, and logistics across Asia. During this pandemic, SATS used this *digital integrated supply chain* to bring essential food supplies into Singapore, in collaboration with several Singapore government agencies. We intend to expand this capability throughout the region in the next few years, to nourish consumers across Asia with healthy, trusted food products.

Slide 10: We are also targeting the huge opportunity running central kitchens for the fast-casual restaurant chains in China and India. The market segment in China alone is estimated to be worth more than $16 billion, larger than the entire flight catering market in Asia, worth about $12 billion. Our kitchen in Kunshan, China contributed to the Group’s growth by expanding with customers such as Yum China in the Shanghai region. We are building an additional kitchen in Tianjin, China, and plan to construct other kitchens in both China and India. The efficiency of these kitchens, together with the *digital integrated supply chain* that we have built, will also allow us to improve our cost position in our airline catering business as volumes return over the next few years.

So in summary, although the impact of the pandemic on our aviation services revenues has been substantial, SATS has moved swiftly to reduce costs, conserve cash and strengthen its balance sheet. We continue to support our airline customers during this difficult time, especially with our unique digitalised cargo handling services. However, we expect the recovery of aviation to be slow, therefore we are rapidly reskilling and redeploying our people to serve new market segments: providing food for fast-casual restaurant chains, ready-to-eat meals for retail distribution, and growing our pharmaceutical handling and eCommerce businesses.

We cannot know how the pandemic will evolve, but whatever happens we know that we have a clear strategy, a supportive Board, and a team of dedicated people who are ready to seize these new opportunities.

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