



**Event:** SATS 48<sup>th</sup> Annual General Meeting

**Date:** Thursday, 22<sup>nd</sup> July 2021

**Speaker:** President and CEO, Mr Alex Hungate

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**Alex Hungate:** The theme for our AGM last year was “Resilience in Action”, the phrase that the Deputy Prime Minister of Singapore, Mr Heng Swee Keat, used to describe the way that SATS was rising to the unprecedented challenges that we were facing at the height of the pandemic. Even though the pandemic is still with us, our company is weathering the storm well, thanks to the extraordinary efforts that our people have made to accelerate our transformation.

Our theme for this year is “Renewed Vigour”. This theme reflects our confidence that we are in a good position to help the aviation industry to rebound sustainably, and develop new revenue streams in fast-growing segments where we have a blend of capabilities that only SATS can provide.

**Slide 2:** Up until the third quarter of the financial year 2019 to 2020 (3Q FY 19/20), volumes in all parts of our business were growing well, especially ‘meals served’ where growing aviation meal volumes were boosted by the fast growth of meals provided to new, non-aviation customers. Then, in the fourth quarter, COVID-19 started to spread across the world. This resulted in the almost complete grounding of the world’s commercial airline fleets by the first quarter of financial year 2020-21 (FY 20/21). Since the low point of the first quarter, cargo has recovered well to reach 80% of pre-Covid volumes. However, volumes of flights and passengers handled have remained low, even falling back from a slight rebound in the second quarter, to end lower over the last two quarters, as travel and border restrictions in Malaysia were extended.

**Slide 3:** The revenue picture over the same period reflects this situation. In the first three quarters, we had generated the fastest growth of the past 10 years, as new initiatives gained traction. The momentum from those initiatives, along with the resilient cargo business, have helped us to start to regrow revenues since the beginning of financial year 2020-21 (FY20/21). However, overall revenues for FY20/21 halved year-on-year, due to travel restrictions during the crisis.



**Slide 4:** With revenues falling so severely, we had to quickly bring costs in line with reduced volumes in order to protect shareholders' capital. SATS has dramatically reshaped the cost base of our aviation services businesses. We reduced headcount, contract services, and overtime in Singapore and overseas. We also redeployed thousands of people to support the growth of new business opportunities, backed by the biggest reskilling and upskilling programme that SATS has ever undertaken. We are grateful for the government support that helped to make this possible.

Even though we reduced operating expenses by 43% to S\$980M for the year, we still managed to invest in new capabilities that we will need to successfully implement our growth strategy.

Building on our acquisition of Monty's Bakehouse in the UK in March 2020, we have introduced innovative packaging solutions that reduce food and packaging waste.

This month, we acquired a frozen food facility in Bangkok so that we can tap into the efficient food ecosystem in Thailand and increase our frozen food production capacity.

We are also rolling out a proprietary, cloud-based cargo operating system to link our cargo terminal operations across the region, including this state-of-the-art facility that we just opened in the Kingdom of Saudi Arabia. This Software as a Service (SaaS) allows us to share track-and-trace data for express packages, and temperature monitoring data for perishables and medical supplies.

SATS Security has also been digitalising many activities, including the meal cart security screening process, and enhancing remote surveillance capabilities to monitor sensitive facilities and aircraft access.

**Slide 5:** Demand for air cargo remains strong, driven by eCommerce and the increased focus on health post pandemic, which is driving demand for cold-chain handling of vaccines,



medical supplies and fresh food. According to data from IATA, global cargo tonne kilometres flown have recovered from a sharp dip in the first quarter to levels that are now even higher than before the pandemic.

I am pleased to report that SATS has been winning market share in cargo, especially with some of the world's largest eCommerce players like China Post (中国邮政) and Shun Fung (顺丰航空公司).

**Slide 6:** We have started to gain traction with our push into non-travel related market segments with 38% revenue growth this year, with our focus on two opportunities where our unique capabilities are valued by customers.

The first opportunity that we are targeting is the role of a commissary central kitchen for quick service restaurant chains, and the sale of ready-to-eat meals and snacks through retail channels, home delivery, and cafeterias. We have already started to expand this business successfully in mainland China, serving customers such as Dingdong Maicai (叮咚买菜), 7-Eleven (思乐冰) and JD.com's 7Fresh (京东七鲜) supermarkets. We intend to build a second kitchen in Tianjin in northern China to serve the same customers in the Beijing region. We also intend to build a new kitchen in India to serve the food service industry and retail customers there. You can see some examples of our new customers at the bottom of this slide.

The second opportunity is security services in Singapore, where SATS is one of only three licensed police forces. Until now, we have used that licence to provide only aviation security services. However, given the lower demand in aviation volumes, we have expanded into providing security services for new customer segments beyond aviation. In these new segments, we compete on the basis that our officers are trained in customer service skills and are equipped with technology that enable them to be more productive and improve the level of service they can deliver. We have a strong pipeline of new opportunities and we are optimistic that this business will continue to grow rapidly.



**Slide 7:** To cater for the uncertainties of the pandemic, we built up our cash reserves using a mixture of short-term money market borrowings, bank loans, and medium to long-term bonds. Excluding the impact of adopting the *SFRS (I) 16* accounting standard, the debt-to-equity ratio would have been 0.44 times in FY 20/21, which is significantly lower than our peers in the industry. As a result of the swift actions that we took at the start of the pandemic to manage costs and conserve liquidity, SATS had a net cash position of over S\$200 million at the end of the financial year.

In light of the significant uncertainties in our operating environment, the Board of Directors believes that it would be prudent not to pay a final dividend for FY 20/21. This will allow the company to preserve more jobs and capabilities to support our customers as aviation volumes resume, and to pursue opportunities outside of aviation.

**Slide 8:** We have made progress over the past four quarters in restoring profitability and cash flows despite the crisis facing the aviation industry. We recorded positive PATMI in the fourth quarter, although it should be noted that we would still have made a loss without government reliefs. Finally, the cash flow generating capability of SATS remained resilient, with positive EBITDA achieved in each of the last three quarters and positive EBITDA of over S\$70 million for the year as a whole.

**Slide 9:** During this crisis, our customers and our communities have recognised SATS as an essential service provider, highlighting the importance of our purpose to feed and connect communities. Our vision is to be market leader by delighting customers with innovative food solutions and seamless connections, based upon a clear mission and the strong values that bind us together as a team. We look to the future with 'Renewed Vigour', ready to support the rebound of aviation and to accelerate the company's growth into new markets.

**Alex Hungate:** Thank you very much and with that, I will return the floor to the Chairman.

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