Securities Investors Association (Singapore)
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UEN No: S99SS0111B
GST Reg No: M90367530Y

Issuer: SATS Ltd.

Stock code: S58

Meeting details:
Date: 22 July 2021
Time: 10.00 a.m.

Due to the current COVID-19 pandemic, SIAS encourage shareholders to participate at AGMs via other means and not to attend any AGM physically. Where the AGM is webcast, they can stay on top of their investments by watching the webcast and submitting their question to the company in advance. Senior citizens should avoid attending AGMs altogether and stay home.

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Q1. As noted in the chairman and PCEO's statement, the past financial year has been one of the most challenging years in the group's history as the global COVID-19 pandemic restricted international travel for the entire twelve months. The group was able to focus on non-travel segments and delivered improving performance over the quarters.

Cargo remained relatively resilient (notwithstanding a 35.5% decline), supported by the demand for essential food, medical supplies and the growth in eCommerce. The group also continued its foray beyond aviation, expanding into foodservice and retail distribution.

(i) **Given the disruptions caused by COVID-19 and the uncertainties over the pace of recovery, how has the group finetuned its investment criteria and the pace of investments going forward?**

(ii) **Can management (re)state the group's capital allocation framework between food solutions and gateway services going forward?**

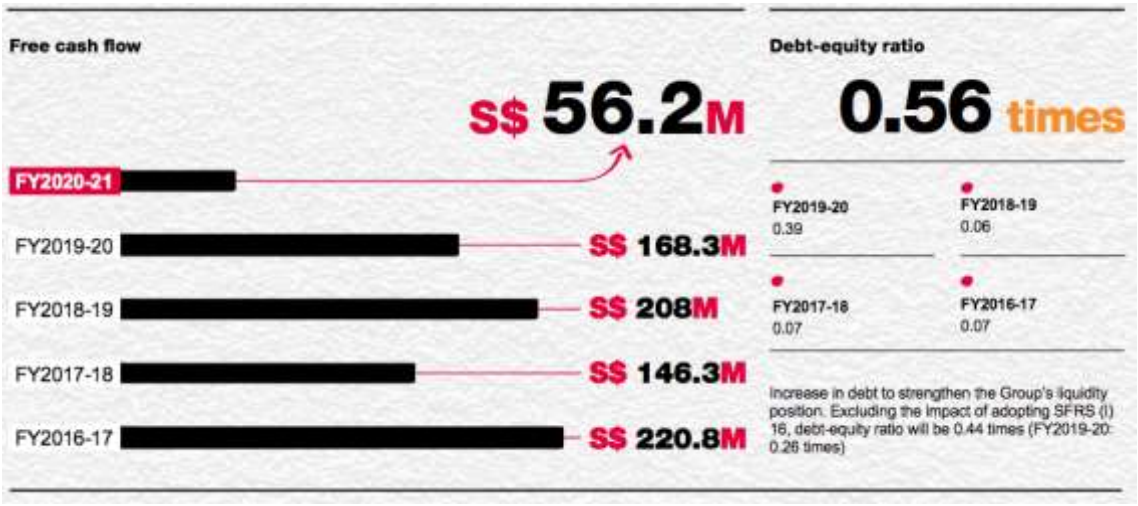
(iii) **Is management still actively exploring options to establish/enlarge the group's presence in large airports and/or major hubs, potentially extending beyond the group's current network? Did the group also have opportunities to evaluate distressed assets for acquisition?**

(iv) **Has the board set a target for the group's non-aviation revenue as it continues its diversification to balance its revenue streams?**

(v) As disclosed in the financial review (page 39), the group recognised $574 million of revenue from the food solutions segment in FY20-21. This comprises of revenue from inflight catering, institutional catering, food processing, distribution and *airline linen and laundry services* [emphasis added]. **For clarity, can the group provide further breakdown of revenue from the food solutions segment into aviation and non-aviation related revenue?**

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Q2. The key business metrics for FY20-21 can be found on pages 6 and 7 of the annual report. Due to the pandemic, most, if not all, operating metrics showed declines from prior year(s). In particular, the group's free cash flow and debt-equity ratio levels are reproduced below for reference:



(Source: company annual report)

(i) **How is management reprioritising the group's capital expenditure to balance the need to maintain a healthy level of liquidity/cash flow and the need to develop capabilities and increase productivity?**

(ii) **What is the planned capital expenditure for the next 12-18 months?**

The group's debt-equity ratio increased in FY19-20 to 0.39 times and further increased to 0.56 times in FY20-21 as the group strengthened its liquidity position with increased borrowings. The increase (which started in the last financial year) was partly due to the adoption of SFRS (I) 16. Excluding the change in accounting standards, the group's debt-equity ratio will be 0.44 times in FY20-21 (FY2019-20: 0.26 times).

As at 31 March 2021, total term loans and notes payable amounted to $378.1 million and $300 million respectively and the group paid interest expenses of $20.5 million in FY20-21, up from $7.6 million.

(iii) **Has the board evaluated the group's financial position and set a limit to the group's leverage?**

(iv) **What is the available debt headroom should the group require to further bolster its liquidity in the event that the recovery is delayed/slower than expected?**

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(v) **Should government support schemes be substantially reduced or removed, would the group have the necessary working capital to tide it over this challenging period?**

(vi) **Has the board considered a rights issue to strengthen the group's financial position?** Doing so can better position the group to seize opportunities as the industry recovers from the COVID-19 pandemic.

Q3. The company had announced on 9 March 2020 that the board and management of the company would receive cut in pay or fees in the following quantum:

– 15% cut in non-executive directors' fees
– 15% pay cut for the PCEO
– 12% pay cut for executive vice presidents and senior vice presidents
– 10% pay cut for vice presidents

With effect from 1 April 2020, all managers to assistant vice presidents also took a 5% pay cut. The voluntary 15% reduction of directors' fees and salary cuts of the PCEO and management ended on 1 April 2021.

(i) **Has the board evaluated if the pace of recovery in the operating environment (especially air travel) necessitate continued prudence, including cost management and cutting?** After all, the board has stated that, in light of the significant uncertainties in the operating environment, the directors believe that it would be prudent not to pay dividends with respect to FY2020-21 (page 91).

The company disclosed the aggregate compensation paid to or accrued to the PCEO, the chief financial officer and the business heads for FY2020-21 on page 77 of the annual report. The senior management team received bonuses of between 10% and 44% of their remuneration while the bonus for the PCEO was 58%. The overall variable bonus component for the senior management team (including PCEO) averaged 34%.

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The aggregate compensation paid to or accrued to the PCEO, the Chief Financial Officer and the Business Heads for FY2020-21 is set out below:

President and Chief Executive Officer (PCEO)	Salary[2] (S$)	Bonuses[3] (S$)	Benefits (S$)	Total (S$)
Alex Hungate	926,368	1,373,090	80,460	2,379,918

- Total SATS RSP shares of 180,000 awarded and to be vested equally over a three-year period provided terms and conditions of the plan are met.
- Total SATS PSP shares of 340,000 granted and shares to be vested will range from 0% to 150% of the initial grant and is contingent on the achievement of pre-determined targets over a three-year performance period.

Relevant Key Management Personnel	Remuneration Band[1]	Salary[2] (S$) %	Bonuses[3] (S$) %	Benefits (S$) %	Total (S$) %	Award under SATS RSP[4]	Award under SATS PSP[4]
Mok Tee Heong Kerry	$1,000,001 to $1,250,000	61	33	6	100	72,500	85,000
Yacoob Bin Ahmed Piperdi	$1,000,001 to $1,250,000	50	44	6	100	72,500	85,000
Seah Kok Khong, Manfred	$750,001 to $1,000,000	62	31	7	100	72,500	60,000
Denis Suresh Kumar Marie	$750,001 to $1,000,000	45	29	26	100	50,000	60,000
Cheah Chi Choy Donny	$750,001 to $1,000,000	55	10	35	100	50,000	60,000

(Source: company annual report)

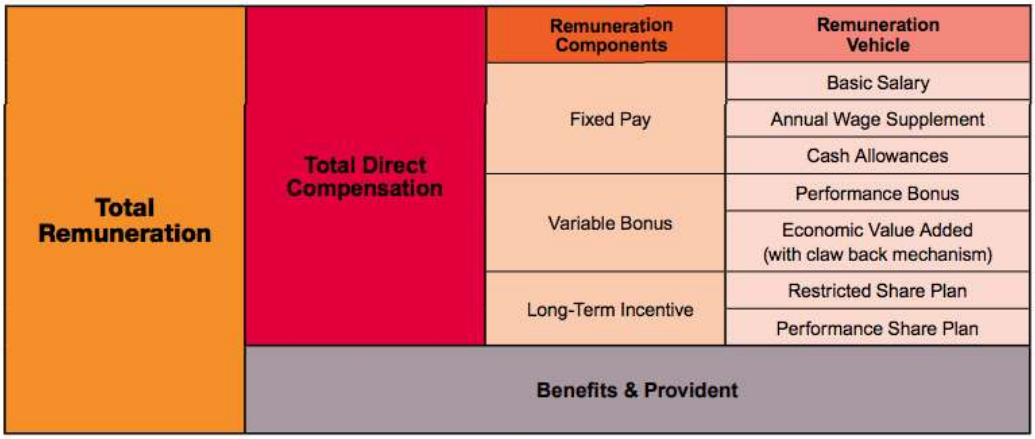
(ii) **Can the board consider including the value of the SATS RSP shares and SATS PSP shares awarded/granted to better reflect the total/maximum remuneration of the PCEO and of the key management personnel?** For instance, the PCEO had a remuneration of $2,379,918 and was also awarded 180,000 SATS RSP shares and granted 340,000 SATS PSP shares while the key management personnel received between 110,000 shares and 157,500 shares each. With the estimated weighted average fair value at date of grant for each PSP share at $1.35 (2020: $3.52), the total remuneration of the PCEO and KMPs would be substantially higher than the amount/bands disclosed in the remuneration table. As disclosed in Note 12 (page 154 - Share Capital and Treasury Shares), the share-based payment expenses in FY2020 and FY2021 were $10.8 million and $8.8 million respectively.

(iii) Footnote 3 further stated that the variable bonus comprises both actual performance bonus and economic value added (EVA) bonus which were paid out in respect of company and individual performance of FY2020-21. **Can the board help shareholders understand how it had accounted for the $210.7 million in government grants (under the Jobs Support Scheme) in determining the variable bonus? What was the impact from JSS, if any, on the variable bonus of the KMPs (including PCEO)?** In addition, the group received COVID-19 related government grants and reliefs totaling $271.8 million (page 148). Without government reliefs, PATMI would have been a net loss of $(320.8) million (page 38). As it is, the group reported a loss of $(109.3) million, with $(78.9) million in loss attributable to owners of the company. The core/underlying net loss for the year was $(23.9) million (page 36). The average number of employees has also been reduced from 17,155 (FY19-20) to 12,977 (FY20-21).

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Further in the corporate governance report, the company also disclosed how the remuneration framework for key executives is designed to link a significant and appropriate proportion of rewards to the company and individual performance (page 74).

The overall remuneration components and types are summarised below:



(Source: company annual report)

The variable bonus comprises performance bonus (PB) and economic value added (EVA). To determine the PB of key senior management, an individual Performance Scorecard comprising quantitative and qualitative targets such as Financial and Business, Customer, People and Strategic Transformation Objectives is used. The EVA component is directly tied to the EVA achieved by the group in the year. For the year, EVA was $(185.4) million, a drop of $258.1 million from the preceding financial year due to lower net operating profit after tax. The aggregate EVA in the past three financial years was $(1.6) million.

(iv) **Can the board help shareholders better understand how the variable bonuses of KMPs (including PCEO) were determined given that EVA in the financial year was $(185.4) million and the aggregate EVA in the past three financial years was $(1.6) million?**

In addition, on page 76, it was stated that the group's performance conditions were impacted by COVID-19, resulting in lower RSP awards granted in FY2020-21. However, the RSP grants to PCEO and KMPs were 180,000 and 267,500 (top 4 KMPs, excluding a KMP who only joined in September 2019) respectively in FY20-21. This appears to be higher than the RSP grants of 139,500 and 190,000 respectively in FY19-20.

(v) **Can the board help shareholders understand if the group had granted less RSP awards in the year and if so, was the reduction in RSP grants targeted at the less senior levels of the group's top management team?**

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^On 1 October 2020, the Accounting and Corporate Regulatory Authority ("ACRA"), the Monetary Authority of Singapore ("MAS") and Singapore Exchange Regulation ("SGX RegCo") published an updated checklist to guide listed entities on the conduct of general meetings arising from the latest updates from the Multi-Ministry Taskforce.

Issuers may continue to conduct their general meetings held on or before 30 June 2021 via electronic means, and are encouraged to do so.

Issuers who, after due consideration of public health and other risks, wish to provide for physical attendance at their general meetings must ensure that they implement all relevant measures to comply with the safe management measures imposed by the Singapore Government.

Shareholders are welcome to use and/or adapt the questions prepared by SIAS and to forward them to the company.

Can't attend the AGM or view the webcast? Check out the latest questions on the annual reports of listed companies on SIAS website

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^ Guidance on the Conduct of General Meetings Amid Evolving COVID-19 Situation (https://www.sgx.com/media-centre/20201001-guidance-conduct-general-meetings-amid-evolving-covid-19-situation)