



## A poor year for shareholders

<b>Company/ASX Code</b>	Speedcast (SDA)
<b>AGM date</b>	Monday 20 May 2019
<b>Time and location</b>	2.00pm Intercontinental Hotel 117 Macquarie St Sydney
<b>Registry</b>	Link Market Services
<b>Webcast</b>	TBA
<b>Poll or show of hands</b>	Poll
<b>Monitor</b>	Pamela Murray-Jones assisted by David Jackson
<b>Pre AGM Meeting?</b>	Virtual Meeting with Chairman John Mackay and Peter Jackson (NED)

	<b>Consideration of accounts and reports</b>
<b>ASA Vote</b>	No vote required

### Summary of ASA's Position

It has been a poor year for Speedcast shareholders with total shareholder return dropping 44.9%.

The company has been in acquisition mode for 6 years, acquiring 15 companies all over the globe. It has over 1500 employees, 3,000 customers in 140 countries; connects over 10,000 maritime vessels and over 7,000 terrestrial sites. It claims to be the world's leading remote communications services provider. However, its last two acquisitions, funded through increased debt, combined with increased restructuring costs, sent the share price spiralling downwards towards the end of 2018.

Debt rose from \$388m in 2017 to \$581m at the end of 2018. At the pre-AGM meeting, directors agreed that increasing borrowings rather than funding through equity may have been a mistake, but felt this was a mainly Australian perspective with US shareholders (6 of the top shareholders are US) being more enthusiastic about acquisitions and unconcerned about increasing debt. Organic growth and deleveraging from 3.0 to 3.2 and is now considered a priority for 2019, although the directors did not rule out another acquisition should the opportunity arise.

Herein lies a question for shareholders: Is the company growing faster than it can integrate its acquisitions and unlock their value? The monitors were assured this was not the case, however none of the current directors have acknowledged a deep knowledge or skill in M&A in their profiles, and it is not noted as a desired skill on the Board Skills Matrix. This is despite this being identified as a key risk. (It is generally estimated that 70% to 90% of business acquisitions fail through lack of integration of processes and culture.)

This raises a further question: Has the company outgrown the current Board?

The current board has a relatively narrow skill set leaning heavily towards industry experience, banking and finance with a lack of both gender and cultural diversity. (There is only one woman director.) However, with two directors resigning from the board in 2017 there is an opportunity for improvement if shareholders agree to an increase in non-executive director remuneration to provide the funds to do this. (As executive directors of TA Associates, the departing directors were not paid for their director duties and the current fee pool does not cover their replacement.)

Given this, it was disappointing that the only indication monitors received regarding the planning for board strengthening was that the board was considering adding someone with US customer experience and maybe someone with a legal background. Whether the vagueness of this response demonstrates a lack of rigour around planning, or an unwillingness to divulge their planning, is unclear.

### **Financial Summary**

<b>(As at FYE)</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>*Statutory Profit (US\$'000)</b>	1.928	5.992	5.897	4.300
<b>UPAT (US\$'000)</b>	17.319	24.522	11.367	8.700
<b>Share price (AU\$)</b> <b>Last business day of the year</b>	2.91	5.36	3.5	3.799
<b>Dividend (AU\$)</b>	0.072	0.072	0.056	0.0665
<b>TSR (%)</b>	(44.9%)	(55%)	(6.4%)	(130.2%)
<b>EPS (US\$ cents per share)</b>	0.77	2.51	4.16	3.59
<b>CEO total remuneration, actual (US\$'000)</b>	1.043	1.042	0.737	0.703

\*Speedcast does not report financials in the way that is usual in top 200 companies. These figures were provided by Speedcast as a means of identifying the trends ASA members prefer to see. Figures highlighted in the Annual Report show a rise in revenue of 21% and an underlying EBITDA margin of 21.2%.

For 2018 the CEO's total actual remuneration was 12.15 times the Australian Full time Adult Average Weekly Total Earnings (based on May 2018 data from the Australian Bureau of Statistics).

## **Key events**

Two acquisitions were made in 2018: purchase of InAria! Limited, effective 30 October 2018, and the Globecom Systems acquisition, completed on 14 December 2018 for \$134 million.

## **Outlook**

Overall, the company expects stronger service revenue growth and cash generation in 2019, with the promise of things being normalised. However, the outlook is a mixed bag.

**Energy:** While monitors were told not to expect much improvement in this area of the business which has had two challenging years with revenues declining 14% in 2018, the 2019 Speedcast Macquarie Australia Conference Presentation on 1 May provided a more up-beat picture of double digit revenue growth as a result of systems integration and increased deep water investment (though this is dependant on oil prices increasing.)

**EEM:** The company will be transitioning into phase 2 of the NBN project. While on the one hand the expenditure in the past year is expected to bear fruit as milestones are reached, it was reported there would be a double-digit decline in the revenue in 2019, falling in the range of \$20 to \$25 million. Further limited churn is expected in 2019 with less significant renewals.

**Government:** The main customer here is the USA. Strong organic growth is expected in 2019 with the Globecom acquisition improving Speedcast's market position.

**Maritime:** This area has been boosted by the deal with Carnival cruise ships and is expected to deliver high single-digit organic revenue growth in 2019.

<b>Resolution 1</b>	<b>Adoption of Remuneration Report</b>
<b>ASA Vote</b>	<b>Against</b>

## **Summary of ASA Position**

The overall balance of an executive package will differ from company to company and ASA monitors take into account company specific arrangements when preparing our voting intentions.

However, Speedcast's remuneration policy varies from ASA Guidelines in a number of ways.

- While no STI was payable in 2018 (and directors maintain they set stretch targets for executives) when it is payable, it is paid 100% in cash. ASA's position on STI is that 50% should be payable in equity.
- Speedcast's LTI is payable as 100% in equity, but the vesting period is only two years. 50% is subject to achieving a total shareholder return (TSR) that exceeds the performance of the S&P/ASX Small Ordinaries Index. The other 50% is payable for ongoing employment.
  - Both the vesting period and the conditions are considered inappropriate. ASA considers four to five years long-term.

- When measuring relative TSR, ASA requires comparator companies from similar industries or a specific and relevant index. The ASX Small Ordinaries Index is considered an inappropriate index for a top 200 company.
- We do not accept that executives should be rewarded simply for their ongoing employment.

<b>Resolution 2</b>	<b>Re-election of Mr Peter Jackson as a Director</b>
<b>ASA Vote</b>	<b>Against</b>

#### **Summary of ASA Position**

Mr Jackson was appointed a director on 14 July 2014.

As the Chair of the Nomination and Remuneration Committee, Mr Jackson is responsible for considering the future needs of the Board and is accountable for designing and recommending the remuneration policy to the board. Refer above for our assessment.

<b>Resolution 3</b>	<b>Approval of Long Term Incentive Plan Issue to CEO</b>
<b>ASA Vote</b>	<b>Against</b>

#### **Summary of ASA Position**

While there is some improvement to the LTI for 2019 in terms of removing the service element and changing the relative TSR to performance against the S&P/ASX 200 Index, we do not see that a vesting period of two years can be considered to be long-term. The choice of the ASX200 as the comparative index has not been explained in terms of relevance to a company operating within a defined industry.

<b>Resolution 4</b>	<b>Approval of Long Term Incentive Plan</b>
<b>ASA Vote</b>	<b>For</b>

#### **Summary of ASA Position**

Shareholders are being asked to approve the philosophy of offering an LTI rather than a detailed plan. ASA encourages the use of LTIs to align remuneration to shareholder interests.

<b>Resolution 5</b>	<b>Approval of potential termination benefits</b>
<b>ASA Vote</b>	<b>For</b>

### Summary of ASA Position

The resolution is to allow the vesting of unvested performance rights under the 2019 LTI in the case of death/disability or resignation of the CEO if he is considered to be a “good leaver”.

<b>Item 6</b>	<b>Approval of Non-executive Directors’ Remuneration</b>
<b>ASA Vote</b>	<b>For</b>

### Summary of ASA Position

The Speedcast board is remunerated modestly by top 200 company standards and has no capacity to strengthen the board without an increased fee pool to recruit additional directors. ASA believes a stronger and more diverse board will improve company performance.

One of the individuals involved in the preparation of this voting intention has a shareholding in this company.

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