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Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

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21 October 2020

September 2020 Quarter Cash Flow Report and Performance Highlights

Megaport Limited (ASX: MP1) has today released the September 2020 quarter Appendix 4C.

In 1Q FY21, Megaport drove strong product uptake with quarterly 566 new Ports, up 10% QoQ and 138 new customers added up 7% QoQ, both record quarterly increases. Of this, North America contributed significantly, representing 63% of the growth in new customers, 58% of the growth in Ports, and 61% of the growth in new services.

Executing on its strategic roadmap, Megaport announced the development of Megaport Virtual Edge (MVE) as well as a strategic collaboration with Cisco on 17 August 2020. MVE will enable customers to host virtual network appliances and network functions on Megaport's platform. This will enable businesses to connect to services through Megaport from more locations around the globe – including branch offices, corporate campuses, and point-of-sale locations.

Megaport's Chief Executive Officer, Vincent English, commented, "Our investments in North America, in terms of network footprint and commercial capabilities, yielded excellent results this quarter and contributed significantly to our record quarterly Port and customer performance. This will have a positive impact on MRR from Q2 onwards. North America is our fastest growing region, with USD revenues growing 11% QoQ and now accounting for 47% of our total revenue."

1Q FY21 Performance Highlights

- Revenue for the quarter was $17.3M, an increase of 2% QoQ.
- Total MRR for the month of September 2020 was $5.8M, an increase of $0.1M, or 2% QoQ.
- Total Installed Data Centres was 385 at the end of the quarter, an increase of 19, or 5% QoQ.
- Total Enabled Data Centres was 702 at the end of the quarter, an increase of 33, or 5% QoQ.
- Customers at the end of the quarter were 1,980, an increase of 138, or 7% QoQ.
- Total Ports increased in the quarter to 6,333, an increase of 566, or 10% QoQ.
- Total MCR increased in the quarter to 343, an increase of 36, or 12% QoQ.
- Total Services increased in the quarter to 18,145, an increase of 1,433,or 9% QoQ, of which VXCs increased in the quarter to 10,046, or 9% QoQ.
- Average Revenue per Port in September 2020 was $913.
- At the end of September 2020, the Company's cash position was $152.8M.

Please refer to the Global Update lodged with ASX on 21 October 2020 for a more detailed business update.

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1Q FY21 Cash Flow Commentary

Operating Activities

Receipts from customers were $17.2M (previous quarter: $20.0M), a decrease of $2.8M or 14% QoQ. A further $4.1M has been collected during the first two weeks of October. Receipts of $17.2M were the equivalent of the entire previous quarters Revenue. The record collections from the previous quarter have returned to a more normalised rate after the FY20 year end.

Product manufacturing and operating costs comprise costs for data centre power and space, physical cross connect fees, bandwidth and dark fibre, network operation and maintenance, and channel commissions which directly relate to generating service revenue. Network operating cash outflows were $10.7M (previous quarter: $7.9M), an increase of $2.8M QoQ. Network related cash outflows for the quarter were up $0.4M reflecting the additional 19 locations deployed in the quarter and full impact of the 37 locations added in the previous quarter. Approximately $2.5M of payments in the quarter relate to the timing of settlements, which in some instances related to goods and services received in Q4FY20.

Advertising and marketing payments were $0.2M (previous quarter: $0.5M), a reduction of $0.3M QoQ reflecting reduced conference activities and related travel expenditure that has been impacted by Covid-19.

Payments for leased assets were steady QoQ. The total $1.5M represents the principal and interest cash outflows related to the contracts that are classified as “Leases” under AASB 16 Leases.

Staff costs paid were $11.3M (previous quarter: $9.5M), an increase of $1.8M QoQ, of which $1.1m relates to the cash settlement of the FY20 annual performance based incentives (included in FY20 financial statements). Other increases relate to the addition of new staff in the quarter to support business growth, and the full impact of the 23 new staff added in the previous quarter.

Administration and corporate payments were $1.7M for the quarter (previous quarter: $2.1M), a decrease of $0.4M QoQ. The decrease in cash outflow is due to reductions in recruitment, with a majority of recruitment now being conducted in house, as well as legal and other professional costs, relating to the expansion into new markets in FY20.

Income taxes paid relate to tax paid by Megaport New Zealand in relation to FY20. Megaport New Zealand was in a tax paying position reflecting the continued growth in the business.

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Investing Activities

Capital expenditure was $4.2M (previous quarter: $10.2M), a decrease of $6.0M QoQ. $1.3M of this quarter's payments relates to the 19 new sites deployed in the quarter, with a further $0.9M held in inventory for future expansion. The remainder relates to core and capacity upgrades of the existing network.

Investment in intellectual property was $2.2M (previous quarter: $1.6M), an increase of $0.6M QoQ, reflecting investment in the development of Megaport Virtual Edge (MVE), a new product scheduled for commercial launch in H2.

Financing Activities

Proceeds from the exercise of options of $3.6M represent the exercise of share options by employees.

Proceeds from borrowings of $0.3M represent the latest drawdown under the vendor financing facility (refer to item 7 below for more details). The vendor financing facility was increased to $20M in the quarter (previous quarter: $12M) with $7.6M of the facility being undrawn at end of the quarter.

Repayments on borrowings was $1.0M (previous quarter: $0.8M), reflecting the instalment payments of the amount drawn under the vendor financing facility (refer to Item 7 below for more details).

Cash Position

Cash and bank balances at the end of the quarter were $152.8M.

Payments to related parties of the entity and their associates

The amounts included in item 6 relate to the remuneration of directors and their associates, and the shared services and network operating services provided by companies controlled by the Chairman.

Appendix 4C
Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

Megaport Limited	
ABN	**Quarter ended ("current quarter")**
46 607 301 959	30 September 2020

Consolidated statement of cash flows		**Current quarter $A'000**	**Year to date (3 months) $A'000**
1.	**Cash flows from operating activities**		
1.1	Receipts from customers	17,241	17,241
1.2	Payments for		
	(a) research and development	(209)	(209)
	(b) product manufacturing and operating costs	(10,665)	(10,665)
	(c) advertising and marketing	(162)	(162)
	(d) leased assets	(1,537)	(1,537)
	(e) staff costs	(11,067)	(11,067)
	(f) administration and corporate costs	(1,719)	(1,719)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	133	133
1.5	Interest and other costs of finance paid	(394)	(394)
1.6	Income taxes paid	(208)	(208)
1.7	Government grants and tax incentives	-	-
1.8	Other (provide details if material)	-	-
1.9	**Net cash used in operating activities**	**(8,587)**	**(8,587)**

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Consolidated statement of cash flows		Current quarter $A'000	Year to date (3 months) $A'000
2.	**Cash flows from investing activities**		
2.1	Payments to acquire:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	(4,183)	(4,183)
	(d) investments	-	-
	(e) intellectual property	(2,199)	(2,199)
	(f) other non-current assets	-	-
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	**Net cash used in investing activities**	**(6,382)**	**(6,382)**

3.	**Cash flows from financing activities**		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	3,568	3,568
3.4	Transaction costs related to issues of equity securities or convertible debt securities	(13)	(13)
3.5	Proceeds from borrowings	307	307
3.6	Repayment of borrowings	(1,012)	(1,012)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	**Net cash used in financing activities**	**2,850**	**2,850**

Consolidated statement of cash flows		Current quarter $A'000	Year to date (3 months) $A'000
4.	**Net increase / (decrease) in cash and cash equivalents for the period**		
4.1	Cash and cash equivalents at beginning of period	166,877	166,877
4.2	Net cash used in operating activities (item 1.9 above)	(8,587)	(8,587)
4.3	Net cash used in investing activities (item 2.6 above)	(6,382)	(6,382)
4.4	Net cash from financing activities (item 3.10 above)	2,850	2,850
4.5	Effect of movement in exchange rates on cash held	(1,966)	(1,966)
4.6	**Cash and cash equivalents at end of period**	**152,792**	**152,792**

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter $A'000	Previous quarter $A'000
5.1	Bank balances	152,792	166,877
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	**Cash and cash equivalents at end of quarter (should equal item 4.6 above)**	**152,792**	**166,877**

6.	Payments to related parties of the entity and their associates	Current quarter $A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	706
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

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7.	**Financing facilities available** *Note: the term "facility' includes all forms of financing arrangements available to the entity.* *Add notes as necessary for an understanding of the sources of finance available to the entity*	**Total facility amount at quarter end $A'000**	**Amount drawn at quarter end $A'000**
7.1	Loan facilities	-	-
7.2	Credit standby arrangements	-	-
7.3	Other (vendor financing facility)	20,000	12,450
7.4	**Total financing facilities**	**20,000**	**12,450**

7.5	**Unused financing facilities available at quarter end**	**7,550**

7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.

The Group has a $20.0M vendor financing facility to fund the purchase of network equipment and payment of software licenses. The facility is governed by an Instalment Purchase Agreement. The facility does not carry interest and is repayable via equal instalments over 36 months from the each drawdown date. The loan is secured by a bank guarantee charged over $5.7M in cash and cash equivalents. The vendor financing facility outstanding balance at the reporting date was $8.2M (Previous quarter: $8.8M), and $1.0M was repaid in the quarter (previous quarter: $0.8M).

8.	**Estimated cash available for future operating activities**	**$A'000**
8.1	Net cash used in operating activities (Item 1.9)	(8,587)
8.2	Cash and cash equivalents at quarter end (Item 4.6)	152,792
8.3	Unused finance facilities available at quarter end (Item 7.5)	7,550
8.4	Total available funding (Item 8.2 + Item 8.3)	160,342
8.5	**Estimated quarters of funding available (Item 8.4 divided by Item 8.1)**	**19**

8.6 If Item 8.5 is less than 2 quarters, please provide answers to the following questions:

1. Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

Answer:

n.a.

2. Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer:

n.a.

3. Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer:

n.a.

Compliance statement

1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.

2 This statement gives a true and fair view of the matters disclosed.

Date: 21 October 2020

Authorised by the Board.

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, AASB 107: Statement of Cash Flows apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

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