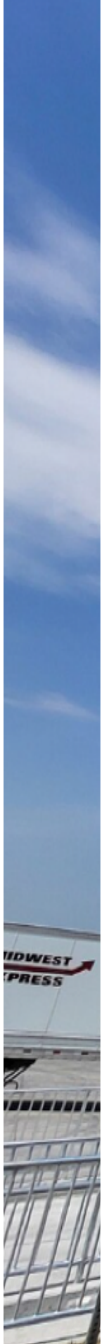

SATS: Integrating WFS – Key to Acquisition Success

MARCH 2025

CORPORATE MONITOR
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This report is based on (i) the Annual Reports of respective firms and other publicly available information, (ii) CML's Zoom call with SATS Investor Relations.

OBJECTIVES OF THE REPORT

In September 2022, as the world began to rebound from COVID-era travel restrictions, Singapore-listed SATS Ltd. made waves with an audacious move. With a market cap of SGD 4.5 billion, SATS announced plans to acquire global air cargo giant Worldwide Flight Services ("WFS") for up to €1.3 billion (S$1.9 billion), valuing the deal at an enterprise value ("EV") of €2.25 billion (S$3.1 billion). The market reacted with skepticism, sending SATS' share price plummeting by 35% as concerns over equity dilution and debt levels unsettled investors accustomed to steady dividends and strong returns.

Singapore has long punched above its weight as a global hub, thanks to its top-notch infrastructure, supportive policies, and skilled, English-speaking workforce. Yet few local companies have successfully leveraged this advantage to expand in markets beyond Asia-Pacific. Now, SATS has broken new ground with its transformational acquisition of a company with global operations.

This report analyses the WFS acquisition, assessing its strategic fit, integration progress, and potential synergies while evaluating SATS management's post-acquisition growth outlook. It highlights key challenges that could affect management's ability to execute its strategy effectively. Additionally, it examines the Board's composition and makes recommendations to strengthen the Board to ensure it is better aligned with the company's global ambitions. It also makes recommendations on remuneration policies/disclosures such that it provides assurance to shareholders that management's interests are aligned with theirs.

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EXECUTIVE SUMMARY

Transforming SATS: The Promise and Price of the WFS Acquisition

The acquisition of WFS by SATS is undeniably transformational, propelling SATS—once primarily a Singapore-based company focused on food solutions and ground handling—into the global stage. The WFS acquisition not only boosts revenue substantially, but it also expands SATS's geographic reach, multiplies its workforce, and expands its air cargo operations to a global scale.

We commend SATS's management and board for making this bold decision during the challenging COVID period, especially when many doubted the return of air travel to pre-pandemic levels. SATS chose action over inaction, even though the error of omission was likely not apparent.

Our reservation lies in the reported valuation of the acquisition. WFS enjoyed a temporary boost in earnings before interest, tax, depreciation, and amortization ("EBITDA") due to COVID-related relief measures. While traditional metrics might suggest an EV/EBITDA ratio of 9.7x, based on the previous 12 months' EBITDA, a more realistic multiple—after discounting the COVID boost—could be as high as 14.3x. This discrepancy suggests that the acquisition may not have been as attractively priced as it initially appeared.

The Real Test for SATS: Making the WFS Acquisition Work

The critical challenge for SATS now is whether it can integrate WFS effectively and generate meaningful revenue and cost synergies—especially given the premium valuation paid. SATS has outlined a 5-year roadmap with clear, quantitative targets, a rarity among SGX-listed companies with transformative ambitions. We assume that attaining such goals would make the WFS a financially accretive one, but it would be best if SATS could confirm that such is the case. Executing the post-merger integration is key, and more challenging now amidst risks such as a potential tariff war that could slow cross-border commerce and depress air cargo demand.

After a rocky FY23-24 (the first financial year post WFS acquisition), SATS showed strong improvement in the nine months to December 2024, with revenue growth returning to the mid-teens—a stark contrast to the stagnant pre-COVID, pre-WFS era. Profit margins, especially in the Gateway services segment driven by WFS, have improved significantly and compare favorably with its closest peer, dnata. However, margins and ROE still lag behind pre-COVID levels, and EPS remains diluted from the equity raise for the acquisition.

Despite the solid progress in the 9 months of FY24-25, SATS is unlikely to immediately surpass its pre-COVID performance metrics on a larger revenue base. In essence, the acquisition's potential benefits have yet to fully materialize—1+1 is not yet more than 1 for SATS.

Strengthening Leadership and Board for Successful Integration

Historically, Singapore companies have faced challenges in global mergers and acquisitions. As noted above, it is premature to declare the WFS acquisition a success. For SATS to create value from this deal, it must successfully integrate WFS's diverse international operations. This presents a formidable challenge, especially as SATS has traditionally focused on Asia. Achieving this integration will require a leadership team with extensive cross-border experience to drive alignment, streamline operations, and scale effectively. To achieve this, SATS must prioritize strengthening its management team. SATS should also re-evaluate and strengthen its board composition to ensure it is aligned with the company's global ambitions.

At this pivotal stage, SATS would benefit greatly from board members who bring cross-border expertise and experience in the air cargo sector. Based on the company's latest annual report, few of its current board members have held relevant global roles, and none of the independent directors seem to possess significant experience in air cargo services or logistics solutions. It is crucial for SATS to enhance its board with individuals who can actively contribute to guiding the company through its transformation.

Additionally, as SATS navigates the merger with WFS, the board should implement proper incentives for the management team. Transparent performance targets should be set for key management personnel, ensuring that the right people are in place to drive success. SATS should establish clear performance targets and disclose specific Key Performance Indicators ("KPIs") for executive remuneration. While detailed executive remuneration disclosures are not mandated by SGX listing rules, greater transparency would align SATS with global best practices, providing assurance to shareholders that management's interests are aligned with theirs. We outline further recommendations to strengthen the Board and the alignment between management and shareholders on pages 24 to 27.

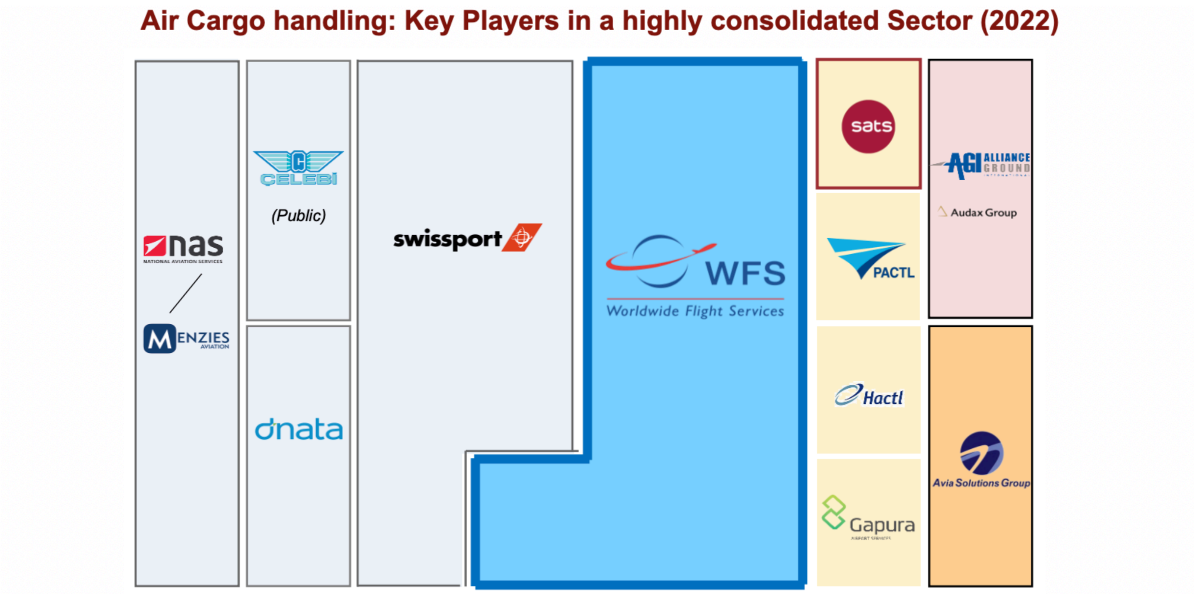
1. REVIEW OF THE WFS ACQUISITION

1.1 Is there a strategic fit?

Prior to COVID and the WFS acquisition, SATS was a strongly performing company but had almost no growth. It reported Return on Equity ("ROE") of between 15-17%, which was heads and shoulders above most other SGX listed companies. Cashflow generation was also strong, and the company consistently generated positive free cash flow ("FCF") in the 5 years to FY2019-20. The company enjoyed strong financial health, with very low (maybe too low) leverage ratio of net debt/equity less than 0.1x. On the other hand, both revenue and profit were stagnant in the same 5-year period.

With aviation revenue around S$1.6b, SATS was an insignificant player on the global stage. As much as 80% of the revenues were generated out of Singapore. Especially in the air cargo segment, SATS was a minnow, as illustrated in the Exhibit 1 below.

Exhibit 1:



Source: Company Reports

SATS' acquisition of WFS aligns strategically with its global growth ambitions, particularly its goal to expand beyond Asia. WFS complements SATS' core operations by adding a global cargo-handling footprint (Europe, Middle East, Americas) to SATS' Asia-focused food catering and ground-handling business. WFS significantly diversified SATS operations globally and reduced its reliance on its core operations which were based in Singapore. With cargo now accounting for half its revenues versus 15% earlier, SATS' business profile is not just more diverse but more resilient. (See discussion on pages 8-10).

With revenue of €1.6bn (S$2.5 bn) in 2021, WFS also added scale to SATS to make it into a leading global aviation services company. The expanded group now has a larger opportunity to grow at a faster pace as compared to the legacy SATS business. With scale, SATS can now offer value added services to its global clients for both gateway services and food solutions. To the extent that WFS and legacy SATS are complementary businesses, there is room to benefit from revenue and cost synergies.

CML'S TAKE:

We think SATS deserves credit for taking a bold strategic move to acquire WFS. As noted, prior to COVID, SATS performed strongly but without growth. It could have waited for COVID to pass and hoped to return to the old comfort zone. As ex-Chairperson Ms Euleen Goh noted, SATS was at risk of trade wars and geopolitical tension which could lead to re-alignment of global supply chain. Yet, if SATS chose to stick with status quo, the passing of COVID would bring about a natural rebound. The disruptive changes would not be felt for several years and few would fault SATS for not acting. As Warren Buffet said, error of commission would be clear yet error of omission would not be. An acquisition at the scale of WFS brings huge uncertainties, so the courage of SATS' management and board should be commended.

That said, the WFS acquisition was expensive. Although management justified the valuation by arguing that the EV/EBITDA multiple of 9.7 X was fair, we believe the multiple was closer to 14.3X after adjusting for non-recurring government support for WFS during Covid. (See Appendix page 32 for evaluation of acquisition price). In this regard, management will need to demonstrate that the acquisition will add value to shareholders through revenue and cost synergies to generate returns that are above its cost of capital.

1.2 Deep Dive into the SATS-WFS Strategic Fit

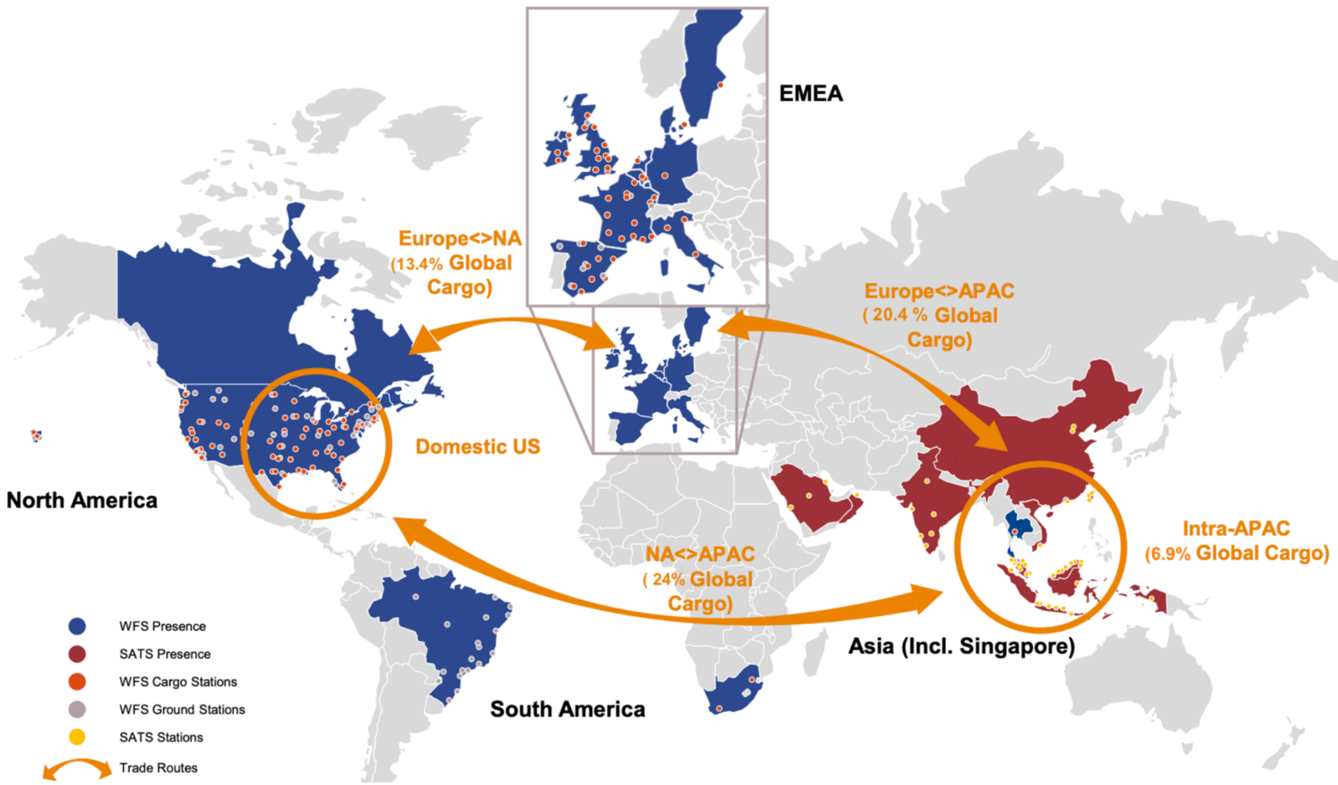
"International expansion is a core part of SATS' twin-engine growth strategy, and WFS is a highly strategic and complementary asset with which we have minimal geographic and operational overlap." – SATS ex-Chairperson Euleen Goh, January 3, 2023.

Growth and Global Expansion

As Singapore's leading aviation services provider, SATS faced constrained growth opportunities in its saturated home market. Global expansion became imperative, and the WFS acquisition unlocked access to critical regions, the Americas and Europe, which dominate global airline traffic.

Aviation services face high barriers to entry at established airports, where incumbents hold infrastructure advantages. In this context, SATS + WFS's combined footprint in key cargo hubs (see Exhibit 2 below) positions SATS to capitalize on rising global air travel and cargo demand. It also strengthens SATS' ability to compete as rivals expand into Asia, creating a balanced global network.

Exhibit 2: Global Air cargo footprint: Complementary Network presence of SATS, WFS

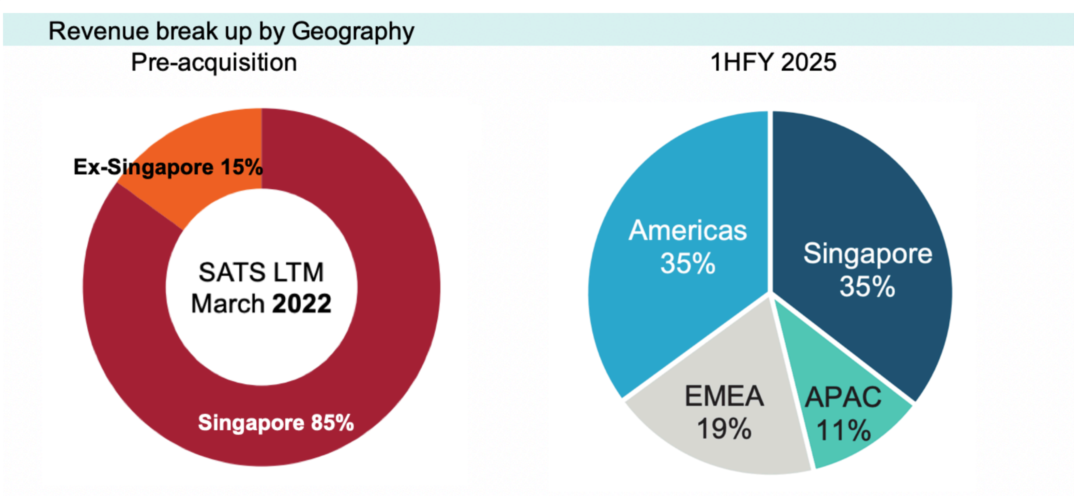


Source: Company, IATA

De-Risking Through Geographic and Operational Diversification

With the WFS acquisition, SATS transitioned from an Asia-centric operator (85% of revenue from Singapore) to a global player (see Exhibit 3), mitigating overexposure to a single market that made it vulnerable to regional economic shocks. Post-acquisition WFS's Americas/Europe presence complements SATS' Asia operations, reducing geographic concentration. Also, its diversified revenue streams now span air cargo (50% of revenue vs. 15% pre-acquisition), catering (23%), and ground handling (27%).

Exhibit 3:



Source: Company

Gaining Resilience with a Broader Service Mix

The pandemic exposed weaknesses in SATS' heavy reliance on aviation-linked services (inflight catering, ground handling), which are highly discretionary. WFS's cargo-handling business added stability. Its expertise in handling specialized cargo including temperature-sensitive items such as pharmaceuticals and perishables that require special care exposed SATS to higher yield services. Air cargo is less cyclical and essential to global supply chains, offering steadier cash flows. With the increasing demand for e-commerce, global air cargo traffic is projected to grow strongly. WFS' wide client base also enhances SATS ability to cross-sell services (e.g., cargo + ground handling) across multiple markets.

1.3 How has SATS performed post acquisition?

Two years after SATS announced its multi-billion-dollar acquisition of WFS, the company's share price circled back closer to September 2022 levels and plunged again (see Exhibit 4) with looming uncertainties in global trade flows. Earnings per share ("EPS") has yet to recover to pre-COVID levels (see Exhibit 5) due to the dilutive impact of equity raise to fund the WFS acquisition.

Exhibit 4:

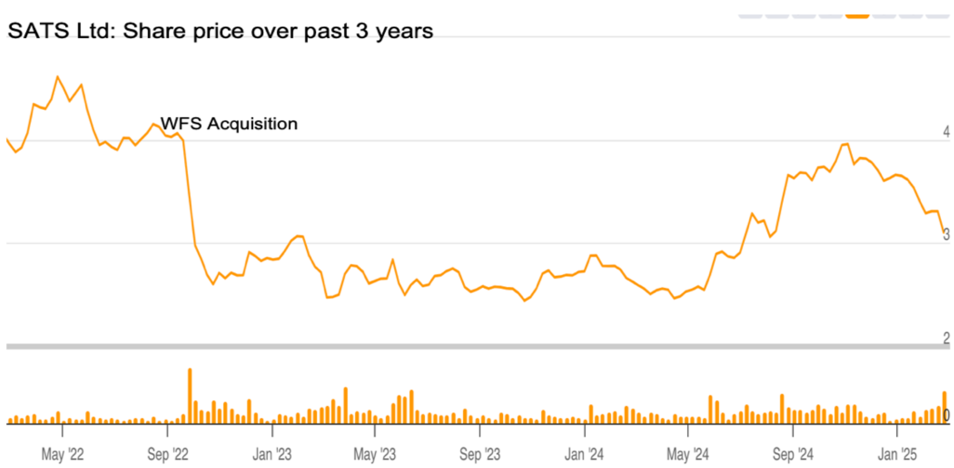
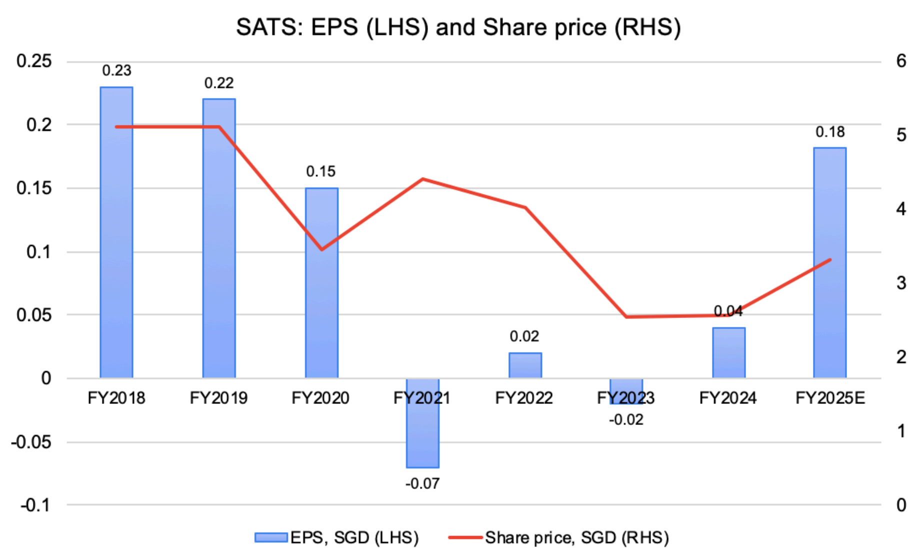


Exhibit 5:



Source: CML based on Company filings, public data

However, when we focus on the fundamental performance, the FY23-24 results were disappointing. The WFS acquisition was completed in April of 2023, with the FY23-24 results reflecting the first full year of the combined entity. Although SATS' results benefitted from the recovery in the aviation sector post-COVID, the FY23-24 results were weighed down by the integration costs, higher interests cost as well as one off costs related to the M&A. Group ROE in FY23-24 was a low of 2.4% compared to the mid-teens normalised ROE of SATS pre-COVID. This also reflected the dilution from the 25% increase in its share base to part finance the acquisition.

SATS redeemed itself in 9 months FY2024-25 with results that provide grounds for optimism – see Exhibit 6 below.

Exhibit 6:

9MFY25: SATS Robust Revenue growth led by Cargo and Food Solutions

Asia has been the brightest growth region for SATS during 9MFY25

By Business	9MFY25 YoY growth
Cargo	16%
Ground	3%
Gateway Services	**11%**
Aviation	29%
Non-Aviation	19%
Food Solutions	**26%**

By Region	9MFY25 YoY growth
Singapore	21%
APAC	25%
EMEA	4%
Americas	10%
Total	**14%**

Source: Company

A few notable achievements from SATS 9MFY25 performance include:

- Growth has returned to the double-digit territory, 14% to be exact. Food business reported 26% growth, while the Gateway services grew at a respectable 11%. Group revenues were aided by business volume growth as well as rate increases from customers. The business volume growth was driven by high-tech shipments, growth of eCommerce, shift to air freight due to the Red Sea crisis, and demand for inflight meals as aviation travel continues to recover. Gateway services represent the bulk of WFS' expanded revenues due to strong underlying growth in air cargo in the US (+10%) and APAC (+25%) while revenue growth in EMEA was flat. Revenues from Food solutions grew 26% on recovery in passenger traffic and higher contract rates.

- EBITDA margin reached 17.9%, and Profit After Tax & Minority Interest ("PATMI") margin 4.7%. This is a step up from the PATMI margin of 1% in FY23-24, although still some way to the double digit PATMI margin pre-COVID.

- ROE also improved to 9.7% as of Dec 2024, significantly better than the 2.4% as of March 24, although still lower than the 15-17% pre-COVID. Assuming SATS improves ROE from here (see Exhibit 8), the WFS acquisition will be value adding as it will be above our estimated cost of equity of SATS of 9%.

- On an annualised basis, group net profit for FY2025 is estimated at S$270mn, reaching the previous peak of S$268m reached in FY2019. Annualised EPS however at 18 cts will still be below the 22 cents reached in the same period (See Exhibit 5).

Exhibit 7: SATS Revenues multiplied post-acquisition but EBIT margins are well below pre-COVID era

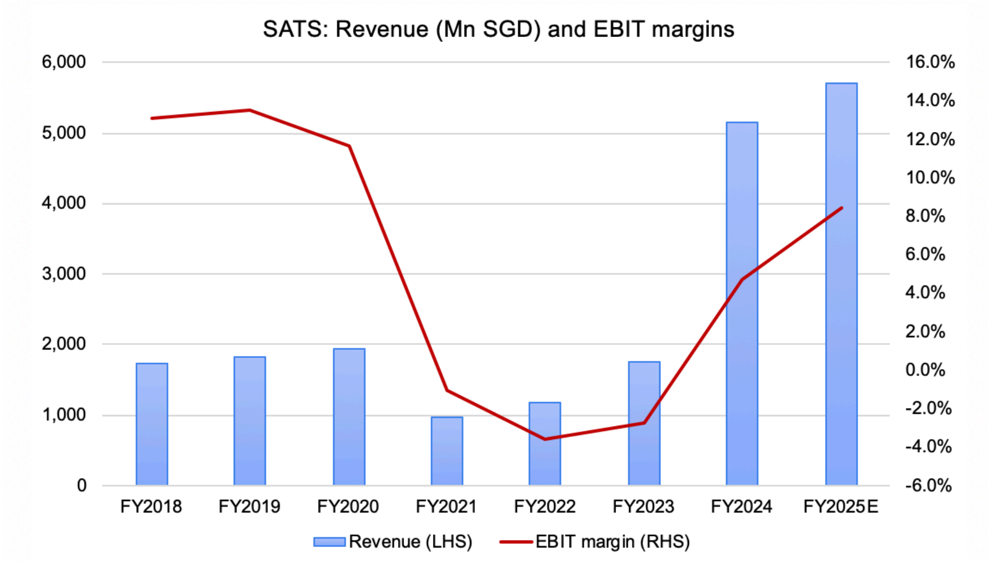
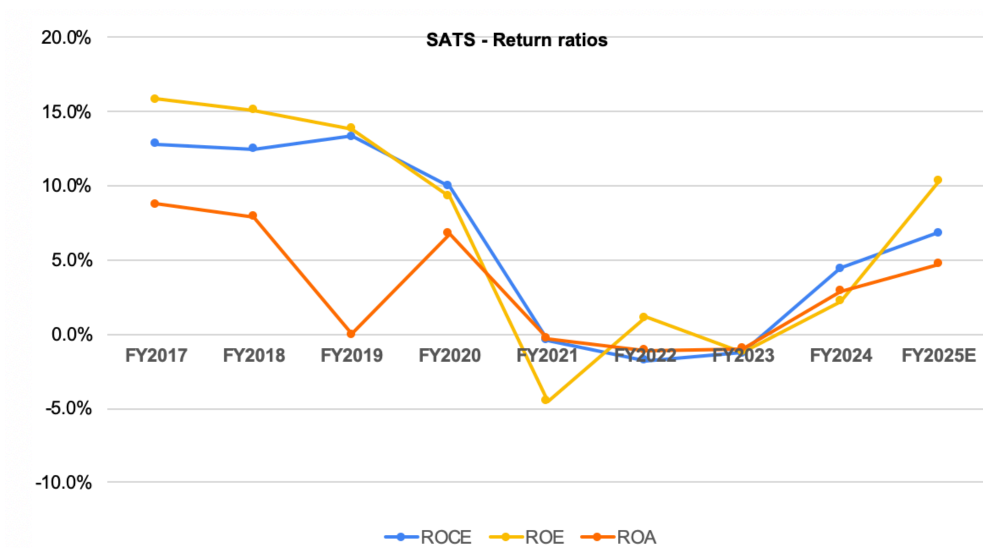


Exhibit 8: SATS Return Ratios are still below pre-COVID years but is improving rapidly



Source: CML based on Company reports

Peer Comparison: dnata

To provide another perspective on the latest post-WFS acquisition results, SATS outperformed dnata, the closest peer whose financial information was publicly available, for the 6-month period to September 2024 -see Exhibits 9 and 10 below. Granted, the two do not have the same business mix and geographical footprint, but both are global operators and have similar scale based on the following metrics:

Exhibit 9: SATS vs dnata – Flights / Cargo handled during 6 months ending Sep 2024 vs 2023

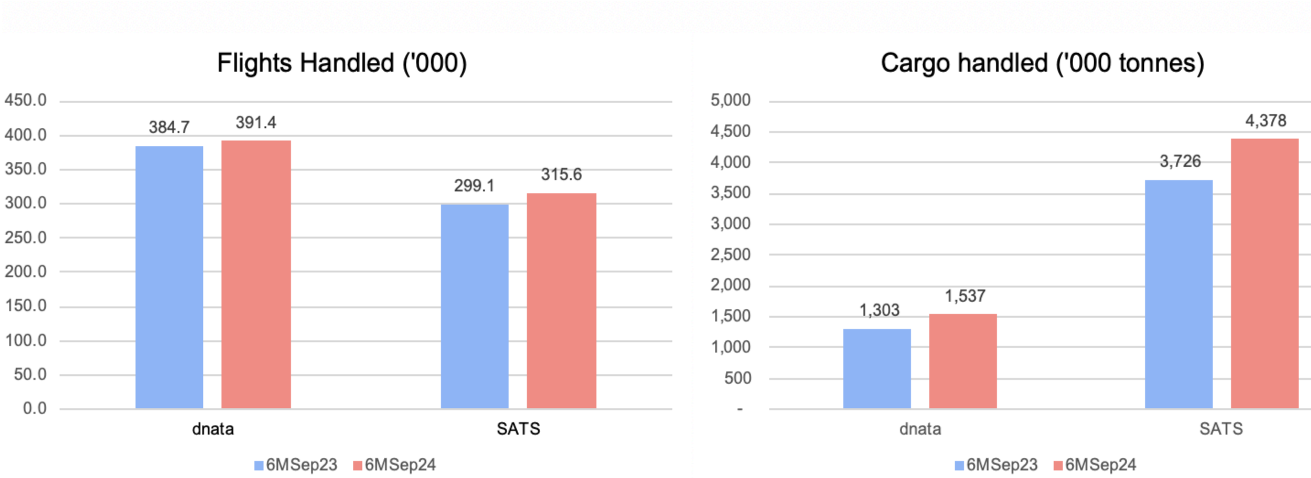
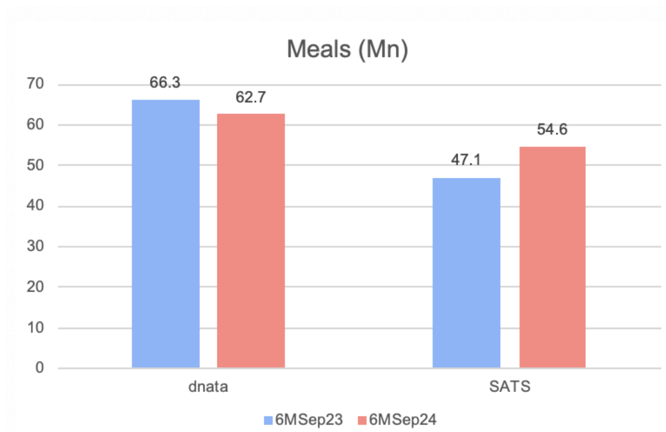


Exhibit 10: SATS vs dnata – Meals served during 6 months ending Sep 2024 vs 2023



Source: dnata, SATS company reports

Such benchmarking is useful to see how they performed over the same time period under roughly the same global operating environment. The following are the comparisons based on the key financial metrics:

- SATS revenue grew by 14.8% vs dnata's 11%.
- SATS' EBITDA margin improved from 14.2% to 18.2%. dnata's EBITDA margin improved only slightly from 12.2% to 12.6%.
- SATS' PATMI margin turned around from -0.3% to 4.8%. By contrast, dnata's net margin declined from 7.6% to 5.5%.

This improvement came thanks to a global resurgence in air travel, which hit 95% of 2019 levels by December 2023, with all major markets returning to pre-Covid norms in 2024. Some geopolitical events also helped, albeit temporarily, such as the conflict at Red Sea, which boosted air cargo. SATS could also have benefited from operating leverage.

However, with a potential tariff war casting shadows on cross border commerce, IATA has moderated down growth projections for global air cargo to 5.8% versus 2024 growth of 11.3% (Refer Appendix – Sector: Tariff war sparks caution). This has raised investor concerns about SATS growth outlook next year.

In this uncertain environment, SATS cannot rely solely on previously expected strong growth in aviation and air cargo to support its 5-year growth strategy. Investors will be looking at the ability of SATS to drive further revenue and costs synergies. SATS will have to rely on self-help including more value-added services in its air cargo services while securing more contracts for its food solutions given its larger global footprint.

Balance sheet impact from WFS acquisition

SATS increased borrowings to finance the acquisition of WFS. With the consolidation of WFS debt, group net debt levels rose sharply and group net debt to EBITDA rose to 3.9x in FYMar24 but improved to 3.0x as at Dec 2024.

Interest costs increased sharply from US$18.6m in FY23 to S$258m in FY24 but were well supported by group operating cashflow. In spite of the higher gearing levels, SATS was able to achieve a A3 credit rating from Moody's, reflecting the resilient debt servicing ability of the combined entity.

Management has guided that while the group will continue to invest in capex to support its long-term strategy, debt repayment will be prioritized so group gearing (Gross Debt/EBITDA) can be reduced from the current 3.7x (end December 2024) and brought below 3.5x (stated target for FY2029).

SATS disclosed the impact of the refinancing of WFS' expensive debt was felt in the 1HFY25 results with estimated net interest savings in 1HFY25 of S$13m.

We also note that there was an unrealised foreign exchange loss of S$22.9M in the 1HFY25 results due to the translation of USD and Euro intercompany loan balances at the end of the period, which also impacted the reported results.

Synergy Realization

Operational Gains: S$92M EBITDA synergies (9MFY25) from cross-selling, efficiency improvements, and expanded commercial teams.
Financial Wins: S$53M per annum in fiscal savings and refinancing savings via debt restructuring (redeeming high interest bonds, covenant flexibility) as WFS was able to rely on the balance sheet strength of the combined entity to enjoy better interest rates.

CML'S TAKE ON SATS' POST ACQUISITION PERFORMANCE AND DISCLOSURE:

While the 9 months FY24-25 performance is strong, the annual Profit After Tax and Minority Interest (PATMI) would likely be around S$270mn+, which is back to roughly the same level of the pre-COVID years. Clearly this cannot be satisfactory after an acquisition that more than doubled its revenue. EPS is still significantly below the pre COVID level. Other metrics like PATMI margin and ROE will also need a few more years to recover to their previous highs.

In short SATS needs to demonstrate that 1+1 can truly exceed 2, especially so in the context of robust sector growth, in fact significantly more, so that the upfront capital put to work in the acquisition could earn a reasonable return in excess of SATS' cost of capital. Anything less could not be termed a success, even if it could be argued that SATS is now more diversified and less vulnerable. Otherwise, the risk and efforts taken to acquire WFS would not be justified.

We however commend SATS on financial disclosure. On the whole, we like the level of detail and the consistency of presentation. The same financial information and metrics are presented in every quarterly report. This allows shareholders to track changes over time. In fact, SATS' quarterly presentation provides changes quarter to quarter over an extended period of time. This enables trends, including those that are not positive, to be clearly visible. The annual reports too provide the same key financial metrics over 5-year periods. Poor results are not hidden or glossed over. For example, FY23-24 results, which is the first fiscal year post the WFS acquisition, was disappointing.

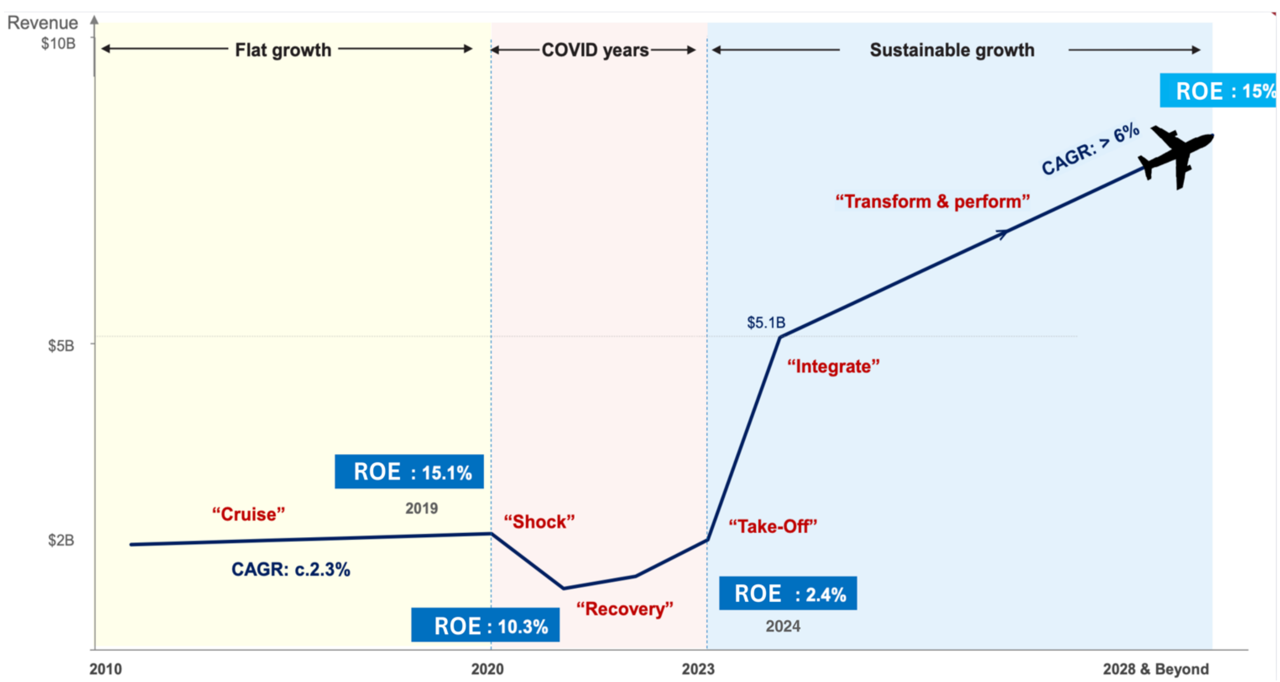
2. SATS: IN PURSUIT OF POST-ACQUISITION GROWTH?

2.1 Management's Projected Path, FY2024-2029E

SATS management has projected a path of accelerated growth (See Exhibit 11 below). Management has committed to grow revenue by close to 10% per annum to reach S$8bn, improve EBITDA margin to 20% and ROE to 15% (see Exhibit 12). We assume achievement of such goals would mean returns on the WFS acquisition would be considered satisfactory, so we call on SATS management to confirm such is indeed the case.

SATS' sharing of such a road map is very commendable. Few, if any, Singapore companies offered such a detailed and quantitative set of goals for the next 5 years. (In fact, there are other SGX-listed companies that have unveiled strategic transformation plans but provided no road maps, let alone clear quantitative goals that would allow investors to track their progress).

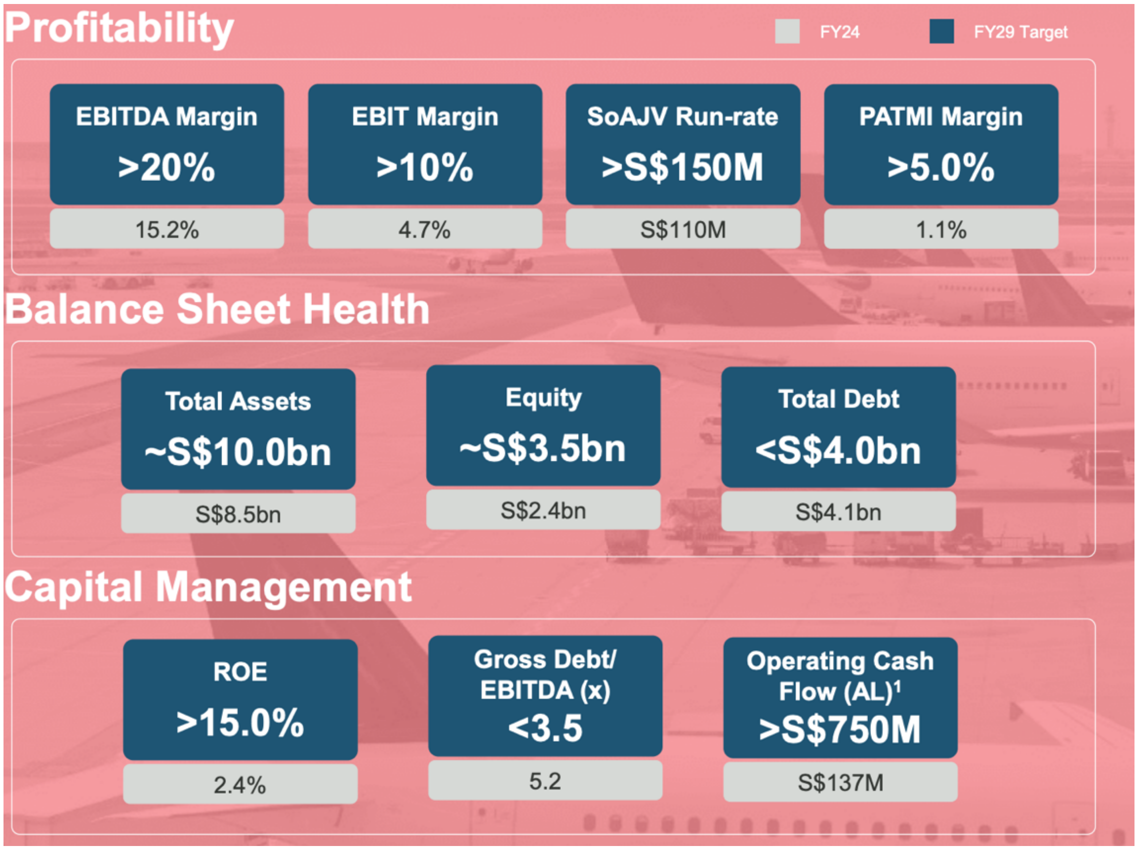
Exhibit 11: Before and After Acquisition: Management's Projected Path Ahead



Source: CML based on Company reports

Management guidance for FY2029 profitability, balance sheet and capital management

Exhibit 12: Key excerpts of SATS' 5-year strategic road map are shared below.



Source: Company Presentation, Nov 2024 Capital Market Day

SATS management has guided towards S$8 bn in revenues for the group in FY2029 (versus S$5 bn in FY2024) to deliver the above profitability targets.

SATS operations are categorized under (1) Gateway services which include SATS' global air cargo and ground service business segments (including WFS) and (2) Food Solutions. Management's breakdown of growth targets for both the divisions are shown in Exhibits 13 and 14 below.

Exhibit 13:

SATS Management's Financial target for Gateway services: 2029E vs 2024

	FY2024	FY2029E	
Revenue	S$4 bn	S$6bn	8.4% CAGR
EBITDA margins	18%	22%	
EBIT margin	6%	10%	

Exhibit 14:

SATS Management's Financial target for Food solutions: 2029E vs 2024

	FY2024	FY2029E	
Revenue	S$1.1 bn	S$2bn	12.7% CAGR
EBITDA margins	7%	17%	
EBIT margin	3.0%	13%	

Source: CML based on Company Presentation Nov 2024 Capital Market Day

We examine below its growth strategy for the gateway services segment that includes Air cargo handling and discuss potential challenges to the same.

2.2 SATS: Revenue growth strategy

Expanding the Global Network and Services

With its acquisition of WFS, SATS now operates across key trade routes spanning the Americas, Europe and APAC, covering over 50% of global air cargo volumes. This expanded network enhances its ability to offer seamless, end-to-end solutions to clients while strengthening collaboration with existing customers—driving revenue growth. SATS is also eyeing new market opportunities in Africa and South America while scaling up capacity in existing locations.

Additionally, it aims to penetrate new customer segments by broadening its service offerings – it is developing value-added tailor-made solutions for freight forwarders where sorting, re-labelling etc of in-transit cargo can be done at its air freight terminal to streamline the process and save time and costs.

Cross-Selling to Maximize Customer Value

Management believes it can grow its share of customers' wallets by leveraging existing relationships—offering services in more locations and bundling additional value-added solutions to provide expanded service offerings to clients.

2.3 SATS: Margin expansion strategy

Enhancing Value with Specialized Services

SATS is leveraging WFS expertise in specialized solutions in high-value cargo segments such as eCommerce, pharmaceuticals, and perishables. These tailored services are expected to improve yield across its network—boosting client value and enhancing profitability.

Driving Cost Efficiency Through Operational Excellence

SATS aims to improve margins by standardizing workflows and scaling best practices across its global footprint. Key initiatives include the rollout of standardized operating metrics to track trends, drive collaboration, and optimize performance.

Leveraging Technology and AI for Automation

By tapping into its expanded data network, SATS plans to enhance shipment connectivity, speed up processes, and improve resilience against disruptions. Investments in AI-driven automation will streamline workflows, reduce repetitive tasks, and support real-time decision-making.

“SATS and WFS have excellent operational processes and best practices. We will adopt best practices from both worlds to make a better world. This gives us an opportunity to create an “iron sharpens iron” environment, where both companies learn from each other and sharpen the whole.” SATS FY2024 Annual Report

CML’S TAKE

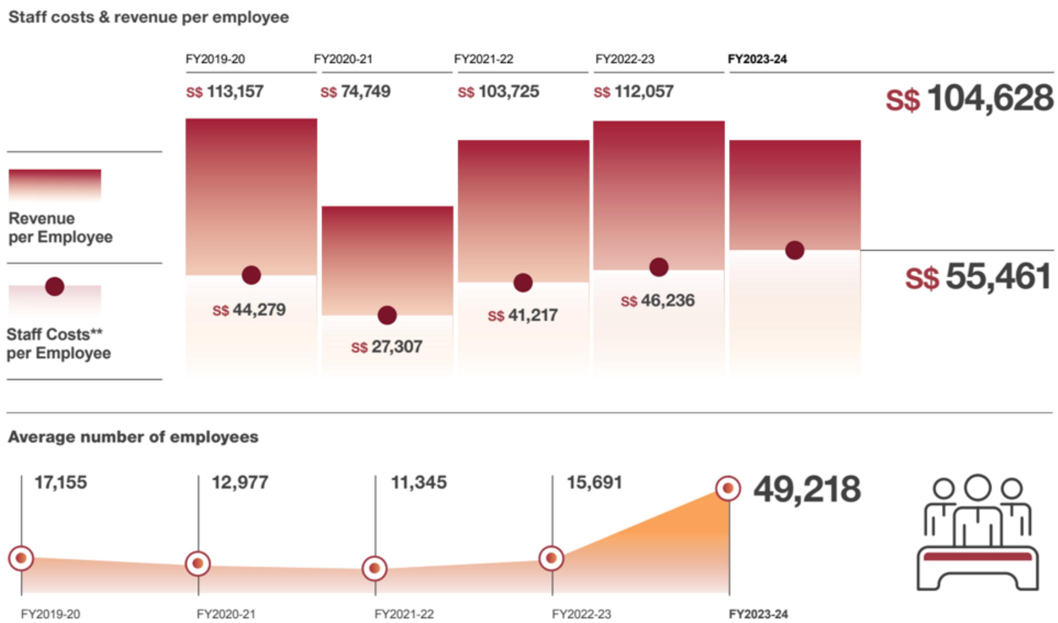
Qualitatively SATS’ strategy to grow revenue and margin makes sense. However, SATS needs to provide more information to demonstrate that its execution is on track. For example, growth could come from rising tides. SATS needs to demonstrate that it could grow faster than industry. As another example, while leveraging IT and data makes sense, we have yet to hear from management how these will play out, the capex and investments needed in IT and over what time period to achieve these gains from automation.

More important is the integration challenge across multiple geographies cultures and work practices. SATS now operates across 27 countries and 215 locations, making integration a complex challenge. Unlike typical acquisitions, where two cultures merge, WFS itself was a patchwork of multiple regional entities acquired over time—each operating with relative autonomy. Hence, execution success depends on integrating teams across multiple locations and functions—requiring not just operational alignment but also cultural integration across historically independent business units. SATS needs to prove that it is not multiple stand-alone businesses just co-existing under the same corporate umbrella.

There are metrics that justify our concern on integration across very different work forces : revenue per employee was lower while staff costs became higher post-acquisition (see Exhibit 15 below) . While this is to be expected as WFS’ operations are labour intensive, how SATS improves these important efficiency metrics will enable shareholders to track its integration progress. In fact, such metrics are so important that SATS has been disclosing them way before the acquisition.

In our opinion, successful integration will require a highly capable leadership team with deep cross-border experience to drive alignment, streamline operations, and unlock value at scale. This is a topic we will now turn to. We argue that unless management can unlock synergies and drive value addition, this acquisition could remain a pricey portfolio expansion.

Exhibit 15: Revenue vs Staff costs per Employee: Post vs Pre Acquisition



Source: SATS Annual Report FY2023-24

3. ANALYSING KEY RISKS AND CHALLENGES

Although there are optimistic signs for the WFS integration, looking at the performance during 9 months of FY24-25, we believe it is early days. For the group to continue its momentum and successfully achieve its FY2029 target ROE of 15%, SATS management will need to drive greater synergies, invest in the right technologies and people, and continue to engage its customers to drive further revenue opportunities. It will need to address the critical management skills/experience gaps at both the Board and key leadership levels to ensure the effective integration of its global acquisition and thus set a successful precedent for Corporate Singapore when it comes to global M&As.

3.1 Integration: The Elephant in the Room

Integrating a workforce spanning 27 countries and 215 locations is no small feat. The disparities in culture, work ethics, and time zones pose significant obstacles. Key questions arise:

- Given that labor laws and regulations vary greatly from country to country, how does SATS manage integration across geographies without being tripped up ?

- Can Singapore's best practices be successfully exported to regions like Europe and the US, which have vastly different work cultures?

- How can SATS effectively benchmark performance when productivity and employee costs vary significantly by region?

There are multiple levels of challenges for SATS' integration of WFS. Firstly, WFS was still integrating its own acquisitions of several regional operations, prior to the deal with SATS. In short, WFS was not one but multiple companies to be integrated. Secondly, for SATS, which has historically focused on Asia, fostering a unified culture and building an aligned management structure across this diverse entity can be a formidable challenge. There is likely to be significant integration costs associated with aligning Human Resource practices, systems, remuneration and IT systems integration. Thirdly, perhaps reflecting the norms in air cargos, staff turnover is high in the US. The regional disparity is huge, as shown in Exhibit 16 below.

Exhibit 16:

Employee dynamics/work culture vary significantly across regions

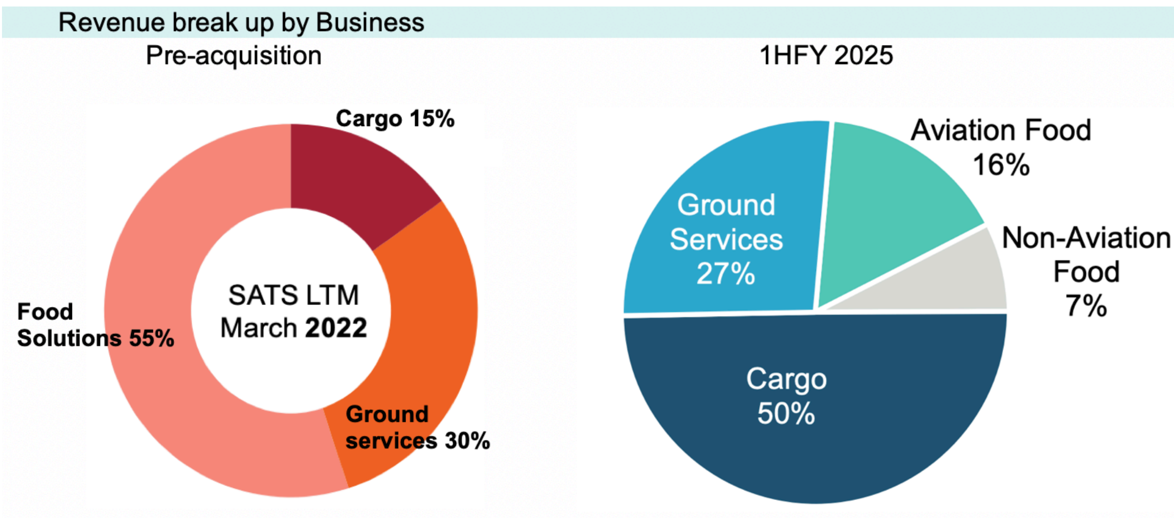
Rate of new hires by region		Turnover rate by region	
APAC	**32.3%**	APAC	**20.6%**
EMEA	**13.3%**	EMEA	**7.7%**
Americas	**90.7%**	Americas	**81.3%**

Source: CML based on SATS Annual Report FY2023-24

3.2 Management Skills: Global air cargo solutions player

From providing food catering and ground services for airlines flying in and out of Singapore, SATS is now predominantly a global air cargo services company (see Exhibit 17 below). While these businesses are complementary, there is little in common in terms of business operations, which hence demands different set of management skills, expertise and perspective. With its key management team and Board of Directors still dominated by the same set of people who ran SATS pre-WFS, SATS may need to equip itself better to manage the post-acquisition entity. We discuss this further under governance and alignment of interests with shareholders

Exhibit 17:



Source: Company reports

3.3 Leadership: Retention of key management talent

"Craig Smyth, CEO of WFS, will continue to run the company and report to Kerry Mok, President & Chief Executive Officer of SATS, and an advisory board." – SATS Press Release, **3 April 2023**

Leadership stability is crucial during integration, yet WFS CEO Craig Smyth, an industry veteran, announced his departure just a month after SATS emphasized his continued role in a press release. This raises several concerns:

- Why wasn't there a robust agreement to ensure Smyth stayed on through the integration process?
- Was this abrupt change a result of misaligned expectations or a breakdown in communication?
- Why didn't SATS try to hire an equally qualified industry veteran to take his place given SATS does not have personnel with similar experience?
- What steps is SATS taking to retain and incentivize WFS's next tier of management to ensure continuity and stability?

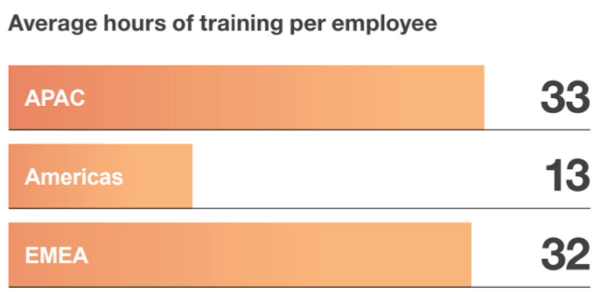
The current management remuneration structure of SATS was extended to the key management staff from WFS. To be able to incentivize current and future employees, it may be opportune for SATS to create a new remuneration plan for key management personnel to ensure that its global management team remains incentivized and its targets aligned with shareholders' interests. The remuneration structure for SATS management team should be transparent and aligned with the interests of shareholders. This is discussed further in page 27.

SATS now has a highly different set of worker dynamics existing within different regions of the group (See Exhibit 16 earlier and Exhibit 18 below). It could be challenging to roll out and implement standard processes across the combined group's platform. This could in turn impact both revenue and cost synergies.

We note that the employee turnover for WFS's operations in the US is 81% compared to 8% in the EU while training hours at 13 hours in the US is significantly lower than the EU's 32 hours. This disparity of employee training and turnover metrics in the US may be a hurdle for SATS to drive operating efficiency and higher operating margins. SATS has pointed to automation as a way to improve labour productivity but this will likely incur higher capex with impact to margins in the near term.

Exhibit 18:

WFS Americas has high employee turnover and far fewer hours of training



Source: SATS Annual Report FY2023-24

4. GOVERNANCE – CAN MORE BE DONE?

4.1 Corporate Governance: Board Composition

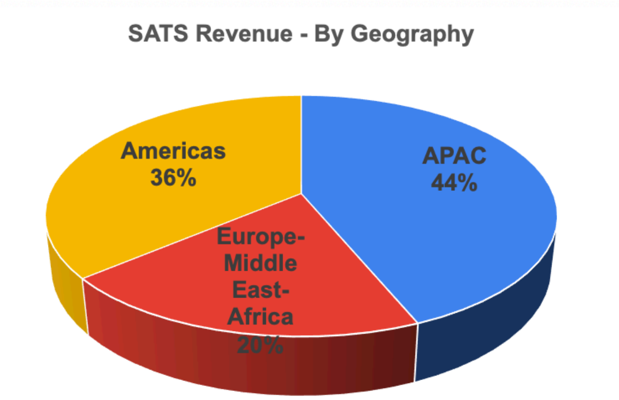
CML believes that the board of directors plays a critical and essential role in any successful corporation. The board is responsible for the overall management of the company, ensuring that it is headed in the right direction, and making strategic decisions that will help the organisation achieve its goals. Ideally, the board is made up of individuals who have the relevant skills and expertise.

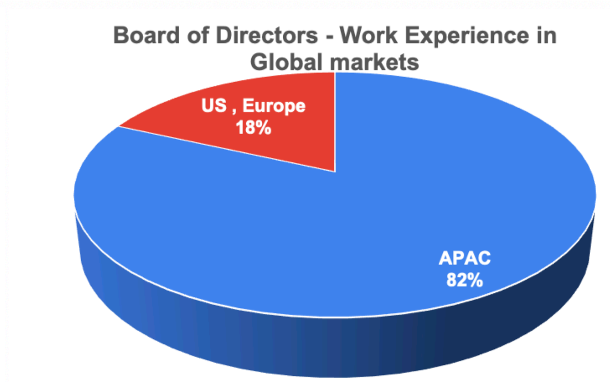
In this context, we look at SATS Board composition to assess if it is aligned with the profile and needs of the company, post-acquisition.

4.1.1 Integrating work culture: Members with global experience

Cultural integration is often one of the most challenging to get right in any merger exercise. A successful merger requires blending the company cultures of the two organizations to create a unified company, beyond operational alignment. We find SATS' board still dominated by members with experience in Asia Pacific (see Exhibit 19). However, post-acquisition, SATS' workforce now operates across over 215 locations, having expanded from 11,000 to nearly 50,000 employees.

Exhibit 19:





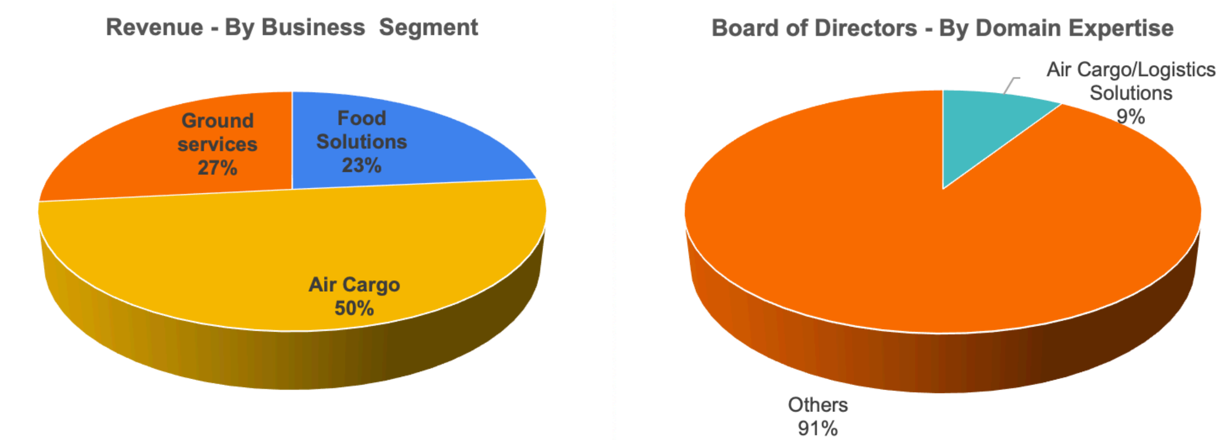
Source: CML based on SATS Annual report FY2023-24, Public data

Given the overarching challenge to successfully integrate its operations across Asia, Europe and Americas, we believe SATS will need to strengthen its board with members who have assumed significant global roles spanning multiple continents to help drive value creation possibilities from the acquisition.

4.1.2 Air cargo Solutions: Members with Sector Experience

SATS' Board does not have members with significant experience in Air Cargo services or providing logistics solutions (see Exhibit 20). This could be a handicap for the Board to constructively challenge Management and help develop proposals on strategy to offer network-wide cargo solutions to its key clients given its presence across key geographies – APAC, EMEA and Americas.

Exhibit 20:



Source: *CML based on SATS Annual report FY2023-24, Public data*

It seems SATS was aware of the need. According to SATS Corporate Governance Report 2024 "By adding Directors with cargo, supply chain and logistics experience to our Board following the completion of the acquisition of Worldwide Flight Services, we strive to enhance and strengthen our capabilities in the realm of cargo and supply chain management"

However, a quick look at the profile of Directors added to SATS Board after WFS acquisition was announced (see Exhibit 21), shows that none of them has worked in a Cargo, Supply chain and Logistics Service company (though one of them had worked a decade ago as Chief Supply Chain Officer of a leading FMCG company). The five directors added after WFS acquisition are all based in Singapore and work in the field of Technology (hardware), Government Service (retired), Investments, Aviation (retired) and Consumer goods (earlier).

Exhibit 21: Directors recently added to SATS Board: All Singapore based. None with notable cargo, supply chain and logistics experience

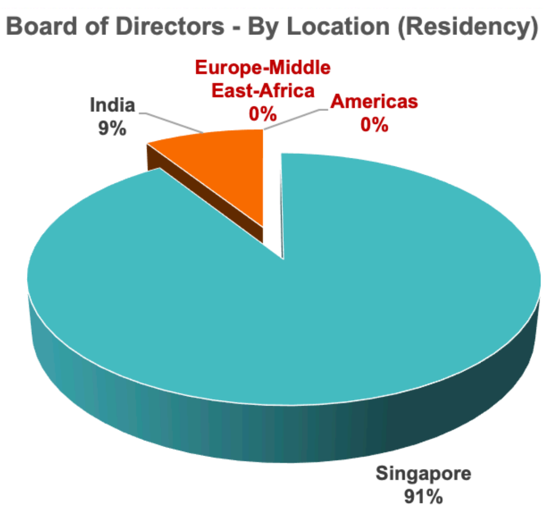
Name	Date of first appointment as a Director	**Current/Past Roles, Key/Relevant Past Work experience**
Irving Tan	16 May 2024	Executive VP, Global Operations - Western Digital, **Singapore**
Chan Lai Fung	28 February 2024	Deputy Chairman NTUC Health, Public Servant (Retired), **Singapore**
Eng Aik Meng	15 April 2023	MD, Temasek, **Singapore**; CEO TE Asia Healthcare (TPG Capital)
Mak Swee Wah	11 September 2023	Until June 2023 - COO, **Singapore** Airlines
Pier Luigi Sigismondi	05 September 2023	Until May 2024 - Executive Chairman of Sustenir Group, **Singapore**
		Until June 2023, President, Dole Sunshine Company, Singapore
		(2009-2015) Unilever - Chief Supply Chain Officer, London

Source: CML based on SATS Annual report FY2023-24, Public data

4.1.3 SATS: Global operator, but local Board of Directors

As a result of adding 5 new directors who are all Singapore-based, all 11 board members are of Asian origin/residency and 10 out of those 11 are Singaporeans or residing long term in Singapore (see Exhibit 22). However, SATS is today a global company in terms of its operations and key stakeholders – Investors, Customers, Employees, with Singapore accounting for only a small fraction. Americas and Europe/Middle East/Africa account for more than half of SATS revenues and employees today – but it has no Board members from those geographies. However, it is not just a matter of adding Board members from other geographies but leveraging on their experience.

Exhibit 22:



Source: CML based on SATS Annual report FY2023-24, Public data

4.1.4 Board Committees: Need for Rotation and Fresh perspective

We think SATS' Nominating Committee needs new composition to help the Board bring in members with the relevant experience and expertise for SATS' new business mix and geographical footprint. From FY2019 to FY2024, SATS Nomination Committee has had the same set of members and 2 out of the 3 were members in 2018 too. A rotation of Nomination Committee members could bring in fresh perspectives. With SATS undergoing a transformation since the acquisition, its board committees too need an overhaul.

In conclusion, we believe the new Chairman should review the composition of the board and the nominating committee with the view to bringing in new directors with global experience in logistics, cargo and supply chain management.

4.2 Remuneration: Aligning Management Incentives to Key KPIs

Given the enormous challenge in integrating WFS and the opportunity for realizing the synergies, SATS should tie part of the remuneration of its key executives to relevant KPIs. In this regard, we need more transparency and details on the composition of the remuneration structure of the key management personnel.

We believe in holding key management personnel to account through a transparent remuneration report with specific targets. This well ensure the interests of management and shareholders are better aligned. Detailed remuneration reports clearly setting out performance metrics and targets and how remuneration is linked to achievement of targets are part of the governance framework in the UK and Australia. The Singapore Code of Corporate Governance also states that the level and structure of remuneration should be appropriate and proportionate to the sustained performance and value creation of the company, taking into account the strategic objectives of the company. We believe the board of SATS should provide increased disclosure on the remuneration policy for key management personnel and demonstrate how remuneration is linked to sustained performance and value creation.

Global best practice

Below (see Exhibit 23) is a sample disclosure on Executive Remuneration from Maersk, a global logistics solutions company. In the Maersk example, the CEO's total remuneration was transparent and his compensation is based on a number of specific factors with stretched targets.

Exhibit 23

Table 2 Total remuneration – Executive Board

DKK million

Name and position	Base salary	STI (achieved)	LTI - Performance Shares (value at grant)	Benefits Allowance	Total target remuneration[1]		Total actual remuneration[2]	
					Amount	Fixed pay vs. variable pay[3]	Amount	Fixed pay vs. variable pay[3]
Vincent Clerc, CEO	11.85	16.35	17.77	2.37	43.84	32% / 68%	48.34	29% / 71%
Patrick Jany, CFO	8.33	9.20	7.50	1.67	24.17	41% / 59%	26.70	37% / 63%

Table 3 Performance measures and outcomes for 2024 short-term incentive programme

Value driver	Rationale	Performance measure	Weighting	Outcome (scale of 0-200)
Financial performance	Key metrics reflecting the company's profitability, ensuring alignment with financial goals.	A.P. Moller - Maersk EBIT	20%	40
		A.P. Moller - Maersk Free cash flow	20%	40
		Terminals EBIT	10%	20
Transformation	Key metrics reflecting the progress on the transformation ensuring alignment with strategic goals	Logistics & Services revenue	15%	15
		Logistics & Services EBIT margin	15%	0
		Transformation progress – Integrator	10%	10
		Transformation progress – Terminals	10%	13
Total			**100%**	**138**

Table 4 Performance measures for 2024-2027 long-term incentive plan[1]

Value driver	Performance measures	Sub Metric	Explanation	Weighting
Financial performance	Return on invested capital (ROIC)	• Ocean ROIC • Logistics & Services ROIC • Terminals ROIC	ROIC is a key performance indicator that assess how well the company generates long-term returns from its invested capital.	80%
Non-financial performance	Environment, Social and Government (ESG)[2]	• Decarbonisation - EEOI (Energy Efficiency Operational Indicator) • Decarbonisation - Green offerings Ocean • DEI - % of women in leadership • DEI - Diversity in teams • Safety - LTIF (Lost Time Incident Frequency) • Safety - Near misses in Logistics & Services (Recorded high potential incidents)	The ESG performance is based on three of our ESG categories – Decarbonisation, DEI & Safety.	20%
Total				**100%**

Source: Maersk Annual Report

To be sure, the Remuneration and Human Resources Committee of the Board (RHRC) of SATS does provide qualitative descriptions in the annual report on how key management personnel at SATS are compensated. The performance bonus is linked to financial performance at the group and divisional level and performance scorecard. For Senior Management, the individual Performance Scorecard comprises quantitative and qualitative targets including Financial and Business, Customer, People and Strategic Transformation Objectives. There is also Economic Value Added-Based Incentive Plan (EBIP) that links management performance to sustainable shareholder value creation over the medium. In this regard, a portion of the annual performance-related bonus of Senior Management and key executives is tied to the EVA achieved by the Group in the year. There is also a long-term incentives award for long-term shareholder value creation.

However, unlike the Maersk example, the annual report does not provide specific performance targets and metrics and how short term and long-term incentives are structured. We believe that specific KPIs for Executives and Key Management personnel should be disclosed to hold management to account for specific operational and long-term targets. Additional disclosures and specific targets which are transparent would place SATS in line with global best practices and provide assurance to shareholders that the interests of management are aligned with theirs.

5. CONCLUSION

SATS made a bold decision to acquire WFS in September 2022. The acquisition transformed SATS from an Asia-centric operator in Singapore to a global player, mitigating overexposure to a single market that made it vulnerable to regional economic shocks. While the group had to digest the impact of the acquisition in its FY2024 results which depressed returns, the first 9 months of the current year show encouraging performance as ROE rebounded to 9.7%. However, it is still early days as the integration is ongoing, especially for a combined entity which has over 50,000 people globally and in 215 locations.

At this critical stage of its merger, we believe the new Chairman should review the composition of the Board with the view to bringing in new directors with global experience in logistics, cargo and supply chain management. We recommend that the Board achieves greater geographic diversity that better reflects and aligns with SATS' global operations. We also believe that the Board needs to incentivize management with transparent performance targets to create greater transparency and accountability. This way, we will see greater alignment of interest with stakeholders and help underpin a transformation of SATS into a successful global group headquartered in Singapore.

6. APPENDICES

6.1 Sector: Tariff War Threat Sparks Caution

2024: A Banner Year for Air Cargo and Aviation Services

In 2024, the global air cargo industry achieved a record performance, with demand increasing by 11.3% year-on-year, surpassing the previous peak in 2021 by 0.5%. This growth was driven by robust e-commerce activity, ongoing disruptions in ocean shipping—such as the Red Sea blockade caused by Houthi-rebel attacks—and constrained air cargo capacity between Asia and North America or Europe due to airspace restrictions.

2025 Outlook: Promising Growth with a Hint of Caution

Looking ahead to 2025, the International Air Transport Association (IATA) projects a moderation in growth to 5.8%, aligning with historical trends. Positive economic fundamentals, including declining oil prices and expanding trade, support this outlook. However, the industry must navigate potential challenges, notably geopolitical shifts and a tariff war. Tariff-driven trade policies from the US administration could increase inflation and suppress trade, posing risks to air cargo demand

Exhibit 24: Robust growth in global air cargo traffic – Key routes – 2024

TRADE LANE	YOY GROWTH	NOTES	MARKET SHARE OF INDUSTRY
Asia-North America	+8.0%	14 consecutive months of growth	24.5%
Europe-Asia	+10.3%	22 consecutive months of growth	20.4%
Middle East-Europe	+6.1%	17 consecutive months of growth	5.7%
Middle East-Asia	+7.6%	19 consecutive months of growth	7.4%
Within Asia	+11.0%	14 consecutive months of growth	6.9%
Within Europe	+9.1%	13 consecutive months of growth	2.0%
North America-Europe	+3.4%	11 consecutive months of growth	13.4%
Africa-Asia	-4.0%		1.4%

Source: IATA

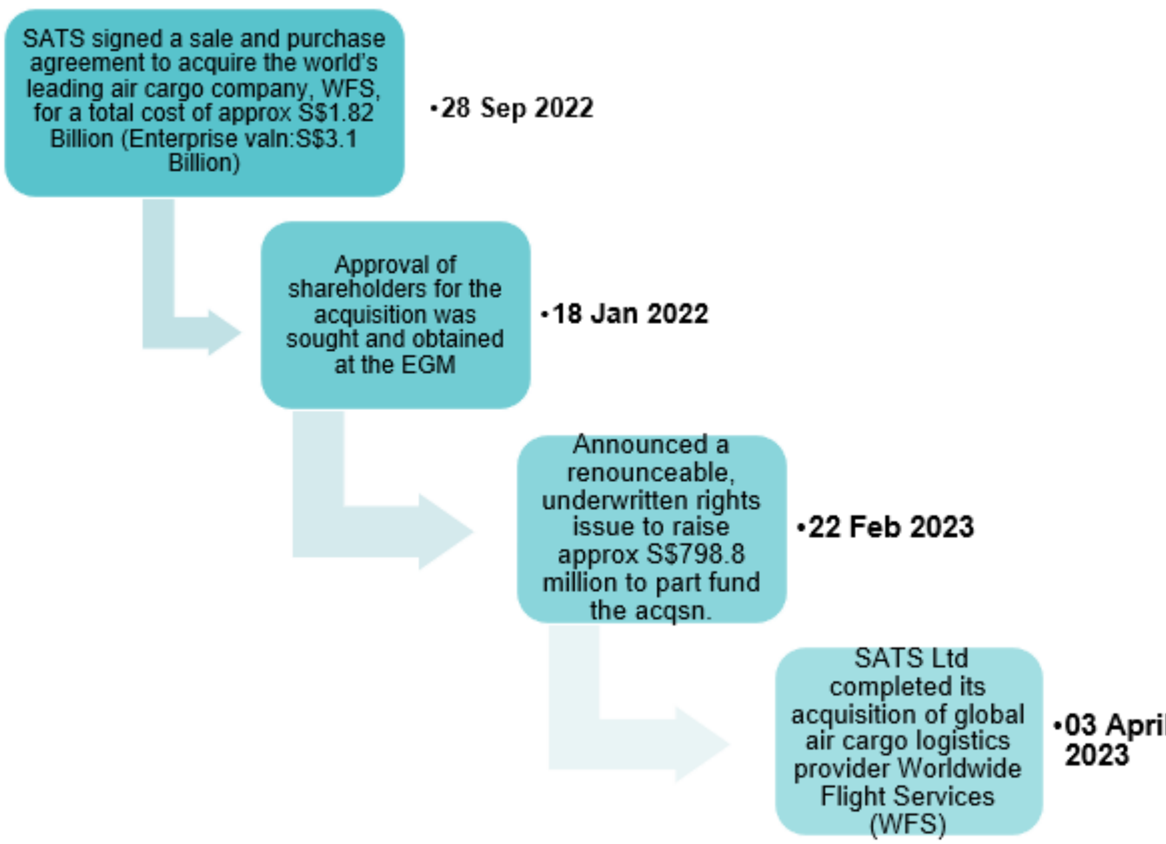
6.2 Background: The WFS Acquisition

A bold bet amid a fragile recovery

In September 2022, as the world cautiously emerged from nearly two years of pandemic-induced travel restrictions, signs of normalcy were just beginning to take hold. It was in this tentative climate that Singapore-listed inflight caterer and ground handler SATS made a move that stunned the market. The company announced plans to acquire Paris-based air cargo giant Worldwide Flight Services (WFS) for a staggering maximum price of €1.3 billion (S$1.9 billion), valuing the deal at an enterprise value of €2.25 billion (S$3.1 billion)- see Exhibit 25 below.

To put it in perspective, SATS itself had an enterprise valuation of just S$4.7 billion at the time. The sheer size, steep price, and precarious timing of the acquisition rattled investors, triggering a stock price plunge of more than 33% in the weeks that followed. It was a high-stakes gamble in an industry still finding its footing—and one that would test the mettle of both the company and its shareholders.

Exhibit 25: Acquisition: How it unfolded – the timeline



Source: CML based on Company reports

6.2.1 WFS: Key facts & financials

WFS: A Global Leader in Air Cargo Handling

In 2021/2022, Worldwide Flight Services (WFS) was an established player in global aviation services, with a sharp focus on air cargo handling. Handling over 7.1 million metric tons of cargo annually, WFS operated at 160 airport stations across 18 countries on five continents, cementing its position as a market leader. Its extensive footprint included 170 warehouses with over 800,000 square meters of space, offering comprehensive cargo storage, loading, and unloading services.

WFS served a blue-chip customer base of approximately 300 clients through 1,500 contracts, boasting a 90% contract renewal rate and relationships lasting up to 35 years. The company generated €1.7 billion in revenue and €232 million in EBITDA for the 12 months ending March 2022, with 77% of revenue derived from cargo operations (see Exhibit 26 below). Strategic hubs included major airports like Paris Charles de Gaulle, JFK, and London Heathrow.

In addition to general cargo, WFS specialized in eCommerce and pharmaceutical logistics, supported by dedicated pharmaceutical centres and cutting-edge facilities for perishables. With a workforce of nearly 31,000, WFS was a key enabler of global supply chains, offering integrated solutions for logistics giants like Amazon, DHL, and UPS.

Exhibit 26: WFS Financials: Robust revenue growth and strong EBITDA boost during COVID years

EUR (in million)	2018	2019	2020	2021	LTM Mar 22
Revenue					
Cargo	920	936	843	1,121	1,244
Ground & Ancillary	396	490	238	276	326
Pro Forma Adjustments				200	153
Revenue	**1,315**	**1,427**	**1,081**	**1,597**	**1,722**
Growth %		*8%*	*(24%)*	*48%*	
EBITDA	**118**	**75**	**54**	**245**	**232**
Margin %	*9%*	*5%*	*5%*	*15%*	*13%*
CAPEX	**39**	**45**	**14**	**36**	**41**

Source: Company reports

However, the subscript to this table told the bigger story – EBITDA margin boost in 2020, 2021 and 2022 came mainly from the positive impact of the support provided under the CARES Act and subsequent legislation amounting to €67.0 million, €84.3 million, and €61.8 million for the 12 months ended 31 December 2020, 31 December 2021, and 31 March 2022, respectively.

6.2.2 WFS Acquisition Valuation: Steeply Priced

"Based on the negotiated enterprise value of €2,250 million (approximately equivalent to S$3,107 million), the Company is acquiring the Target Group at an implied LTM March 2022 EBITDA valuation multiple of 9.7x" – SATS, EGM circular

Exhibit 27: Acquisition Valuation: EV based on EBITDA adjusted for Govt support/others is 14.3X

WFS Acquisition: Valuations based on EV/EBITDA vs EV/Adj EBITDA

		12 months ended Dec			LTM March
	EUR Mn	**2019**	**2020**	**2021**	**2022**
A	Revenue	1427	1081	1597	1722
B	**EBITDA**	**75**	**54**	**245**	**232.7**
	less Govt support (CARES act)	0	67	84.3	61.8
	less Non-recurring items/others				13.1
C	**Adj EBITDA**	**75**	**-13**	**160.7**	**157.8**
	Adj EBITDA margins	5.3%	-1.2%	10.1%	9.2%
D	**Enterprise Valuation of WFS on Acquisition**				**2250**
	Valuation multiple				
E = D / B	**EV/2022 EBITDA**			**(X)**	**9.67**
F = D / C	**EV/2022 Adj EBITDA**			**(X)**	**14.3**
	EV/2019 EBITDA (pre-COVID)			(X)	30

Source: CML based on Company reports

Key concerns with WFS Valuation approach

Based on Reported EBITDA. WFS was valued based on EBITDA figures that included temporary government aid, which accounted for nearly 25% of the total (see Exhibit 27 above). This raises concerns about whether the valuation reflects sustainable performance or artificially boosted results.

COVID Windfall Overlooked: WFS benefited significantly from a COVID-driven spike in air cargo demand, as seen in its financials. Sound valuation practices require normalizing earnings to exclude short-term anomalies, yet this principle appears to have been sidelined in SATS' assessment.

For the above reasons, we believe that the WFS acquisition was expensive which is to be expected in most M&A deals. We estimate that the price paid was close to 14.3x EV/EBITDA compared to SATS' own estimate of 9.7x. Nevertheless, the key question apart from the rich valuation is whether the acquisition will create revenue and cost synergies and ultimately create shareholder value in the long term. FY2024 financial performance of the group and WFS (stand-alone, see exhibit 28 below) was rough. However, it has improved significantly in the current year.

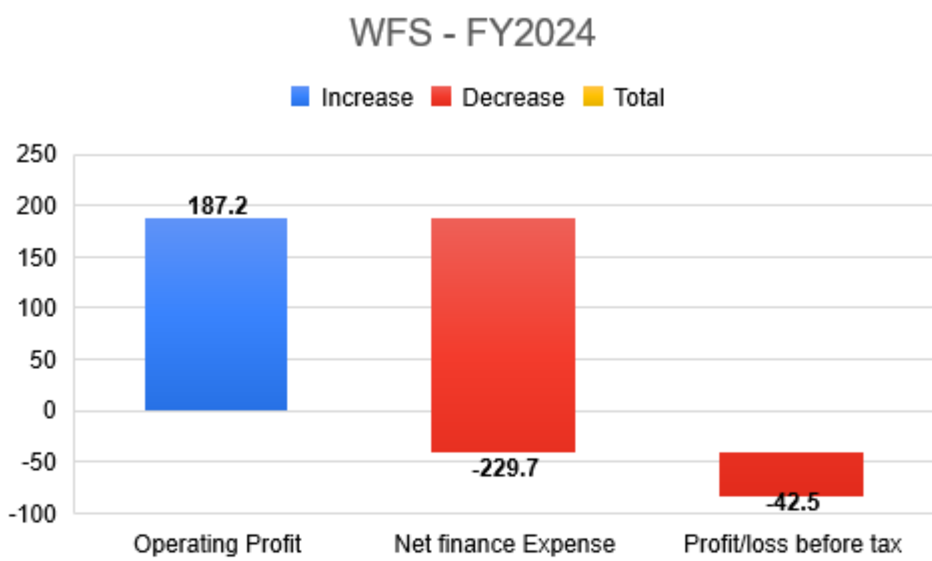
In hindsight, based on the 1HFY25 results and the annualised ROE of 10%+, the acquisition appears to have added value to shareholders since it is above our cost of equity estimate of 9% for SATS.

6.2.3 Financing the deal: Rights issue + Debt + Cash

SATS funded the total cost of the WFS Acquisition of approximately €1,313 million (approximately equivalent to S$1,820 million) through Net Proceeds from the Rights Issue of around SGD 800 Mn, a three-year Euro-denominated term loan equivalent to approximately S$700 million from SATS and SGD320 Mn in cash from the Company.

Equity dilution and Debt overload - Rights issue of 363.1 Mn shares led to equity dilution of around 25% for shareholders. Net debt of the group increased to S$3.5 Bn in FY2024 from being a net cash company in FY2022. Consequently, its net interest expense for FY2024 was S$258 Mn versus S$18 Mn a year ago. Group net debt to EBITDA rose to 4.4x post-acquisition as the group consolidated WFS' debt. This may seem alarming given SATS net cash position historically. Given the strong operating cashflow of the combined group, the gearing metric is now within acceptable ranges and supportive of the group's current A3 debt rating by Moody's.

Exhibit 28: WFS Standalone Financial Performance FY2024



Source: CML based on Company reports

6.3 Global Ground and Air Cargo Handling: Sector Snapshot

Ground and cargo handling services are essential to daily operations at airports worldwide. According to industry reports, the global ground and cargo handling services market is expected to grow at a CAGR of 5.65% from 2022 to 2028 (see Exhibit 29 below). These services cover a wide range of activities, including facilitating aircraft flight operations and preparing or repositioning planes on the ground.

Exhibit 29:

Source: Industry Reports

Ground handling services hold the largest share of the global market due to the rising number of scheduled passengers. Handling passengers and their baggage remains the most significant revenue driver for service providers. The increase in scheduled international flights, the development of new airports, and ongoing airport retrofitting projects are expected to further fuel growth in this segment.

Cargo Handling Services: In addition to the ground handling sector, the growing demand for air freight is driving the cargo handling services market. Cargo handling is expected to experience the highest growth rate, surpassing 5% in the service-type segment during the forecast period. The transportation of temperature-sensitive goods, such as pharmaceuticals, chemicals, and medicines, has also contributed to the rising demand for cargo handling services. Moreover, air cargo has benefitted from the expansion of e-commerce, where the demand for faster and more efficient delivery of goods driven by consumer expectations is further boosting the growth of air cargo transport.

Segment Overview: Air Cargo Handling Services
Air cargo involves the transportation of general, express, and special freight by air, including air mail. Although air freight is more expensive than sea freight, many suppliers opt for it due to its speed, reliability, and ability to handle high-value or time-sensitive items. Air cargo is especially suitable for goods that need fast delivery or have specific handling requirements, such as pharmaceuticals, medical equipment, perishables, and high-end clothing. These goods often require careful handling and precise environmental controls, which air transport is well-equipped to provide. The cargo handling market is served by airlines

(handling their own freight), airports, Integrators and independent service providers, with most cargo handling activities carried out by independent companies.

Exhibit 30:

Source: CML based on Company reports

Competitive Landscape

The global ground and cargo handling services market is highly competitive, with a mix of local and international players (see Exhibit 30 above). Competition is intense, with both monopolistic and fair market conditions present in different regions. Market entry is often controlled by airport authorities and government regulations, which sometimes create barriers for multinational companies to enter certain markets in order to protect local service providers. Leading independent players in the global market include Swissport, dnata, Menzies Aviation, and WFS. These companies are at the forefront of providing a wide range of ground and cargo handling services across the world’s busiest airports.