



## GLOBAL INVACOM GROUP LIMITED

(Incorporated in Singapore)  
(Company Registration No: 200202428H)

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### CORPORATE AND BUSINESS UPDATE AND PROFIT GUIDANCE

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The Board of Directors (“Board” or “Directors”) of Global Invacom Group Limited (“Global Invacom” or the “Company”, together with its subsidiaries, the “Group”) has recently undertaken a strategic review of the Group. This review takes into account major changes in the Satellite Communications (“SatCom”) industry and macro-economic factors that have impacted the operating environment, in particular for manufacturing activities in Asia, as well as increased tariffs due to the ongoing U.S.-China ‘trade war’. Accordingly, the Board wishes to provide the following corporate and business update and profit guidance.

#### **Company Background**

Global Invacom is the world’s only full-service outdoor unit developer, manufacturer and supplier of satellite antenna products for Ku- and Ka-band frequencies. It counts some of the world’s largest satellite broadcasters offering Direct-to-Home (“DTH”) services as customers. The Group supplies a full range of products and electronic manufacturing services (“EMS”) in the SatCom, medical and consumer electronics industries, including dish antennas, transmitters, switches, low noise block (“LNB”) receivers, and video distribution components.

The acquisition in August 2015 of Skyware Global, now known as Global Skyware, provided the Group with a manufacturing footprint in Smithfield, North Carolina, U.S.A., and added strategic Data Over Satellite (“DOS”) capabilities to its intellectual property (“IP”) portfolio. These capabilities include development, design and manufacture of Very Small Aperture Terminal (“VSAT”) antennas used in DOS applications. DOS involves transmission and reception of internet or other data from small dishes linked by microwave signals to one or more satellites. The DOS sector has grown exponentially in recent years and will have significant impact on Global Invacom’s future operations and outlook.

Listed on the Mainboard of the Singapore Exchange and the AIM Market of the London Stock Exchange, the Group had six manufacturing locations worldwide with a combined staff strength of approximately 725 as at end-2019. However, both the manufacturing footprint and manpower base are undergoing significant transformation due to the Group’s strategic shift outlined in this document.

#### **A. Review of Operating Environment**

##### **1. Satellite Communications Sector Continues to Show Steady Growth**

The global SatCom market is expected to record a Compounded Average Growth Rate (“CAGR”) of more than 6.9% by 2024, according to The Industry Research (June, 2019).

Demand for SatCom equipment is expected to remain robust due to miniaturisation, connected technology, low-power computing, robust network environment, as well as radio frequency and machine-to-machine applications. Governments are also investing to implement initiatives for Internet of Things (“IoT”), smart cars, vessel tracking, smart cities, and military operations and surveillance. Furthermore, satellite technology will play an essential role in the transition from 4G to 5G in countries around the world. North America is projected to hold the largest share, while the Asia-Pacific will grow the fastest.

Alphabet (parent company of Google), together with Tesla’s Elon Musk and Amazon’s Jeff Bezos, have joined a ‘space race’ to launch Low Earth Orbit (“LEO”) satellites to transform internet connectivity worldwide. Musk’s SpaceX launched the first 60 Starlink satellites earlier this year and expects to build a ‘mega-constellation’ of up to 12,000 satellites. Amazon intends to deploy over 3,000 internet satellites as part of Project Kuiper. These LEO satellites orbiting closer to Earth are less expensive and allow a minimal delay between data leaving the satellite and reaching users of smartphones and GPS communications. In addition, Medium Earth Orbit (“MEO”) satellites are becoming increasingly attractive for many applications as they provide lower latency and higher bandwidth access than geo-stationary satellites (“GEO”) and have greater longevity than LEO satellites. The acceleration in satellite activity worldwide has triggered more demand for DOS products.

## **2. The U.S. Tariffs Increase Steel Prices and SatCom Production Costs**

Due to the ‘trade war’, tariffs have been imposed on various Chinese exports to the U.S.A. This has affected many multi-national companies (“MNCs”) which have production facilities in China, including Global Invacom.

LNBS manufactured in Shanghai for one of our largest customers in the U.S.A. have been impacted by the tariffs. In addition, a tariff has been imposed on steel and steel parts originating from China, while steel products shipped from the Group’s U.S. operations to China for antennas have also incurred similar tariffs.

In response to this, the Group has executed a strategic shift of its manufacturing operations to mitigate the impact of tariffs on its products :

- 1) Production of volume, mainstream products carried out previously in China has been transferred to internal manufacturing in Global Skyware; and
- 2) The Group has negotiated better pricing with a Canadian steel mill to avoid the cost spill-over into U.S. steel mills due to the tariffs.

Going forward, the above manufacturing re-alignment will lead to better margins on the products affected by tariffs in the long term.

## **3. Rising Production Costs in China; Increasing Relocation to Southeast Asia**

In recent years, wages and production costs in China have risen significantly. All-in wages in China are roughly two-thirds of an equivalent operation based in the United Kingdom. While the Group had consolidated its Shenzhen and Shanghai operations in FY2016, the pace of wage growth in China has continued to apply margin pressure despite improved productivity and economies of scale. The average cost per Global Invacom employee in China per annum rose approximately 89% from FY2012 to FY2019.

MNCs and Original Equipment Manufacturers (“OEMs”) face the choice of relocating production either to lower-cost second- or third-tier Chinese cities, which will still incur U.S. tariffs, or other countries in Southeast Asia. ASEAN governments are investing in infrastructure and offering incentives to these MNCs and OEMs, with a view towards job creation and technology transfer. The ‘trade war’ has tilted the balance towards Southeast Asia for many companies seeking to avoid the new tariffs imposed on imports to the U.S.A.

## **B. Outline of Strategic Initiatives**

In view of the above factors, the Group has outlined five strategic initiatives as part of this review:

**Strategy 1 – Direct-to-Home Satellite (“DTH”) vs Data Over Satellite (“DOS”) –** While the DTH sector will continue to provide stable cashflow, the forward emphasis is to increase the range and reach of DOS products, targeted particularly at emerging markets.

**Strategy 2 – Relocation of Shanghai Manufacturing Operations to The Philippines –** The Group will close its manufacturing operations in Shanghai and transfer all its China-based manufacturing and assembly operations to a third-party vendor in The Philippines.

**Strategy 3 – Increased Importance of Global Skyware –** After closure of the Shanghai operations, Global Invacom’s U.S. subsidiary will be the largest internal facility within its manufacturing footprint. The Group will accelerate ongoing productivity improvements at Smithfield and invest more in R&D to widen its range of DTH and DOS products.

**Strategy 4 – Global Procurement and Efficiencies –** The Group will retain a core team of experienced supply chain and quality assurance personnel with associated support functions in China to source for the Group throughout Asian and other key suppliers.

**Strategy 5 – Improving Balance Sheet to Prepare for Future Growth –** In line with the closure of the Shanghai manufacturing site, the Group will undertake a review of the holding value of its investments and make adjustments that will position Global Invacom for future growth from 2020 onwards.

## **C. Strategy #1— Direct-to-Home Satellite (“DTH”) vs Data Over Satellite (“DOS”)**

Global Invacom has continued to invest in R&D and has made acquisitions over the years to strengthen its value propositions for the DTH and the DOS sectors. To date it holds 76 patents related to the SatCom industry with a further 28 pending and 10 applied for. It also holds 30 trademarks. In 2018, the Group acquired certain assets together with associated IP, R&D team and inventory from Skyware Technologies Group which designs and manufactures integrated transmitters/receivers for DOS applications.

### **i) Direct-to-Home Satellite (“DTH”)**

Global Invacom serves satellite broadcasters in North, Central and South America, Europe and Asia. The Group’s main products in the DTH range include LNBs (universal and customer specific), digital channel stacking switch (“DCSS”) LNBs (both universal and specific), Ku dish antennas, and mounting systems, fibre links and distribution systems. The largest revenue is generated by customer-specific DCSS LNBs.

While contribution to turnover has fallen from 75% about five years ago, the DTH sector is still very substantial, accounting for about 50% currently.

Even though overall growth rates of the DTH sector may taper in the coming years, this division is financially stable, generating positive cashflow to fund operations, R&D as well as new products including DOS products.

**ii) Data Over Satellite (“DOS”)**

The Group’s main markets for DOS products are North, Central and South America, Europe, Africa and Southeast Asia. Customers include service providers, satellite owners as well as aggregators or company-specific specialists.

The DOS business has been growing in significance, with contribution to Group revenue rising ten-fold from 4% in FY2014 to 40% in FY2019.

The 2018 acquisition of assets, capabilities and IP from Skyware Technologies has enabled the Group to offer a total DOS reception and transmission system or terminal solution. Beyond the ability to offer reception-only LNBs and antennas for DTH, the Group is now able to extend this same unique capability to the DOS market, helping to maintain its leading position in this sector, especially in emerging markets.

Global Invacom is currently developing new DOS products in line with the requirements of our customers, both existing and new, for launch over the forthcoming years.

**D. Strategy #2 – Relocation of Shanghai Manufacturing Operations to The Philippines**

The Group’s China operations had a staff strength of approximately 300 as at end-2019, having declined gradually from a peak of approximately 1,100 in 2014. As at end-2019, China accounted for about 25% of the total manufacturing activities of the Group, compared to 40% at the end of 2018. The main items produced out of China until recently were LNBs, Fibre products, Switches and EMS/ VSAT products. By the end of 2020, The Philippines is expected to account for approximately 50% of global production in revenue terms.

The Group has partnered a leading Philippines electronics sub-contracting group, EMS Group, headquartered in Binan, Laguna region, to outsource production of the majority of items previously manufactured in Shanghai. EMS Group offers advanced and flexible EMS solutions which allows for easier entry and higher efficiency. It has commenced the following services for the Group: Manufacturing Capability, Product/Process Development, Prototyping, Test & Engineering, and Materials & Logistics. Several key clients including one of our largest customers in U.S.A. have already qualified production lines at EMS Group. Over the past several months, the Group has begun relocating from China to The Philippines and expects production to cross the 80% mark by end-January 2020 and achieve 100% completion by June 2020.

By then the closure of the Shanghai operations would have been completed, with all the remaining employees having been made redundant. However, the Group will retain a core team of approximately 30 staff in Shanghai who will oversee global sourcing and procurement of key components. Within the EMS production line in The Philippines, Global Invacom will embed nine of its own specialists to oversee production processes, risk registers and quality control.

The Group expects to recognise one-off, non-recurring charges related to the closure of Shanghai operations in FY2019. On the positive side, the relocation will represent a paradigm shift towards asset-light production and assembly in Asia. Apart from helping to improve margins, products originating from Southeast Asia will also be spared the U.S. tariffs.

**E. Strategy #3 – Increased Importance of Global Skyware**

Following the Shanghai closure, the Smithfield operations will become the largest in-house manufacturing facility for the Group. Global Skyware currently designs, manufactures and distributes Ka- and Ku-band VSAT transceivers, block upconverters (“BUCs”), orthomode transducers (“OMTs”) and LNBs as well as C, Ku and Ka composite and steel antennas and fibre links. Its high-performance design, lower manufacturing costs and technology have helped to position it as a leader in radio frequency (“RF”) electronics and antenna platforms.

In FY2018, Global Skyware reached an agreement with Hispasat to develop a terminal that permits integration of data and services into a single antenna which is fully compatible with different satellite Internet providers, offering increased flexibility with minimal change in price. The Smithfield facility’s proximity to the main North American market also gives it an advantage in terms of customer servicing, as does the Accrington unit for Europe and the Malaysian unit for Southeast Asia.

In March 2019, before any restructuring at the Shanghai manufacturing facility, the Group had approximately 940 employees. When the closure is completed, approximately 450 employees will remain. The number of U.S. employees at the end of 2019 has declined to 208 from 244 in 2018, reflecting increasing automation processes to improve productivity. Among the Smithfield workforce, 13 are directly engaged in R&D currently. Smithfield is one of four R&D operations of the Group, the rest being Stockport and Stevenage in the U.K. and Tel Aviv, Israel. In total, 59 personnel are directly involved in R&D for the Group.

Going forward, the Group will continue to optimise the Global Skyware DOS product manufacturing process in The Philippines, which will help to enhance profitability and attract new customers.

**F. Strategy #4 – Global Procurement and Efficiencies**

With the re-alignment of the global manufacturing footprint, renewed emphasis will be placed on improving procurement and supply chain efficiencies, to ensure that the Group continues to be engaged with reliable suppliers and source for the best quality materials.

Having established a partnership with EMS, the Group also intends to develop partnerships with local component suppliers. Despite the relocation to The Philippines, the Group will continue to rely on China as a major source of components for the near future.

The remaining core 30-member team in China will address the Group’s procurement requirements in Asia and from key suppliers, in order to increase the Group’s purchasing strength and bring about greater coordination of purchasing.

Moreover, the Group has positioned Supplier Quality Engineers in close proximity to suppliers. These experienced and highly skilled personnel have the advantages of local knowledge, language and culture familiarity, and are capable of rapidly responding to any problems that

may arise. This will also reduce the requirement for travel from the U.S. and Europe to resolve problems.

**G. Strategy #5 – Improving Balance Sheet to Prepare for Future Growth**

For the nine months ended 30 September 2019 (“9M FY2019”), the Group recorded revenue of US\$104.4 million, an increase of 21.5% or US\$18.5 million from US\$85.9 million for the corresponding period in 2018 (“9M FY2018”). In line with the higher revenue, gross profit grew 19.7% to US\$21.3 million in 9M FY2019 from US\$17.8 million in 9M FY2018.

Given the developments taking place in China as a result of the increasing costs of manufacturing in that region together with the US implemented tariffs, namely the closure of its Shanghai site and the impairments this will cause, the Group has taken this opportunity to review other assets within its Balance Sheet investments.

In line with the above, the Group will recognise one-off, non-recurring charges in FY2019 for closure of the Shanghai operations and, potentially, other impairments of goodwill and investments.

**H. Outlook and Guidance**

In view of the operational review and corporate developments above, the Directors wish to provide the following outlook and profit guidance:

- i) The Group will remain operationally profitable in FY2019;
- ii) The Group will record one-off non-cash write-offs, impairments and other charges in FY2019; accordingly, Global Invacom expects to record a net loss compared to a net profit of US\$1.5 million in FY2018;
- iii) The contribution of DOS products to total turnover will cross 50% for the first time in FY2020, and is expected to increase further in the coming years;
- iv) The Group will complete relocation of the China operations to The Philippines by Q2 FY2020 (ending 30 June 2020); and
- v) Due largely to the re-alignment of Asian manufacturing operations and ongoing process improvements, the Group expects its operational and financial performance in FY2020 to improve compared to FY2019.

The Group expects to report its unaudited results for FY2019 in February 2020.

**BY ORDER OF THE BOARD**

Anthony Brian Taylor  
Executive Chairman

15 January 2020

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**About Global Invacom Group Limited**

Global Invacom is a fully integrated satellite equipment provider with six manufacturing plants across China, Israel, Malaysia, UK and the US. Its customers include satellite broadcasters such as BSkyB of the UK and Dish Network of the USA and Data over Satellite providers including Hughes Network Systems, Viasat and Gilat Satellite Networks.

Global Invacom provides a full range of antennas, LNB receivers, transceivers, fibre distribution equipment, transmitters, switches and video distribution components and electronics manufacturing services in satellite communications as well as manufacturing services in military, medical, and consumer electronics industries. Following the acquisition in 2015 of Global Skyware, a leading US-based designer and supplier of satellite antennas products and services, the Company became the world's only full-service outdoor unit supplier.

Global Invacom is listed on the Mainboard of the Singapore Exchange Securities Trading Limited and its shares are admitted to trading on the AIM Market of the London Stock Exchange.

For more information, please refer to [www.globalinvacom.com](http://www.globalinvacom.com)