

# COVER SHEET

SEC Registration Number

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**Company Name**

C	O	N	V	E	R	G	E		I	N	F	O	R	M	A	T	I	O	N		A	N	D							
C	O	M	M	U	N	I	C	A	T	I	O	N	S		T	E	C	H	N	O	L	O	G	Y						
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**Principal Office (No./Street/Barangay/City/Town/Province)**

N	E	W		S	T	R	E	E	T		B	U	I	L	D	I	N	G		M	C	A	R	T	H	U	R		
H	I	G	H	W	A	Y		B	A	L	I	B	A	G	O		A	N	G	E	L	E	S		C	I	T	Y	
P	A	M	P	A	N	G	A																						

**Form Type**

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**Department requiring the report**

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**Secondary License Type, If Applicable**

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**COMPANY INFORMATION**

Company's Email Address

Company's Telephone Number/s

Mobile Number

No. of Stockholders

Annual Meeting

Last Friday of May of Each Year

Fiscal Year

Month/Day

**CONTACT PERSON INFORMATION**

The designated contact person **MUST** be an Officer of the Corporation

Name of Contact Person

Email Address

Telephone Number/s

Mobile Number

**CONTACT PERSON'S ADDRESS**

**NOTE 1:** In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

**2:** All boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies



SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE  
SECURITIES REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

1. For the quarterly period ended **September 30, 2020**
2. SEC Identification number **CS200716094**
3. BIR Tax Identification No. **006-895-049**
4. **Converge Information and Communications Technology Solutions, Inc.**  
Exact name of registrant as specified in its charter
5. **Republic of the Philippines**  
Province, country or other jurisdiction of incorporation or organization
6. Industry Classification Code: (SEC Use Only)
7. **New Street Bldg., Mc Arthur Highway, Balibago, Angeles City, Pampanga** **2009**  
Address of registrant's principal office Postal Code
8. **(02) 8667-0888**  
Registrant's telephone number, including area code
9. **Not applicable**  
Former name, former address and former fiscal year, if changed since last report
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA  

Title of Each Class	No. of Shares of Common Stock Issued & Outstanding
<b>Common Stock, P0.25 par value</b>	<b>7,526,294,461 Shares as of October 26, 2020</b>
11. Are any or all of the securities listed on the Philippine Stock Exchange?  
Yes [] No []
12. Indicate by check mark whether the registrant:
  - (a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports)  
Yes [] No []
  - (b) has been subject to such filing requirements for the past ninety (90) days  
Yes [] No []



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## PART I - FINANCIAL INFORMATION

### Item 1. FINANCIAL STATEMENTS

Our unaudited condensed consolidated financial statements include the financial statements of the Parent Company and its subsidiaries namely, Pentagon Holding Co., Inc. (Pentagon) and Converge ICT Solutions (Global) Limited (Converge Global). These consolidated financial statements also include Pentagon’s subsidiary, namely, Metroworks ICT Construction Inc. (Metroworks). The Parent Company and its subsidiaries are collectively referred to here as the “Group”.

The unaudited condensed consolidated financial statements for the nine months ended September 30, 2020 (filed as Annex 1 of this report) have been prepared in accordance with Philippine Accounting Standard 34, Interim Financial Reporting and hence do not include all of the information required in the December 31, 2020 annual audited financial statements.

### Item 2. MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A) OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a discussion and analysis of Converge’s financial performance for the nine months ended 30 September 2020. The prime objective of this MD&A is to help the readers understand the dynamics of the Company’s business and the key factors underlying its financial results. This section focuses on key statistics from the unaudited consolidated financial statements and pertains to known risks and uncertainties relating to the telecommunications industry in the Philippines where we operate up to the stated reporting period. However, Converge’s MD&A should not be considered all inclusive, as it excludes unknown risks, uncertainties and changes that may occur in the general economic, political and environmental condition after the stated reporting period. Converge has adopted an expanded corporate governance approach in managing its business risks. An Enterprise Risk Management Policy was developed to systematically view the risks and to manage these risks in the context of the normal business processes such as strategic planning, business planning, operational and support processes.

The Company’s MD&A should be read in conjunction with its unaudited consolidated financial statements and the accompanying notes. All financial information is reported in Philippine Pesos (Php) unless otherwise stated.

Any references in this MD&A to “we”, “us”, “our”, “Company” means the Converge and references to “Converge” mean Converge Information and Communications Technology Solutions, Inc. Additional information about the Company, including annual and quarterly reports, can be found on our corporate website <https://www.convergeict.com/>



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## **OVERVIEW OF OUR BUSINESS**

Converge Information and Communications Technology Solutions, Inc. (“Converge”) is the fastest-growing high-speed fixed broadband operator in the Philippines, with our residential subscriber base doubling over the last 12 months, increasing from 454,438 residential subscribers as of September 30, 2019 to 900,531 residential subscribers as of September 30, 2020.

Furthermore, we are the only pure-play high-speed fixed broadband provider, with an exclusive focus on serving the Philippines with industry leading optical fiber-based connectivity services. This singular focus on industry leading high-speed fixed broadband services is deeply ingrained in our organization, which we believe permeates all aspects of our operations, including our network rollout, product and service offerings, sales and customer service.

We operate two businesses: (i) our residential business (“Residential Business”), which primarily offers high-speed fixed broadband internet services to our residential customers; and (ii) our enterprise business (“Enterprise Business”), which offers high-speed fixed broadband internet services, private data network solutions, cloud and colocation services and other connectivity solutions to our enterprise customers of varying sizes, industries and types.

We own and operate the fastest-growing, end-to-end fiber network in the Philippines, which is also one of the newest in the country. With over 44,000 kilometers of fiber as of September 30, 2020, our network is among the most extensive in the country. Our network is comprised of a fiber backbone that stretches from the northernmost tip of Luzon Island to its southernmost end, as well as a fiber distribution and last-mile network that covers over 270 cities and municipalities across Luzon (including Metro Manila), as of September 30, 2020. Our network reached approximately 5.1 million homes as of September 30, 2020 covering 36% of households in Luzon and 21% of households nationwide. We currently operate in the following regions of Luzon: Region 1 – Ilocos; Region 3 – Central Luzon; the National Capital Region; Region 4A – Calabarzon; the Cordillera Administrative Region; and Region 5 – Bicol. We are currently expanding our domestic backbone from Luzon to Visayas and Mindanao and we expect to provide nationwide backbone infrastructure coverage by 2021.

Fixed broadband penetration in the Philippines trails significantly behind that of regional peers, with penetration rates of only 14% overall and only 6% on high-speed broadband as of December 31, 2019, according to MPA. We believe that there is significant potential in the Philippine high-speed fixed broadband market and we will continue to aggressively pursue this attractive “blue-ocean” market opportunity by securing a first mover’s advantage in unserved and underserved areas on a nationwide basis.



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## **KEY PERFORMANCE INDICATORS**

Converse is committed to efficiently managing the Company's resources and enhancing shareholder value. The Company regularly reviews its performance against its operating and financial plans and strategies, and uses key performance indicators to monitor its progress.

Some of its key performance indicators are set out below. Except for Net Income, these key performance indicators are not measurements in accordance with Philippine Financial Reporting Standards (PFRS) and should not be considered as an alternative to net income or any other measure of performance which are in accordance with PFRS.

### **AVERAGE REVENUE PER UNIT (ARPU)**

ARPU for our Residential Business is calculated by dividing (i) the revenue generated during a period by (ii) the average number of subscribers during that period, then dividing the quotient by the number of months during that period. The average number of subscribers during a period, is calculated by the sum of the subscribers at the beginning and at the end of the period, divided by two.

ARPU for our Enterprise Business is calculated by dividing (i) the revenue generated during a period by (ii) the average number of enterprise users during that period, then dividing the quotient by the number of months during that period. The average number of enterprise users during a period, is calculated by the sum of the enterprise users at the beginning and at the end of the period, divided by two.

### **AVERAGE MONTHLY CHURN RATE**

The percentage measure of the number of customers who have, voluntarily or involuntarily, discontinued a service for which the customer had subscribed for the relevant period over the number of customers for that period.

Our churn rate is calculated by dividing (i) the sum of the number of permanent subscriber discontinuations in a month, by (ii) the average number of subscribers during the respective month and multiplying the result by 100%. The average number of subscribers during a month, is calculated by the sum of the subscribers at the beginning and at the end of the month, divided by two.

### **PORT UTILIZATION**

Our port utilization rates for our FTTH network is our number of FTTH subscribers as a percentage of total FTTH ports and for our HFC network is our number of HFC subscribers as a percentage of HFC homes passed. In line with our focus on FTTH network expansion and FTTH subscriber additions, we actively track and manage our FTTH port take-up or utilization rates. Each utilized port generates revenue for us.

### **EBITDA**

EBITDA is calculated as our profit for the year before depreciation and amortization (other than amortization of installation fees as their corresponding revenue impact has not been adjusted), finance costs, income tax expense. This measure provides useful information regarding a company's ability to generate cash flows, incur and service debt, finance capital expenditures and working capital changes. As the Company's method of calculating EBITDA may differ from other companies, it may not be comparable to similarly titled measures presented by other companies.



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## **NET INCOME**

As presented in the unaudited condensed consolidated financial statements for applicable periods, net income provides an indication of how well the Company performed after all costs of the business have been factored in.

## **EBITDA AND NET INCOME MARGIN**

EBITDA and Net Income Margins are calculated as a percentage of revenues.

## **RETURN ON INVESTED CAPITAL (ROIC)**

Return on Invested Capital is tax-adjusted (30% assumed effective tax rate) profit from operations divided by average invested capital. Invested Capital is the sum of our total equity and total debt (comprising loans payable (non-current and current portions)), less cash and cash equivalents and capital expenditures in progress. This measure provides useful information regarding a company's ability to deploy capital efficiently.



## FINANCIAL AND OPERATIONAL RESULTS

### A. FINANCIAL AND OPERATING SUMMARY

#### SUMMARY OF STATEMENTS OF COMPREHENSIVE INCOME

	For the nine months ended September 30		For the three months ended September 30	
	2020	2019	2020	2019
	(in millions)			
Revenues .....	10,677.3	6,393.7	4,187.3	2,451.3
Cost of services .....	(4,943.9)	(3,112.3)	(1,925.8)	(1,212.1)
<b>Gross profit</b> .....	<b>5,733.4</b>	<b>3,281.4</b>	<b>2,261.6</b>	<b>1,239.2</b>
General and administrative expenses .....	(1,771.4)	(979.9)	(694.7)	(343.5)
Provision for impairment of trade and other receivables .....	(490.8)	(369.6)	(166.5)	(140.3)
Unrealized fair value loss on financial asset at FVTPL .....	(40.6)	-	-	-
Other income (loss), net .....	166.0	(13.1)	51.6	13.4
<b>Profit from operations</b> .....	<b>3,596.6</b>	<b>1,918.8</b>	<b>1,452.0</b>	<b>768.8</b>
Finance costs .....	(454.2)	(222.1)	(106.9)	(85.4)
<b>Profit before income tax</b> .....	<b>3,142.4</b>	<b>1,696.7</b>	<b>1,345.1</b>	<b>683.4</b>
Income tax expense .....	(952.2)	(362.5)	(413.6)	(174.0)
<b>Profit for the year/ period</b> .....	<b>2,190.2</b>	<b>1,334.2</b>	<b>931.5</b>	<b>509.4</b>
<b>Other comprehensive income</b>				
<b>Item that will not be reclassified to profit or loss</b>				
Remeasurement gain on retirement benefit obligation, net of tax .....	(19.4)	27.1	-	-
<b>Total comprehensive income for the year/ period</b> .....	<b>2,170.7</b>	<b>1,361.3</b>	<b>931.5</b>	<b>509.4</b>
<b>EBITDA</b> .....	<b>5,575.7</b>	<b>3,204.7</b>	<b>2,261.9</b>	<b>1,265.8</b>
<b>EBITDA Margin</b> .....	<b>52.2%</b>	<b>50.1%</b>	<b>54.0%</b>	<b>51.6%</b>
<b>ROIC</b> .....	<b>20.0%</b>	<b>22.6%</b>		





## SUMMARY OF SELECTED OPERATING INFORMATION

	2019				2020			QoQ
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	Growth 3Q19 vs 3Q20
<b>Residential Business</b>								
<b>Revenues</b>								
(in millions) .....	1,255.9	1,455.7	1,717.7	1,924.5	2,286.8	2,690.9	3,435.3	100%
FTTH .....	675.1	857.7	1,090.6	1,325.7	1,614.0	1,992.5	2,679.0	146%
HFC .....	580.8	598.0	627.0	598.8	672.7	698.5	756.2	21%
<b>Customers</b>								
.....	324,994	381,343	454,438	529,629	615,466	731,563	900,531	98%
FTTH .....	166,711	208,879	268,883	330,621	405,784	512,597	673,005	150%
HFC .....	158,283	172,464	185,555	199,008	209,682	218,966	227,526	23%
<b>Homes Passed</b>								
.....	1,705,763	2,094,160	2,606,577	3,221,743	3,599,533	4,111,661	5,112,591	96%
FTTH <sup>(1)</sup> .....	992,474	1,352,442	1,835,354	2,423,944	2,789,112	3,301,240	4,281,768	133%
HFC <sup>(2)</sup> .....	713,289	741,718	771,223	797,799	810,421	810,421	830,823	8%
<b>Ports</b>								
.....	1,209,526	1,417,939	1,688,900	2,009,771	2,204,977	2,461,041	2,971,707	76%
FTTH <sup>(3)</sup> .....	496,237	676,221	917,677	1,211,972	1,394,556	1,650,620	2,140,884	133%
HFC <sup>(4)</sup> .....	713,289	741,718	771,223	797,799	810,421	810,421	830,823	8%
<b>Household Coverage <sup>(5)</sup></b>								
(%) .....	6.9%	8.5%	10.5%	13.0%	14.5%	16.6%	20.6%	96%
<b>ARPU<sup>(6)</sup></b>								
.....	1,362	1,320	1,330	1,283	1,284	1,287	1,352	2%
FTTH .....	1,510	1,454	1,454	1,407	1,417	1,405	1,467	1%
HFC .....	1,224	1,168	1,164	1,091	1,046	1,033	1,046	(10)%
<b>Customer Churn <sup>(7)</sup></b>								
(%) .....	1.11	0.45	0.53	0.37	0.39	1.08	1.63	207%
FTTH .....	0.11	0.26	0.38	0.34	0.34	0.78	1.28	238%
HFC .....	2.06	0.67	0.73	0.41	0.49	1.74	2.55	248%
<b>Enterprise Business</b>								
<b>Revenues</b>								
(in millions) .....	602.3	628.2	733.5	821.6	850.8	661.4	752.1	3%
<b>Customers</b> .....								
.....	7,803	8,883	9,621	10,083	10,378	10,498	10,953	14%
<b>ARPU<sup>(8)</sup></b> .....								
.....	27,785	24,989	25,574	27,259	27,714	21,126	23,370	(9)%
<b>Customer Churn <sup>(9)</sup></b>								
(%) .....	0.15	0.08	0.16	0.33	0.30	0.33	0.49	205%

### Notes:

- (1) FTTH homes passed is derived from the number of homes within a 300-meter radius from a network access point ("NAP") that we have installed in a coverage area. Each NAP has eight ports, and one port serves one home.
- (2) HFC homes passed refers to the number of homes and other residential units that are within a 200-meter radius from our HFC ports, and can be connected to our network.
- (3) The number of FTTH ports installed represents both activated FTTH connections and ports available for immediate activation once a new subscription is approved. There are eight ports available in each NAP installed.
- (4) The number of HFC ports installed represents refers to a slot on a network device allowing for the transmission of data between our HFC network and the equipment at the customer premises.
- (5) Household coverage is calculated as total homes passed over total number of homes in the Philippines, which is 24.8 million as of 2019, according to MPA.
- (6) Monthly ARPU for our Residential Business is calculated by dividing (i) the revenue generated during a period by (ii) the average number of subscribers during that period, then dividing the quotient by the number of months during that period. The average number of subscribers during a period, is calculated by the sum of the subscribers at the beginning and at the end of the period, divided by two.
- (7) Blended churn rate refers to the combined FTTH and HFC churn rate. Churn rate for our Residential Business is calculated by dividing (i) the sum of the number of permanent subscriber discontinuations in a month, by (ii) the average number of subscribers during the respective month and multiplying the result by 100%. The average number of subscribers during a month, is calculated by the sum of the subscribers at the beginning and at the end of the month, divided by two.
- (8) ARPU for our Enterprise Business is calculated by dividing (i) the revenue generated during a period by (ii) the average number of enterprise users during that period, then dividing the quotient by the number of months during that period. The average number of enterprise users during a period, is calculated by the sum of the enterprise users at the beginning and at the end of the period, divided by two.
- (9) Customer churn rate for our Enterprise Business is calculated by dividing (i) the sum of the number of permanent customer deactivations in a month, by (ii) the average number of customers during the respective month and multiplying the result by 100%. The average number of customers during a month is calculated by the sum of the circuits at the beginning and at the end of the month, divided by two.



Nine months ended September 30, 2020 compared to nine months ended September 30, 2019

## B. OPERATING REVENUES

Driven by Converge's strong roll-out and subscriber additions, the Company achieved PHP10,677 million of consolidated revenues in the first nine months of 2020, representing a 67% increase (Y.o.Y). For the three months ended September 2020, the Company generated PHP4,187 million of consolidated revenues representing a 71% increase (Y.o.Y), highlighting the revenue growth acceleration of the business in the third quarter 2020. Its Residential and Enterprises Businesses generated revenues of PHP8,412 million (+90% Y.o.Y) and PHP2,264 million (+15% Y.o.Y), respectively in the first nine months of 2020.

Converge's monthly residential ARPU steadily increased from PHP1,270 in the first half of 2020 (January to June period) to PHP1,352 in the third quarter of 2020 (July to September period), representing a growth of 6.5%. The steady ARPU increase continues to be a result of the increasing contribution of FTTH subscribers in its customer mix and the upselling to its premium packages, such as its FiberXtreme packages, or add-on products, such as the "10-for-99" package offering 10Mbps bandwidth for PHP99 per month. As of September 30, 2020, 14% of FiberX 1500 subscribers had taken up the "10-for-99" promotion.

Despite the Covid-19 pandemic related headwinds in the Philippines enterprise connectivity market, which according to the market research firm MPA is expected to result in a decline of the market in 2020, the enterprise business of Converge continued to grow steadily, generating PHP2,264 million of revenues in the first nine months of 2020, representing a 15% Y.o.Y growth rate. Similarly, the number of enterprise customers served by Converge grew from 9,621 at the end of September 2019 to 10,953 at the end of September 2020, representing a 14% Y.o.Y growth rate. In the third quarter of 2020, we continued to launch innovative new enterprise data products tailored to connectivity requirements of enterprise users under the new normal. These solutions include our Enterprise "time-of-day" plan, allowing enterprises to double their bandwidth during the time periods they need it most.

## C. COST OF SERVICES, G&A EXPENSES AND PROVISIONS

For the first nine months of 2020, Converge's total cost of services, amounted to PHP4,943.9 million, up by 58.9% from PHP3,112 reported in the same period last year. As the strong revenue growth of 67% over the period exceeded cost of services growth of 58.9%, total gross margins grew from 51.3% in the first nine months of 2019 to 53.7% in the first nine months of 2020.

Converge achieved an EBITDA of PHP5,575.7 million for the first nine months of 2020, representing an increase of 74% (YoY), as a result of prudent management of direct costs which includes our international bandwidth and leased line costs, and driven by higher revenue leading to further operating leverage. Converge's consolidated EBITDA margins improved from 50.1% to 52.2% for the first nine months of 2019 and the first nine months of 2020 respectively, and from 51.6% to 54.0% for the three months ended 30 September 2019 and 30 September 2020 respectively.

### *Cost of Services*

Cost of services increased by 58.9%, or PHP1,831.6 million, from PHP3,112.3 million for the nine months ended September 30, 2019 to PHP4,943.9 million for the nine months ended September 30, 2020. The increase was primarily attributable to increases in depreciation and amortization costs, bandwidth and leased line cost, amortization of deferred contract cost, network materials and supplies used, and service fees.

Depreciation and amortization costs increased by 51.5%, or PHP561.5 million, from PHP1,089.7 million for the nine months ended September 30, 2019 to PHP1,651.3 million for the nine months ended September 30, 2020 primarily due to the expansion of our fiber network.



Bandwidth and leased line costs increased by 72.3%, or PHP418.6 million, from PHP579.2 million for the nine months ended September 30, 2019 to PHP997.8 million for the nine months ended September 30, 2020 due to the purchase of additional bandwidth capacity from international carriers, partially offset by declining unit prices. Bandwidth and leased line cost as a percentage of our total revenues represented 8.5% in the three months ended September 2020, compared to 9.0% in the three months ended September 2019. The reduced cost margins highlight the cost savings achieved from our proprietary access to international bandwidth capacity, such as our recent IRU agreement with Telstra.

Network materials and supplies used increased by 48.4%, or PHP263.2 million, from PHP544.2 million for the nine months ended September 30, 2019 to PHP807.4 million for the nine months ended September 30, 2020 due to the expansion of our residential subscriber base. Network materials and supplies costs as a percentage of revenue decreased from 8.5% for the nine months ended September 30, 2019 to 7.6% for the nine months ended September 30, 2020 due to one-time adjustments to the inventory count and average cost for network materials in 2019, while unit prices remained stable between periods.

Amortization of deferred contract cost increased by 133.9%, or PHP305.4 million, from PHP228.0 million for the nine months ended September 30, 2019 to PHP533.3 million for the nine months ended September 30, 2020 reflecting subscriber acquisition costs to expand our residential subscriber base and installation costs as a result of the subscriber base increase.

Service fees increased by 83.8%, or PHP201.8 million, from PHP240.8 million for the nine months ended September 30, 2019 to PHP442.6 million for the nine months ended September 30, 2020 due to an increase in bundled broadband packages sold to HFC subscribers and bundling fees paid to service providers.

Personnel costs increased by 26.7%, or PHP47.4 million, from PHP177.4 million for the nine months ended September 30, 2019 to PHP224.8 million for the nine months ended September 30, 2020 primarily due to an increase in headcount in line with expansion and maintenance of a larger network and customer base.

### Gross Profit

Gross profit increased by 74.7%, or PHP2,452.0 million, from PHP3,281.4 million for the nine months ended September 30, 2019 to PHP5,733.4 million for the nine months ended September 30, 2020. Gross margin, or gross profit as a percentage of revenue, increased from 51.3% in 2019 to 53.7% in 2020. The increase in gross margin was primarily due to the increase in revenue, which outpaced increases in costs, each as described above.

The table below summarizes our cost of services for the periods indicated.

	For the nine months ended September 30				For the three months ended September 30			
	2020	2019	YoY change	YoY change %	2020	2019	YoY change	YoY change %
	(P in millions)							
Depreciation and amortization .....	1,651.3	1,089.7	561.5	51.5%	699.8	434.8	265.0	60.9%
Bandwidth and leased line costs.....	997.8	579.2	418.6	72.3%	354.7	221.0	133.7	60.5%
Network materials and supplies used .....	807.4	544.2	263.2	48.4%	314.4	200.3	114.0	56.9%
Amortization of deferred contract cost.....	533.3	228.0	305.4	133.9%	216.9	94.6	122.3	129.4%
Service fees.....	442.6	240.8	201.8	83.8%	146.6	93.8	52.7	56.2%
Personnel costs .....	224.8	177.4	47.4	26.7%	97.2	72.2	25.0	34.7%
Rent .....	97.7	80.4	17.3	21.6%	40.7	27.6	13.1	47.6%
Utilities .....	59.8	60.2	(0.4)	-0.7%	20.7	26.0	(5.3)	-20.5%
Provision for inventory obsolescence.....	-	20.0	(20.0)	-100.0%	-	6.9	(6.9)	-100.0%
Retirement benefit expense .....	1.3	9.5	(8.3)	-86.7%	0.4	3.2	(2.8)	-86.8%
Others .....	127.8	82.8	45.0	54.3%	34.4	31.7	2.8	8.7%
	<u>4,943.9</u>	<u>3,112.3</u>	<u>1,831.6</u>	<u>58.9%</u>	<u>1,925.8</u>	<u>1,212.1</u>	<u>713.7</u>	<u>58.9%</u>
Gross profit	<u>5,733.4</u>	<u>3,281.4</u>	<u>2,452.0</u>	<u>74.7%</u>	<u>2,261.6</u>	<u>1,239.2</u>	<u>1,022.4</u>	<u>82.5%</u>
Gross profit margin	<u>53.7%</u>	<u>51.3%</u>			<u>54.0%</u>	<u>50.6%</u>		



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### ***General and Administrative Expenses***

General and administrative expenses increased by 80.8%, or PHP791.4 million, from PHP979.9 million for the nine months ended September 30, 2019 to PHP1,771.4 million for the nine months ended September 30, 2020. The increase was primarily attributable to an increase in personnel costs and costs related to our initial public offering lodged in professional fees and miscellaneous expenses.

Personnel costs increased by 106.4%, or PHP390.9 million, from PHP367.5 million for the nine months ended September 30, 2019 to PHP758.4 million for the nine months ended September 30, 2020 due to an increase in headcount during the period as we made key hires to support our business as it increased in scale.

Depreciation and amortization expenses increased by 31.3%, or PHP25.3 million, from PHP80.9 million for the nine months ended September 30, 2019 to PHP106.3 million for the nine months ended September 30, 2020 primarily due to higher amortization expenses related to intangible assets.

Commission expense increased by 131.0%, or PHP72.6 million, from PHP55.4 million for the nine months ended September 30, 2019 to PHP128.0 million for the nine months ended September 30, 2020 primarily due to an increase in our sales force during the period and more of our sales force achieving their sales targets.

Professional fees increased by 143.8%, or PHP91.6 million, from PHP63.7 million for the nine months ended September 30, 2019 to PHP155.3 million for the nine months ended September 30, 2020 primarily due to an increased number of consultants and retainers related to our initial public offering.

Miscellaneous expenses increased by 486.9%, or PHP120.1 million, from PHP24.7 million for the nine months ended September 30, 2019 to PHP144.7 million for the nine months ended September 30, 2020 mainly from payments of stock exchange listing fees.

### ***Provision for Impairment of Trade and Other Receivables***

Provision for impairment of trade and other receivables increased by 32.8%, or PHP121.2 million, from PHP369.6 million for the nine months ended September 30, 2019 to PHP490.8 million for the nine months ended September 30, 2020 primarily due to a higher amount of receivables outstanding for more than 90 days as a result of payment extensions that were mandated by the government and granted by us from March 17, 2020 to May 31, 2020. As a result, our provisions for impairment of trade and other receivables for the nine months ended September 30, 2020 represented 4.6% of total revenues. Provisions for impairment were based on a conservative application of the expected credit loss method even though we have collected one-month security deposits from these delinquent accounts at the time that the subscribers were acquired.



The table below summarizes our general and administrative expenses for the periods indicated.

	For the nine months ended September 30				For the three months ended September 30			
	2020	2019	YoY change	YoY change %	2020	2019	YoY change	YoY change %
	(P in millions)							
Personnel costs .....	758.4	367.5	390.9	106.4%	277.1	147.3	129.8	88.1%
Professional fees .....	155.3	63.7	91.6	143.8%	45.3	20.9	24.3	116.1%
Commission expense .....	128.0	55.4	72.6	131.0%	47.0	22.0	25.0	113.6%
Outside services .....	109.8	74.5	35.3	47.3%	49.4	18.3	31.2	170.6%
Depreciation and amortization .....	106.3	80.9	25.3	31.3%	23.4	17.2	6.2	35.9%
Repairs and maintenance .....	103.2	51.5	51.7	100.3%	29.7	21.1	8.6	40.5%
Taxes and licenses .....	81.6	65.2	16.4	25.1%	36.0	23.4	12.6	54.1%
Utilities .....	59.5	52.3	7.3	13.9%	31.3	13.0	18.3	141.6%
Promotions.....	41.3	29.1	12.1	41.6%	7.8	14.4	(6.6)	-45.8%
Other general and administrative expenses	83.3	115.1	(31.8)	-27.6%	21.9	40.1	(18.2)	-45.5%
Miscellaneous expense .....	144.7	24.7	120.1	486.9%	126.0	5.9	120.1	2022.0%
	1,771.4	979.9	791.4	80.8%	694.7	343.5	351.2	102.2%
Provision for impairment of receivables	(490.8)	(369.6)	(121.2)	32.8%	(166.5)	(140.3)	(26.2)	18.7%
Profit from operations	3,596.6	1,918.8	1,677.9	87.4%	1,452.0	768.8	683.2	88.9%
EBITDA	5,575.7	3,204.7	2,370.9	74.0%	2,261.9	1,265.8	996.03	78.7%
EBITDA margin	52.2%	50.1%			54.0%	51.6%		

#### D. OTHER INCOME STATEMENT ITEMS

For the first nine months of 2020, Converge achieved a net income for the period of PHP2,190.2 million, representing an increase of 64% (YoY), and a net income margin of 20.5%. In the last three months of 2020, we achieved a net profit for the period of PHP931.5 million, representing an increase of 83% (YoY) and a net income margin of 22.2%, highlighting the acceleration of the profitability of our business.



The table below summarizes our other income statement items for the periods indicated.

	For the nine months ended September 30				For the three months ended September 30			
	2020	2019	YoY change	YoY change %	2020	2019	YoY change	YoY change %
	(₱ in millions)							
Net foreign exchange gain (loss).....	157.9	(4.8)	162.7	-3409.2%	47.7	6.6	41.1	624.0%
Interest income - cash and cash equivalents.....	21.9	1.2	20.7	1726.0%	1.1	0.7	0.4	57.3%
Gain on transfer of network materials.....	30.6	6.6	24.0	363.9%	23.6	5.9	17.7	301.1%
Interest income on finance lease receivable.....	7.0	-	7.0	-	1.8	-	1.8	-
Management fees.....	1.3	2.6	(1.3)	-51.1%	0.4	0.9	(0.4)	-51.1%
Interest income – financial assets at FVTPL.....	0.4	-	0.4	-	-	-	-	-
(Loss) gain on disposal of property, plant and equipment.....	(57.0)	-	(57.0)	-	(23.7)	-	(23.7)	-
Loss on disposal of financial asset at FVTPL.....	-	(18.7)	18.7	-100.0%	-	-	-	-
Miscellaneous expense.....	3.8	-	3.7	8682.8%	0.7	(0.7)	1.4	-210.4%
	166.0	(13.1)	179.1	-1367.4%	51.6	13.4	38.2	286.0%
Profit from operations	3,596.6	1,918.8	1,677.9	87.4%	1,452.0	768.8	683.2	88.9%
Finance cost	(454.2)	(222.1)	(232.1)	104.5%	(106.9)	(85.4)	(21.5)	25.2%
Profit before income tax	3,142.4	1,696.7	1,445.7	85.2%	1,345.1	683.4	661.7	96.8%
Income tax expense	(952.2)	(362.5)	(589.7)	162.7%	(413.6)	(174.0)	(239.6)	137.7%
Net income	2,190.2	1,334.2	856.0	64.2%	931.5	509.4	422.0	82.8%
Net income margin	20.5%	20.9%			22.2%	20.8%		

### ***Other Income (Expenses), net***

Other income increased by PHP179.1 million, from other expenses, net of PHP13.1 million for the nine months ended September 30, 2019 to other income, net of P166.0 million for the six months ended September 30, 2020. For the nine months September 30, 2020, other income, net is primarily related to net foreign exchange gain on the strengthening of the Philippine Peso against the US Dollar, as well as interest income from our short-term placements.

### ***Profit from Operations***

Profit from operations increased by 87.4%, or PHP1,677.9 million, from PHP1,918.8 million for the nine months ended September 30, 2019 to PHP3,596.6 million for the nine months ended September 30, 2020 for the reasons described above, in particular the increase in gross profit, partially offset by the increases in general and administrative expenses and provision for impairment of trade and other receivables.

### ***Finance Costs***

Finance costs increased by 104.5%, or PHP232.1 million, from PHP222.1 million for the nine months ended September 30, 2019 to PHP454.2 million for the nine months ended September 30, 2020 as we drew down additional long-term loans throughout the period as an additional source of financing for the expansion of our fiber network and to maintain and service a larger network and subscriber base.

### ***Profit Before Income Tax***

Profit before income tax increased by 85.2%, or PHP1,445.7, from PHP1,696.7 million for the nine months ended September 30, 2019 to PHP3,142.4 million for the nine months ended September 30, 2020 for the reasons described above, in particular the 87.4%, or PHP1,677.8 million increase in profit from operations in 2020, which was partially offset by higher debt servicing costs.



### ***Income Tax Expense***

Income tax expense increased by 162.7%, or PHP589.7 million, from PHP362.5 million for the nine months ended September 30, 2019 to PHP952.2 million for the nine months ended September 30, 2020 due to the increase in profit before income tax described above. Our effective tax rate, which is our income tax expenses as a percentage of profit before income tax, was 21.4% for the nine months ended September 30, 2019 compared to 30.3% for the nine months ended September 30, 2020. Our effective tax rate increased due to an increase in current tax expense as a result of an increase in profit before income tax.

### ***Profit for the Period***

For the reasons discussed above, profit for the period increased by 64.2%, or PHP856.0 million, from PHP1,334.2 million for the nine months ended September 30, 2019 to PHP2,190.2 million for the nine months ended September 30, 2020.

### ***Remeasurement (loss) gain on retirement benefit obligation, net of tax***

Remeasurement gain on retirement benefit obligation, net of tax decreased by 171.7%, or PHP46.6 million, from a gain of PHP27.1 million for the nine months ended September 30, 2019 to a loss of PHP19.4 million for the nine months ended September 30, 2020 after evaluation of the carrying amounts of such obligations.

### ***Total comprehensive income for the period***

Total comprehensive income for the period increased by 59.5%, or PHP809.4 million, from PHP1,361.3 million for the nine months ended September 30, 2019 to PHP2,170.7 million for the nine months ended September 30, 2020.

## **E. CAPITAL EFFICIENCY AND LIQUIDITY**

	30-Sep-20	31-Dec-19	YoY Change (%)
<b>Balance Sheet Data</b>			
Total Assets	46,529.7	31,159.5	49%
Total Debt	9,417.4	7,949.9	18%
Total Stockholders' Equity	18,641.4	12,167.8	53%
<b>Financial Ratios</b>			
Total Debt to EBITDA (gross)	1.7x	1.7x	
Total Debt to EBITDA (net)	0.5x	0.4x	
Debt Service Coverage	5.1x	2.7x	
Interest Coverage (gross)	12.3x	16.8x	
Debt to Equity (gross)	0.5x	0.7x	
Debt to Equity (net)	0.1x	0.1x	
Return on invested capital (annualized)	20.0%	19.7%	

Converge's balance sheet and cash flows remain strong with ample liquidity and gearing comfortably within bank covenants.

Converge's consolidated assets as of September 30, 2020 amounted to PHP46,529.7 million compared to PHP31,159.5 million as of December 31, 2019. Consolidated cash, cash equivalents and short-term investments was at PHP6,734.9 million as of end-September of 2020 compared to PHP6,233.0 million as of end-December 2019.





We had outstanding loan payables of PHP9,417.4 million as of end-September of 2020 compared to PHP7,949.9 million as of end-December 2019. Our Net Debt position, defined as loan payables less cash and cash equivalents amounted to PHP2,682.5 million as of end-September of 2020 compared to PHP1,716.8 million as of end-December 2019. Our resulting Net Debt to EBITDA ratio, based on the last twelve months EBITDA over the period from September 2019 to September 2020, was 0.4 times. This conservative leverage level gives us, together with our increasing and strong cash flow generation, ample headroom to execute our capital expenditure plans, and capitalize on the massive opportunity for high-speed fixed broadband infrastructure in the Philippines.

During the nine months ended September 30, 2020, Converge entered into term sheets with two Philippine banks for two long-term credit facilities with an aggregate amount of up to ₱10 billion (U.S.\$200 million). Each credit facility is for an unsecured, 7-year term loan of ₱5 billion (U.S.\$100 million). Each loan will be available for drawdown for at least 12 months following the signing of the definitive facility agreement, and will have a term of seven years from the first drawdown date.

Interest would be payable quarterly in arrears and the principal would be payable in equal quarterly installments commencing after a grace period of two years from drawdown. Each loan bears interest equivalent to the BVAL benchmark rate prevailing at drawdown plus a spread. Each term sheet contemplates an indicative interest rate (assuming drawdown at the date of this Press Release) of approximately 5% per annum.

The definitive facility agreements are being prepared and are expected to be executed in the fourth quarter of 2020.

The financial tests under Converge's loan agreements subject us to a financial covenant, which requires us to maintain a minimum debt service coverage (DSCR) ratio of 1.2x. As of September 30, 2020, Converge's DSCR ratio was 5.1x, well above the required minimum liquidity threshold.

As of September 30, 2020, we did not have any off-balance sheet arrangements or obligations that were likely to have a current or future effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Looking ahead, we expect to fund our capital requirements through a combination of (a) the primary capital raised through our Initial Public Offering on October 26<sup>th</sup> 2020 amounting to PHP7,971.7million of net proceeds, (b) the available cash on our balance sheet PHP6,734.9 million as of September 30, 2020), (c) further cash to be generated from operations, and (d) debt facilities PHP21,400.0 million available for drawdown as of September 30, 2020, and a further PHP10,000.0 million under term sheet.

Converge's capital efficiency measured by our Return on Invested Capital (ROIC) was 20.0% in the first nine months of 2020 (annualized), compared to 22.6% in the first nine months of 2019 (annualized). This industry-leading performance is a result of Converge adopting a disciplined approach in deploying capital to expand its fiber network, focusing on capital efficiency to ensure consistently high ROIC.





## CONSOLIDATED CASH FLOWS

	For the nine months ended September 30		For the three months ended September 30	
	2020	2019	2020	2019
	(in millions)			
Net cash from operating activities .....	5,011.6	2,485.1	2,019.7	261.0
Net cash used in investing activities .....	(8,880.0)	(4,574.4)	(2,644.2)	(506.3)
Net cash from financing activities .....	4,433.9	9,003.9	(1,605.5)	6,693.0
<b>Net increase in cash and cash equivalents .....</b>	<b>565.6</b>	<b>6,914.5</b>	<b>(2,229.9)</b>	<b>6,447.7</b>
Cash and cash equivalents, beginning .....	6,233.0	476.7	8,982.1	940.7
Effects of exchange rate changes in cash and cash equivalents .....	(63.7)	(8.6)	(17.2)	(5.9)
<b>Cash and cash equivalents, ending .....</b>	<b>6,734.9</b>	<b>7,382.6</b>	<b>6,734.9</b>	<b>7,382.6</b>

### Net cash flows from operating activities

Net cash from operating activities was PHP5,011.6 million for the nine months ended September 30, 2020. Our cash flows generated from operating activities for 2020 are calculated by adjusting our profit before income tax of PHP3,142.3 million by (i) non-cash and other items, primarily comprising PHP1,757.5 million of depreciation and amortization, PHP490.8 million in provision for impairment of trade and other receivables, PHP533.3 million of amortization of deferred contract costs and PHP454.2 million in finance costs, (ii) changes in certain working capital items that positively impacted cash flows from operating activities, in particular increases in trade and other payables of PHP5,576.8 million and subscriber deposits of PHP893.4 million, and (iii) changes in certain working capital items that negatively impacted cash flows from operating activities, in particular a PHP1,533.4 million increase in trade and other receivables, a PHP1,977.7 million increase in network materials and supplies and a PHP1,036.6 million increase in deferred contract costs.

### Net cash flows used in investing activities

Net cash used in investing activities was PHP8,880.0 million, for the nine months ended September 30, 2020, respectively. During each such period, we made significant investments in capital expenditures to develop additional property, plant and equipment (our end-to-end fiber network) and acquire key intangible assets (our customer list, telecommunication franchise, and software and licenses).

Cash used for acquisitions of property, plant and equipment was PHP8,525.8 million, for the nine months ended September 30, 2020, respectively. Over that period, we made the following significant investments: (i) additions in outside plant equipment, which primarily consists of passive network equipment related to the construction of our end-to-end fiber network, (ii) additions in inside plant equipment, which primarily consists of active network equipment such as dense wavelength division multiplexing equipment and routers and (iii) additions in other property, plant and equipment, which primarily consists of purchases of customer premise equipment, and general IT related investments such as laptop computers and other office IT equipment.



**For the nine months ended September 30**

	2020	2019	YoY change	YoY change %
	(in millions)			
Cash capital expenditures <sup>1</sup>	(8,775.5)	(4,475.0)	(4,300.4)	96.1%
Total additions to property, plant and equipment <sup>2</sup> .....	10,089.8	6,729.8	3,360.0	49.9%
Cash capital expenditures / Revenues .....	-82.2%	-70.0%		

<sup>1</sup> Cash capital expenditures – property, plant and equipment and intangibles as of report date

<sup>2</sup> Include property, plant and equipment, intangibles and capitalized borrowing cost, acquired as of report date, regardless of whether payment has been made or not

**Net cash flows from financing activities**

Net cash from financing activities was PHP4,433.9 million during the nine months ended September 30, 2020. Cash flows from financing activities primarily consisted of PHP4,568.0 million of proceeds from the issuance of convertible preferred shares and PHP3,473.8 million of proceeds from loans, which was partially offset by PHP2,006.2 million of loan repayments.

**F. QUANTITATIVE AND QUALITATIVE DISCLOSURE OF FINANCIAL RISK**

We are exposed to the financial risks described below in the course of our normal business activities. These financial risks principally involve the possibility of adverse consequences on our results of operations due to factors that generally beyond our control.

**Credit Risk**

We are primarily exposed to credit risk in relation to receivables payable to us by subscribers. Our credit risk is relatively higher for our residential subscribers in comparison to our enterprise customers who tend to have established credit histories and stable abilities to pay, particularly among our Large Enterprise, Corporate and Wholesale customers. Our policy is to bill our customers on a monthly basis in advance, and collect payment within 30 days of billing. Occasionally, we extend short-term credit terms, typically between 30 to 90 days, to certain subscribers, usually residential subscribers, on an unguaranteed, unsecured and non-interest bearing basis, based on our assessment of the subscriber’s credit quality. Between 2017 and June 30, 2019, our trade receivables days ranged between 50 and 60 days, or approximately 30 days after taking into account security deposits.

Our maximum exposure to credit risk equals the carrying amount of the financial assets, except for trade receivables secured by subscribers’ deposits which cover for anticipated losses on default payments. As of September 30, 2020, we had trade receivables (net of allowances for impairment) of PHP2,980.0 million.

Beginning with reporting dates in 2019, we have taken a more conservative approach when assessing trade and other receivables for impairment, by assessing on a forward-looking basis the expected credit losses (“ECL”) on our outstanding receivables. This approach has led us to conclude that a larger share of our trade receivables were credit-impaired, even though we generally view our subscribers to have strong credit quality as we have collected one-month security deposits from all our residential and SME accounts in addition to installation fees payable at the time of contract.

In the nine months ended September 30, 2020, our provision for impairment of trade and other receivables based on the ECL method resulted in a total provision of 4.6% of revenues (PHP490.8 million), compared to 5.8% of revenues (PHP369.6 million) in the nine months ended September 30, 2019. The increase in provisions in the nine months ended September 30, 2020 was driven by the payment extensions that were mandated by the government and granted by us from March 17, 2020 to May 31, 2020 and the resulting increase in trade receivables, as well as our conservative ECL approach. We plan to continue applying the more conservative ECL approach going forward and closely monitor the collection of outstanding receivables. We have for example in July 2020 offered to some of our customers the ability to settle their outstanding bills in staggered payments, which we believe will increase our likelihood to recover receivables from our customers. Additional impairments may be required in the fourth quarter of 2020 depending on the continuing impact of COVID-19 on our business and our payment collections following the expiry of one-off government-mandated payment extensions that we have granted to customers. By 2021, we expect provisions to revert to more normal, pre-COVID-19 levels.

We have implemented a number of measures to manage our credit risk exposure:

- Trade receivables from residential and corporate subscribers are partially secured by subscribers' deposits which cover anticipated losses on default payments. We had subscribers' deposits of PHP2,124.08 million as of September 30, 2020.
- For the convenience of our customers, we accept payments via a wide range of payment channels including our website, by telephone, direct bank deposit, credit cards, digital payment wallets, our business centers, and other accredited payment centers, such as 7-Eleven stores and Pay & Go payment kiosks, a 24-hour self-service payment center with more than 200 kiosks nationwide. Over time we have added multiple payment platforms making it easier for our customers to make payments and enabling us to transition away from manual payment collections. We have successfully implemented an online billing and payment collection system, [get-soa.convergeict.com](http://get-soa.convergeict.com), which enabled us to process all our residential bills online. We also offer a choice of multiple payment channels to our enterprise customers, including picking up checks directly from the customer office as is the norm in the Philippines.
- We continuously review our credit policies and processes and implement various credit actions, depending on assessed risks, to minimize credit exposure. Applications for service are subject to credit evaluation and verification procedures. Receivable balances of subscribers are monitored, and various credit treatments are applied at various stages of delinquency. The shift towards online payment collections has accelerated due to the COVID-19 pandemic.
- Our in-house procurement group, which is responsible for procurement of network materials and equipment for our network rollout nationwide, has secured 180-day to 270-day payment terms with certain major network materials and equipment suppliers at no additional cost to manage our own payment obligations.

### **Foreign Currency Exchange Risk**

While our sales are all denominated in the Philippine Peso, we have trade and other payables denominated in U.S. dollar for the purchase of network materials and products. We purchase substantially all of our equipment outside of the Philippines and we expect this to continue as we pursue our network expansion plans and other development programs. We also have exposure to foreign currency exchange risk arising from our cash and trade and other receivables denominated in U.S. Dollars related to both normal operations and capital expenditures in connection with our network expansion activities.

We manage our foreign currency exchange risk by maintaining sufficient cash in U.S. Dollars to cover our maturing U.S. Dollar denominated obligations.

As of September 30, 2020, our key U.S. Dollar denominated assets and liabilities were U.S.\$37.3 million of cash, U.S.\$3.0 million of trade and other receivables, net, and financial asset at fair value through profit or loss of U.S.\$1.2 million and trade and other payables of U.S.\$60.1 million, aggregating to net U.S. Dollar denominated monetary liabilities of PHP904.5 million (U.S.\$18.5 million).

If the U.S. Dollar had weakened or strengthened by 0.90% as of September 30, 2020 and 0.17% as of December 31, 2019, our pre-tax profit for the period and equity would have been PHP5.2 million and PHP1.6 million higher or lower, respectively, mainly as a result of foreign exchange gains or losses on translation of net US Dollar denominated monetary liabilities.

### **Interest Rate Risk**

We are exposed to interest rate risk because a portion of our borrowings are subject to re-pricing at periodic intervals under the terms of our financing agreements. As of September 30, 2020, PHP4,160.3 million, or 44.2%, of our outstanding loan payables were subject to re-pricing.

If interest rates increased or decreased by 50 and 7 basis points for the nine months ended September 30, 2020 and the year ended December 31, 2019, profit for the period then ended would have been PHP15.6 million and PHP3.2 million lower or higher, respectively, as a result of higher or lower interest expense based on variable rates.

### **Liquidity Risk**

Our principal sources of liquidity to fund our capital requirements since 2016 have been capital contributions from our shareholders, including a U.S.\$225 million equity investment by Warburg Pincus in 2019 and 2020, as well as cash flows generated from our operations and bank financings. On October 26, 2020, we completed our Initial Public Offering (“IPO”) on the Philippine Stock Exchange. Based on the Offer Price of PHP16.80 per offered share, the net proceeds from the 480,839,941 primary shares issued in the IPO represented PHP7,971.7million. We expect to fund our future capital requirements through our operating cash flows, retained earnings, proceeds from this offering and bank financings.

We manage liquidity risk by maintaining a balance between continuity of funding and flexibility in operations. Treasury controls and procedures are in place to ensure that sufficient cash is maintained to cover daily operational and working capital requirements. Management closely monitors our future and contingent obligations and sets up required cash reserves and reserve borrowing facilities as necessary in accordance with internal policies.

## **Capital Risk Management**

Our objectives when managing capital are to safeguard Converge's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, Converge may adjust the amount of dividends paid to shareholders, return capital to shareholders, obtain borrowings from banks or related parties, and issue new shares. The capital that Converge manages is the total equity attributable to owners of the Parent Company less reserve for remeasurements of retirement benefit obligation and other reserves as shown in the consolidated statements of financial position.

Converge is not subject to any externally imposed capital requirements.

Converge loan agreements include compliance with certain ratios.

## **BASIS OF PREPARATION**

The consolidated financial statements of the Group have been prepared in accordance with Philippine Accounting Standards (PAS 34) - Interim Financial Reporting. These financial statements should be read in conjunction with annual consolidated financial statements as at and for the year ended December 31, 2019, which have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

The preparation of consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Group's accounting policies.

The same accounting policies and methods of computation were followed in the interim consolidated financial statements consistent with those adopted for the Group's annual consolidated financial statements for the year ended December 31, 2019, except for the change in the presentation of certain network materials and supplies to property, plant and equipment following management's identification of specific items to be used in rendering broadband services. The reclassification has also been applied to the 2019 financial statement to conform to the current period presentation.

Such reclassification did not impact the previously reported total assets and total liabilities and equity in the consolidated statement of financial position.

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## **OTHER RELEVANT INFORMATION**

### **CORPORATE DEVELOPMENTS**

#### **Secured Proprietary Access to 5Tbps of International Bandwidth Capacity on Two Major Intra-Asia Networks**

In August 2020, Converge entered into an agreement with Telstra International Limited to purchase 5 Tbps of international bandwidth capacity, providing a 15-year indefeasible right of use (“**IRU**”) on two major intra-Asia networks for an attractive cost, subject to certain conditions. This 5 Tbps of bandwidth capacity is equivalent to approximately seven times its current leased bandwidth capacity, and has been priced at an aggregate unit cost that is meaningfully lower compared to its average contracted lease costs at present. As of September 30, 2020, Converge has activated 600Gbps of international capacity from Telstra as part of this agreement.

This transaction is consistent with its strategy of forming partnerships with global carriers to secure proprietary access to bandwidth capacity on certain key international network routes. Going forward, Converge intends to continue to secure proprietary access to international bandwidth capacity through similar agreements with other international carriers, which can provide the Company with significant cost savings of its international bandwidth and leased line costs.

#### **Launched Philippine’s First 400GB High Capacity Metro Backbone**

In July 2020, Converge activated the Philippines’ first 400GB metro backbone utilizing industry-leading optical solutions from a United States-based networking systems, services, and software company Ciena. This deployment provides us with a programmable, dynamic setup of connections that increases adaptability and resiliency. The metro backbone can further be scaled to higher 800GB capacity to support future growth.

#### **Initiatives to Enhance Overall Customer Satisfaction**

Converge continues to be highly focused on enhancing the overall customer experience by strengthening its customer care functions and digitizing the journey of our customers. During the third quarter of 2020, we increased our installation capacity by approximately doubling the number of installation crews between end of June and end of September 2020. These augmentations combined with improvements in the customer onboarding and installation process, will allow us to further increase rapid conversion from application to installation. Converge further onboarded almost 400 new outsourced call center agents over the three months ended September 2020, to respond to customer queries, leading to a c. 3x increase in calls answered by our service desk. In June of 2020, we launched our mobile application, Converge Xperience App, which is geared towards simplifying and enhancing our customers’ billing, status monitoring, and aftersales customer experience.



## MAJOR STOCKHOLDERS

The following are the major stockholders of Converge as of October 31, 2020:

Stockholders	Common shares	% of Common	Voting Preferred Shares	% of Voting Preferred Shares	Non-voting Preferred Shares	% of Non-voting Preferred Shares	Total Outstanding Shares <sup>(2)</sup>	% of Total Outstanding Shares
Comclark Network & Technology Corp. <sup>3</sup>	4,760,299,018	63.2%	-	0.0%	-	0.0%	4,760,299,018	63.2%
Coherent Cloud Investments, B.V. <sup>3</sup>	1,034,930,900	13.8%	-	0.0%	-	0.0%	1,034,930,900	13.8%
Public <sup>(1)</sup>	1,731,064,543	23.0%	-	0.0%	-	0.0%	1,731,064,543	23.0%
Total	7,526,294,461	100.0%	-	100.0%	-	100.0%	7,526,294,461	100.0%

Notes:

(1) Includes shares held by Directors and Officers.

(2) Foreign Ownership Level (%) on total outstanding shares is 33.09%. Shareholders are subject to adjustment based on the Overallotment Option.

(3) Subject to exercise of the Overallotment Option under the IPO of the Company. Please refer to Final Prospectus dated 8 October 2020.

## BOARD OF DIRECTORS (BOD)

The following table sets forth our Board of Directors:

Name	Position	Citizenship
Dennis Anthony H. Uy	CEO, Founder & Executive Director	Filipino
Maria Grace Y. Uy	President, Chief Resources Officer, Founder & Executive Director	Filipino
Jose Pamintuan de Jesus	Chairman, Independent Non-Executive Director	Filipino
Amando M. Tetangco, Jr.	Independent Non-Executive Director	Filipino
Roman Felipe S. Reyes	Independent Non-Executive Director	Filipino
Francisco Ed. Lim	Non-Executive Director	Filipino
Saurabh N. Agarwal	Non-Executive Director	Indian

**SIGNATURES**

Pursuant to the requirement of the Securities Regulation Code, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Issuer: **Converge Information and Communications Technology Solutions, Inc.**



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**DENNIS ANTHONY H. UY**  
Chief Executive Officer



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**MELINDA CABASE**  
Treasurer





# ***Converge Information and Communications Technology Solutions, Inc. and Subsidiaries***

***Condensed Consolidated Interim Financial Statements***

***As at September 30, 2020, December 31, 2019, and  
for each of the nine months ended September 30, 2020 and 2019,  
and three months ended September 30, 2020 and 2019***



**Converge Information and Communications Technology Solutions, Inc. and Subsidiaries**

**Consolidated Statements of Financial Position**

As at September 30, 2020 and December 31, 2019

(All amounts in Philippine Peso)

	September 30, 2020	December 31, 2019
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalent	6,734,915,845	6,233,043,005
Trade and other receivables, net	3,145,943,118	2,105,517,180
Due from related parties	780,452,489	586,606,839
Network materials and supplies	2,061,379,485	963,409,462
Deferred contract costs	823,054,695	489,441,350
Other current assets	1,154,887,414	475,483,492
<b>Total current assets</b>	<b>14,700,633,046</b>	<b>10,853,501,328</b>
<b>Non-current assets</b>		
Property, plant and equipment, net	23,753,908,732	15,939,903,622
Advances to fixed assets suppliers	2,949,811,829	1,213,869,929
Right-of-use assets, net	1,631,184,640	1,638,441,692
Intangible assets, net	956,769,088	669,869,002
Due from related parties, net of current portion	445,376,253	-
Deferred contract costs, net of current portion	398,911,842	229,286,221
Deferred input value-added tax, net of current portion	851,279,150	75,484,851
Deferred income tax assets, net	780,820,607	539,129,762
Financial asset at fair value through profit or loss (FVTPL)	61,021,511	-
<b>Total non-current assets</b>	<b>31,829,083,652</b>	<b>20,305,985,079</b>
<b>Total assets</b>	<b>46,529,716,698</b>	<b>31,159,486,407</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities</b>		
Trade and other payables	14,423,083,187	7,175,641,361
Loans payable	357,020,833	1,098,250,000
Lease liabilities, current portion	282,603,165	355,097,271
Dividends payable	190,000,000	807,651,604
Due to related parties	55,299,491	166,816,540
Deferred revenues	341,649,985	199,477,561
Income tax payable	131,352,300	357,559,511
Finance lease obligations	-	-
<b>Total current liabilities</b>	<b>15,781,008,961</b>	<b>10,160,493,848</b>
<b>Non-current liabilities</b>		
Loans payable, net of current portion	9,060,416,668	6,851,625,000
Lease liabilities, net of current portion	1,445,848,693	1,374,860,357
Subscribers' deposits, net of current portion	1,385,278,379	491,831,373
Deferred revenues, net of current portion	149,025,526	81,955,912
Retirement benefit obligation	66,728,615	30,940,684
Finance lease obligations, net of current portion	-	-
<b>Total non-current liabilities</b>	<b>12,107,297,881</b>	<b>8,831,213,326</b>
<b>Total liabilities</b>	<b>27,888,306,842</b>	<b>18,991,707,174</b>
<b>Equity</b>		
Attributable to owners of the Parent Company		
Share capital		
Ordinary shares	1,250,000,000	1,250,000,000
Convertible preferred shares	511,363,630	306,818,180
Additional paid-in capital	10,902,550,584	6,541,191,820
Retained earnings		
Appropriated	-	2,200,000,000
Unappropriated	5,941,385,825	1,814,215,854
Reserve for remeasurements of retirement benefit obligation, net of tax	35,797,317	55,240,879
Other reserves	-	-
<b>Total equity</b>	<b>18,641,097,356</b>	<b>12,167,466,733</b>
Non-controlling interest	312,500	312,500
<b>Total equity</b>	<b>18,641,409,856</b>	<b>12,167,779,233</b>
<b>Total liabilities and equity</b>	<b>46,529,716,698</b>	<b>31,159,486,407</b>

**Converge Information and Communications Technology Solutions, Inc. and Subsidiaries**

**Consolidated Statements of Total Comprehensive Income**  
**For each of the nine months ended September 30, 2020 and 2019, and of the three months ended**  
**September 30, 2020 and 2019**  
**(All amounts in Philippine Peso)**

	For nine months ended September 30		For three months ended September 30	
	2020	2019	2020	2019
Revenues	10,677,289,360	6,393,690,035	4,187,346,180	2,451,311,838
Cost of services	(4,943,864,162)	(3,112,269,224)	(1,925,760,078)	(1,212,093,845)
<b>Gross profit</b>	<b>5,733,425,198</b>	<b>3,281,420,811</b>	<b>2,261,586,102</b>	<b>1,239,217,993</b>
General and administrative expenses	(1,771,383,167)	(979,948,662)	(694,715,510)	(343,497,833)
Provision for impairment of trade and other receivables	(490,787,888)	(369,623,659)	(166,468,258)	(140,280,940)
Unrealized fair value loss on financial asset at FVTPL	(40,615,039)	-	-	-
Other income (loss), net	165,988,954	(13,096,852)	51,582,535	13,361,948
<b>Profit from operations</b>	<b>3,596,628,058</b>	<b>1,918,751,638</b>	<b>1,451,984,869</b>	<b>768,801,168</b>
Finance costs	(454,229,568)	(222,092,916)	(106,927,314)	(85,399,551)
<b>Profit before income tax</b>	<b>3,142,398,490</b>	<b>1,696,658,722</b>	<b>1,345,057,555</b>	<b>683,401,617</b>
Income tax expense	(952,228,521)	(362,505,117)	(413,588,986)	(173,961,325)
<b>Profit for the period</b>	<b>2,190,169,969</b>	<b>1,334,153,605</b>	<b>931,468,569</b>	<b>509,440,292</b>
<b>Other comprehensive income</b>				
<i>Item that will not be reclassified to profit or loss</i>				
Remeasurement (loss) gain on retirement benefit obligation, net of tax	(19,443,562)	27,124,947	-	-
<b>Total comprehensive income for the period</b>	<b>2,170,726,407</b>	<b>1,361,278,552</b>	<b>931,468,569</b>	<b>509,440,292</b>

**Converge Information and Communications Technology Solutions, Inc. and Subsidiaries**

**Consolidated Statements of Changes in Equity  
For each of the nine months ended September 30, 2020 and 2019  
(All amounts in Philippine Peso)**

	Share capital		Additional paid-in capital	Retained earnings		Reserve for remeasurements of retirement benefit obligation, net of tax	Other equity reserves	Non-controlling interest	Total
	Common shares	Convertible preferred shares		Appropriated	Unappropriated				
<b>Balances at January 1, 2019</b>	1,250,000,000	-	-	2,200,000,000	1,028,202,624	10,073,081	83,000,000	37,231,540	4,608,507,245
<b>Transactions with owners</b>									
Direct investment in a subsidiary	-	-	-	-	-	-	(83,000,000)		(83,000,000)
Disposal of subsidiaries	-	-	-	-	(213,795,663)	-	-	18,367,305	(195,428,358)
Issuance of shares	-	306,818,180	6,541,191,820	-	-	-	-	-	6,848,010,000
Declaration of dividends	-	-	-	-	(960,210,453)	-	-	-	(960,210,453)
<b>Total transactions with owners for the period</b>	-	306,818,180	6,541,191,820	-	(1,174,006,116)	-	(83,000,000)	18,367,305	5,609,371,189
<b>Comprehensive income</b>									
Profit for the year	-	-	-	-	1,389,439,950	-	-	(55,286,345)	1,334,153,605
Other comprehensive income for the period	-	-	-	-	-	27,124,947	-	-	27,124,947
<b>Total comprehensive income for the period</b>	-	-	-	-	1,389,439,950	27,124,947	-	(55,286,345)	1,361,278,552
<b>Balances at September 30, 2019</b>	1,250,000,000	306,818,180	6,541,191,820	2,200,000,000	1,243,636,458	37,198,028	-	312,500	11,579,156,986

**Converge Information and Communications Technology Solutions, Inc. and Subsidiaries**

**Consolidated Statements of Changes in Equity (continued)  
For each of the nine months ended September 30, 2020 and 2019  
(All amounts in Philippine Peso)**

	Share capital		Additional paid-in capital	Retained earnings		Reserve for remeasurements of retirement benefit obligation, net of tax	Other equity reserves	Non-controlling interest	Total
	Common shares	Convertible preferred shares		Appropriated	Unappropriated				
<b>Balances at January 1, 2020</b>	1,250,000,000	306,818,180	6,541,191,820	2,200,000,000	1,814,215,854	55,240,879	-	312,500	12,167,779,233
<b>Transaction with owners</b>									
Issuance of shares	-	204,545,450	4,361,358,764	-	-	-	-	-	4,565,904,214
Declaration of dividends	-	-	-	-	(263,000,000)	-	-	-	(263,000,000)
<b>Total transactions with owners for the period</b>	-	204,545,450	4,361,358,764	-	(263,000,000)	-	-	-	4,302,904,214
<b>Comprehensive income</b>									
Profit for the period	-	-	-	-	2,190,169,971	-	-	-	2,190,169,971
Other comprehensive loss for the period	-	-	-	-	-	(19,443,562)	-	-	(19,443,562)
<b>Total comprehensive income for the period</b>	-	-	-	-	2,190,169,971	(19,443,562)	-	-	2,170,726,409
<b>Release of appropriation</b>	-	-	-	(2,200,000,000)	2,200,000,000	-	-	-	-
<b>Balances at September 30, 2020</b>	1,250,000,000	511,363,630	10,902,550,584	-	5,941,385,825	35,797,317	-	312,500	18,641,409,856



**Converge Information and Communications Technology Solutions, Inc. and Subsidiaries**

**Consolidated Statements of Cash Flows**  
**For each of the nine months ended September 30, 2020 and 2019, and of the three months ended**  
**September 30, 2020 and 2019**  
**(All amounts in Philippine Peso)**

	Nine months ended September 30		Three months ended September 30	
	2020	2019	2020	2019
<b>Cash flows from operating activities</b>				
Profit before income tax	3,142,398,492	1,696,658,723	1,345,057,557	683,401,618
Adjustments for:				
Depreciation and amortization	1,757,526,607	1,170,638,146	723,111,275	451,962,045
Provision for impairment of trade and other receivables	490,787,888	369,623,659	166,468,258	140,280,940
Amortization of deferred contract costs	533,322,783	227,971,054	216,894,427	94,563,644
Finance costs	454,229,568	222,092,916	106,927,314	85,399,551
Unrealized fair value loss on financial asset at FVTPL	40,615,039	-	-	-
Retirement benefit expense	6,297,839	17,543,991	2,087,971	5,824,533
Unrealized foreign exchange (gain) loss, net	(143,513,533)	4,772,227	(68,629,830)	(12,633,895)
Interest income	(29,372,169)	(1,200,946)	(2,891,255)	(697,884)
Loss (gain) on disposal of property, plant and equipment	56,998,307	-	23,743,681	-
Loss on disposal of financial asset at FVTPL	-	18,749,900	-	-
Provision for inventory obsolescence	-	20,008,593	-	6,929,127
Loss on direct write-off of receivables	-	-	-	-
Operating income before changes in assets and liabilities	6,309,290,821	3,746,858,263	2,512,769,398	1,455,029,679
(Increase) decrease in assets:				
Trade and other receivables, net	(1,533,427,225)	(2,229,050,091)	(693,185,216)	(1,417,962,574)
Due from related parties	(472,877,313)	(26,925,139)	(151,310,556)	4,755,686
Network materials and supplies	(1,977,683,903)	(1,402,539,799)	(1,271,110,308)	(491,393,551)
Deferred contract costs	(1,036,561,749)	(487,334,619)	(601,675,286)	(186,611,764)
Other current assets	(679,403,922)	(487,490,164)	(412,712,251)	(151,169,842)
Deferred input valued-added tax	(775,794,299)	35,943,978	(375,334,654)	(25,817,933)
Increase (decrease) in liabilities:				
Trade and other payables	5,576,799,784	3,394,775,008	2,999,648,264	1,160,394,679
Subscribers deposits	893,447,006	271,604,201	682,402,275	(26,805,137)
Due to related parties	(111,517,049)	43,857,789	(90,166,834)	28,664,384
Deferred revenue	209,242,038	85,308,711	100,908,797	42,651,191
Provision for contingencies	-	-	-	-
Cash from operations	6,401,514,189	2,945,008,138	2,700,233,629	391,734,817
Interest received	21,928,773	1,200,946	1,097,589	697,884
Retirement benefits paid	-	(269,800)	-	-
Income taxes paid	(1,411,793,620)	(460,877,505)	(681,594,266)	(131,404,376)
Net cash from operating activities	5,011,649,342	2,485,061,779	2,019,736,952	261,028,325
<b>Cash flows from investing activities</b>				
Acquisitions of property plant, and equipment	(8,525,835,780)	(4,088,003,450)	(2,538,485,958)	(373,824,177)
Acquisitions of intangible assets	(249,627,330)	(387,028,296)	(105,689,306)	(33,100,991)
Acquisition of investment in financial asset at FVTPL	(104,510,000)	-	-	-
Acquisition of investment in a subsidiary	-	(83,000,000)	-	(83,000,000)
Net cash outflow from disposal of subsidiaries	-	(16,375,116)	-	(16,375,116)
Net cash used in investing activities	(8,879,973,110)	(4,574,406,862)	(2,644,175,264)	(506,300,284)



**Consolidated Statements of Cash Flows (continued)**  
**For each of the nine months ended September 30, 2020 and 2019, and of the three months ended**  
**September 30, 2020 and 2019**  
**(All amounts in Philippine Peso)**

	Nine months ended September 30		Three months ended September 30	
	2020	2019	2020	2019
<b>Cash flows from financing activities</b>				
Proceeds from issuance of convertible preferred shares	4,567,949,670	7,056,450,000	-	7,056,450,000
Payment of share issuance costs	(2,045,456)	(208,440,000)	-	(208,440,000)
Proceeds from issuance of subsidiaries' interest to NCI	-	-	-	-
Proceeds from capital infusion	-	-	-	-
Proceeds from loans payable	3,473,750,001	2,788,971,272	-	-
Payments of loans payable	(2,006,187,500)	(304,873,310)	(1,092,062,500)	-
Payment of dividends	(898,313,051)	(134,897,402)	(263,000,000)	(134,897,402)
Interest paid on loans payable	(418,169,990)	(114,462,450)	(142,247,288)	(39,325)
Payments on lease liabilities	(197,256,914)	(52,026,733)	(81,155,155)	(11,153,887)
Interest paid on lease liabilities	(85,834,905)	(26,857,716)	(27,033,855)	(8,952,572)
Payments on finance leases	-	-	-	-
Interest paid on finance leases	-	-	-	-
<b>Net cash from financing activities</b>	<b>4,433,891,855</b>	<b>9,003,863,661</b>	<b>(1,605,498,798)</b>	<b>6,692,966,814</b>
<b>Net increase in cash and cash equivalent</b>	<b>565,568,087</b>	<b>6,914,518,577</b>	<b>(2,229,937,110)</b>	<b>6,447,694,855</b>
<b>Cash and cash equivalent, beginning</b>	<b>6,233,043,005</b>	<b>476,652,551</b>	<b>8,982,066,201</b>	<b>940,738,541</b>
Effects of exchange rate changes in cash and cash equivalent	(63,695,247)	(8,613,619)	(17,213,246)	(5,875,887)
<b>Cash and cash equivalent, ending</b>	<b>6,734,915,845</b>	<b>7,382,557,509</b>	<b>6,734,915,845</b>	<b>7,382,557,509</b>



**Converge Information and Communications Technology Solutions, Inc. and Subsidiaries**

**Aging of Trade Receivables**

The following table shows the aging of our consolidated trade receivables as at September 30, 2020:

	<u>Total</u>	<u>Current</u>	<u>0-30 days</u>	<u>31-60 days</u>	<u>61-90 days</u>	<u>More than 90 days</u>
	(in millions)					
Residential .....	1,959.5	671.0	183.1	111.6	92.1	901.7
Corporate .....	2,167.2	269.5	230.5	194.6	185.1	1,287.4
Total trade receivables, gross .....	4,126.7	940.5	413.6	306.2	277.3	2,189.1
Less: Allowance for doubtful accounts .....	(1,146.6)					
Total trade receivables, net.....	2,980.1					
Other receivables .....	165.9					
Total trade and other receivables.....	3,145.9					