18 September 2015

Rakon Limited (NZX:RAK)

2015 ANNUAL SHAREHOLDERS' MEETING – CHAIRMAN'S ADDRESS

Fellow shareholders, welcome to this the 10th Annual Shareholders Meeting of Rakon Limited. The annual shareholders meeting provides you with an opportunity to question the Board and senior management about the business, our results and strategies. During general business there will be an opportunity to ask any question you wish about the company, or if you prefer the directors and senior team will be more than happy to talk with you individually after the formal part of the meeting.

At our meeting last year we outlined our plans to restructure the business with a goal of returning Rakon to profit.

It has been very pleasing to report that these plans and the combined efforts of everyone working for Rakon globally have delivered on that plan, with the result for the fiscal year ended 31 March 2015 producing an Underlying EBITDA of NZ$15.4 million and an after tax profit of NZ$3.2 million. This compares favourably with last year's Underlying EBITDA loss of NZ$7.5 million and after tax loss of NZ$83.8 million.

As is often the case in our business the second six months was significantly stronger than the first, delivering an underlying EBITDA of NZ$11.1 million and an after tax profit of NZ$6.6 million.

The majority of Rakon's revenue is in US Dollars (USD) and as the NZ Dollar (NZD) weakens against the USD there is a positive impact on Rakon's profit compared to previous periods when the cross rate was higher. We follow a well tested hedging policy at Rakon, compiled in conjunction with currency experts at PwC Treasury Advisory. This policy endeavours to ensure we lock in and protect the company from currency volatility as much as possible. The result is that Rakon reduces its currency risk and as a consequence follows the rates. This means it is not as fast to gather the profit upside on the currency's decline but is therefore slower to feel the pain when the NZD rises again. Currently the world currency markets are quite volatile, and the NZD is not immune, we only need to see the NZD:USD cross rate today of around 63 cents when only in late April it spiked over 77 cents. Also the strength of the USD doesn't always mean everything is rosy overseas, it is often a symptom of tough physical markets where gaining and growing business is tougher than before. So at the moment we are experiencing a modest impact of a tougher business climate but that is offset by the weaker NZD:USD cross rate when we convert less USD into NZD dollars.

The outlook for Rakon's business is positive, built upon the significant growth of the internet and especially what is called the Internet of Things, where machines talk to machines – referred to as the Internet of Things (IoT) and Machine to Machine (M2M). As a result of this growth Cisco and others predict the number of connected devices to grow from 15 billion today to around 50 billion by 2020, an expansion of over 300%.

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Rakon's timing devices and knowledge fit right into the middle of that growth as governments, telecommunication network operators and others roll out networks to support this demand. Our goal is to have the best and smartest products available for these roll outs and to ensure that we are using our Research and Development (R&D) to continually supersede and upgrade existing products. In doing so, it is imperative that we ensure we gain the economies of scale from those products currently in demand and yet are always ready with the next version to ensure that we don't get trapped with an old or redundant technology and low selling prices.

Our R&D programmes are very important to the future of Rakon, not just developing new and enhanced products, but also finding new and improved ways to manufacture our existing products as well as the new ones. We spent NZ$11.1 million on R&D in FY2015.

We are always looking for ways to do things better and our joint venture with Centum in India is worth singling as one that has been of real assistance in reducing production costs significantly, while producing world class quality product outputs.

Our balance sheet is in good shape for the future, and while our net debt rose from NZ$6.4 million as at 31 March 2014 to NZ$13.4 million as at 31 March 2015, that rise reflected the cash costs of reconstruction and a build-up in working capital for the new markets being addressed. This debt will reduce as we progress through fiscal year 2016 from profits retained.

In summary, the fiscal year just past has been a challenging yet rewarding year for the Rakon team. Their focus, efforts and the positive way that they dealt with major internal change is of great credit to them all. Rakon has through their efforts returned to profit and I know from their plans for the future that they don't intend to rest on their laurels at this point. They all see Rakon as a premier global technology provider and are as determined as the Board to continue to grow the business and its profit from the growing global opportunities before us.

So as Chairman I would like to thank our team for last year's significant effort and also to thank you as shareholders for you continuing support.

I would now like to hand over to our Managing Director, Brent Robinson to provide more detail about the business of Rakon today and the opportunities for the years to come.

Brent...

- Chairman's Speech ends -

About Rakon

Rakon is a global high technology company and a world leader in its field. The company design and manufacture advanced frequency control and timing solutions. Rakon has six manufacturing plants including three joint ventures plants and five research and development centres. Customer support centres are located in eleven offices worldwide. Rakon is a public company listed on the New Zealand stock exchange, NZSX, ticker code RAK.

Disclosure of Non-GAAP Financial Information

Rakon has used ‘Underlying EBITDA’ as a measure of non-GAAP financial information in this announcement and it is defined as:

“earnings before interest, tax, depreciation, amortisation, impairment, loss on disposal of assets, employee share schemes, non-controlling interests, adjustments for associates and joint ventures share of interest, tax & depreciation, and other non-cash items.”

‘Underlying EBITDA’ is a non-GAAP measure, with its presentation not being in accordance with GAAP. The Directors present ‘Underlying EBITDA’ as a useful non-GAAP measure to investors, in order to understand the underlying operating performance of the Group and each operating segment, before the adjustment of specific non-cash charges and before cash impacts relating to the capital structure and tax position. ‘Underlying EBITDA’ is considered by the Directors to be the closest measure of how each operating segment within the Group is performing. Management uses the non-GAAP measure of ‘Underlying EBITDA’ internally, to assess the underlying operating performance of the Group and each operating segment.

The use of ‘Underlying EBITDA’ in this release for the full years of FY2014 and FY2015 has been extracted from audited financial statements.