HY2015 Interim Financial Results & Business Update

Thursday, 13 November 2014

Agenda

Agenda Item	Presenter
HY2015 Operational & Financial Key Points	Brent Robinson (CEO, Managing Director)
HY2015 Financial Review	Simon Bosley (Chief Financial Officer)
Market Outlook & Guidance	Brent Robinson
Q&A Session	
Closing Comments	Brent Robinson
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Use of Non-GAAP Financial Information	

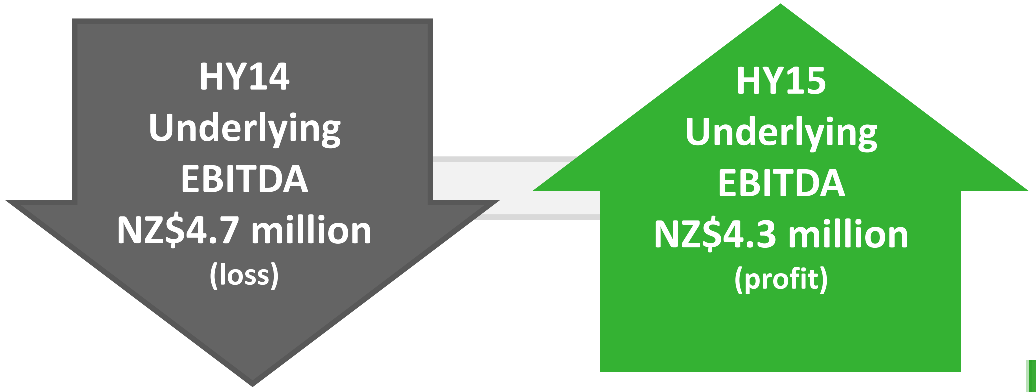
Brent Robinson

Simon Bosley

HY2015 Operational & Financial Key Points

HY2015 Key Points

- Underlying EBITDA* of NZ$4.3m
  - Underlying EBITDA up NZ$9.0m vs. HY2014 loss of $4.7m
  - HY2015 carried Lincoln, UK operating expenses



- Positive impact on all key Business Units from 4G growth in Telecommunications

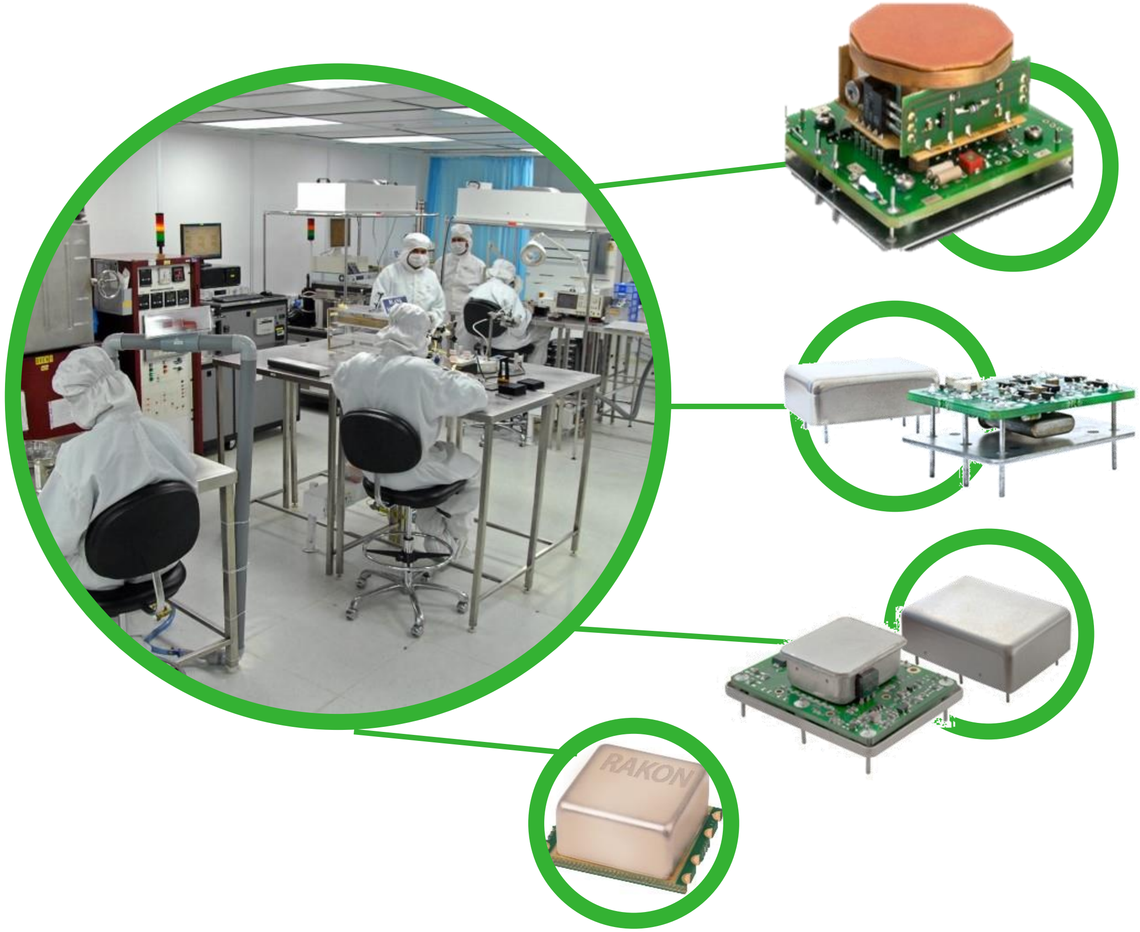
- Net debt of NZ$8.2m, NZ$8.0m ahead of internal forecast for HY2015

- Positive cash flow from operating activities before adjustment for cash outflows relating to FY2014 restructuring

Note: The release of Half Year 2015 results is based on unaudited financial statements
** Refer to Slide 21–24 'Use of Non-GAAP Financial Information' for definition of Underlying EBITDA*

HY2015 Key Points

- Lincoln, UK manufacturing plant closed in October in line with FY2015 plans
  - Site now cleared and available for sale
- NZ manufacturing volumes ramped up from UK transfer
  - Some order backlog due to UK transfer and further additional demand
- Strong earnings growth from Centum Rakon India



HY2015 Financial Review

HY2015 Financial Overview

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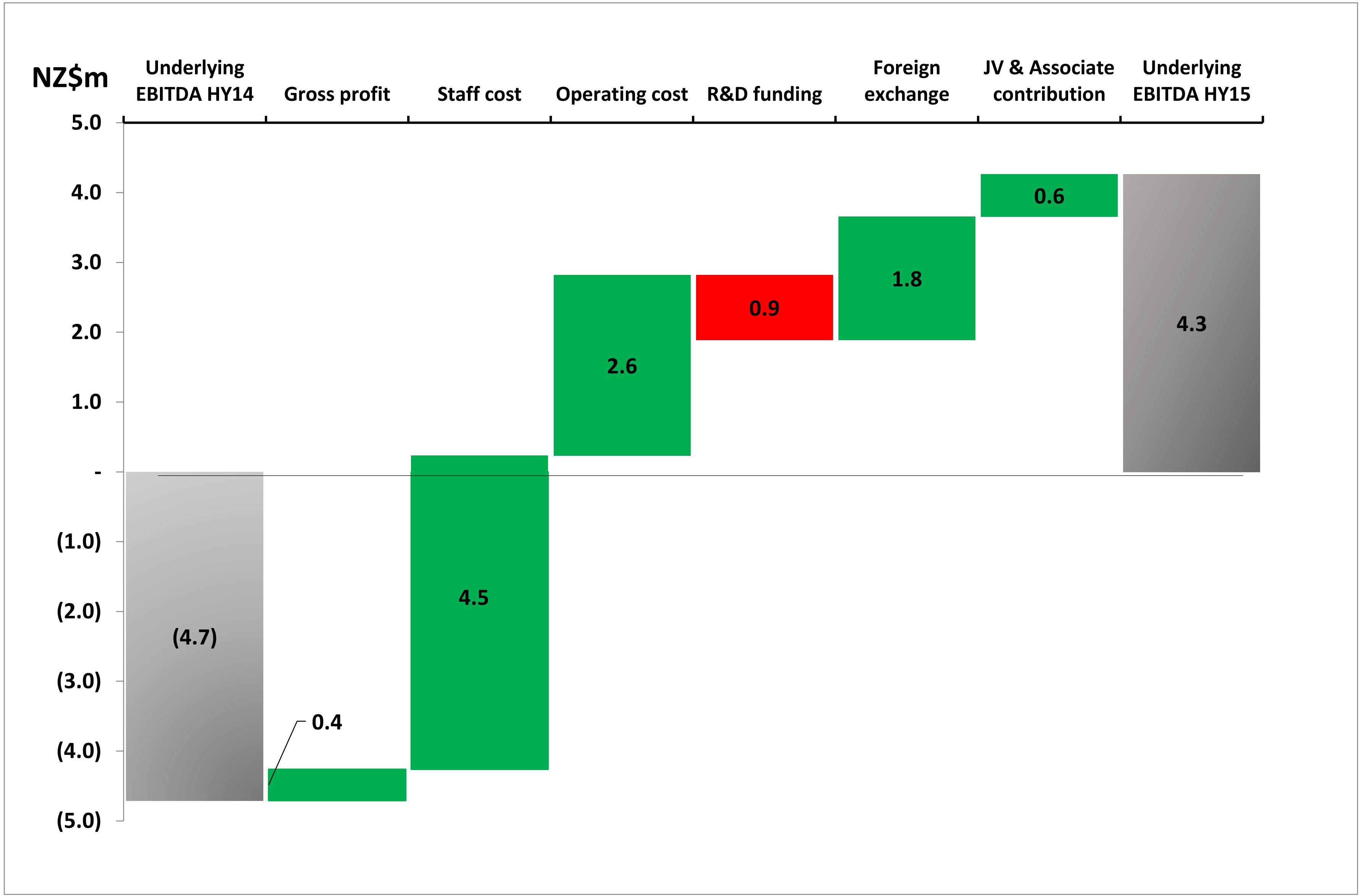
NZD Millions	HY15	HY14	% Change	FY14
Volumes (millions)	36.0	66.8	(46.1)	108.7
Revenue	61.4	80.5	(23.7)	150.0
Underlying EBITDA*	4.3	(4.7)	(>100.0)	(7.5)
Depreciation & amortisation	4.8	5.2	(8.6)	17.2
Impairment	-	7.5	(100.0)	19.9
Net loss after tax (consolidated)	(3.4)	(45.7)	(92.6)	(83.8)
Earnings (cents per share)	(1.8)	(22.3)	(91.9)	(41.7)
Operating cash flow	(0.0)	7.8	(>100.0)	12.5
Capital expenditure	2.8	3.7	(24.3)	5.9
Bank borrowings	11.8	36.9	(68.0)	10.9
Net debt	8.2	27.1	(70.0)	6.4
Shares on issue at balance date (millions)	191.0	191.0	-	191.0

Note: The release of Half Year 2015 results is based on unaudited financial statements

** Refer to Slide 21–24 'Use of Non-GAAP Financial Information' for definition of Underlying EBITDA*

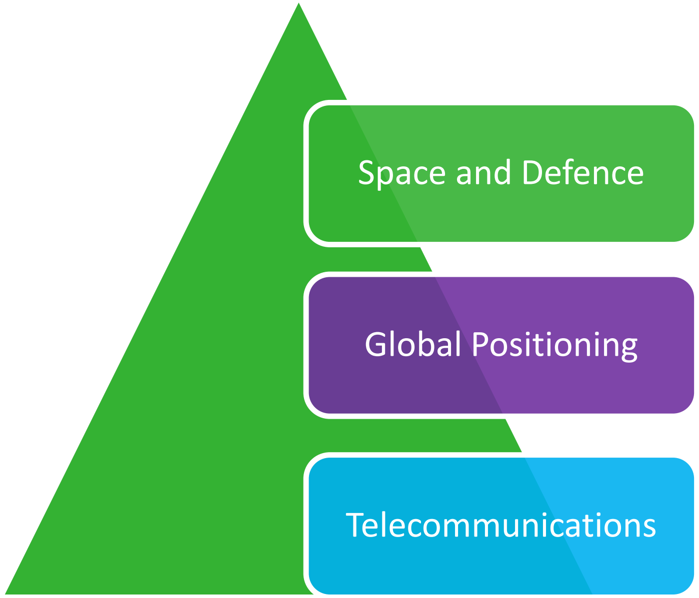
- Volumes changed, through strategy to move away from the Smart Wireless Device market
- Net loss after tax of $3.4m includes final Lincoln, UK operating expenses that cease from second half
- Impairments due to structural realignment taken up in FY2014 – now complete

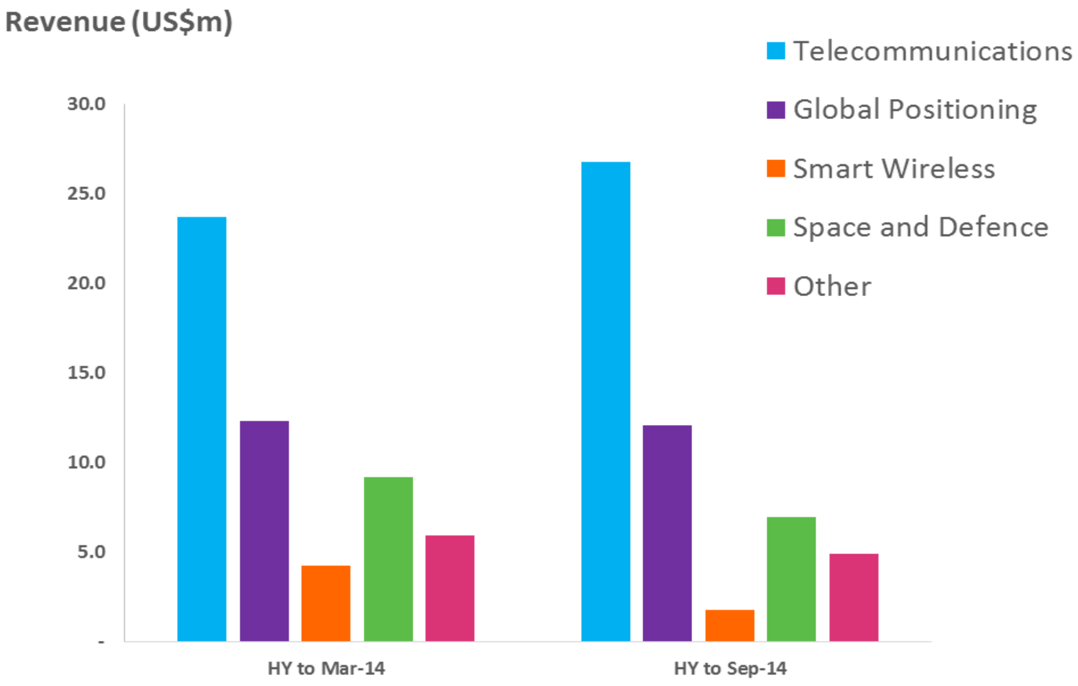
Underlying EBITDA – HY2014 to HY2015



Revenue – 2H FY14 vs. 1H FY15

- Telecommunications revenue increase of 13% from 2H FY2014 to 1H FY2015 (USD basis)
- Space and Defence delivery schedule for FY2015 geared to second half





Cash and Financing Key Points

- Cash flow from operating activities -NZ$30k but positive (NZ$3.6m) before adjustment for cash outflows relating to FY2014 restructuring
- Net debt NZ$8.2m as at 30 September 2014. Improvement of NZ$8.0m vs internal forecast target, from working capital and cash management efficiencies and reduced capital expenditure spend
- Surplus headroom under bank facility arrangement that allows borrowings up to NZ$22m
- Future borrowings reduction (beyond FY2015) from positive operating cash flows and proceeds from Lincoln, UK and Argenteuil, France property sales

Market Outlook & Guidance

- Telecommunications
- Global Positioning
- Space and Defence

Telecommunications

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- New mobile phone 4G technology is driving new telecommunications infrastructure
- Rakon capturing strong growth coming from 4G deployments of new base station equipment
- Continued investment in 4G macro and small cell base stations from operators expected for next three years; then leading into 5G
- Infrastructure to support the new base stations is driving demand in wired and wireless equipment; all require high specification frequency and timing products
- Rakon's current and new product portfolio is well positioned to catch the growth for this new equipment
- IoT – Internet of Things driving further data growth. Cisco predict 50 billion connected devices by 2020

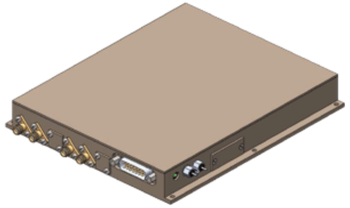
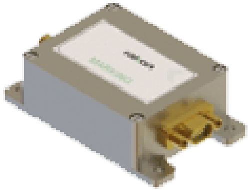
Global Positioning

- Rakon has a strong reputation in the Global Positioning market and remains the leading frequency control supplier
- Margins improving as GPS customers focus on more industrial and specialised applications
- Wearable fitness devices incorporating GPS technology continues to grow strongly
- Traditional PND customers are gaining market share with in-dash systems in the automotive market
- Emergency beacon demand has increased from July 2014
- New localised indoor positioning technology requires high accuracy frequency and timing

Space and Defence

Space and Defence

- Defence market revenue trending up
- Space market in Europe continues to be soft, resulting in reduced market sector revenue overall for 1H
- Expanded focus into US, India and Asian markets expected to yield revenue growth in the next 2 to 3 years
- New product platform soon to be ESA qualified, fills an important gap in Rakon's European space product portfolio
- New high end products are capturing new customers



FY2015 Market Guidance

- FY2015 earnings guidance reaffirmed
  - Underlying EBITDA of NZ$10m to NZ$15m

- Planned growth in Underlying EBITDA for the second half FY2015 through:
  - Operating cost benefit from the Lincoln plant closure
  - Continuing growth in the Telecommunications market
  - Improved NZD:USD exchange rate with a strong hedge position
  - Increased Space and Defence revenues (France Business Unit) due to the timing of project deliveries for FY2015
  - Filling order backlog following UK transfer

Q&A Session

Closing Comments

Closing Comments

- First half earnings result in line with expectations
- Key project to close Lincoln plant now complete with second half operating cost reduction to be realised
  - Significant focus on delivering increased customer demand through NZ plant
- Telecommunications growth evident
- Following structural realignment the company is now positioned to return to profit
- A number of factors supporting planned growth in Underlying EBITDA for the second half FY2015, resulting in second half net profit after tax
  - FY2015 earnings guidance reaffirmed

Appendix

Strategy

Our Vision	To be the preferred ‘frequency control product’ supplier to the Telecommunications, Global Positioning and Space & Defence markets with best-in-class application knowledge						
Strategic Focus	Focus on Markets for Growth & Profitability			Technology Development		Operational Excellence	
	Telecomms	Global Positioning	Space & Defence	Products / Applications	R&D	Operating Platforms / Efficiency	People
FY15 Strategic Priorities	• Growth from 4G/LTE global deployments • Leverage the current strength in customer base and design-in activities • Capture market share through technology transitions	• Maintain strong market share through superior product performance • Shift in focus to specialised applications	• Develop a global market position by expanding beyond well established European markets • Leverage new product and platform developments	• Develop application specific technology solutions and next generation products • Development of products for future emerging markets	• Focus on delivering the technology roadmap • Continue the development of disruptive technologies • Implement a best practice ‘select-to-launch’ process	• Complete the structural realignment initiated in FY14, to realise planned operating cost savings in FY15 • Implement the transfer of Lincoln manufacturing to NZ • Focus on speed	• Embed new organisational structures following FY14 restructuring and market re-focus • Align our global effort to deliver the new strategic plan
Overarching Objective	We will focus on shareholder value creation and our objective is to achieve an overall ROE > 12%						

Notes & Disclaimer

Non-GAAP Financial Information

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 presentation **for the half year of FY2015** has been extracted from **unaudited financial statements.** The use of 'Underlying EBITDA' in this presentation for FY2014 has been extracted from audited financial statements.

Non-GAAP Financial Information

Reconciliation of 'Underlying EBITDA' to Net Loss

Unaudited six months ended 30 September 2014	Continuing operations ($000s)	Discontinued operations ($000s)	Total ($000s)
Underlying EBITDA	4,265	-	4,265
Depreciation and amortisation	(4,755)	-	(4,755)
Employee share schemes	(6)	-	(6)
Finance costs – net	(531)	-	(531)
Adjustment for associates and joint venture share of interest, tax & depreciation	(1,748)	-	(1,748)
Other non-cash items	(314)	-	(314)
Loss before income tax	**(3,089)**	-	**(3,089)**
Income tax/(expense)	(279)	-	(279)
Net loss for the period	**(3,368)**	-	**(3,368)**

Non-GAAP Financial Information

Reconciliation of 'Underlying EBITDA' to Net Loss

Unaudited six months ended 30 September 2013	Continuing operations ($000s)	Discontinued operations ($000s)	Total ($000s)
Underlying EBITDA	(6,727)	2,018	(4,709)
Depreciation and amortisation	(4,150)	(942)	(5,092)
Impairment	(3,875)	(25,136)	(29,011)
Employee share schemes	(20)	-	(20)
Finance costs – net	(983)	(241)	(1,224)
Adjustment for associates and joint venture share of interest, tax & depreciation	(1,552)	-	(1,552)
Non controlling interest	(3,557)	-	(3,557)
Other non-cash items	(70)	-	(70)
Loss before income tax	**(20,934)**	**(24,301)**	**(45,235)**
Income tax/(expense)	(447)	**-**	(447)
Net loss for the period	**(21,381)**	**(24,301)**	**(45,682)**

Non-GAAP Financial Information

Reconciliation of 'Underlying EBITDA' to Net Loss

Audited year ended 31 March 2014	Continuing operations ($000s)	Discontinued operations ($000s)	Total ($000s)
Underlying EBITDA	(9,340)	1,809	(7,531)
Depreciation and amortisation	(15,642)	(804)	(16,446)
Impairment	(19,920)	(21,467)	(41,387)
Loss on disposal of assets (sale of shares in subsidiary)	-	(8,467)	(8,467)
Employee share schemes	(20)	-	(20)
Finance costs – net	(1,717)	2	(1,715)
Adjustment for associates and joint venture share of interest, tax & depreciation	(2,787)	-	(2,787)
Non controlling interest	-	(4,370)	(4,370)
Loss before income tax	**(49,426)**	**(33,297)**	**(82,723)**
Income tax/(expense)	(1,076)	**-**	(1,076)
Net loss for the year	**(50,502)**	**(33,297)**	**(83,799)**

Disclaimer

- This presentation contains not only a review of operations, but also some forward looking statements about Rakon Limited and the environment in which the company operates. Because these statements are forward looking, Rakon Limited's actual results could differ materially.

- Although Management and the Directors may indicate and believe that the assumptions underlying the forward looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward looking statements will be realised.

- Media releases, Management commentary and investor presentations are all available on the company's website and contain additional information about matters which could cause Rakon Limited's performance to differ from any forward looking statements in this presentation. Please read this presentation in the wider context of material previously published by Rakon Limited.

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