16 September 2016
Rakon Limited (NZX:RAK)

2016 ANNUAL SHAREHOLDERS’ MEETING – CHAIRMAN’S ADDRESS

Fellow shareholders, thank you for your attendance today and the active interest you have shown in Rakon’s performance and future. You have signalled a strong desire for change, motivated by the belief that such change will improve the fortunes of this business that we together own.

As I mentioned in my letter to you of 18 August, over the past year or more the Board has vigorously debated a number of areas of change required to improve Rakon. The key subjects being: the composition of the Board, the strategies to enhance the profit performance and the urgency required to become consistently profitable, providing value growth and a dividend for all shareholders.

Change is very easy to suggest, but as I’m sure you all understand, a lot harder to implement. You need to ensure it enhances value rather than destroys it. The culture of any organisation is paramount and any adjustments need to be handled with care to ensure that all stakeholders – our team, our customers, our suppliers, our bankers and of course our shareholders – are all treated with appropriate balance.

We respect and fully understand the energy shown by the New Zealand Shareholders’ Association (NZSA) to represent their views of the company’s situation and the changes they believe are required to enhance value for all shareholders. Naturally we won’t agree on everything each other says, but we value theirs and your rights to a democratic process, as you voice your opinion either through correspondence or voting as to what should change and what we should take note of.

Rakon has performed well below expectations over the past 5 years and while we thought fiscal year 2015 was the beginning of a sustainable return to profit, it wasn’t. As Directors and senior management of Rakon, we accept responsibility for these inadequate results.

Many things have been said and reported, some correct and some incorrect. A major point that needs correcting, concerns the income of the Managing Director and the Sales and Marketing Director. In 2012 the Board introduced a self-imposed freeze on all Directors’ fees and included the remuneration of the executive Directors within that freeze. The remuneration packages of the executive Directors and other senior managers consists of their base salaries plus bonus entitlements based on performance targets. The return to after tax profit in fiscal year 2015 triggered those entitlements and bonuses were paid during the 2016 year after approval by the Board. Their base salaries remain frozen as have all Director’s fees. I recognise that others will say “well they received more money – therefore they weren’t frozen!”, however in the strict sense of our contractual arrangements with them they were. The non-executive Directors’ fees will remain frozen and any change will be a subject for a new Board to consider in the future.

As I mentioned in my 18 August letter to shareholders, the executive Directors’ remuneration packages have been under review. I can announce today that as a first step, their base salaries have been reduced by 12.5% and there will be no bonus entitlements for this fiscal year. This will reduce the income they receive by 28% compared to what was detailed in our 2016 Annual Report. This review is ongoing to ensure market parity with similar global organisations from the start of FY2018.
As you are aware Rakon is a component supplier, (like providing grapes or corks to a winemaker) and despite our market leading technology, is generally at the mercy of our customers and the activity within their markets. The ability we have to drive volume demand is very limited given our position within the supply chain. For the last twelve months or so, there has been significant change within our customers’ ownership structures and to their base markets which has made it very difficult for Rakon to grow its profit. Earlier this year the Board reacted to this market climate and approved a CEO led initiative to reduce operating costs by 20%. This activity will be completed by the end of this fiscal year. The consequent reduction in costs will enhance next year’s profit, but as the costs of change need to be considered in this year, the overall impact on FY2017 is minimal.

No matter the outcome of today’s Directors’ elections, suitable new Directors will be introduced to the Board. The number and timing will depend upon the candidates and the speed of the process. It is important to note that none of the existing Directors is opposed to this change and supports such change that is positive and value enhancing for all shareholders. We intend seeking the names of good candidates from major shareholders and the NZSA.

I mentioned in my August letter, that if re-elected today I won’t be seeking another term and will remain to ensure proper change to the governance, the capital structure and profit of Rakon. I can also inform you today that Rakon’s Founder Warren Robinson, has told me that he intends to retire before next year’s Annual Shareholders’ Meeting and consequently won’t be seeking another term as a Director. As I mentioned in my August shareholder letter, Warren deserves to retire with dignity. I feel confident that some years from now, Rakon’s current difficulties will be well behind it and largely forgotten; people should be able to look back then with pride on what Warren began nearly half a century ago.

So in many respects this is a watershed meeting and change is a major focus. Besides the Board structure, strategy, cost reductions, we are always alert to global changes within our industry that could provide quality capital and strategic partners for Rakon. Over the past year we have had a few discussions in this vein, with nothing yet materialising that we feel would be value accretive for all shareholders. We will continue to remain alert to global opportunities that will enhance the long term value of Rakon.

Rakon is not new to change with our senior team having made many adjustments to reduce costs and enhance margins. For instance, two years ago they successfully shifted our UK activities to New Zealand generating a significant enhancement in gross margin. We will always be open to change that enhances value for all stakeholders. We want Rakon to grow recurring after tax profits and pay a regular dividend.

Finally, we like most people don’t particularly like being told off in public, but given our roles as Directors we accept such rebuke goes with the territory and accept the reprimands. I can ensure you that we understand and respect your points of view, and no matter the voting outcomes today the Board will be working as hard as possible to get Rakon delivering more for its shareholders.

- Chairman’s Address ends –
About Rakon
Rakon is a global high technology company and a world leader in its field. The company designs and manufactures advanced frequency control and timing solutions for telecommunications, global positioning and space and defence applications. Rakon products are found at the forefront of communications where speed and reliability are paramount. The company’s products create extremely accurate electric signals which are used to generate radio waves and synchronise time in the most demanding communication applications. Rakon has five manufacturing plants including two joint venture plants and has five research and development centres. Customer support centres are located in ten offices worldwide.

Rakon is proud of its New Zealand heritage; it was founded in Auckland in 1967. It is a public company listed on the New Zealand stock exchange, NZSX, ticker code RAK.

Rakon Contact:
Louise Howe (Media Liaison)
louise.howe@rakon.com
+64 21 2060985
www.rakon.com