# FY2016 Financial Results & Business Update

rakon

## Advanced Timing for High Speed Connectivity



Thursday 19 May 2016

# Agenda

| Agenda Item | Presenter |
|---|---|
| FY2016 Financial & Operational Key Points | Brent Robinson (CEO, Managing Director) |
| FY2016 Financial Review | Anand Rambhai (Group Financial Controller) |
| Market Update | Brent Robinson |
| Q&A Session | |
| Outlook and Closing Comments | Brent Robinson |
| Appendix | |

Brent Robinson

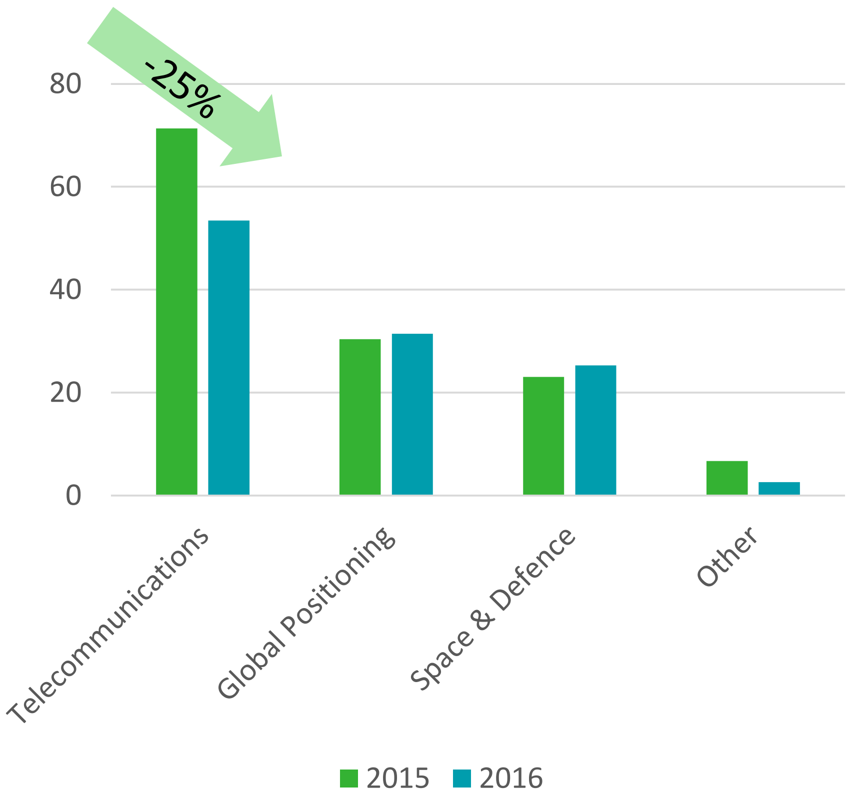
Anand Rambhai

# FY2016 Financial & Operational Key Points

# FY2016 Key Points

- Profit down for FY2016
  - Net loss after tax of NZ$1.7m vs. net profit of NZ$3.2m in FY2015
  - Underlying EBITDA[1] of NZ$9.0m vs. NZ$15.4m in FY2015
- Negative result coming from Telecommunications
  - Revenue down 25% in Telecommunications market
  - As reported in Jan'16, Telecommunication revenue has declined due to network equipment spend being down globally
  - The main impact is on legacy oscillator products with JV earnings from Centum Rakon India down NZ$3.4m

Revenue by market (NZ$m)

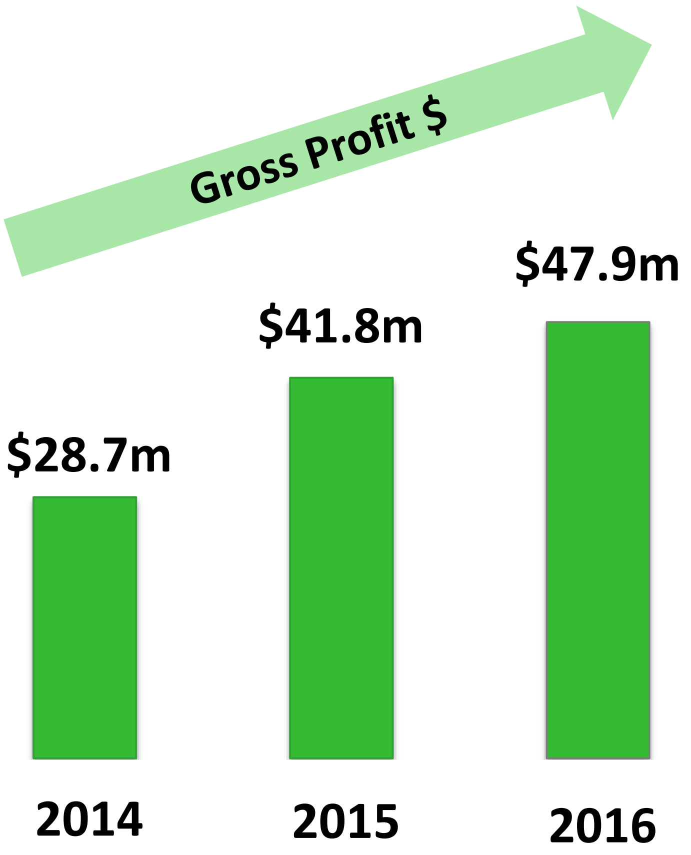



*Note: The release of FY2016 results is based on audited financial statements*

*[1]Refer to Slide 17 'Non-GAAP Financial Information' for a definition of Underlying EBITDA and reconciliation to NPAT*

# FY2016 Key Points

- Growth in gross profit from consolidated subsidiaries
  - Margin dollars continue to be on a growth trajectory
  - A change in technology transition with more control in NZ and currency benefit are all contributing to gross profit increasing
- Positive operating cash flow
  - Operating cash flow of NZ$7.3m reported for the period; an increase of NZ$10.9 vs FY2015
- R&D and product development
  - Key long-term development projects in ultra stable crystals and high-end oscillators have moved close to completion
  - Product focus on getting ready for 5G – Mercury+
  - Continuing to see a technology shift
  - Development finalised on new space & defence products, with a related increase in orders for future delivery



# FY2016 Key Points

- Investment in Thinxtra
  - An investment in the Internet of Things (IoT) and Machine-to-machine (M2M) opportunity
  - Total Rakon investment of AU$5.8 million into a dedicated IoT company (Thinxtra) for a 48% shareholding[1]
  - Thinxtra are part of the SIGFOX global roll-out – awarded a 7 year license as the network operator for ANZ
  - Leveraged opportunities are available to Rakon in building the modules for IoT connected devices

- Timemaker (40% Associate)
  - Shenzhen plant closed in mid 2015 CY with all manufacturing relocated and consolidated into the Chengdu plant to improve operating efficiency; improved outlook expected from FY2017

[1]*Includes Rakon's investment of AUD 4.2 million on 4 April 2016 with the shareholding % adjusted for Founders' options being exercised in the future, as is likely*

# FY2016 Financial Review

# FY2016 Financial Overview

| NZD Millions | FY2016 | FY2015 | % change |
|---|---|---|---|
| **Volumes** (millions) | 47.2 | 69.9 | (32.5) |
| **Revenue** | 112.7 | 131.4 | (14.2) |
| **Gross profit** | 47.9 | 41.8 | 14.6 |
| **Operating expenses** | 47.8 | 46.2 | (3.3) |
| **Underlying EBITDA**[1] | 9.0 | 15.4 | (41.4) |
| **Depreciation & amortisation** | 6.6 | 7.9 | 16.6 |
| **Net profit/(loss) after tax** | (1.7) | 3.2 | (>100.0) |
| **Earnings** (cents per share) | (0.9) | 1.7 | (>100.0) |
| **Operating cash flow** | 7.3 | (3.6) | >100.0 |
| **Capital expenditure** | 5.5 | 5.7 | (2.8) |
| **Bank borrowings** | 12.0 | 12.0 | - |
| **Net debt** | 12.6 | 13.4 | 6.0 |
| **Shares on issue at balance date** (millions) | 191.0 | 191.0 | - |

- Volumes down in Telecommunications; FY2015 also includes the tail of Smart Wireless Devices (now exited)
- Operating expenses up 3% due to FX impact coming from foreign operations
- Capital expenditure requirements continue to be lower vs. Rakon's historical trend; this is also reflected in declining depreciation
- Net debt reduction from positive operating cash flows

*Note: The release of FY2016 results is based on audited financial statements*

*[1]Refer to Slide 17 'Use of Non-GAAP Financial Information' for a definition of Underlying EBITDA and reconciliation to NPAT*

# Treasury Update

- Positive operating cash flows being driven from fully owned Rakon subsidiaries

- Net debt reduces by NZ$0.8m to NZ$12.6m over the period
  - Closing net debt position includes NZ$1.7m of new investment in Thinxtra
  - Net debt increase of NZ$2.9m over second half due to higher investment

- Bank facilities renewed with ASB Bank and extended to include a new facility supporting growth
  - Approved facility for investment in Thinxtra up to NZ$8.6m

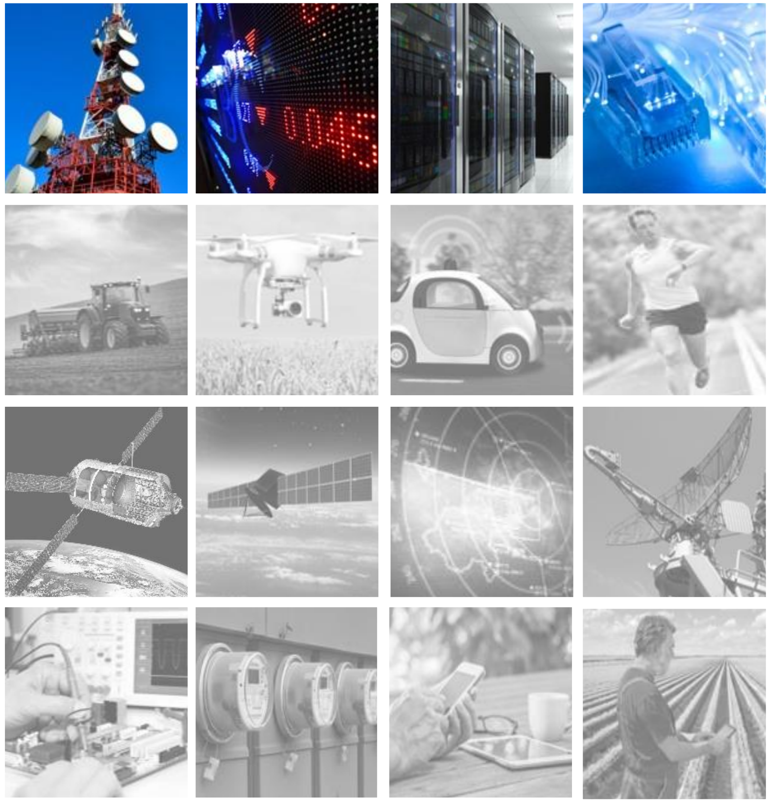
- Debt reduction plans
  - Property rezone of the Argenteuil, France site is in progress and expected to result in a sale by mid-2017 CY

- FX hedging
  - 75% of FY2017 net exposures (NZD:USD) hedged at 0.66

# Market Update

# Market Update – Frequency Control Products

- **Telecommunications**
  - Spend on macro base stations has been down globally
  - Further push-outs were received at the beginning of 2016 CY when the start of a recovery had been expected; this resulted in our downgrade that we announced in Jan'16
  - US market impacted by initial investment in 5G spectrum rather than infrastructure spend; negative short-term, turning positive
  - Product platforms for readiness of high speed data (100 Gigabit) and 5G, moved into production after several years of R&D development
    - Miniature ultra high stability oscillator for numerous telecommunication applications
    - Ultra high frequency oscillators used in optical fibre networks
  - A major European tier 1 equipment maker indicating growth in equipment demand and now reflected in our order book; forecasts from other tier 1s not showing growth in the 1H



# Market Update – Frequency Control Products

- **Global Positioning**
  - As expected, new business coming from harsh environmental industrial applications, is replacing traditional lower margin business such as PNDs
  - Dedicated tactical initiatives drove new design wins in China's BeiDou navigational satellite ecosystem
  - Automotive customer base expanded beyond GPS to address advanced connectivity applications for Smart Cars

- **Space & Defence**
  - The Space & Defence market has been flat for a number of years but now improving
  - Finalisation of new product platforms during FY2016 has lead to an increase in orders in the last 6 months of FY2016

# Market Update – Internet of Things

## The opportunity

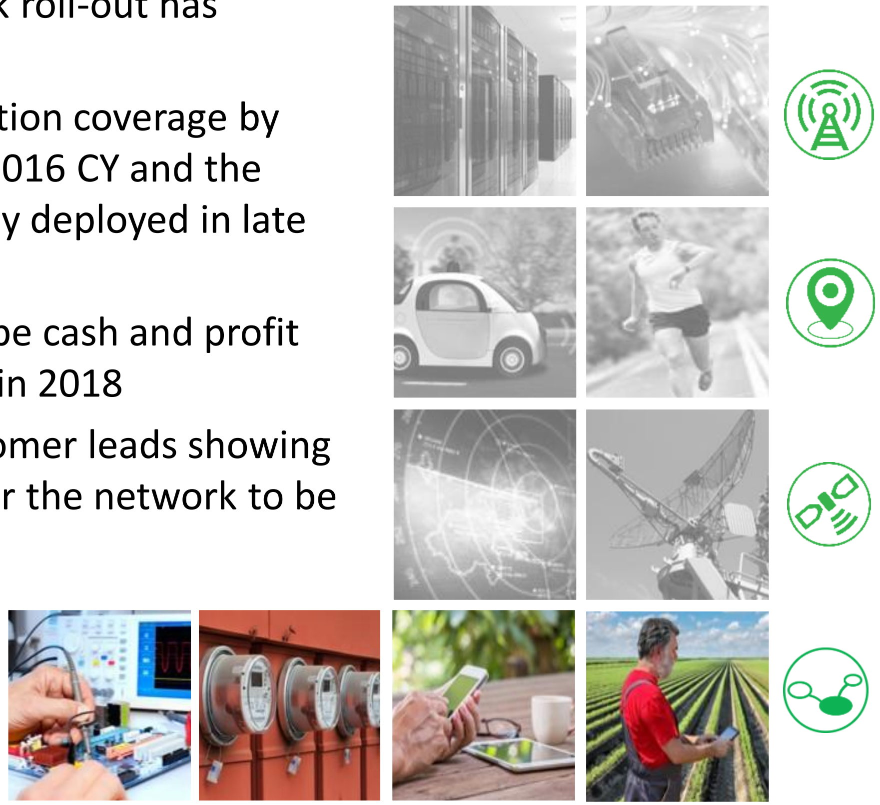
- Machine-to-machine (M2M) connectivity or the Internet of Things (IoT) is expected to reach 20 billion connected devices by 2020
- The IoT market is expected to reach up to US$11 trillion market by 2025[1], touching all industries and areas of life
- Development of disruptive network technologies such as SIGFOX have emerged
- SIGFOX preferred due to its roll-out of a global network fully dedicated to connected objects; backed by large Telcos and global corporates

## Our investment

- AU$5.8 million invested to date in Thinxtra – the exclusive SIGFOX network operator for Australia & NZ
- Rakon becomes the major shareholder in Thinxtra
- Thinxtra to focus on the network and customer solutions
- Rakon to leverage the relationship by developing timing solutions for the IoT

## Timing

- The network roll-out has started
- 30% population coverage by the end of 2016 CY and the network fully deployed in late 2017 CY
- Thinxtra to be cash and profit break-even in 2018
- Strong customer leads showing readiness for the network to be deployed



*[1]McKinsey Global Institute June 2015 - estimating a market of US$3.9 trillion - $11.1 trillion per year in 2025*

# Q&A Session

# Closing Comments

# Outlook and Closing Comments

### FY2016

- A difficult year due to the Telecommunications market being down
- Other indicators such as margins are positive, however the decline in top line revenue determined the reported result
- Achieved increased design wins across the networking segment as demand for faster and more reliable networks continues to benefit from Rakon's industry leading timing solutions

### FY2017 Outlook

- Revenue outlook remaining flat in Telecommunications
- Growth expected in Space & Defence
- Currency improvement forecast vs. FY2016
- Focus on improving Rakon France profitability

### Internet of Things – a new opportunity

- AU$5.8m investment to date; considering further investment of AU$3.0m
- An emerging and significant opportunity where Rakon is becoming vertically involved
- A step change that is aligned to Rakon's expertise
- To be part of the first offering of a global, purpose built solution that makes the IoT available to a whole new range of industries and consumers

# Appendix

# 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 FY2015 and FY2016** has been extracted from **audited financial statements.**

## Reconciliation of Underlying EBITDA to Net (loss)/profit for the year

| **Continuing operations** | **2016 ($000s)** | **2015 ($000s)** |
|---|---|---|
| Underlying EBITDA | 9,008 | 15,369 |
| Depreciation and amortisation | (6,620) | (7,938) |
| Employee share schemes | (81) | (58) |
| Finance costs - net | (1,125) | (1,272) |
| Adjustment for associates and joint venture share of interest, tax & depreciation | (2,118) | (3,600) |
| Loss on asset sales/disposal | (120) | (596) |
| Other non-cash items | 199 | (361) |
| **(Loss)/profit before income tax** | **(857)** | **1,544** |
| Income tax (expense)/credit | (874) | 1,646 |
| **Net (loss)/profit for the year** | **(1,731)** | **3,190** |