

# HY2016 Financial Results & Business Update



**Advanced Timing for  
High Speed Connectivity**

Agenda Item	Presenter
HY2016 Financial & Operational Key Points	Brent Robinson (CEO, Managing Director)
HY2016 Financial Review	Simon Bosley (Chief Financial Officer)
Market Update	Brent Robinson
FY2016 Outlook	Brent Robinson
Q&A Session	
Closing Comments	Brent Robinson
Appendix	



Brent  
Robinson



Simon Bosley

# **HY2016 Financial & Operational Key Points**

# HY2016 Key Points

## ◀ Improvement in interim profit

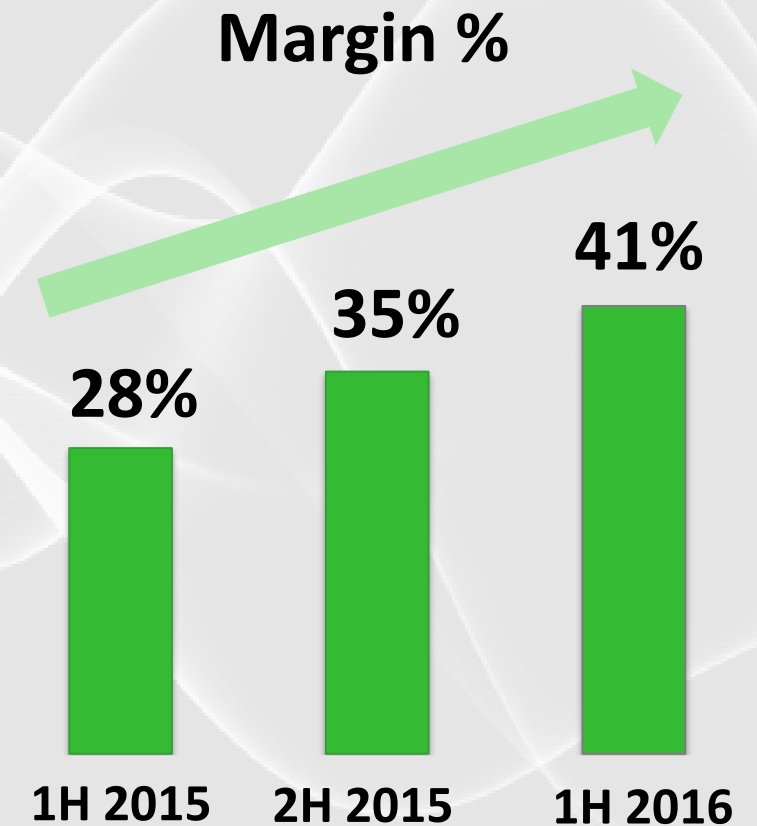
- ◻ NPAT of NZ\$1.1m vs HY2015 loss of NZ\$3.4m
- ◻ Underlying EBITDA of NZ\$6.2m, increase of NZ\$1.9m vs HY2015

## ◀ Tougher market conditions

- ◻ Delayed spending from telecommunication network operators
  - Negative impact on macro base station market
- ◻ Revenue down 6% on NZD basis

## ◀ Continued growth in margins

- ◻ Margin % on growth trajectory over last 18 months
- ◻ Change in product mix, technology transition and currency benefit are all contributing to improved margins



*Note: The release of HY2016 results is based on unaudited financial statements*

*\* Refer to Slide 18–19 'Use of Non-GAAP Financial Information' for a definition of Underlying EBITDA and reconciliation to NPAT*

## ◀ Centum Rakon India profit down

- ❑ Telecommunications slowdown in macro base stations has resulted in profit being down for CRI and Rakon France

## ◀ New Zealand profits continuing to grow

- ❑ Operational consolidation from the UK to NZ in FY2015, has resulted in higher profits for NZ
- ❑ Other markets including Small Cells continuing to perform well
- ❑ NZ benefiting from technology transition

## ◀ Positive operating cash flow

- ❑ Operating cash flow of NZ\$5.3m reported for the period
- ❑ An increase in earnings from fully owned entities is driving improved operating cash flow

# **HY2016 Financial Review**

# HY2016 Financial Overview



NZD MILLIONS	HY2016	HY2015	% CHANGE	FY2015
Volumes (millions)	24.5	36.0	(32.0)	56.4
Revenue	58.0	61.4	(5.5)	131.4
Gross profit	24.0	17.0	41.7	41.8
Operating expenses	23.3	24.2	3.7	46.2
Underlying EBITDA*	6.2	4.3	45.6	15.4
Depreciation & amortisation	3.1	4.8	34.5	7.9
Net profit/(loss) after tax	1.1	(3.4)	>100.0	3.2
Earnings (cents per share)	0.6	(1.8)	>100.0	1.7
Operating cash flow	5.3	(0.0)	>100.0	(3.6)
Capital expenditure	3.2	2.8	14.3	5.7
Bank borrowings	12.0	11.8	(1.7)	12.0
Net debt	9.7	8.2	(18.9)	13.4
Shares on issue at balance date (millions)	191.0	191.0	-	191.0

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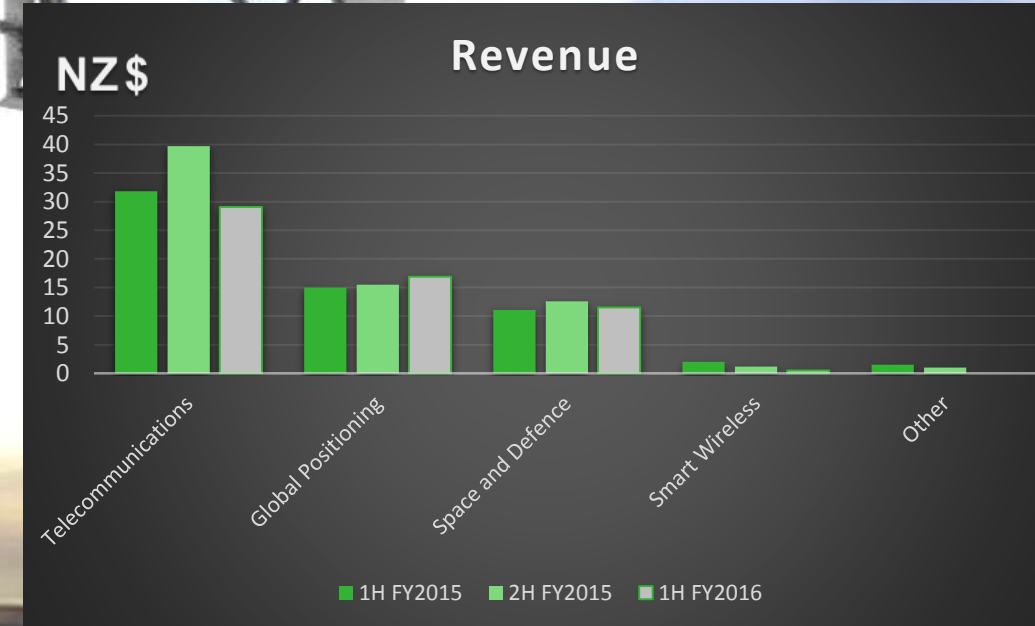
- ◀ Gross profit up NZ\$7.0m on HY2015
- ◀ Operating expenses down NZ\$0.9m on HY2015 due to benefit of Lincoln plant closure
- ◀ Depreciation down NZ\$1.7m on HY2015 due to successive periods of lower investment
- ◀ Strong operating cash flow assisting reduction in net debt to NZ\$9.7m



# Revenue

rakon

- ◀ Telecommunications revenue down 8% vs 1H 2015 and 27% vs 2H 2015
- ◀ Major network operator equipment spending is down with investments focusing on 5G bandwidth and M&A activities
- ◀ Downturn mainly affecting the market for discrete oscillators used in macro base stations impacting the India JV





# Market Update



Telecommunications



Global Positioning



Space and Defence

# Markets – Key Points



- ◀ Network operator distractions away from equipment spending has seen a Telecommunications slow-down
- ◀ 4G deployments have gained coverage, but services are quickly becoming congested, and operators are trialling different technologies to increase capacity
- ◀ Rakon is seeing growth with China's global position satellite network BeiDou, and the NZ products are well suited to agricultural and autonomous mining applications
- ◀ Growth in revenue from the US Defence market achieved in first half
- ◀ New space applications identified with the emerging micro satellite networks

## **2H FY2016 Outlook**



## ◀ Revenue

- ❑ Market conditions expected to remain subdued with a slow return in Telecommunications over 2H FY2016
- ❑ Space & Defence revenues are forecast to have a second half increase due to the delivery schedule of key projects

## ◀ Earnings Guidance

- ❑ FY2016 profit expected to be similar to FY2015 results – Underlying EBITDA of NZ\$15.4m and NPAT of NZ\$3.2m

## **Q&A Session**

## **Closing Comments**

# In One Second

**rakon**



**3+ billion**

Internet users  
globally



**2.4 million**

emails sent



**49,350**

Google searches



**2,247**

Instagram uploads



**9,400**

Tweets



**102,861**

YouTube views



**28,120 GB**

of Internet traffic



**1,784**

Skype calls




**1,236**

App Downloads



**Demand is outstripping supply**

Device speed is limited by the connections available




## **In Telecommunications the underlying conditions and network challenge remains unchanged**

- ❑ There is a continuous increase in connectivity and data usage
- ❑ Congestion is becoming prevalent and impacting on service levels
- ❑ Rakon's products are well positioned to meet this market need



## **Not expecting profits to grow in FY2016**

- ❑ Expecting network operators to be forced to meet customer demand requirements from FY2017



## **We have products that are attractive to our customers and other products within late stages of development**

- ❑ This will allow us to capitalise when demand returns at higher levels

# Appendix

## 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 FY2016** has been extracted from **unaudited financial statements**. The use of 'Underlying EBITDA' in this presentation for FY2015 has been extracted from audited financial statements.

## Reconciliation of Underlying EBITDA to Net profit(loss) after income tax

	Unaudited six months ended 30 September 2015 (\$000s)	Unaudited six months ended 30 September 2014 (\$000s)	Audited year ended 31 March 2015 (\$000s)
<b>Continuing operations</b>			
Underlying EBITDA	6,210	4,265	15,369
Depreciation and amortisation	(3,113)	(4,755)	(7,938)
Employee share schemes	(40)	(6)	(58)
Finance costs – net	(605)	(531)	(1,272)
Adjustment for associates and joint venture share of interest, tax & depreciation	(1,079)	(1,748)	(3,600)
Loss on asset sales/disposal	-	-	(596)
Other non-cash items	(136)	(314)	(361)
<b>Profit/(loss) before income tax</b>	<b>1,237</b>	<b>(3,089)</b>	<b>1,544</b>
Income tax (expense)/credit	(157)	(279)	1,646
<b>Net profit/(loss) after income tax</b>	<b>1,080</b>	<b>(3,368)</b>	<b>3,190</b>

