HY2017 Financial Results and Business Update

17 November 2016

Agenda

Agenda Item	Presenter
HY2017 Financial Key Points	Simon Bosley (Chief Financial Officer)
Challenges & Key Focus Areas	Brent Robinson (CEO, Managing Director)
Thinxtra Investment Update	Brent Robinson
Outlook	Brent Robinson
Q&A Session	
Closing Comments	Brent Robinson
Appendix	

Brent Robinson

Simon Bosley

HY2017 Financial Key Points

HY2017 Financial Key Points

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Comparison vs HY2016

Revenue	Underlying EBITDA*	Net loss	Operating cash flow
NZ$46.0m	NZ$0.6m	NZ-$5.7m	NZ-$0.6m
▼ 20.8 %	▼ 89.6%	▼ >100%	▼ >100%

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

HY2017 Key Points – Markets

- **Telecommunications**
  - Continues to be impacted by lower infrastructure spend
  - Half year revenue decline continued, but now stabilised
  - Order book increasing from Tier 1 customers
- **Positioning**
  - Trending from commoditisation to specialisation
  - 27% revenue decline H1 vs prior HY
    - Cannibalising Personal Navigation Device sector the main cause
    - Uncharacteristically high revenue in prior HY due to a customer ‘last time buy’
- **Space**
  - H1 is down 16% on prior HY
  - 16% growth on prior HY in emerging low orbit satellites
  - Qualified into a SpaceX rocket programme
- **Defence**
  - H1 is up 11% on previous HY
  - Solid growth in precision radar products
  - Strong order bookings continue

HY2017 Financial Overview

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NZD Millions	HY2017	HY2016	% change	FY2016
Volumes (millions)	20.5	24.5	(16.3)	46.3
Revenue	46.0	58.0	(20.8)	112.7
Gross profit	16.7	24.0	(30.7)	47.9
Operating expenses	20.7	23.3	11.2	47.8
Underlying EBITDA*	0.6	6.2	(89.6)	9.0
Depreciation & amortisation	2.8	3.1	10.1	6.6
Net profit/(loss) after tax	(5.7)	1.1	(>100.0)	(1.7)
Earnings (cents per share)	(3.0)	0.6	(>100.0)	(0.9)
Operating cash flow	(0.6)	5.3	(>100.0)	7.3
Capital expenditure	1.7	3.2	(45.4)	5.5
Bank borrowings	18.9	12.0	(57.6)	12.0
Net debt	19.7	9.7	(>100.0)	12.6
Shares on issue at balance date (millions)	191.0	191.0	-	191.0

- Margin % decline due to product mix and currency
- Global headcount reduction contributing to reduction in operating expenses
- Operating expenses includes one-off restructures costs of NZ$0.7 million
- Increase in borrowings from investing activities, including Thinxtra investment of NZ $4.6 million

The release of HY2017 results is based on unaudited financial statements
* Refer to slide 19 'Use of Non-GAAP Financial Information' for a definition of Underlying EBITDA and reconciliation to NPAT

Challenges & Key Focus Areas

Current Challenges

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- FY2016 earnings lower than expected as has been reported
- Major global consolidation trends reducing capital spend industry-wide
- HY2017 – continued revenue decline due to Telecommunications market
- Stronger NZ$ vs prior year impacting negatively on profit
- Aligning cost base to revenue
- Increasing shareholder value

Key Focus Areas

- Strong focus on operational efficiency
  - 20% cost reduction target
  - Measures to be fully implemented by Dec quarter; most already complete
  - Restructure cost impact on HY2017 result; flow through to full year result
  - Cash control focus while costs reducing
- Achieving profitable run rate in 4Q
- Continued focus on R&D and customer-led disruptive products in readiness for 4.5G/5G

Key Focus Areas

- Diversification and expansion
  - Cornerstone investment into Thinxtra and IoT during H1
- Board diversification – search under way for new director(s)

Thinxtra Investment Update

- 2 nationwide IoT networks being built by Thinxtra – the exclusive Sigfox network operator for these countries
  - Australia, New Zealand
- Network deployment at > 60% population coverage
- On target to achieve 85% coverage by June 2017
- 1 million+ connections deal closed
- 50 million+ connections pipeline
- 100 ecosystem partners
- AU$11 million raised – over-subscribed

LONG RANGE
Devices can be connected up to 50 km away from the base station vs 1 km for 3G

LOW COST
Customer pricing model is at least 10 times cheaper than 3G

LOW POWER
300 times more power efficient than 3G

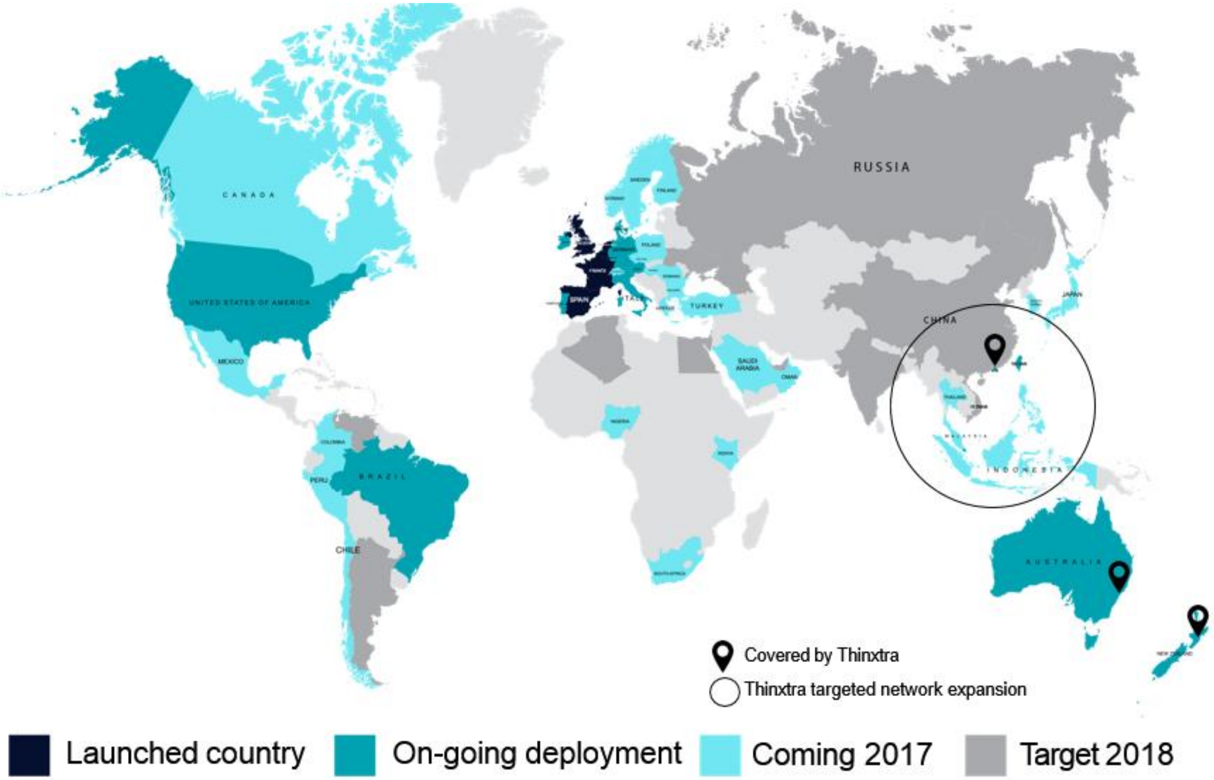
SECURE
Security is built-in at every level, from devices to the Cloud

GLOBAL SIGFOX NETWORK

1.35 million
square kilometres covered

25 countries
covered or in the process of being covered

Top 50 countries
covered by end of 2018



Sigfox will cover 85% of worldwide GDP by the end of 2018. Thinxtra is the exclusive Sigfox network operator for Australia and New Zealand

Sigfox is quickly gaining significant global coverage
KCCS, a subsidiary of Kyocera Corporation, and majority shareholder of Japan’s KDDI telco network — a leading global supplier of printers, copiers, mobile phones, solar power generating systems, electronic components, semiconductor packages, cutting tools and industrial ceramics — will deploy Sigfox’s network nationwide in Japan and distribute the service to its customers
https://www.sigfox.com/en/press/sigfox-and-kyocera-communication-systems-partner-to-expand-sigfox-network-to-japan

Outlook

Outlook – Markets

- **Telecommunications**
  - Expecting negative trend to reverse next half year
  - Operators rolling out time synchronisation now (previously just frequency)
    - Timing mandatory for emerging 4.5/5G
- **Positioning**
  - Small growth following the trend of the last 2 quarters
  - Big TCXO shortage (due to the mobile phone market) will keep prices stable
  - Autonomous cars increasing market size
- **Space**
  - Expanding opportunities in Asia/US
  - Low orbit nano/micro satellite market forecast 2017 to 2022 is strong
  - Delivery on order bookings are expected to recover and exceed H2 FY2016
- **Defence**
  - Good progress on US market development
  - Continued growth in the radar sector
- **IoT**
  - New applications rapidly expanding the market size




Outlook – Earnings Guidance

- **H2 FY2017**
  - Revenue in H2 is forecast to be 12%-15% higher vs H1, due to seasonal and market factors
  - Earnings performance will improve from the benefit of cost reduction initiatives undertaken in H1, but will be negatively impacted from one-off costs associated with the restructure of the France Business Unit in Q3
- **Full Year Earnings Guidance**
  - The company expects to report Underlying EBITDA* in the range of NZ$3 million to NZ$5 million in the full year FY2017

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

Q&A Session

Closing Comments

- Tough market conditions in H1 with reduced demand
- Forecasting revenue 12%-15% higher in H2 (vs H1)
- Focus on aligning costs with the revenue base
- Significant costs being taken out of the business; costs associated with restructure mean that full year benefits will be from 1 April 2017
- Focus on finalising new technology development that customers view as disruptive
  - Products to be released to production before the end of FY2017
- Thinxtra progressing well and to plan

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, employee share schemes, non-controlling interests, adjustments for associates and joint ventures' share of interest, tax & depreciation, loss on disposal of assets and other cash and non-cash items (Underlying EBITDA)."

Underlying EBITDA is a non-GAAP measure that has not been presented 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 and FY2017** has been extracted from **unaudited financial statements.** The use of 'Underlying EBITDA' in this presentation for FY2016 has been extracted from audited financial statements.

A reconciliation of Underlying EBITDA to net (loss)/profit is provided as follows:

Continuing operations	**Unaudited six months ended 30 September 2016 $000s**	**Unaudited six months ended 30 September 2015 $000s**	**Audited year ended 31 March 2016 $000s**
Underlying EBITDA	647	6,210	9,008
Depreciation and amortisation	(2,800)	(3,113)	(6,620)
One off cash gains realised on derviatives closed out	(1,361)	-	-
Employee share schemes	(29)	(40)	(81)
Finance costs - net	(687)	(605)	(1,125)
Adjustment for associates and joint venture share of interest, tax & depreciation	(980)	(1,079)	(2,118)
Loss on asset sales/disposal	(4)	-	(120)
Other non-cash items	(215)	(136)	199
(Loss)/profit before income tax	**(5,429)**	**1,237**	**(857)**
Income tax (expense)/credit	(269)	(157)	(874)
Net (loss)/profit for the period	**(5,698)**	**1,080**	**(1,731)**

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