

FY2018 Financial Results & Business Update



Agenda FY2018



Agenda Item	Presenter
FY2018 Financial Key Points	Simon Bosley (Chief Financial Officer)
FY2018 Key Achievements	Brent Robinson (CEO, Managing Director)
Market Update	Brent Robinson
Q&A Session	
Closing Comments and Outlook	Brent Robinson



Simon Bosley



Brent Robinson

FY2018 Financial Key Points

FY2018 Key Points

Strong earnings result in FY2018

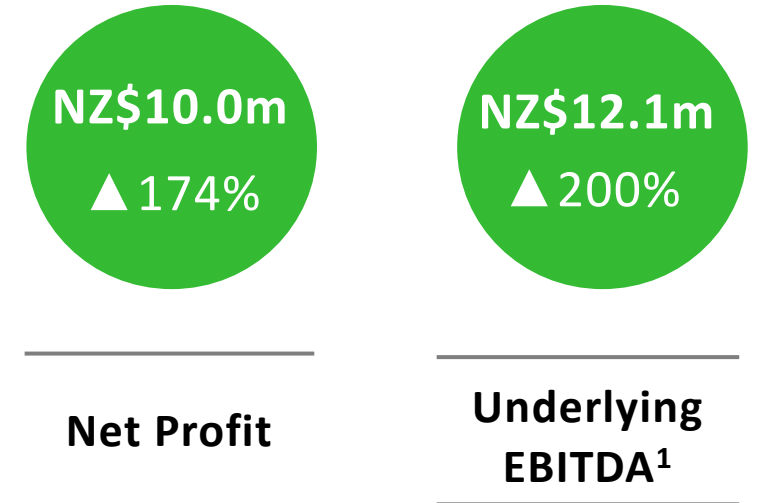
- Net profit after tax of NZ\$10.0 million vs. net loss of NZ\$13.6 million in FY2017
- Underlying EBITDA¹ of NZ\$12.1 million vs. NZ\$4.0 million in FY2017 (NZX guidance to be between NZ\$10.7 million and NZ\$12.7 million)

Revenue turned to growth

- Revenue up 7% on a NZD reported basis, with growth coming from:
 - Space & Defence revenue up 29%.
 - Global Positioning revenue up 9%.

Significant increase in gross profit

- Revenue growth and a mix of business from higher margin markets and products contributed to a gross profit amount increase of 29%



Note: The release of FY2018 results is based on audited financial statements

¹Refer to Note B of the 2018 Financial Statements for an explanation of how 'Non-GAAP Financial Information' is used, including a definition of Underlying EBITDA and reconciliation to NPAT

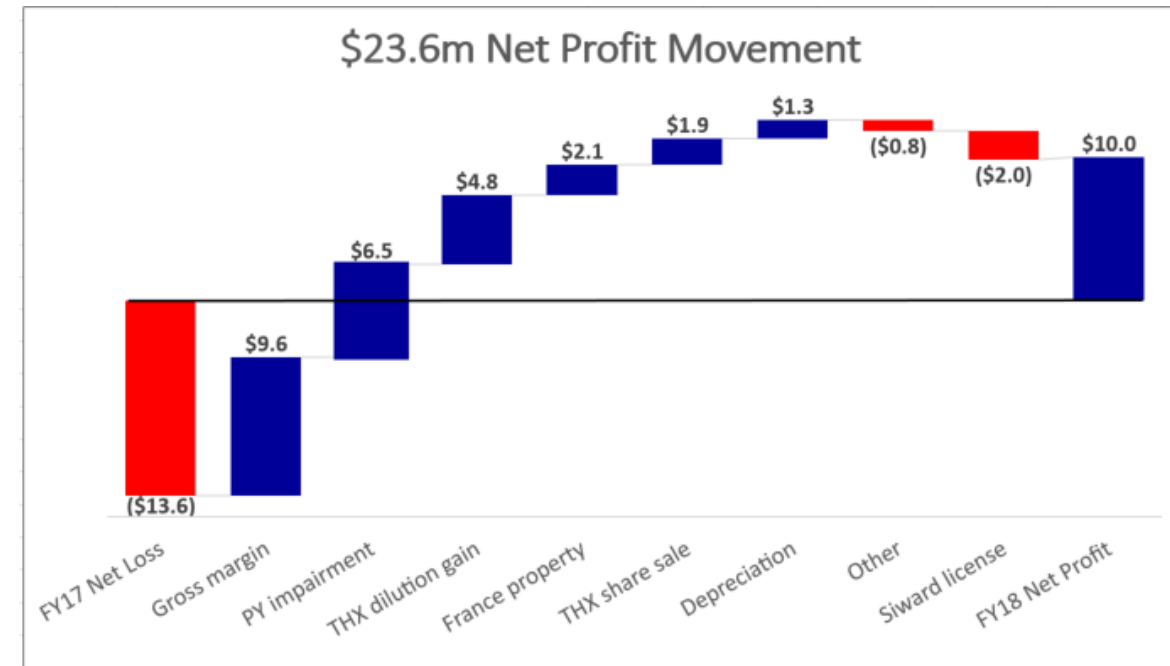
FY2018 Key Points

< Several contributing factors to the strong FY2018 profit result

- A return to profitable trading in core business
- A number of value accretive gains that include:
 - A gain from the sale of the France property of NZ\$2.1 million
 - A gain from the partial sale of Thinxtra shares of NZ\$1.9 million
 - A reported net dilution gain in Thinxtra of NZ\$4.8 million, relating to Rakon's equity accounted share of an increase in the company's net assets, following capital introduced at a premium

< A strong positive movement in the cash position

- Closing net cash of NZ\$7.4 million vs. net debt of NZ\$4.5 million in FY2017
- Strong operating cash flow of NZ\$7.9 million
- Proceeds from the sale of assets and investments of NZ\$7.9 million
- Finance costs down NZ\$0.9 million from reduced debt



FY2018 Key Points



NZD Millions	FY2018	FY2017	% change +better -worse
Volumes (millions)	45.3	44.5	+2%
Revenue	101.1	94.7	+7%
Gross profit	43.3	33.7	+29%
Operating expenses	41.6	41.9	+1%
Underlying EBITDA ¹	12.1	4.0	+200%
Depreciation & amortisation	4.3	5.6	+23%
Net profit/(loss) after tax	10.0	(13.6)	+174%
Earnings (cents per share)	4.4	(6.9)	+164%
Operating cash flow	7.9	9.5	-17%
Capital expenditure	4.2	3.8	-9%
Bank borrowings	-	4.5	+100%
Net cash position	7.4	(4.5)	+266%
Shares on issue at balance date (millions)	229.1	229.1	-

- ◀ Volumes increased, with revenue increasing at a higher rate due to the mix of business
- ◀ Operating costs in line in NZD, but lower on a local currency basis with an appreciating EUR and GBP
- ◀ Depreciation & amortisation decline continues due to past years lower capex trend
- ◀ Business need for capital expenditure remained low
- ◀ Borrowings were permanently reduced from positive operating and investing cash flows, with a movement over the year from net debt to net cash

FY2018 Key Achievements

FY2018 Key Achievements

◀ Siward technology transfer

- ❑ Commitments regarding the technology transfer license mostly now complete
- ❑ Siward now in production and partnering with Rakon on key component supply, mitigating previous risk
- ❑ Partnership well established and ready to be leveraged for the benefit of both parties

◀ Centum Rakon India

- ❑ Buyout of JV partner Centum Electronics completed on 2 May 2018 for US\$5.5 million; Rakon now has 100% ownership
- ❑ Strategic decision in line with the company's manufacturing strategy to have a low-cost operating platform
 - A platform suitable for future growth
- ❑ Key support agreement reached with Centum Electronics to provide services for up to 18 months while Rakon implements its ownership integration plan
 - All control and decision-making now with Rakon



FY2018 Key Achievements

< France property sale

- ❑ Completed in March 2018, the result of a number of years of work to have the property rezoned for sale
- ❑ Achieved NZ\$4.5 million in sale proceeds, with a reported gain-on-sale of NZ\$2.1 million

< Research & Development

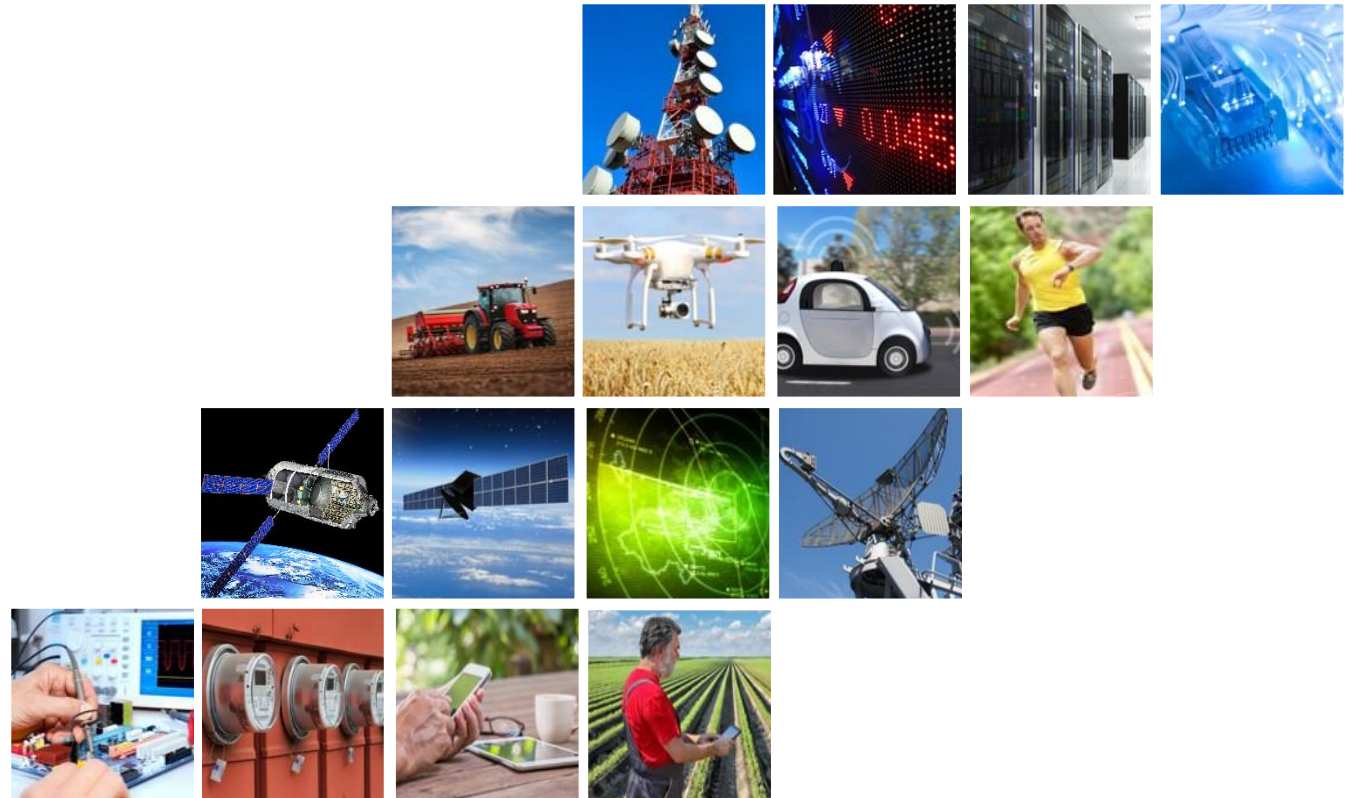
- ❑ Technology requirements and solution designs for next generation 5G telecommunication networks and applications becoming clearer
- ❑ Rakon well positioned with product and technology offering based on prior year's R&D roadmap
 - Mercury/Mercury+ ASIC based OCXOs attractive to customers
- ❑ Strong R&D focus in FY2018 in readiness for telecommunication market opportunities ahead

< Governance

- ❑ Board focus on new NZX Governance Code released in 2017

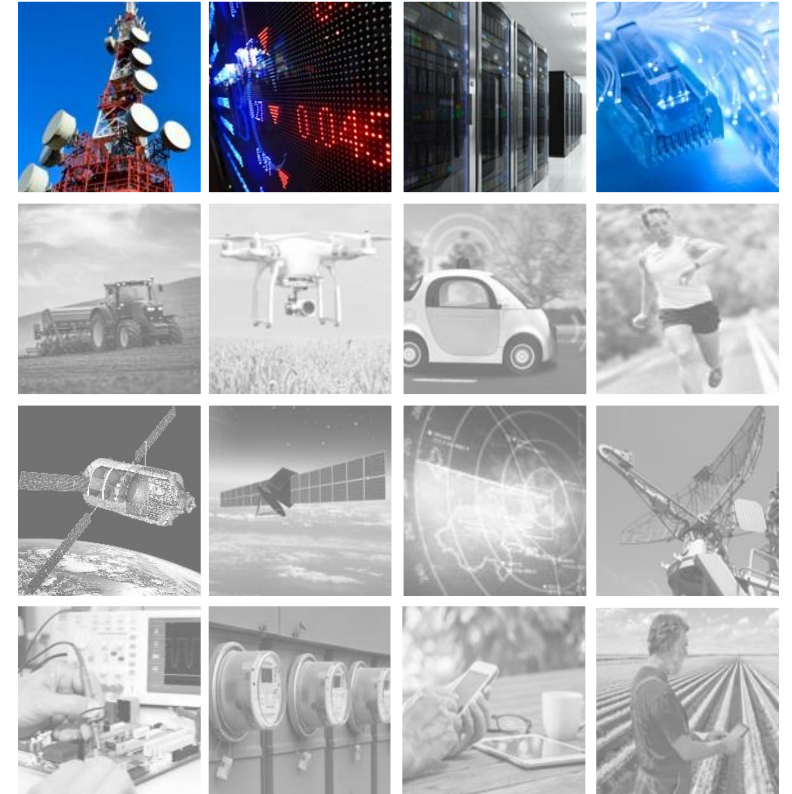


Market Update



Market Update –Telecommunications

- ◀ Telecommunications revenue remained flat on a US\$ basis in FY2018 vs FY2017 despite the first half growth
- ◀ The small cell market in Taiwan was down in the second half
 - 4G small cell demand has not replaced the 3G small cells as anticipated
- ◀ Opportunity with products from Centum Rakon India has not been capitalised on
- ◀ Tier One equipment manufacturers have been focused on 5G and Rakon has been very actively involved supporting this development activity
 - Waiting for these customers to shift to an implementation phase



Market Update – Global Positioning



- ◀ FY2018 Global Positioning Tier One customer volume and revenue both grew
 - Precise positioning demand for industrial & autonomous applications grew 25% in FY2018
 - In China, with the localised positioning satellite network, Rakon's revenue increased 30%
 - The emergency locator beacon market grew 25% in FY2018
 - Personal locator beacon a growth market
 - Rakon dominant global supplier
- ◀ Positioning embedded into wide area, low power IoT applications is a big opportunity for TCXOs, if the price can be competitive



Market Update – Space & Defence



- ◀ Revenue from Rakon's Space market grew 20% in FY2018
 - ◻ 50% of the Space growth came from China.
- ◀ Defence revenue grew 25% in FY2018, mainly from the US region
- ◀ Centum Rakon India's local Space & Defence business in India grew beyond US\$1 million in FY2018
- ◀ The micro satellite Low Earth Orbit (LEO) networks present opportunities for high volume and new value-add product development



Q&A

Closing Comments and Outlook

FY2018

- ❑ A strong profit result has been delivered from a return in the core business along with a number of other gains
- ❑ Revenue bottomed out in FY2017 and started a growth recovery in FY2018
- ❑ The acquisition of Centum Rakon India is strategic and significantly important to growing future profit
- ❑ Balance sheet stability has been achieved with the movement into a net cash position

FY2019 Outlook

- ❑ We expect core business to grow
- ❑ The successful execution of the integration of Centum Rakon India (CRI) into Rakon is a key priority in FY2019
 - Focus on profit turnaround of CRI
- ❑ A number of key R&D product developments to shift into mass production during FY2019
- ❑ The Board will continue to assess 'fair value accounting' of the investment in Thinxtra, with a potential upside to FY2019 reported profit
- ❑ The Directors will continue to monitor the cash requirements of the business in consideration of a dividend

rakon



www.rakon.com