# FY2018 Financial Results & Business Update

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Enabling the connected future



17 May 2018

# 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 |
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| 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 EBITDA[1] 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%

**NZ$10.0m**
▲174%

**Net Profit**

**NZ$12.1m**
▲200%

**Underlying EBITDA[1]**

▲ 29%

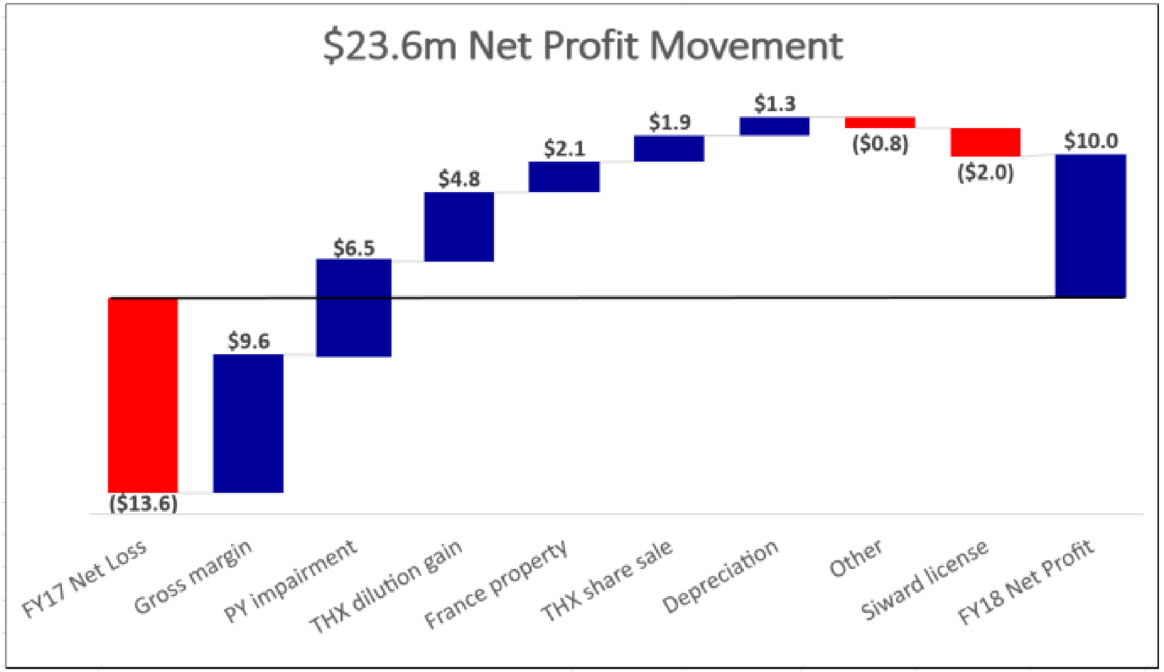
▲ 9%

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

*[1]Refer 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

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- **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

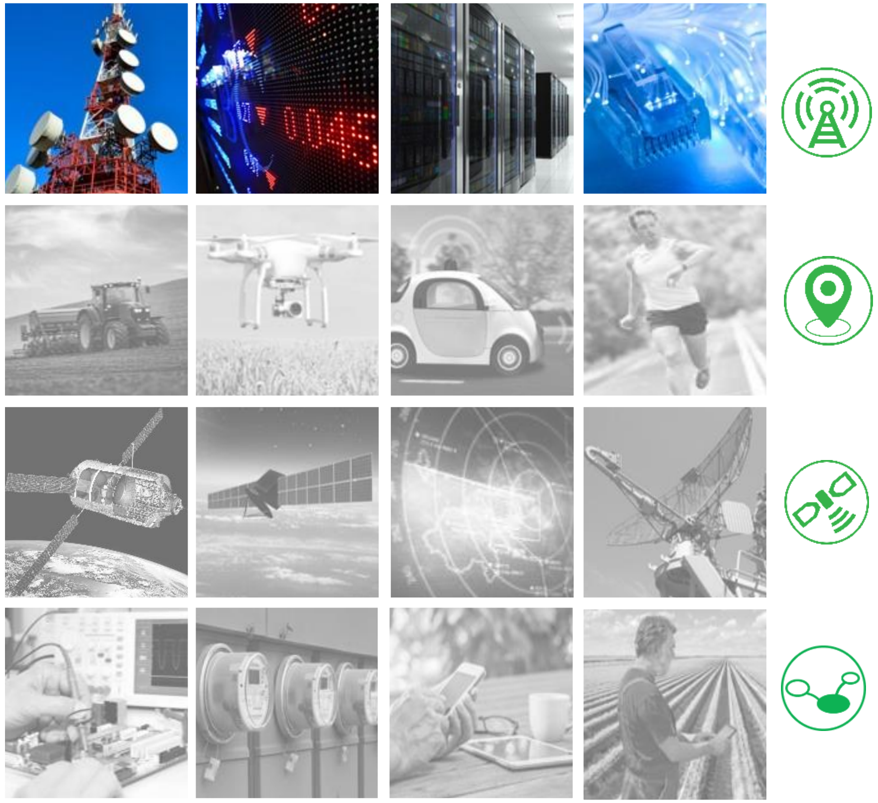
## Governance

- 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

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- 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

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### 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

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