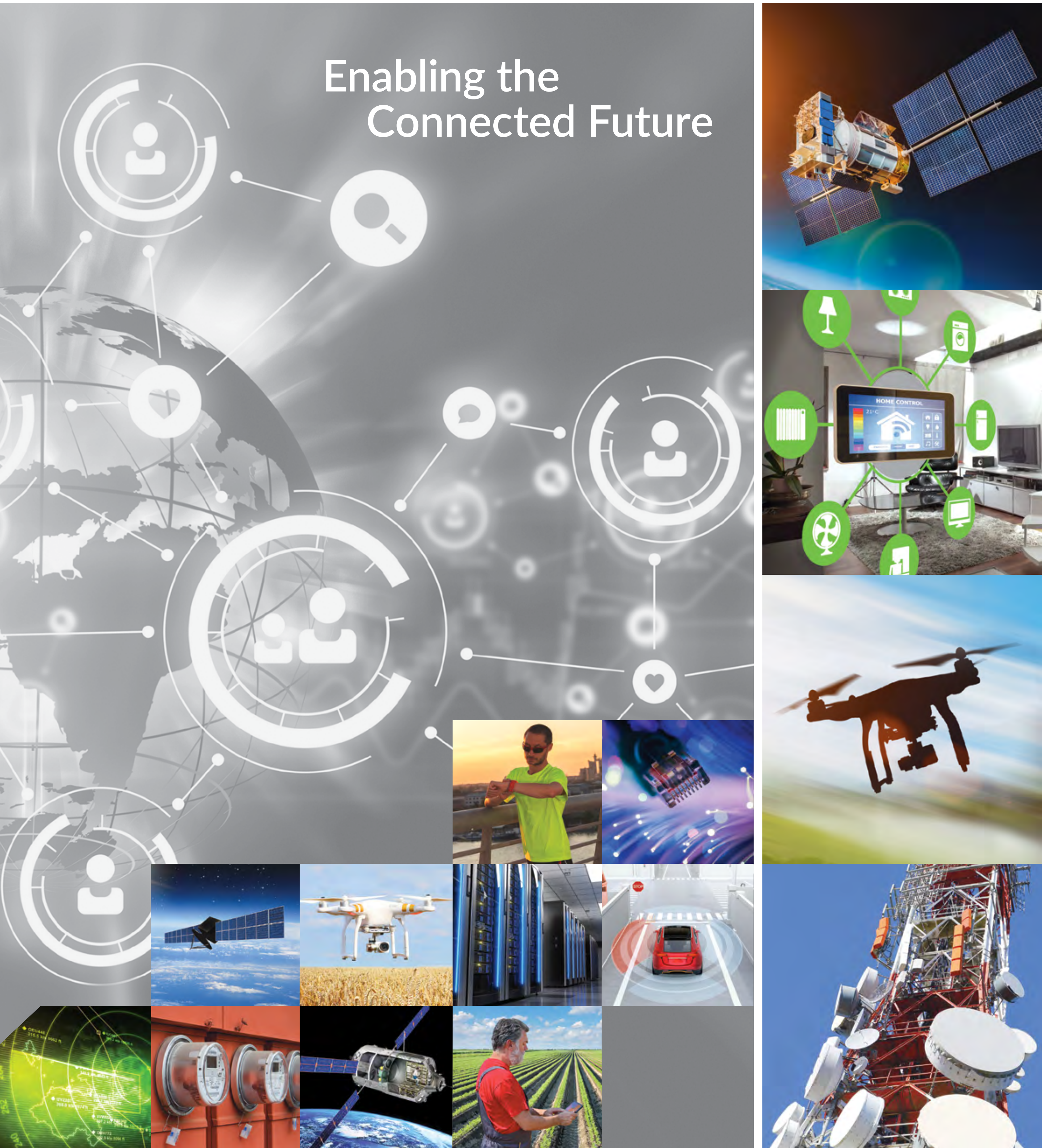
Half Year Review (HY2019)

April – September 2018

Enabling the Connected Future



rakon

2019 Half Year Statement of Results

HY2019 Financial Overview

For the six months to 30 September 2018 (HY2019), Rakon reported an unaudited net profit after tax of $9.2m[1] – an increase of $8.3m compared to the same period last year. Included in net profit after tax is a one-off gain of $7.2m from a change in classification of the company's investment in Thinxtra Pty Limited ('Thinxtra').

Rakon also reported Underlying EBITDA[2] of $5.9m – an increase of $2.1m from HY2018.

Revenue of $53.3m was $5m higher than for the same period last year, with growth in the Telecommunications and Space & Defence market segments offset by a decline in the Global Positioning market segment.

Gross margin was $4.5m higher at $24.6m and gross margin percentage 4% higher at 46% compared to the same period last year. This was due to a change in product mix, higher revenue from the core business and the gross margin contribution from Rakon India.

Operating expenses were $4.0m higher than for the same period last year. The increase reflects the absorption of Rakon India's operating costs, one-off Rakon India integration costs, a small increase in total headcount and a move by one of Rakon's French facilities from owned to leased premises.

Net debt was $3.9m at 30 September 2018 and operating cash flow was -$3.4m. There was an increase in spend on inventory and capital expenditure because of the following reasons:

- higher forecast demand from the Telecommunications market
- the launch of key new products for the Telecommunications market
- establishment of core infrastructure to allow Rakon India to operate independently from Rakon's previous joint venture partner
- purchase of electronic components (capacitors, resistors and integrated circuits) to mitigate supply risk due to industry shortages.

Operational Overview

The acquisition of the remaining 51% of Centum Rakon India Private Limited ('CRI') was completed in May 2018 in line with the Group's manufacturing strategy to have a low-cost operating platform suitable for future growth. CRI manufactures predominantly OCXO[3] products for the Telecommunications market and was renamed Rakon India Private Limited ('Rakon India') in November 2018.

Rakon India experienced significantly higher forecast demand while the project to integrate it into the global business, including establishing a local management team and supporting functions, continued. As a result there was investment in headcount, new equipment, inventory and expanding the premises. It is also pleasing to note the turnaround in profit performance of Rakon India compared to the same period last year.

From a global perspective, new executive positions (Global Head of Engineering and Company Secretary) have been established and provide enhanced capability along with a refreshed Board in place (new Director and Chair appointed).

Market Update

Telecommunications The Telecommunications market continues its march towards 5G. New technologies and applications drive the need for precise timing requirements and 5G offers much more than the current technologies available, including better reliability, faster speeds and wider bandwidth. 4G and 4.5G infrastructure is starting this evolution and will initially provide some of the infrastructure required for 5G to operate. Most of the world's existing networks will in time need to be upgraded to receive the full benefits of 5G. Rakon has a product offering that can meet the requirements for 5G infrastructure in terms of design, cost and performance.

Forecast demand for the remainder of FY2019 is strong for 4G and 4.5G base stations and network equipment. Rakon is supplying into the early 5G deployments in the US and Asia. Pressure remains tight from component supply and capacity and the challenge for Rakon is to capture the demand and deliver to customers' requirements.

Global Positioning We are continuing to see higher margins in the industrial sub-market which has grown for Rakon. Our volumes and revenue in Global Positioning have been lower overall due to the further contraction in the personal navigation devices business.

Space and Defence In the Space market, billings had been slightly down compared to HY2018, with the geostationary satellite market trending down. Second half billings are forecast to improve similarly to previous years' phasing and we have seen increased enquiries for Low Earth Orbit (LEO/'New Space') satellite requirements.

In the Defence market, the US delivered strong growth generated mainly from New Zealand manufactured products. US demand is expected to drive further growth in the New Zealand business in the second half, and the fulfilment of open orders is expected to drive second half growth in the French business.

Emerging and Other Markets

Internet of Things (IoT) There are many new applications for the IoT – including pet tracking, leak detection, smoke detection alarms and shopping trolley locators – which have driven higher demand for Thinxtra's Sigfox modules. Volumes in HY2019 are expected to almost double vs. HY2018. These TCXOs[4] are supplied to Rakon by its manufacturing partner Siward Crystal Technology Co. Limited ('Siward'), where Rakon has transferred the technology. As this high volume, lower margin business grows, Rakon is realising value through its partnership with Siward and through its designs and customer relationships.

Closing Comments and Outlook

In the first half of FY2019 Rakon has delivered a good profit performance, completed the acquisition of Rakon India and started to realise immediate benefits from having control of the India business.

4G and 4.5G demand continues to grow to support 5G deployment. This is earlier than was expected. Rakon's near term focus is on capacity and on delivery to meet this forecast customer demand. In addition, production is expected to ramp up in New Zealand for new products used in new generation telecommunication networks.

Half Year 2019 Performance Key Points

- Net profit after tax of $9.2m vs. net profit after tax of $0.9m in HY2018
- Rakon's investment in Thinxtra re-measured to fair value resulting in a one-off $7.2m gain
- Underlying EBITDA[2] of $5.9m vs. $3.8m in HY2018
- Revenue of $53.3m vs. $48.3m in HY2018

Brent Robinson
CEO/Managing Director

Bruce Irvine
Chair

[1] **All amounts in this document are in NZ$ unless otherwise specified.**

[2] **Disclosure of Non-GAAP Financial Information.** Rakon has used 'Underlying EBITDA' as a measure of non-GAAP financial information in this 2019 Half Year Review document and it is defined as: 'Earnings before interest, tax, depreciation, amortisation, impairment, employee share schemes, non-controlling interests, adjustments for associates and joint venture's share of interest, tax & depreciation, loss on disposal of assets and other cash and non-cash items.'

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 cash and non-cash items 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.

This document should be read in conjunction with the Rakon Limited Interim Report September 2018. A detailed reconciliation of Underlying EBITDA to net profit after tax is contained at note B1 c) (Segment information) of the financial statements.

[3] OCXO Oven Controlled Crystal Oscillator.

[4] TCXO Temperature Compensated Crystal Oscillator.

rakon

2019 Half Year Financial Summary

Summary of Revenue and Profit	Six months ended 30 September 2018 $000s	Six months ended 30 September 2017 $000s	Year ended 31 March 2018 $000s
Revenue	53,309	48,278	101,127
Underlying EBITDA[1]	**5,879**	**3,800**	**12,094**
Depreciation and amortisation	(2,781)	(2,307)	(4,342)
One off cash gains realised on derivatives closed out	–	941	1,096
Interest	(177)	(227)	(501)
Adjustment for associates and joint venture share of interest, tax and depreciation	(648)	(1,032)	(1,751)
Net dilution gain on Thinxtra shares	–	–	4,815
Re-measurement on change in treatment – Thinxtra shares	7,172	–	–
Other non-cash items	(201)	(114)	(414)
Income tax expense	(45)	(153)	(998)
Net profit for the period	**9,199**	**908**	**9,999**

[1]*Refer to page 2 for explanation of Underlying EBITDA.*

Summary Statement of Cash Flows	Six months ended 30 September 2018 $000s	Six months ended 30 September 2017 $000s	Year ended 31 March 2018 $000s
Net cash flow			
Operating activities	(3,428)	4,929	7,904
Investing activities	(8,170)	(943)	3,856
Financing activities	(13)	(2,027)	(4,542)
Net (decrease)/increase in cash and cash equivalents	**(11,611)**	**1,959**	**7,218**
Foreign currency translation adjustment	499	169	246
Cash and cash equivalents at the beginning of the period	7,540	76	76
Cash and cash equivalents at the end of the period	**(3,572)**	**2,204**	**7,540**

Balance Sheets	As at 30 September 2018 $000s	As at 30 September 2017 $000s	As at 31 March 2018 $000s
Current assets	75,946	55,512	64,365
Non-current assets	61,095	46,345	49,068
Total assets	**137,041**	**101,857**	**113,433**
Current liabilities	36,501	22,019	23,326
Non-current liabilities	4,498	3,134	3,056
Total liabilities	**40,999**	**25,153**	**26,382**
Net assets	**96,042**	**76,704**	**87,051**
Equity	96,042	76,704	87,051
Total equity	**96,042**	**76,704**	**87,051**