FY2019 Financial Results
& Business Update

rakon

Agenda FY2019

Agenda Item	Presenter
FY2019 Financial Key Points	Anand Rambhai (CFO)
FY2019 Key Achievements	Brent Robinson (CEO, Managing Director)
Market Update	Brent Robinson
Q&A Session	
Closing Comments and Outlook	Brent Robinson

Anand Rambhai

Brent Robinson

FY2019 Financial Key Points

FY2019 Key Points

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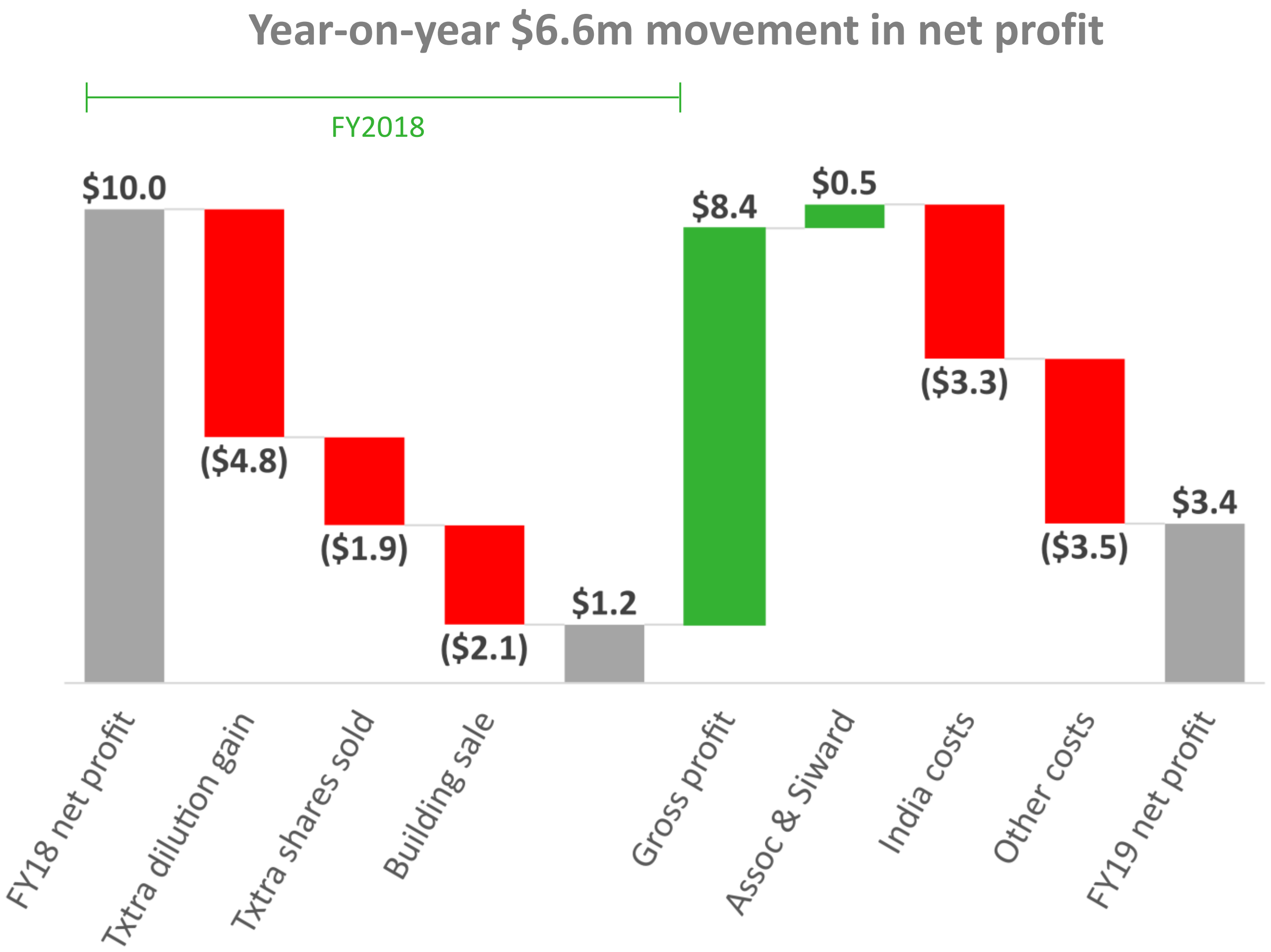
- **Revenue of $114m vs. $101m in FY2018**
  - Rakon India contribution of $4.5m
  - Like for like revenue up $8.3m on a NZ$ basis, with growth coming from Telecommunications, up $13m, and Space & Defence up $1.2m, offset by a decline in Global Positioning (down $4.7m)
- **Strong earnings result**
  - Net profit after tax of $3.4m vs. $10.0m in FY2018
    - Core earnings up
  - Underlying EBITDA[1] of $13.3m vs. $12.1m in FY2018

Revenue	Up $13m
Net profit	Down $6.6m
Underlying EBITDA[1]	Up $1.2m

Notes:
All figures are presented in New Zealand dollars unless otherwise indicated
[1] Refer to note B1 of the FY2019 audited consolidated financial statements for an explanation of how 'Non-GAAP Financial Information' is used, including a definition of 'Underlying EBITDA' and reconciliation to NPAT

FY2019 Key Points

- **Contributing factors to the movement in net profit**
  - FY2018 one-off gains
  - Gross Margin (GM) improves with flow through of growth in core business. Improved mix also contributes and results in higher GM% (45% vs. 43% in FY2018)
  - India costs – non-recurring and recurring
  - Other costs up – R&D projects, government funding, tax expense and facilities



FY2019 Key Points

NZ$m	FY2019	FY2018	variance
Revenue	114.0	101.1	+12.9
Gross profit	51.7	43.3	+8.4
Operating expenses	47.3	41.6	+5.7
Underlying EBITDA[1]	13.3	12.1	+1.2
Depreciation & amortisation	5.8	4.3	+1.5
Net profit/(loss) after tax	3.4	10.0	-6.6
Earnings (cents per share)	1.5	4.4	-2.9
Operating cash flow	(1.8)	7.9	-9.7
Capital expenditure	7.1	4.2	+2.9
Net (debt)/cash position	(7.7)	7.4	-15.1
Shares on issue at balance date (millions)	229.1	229.1	-

- Depreciation higher with Rakon India now included
- Operating cash flow & net debt are impacted by growth in inventory and higher capital expenditure, predominantly due to:
  - Support higher demand from the Telecommunications market
  - Enable the launch of key new Telecommunications products
  - Implement core infrastructure and capacity expansion in Rakon India

Notes

[1] *Refer to Note B1 of the FY2019 audited consolidated financial statements for an explanation of how 'Non-GAAP Financial Information' is used, including a definition of 'Underlying EBITDA' and reconciliation to NPAT*

FY2019 Key Achievements

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- **5G and its impact on Rakon**
  - Existing 4G networks being upgraded to deliver 5G to end users
  - Demand expected to continue for a number of years as spectrum is released, technology developed and end-use cases enabled
    - From fixed wireless access to home, through to the eventual widespread machine to machine applications including autonomous vehicles
  - Impact on Rakon during FY2019
    - Significant revenue and volume increase for products out of NZ and India with Rakon designed into many Tier One customers
    - Continued investment in the development of new products to meet future 5G applications
    - Capacity constraints at Rakon India caused delivery issues although monthly output has more than doubled during the year
    - Higher revenue and market shortages of material impacted working capital

FY2019 Key Achievements

Rakon India

- 100% owned and controlled since May 2018
- Rakon India expanded to cope with growing demand
  - 76% year-on-year growth in OCXO volumes
  - New design wins and increased share of Tier One customers’ business
  - Additional floor area leased within the existing building and layout streamlined
  - Investment in new manufacturing equipment
- Growth in domestic Space and Defence business
- Increased collaboration with India based engineers for new product developments
- Integration into the wider Rakon Group
  - New management structure in place enabling Rakon to operate independently from previous JV partner Centum Electronics
  - Investment in infrastructure and implementation of enterprise resource planning software (SAP)

FY2019 Key Achievements

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Siward: leveraging low cost manufacturing base

- Siward has been successfully qualified by a Telecommunications Tier One customer enabling more Rakon products to be manufactured at Siward
- Rakon's largest Global Positioning customer has now fully qualified Siward as a supplier. Rakon is now well placed to grow market share in this segment

Market Update

Telecommunications

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Update

- Strong growth this year with 25% USD growth in revenue
- Rakon India delivering a lot of the growth, with Rakon increasing its share in Tier One Original Equipment Manufacturers (OEMs) for 4G & 4.5G mobile base stations
- Rakon NZ also had good Telecommunications growth, and is now starting to generate revenue from new products designed into the beginning of the 5G roll-out. Early deployments have begun in Korea, China and the US

Outlook

- Rakon expects to maintain and grow market share as 5G deployment gathers momentum globally with the industry predicting at least a five year roll-out as the technology is released in various phases
  - Core network equipment will need to be upgraded to support the 5G synchronisation standards
- 4G & 4.5G equipment demand is expected to remain firm in the coming years as 5G transitions

Global Positioning

- **Update**
  - Overall the Global Positioning revenue was down 15%
  - Our high volume Global Navigation Satellite System (GNSS) business is down due to transfers of production into the Siward factory and inventory adjustments
  - Industrial high precision GNSS was down, particularly from the US agricultural and mining equipment sector, due to global uncertainty
  - The emergency locator beacon market returned to long term average levels after the bubble in FY2018 due to frequency changes
  - China GNSS revenue grew 50%

- **Outlook**
  - A key design win achieved with an autonomous electric car maker requiring high specification Rakon product
  - Competitive pressure from GNSS module makers in Asia which is expected to increase price pressure in this high volume market
  - Siward enables more competitive pricing for the future

Space & Defence

- **Update**
  - Defence USD revenue maintained the higher revenue levels of FY2018 that grew 35%
  - Overall Rakon's Space revenue grew USD 15%, due to the inclusion of Rakon India's domestic Space business
  - The European Space business was down as part of the market transitions to the new Low Earth Orbit (LEO) satellite technology (New Space)
  - Key design win in New Space deployment achieved

- **Outlook**
  - Rakon India is positioned well to continue growth, with localised supply into the Indian Space and Defence markets
  - As the market continues to transition toward LEO satellite requirements, we expect demand to be down on traditional Geostationary (GEO) satellites. It will take some time for revenue from LEO to replace GEO, however the potential from New Space is much larger
  - Defence spending remains strong

Q&A

Closing Comments and Outlook

Closing Comments and Outlook

FY2019

- Good performance in core business with EBITDA growth
- Rakon India acquisition completed integration on track and good contribution to the Group result
- Revenue growth from 4.5/5G demand and the Defence segment

Closing Comments

- Roll-out of 5G to provide growth with Rakon already designed into many Tier One customers
- Key focus is on:
  - Delivery to meet existing demand
  - The development and release of new products with higher specifications to meet the ever increasing requirements for higher speed data and New Space applications

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