

FY2017 Financial Results & Business Update

rakon

Enabling Connectivity

Agenda Item	Presenter
FY2017 Financial Key Points	Simon Bosley (Chief Financial Officer)
FY2017 Key Achievements	Brent Robinson (CEO, Managing Director)
Market Update	Brent Robinson
Q&A Session	
Outlook and Closing Comments	Brent Robinson
Appendix	



Simon Bosley



Brent Robinson

FY2017 Financial Key Points

Profit down in FY2017

- Net loss after tax of NZ\$13.6 million vs. net loss of NZ\$1.7 million in FY2016
- Underlying EBITDA¹ of NZ\$4.0 million vs. NZ\$9.0 million in FY2016 (NZX guidance to be between \$3.0m and \$5.0m)



Net Loss



Underlying EBITDA¹

Revenue in key market segments down

- Telecommunications revenue down 20% due to network equipment spend being down globally
- Global Positioning revenue down 23% due to PND decline

▼ 20%



▼ 23%



Gross profit down in line with revenue

- Further negative reporting impact due to an increase in inventory obsolescence provisions of NZ\$4.2 million

Note: The release of FY2017 results is based on audited financial statements

¹Refer to Slide 18 'Non-GAAP Financial Information' for a definition of Underlying EBITDA and reconciliation to NPAT

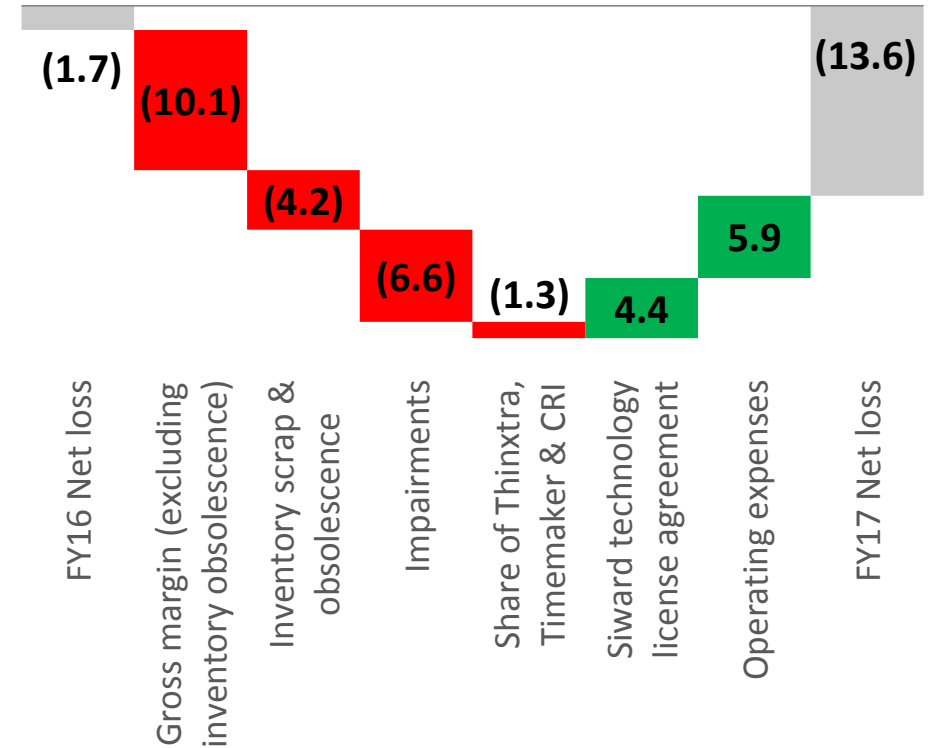
Operating expenses down NZ\$5.9 million due to a part year benefit from cost reduction initiatives

Siward transaction proceeds of US\$10 million

- An independent valuation determined the split as being:
 - NZ\$7.2 million for ordinary shares
 - NZ\$6.9 million for a technology license (Other operating income) – of which NZ\$4.4 million is reported in FY2017 & NZ\$2.5 million is deferred income

Non-recurring items in the FY2017 result

- Total restructure costs of NZ\$3.0 million
- Total impairments of NZ\$6.6 million, of which the key ones are:
 - An impairment of goodwill of NZ\$1.9 million, relating to the Centum Rakon & France Cash Generating Units (CGUs)
 - An impairment of the Centum Rakon investment of NZ\$3.2 million, as value-in-use calculations do not support the carrying value



NZD Millions	FY2017	FY2016	% change
Volumes (millions)	40.8	46.3	(11.9)
Revenue	94.7	112.7	(16.0)
Gross profit	33.7	47.9	(29.8)
Operating expenses	41.9	47.8	12.3
Underlying EBITDA ¹	4.0	9.0	(55.2)
Depreciation & amortisation	5.6	6.6	15.3
Net profit/(loss) after tax	(13.6)	(1.7)	(>100.0)
Earnings (cents per share)	(6.0)	(0.9)	(>100.0)
Operating cash flow	9.5	7.3	30.4
Capital expenditure	3.8	5.5	(31.3)
Bank borrowings	4.5	12.0	62.5
Net debt	4.5	12.6	64.3
Shares on issue at balance date (millions)	229.1	191.0	19.9

- ◀ Capital expenditure reduced in FY2017 due to a focus on cash management
- ◀ Depreciation & amortisation decline continues due to past years lower capex trend
- ◀ Positive operating cash flows supported by Siward technology license
- ◀ Borrowings and net debt reduction from Siward proceeds
- ◀ Shares on issue increases to 229 million as Siward becomes the largest shareholder at 16.6%

Note: The release of FY2017 results is based on audited financial statements

¹Refer to Slide 18 'Use of Non-GAAP Financial Information' for a definition of Underlying EBITDA and reconciliation to NPAT

FY2017 Key Achievements


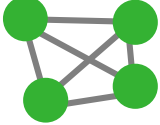





- ◀ **Action was undertaken during the year to reduce operating costs by 20%**
 - ❑ A reduction of NZ\$8.9 million of operating expenses was achieved vs. FY2016, before restructure costs
 - ❑ Full year reporting benefit will be realised in FY2018

- ◀ **Agreements were signed with Siward Crystal Technology forming a new partnership**
 - ❑ Transaction proceeds of US\$10 million were used to pay down debt
 - ❑ The partnership opens up new distribution and contract manufacturing opportunities

- ◀ **Rakon Board of Directors**
 - ❑ A year of change resulting in 3 new appointments bringing valuable skills, experience and diversity



- < **Thinextra**
 - A successful start-up year focused on network deployment across Australia & NZ
- < Net debt reduces by NZ\$8.1 million over the period to NZ\$4.5 million
- < Positive operating cash flows for the period of NZ\$9.5 million
- < Profitable at a Net Profit After Tax level in Q4 (excluding impairments)
- < France property rezone complete. Further building consent related conditions to be completed before a sale completes – expected in FY2018
- < R&D investment delivering new generations of OCXOs and TCXOs

Investment		
Net debt		64% NZ\$4.5m
Profit		Q4
Property sale		FY2018
R&D		

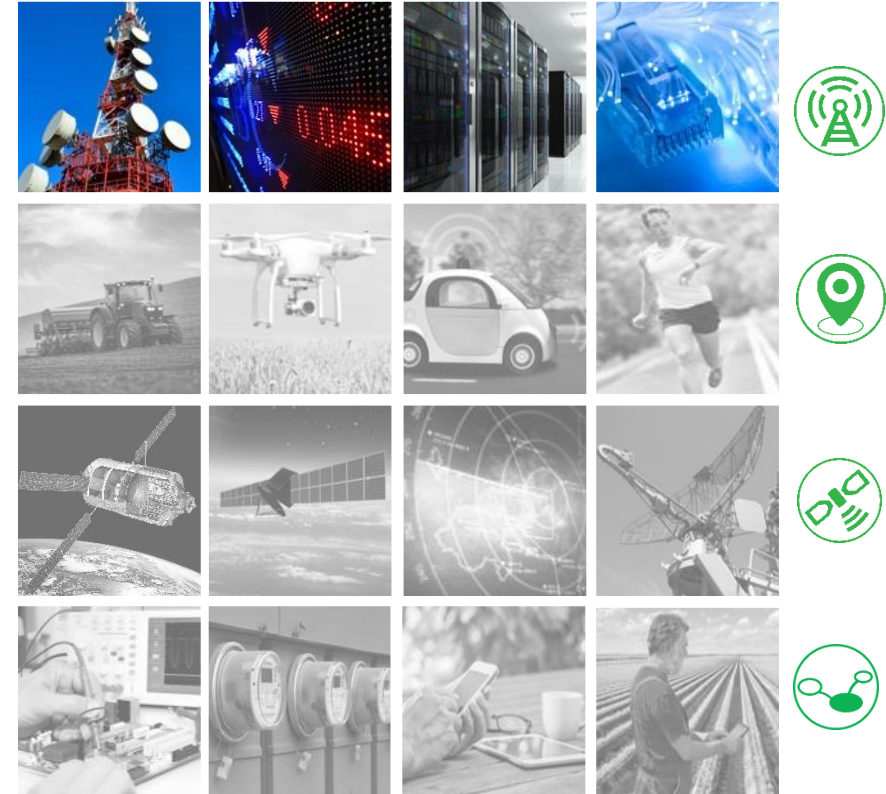
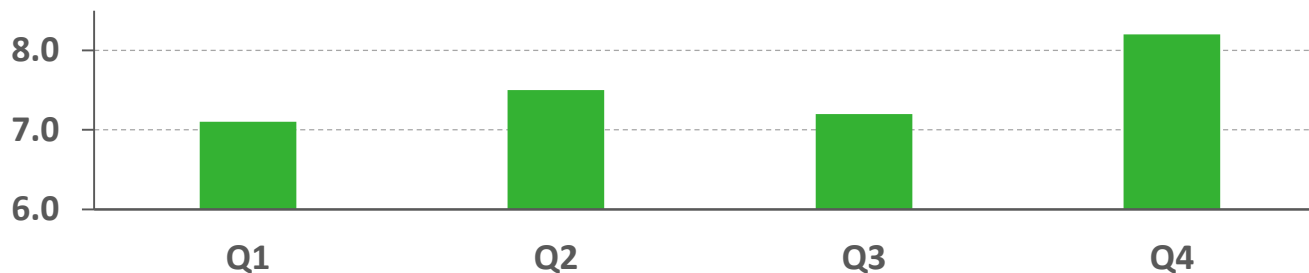
< Negative trend continued, US\$ revenue -18% year-on-year

- ❑ Rationalisation of products post Nokia/Alcatel Lucent merger had a negative overall impact on some of Rakon's mainstream programmes
- ❑ Mobile network operator spending remained down through CY2016
- ❑ Tier One equipment manufacturers continued cut backs

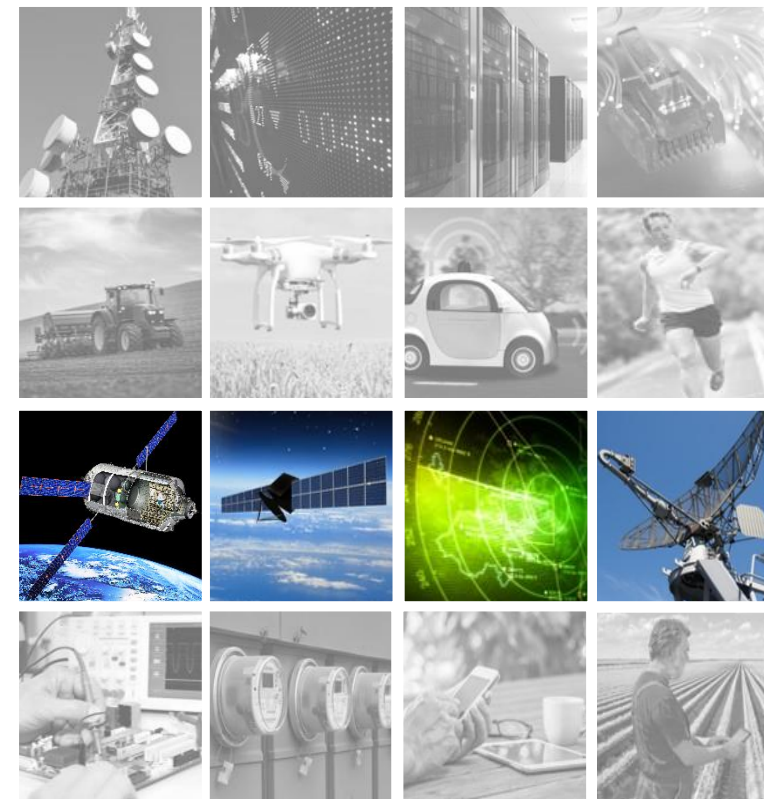
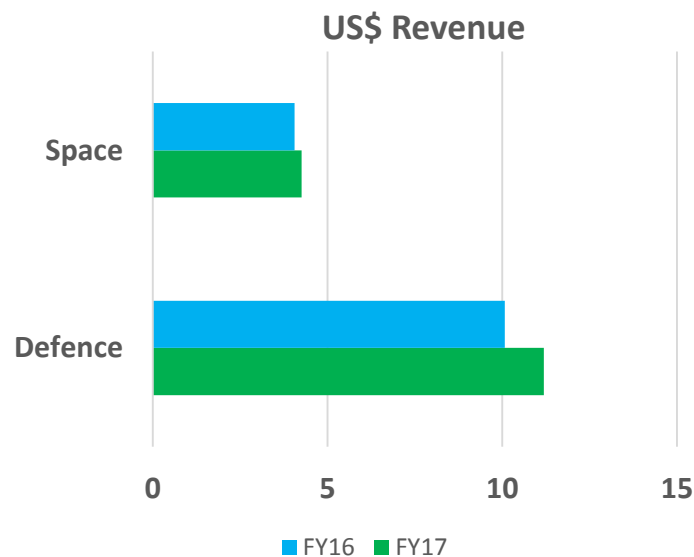
< CY2017 Q1 recovery to reverse the negative trend this FY2018

- ❑ Continue to pick up new customers for Rakon's Mercury/Mercury+ ASIC based OCXO, including Nokia

FY2017 Telecommunications Revenue (US\$m)



- ◀ From a US\$ perspective, combined Space and Defence revenue grew 8%, starting to yield growth from sector focus
- ◀ Space business continued edging up for three years running, with new Asian deliveries
- ◀ Defence business in the US strengthening
 - New US Tier One customers starting to produce revenue



< Global Positioning

- ❑ Decline of 21% in US\$ revenue for the Global Positioning market, with the major declines coming from older Personal Navigation Device (PND) designs (due to smartphone cannibalisation)
- ❑ Addressing the cost sensitive applications with expanded Asian manufacturing footprint for the consumer segments, including PNDs and fitness
- ❑ Continued focus on the needs of the growing precision Global Navigation Satellite System (GNSS) market (surveying, agriculture, aviation, automotive, drones) with products utilising strengths in our crystal and Application Specific Integrated Circuit technologies
- ❑ Actively winning design-ins for China's Beidou GNSS market



- ◀ Thinextra has raised AU\$16 million, and now raising a further AU\$15 million to finalise the rollout of the Sigfox network in Australia & New Zealand and expand into Asia
- ◀ Expanded in FY2017 to include Hong Kong with the Sigfox license signed. Now 3 nationwide IoT networks being built
- ◀ Network deployment progress has reached coverage of 71% of the Australian population and 89% of the New Zealand population
- ◀ Signed up major deals for over 1.5 million connections on the Sigfox network with a sales pipeline of over 50 million potential connections
- ◀ Growing from 6 to 35 staff and 5 Directors on the Board from major companies (Rakon, Engie, Macquarie Bank)
- ◀ Forecast profitability in FY2019
- ◀ Rakon shareholding at 42%
 - Will dilute to 37% after the exercise of outstanding company options
 - Further dilution expected to 20% – 25% dependent on final capital raised



Q&A Session

Closing Comments

FY2017

- ❑ The financial year has been a tough one in which financial results reflect a fall in demand
- ❑ Impairments have been taken where necessary
- ❑ Actions have been focused on riding out tough market conditions to leave us stronger when demand returns
- ❑ A substantial reduction in operating expenses has been actioned
- ❑ We have reduced risk on the balance sheet through the introduction of capital and repayment of debt
- ❑ A new partnership has been formed with Siward that reduces future risk on Rakon through access to manufacturing and distribution

FY2018 Outlook

- ❑ A full year benefit of FY2017 cost reduction action is forecast
- ❑ 4Q FY2017 net level profitability indicates the bottom of the revenue decline may have passed
- ❑ Key customers remain highly engaged on having access to Rakon designs and developing long term business

Appendix

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

'Underlying EBITDA' is a non-GAAP measure, with its presentation not being 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 **FY2016** and **FY2017** has been extracted from **audited financial statements**.

Reconciliation of Underlying EBITDA to Net (loss)/profit for the year

	2017	2016
	\$000s	\$000s
Continuing operations		
Underlying EBITDA ⁶	4,032	9,008
Depreciation and amortisation	(5,609)	(6,620)
One off cash gains realised on derivatives closed out	(1,096)	-
Employee share schemes	(42)	(81)
Finance costs - net	(1,432)	(1,125)
Adjustment for associates and joint venture share of interest, tax & depreciation	(2,079)	(2,118)
Impairment	(6,594)	-
Loss on asset sales/disposal	(296)	(120)
Other non-cash items	(375)	199
Loss before income tax	(13,491)	(857)
Income tax expense	(67)	(874)
Net loss for the year	(13,558)	(1,731)

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