Half Year Review (HY2020)
April – September 2019

Enabling the
Connected Future

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HY2020 Financial Overview

Rakon has reported an unaudited net profit after tax of $1.3m[1] for the six months to 30 September 2019 (HY2020), compared with $2.0m in the half year ended 30 September 2018 (HY2019).

Revenue of $56.9m was $3.6m higher than for the same period of the previous year. The gains were led by the Telecommunications segment, from products supplied out of both India and New Zealand. This is an indication that the 5G rollout is beginning, although it is not as fast as anticipated, with some customers' projects being delayed.

Revenue from the Global Positioning market was lower than for HY2019, with some high-volume, low-margin Global Navigation Satellite System (GNSS) business being shed. The Defence market was also lower, but is expected to recover partially by financial year-end. The Space market was up, with encouraging growth in the low earth orbit satellite business.

Underlying EBITDA[2] was $6.9m for HY2020, an increase of $1.0m from HY2019. Underlying EBITDA includes a one-off gain of $1.5m due to the adoption of the new accounting standard for leases (NZ IFRS 16) from 1 April 2019.

Gross margin was $1.7m higher than for HY2019, predominantly from the flow-through of higher revenue. Gross margin percentage was similar to that for HY2019, at 46.1%.

Operating expenses were $1.6m higher than for HY2019, with the addition of costs from integrating Rakon India into the wider group, increased investment in R&D such as for new product development and growth in headcount.

Net debt was $7.6m, which was similar to the level at 31 March 2019.

Inventory was $45m, $5.5m higher than at 31 March 2019, with the increase being due to the launch of new products, anticipation of higher telecommunications demand, increased consignment business and the cyclical first-half increase related to Rakon France's Space and Defence business.

Operational Overview

Rakon India is now fully integrated into the wider group and operating independently with its own management structure. Rakon India experienced good half-year on half-year volume growth as customers invested in 4/4.5G networks.

The focus on technology development has continued. New products launched during HY2020 are now being used in 5G networks in Asia.

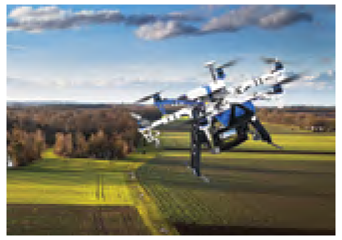
The development of quartz MEMS[3] has also been completed, with 'XMEMS™' now trademarked. This technology uses Rakon's customised photolithography process to manufacture quartz-based crystal resonators that are smaller and higher performing than their precursors and enable higher-specification products.

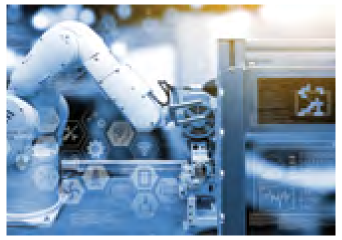
Market Update

Telecommunications

The Telecommunications market now makes up 57% of Rakon's total revenue (HY2019: 46%). Revenue from this market has grown in each of the three half year periods to 30 September 2019 with next generation mobile networks being rolled out and upgrades to back-end networks.

Overall demand for core network infrastructure and remote radio heads is expected to grow, with markets in Asia continuing to lead 5G deployment. Deployment in other regions is likely to commence in the 2020 calendar year.





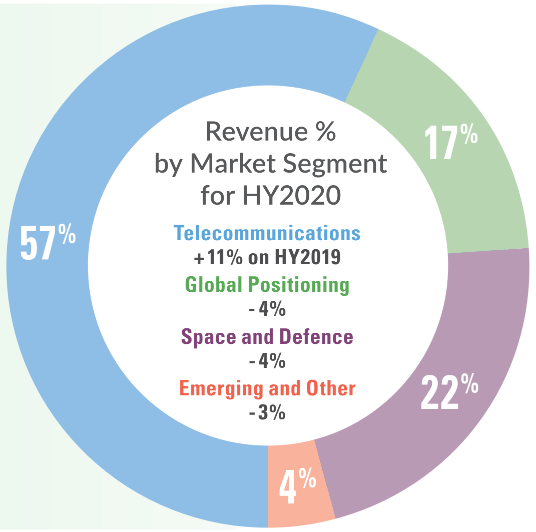
[1] **All amounts in this document are in NZ$ unless otherwise specified.**

[2] **Disclosure of Non-GAAP Financial Information.** Rakon has used 'Underlying EBITDA' as a measure of non-GAAP financial information in this 2020 Half Year Review document. Underlying EBITDA 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 it as a useful non-GAAP measure to investors, enabling them 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 Underlying EBITDA 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 2019. A detailed reconciliation of Underlying EBITDA to net profit after tax is contained at Note B1 c) (Segment information) to the financial statements.

[3] MEMS Micro-electromechanical systems. [4] TCXO Temperature Compensated Crystal Oscillator. [5] OCXO Oven Controlled Crystal Oscillator.

Half Year 2020 Performance – Key Points

- Net profit after tax of $1.3m vs. $2.0m in HY2019
- Underlying EBITDA[2] of $6.9m vs. $5.9m
- Revenue of $56.9m vs. $53.3m
  - Telecommunications continued to grow: up $7.9m
  - Space & Defence was down $1.1m. Revenue in the Space segment was higher. The Defence segment is expected to recover partially by year-end
  - Global Positioning was down $1.7m



Rakon is well positioned for the 2020 calendar year after being awarded increased allocations from Tier One customers.

Global Positioning

Global Positioning revenue was down compared to HY2019, with the shedding of some high-volume, low-margin GNSS business due to the company's focus on higher-margin products. Competitive pressure from low-cost GNSS module makers in Asia will increase price pressure on lower-specification, higher-volume products. With Rakon's focus on preserving margin, top line revenue for these products could decline further.

The industrial high precision GNSS segment within Global Positioning declined due to US trade uncertainties, which affected the US heavy equipment industry.

The emerging autonomous car market segment is bringing new applications requiring very tight tolerances and provides good opportunities for Rakon's TCXO[4] and OCXO[5] products.

Space and Defence

Combined revenue for Space and Defence was similar to that for HY2019.

Space revenue was higher, with a significant delivery into China for the first phase of products for low earth orbit satellites. The Space market is expected to weaken temporarily as it transitions from traditional geostationary satellites towards low earth orbit satellites.

Defence revenue was down due to lower demand out of the US and delays in deliveries of long lead time products out of Rakon France. Revenue in the second half of FY2020 is expected to be stronger as US demand returns and with the usual increase in second half revenue out of Rakon France.

Rakon India is also well positioned to continue growing its share of the significant local Indian Space and Defence market.

Closing Comments and Outlook

Overall revenue and margin growth were underpinned by good demand within the Telecommunications segment. Delays in 5G roll outs are expected to reduce growth from the level originally anticipated for the remainder of FY2020. Nevertheless, with dominant share allocations from key Tier One customers secured and our products being designed into Tier One network providers' 5G equipment, Rakon is well positioned for the next calendar year. As these customers secure their own contracts to roll out 5G, orders will flow to Rakon.

Rakon's key global operational focus is on improving production efficiencies and expanding capacity for new 5G products.

Brent Robinson
CEO / Managing Director

Bruce Irvine
Chair

rakon

Half Year 2020 Financial Summary

Summary of Revenue and Profit	Six months ended 30 September 2019 $000s	Restated Six months ended 30 September 2018 $000s	Year ended 31 March 2019 $000s
Revenue	56,912	53,309	113,985
Underlying EBITDA[1]	**6,935**	**5,879**	**13,270**
Depreciation and amortisation	(4,326)	(2,781)	(5,802)
Finance costs – net	(525)	(177)	(534)
Adjustment for associates and joint venture share of interest, tax and depreciation	(649)	(648)	(1,120)
Other non-cash items	(8)	(201)	(340)
Income tax expense	(85)	(45)	(2,110)
Net profit for the period	**1,342**	**2,027**	**3,364**

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

Summary Statement of Cash Flows	Six months ended 30 September 2019 $000s	Six months ended 30 September 2018 $000s	Year ended 31 March 2019 $000s
Net cash flow			
Operating activities	3,429	(3,428)	(1,768)
Investing activities	(3,040)	(8,170)	(12,674)
Financing activities	(1,531)	(13)	(24)
Net decrease in cash and cash equivalents	**(1,142)**	**(11,611)**	**(14,466)**
Foreign currency translation adjustment	570	499	144
Cash and cash equivalents at the beginning of the period	(6,782)	7,540	7,540
Cash and cash equivalents at the end of the period	**(7,354)**	**(3,572)**	**(6,782)**

Balance Sheets	As at 30 September 2019 $000s	Restated As at 30 September 2018 $000s	As at 31 March 2019 $000s
Current assets	86,480	75,946	83,136
Non-current assets	62,769	53,923	53,368
Total assets	**149,249**	**129,869**	**136,504**
Current liabilities	46,447	36,501	41,674
Non-current liabilities	11,086	4,498	4,814
Total liabilities	**57,533**	**40,999**	**46,488**
Net assets	**91,716**	**88,870**	**90,016**
Equity	91,716	88,870	90,016
Total equity	**91,716**	**88,870**	**90,016**