

Results for announcement to the market

Date: 18 May 2017

Rakon Limited (RAK)

rakon



Reporting period	12 months to 31 st March 2017
Previous reporting period	12 months to 31 st March 2016

Audited	Amount NZ\$000	% Change
Revenue from ordinary activities	94,738	-16%
Underlying EBITDA ^c (Earnings before interest, tax, depreciation, amortisation, impairment, employee share schemes, non-controlling interests, adjustments for associates and joint ventures share of interest, tax & depreciation and other cash and non-cash items)	4,032 ^a	-55%
Loss from ordinary activities after tax attributable to security holders	(13,558) ^b	-683%
Net profit attributable to security holders	(13,558) ^b	-683%

Note a: includes share of Underlying EBITDA loss from associates and joint ventures of \$44,000 (March 2016: profit \$1,148,000).

b: includes equity accounted earnings from associates and joint ventures of loss \$2,054,000 (March 2016: loss \$902,000).

c: further information regarding the disclosure and use of non-GAAP financial information is disclosed at note B1 (Notes to the audited Consolidated Financial Statements) in this results announcement.

	Amount per security	Imputed amount per security
Interim / Final Dividend	Nil dividend proposed	Nil dividend proposed
Record Date	Not Applicable	Not Applicable
Dividend Payment Date	Not Applicable	Not Applicable

COMMENTS

18 May 2017

Tough trading conditions and restructuring results in loss for Rakon

- Net loss after tax of NZ\$13.6m vs Net loss after tax of NZ\$1.7m in FY2016
- Revenue NZ\$94.7 million (FY2016 NZ\$112.7 million)
- 16% decrease in revenue from Telecommunications major contributor to decrease in total sales volumes and revenue
- The result includes non-recurring impacts for impairment of NZ\$6.6m and restructure costs of NZ\$3.0m
- Net debt of NZ\$4.5 million reduced from NZ\$12.6 million in FY2016
- Increase in positive operating cash flow: FY2017 NZ\$9.5 million vs NZ\$7.3 million in FY2016

NZD Millions, Audited	FY2017	FY2016	% Change
Revenue	94.7	112.7	(16.0)
Underlying EBITDA ¹	4.0	9.0	(55.2)
Net profit/(loss) after tax	(13.6)	(1.7)	(>100.0)
Operating expenses	41.9	47.8	(12.3)
Impairment	6.6	-	(>100.0)
Operating cash flow	9.5	7.3	30.4
Net debt	4.5	12.6	64.3

¹ A detailed reconciliation of Underlying EBITDA to net profit/(loss) after tax, is included at Note B1 of the Audited Financial Statements.

Tough trading conditions and restructuring costs has seen global high technology company Rakon Limited post a net loss after tax of NZ\$13.6 million on revenue of NZ\$94.7 million for the year ended 31 March 2017.

The company's Underlying EBITDA of NZ\$4.0 million was in line with forecasts issued earlier in the year.

Rakon Managing Director Brent Robinson said the company continued to be affected in its key Telecommunications market segment by reduced demand from equipment makers, as major global network operators had continued to delay infrastructure investment.

"While we experienced a lift in business in the Telecommunication market in the final quarter, it was not enough to recover the reduced demand that had negatively affected revenue in the first three quarters" he said.

During the year action was taken to address the impact of declined revenue on earnings. The Company had targeted a 20% reduction in operating costs, with an actual reduction of NZ\$8.9 million achieved, before the impact of restructure costs of NZ\$3.0 million.

Mr Robinson said that key priorities during the year have been reducing operating costs and balance sheet risk. The reduction in operating costs and the US\$10 million proceeds that resulted from agreements signed with Siward Crystal Technology ("Siward") had allowed the Company to pay down a large portion of its debt.

"While the arrangement with Siward provided us an opportunity to improve our balance sheet position, the partnership brings further long term opportunities for both parties. This partnership will give both companies a broader range of products and alternative channels into new and existing markets," he said.

In addition to the restructure costs incurred, other non-recurring items had a negative impact on the result. Impairments of NZ\$6.6 million were recorded, which included an impairment of goodwill of NZ\$1.9 million and an impairment of the investment in Centum Rakon India of NZ\$3.2 million, where value-in-use calculations based on future forecasts did not support the full value of this investment being retained. As revenue declined the Company has also increased inventory obsolescence provisions during the year by NZ\$4.2 million.

Mr Robinson said that Thinextra had made excellent progress in the year with the deployment of its Low Power Wide Area Network (LPWAN) that was being purpose built for the Internet of Things (IoT). In FY2018 Thinextra would finalise its network deployment in Australia & New Zealand and move into a revenue generating phase at the end of the financial year where deals for over 1.5 million connections on the Sigfox network had already been signed up.

“Although the result for FY2017 is very disappointing, there has been a number of achievements in the year that provide Rakon a stronger position from which improved results can be achieved in the coming year. The Company has lowered its operating cost base and has reduced risk as a result of the debt reduction and the partnership formed with Siward. Engagement with key customers is strong due to interest around new Rakon designs”.

The Directors confirm that this FY2017 preliminary results announcement is based on audited results.

Brent Robinson

Chief Executive Officer & Managing Director

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About Rakon

Rakon is a global high technology company and a world leader in its field. The company designs and manufactures advanced frequency control and timing solutions for telecommunications, global positioning and space and defence applications. Rakon products are found at the forefront of communications where speed and reliability are paramount. The company's products create extremely accurate electric signals which are used to generate radio waves and synchronise time in the most demanding communication applications. Rakon has five manufacturing plants including two joint venture plants and has five research and development centres. Customer support centres are located in ten offices worldwide.

Rakon is proud of its New Zealand heritage; it was founded in Auckland in 1967. It is a public company listed on the New Zealand stock exchange, NZSX, ticker code RAK.

Other Information

A. Dividends (NZX Listing Rules Appendix 1: 1.3(d))

The Board of Directors has declared that no dividend is to be paid for FY2017. Rakon maintains a dividend policy such that it will pay a dividend of up to 50% of the after tax profit, if considered fiscally appropriate. The payment of dividends is subject to the approval of Rakon's bank, ASB Bank, under its facility arrangement.

B. Net Tangible Assets per Security (NZX Listing Rules Appendix 1: 1.3(g))

	31 March 2017	31 March 2016
Net tangible assets \$000	65,090	68,578
Number of ordinary securities 000	229,055	191,039
Net tangible asset backing per ordinary security \$	0.28	0.36

C. Control gained and lost over Entities (NZX Listing Rules Appendix 1: 1.3(h))

Rakon Limited has gained or lost control over the following entities during the period:

During the period there was no change in control through new entities gained or existing entities lost.

D. Associates & Joint Ventures (NZX Listing Rules Appendix 1: 1.3(i))

Rakon Limited has the following associate entities and joint venture arrangements.

	Shareholding
Centum Rakon India Private Limited	49%
Chengdu Timemaker Crystal Technology Co, Limited	40%
Chengdu Shen-Timemaker Crystal Technology Co, Limited	40%
Shenzhen Taixiang Wafer Co, Limited	40%
Thinextra Pty Limited	42%

The contribution of Centum Rakon India to Rakon Limited's net results from ordinary activities is a net profit after tax of \$45,000 (March 2016: net loss after tax \$103,000). The contribution of Chengdu Timemaker, Chengdu Shen-Timemaker and Shenzhen Taixiang to Rakon Limited's net results from ordinary activities is a net profit after tax of \$24,000 (March 2016: net loss after tax \$704,000). The contribution of Thinextra to Rakon Limited's net results from ordinary activities is a net loss after tax of \$2,123,000 (March 2016: net loss after tax \$95,000).

E. Audit (NZX Listing Rules Appendix 1: 1.3(l))

The financial statements have been audited and are not subject to any qualification.

F. Business Changes (NZX Listing Rules Appendix 1: 1.3(m))

During the period, on 4 April 2016, the company invested a further AUD \$4.2 million in Thinextra Pty Limited. Thinextra is a start-up 'internet of things' (IoT) company focused on deploying a wireless telecommunications network in Australia and New Zealand.

There have been no other major changes or trends in Rakon Limited's business, either during the period or subsequent to the financial year end.

G. Directors Declaration (NZX Listing Rules Appendix 1, 3.1 & 3.2)

The Directors declare that the financial statements released in conjunction with this announcement have been prepared in compliance with applicable Financial Reporting Standards. The accounting policies the Directors consider critical to the portrayal of the company's financial condition and results which require judgements and estimates about matters which are inherently uncertain are disclosed in each note of the audited financial statements that form part of this announcement.