

Results for announcement to the market

Date: 17 May 2018

Rakon Limited (RAK)

rakon



Reporting period	12 months to 31 st March 2018
Previous reporting period	12 months to 31 st March 2017

Audited	Amount NZ\$000	% Change
Revenue from ordinary activities	101,127	+7%
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)	12,094 ^a	+200%
Profit from ordinary activities after tax attributable to security holders	9,999 ^b	+174%
Net profit attributable to security holders	9,999 ^b	+174%

Note a: includes share of Underlying EBITDA profit from associates and joint ventures of \$1,676,000 (March 2017: loss \$44,000).

b: includes equity accounted earnings from associates and joint ventures of loss \$1,915,000 (March 2017: loss \$2,054,000).

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

17 May 2018

Strong profit posted from improvement in core business and other gains

- Net Profit after tax of NZ\$10.0 million vs Net loss after tax of NZ\$13.6 million in FY2017
- Revenue NZ\$101.1 million (FY2017 NZ\$94.7 million)
- 7% increase in total revenue with Space & Defence market as major contributor
- Non-recurring gains included in profit result
- Net cash of NZ\$7.4 million an improvement from NZ\$4.5 million of net debt in FY2017
- Positive operating cash flow of NZ\$7.9 million

NZD Millions, Audited	FY2018	FY2017	% Change
Revenue	101.1	94.7	7%
Underlying EBITDA ¹	12.1	4.0	200%
Net profit/(loss) after tax	10.0	(13.6)	174%
Operating expenses	41.6	41.9	1%
Impairment	0.1	6.6	(98%)
Operating cash flow	7.9	9.5	(17%)
Net cash/(debt)	7.4	(4.5)	266%

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

A return to profit in core business and other gains has seen global high technology company Rakon Limited (“Rakon” or the “Company”) post a net profit after tax of NZ\$10.0 million on revenue of NZ\$101.1 million for the year ended 31 March 2018.

The company’s Underlying EBITDA of NZ\$12.1 million was in line with forecasts issued earlier in the year, to report Underlying EBITDA of between NZ\$10.7 million to NZ\$12.7 million.

Rakon Managing Director Brent Robinson said the company had achieved growth in two of its three core markets, Space & Defence and Global Positioning, which has contributed to a 7% increase in total revenue.

“It is pleasing to see our revenue growing again, with the increase in Space & Defence coming from an improved product offering to both new and existing markets”.

The strong profit result includes a number of non-recurring gains:

- A gain from the sale of the property in France of NZ\$2.1 million, with cash proceeds of NZ\$4.5 million.
- A gain from the partial sale of shares in Thinxtra of NZ\$1.9 million, with cash proceeds of NZ\$3.2 million.
- A net dilution gain on Thinxtra shares of NZ\$4.8 million, resulting from an equity accounted net asset gain following Thinxtra’s successful capital raising.

During the year the company had achieved solid progress with strategic objectives regarding manufacturing partnerships and platforms. The transfer of a technology license to Siward was mostly complete and following balance date the company had announced a subsequent event, completing a buy-out of 51% of the shares of Centum Rakon India for US\$5.5 million.

“The acquisition of Centum Rakon India is a pivotal strategic decision that gives us the opportunity to grow profits. Having total ownership and full decision-making control means that we can leverage the benefits that this established low cost manufacturing platform offers”.

With the company achieving positive operating and investing cash flows in the period, the balance sheet moved from a net debt position to having NZ\$7.4 million in net cash. This allowed Rakon to complete the acquisition of Centum Rakon India after balance date from its own resources.

Although the company had achieved a flat revenue performance (USD currency basis) in its core market of Telecommunications, margins had improved. “The technology and solution design requirements for next generation 5G telecommunication networks and applications is becoming clearer, with Rakon well positioned with its product and technology offering”.

The Company announces today that Chair Mr. Bryan Mogridge will retire at the 2018 Annual Shareholders Meeting (ASM). Mr. Mogridge signalled at the 2016 ASM that he would retire before his next re-election. Mr. Mogridge is to be replaced as Chair by Mr. Bruce Irvine, who will be seeking re-election at the 2018 ASM. Mr Irvine has been a director of Rakon since 2006 and has been the Chair of the Audit & Risk Committee during that period. Currently a search is under way via the firm Sheffield, to seek interest for a replacement director.

The company reports total equity of NZ\$87.1 million with a net asset backing per share of NZ\$0.38.

The Directors confirm that this FY2018 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. Following the buy-out of Centum Rakon, Rakon has five manufacturing plants including one joint venture plant 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 FY2018. 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 2018	31 March 2017
Net tangible assets \$000	77,936	65,090
Number of ordinary securities 000	229,055	229,055
Net tangible asset backing per ordinary security \$	0.34	0.28

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 ("CRI")	49%
Chengdu Timemaker Crystal Technology Co. Limited	40%
Shenzhen Taixiang Wafer Co, Limited	40%
Thinextra Pty Limited	21.5%

The contribution of Centum Rakon India to Rakon Limited's net results from ordinary activities is a net loss after tax of \$550,000 (March 2017: net profit after tax \$45,000). The contribution of Chengdu Timemaker and Shenzhen Taixiang to Rakon Limited's net results from ordinary activities is a net profit after tax of \$908,000 (March 2017: net profit after tax \$24,000). The contribution of Thinextra to Rakon Limited's net results from ordinary activities is a net loss after tax of \$2,273,000 (March 2017: net loss after tax \$2,123,000).

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))

Acquisition of remaining shares in CRI

On 27 April 2018 Rakon acquired the remaining 51% of shares in CRI for US\$5.5 million. The acquisition allows Rakon to leverage CRI's high quality low cost operation, with further alignment to Rakon's international operations.

The subsequent accounting for the acquisition, (including fair value assessment of assets acquired) was not completed until after the financial statements were signed. This was due to the time frame between the acquisition and the issue of the financial statements.

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.

Merger within the Timemaker Group

In June 2017 Chengdu Shen-Timemaker Crystal Technology Co. Limited and Chengdu Timemaker Crystal Technology Co. Limited were merged with the continuing entity being Chengdu Timemaker Crystal Technology Co. Limited.

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.