HY2018 Financial Results & Business Update

Enabling Connectivity

16 November 2017

Agenda HY2018

Agenda Item	Presenter
HY2018 Financial Key Points	Simon Bosley (Chief Financial Officer)
HY2018 Key Achievements	Brent Robinson (CEO, Managing Director)
Market Update	Brent Robinson
Q&A Session	
Closing Comments	Brent Robinson
Appendix	

Simon Bosley

Brent Robinson

HY2018 Financial Key Points

HY2018 Key Points

rakon

Return to profit in HY2018

- Net profit after tax of NZ$0.9 million vs. net loss of NZ$5.7 million in HY2017
- Underlying EBITDA[1] of NZ$3.8 million vs. NZ$0.6 million in HY2017

Revenue up on prior year in all key markets

- Total revenue up 5% vs. HY2017 and up 7% on a USD currency basis
- Global Positioning revenue up 13% with strong GNSS volume business
- Space & Defence revenue up 8% with growth from US defence market

NZ$0.9m ▲116%	**Net profit**
NZ$3.8m ▲487%	**Underlying EBITDA[1]**
NZ$48.3m ▲5%	**Revenue**

▲13%

▲8%

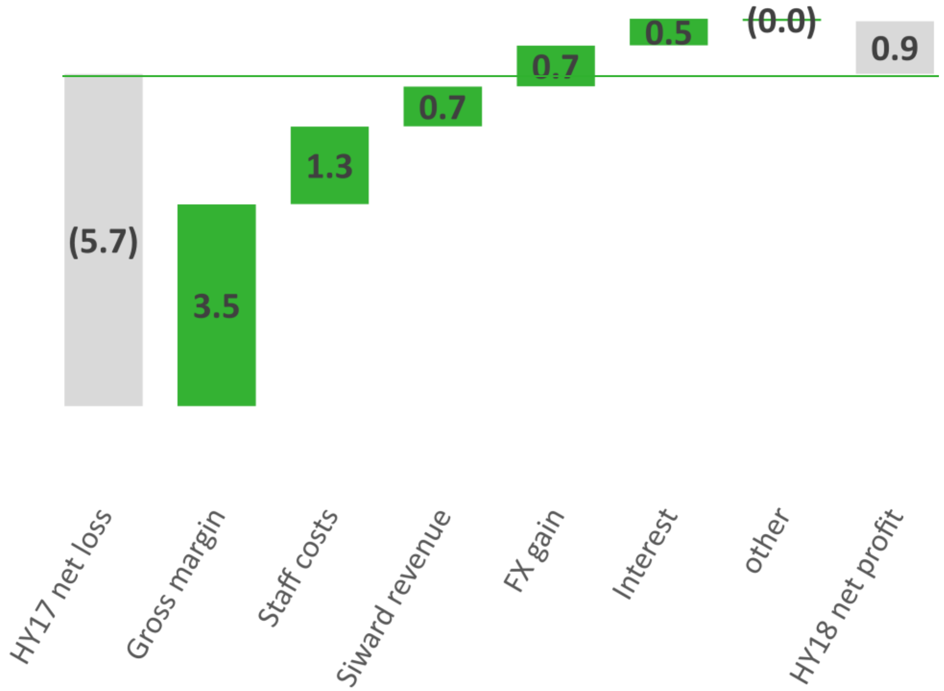
Note: The release of HY2018 results is based on unaudited financial statements

[1]Refer to Slide 16 'Non-GAAP Financial Information' for a definition of Underlying EBITDA and reconciliation to NPAT

HY2018 Key Points

- **Gross profit up from revenue growth and product mix**
  - Product mix drives margin % increase – 42% in HY2018 vs. 36% in HY2017
- **Release of NZ$0.7 million deferred revenue from Siward technology license**
- **Operating expenses down NZ$1.2 million as prior year cost reduction initiatives flow in**
- **Finance costs down NZ$0.5 million from reduced debt levels in the current year**
- **Positive operating cash flow for the period of NZ$4.9 million**

Net Profit Bridge – HY2017 to HY2018



HY2018 Financial Overview

NZD Millions	HY2018	HY2017	% change +better | -worse
Volumes (millions)	22.9	24.0	-5%
Revenue	48.3	46.0	+5%
Gross profit	20.1	16.7	+21%
Operating expenses	19.5	20.7	+6%
Underlying EBITDA[1]	3.8	0.6	+487%
Depreciation & amortisation	2.3	2.8	+18%
Net profit/(loss) after tax	0.9	(5.7)	+116%
Earnings (cents per share)	0.4	(3.0)	+113%
Operating cash flow	4.9	(0.6)	+905%
Capital expenditure	1.1	1.7	+39%
Bank borrowings	2.5	18.9	+87%
Net debt	0.3	19.7	+98%
Shares on issue at balance date (millions)	229.1	191.0	+20%

- Depreciation & amortisation decline continues due to past years lower capex trend
- Positive operating cash flows continue on from previous half year period
- Positive operating cash used to further reduce borrowings and net debt since end of last FY; forecasting to turn net cash in second half

Note: The release of HY2018 results is based on unaudited financial statements

[1]Refer to Slide 16 'Use of Non-GAAP Financial Information' for a definition of Underlying EBITDA and reconciliation to NPAT

HY2018 Key Achievements

HY2018 Key Achievements

- **Further integration of Siward and Rakon relationship**
  - Good progress on technology license transfer; of future benefit to Rakon and Siward
  - CM & ODM product offering on track for release in FY2019

- **Technology development**
  - Two new ‘world first’ product platforms (leading in size, cost and performance), now sampled into high speed networks and 5G applications

HY2018 Key Achievements *continued…*

Thinxtra

- Completion of successful Series-B capital raising (AU$20 million) at a significant premium to Rakon investment
- With capital raise over subscribed, opportunity taken by Rakon with partial share sale at a gain of AU$1.8 million – to be included in second half 2018 financial result
  - Share sale at AU$15.05 vs. average initial investment at AU$5.86 per share
  - Following completion of the share sale in Q3 Rakon will hold 785,407 shares in Thinxtra
  - The Directors will consider in the second half whether Rakon's investment in Thinxtra should be fair value accounted & reported (currently equity accounted as an Associate)

Timemaker (China)

- Strong turnaround in last 18 months contributing to Rakon's profit
- Opened second factory in Sichuan to expand manufacturing for crystal blanks in readiness for expected growth

Market Update

Market Update – HY2018

- **Telecommunications**
  - Mobile base station revenue continued on from Q4 FY2017 with a stronger run rate in Q1, however eased in Q2
  - Datacentre demand contributed to an overall upside in HY2018
- **Positioning**
  - HY2018 revenue remains at a higher run rate than the prior year
  - The high volume GNSS module business remains strong
  - Growth continued in the higher margin industrial markets
- **Space**
  - Modest growth on previous half year
- **Defence**
  - The US market delivered the growth in HY2018
  - HY2018 growth is mainly from products made in NZ
- **IoT**
  - Many new applications, but volumes still small

Market Update – Outlook

- **Telecommunications**
  - In the US and Europe, Q3 run rate is expected to remain flat, with a small upside forecast for Q4
  - Further upside in the developing regions, is dependent on the timing of when a major operator in India releases new equipment contracts
- **Positioning**
  - Current run rates and forecast support the view that this market is returning to growth after years of decline due to smartphones cannibalising traditional PND products
- **Space**
  - Delivery of new customer orders in the US will provide an upside for the full year
- **Defence**
  - Delivery of open orders from France will deliver higher revenue in second half
  - US demand expected to drive further growth
- **IoT**
  - New applications driving a lot of activity; higher volumes expected beyond FY2018 as trials get deployed




Q&A Session

Closing Comments

Closing Comments

HY2018

- Financial performance has stabilised and improved as expected
- Modest growth seen as an indicator that the bottom of the cycle has passed

Closing Comments

- The phased delivery of Space & Defence orders will result in revenue growth in the second half
- Focus on improving CRI profit contribution
- Gains relating to the partial sale of Thinxtra shares to be reported in the second half
- Full year earnings guidance unchanged; expecting to report Underlying EBITDA in the range of between NZ$10.7 million to NZ$12.7 million (FY2017: NZ$4.0 million)

Appendix

Non-GAAP Financial Information

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 HY2017 and HY2018** has been extracted from **unaudited financial statements.** The use of 'Underlying EBITDA' in this presentation for FY2017 has been extracted from audited financial statements.

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

Continuing operations	Unaudited six months ended 30 September 2017 $000s	Unaudited six months ended 30 September 2016 $000s	Audited year ended 31 March 2017 $000s
Underlying EBITDA	3,800	647	4,032
Depreciation and amortisation	(2,307)	(2,800)	(5,609)
One off cash gains realised on derivatives closed out	941	(1,361)	(1,096)
Employee share schemes	(8)	(29)	(42)
Finance costs – net	(227)	(687)	(1,432)
Adjustment for associates and joint venture share of interest, tax and depreciation	(1,032)	(980)	(2,079)
Impairment	-	-	(6,594)
Loss on asset sales/disposal	(12)	(4)	(296)
Other non – cash items	(94)	(215)	(375)
Profit/(loss) before income tax	**1,061**	**(5,429)**	**(13,491)**
Income tax expense	(153)	(269)	(67)
Net profit/(loss) for the period	**908**	**(5,698)**	**(13,558)**

www.rakon.com