



11 August 2022

Rakon (RAK) Annual Meeting Chair's Address.

Welcome to the Rakon Annual Shareholders Meeting for 2022. I am Lorraine Witten the Chair of your Board of Directors and I will chair today's meeting.

We are conducting our meeting this year both here in person at the Ellerslie Event Centre in Auckland, and online, through the Computershare Online Meetings platform, *meetnow*.

I am joined today by most of our Board members, and senior management team. I would like to introduce you to our Board members. We were very pleased to welcome two new independent directors to the Board this year; Sinead Horgan and Steve Tucker who were appointed through the year and are standing for election later in the meeting. I am also joined by Independent Director Keith Watson, and Executive Director Brent Robinson.

Unable to join us today is Independent Director Keith Oliver who is unwell, and Tony Tseng from Siward who is in Taiwan and for whom travel remains restricted by Covid. They both send their best regards and will be observing the meeting online.

Also on the podium is our Chief Executive Sinan Altug, and our Chief Financial Officer, Anand Rambhai.

Finally, I would like to welcome our auditor Indy Sena from PwC, and representatives from our solicitors Bell Gully, and our bankers ASB.

I am very pleased to be leading us through the presentation of our performance for the 2022 financial year, the plans for our future business and the resolutions for shareholders. It has been our best year ever! Rakon is stronger than ever and has again driven shareholder value and growth in returns.

Rakon Today

Rakon is today a global innovator and market leader in technology. Our frequency control products and timing solutions are critical to enabling connectivity between people, networks and machines and are at the heart of hundreds of applications around the world. To understand what this means think making sure a satellite arrives at its exact location in space; that it communicates information to exactly where it needs to be sent; continues to work in extreme heat or cold; under extreme pressure; with critical accuracy and stability of performance in those environments. So crucial that NASA used two of our frequency control products on their Perseverance robot on Mars. I realise you probably know that, but I'm just so proud of that achievement I can't help but repeat it.

Our Journey

We have been on a journey to get here. I would like to acknowledge both our people globally, and you our shareholders for supporting us to become the company we are today.

There have been a number of deliberate changes that Rakon has made over recent years, in our Strategy and market focus, and in our people, both the Board and Management. Part of our journey has been changing our strategy away from the focus of supplying components for consumer applications, where the specifications are simple, market power is low and it is difficult to maintain margin, to realising our strength is to be a global technology leader, in demanding industrial applications that require precision, under difficult environmental conditions. We have now completed that pivot in strategy.

This year we completed our Board and Management succession plans. A few years ago, there was a call for more independence on the Board, this year we appointed Sinead and Steve as independent directors, and I stepped into the Chair role. I would like to take this opportunity to thank and acknowledge our prior Chairman Bruce Irvine. Bruce served on the Board for almost 17 years and since 2018 led the Board through the change in direction, and recent succession. His calm and experienced leadership was important to achieving the results we have before us. I believe we now have a wide range of relevant skills and experience on the Board, diversity of thought, and five independent Board members.

We were very pleased to appoint Dr Sinan Altug as Chief Executive Officer in April this year, completing an 18-month transition with former CEO Brent Robinson. Sinan has been with Rakon for over 20 years and has successfully undertaken senior leadership roles for us internationally, covering all aspects of the business. Most recently, he was the head of our European business, then our Chief Operating Officer here in New Zealand. He has a PhD in Electrical Engineering as well as an MBA. His deep understanding of our business and his scientific expertise combined with business acumen made him the best choice for the role.

We are also very happy that Brent Robinson has continued in the Chief Technology Officer role, where he is now able to focus all his attention on maintaining global leadership in product development, and our future growth opportunities. I would like to acknowledge the considerable contribution Brent has made so far over his 42 years' service with Rakon, including 36 years as Managing Director. Brent is a global expert in our Industry and continues to add significant value to the company.

Alongside these changes, we surveyed our shareholders and heard your request for the company to provide more information and insights into the business. We have been working to improve the clarity and frequency of our communication with you and the wider investment community. We reached out into the investor community and met with many institutional investors and commentators to grow their understanding of Rakon, and listen to market feedback on our business.

We continue to develop our communications programme, so you can expect to see more openness, insights and information about how the business is being run and performance.



We are paying Forsyth Barr for research analysis as part of our ongoing programme to build investor understanding.

Last year was another difficult operating environment because of the continued disruptions to global supply chains, the threat of illness to our people from the global Covid pandemic, and the lack of freedom for people to move between countries for work. It was very challenging to ensure we could continue to operate our factories at capacity, whether we would have the raw materials on time to make our products, and whether we would have the skilled people to run our business. It is due to careful and thoughtful management by all our team that we overcame these risks and have delivered the exceptional result for 2022. I acknowledge and thank all our people.

Building a sustainable organisation

We recognise the importance to all Rakon stakeholders, of sustainability and resilience. In our Annual Report this year we introduced you to the steps we are taking towards the adoption of our framework for Environmental, Social and Governance (ESG) reporting. We engaged with a range of internal and external stakeholders including investors and their representatives, to identify the ESG topics most important to them, and to inform our assessment of the key topics we will focus on to improve our sustainability and risk management.

We will build on existing work in key areas of the business with a view to reducing waste and greenhouse gas emissions, strengthening our supply chain management and visibility, protecting the health, safety and well-being of our people and encouraging high levels of employee engagement.

We have also undertaken a maturity assessment to support our readiness for climate related disclosures in line with the Taskforce for Climate related Financial Disclosures (TCFD) and identified a roadmap for the next three years. These things are all detailed in our Annual Report.

FY22 Business highlights

Now to the past financial year, FY22. Sinan will speak in more detail about the performance, but some points of note are that:

FY22 is the 5th year in a row that we have grown revenue and net profit from core business. We have developed a very solid core business in Telecommunications. Revenue growth was driven by strong demand in 5G telecommunications networks, and we see the runway for 5G continuing for the rest of the decade. Our core Telecommunications business delivered a pleasing 21% Compound Annual Growth Rate over the last 4 years.

Through our agility to quickly expand our production here in NZ, we were able to take advantage of the global chip shortage. This was created by greater demand, and a shortage



of supply as result of a fire in a key Japanese manufacturer's factory. Our response boosted our revenue and gross margin results for the year.

Overall, gross margin grew from 46% to 52%. Sinan will show you how both our core business has continued to grow, and the impact of the one-off business that we captured.

We achieved a strong operating cashflow of \$30.2 million, a \$10 million increase on prior year. The chip shortages and global supply chain disruptions meant we needed to proactively mitigate our risks by holding higher stocks of raw materials inventory. Our inventory investment increased by \$20 million over the year.

Our manufacturing capabilities are nearing their capacity. In FY22 we increased the manufacturing volume in New Zealand by 60%. By the end of financial year 2023, we will complete the expansion of our manufacturing footprint in Bengaluru, India, effectively doubling our capacity, when we complete building our new factory. During the last financial year, we purchased the land, which is in a High Tech Aerospace park in Bengaluru, the foundations are complete, and we are on track. The new factory will deliver an immediate capacity increase and an improvement in overall gross margin when, in line with our strategic plan, we are able to transfer the manufacture of some products from New Zealand and France.

The start-up and transfer of the factory is also one of the business risks of this coming year with the increase in the cost of building materials and equipment, the usual construction risks and the risks involved in transitioning production to new premises.

Our new factory in India will be good for our business and our people. It will ensure we provide modern, high quality working conditions, which align with our fair and just employment policies.

Finally, our \$13.1 million investment in R&D, including in the development of our XMEMS nanotechnology and ASICs, has progressed well this year, and investment will continue.

Growing our value

Looking forward to the end of FY23, and as announced earlier today, we expect to maintain the growth in Rakon's core business and to achieve Underlying EBITDA¹ in the range of \$36 million to \$44 million. The wide guidance range reflects the ongoing risks of shortages of raw materials and market disruption, that we will need to overcome through the year. As signalled EBITDA will be below FY22 due to the one-off nature of the chip shortage business we captured last year, but core business will continue to grow.

We continue to take a prudent approach to debt. In FY23, we will pay back the debt we arranged to build the facility, with the additional profit and cash we generated in the last financial year. This will utilise \$10 million of our cash balance. To be prudent we will arrange a new, undrawn debt facility with our banker ASB. We have a strong balance sheet and are comfortable with this position given the significant changes in interest rates and inflation globally, and the challenges in the equity markets.

This time last year, our Chairman stated that Rakon would most likely pay a dividend in the coming year, if the forecast results were achieved and there is no significant capital requirement. I appreciate that this created an expectation that we would pay a dividend. Also, we have been operating under a Dividend policy that said we would pay out up to 50% of our profit, and Rakon has never paid a dividend. These are confusing signals to shareholders.

In May, we announced that the Board had decided not to pay a dividend in relation to FY22. The reason for doing this is because we believe that we have excellent growth and investment opportunities within the business that will provide good return on investment to shareholders. In addition, there have been significant changes in the global economy where prudence is the best course. The Board carefully weighed the options, and we appreciate that we need to fully explain our rationale. Sinan will detail our investment plans in his discussion.

Acknowledging that our Dividend policy was not clear, the Board has reviewed and reissued the policy. We do not want to give the wrong signal to investors who are looking for a regular annual dividend. With the speed of growth in our opportunities in Telecommunications, NewSpace and autonomous vehicles, we do not see a runway for consistently paying dividends in the near term, rather we propose to invest in growth to capture these market opportunities while they are here.

Clear Growth Strategy

Looking ahead, we have a very solid Telecommunications business, which we will continue to grow as we develop our technology for 5G and 6G. However, our view is that we also need to strengthen our long-term business by developing other key markets. Our goal is to have, over time, two other strong markets that are as significant and robust as our Telecommunications business.

We are now ready for a new phase of development and growth. We are going to share with you today our plan for the next three years. We have four key strategic objectives of: Growing our core business; Maintaining product and technology leadership; Expanding into new markets and World class manufacturing. These objectives inform the areas where we will be investing, our market focus and our expansion targets. Sinan will walk us through each of these strategies during his presentation.

During our strategy development, we have broken down the elements of the strategic objectives and the skills and resources that we require to execute effectively. There are of course some gaps and, over the next few years, we will have to invest to develop capabilities and acquire market access, specifically into North America, and to continue to develop new technologies, products and manufacturing skills.

Needless to say, the investments will be disciplined and targeted. Both Board and Management believe that Rakon has significant growth prospects before us, and that the



timing is right to pursue these long-term opportunities, in industries that will develop over the decade. We have a strong company, we are in an industry that is expanding, globally we have great people, and we lead the world in our technology field. There is every reason to have confidence in our future.

I will now pass the meeting over to our CEO to expand on our financial performance and our business strategies. Later, after a time for questions I will address the formal resolutions for the meeting. Thank you Sinan.

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¹ Refer to Note 5 of the FY2022 audited consolidated financial statements for an explanation of how 'Non-GAAP Financial Information' is used, including a definition of 'Underlying EBITDA' and reconciliation to net profit after tax