

FY23 financial results and business update

12 months to 31 March 2023

rakon



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Disclaimer



This presentation contains not only a review of operations, but also some forward looking statements about Rakon Limited and the environment in which the company operates. Because these statements are forward looking, Rakon Limited's actual results could differ materially.

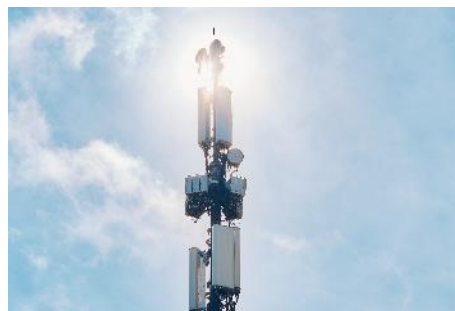
Although management and directors may indicate and believe that the assumptions underlying the forward looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward looking statements will be realised.

Media releases, management commentary and investor presentations are all available on the company's website and contain additional information about matters which could cause Rakon Limited's performance to differ from any forward looking statements in this presentation. Please read this presentation in the wider context of material previously published by Rakon Limited.

All figures are presented in New Zealand dollars unless otherwise indicated. All comparisons are to the prior corresponding period (12 months to 31 March 2022) unless otherwise noted. Refer to note 4 of the FY2023 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 (NPAT).

FY23 highlights

Delivery of all milestones in 3-year growth plan and commenced dividends



Highest ever core revenue +16% growth



Dividend declared and Dividend Reinvestment Plan



Stable margins maintained across core markets



All FY23 growth milestones achieved in 3-year plan



India manufacturing facility – opens in June



\$10.7m borrowings repaid

Strong core business growth offsets chip-shortage revenue impacts

Financial result reflects investment in future growth and inflationary pressures



Revenue

\$180.3m

▲ \$8.4m +5%

Underlying EBITDA

\$42.2m

▼ \$12.2m -23%

Net profit after tax

\$23.2m

▼ \$-9.9m -30%

Gross Margin

\$88.8m

▼ \$1.3m -1%

Operating cash flow

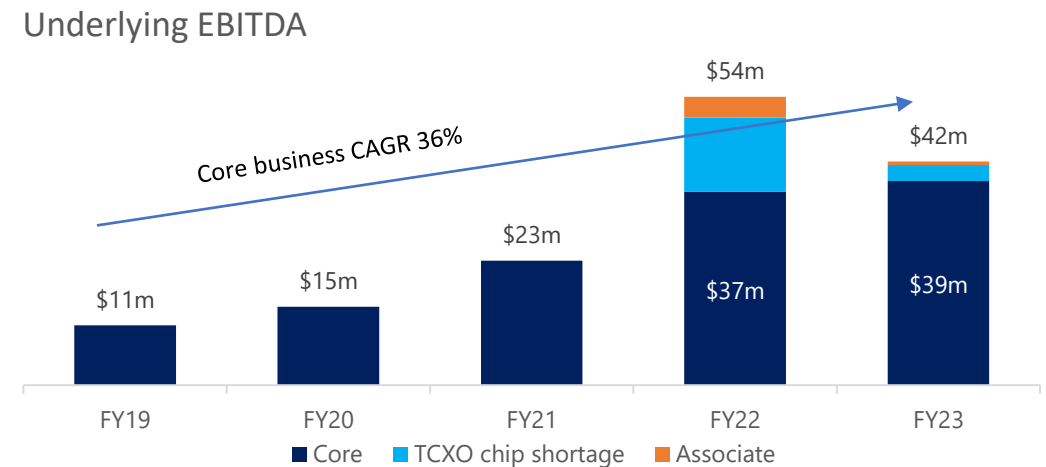
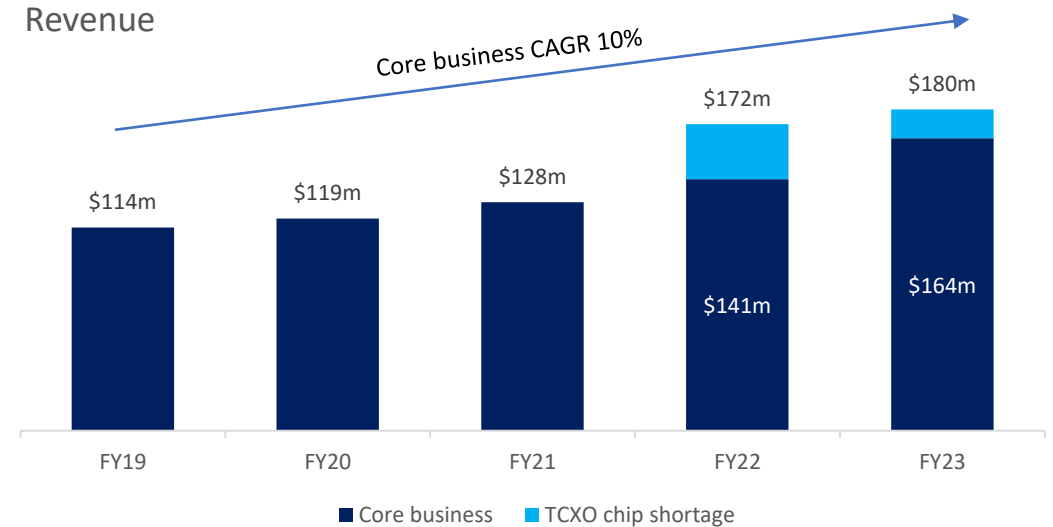
\$11.1m

▼ \$19.1m -63%

Net cash

\$16.5m

▼ \$6.8m -29%



FY23 Operating performance

Sinan Altug, Chief Executive Officer



Core business - Telecommunications

Strong growth continues driven by 5G deployments and 4G network upgrades

FY23

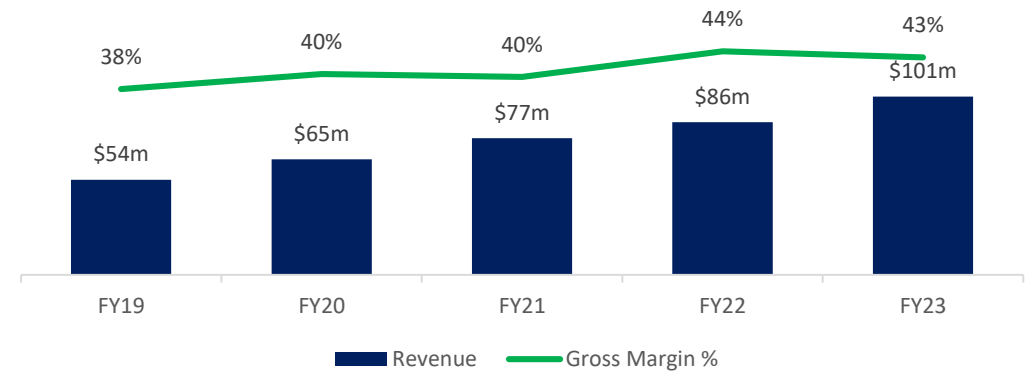
- Revenue up 17% driven by 5G network deployments and 4G network upgrades
- Gross margin up \$5.4m (14%) to \$43m
- Key design wins
 - new XMEMS® products being qualified into next generation 5G equipment
 - strong uptake for our next-generation Mercury X OCXO
 - products being supplied into emerging architecture: O-RAN, C-RAN and edge computing

FY24 and beyond

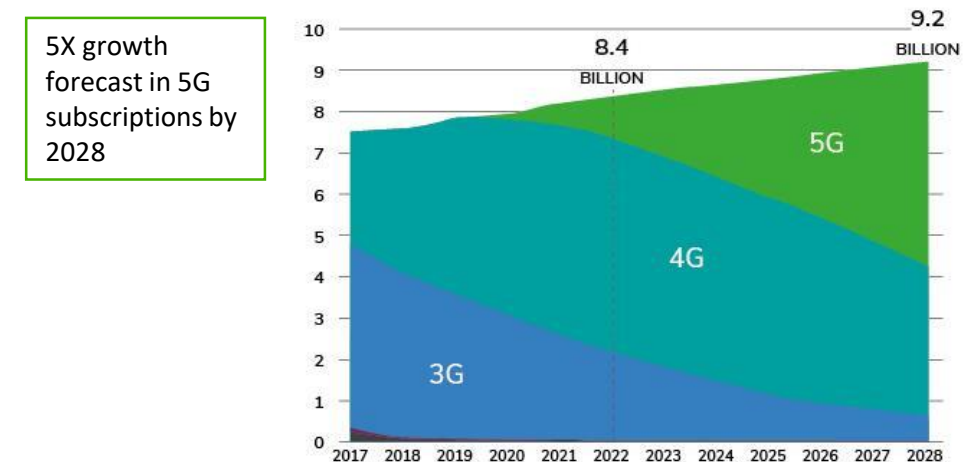
- Tier 1 customers reducing inventories after accumulating safety stocks in the past 2 years to mitigate supply chain risk
- Order book growing and confident it will deliver design opportunities as it accelerates over next 5 years
- Strong market growth expected, with 5G subscriptions forecast to reach 5 billion in 2028

FY23 Revenue up **17%**

Revenue & Gross Margin %



MOBILE SUBSCRIPTIONS BY TECHNOLOGY (BILLION)



Source: Ericsson Mobility Report 2022 (November edition).

Core business – Space and Defence

Strong revenue growth and high stable margins in most demanding market

FY23

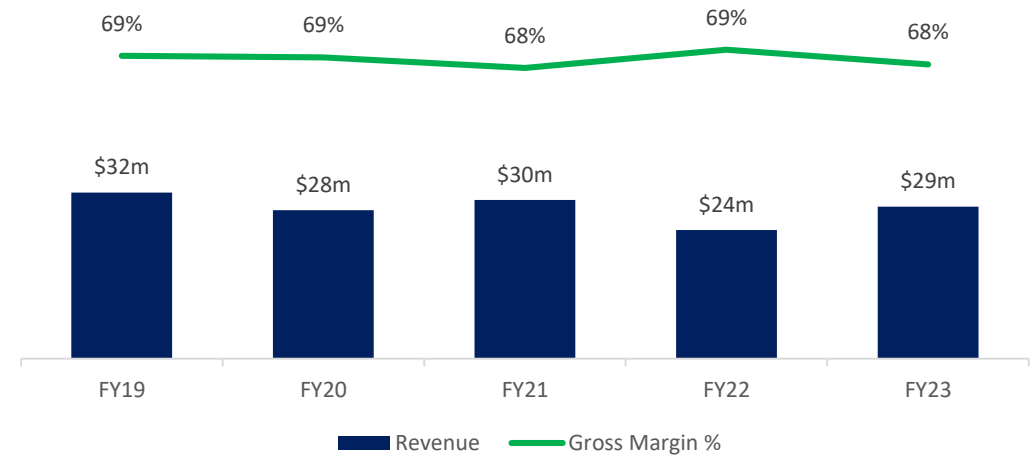
- Revenue up 18%, driven mainly by demand for high-reliability space applications
- Gross margin up \$2.7m (16%) to \$19.7m representing 68% of revenue; reflects high value and performance requirements of market
- Good progress in NewSpace programme, building R&D capability, product portfolio and strategic relationships

FY24 and beyond

- Solid FY24 order book in both Space and Defence and confident of maintaining FY23 revenue
- In Space market, Rakon is Involved in increasing number of telecommunications and LEO-PNT constellations (Low Earth Orbit - Positioning, Navigation and Timing)
- In Defence market, seeing strong demand in communication applications
- Emerging low earth orbit (LEO) satellites projected to more than double the space market and drive a three-fold increase in the number of active satellites by 2030

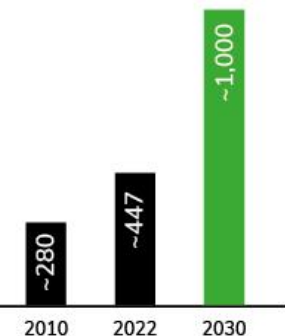
FY23 Revenue up **18%**

Revenue & Gross Margin %



PROJECTIONS FOR SPACE MARKET GROWTH \$ BILLION

"The space market... has grown to approximately \$447 billion—up from \$280 billion in 2010—and could grow to \$1 trillion by 2030."



Source: McKinsey & Company: 'A giant leap for the space industry', January 2023.

Core business – Positioning

Steady industrial growth supported by strong locator beacon resurgence

FY23 Revenue up **21%**

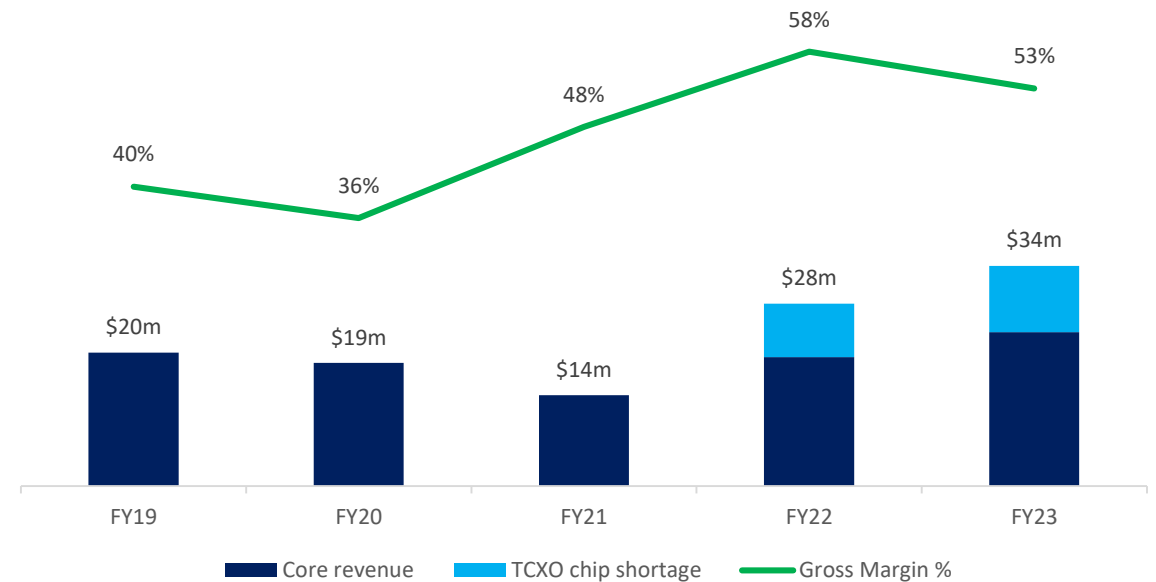
FY23

- Revenue up 21% driven by:
 - Solid growth in industrial and automotive segments
 - Returning global travel driving higher emergency locator beacon business
- Gross margin increased 10% to \$18m or 53% of revenue

FY24 and beyond

- Temporary slowdown of orders as some customers re-adjust inventory levels
- Beyond inventory corrections, customers forecasting strong long-term market growth, our customer service and product performance positions us well to capture that growth

Revenue & Gross Margin %



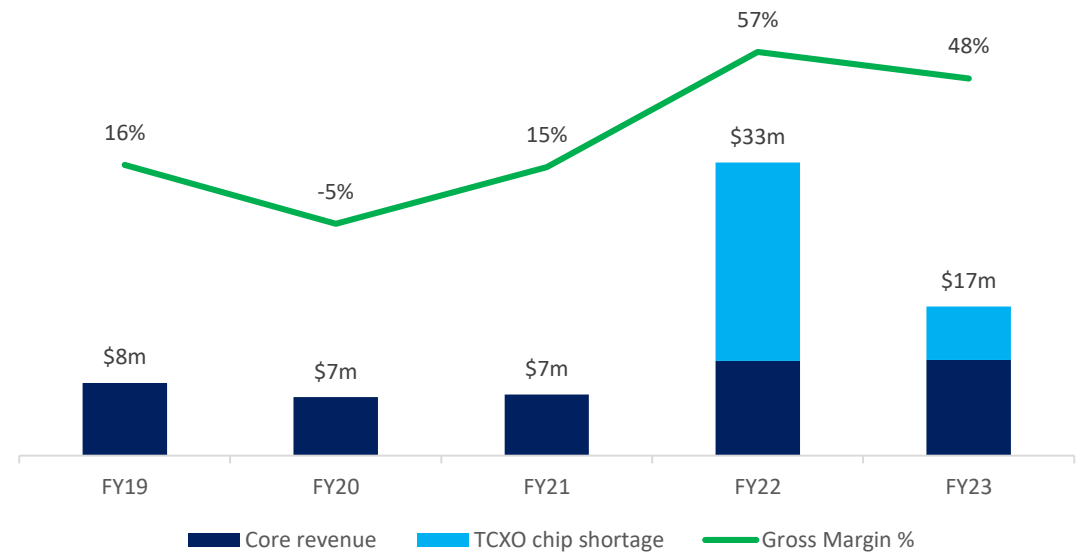
Other markets

Completion of major TCXO chip shortage order

FY23

- Completion of major TCXO chip shortage order during the period
- Captured short term opportunity due to ability to design a solution and quickly scale up for production, with manufacturing commencing three months after securing the order
- Applications include wireless control systems, machine to machine communication, IoT, smart grids & smart metering for electricity and gas

Revenue & Gross Margin %



FY23 Financial overview

Anand Rambhai, Chief Financial Officer

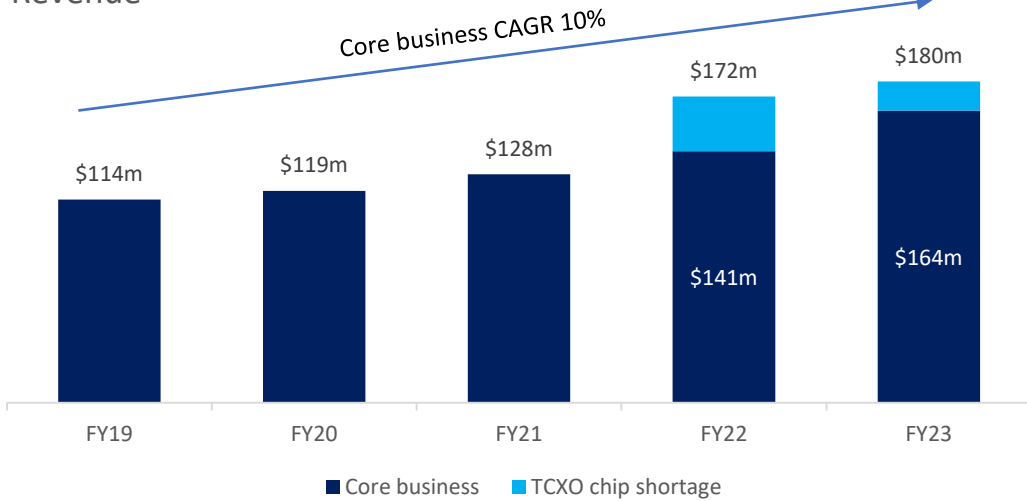


Strong core business growth offsets chip-shortage business

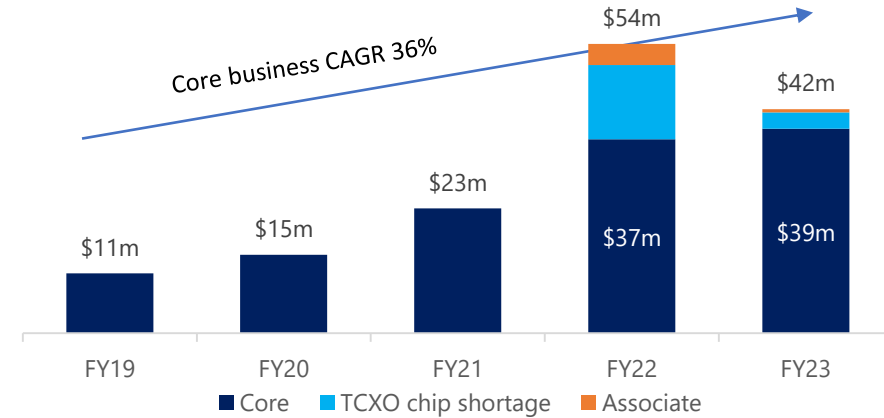
Growth across all our core markets



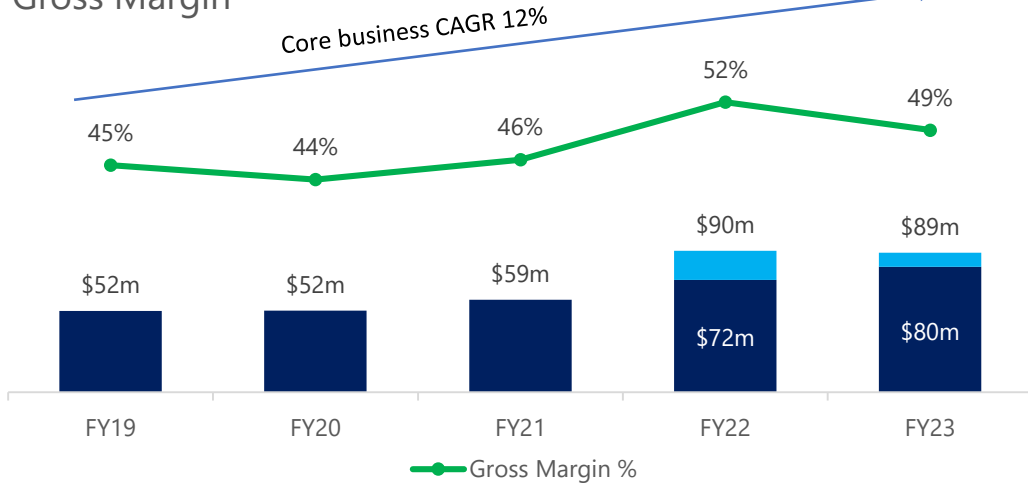
Revenue



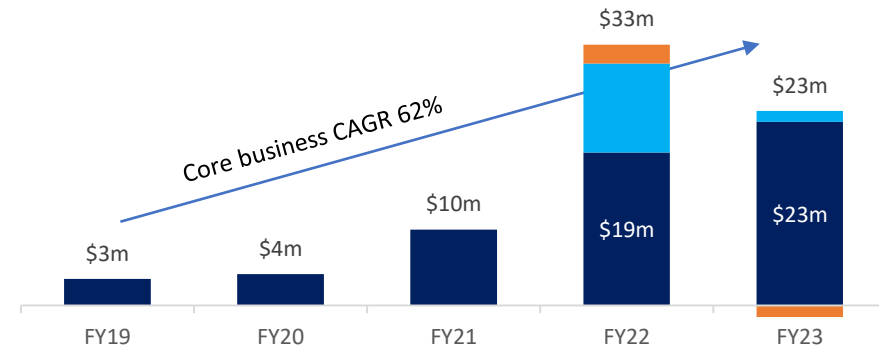
Underlying EBITDA¹



Gross Margin



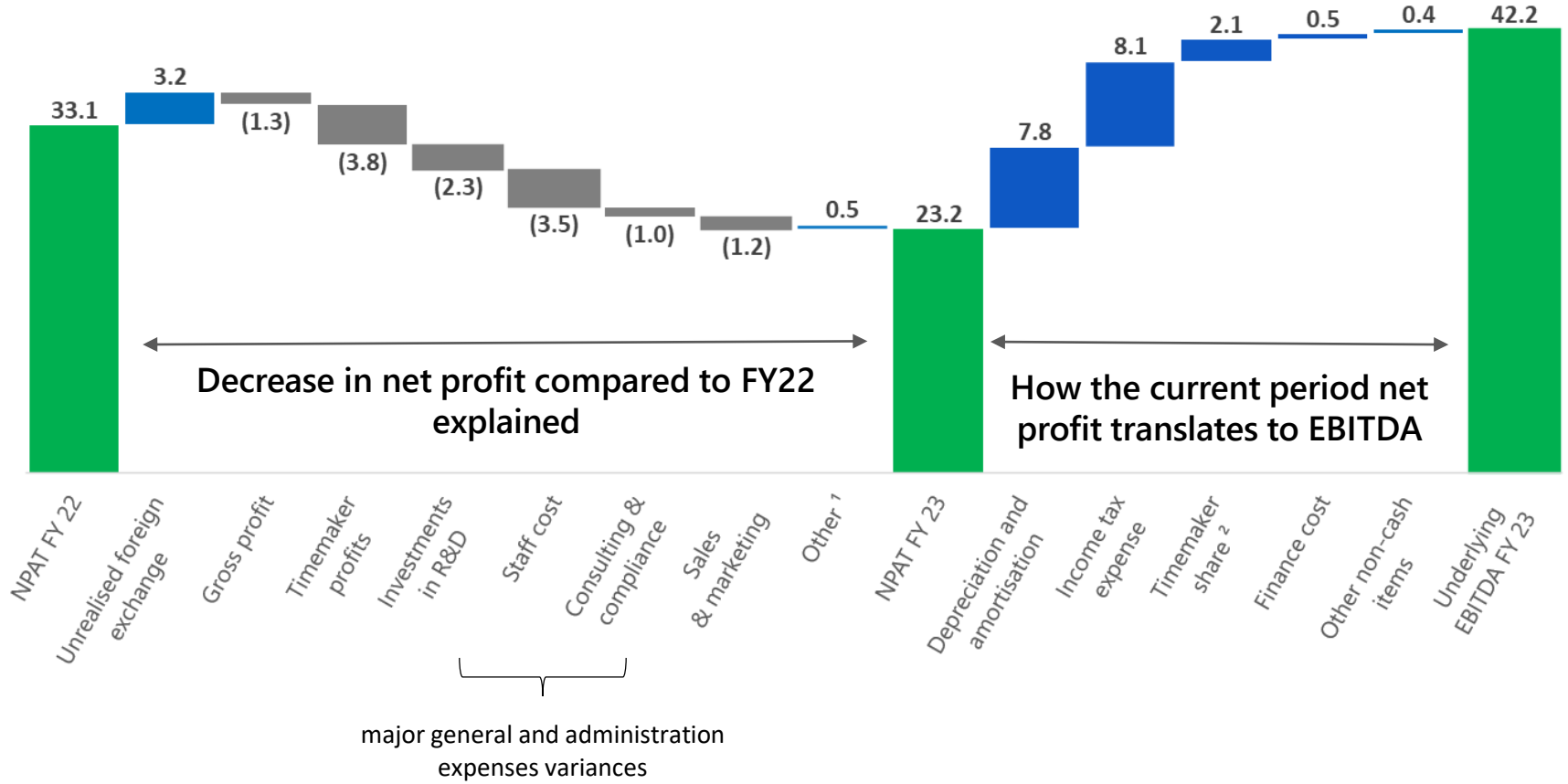
Net Profit





Net profit & Underlying EBITDA explained

Financial result reflects investment for growth and inflationary pressures



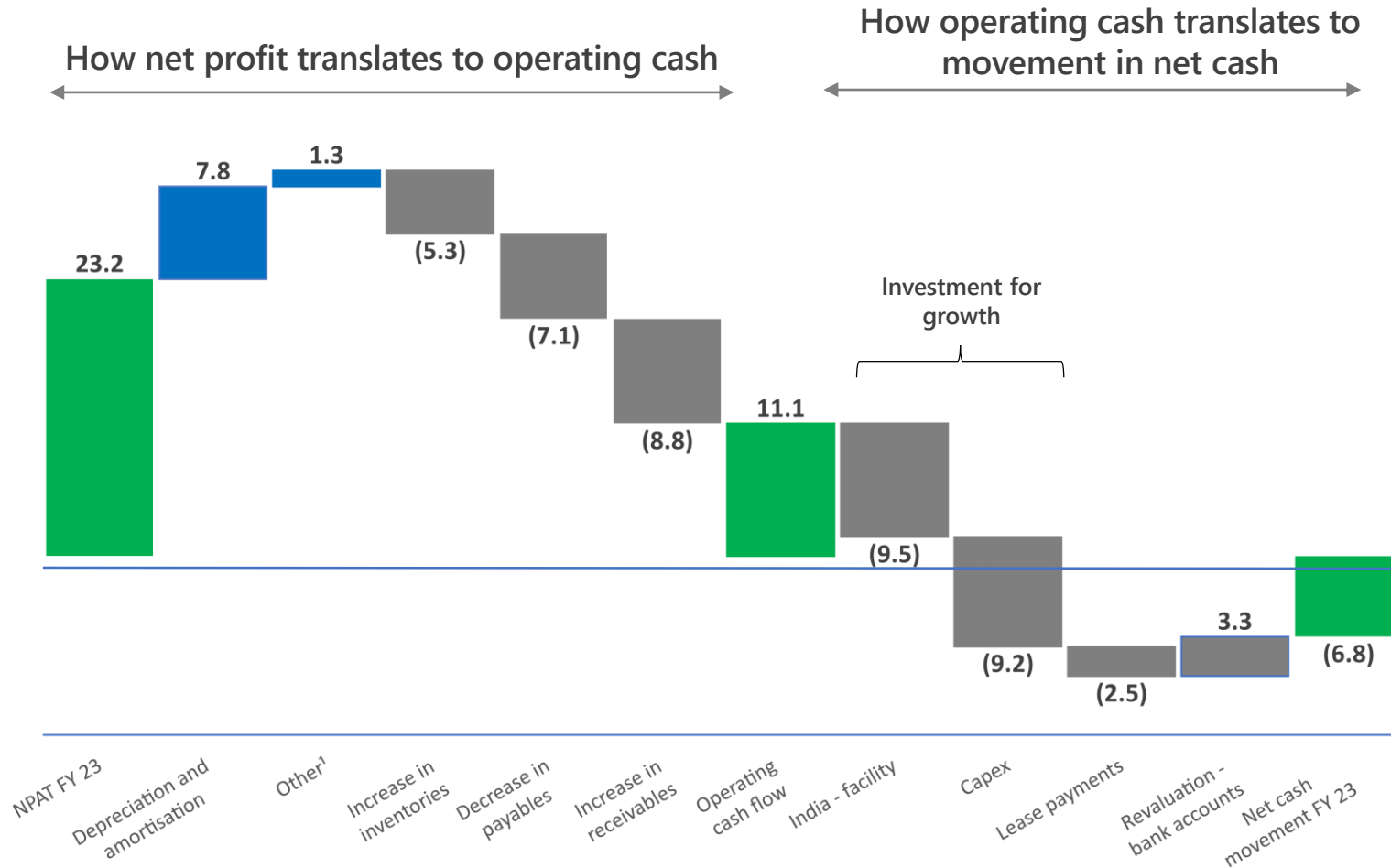
- Unrealised FX gains on revaluation of USD bank and debtors with 10% lower NZD/USD than March 2022
- Timemaker impacted by consumer electronics slowdown and high inventories held by customers
- Higher R&D investment with relocation and strengthening of the chip design team
- General & admin cost reflecting investment into our people and inflationary pressures (incl. labour shortages)
- Work underway to streamline operating expenses and overhead and accelerated manufacturing transfers

Others¹ - include movement in other operating general and administration expenses
 Timemaker share² - adjustment for Timemaker share of interest, tax and depreciation



How net profit translates to cash

Inventory management and investment for growth impacting cash position



Net cash
\$16.5m

▼ \$6.8m

- Increased inventory to mitigate supply chain risks and support transfer of manufacturing to new India factory
- Inventory trending down since Sept 2022 and expected to continue
- Focus on optimising receivables and payables to enhance cashflow
- India building largely complete with majority of spend in FY23
- \$9.2m capex includes spend on XMEMS, capitalised R&D, capacity expansion, replacement of aging equipment

Other¹ – non-cash items including unrealised foreign exchange, share of net profits of associate (Timemaker), employee share based expense, and movements in other provisions

FY23 Financial metrics



Performance for the year to 31 March

NZ\$m	FY23	FY22	variance	% change
Revenue	180.3	172.0	+8.4	+5%
Gross profit	88.8	90.1	-1.3	-1%
Gross margin %	49.2%	52.4%	-3.1 pts	
Operating expenses	58.8	49.3	+9.5	+19%
Other operating income	0.4	1.6	-1.2	-75%
Net profit after tax	23.2	33.1	-9.9	-30%
Underlying EBITDA ¹	42.2	54.4	-12.2	-23%
Capital expenditure	18.7	10.4	+8.3	+80%
Operating cash flow	11.1	30.2	-19.1	-63%

Financial Position	Mar-23	Mar-22	variance	% change
Net cash / (net debt) ²	16.5	23.2	-6.8	-29%
Inventory	62.6	57.3	+5.3	+9%

- Revenue growth was consistently strong across all core markets.
- Additional revenue from the one-off chip shortage contracts fell from \$31m to \$16m
- \$3.0m FX gain in FY23, compared to -\$1.0m in FY22¹
- Operating expenses increased by \$9.5m reflecting investment in resources and innovation to support future growth and inflationary pressures on labour and energy costs
- \$18.7m capital expenditure continues investment into the growth strategy while supporting existing operations.
 - \$9.5m spent on the new India building
 - balance on additional capacity and maintaining existing production

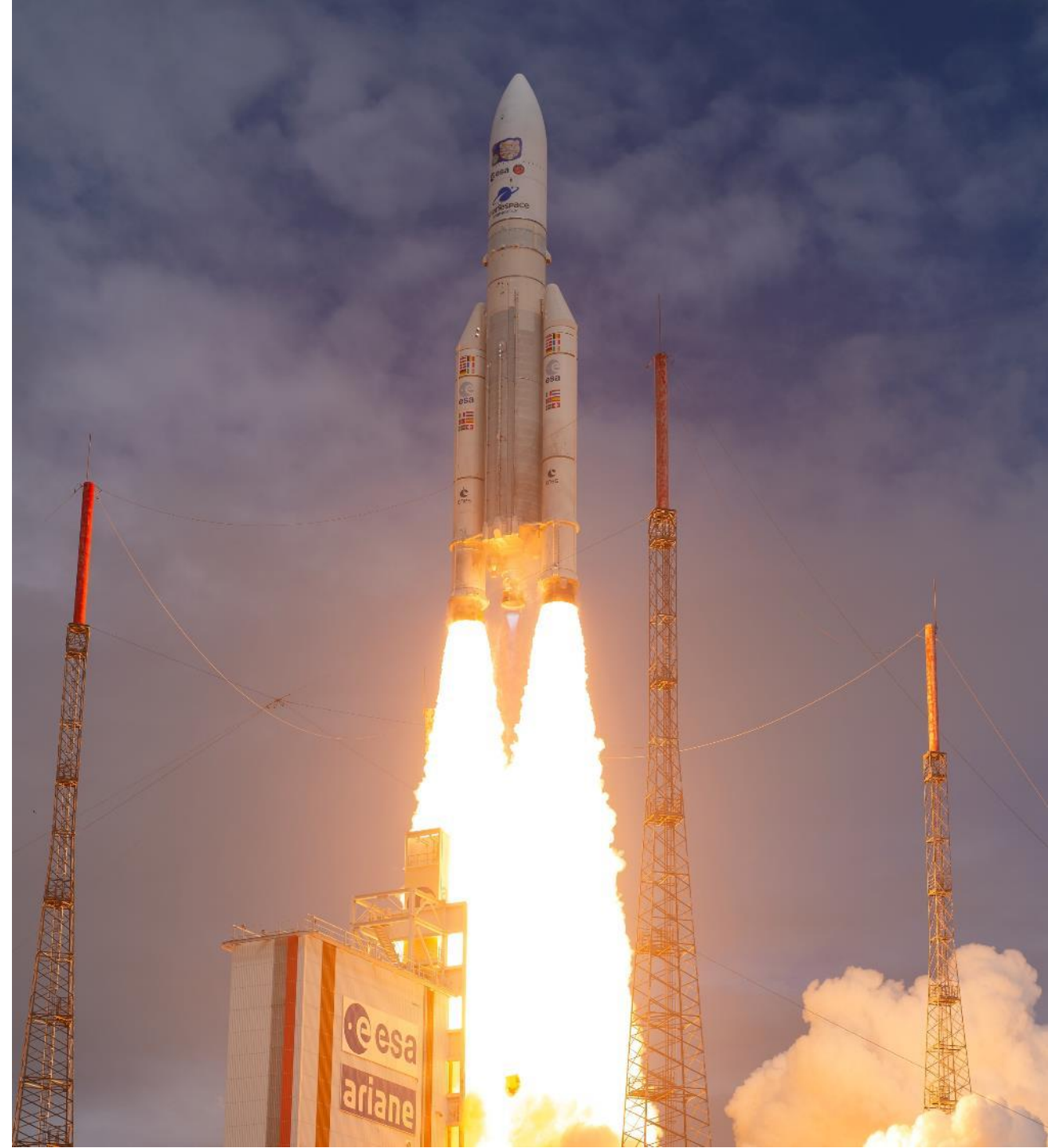
Hedging NZD/USD	FY24	FY25	FY26
% of net exposures covered by hedging	74%	45%	6%
average rate of cover	0.6460	0.6150	0.6098

¹ 99% of revenue is non-NZD currencies (mostly USD) with more significant exposure NZD/USD. Hedging covers up to 36 months exposure on a net basis.

² excluding NZ IFRS 16

Strategy and Outlook

Sinan Altug, Chief Executive Officer



Clear growth strategy to deliver shareholder value



3-year growth roadmap

Achieved all FY23 milestones



		FY23	FY24	FY25
	NEW MANUFACTURING FACILITY IN INDIA	<ul style="list-style-type: none"> Construction completed Fitout / capacity expansion Existing manufacturing transfer 	<ul style="list-style-type: none"> Select NZ products transferred Select NewSpace products transferred 	<ul style="list-style-type: none"> Select French NewSpace subsystem modules transferred
	RAKON DESIGNED SEMICONDUCTOR CHIPS	<ul style="list-style-type: none"> Substantial increase in R&D and chip design capability Release of Niku™ next generation chip 	<ul style="list-style-type: none"> Release of Vulcan™ next generation chip Chip based product revenue growing to over 60% 	<ul style="list-style-type: none"> Chip based product revenue growing Release of next generation chips
	XMEMS® NANOTECHNOLOGY MANUFACTURING	<ul style="list-style-type: none"> Continued investment in XMEMS® capability Release of initial XMEMS® based products 	<ul style="list-style-type: none"> Volume production of XMEMS® 	<ul style="list-style-type: none"> Leadership in targeted market segments Expansion into other product categories
	NEWSPACE BUSINESS	<ul style="list-style-type: none"> R&D and supply chain investment Strategic relationships established 	<ul style="list-style-type: none"> Recognised player in the ecosystem Significant orders secured 	<ul style="list-style-type: none"> Become a top 3 player in subsystems Delivery of orders

New India facility near completion

Increase capacity, extend product lifecycles and improve economies of scale

- Facility largely complete, opening in June 2023
- Total cost on track for \$14-\$15m, with majority of spend in FY23
- Customer supply continued uninterrupted supported by business continuity planning and high inventories
- Crystal manufacturing commenced Feb 2023 and OCXO oscillators produced in March 2023
- Bringing forward the transfer of key products to be manufactured to achieve economies of scale and stronger margins



Significant progress in other key investment areas

Invested \$17m in R&D in FY23

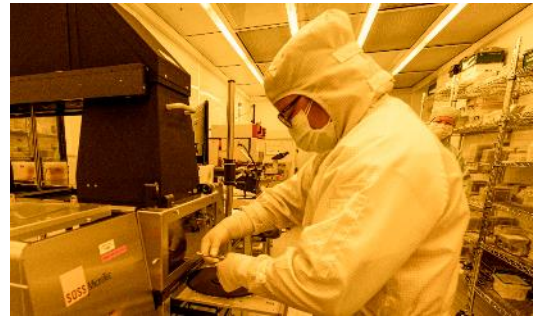


Rakon proprietary semiconductor chips



- Rakon's own chips deliver superior product performance and 45% of FY23 revenue at 15%+ higher margins
- Invested to expand capability to design and reduce time to market
- Niku™ TCXO chip released in late 2022
- OCXO products containing the Mercury+ chip approved in several Tier 1 telecom reference designs
- Strong edge computing market interest in new MercuryX (XMEMS® manufactured) products

XMEMS® nanotechnology manufacturing



- Game changing technology allowing production of miniaturised products
- Five products now generating revenue at strong margins
- Positive customer feedback on performance
- Investment in new equipment, significantly increasing manufacturing capacity
- On track to become cash positive by the end of FY25

NewSpace - LEO satellites



- Products which combine space-grade performance with higher volume manufacturing capability
- Invested in R&D, supply chain and establishing dedicated internal team
- GNSS Received product launched on board an in-orbit demonstration mission at the end of FY23
- Strategic partnerships progressed to support key products
- On track to become cash positive by the end of FY25

Commencing dividends

Careful cash flow management and improved operational risk profile with continued focus on delivering growth

- Declared a fully imputed dividend of 1.5 cents per share
 - improved FY24 operational risk profile with reduced impacts from raw material issues and near completion of Indian facility
 - reviewed 3-year growth plan, cash flow forecasts and relevant external variables
- Board anticipate level of dividend to be sustainable through execution and investment in 3-year growth plan
- Introduction of Dividend Reinvestment Plan

Borrowings repaid in FY23

\$10.7m

R&D

\$17.0m

▲ \$2.3m +16%

Fully imputed Final Dividend

1.5cps

Net Assets

\$156.9m

▲ \$21.7m +16%

India facility total investment (expected)

\$14-15m

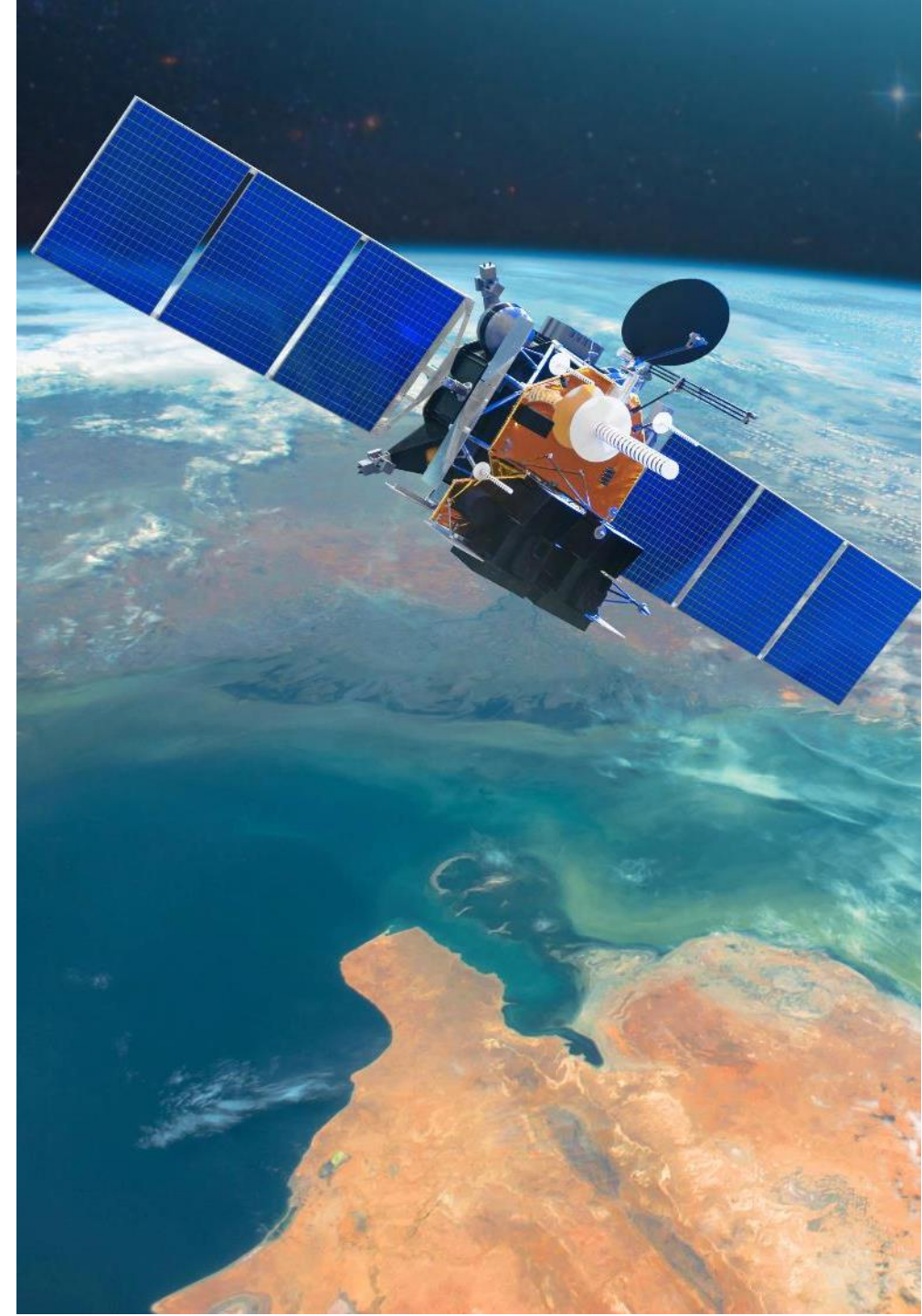
Dividend Reinvestment Plan to be introduced



FY24 and beyond

Our customer relationships, product leadership and investment in growth position us well for future growth

- Anticipate FY24 Underlying EBITDA in range of \$26m - \$34m
 - industry-wide normalisation of customer inventory levels expected to impact FY24 Revenue by \$10-\$15m, principally in H1 in Telecom and Positioning Markets
 - space and defence market demand remains strong
 - one-off chip shortage contracts rolled off in FY23
- Focused on optimising short term financial performance
 - streamlining operating expenses and overhead
 - actively managing continued impact of labour shortages
 - accelerating manufacturing transfers
- Continued execution of 3-year growth plan during FY24 and FY25
- Ongoing assessment of acquisition opportunities as a part of growth strategy ensuring enhancement of competitive advantage and value creation
- Core markets remain strong and opportunities significant with the ongoing evolution of 5G and edge computing autonomous machines and vehicles, aerospace and the entire NewSpace ecosystem



Q&A



Glossary



Cloud computing: Allows users to have on-demand availability of a remote computer system's resources for improved computing power or data storage (usually located quite far from the user, such as in another country)

Datacentres: Usually a building that is used to hold a computer system and other components to backup data

Design-in: An opportunity that allows Rakon's product to be used as the reference component for certain customer reference designs (a technical blueprint of a system intended to be used by customers)

Edge computing: Allows users to have on-demand availability of a remote computer system's resources for improved computing power or data storage (usually located close to the user, such as within the same city)

5G: 5th generation of the telecommunications standard, providing 10 to 1000 times better performance in many different applications

5G millimetre wave technology: The equipment that enables higher frequency data transmission in 5G

NewSpace/ NewSpace LEOs: Refers to space sector commercialisation, that are mainly low earth orbit (LEO) satellites

Mercury™ / Mercury+™: Rakon's proprietary integrated circuit used in OCXOs to achieve clock variations to less than 1 billionth of a second, these enable precision timing in 5G applications

OCXO: Oven Controlled Crystal Oscillator. A crystal oscillator that uses a miniaturised oven to keep its internal temperature constant

O-RAN: Mobile networks that are more intelligent, open, virtualised and fully interoperable

Pluto®: Rakon's proprietary integrated circuit used in TCXOs to achieve clock variations to less than 100 millionth of a second; these enable higher data rates in 5G applications

System solutions: Refers to Rakon's solutions that include high performance products, equipment and consulting services for Space & Defence

TCXO: Temperature Compensated Crystal Oscillator. A crystal oscillator with additional circuitry to remove frequency variations due to temperature change

Tier 1 customers: recognised key players within their respective industries, that make up a significant market share

VCXO: Voltage Controlled Crystal Oscillator (VCXO). A crystal oscillator with an adjustable output frequency

XMEMS®: Crystal Micro-Electro-Mechanical System. Rakon's advanced quartz-based resonator technology. It is made with Rakon's nano-technology microfabrication process, delivering unprecedented resonator and oscillator performances



Appendices





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