16 August 2023

Rakon (RAK) Annual Meeting Chair's Address

Tena Koutou. Tena Koutou. Tena Koutou Katoa.

Welcome everyone, both here in Auckland and joining us virtually, to the Rakon's 2023 Annual Shareholders Meeting. I am Lorraine Witten the Chair of your Board of Directors.

Thank you for joining us today to spend time focusing on the Rakon business.

I am pleased to confirm that we have a quorum of shareholders and therefore I declare the 2023 Annual Shareholders Meeting open. I also advise that online questions and voting is also now open.

I am joined today by most of our senior management team, and our Board members.

I would like to introduce you to our Board. We were very pleased to welcome a new director to the Board this year; Jung Meng Tseng (or JM as he's known), from Siward. JM is standing for election later in the meeting. He was appointed in July to fill the casual vacancy created by the retirement of Tony Tseng who served as a director since March 2017. I and the Board thank Tony for his contribution.

I am also joined by Independent Directors: Sinead Horgan - Sinead leads our Board committee on Audit & Risk; Keith Watson - Keith leads the Board committee on People & Culture; Steve Tucker; and Keith Oliver; and Executive Director Brent Robinson who is also the company Chief Technology Officer. Both Keith Oliver and I are standing for re-election this year.

Our board is made up of 5 independent Directors plus a representative each from our 2 largest shareholders, the founding Robinson family, and Siward Crystal Technology company of Taiwan.

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.

Rakon is a global technology innovator and market leader in our field. Our frequency control products and timing solutions are critical to managing the flows of data that connect people, networks and machines. We enable the lightening speeds of 5G telecoms networks, the precision positioning for autonomous vehicles and synchronisation for cloud computing and much more. What makes our products unique is they continue to work in extreme heat or cold; under extreme pressure; with critical accuracy and stability of performance in those environments.

So crucial that not only have NASA used our products on their Perseverance robot on Mars, but this year in April, also the European Space Agency launched their mission, to study the moons of Jupiter, with Rakon product onboard providing precise references for several of the scientific instruments on board. You can't get better reference sites than those.

I am very pleased to be leading us through the highlights of the company performance for the 2023 financial year. I will then pass to Sinan Altug our Chief Executive who will go through in more detail how we are navigating through the current macro-economic environment and positioning ourselves to execute on the significant opportunities that exist across all our markets. Following that we'll have time for questions and resolutions.

Our business is in a phase of development and growth, and FY23 was the first year of our 3-year business plan. In our Shareholders meeting last year we laid out in detail the 3-year plan and investment strategy for expanding and improving the Rakon business. We'll review the significant progress we have made delivering and executing against the plan, the investments we've made to grow shareholder value, and update you on the market fundamentals and outlook.

Firstly, let's move to the business highlights for the last financial year. FY23 was another very good year for Rakon, with an EBITDA result within the guidance we upgraded in March. We delivered on our plan including our strategy for top line growth to be above 15% and achieved 16% revenue growth in our core business. Pleasingly this growth was achieved in each of our 3 business units – a result that shows Rakon's competitive advantage and ability to execute and deliver results while navigating challenging market conditions.

Consistently achieving at least 15% revenue growth in our core business, year on year, is a goal of our business plan.

Strong gross margins are a key driver of good performance and an important indicator of the health of our business. In a year when the cost of materials and wages were increasing with global inflation, we were successful in maintaining stable gross margins.

The investment in the India Manufacturing facility is part of the focus on profitable growth and delivering strong gross margin. It is a very important foundational investment to provide capacity for our future growth and cost control for margin management. I'm very pleased to be confirming that the India facility is built, paid for and operational. Standing here last year we were facing the risks of building in a foreign country, with building material costs going up every week, labour shortages and the prospect of moving our production lines while keeping up deliveries to customers. The completion of the project on time and budget, while keeping our customers happy, is a reflection on our talented management team here, and in India. I acknowledge their expertise and commitment to completing this project, and they are rightly proud of what has been achieved. Sinan will play us a video during his presentation, that walks us around the facility, so you get an insight into the strategic investment we've made.

You may have read the ongoing media about the global semi-conductor industry and the withdrawal by US manufacturing from China. In the Aerospace Park in Bengaluru where we have built, we are seeing a significant number of new facilities underway, some transferring from China. We are clearly ahead of the curve with our decision to invest into India.

In a significant financial milestone for our company, we declared our first fully imputed dividend of 1.5 cents per share, which you should have received by now. We continue to take a prudent approach to debt and capital management. During the year we paid back $10.7m of debt, which was borrowing taken out to cover the costs associated with building the India facility. We have also established an undrawn debt facility with our banker ASB.

As I mentioned, last year was the first year of our 3-year business plan. We completed all FY23 milestones. The growth plan outlines our investment approach to position Rakon for continued future growth. To sum up, FY23 was another strong year for Rakon, with good progress made on our business plan.

Looking now at FY24 and beyond. There is no doubt we have a challenging year ahead of us. We are navigating through some short-term market uncertainty, especially with respect to our Telecoms customers. This will require Rakon to 'cut our cloth' accordingly, adjust operations and reduce costs to align with financial performance. However, with an eye on the future it is critical we prudently protect the path towards long-term growth.

We are now in the second year of our business plan, and we will maintain the investments required for that plan, even though we are cutting expenses elsewhere.

Last year we laid out the Growth Strategy in some detail, but I think it's worth reiterating the 4 key areas of focus. Firstly, that we continue to grow our core business, that's the Telecommunications, Space & Defence and Positioning businesses. Our goal is to deliver 15% compound annual growth in revenue across this core.

Secondly, maintaining our product leadership by engaging in the design phase with our customers, investing in smart R&D people and continuing to collaborate with the top tier customers and entities such as NASA, the European Space Agency and the Indian Space

Research Organisation. By leading and being designed into future solutions we ensure longevity of our business, and are more effectively able to hold our market pricing.

Thirdly is expand into new markets. I've spoken in prior years about the need to build out another strong industry vertical, like the position we have in Telecommunications. Over the long term we want to have a strong Telecoms business <u>but also</u> be able to rely on other industries in times, like this year, where Telecoms is under performing.

We are focusing on the Space market, where we have decades of experience. We will both expand into new geographies as well as move up the value chain with our products, developing not just components but also more complex sub-systems. This year we launched our first space sub-system, the Global Navigation Satellite System Receiver, and we have won our first commercial satellite deployment, which is now successfully in space. A significant achievement.

We are also continuing to evaluate and consider acquisition opportunities to expand into the US market. This would provide access to top-tier US customers through local manufacturing, and strengthen existing customer relationships. With the push by Governments to 'buy local' this is a sensible move that gives us better market access. The US is also the largest market for Space, and by expanding into the US, we will increase our Total Addressable Market. We will be conservative with any acquisition, making sure we can fund it and integrate it appropriately. We are also working on organic expansion into the US, focusing on getting the appropriate market certifications underway.

The fourth pillar to our strategy is becoming a world class manufacturer. We have manufactured for many years and been highly successful with our innovation, but we could not claim that we have manufactured at scale to the highest standard. We now have the manufacturing facility to achieve this, and delivering on this initiative is key to maintaining our market position and profitability.

So that's where we're going and what we are doing to get there. Sinan will speak to the strategy in more detail.

Paying a Dividend has been a discussion point between the Board and Shareholders for some time. At the end of the financial year the Board assessed Rakon's future capital requirements and considered a wide range of capital management options.

The careful management of cash flow through the financial year enabled borrowings to be repaid, a strong balance sheet to be maintained and growth initiatives to be funded. Alongside this Rakon saw lower operational risk, as we reduced impacts from raw material issues, and completed our Indian facility. With an eye to maximising shareholder value, we strive to balance the distribution of profits to our shareholders with retaining enough reserves for future growth and investment.

The Board deemed this the appropriate time to commence dividends and we were pleased to declare a fully imputed dividend of 1.5 cents per share for FY23. Your Board anticipates that even in the current macro-economic environment, and during the investment and execution of our 3 year business plan, this level of dividend is sustainable.

With the commencement of dividend payments, we also introduced a Dividend Reinvestment Plan, providing shareholders with the option to reinvest their dividends should you wish to do so.

We continue to improve our sustainability and reduce our impact on the planet. Last financial year we achieved a step reduction in our Green House Gas Emissions, by initiating the transition of one of our manufacturing processes from using CO_2, to using liquid nitrogen. We will next transition the process in India, delivering further reductions.

We have also designed our India Manufacturing facility as a green building, which includes recycling 100% of the storm and wastewater on the site. We expect to attain the internationally recognised LEED certification, which is (Leadership in Energy and Environmental Design).

You may have seen that our Annual Report included improved information on Climate Related Disclosures. We are on track to comply with the new standards and disclosures - like most companies this is a journey of improvement that we will be on for some years.

As part of ensuring we are a resilient organisation, through the last financial year Management and Board conducted a full Risk Management Review, looking at the risks the business faces including the strategic, operational, cyber and business risks. We are due to conclude this process shortly.

In conclusion, our business has made significant progress with its Development and Growth plan. We have achieved the milestones we promised in FY23, and delivered a strong financial result across the core business. We are well underway with our pipeline for new products, we have established the foundation for world class manufacturing at scale and are achieving the milestones for new markets.

I would like to thank all of Rakon’s people, our great management team and my fellow Board members for their support and contribution as we steer Rakon forward. And I thank you, our shareholders, for your continued support, engagement and investment in the business.

Although FY24 will be challenging, we intend to continue with the business plan investments, and focus on better efficiency and cost reduction. We remain confident in our medium to long term growth drivers.

I will now pass the meeting over to Sinan our Chief Executive.

Rakon (RAK) Annual Meeting Chief Executive’s Address

Tena Koutou Katoa.

Shareholders, both here in the room and joining us virtually, welcome and thank you for joining us today.

I’m pleased to address you and share our accomplishments from a year marked by unique challenges and opportunities.

This is always an important date on Rakon’s calendar and we value this opportunity to speak directly with you, our shareholders, to provide an update on your company’s performance, and to hear and respond to your feedback.

We have several members of our senior management team here with us today. As I call your name would you please stand? Adam Robinson, our Head of Global Sales, Cliff Hand our GM Operations and Maureen Shaddick our General Counsel and Company Secretary. Please feel free to approach any of our team for a chat after the meeting.

FY23 was another remarkable year - the best year ever for our core business with continued growth in global demand for Rakon’s industry-leading products across all our key markets. This growth in the core business more than offset the impact of the one-off chip shortage contracts completed during the year.

Underlying EBITDA stood at $42.2 million, representing an EBITDA margin of a robust 23% - marking FY23 as Rakon’s second-best earnings year ever.

The continued revenue and margin growth of the core business over the last five years highlights Rakon’s successful strategy execution and the trust customers have in our products, innovation and customer service, regardless of where they are in the world. The result also reflects our ability to adapt to market shifts, maintain resilience, and remain dedicated to our strategic growth initiatives.

At the FY23 results announcement we spoke in detail about the strong revenue and gross margin growth achieved across Rakon’s three core markets. Here's a distilled snapshot of those achievements.

In Telecommunications revenue surged by 17% and gross margin by 14%, fueled by the 5G rollouts and enhancements in 4G networks.

In Space and Defense revenue increased by 18%, accompanied by a 16% growth in gross margin, propelled primarily by the rising demand for high-reliability space applications.

And in Positioning, revenue expanded by 21%, and gross margin by 10%, bolstered by solid growth in the industrial and autonomous applications coupled with a remarkable resurgence in the locator beacon market.

Moving now to the short-term outlook. Over the past three years we've observed our telecommunications and positioning customers build up higher-than-normal inventories in response to global supply chain disruptions.

Our FY24 Underlying EBITDA guidance range of $26-34 million, provided at the FY23 results announcement, was based on the projection that this inventory build up would affect telecommunication and positioning customer demand for the first half of the financial year.

In the first quarter of FY24, our three core markets all performed slightly above our expectations. We observed strong demand in the space and defence sector with higher-than-expected product orders in FY24 and a robust order book extending out to FY25. And the positioning sector's outlook has remained in line with our original guidance.

However, market dynamics have evolved for the telecommunications segment. Our tier-1 telecom infrastructure customers have since indicated that their customers, the mobile network operators, are adopting a more tempered investment approach for the remainder of the year in terms of their capex investments for 5G rollout infrastructure.

This means a slower drawdown of stockpiled inventory, elongating the timeline for inventory normalisation, which we now project will extend into the second half of FY24.

While the precise revenue implications for us remain fluid, we estimate this represents a potential risk of up to $10 million to our FY24 EBITDA guidance.

It is important to note that we have not lost any market share. In fact, to the contrary, we are continuing to gain market share and secure new design wins. Over the past 12 months we have achieved over 30 key new design wins in our core markets, which is the highest of any preceding 12-month period. These new design wins represent a potential of up to $100 million of new additional revenue as these new projects ramp up in the coming 12-24 months.

We're in continuous dialogue with our customers and refining our understanding and estimates of the rate of inventory normalisation. We anticipate providing an updated EBITDA projection at the half-year results, if not sooner.

Our assessment of the market conditions aligns with recent results announcements by some of our largest telecommunications customers including Ericsson, Nokia, Samsung and Juniper. They highlight macro-economic factors and their customers' inventory adjustments as drivers behind the temporary slowdown and anticipate some projects from mobile operators to be rescheduled from calendar year 2023 to 24.

Both Ericcson and Nokia anticipate a recovery by early 2024 or sooner – a sentiment currently mirrored across all of our tier-1 telecom infrastructure customers. And demonstrating how dynamic market conditions currently are, Nokia have also recently announced an acceleration of its 5G roll out in Australia and New Zealand.

Other 5G infrastructure providers in the North American market have also expressed optimistic views, saying the temporary demand slowdown is consistent with past network generation investment cycles for 3G and 4G, with greater densification of 5G infrastructure still yet to come in the cycle. This ebb and flow also meshes well with our prior experience in mobile networks over the last 20 years.

In FY23 we saw our operating expenses increase $9.5 million. This reflected additional expenditure on our growth plan, the tight labour market and inflationary pressure across all of our cost base.

As we continue to invest in our growth plan and navigate the short-term risks to revenue it is critical that we run the business as efficiently as possible. We have been making proactive adjustments for the last few quarters, which have now started to bear fruit.

We have been reducing our operating expenses and enhancing our working capital. We're also investing our efforts into optimising our global manufacturing processes. As part of our operational efficiency drive, we've had to make the difficult decision to scale down our staff. It's never an easy step, but it's crucial for our long-term sustainability. We're implementing strategies to improve our working capital, ensuring that our financial health remains robust. We've reprioritized capital expenditure, reallocating our resources to the most impactful areas. Moreover, we're diligently working on reducing inventory.

All these actions have a bottom-line impact. We project the steps we have taken so far will result in annualised savings of $6 million in comparison to our operating plan with the full-year impact realized from FY25 onward.

As we streamline and optimise, we are mindful to maintain the sensitive balance between managing overheads while also investing in capabilities that will allow us to grow. Balancing near-term financial performance objectives while safeguarding our long-term growth trajectory is our target.

Lorraine has already spoken to our four pillars of our growth strategy and the areas of investment we are focused on. We've been rigorously driving our growth roadmap that emphasizes the importance of not only amplifying our core business but also further expanding our product and technology leadership, penetrating new markets, and epitomizing world-class manufacturing.

In FY23, we've channeled approximately $24 million into fortifying our strategy, and we're set to invest another $19million in the current financial year. The capital we're deploying promises attractive returns. We're talking about an estimated Return on Investment for our four key investment areas – that I will talk to in the next slide - that range from an impressive 100% to 175%.

And these investments substantially increase the portion of the market we have a competitive advantage in – potentially increasing our Serviceable Addressable Market by over $1.5 billion to almost $5 billion once we complete the three year plan.

To amplify our growth, we're actively exploring acquisitions and inorganic strategies. This approach isn't just about expansion—it's about gaining wider market reach, harnessing cutting-edge technology and talent, and deepening our local operational presence, all of which are pivotal in driving us closer to our visionary objectives.

Our 3-Year growth strategy, launched last year, has been a compass for our actions and investments, steering us towards significant growth potential. Rakon delivered a 'perfect scorecard' of growth milestones achieved in FY23. The progress we have made by diversifying into higher margin products has increased the opportunities available to us. Impressively we estimate we have increased our serviceable addressable market by 10% in just one year to almost $3.7 billion.

As we progress into year two of the plan we are making good progress with the FY24 milestones. Rakon's self-designed Semiconductor Chips are crucial to delivering superior product performance and driving higher margins. Products using our chips contributed to 45% of FY23 revenue at 15%+ higher average margins compared to designs without our semiconductor chips. This is a testament to our successful strategy implementation.

Our new chips that have been and will be released in FY24 (Niku and MercuryX) are on track to represent at least 25% of Rakon's revenue in the next 4 years. In line with this we have reprioritised our semiconductor chip roadmap. We have rescheduled the release of our Vulcan chip to FY25 and have instead prioritised development that will generate 'quicker wins' by swiftly addressing some of the changing market requirements where our competitors remain weak. These include enhanced MercuryX and a new line of semiconductor chips products that will leverage our existing technology and capability to unlock a new market segment, which we will provide more information in due course. We are continuing our investment to expand capability to design and reduce time to market. And we also relocated our UK design team to a new Cambridge facility, strategically placed in the heart of the semiconductor ecosystem enhancing our access to rare semiconductor design resources and capabilities.

We have also continued our investments in XMEMS nanotechnology in New Zealand. Products that include our XMEMS nanotechnology have been approved in several Tier 1 telecom reference designs and we are seeing strong edge computing market interest as well. Very significantly, for Rakon's Telecom products it is estimated that XMEMS nanotechnology based designs will grow and by FY28 could contribute earnings of some $18 million.

We are also focussed on growing and strengthening our Space and Defence business as this sector continues to perform. We are delivering crucial milestones in the NewSpace category, increasing our presence in the ecosystem and moving up the value chain from a component supplier to a supplier of subsystems for especially low earth orbit satellites. Rakon's development and expansion of our Space product portfolio into higher value Sub-Systems and Equipment, has tripled our available opportunities, to an estimated $250 million. These prospects are not mere probabilities; they're tangible opportunities that are in our line-of-sight, that align seamlessly with our product portfolio and technology.

I'll now play a video that showcases our new facility in India – an important milestone for Rakon, and a game-changer for our global manufacturing capability. Located in a fast-growing aerospace manufacturing hub in Bengaluru, India, our new manufacturing centre of excellence is one of the world's largest and most sophisticated sites for advanced frequency control and timing solutions. It both futureproofs and signals Rakon's long-term commitment to world-class manufacturing.

As you can see, everything is state-of-the-art. The facility gives us significant room to scale up operations. It doubles the production capacity of our previous factory and ensures we can continue to grow and meet the demand for our products, both in India and globally. It also enhances our research and development specifically for the Indian market, including to meet the needs of India's leading Space agency, ISRO, as well as India's fast-growing commercial, low earth orbit satellite market.

We designed the building in accordance with leading sustainable building practices around the use of water and energy, and with attention to employee health and safety, and wellbeing. Feedback from our Rakon India team has been overwhelmingly positive, and the facility has now set the standard for our other global sites.

The short term and immediate benefits from our new facility in India include: a cash saving on rent due to moving out of our leased facilities; reduced overheads across the entire production process thanks to the state-of-the-art design of the new facility – such as better layout leading to increased productivity, and updated equipment with greater efficiency; and energy cost savings due to the sustainable building practices designed into the new facility – for example the use of renewable energy sources account for around 80% of total consumption.

Longer-term, the facility is set to support improved product margins through optimized manufacturing cost structures. We intend to maintain and build on this by continuing to invest in our manufacturing capabilities. This ensures we can adapt and respond to the dynamic demands of our customers swiftly and efficiently.

In line with this, we have accelerated the process for transferring select product lines from our France and New Zealand manufacturing sites. It's essential to underline the tangible benefits of these manufacturing transfers. Our manufacturing strategy has been meticulously planned to bolster our financial and market positions in three core ways: Improved Overhead Structure, streamlined operating expenses and competitive Product Costs. As a direct consequence of these enhancements, we estimate margin improvement from FY25 that will contribute to an additional $25 million of annualised earnings in FY28. This uplift is not merely theoretical. It represents Rakon's proactive strategy to enhance shareholder value while ensuring that we remain competitive and innovative. Our new Bengaluru facility will serve as a critical manufacturing cornerstone within our long-term growth blueprint. We anticipate long-term that the annual revenue from our India operations may rise from 25-35% of all revenues currently, to around 50%. The 2X capacity of the new facility and production diversification will also lower Rakon's global production risk and provide additional supply chain certainty for customers.

I want to emphasise that our NZ business is and will continue to be the very core of Rakon's identity, and will remain the heart of Rakon's culture of innovation. We will continue to invest in New Zealand to further expand our capabilities in technology innovation and IP creation to ensure New Zealand remains and thrives as Rakon's Innovation Centre of Excellence. Our vision is clear, as Rakon grows in the world stage, our heart will continue to beat strongest in New Zealand.

Rakon's medium to longer-term growth fundamentals and drivers remain strong, with significant market opportunities for Rakon in both core and emerging markets.

Despite the temporary slowdown, the drivers behind the 5G rollout continue. Global 5G subscriptions are forecast to reach 1.5 billion connections by the end of 2023, and 4.6 billion by 2028. We are working closely with our telecom infrastructure customers and helping to enable the next evolution of 5G and 6G technologies. Rakon is poised for significant growth in 5G today and 6G tomorrow, backed by solid foundations and ripe market opportunities.

Space and Defence continues to outperform for Rakon, and the emerging NewSpace / Low Earth Orbit satellite segment is projected to more than double the space market size and drive a three-fold increase in the number of active satellites by 2030. Our investments, both in terms of capital and vision, have been geared towards capturing this growth, enabling us to merge space-grade performance with high-volume manufacturing. Our endeavors in the NewSpace segment, underscored by R&D innovations, an expanded product suite, and fostering pivotal relationships, place us at the middle of this evolution.

We are also seeing strong uptake for our next-generation products incorporating XMEMS nanotechnology being supplied into the emerging O-Ran, C-Ran, and edge computing architectures.

And A.I. A.I. is not just a buzzword for us —it's an evolving technology with extensive potential applications for Rakon. As AI evolves, the demand for dense parallel and distributed processing is surging, requiring very tight timing accuracy across diverse computing sources. This synchronization, crucial for real-time parallel computing, aligns perfectly with our expertise and capabilities. We're diligently tracking the AI trajectory, and while it might be premature to tout it as an immediate boon for Rakon, we project tangible substantial benefits within the next two to three years. We are currently working with leading players in AI, helping to enable the next generation platforms. Our vision is long-term and strategically aligned, and we aim to continue to be active contributors to the evolution of AI.

Lastly and importantly, our products based on our XMEMS nanotechnology paired with our next-generation semiconductor chips will play a foundational role in capturing these future growth opportunities. The synergistic combination of our technologies will continue to drive improved margins and cost structures for Rakon. Our investments in these areas ensure we remain on the cutting edge and continue to be a strategic partner of choice for next-generation applications. Examples include our XMEMS products that are already being qualified into next-generation 5G equipment, and our space chip – the first radiation hardened semiconductor chip of its kind to be developed specifically for space and NewSpace applications.

In summary, we are unwavering in our strategic direction and intent while we navigate these short-term challenges. We have and will continue to take necessary steps to adjust operations, while our growth strategy stays unaltered, reflecting our commitment to innovation and sustained value creation for our shareholders.

We remain excited about the future as the underlying growth drivers in our core markets remain strong and the opportunities significant. We shall continue to work diligently to meet the expectations of our customers, employees, and you, our shareholders.

Thank you for your continued support. Now, I am going to turn it back to Lorraine for questions.

ENDS