



Rakon FY24 Financial Results Market Release

29 May 2024

Focused on efficiency and execution of growth in NewSpace and AI

Global high technology company Rakon (NZX: RAK) has today released its financial results for the twelve months ended 31 March 2024.

All numbers are stated in New Zealand dollars (NZ\$) and relate to the twelve months ended 31 March 2024 (FY24), with comparisons to the twelve months ended 31 March 2023 (FY23) unless stated otherwise.

Financial Highlights

- Revenue of \$128.0 million (FY23: \$180.3 million) reflects the completion of one-off chip shortage contracts in the prior year as well as the slower than anticipated normalisation of inventory levels – impacting both the Telecommunications and Positioning segments.
- Rakon continues to be impacted by the cyclical slowdown of 5G deployment by mobile operators.
- Space and Defence revenue was up by more than 27% reflecting Rakon’s continued success in growing this segment and diversifying its revenue.
- Gross margin of 45% (FY23: 49%) reflects one-off costs associated with workforce restructuring and inefficiencies of lower production levels.
- Reflecting the success of cost control and efficiency initiatives, operating expenses (excluding the costs related to the acquisition proposal and retention incentives) fell by \$1.5 million to \$57.3 million despite inflationary pressures and continued investment in the growth plan.
- Underlying EBITDA¹ of \$13.5 million (FY23: \$42.2million) and Net Profit after tax of \$4.5million (FY23: \$23.2million).
- Capital expenditure of \$17.0 million was spent on strategic investments as Rakon continues to deliver its growth plan.
- Given the FY24 financial performance and unanticipated costs related to the acquisition proposal, the Board has not declared a dividend in relation to FY24. A return to dividends will be considered at the next annual results.

Strategic Highlights

- Continued market share gains and high design win rate positioning Rakon well to secure next generation application orders.
- In the current cyclical slowdown, Rakon continued to adapt and deliver on its three-year growth strategy to protect the path to sustainable growth including:
 - optimisation of manufacturing cost structures including accelerated schedule for India facility production of select NZ/France product lines;
 - launch of its next generation Niku™ semiconductor and MercuryX™ product ranges for AI and cloud data centres, and next-generation telecom networks; and
 - following the win of a \$17 million contract to supply a new Low Earth Orbit satellite constellation, Rakon is now a top global supplier for its space subsystems products –

validating investments made to diversify the company's product range in this rapidly growing ecosystem

- While the short-term outlook remains suppressed for the telecommunications and positioning segments, Rakon continues to have confidence in its growth trajectory for its space and defence segment and in the fundamental growth drivers across all of its core markets.

Chief Executive Officer, Sinan Altug says the last 12 months have been challenging for Rakon. "Our customers in telco and positioning are working through their inventory, after stockpiling through the global supply chain disruptions, and, in telco, mobile network operators continue to defer some planned 5G capex," says Altug. "Alongside this the Board and Management team have spent considerable time and resources working on the acquisition proposal received in December last year. Importantly though, we have continued to execute our strategic growth plan as well as continuing to gain market share and secure design wins at a consistently high rate. This positions us well to benefit when the current economic cycle turns and to continue momentum in both Space and AI.

"We continue to focus on optimising our business and ensuring that Rakon is set up for the future. In 2022, we outlined our 3-year growth plan to shareholders, and I'm incredibly proud of how our team has continued to adapt and tirelessly deliver on this plan. Just a few weeks ago we announced a \$17 million space contract win, to supply a new low earth orbit satellite constellation, which has helped to establish Rakon as a top global supplier for our space subsystems products. This is further tangible proof that our strategic plan and investments are delivering results.

"We are delivering exceptional results in Space and making headway with AI computing hardware, as an emerging core market. We continue to have confidence in the fundamental growth drivers across all our core and emerging core markets. Rakon has a diversified and growing range of cutting-edge products, industry-leading innovation and customer service, a clear plan for growth and efficiency initiatives already in place to drive future profitability improvements."

Financial Result

Looking back at the 12 months ended 31 March 2024 (FY24), revenue was \$128.0 million, compared with \$180.3 million for the year ended 31 March 2023 (FY23). This reflects a \$16.3 million impact from the completion of one-off chip shortage contracts in the prior year as well as the slower than anticipated normalisation of inventory levels – impacting both the telecommunications and positioning segments. Success in the space and defense segment has resulted in revenue increasing 27% to \$36.8 million.

Gross profit was lower at \$57.9 million and margin percentage was 45% (FY23: 49%), impacted by one-off costs associated with workforce restructuring and lower order volumes impacting economies of scale. Operating expenses (excluding the costs related to the acquisition proposal and retention incentives of \$2.2 million) fell by \$1.5 million to \$57.3million, reflecting the cost-cutting and efficiency initiatives. These more than offset inflationary pressures and the continued investment in the growth strategy (Research and Development expenditure up \$0.7 million).

Underlying EBITDA was \$13.5 million (FY23: \$42.2million) and Net Profit after tax was \$4.5 million (FY23: \$23.2 million).

Capital expenditure of \$17.0 million was spent on strategic investments as Rakon continues to deliver on its growth plan. Included in this was a key project to accelerate the transfer of key space and telco products from France and New Zealand, into the new Indian facility.

Balance Sheet

Rakon's balance sheet remains robust, with net assets of \$159.3 million. The company had \$17.8 million in net cash at balance date, \$3.9 million lower than a year ago reflecting ongoing capital expenditures investments along with incurring costs associated with the acquisition proposal. Rakon has continued to focus on lean and agile inventory management; as such since 31 March 2023, inventory levels have reduced to \$54.9 million, down \$7.7m from 31 March 2023 and down \$5.1 million from 30 September 2023.

In April 2024, Rakon entered into a 2-3 year debt facility with global banking and financial services group, HSBC, replacing a previous facility with an Australian bank at a similar cost structure. With this, Rakon's working capital facility has increased to NZ\$24 million, plus an additional US\$14 million facility for capital expenditure. The refinancing gives us additional flexibility to support organic growth globally, and future M&A activity, over the coming years.

Rakon continues to manage the balance sheet to support the company's long-term sustainability. Given the FY24 financial performance and the unanticipated cost of the acquisition proposal, the Board has not declared a dividend in relation to FY24. While the Board continues to have confidence in the company's future, as outlined in its dividend policy, it must also take into account the company's operational cash requirements, debt levels, interest rates, and the market conditions. This decision was not taken lightly and a return to dividends will be considered at the next annual results.

Efficiency initiatives

As Rakon navigates the market dynamics and high inflation environment we have adjusted operations and reduced costs, while protecting our future path to growth and ensuring we maintain market leadership. Actions taken have included:

- optimisation of manufacturing cost structures, includes accelerated schedule for India facility production of key product lines from New Zealand and France;
- continued focus on optimising inventory, led to \$7.7m overall decline YoY and will continue to drive reductions;
- ongoing process to streamline operations globally, ensuring all key expenditures across the board contribute to Rakon's growth strategy; and
- a 13% reduction in our global workforce over the last year, in line with current production levels.

Growth strategy

The opportunities before Rakon remain real, growing and significant. The 3-year strategic growth plan is essential to ensure our market leadership position is retained and we are positioned to capture these opportunities. The growth plan was developed to deliver improved revenue and margins and, importantly, diversify revenue to provide increased protection through the cycles.

During the year Rakon has launched its next generation Niku™ semiconductor chip and MercuryX™ product range for AI and cloud data centres. This growing AI computing hardware product portfolio is already contributing to revenue and is projected to provide additional design wins, collaborations, and revenue growth within the next 12 months.

In May 2024, Rakon signed its largest ever space contract with a global leader in communications satellites. Rakon will supply its Master Reference Oscillator subsystems for a new satellite constellation, with deployment starting in FY26 and running for an initial period of 3 years, with the potential for a substantial extension thereafter. The contract will provide over \$3 million of revenue for Rakon in FY25. This contract win is a significant development for Rakon's space business and tangible confirmation that our strategy and investments to become a key supplier in this rapidly growing ecosystem are delivering results. Rakon continues to target strategic high-level contracts in this sector and is confident that its latest products and technology have put the company in a strong position to deliver future wins.

Rakon is progressing well with transferring select product lines from France and New Zealand to the new India facility and this is a key area of focus for the current financial year. This will bring some margin improvement later in the current financial year by increasing manufacturing cost efficiencies and is expected to bring more benefit as this transfer program continues into the future.

Non-binding indicative proposal

On 18 December 2023, Rakon announced it was undertaking a process to consider an unsolicited, non-binding, indicative proposal (the Proposal). Rakon refers shareholders to its market announcements on this matter, with the latest announcement being on 13 May 2024.

Rakon has no further updates in respect of the Proposal at this time. Shareholders are reminded that there is no certainty that any transaction will eventuate from the Proposal or as to the pricing or timing of any transaction.

Outlook

As Rakon heads into the first half of FY25, it will continue to be challenging in both Telecommunications and Positioning segments with uncertainty as to when the mobile operators will recommence deferred investment in the 5G networks. With a strong order book for FY25, Rakon's space and defence segment is expected to continue along its current growth trajectory. This includes the new contract signed in May which will have a \$3 million revenue benefit. Rakon will continue to focus on efficiency initiatives driving further cost savings and improving future resilience and competitiveness.

Rakon continues to have confidence in the fundamental growth drivers supporting its core markets. Tier 1 customers are currently anticipating better markets towards the end of FY25. With an established and strong presence in the NewSpace segment, the recent major contract win, and several new product launches, Rakon is in a strong position to secure further contract wins.



Rakon has a solid foundation of products, innovation and customer service, a clear plan to grow and efficiency initiatives underway to improve its profitability. The opportunities across ongoing evolution of 5G, Cloud and Edge Computing, AI, autonomous machines and vehicles, aerospace and the entire NewSpace ecosystem remain significant and growing.

Ends

Authorised for release to the NZX by Rakon's Board of Directors.

Financial Results and Business Update details

Rakon's FY24 Financial Results and Business Update, presented by CEO Sinan Altug and CFO Drew Davies, is scheduled to start at 11.00am NZST on Wednesday 29 May 2024. All shareholders are invited to listen and view the presentation broadcast. To join the live broadcast online please pre-register using this [link](#).

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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. Its three core markets are Telecommunications, Positioning and Space and Defence. Rakon's products are found at the forefront of communications where speed and reliability are paramount. Its products create extremely accurate electric signals which are used to generate radio waves and synchronise time in the most demanding communication applications.

Rakon has three manufacturing plants, six research and development centres, and sixteen customer support offices worldwide. Founded in Auckland in 1967, Rakon is proud of its New Zealand heritage. It is a public company listed on the New Zealand stock exchange, NZX, ticker code RAK.

¹Non-GAAP disclosures

Refer to note 4 of the FY2024 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).