

FY2014 Financial Results and Business Update



Telecommunications



Global Positioning



Space



Defence

Agenda



Agenda Item	Presenter
FY2014 Operational & Financial Key Points	Brent Robinson (CEO, Managing Director)
Structural Realignment Programme	Brent Robinson
FY2014 Financial Review	Simon Bosley (Chief Financial Officer)
Cash and Financing Update	Simon Bosley
Strategy and Outlook	Brent Robinson
Q&A Session	
Closing Comments	Brent Robinson
Use of Non-GAAP Financial Information	



FY2014 Operational & Financial Key Points

FY2014 Key Points



- Net loss after tax of NZ\$79.4m (attributable to Rakon equity holders)
 - ❑ Consolidated net loss of NZ\$83.8m including non-controlling interests

- Equity sale in Rakon Crystal Chengdu to ECEC in October 2013

- Revenue of NZ\$150.0m down 15% on the prior year
 - ❑ Reduced involvement in the Smart Wireless Device (SWD) market following RCC sale

- Loss from impairments & discontinued operations of NZ\$53.2m

- Reduction in bank borrowings from NZ\$36.1m to NZ\$10.9m at 31 March 2014

- France restructure implemented

- Transfer of Lincoln, UK manufacturing to NZ announced

The release of F2014 results is based on unaudited results, with the audit in progress



Structural Realignment Programme

Structural Realignment Programme



➤ Equity Sale of Rakon Crystal Chengdu

- ❑ Transaction completed in October 2013
- ❑ Proceeds used to pay down bank borrowings
- ❑ Transfer of internal resource away from Smart Wireless Devices (SWDs) toward other markets
- ❑ Rakon retains a 10% equity interest (investment fully impaired in FY2014 results)

➤ France Restructure

- ❑ Restructure plan implemented during FY14; Some finalisation to the plan in FY15 with restructure costs fully provisioned in FY14 results
- ❑ Crystal production now fully shifted to India (Centum Rakon) for total OCXO manufacturing
- ❑ Plan to relocate from current site in Argenteuil in 1H 2015

Structural Realignment Programme



➤ Transfer of Lincoln UK Manufacturing to NZ

- ❑ Collective consultation agreed with UK employees; Rakon Board affirmed decision to close Lincoln
- ❑ Production transfer expected around end of 1H FY15 with partial year financial benefits
- ❑ Restructure costs fully provisioned in FY14
- ❑ Some transfer of production costs to be incurred in FY15

➤ New Zealand Reorganisation

- ❑ Following on from plans to exit SWD and transfer of Lincoln manufacturing, NZ business reorganised to align with future business needs
- ❑ Preparing for readiness to accept Lincoln manufacturing



FY2014 Financial Review

FY2014 Financial Overview



NZD Millions	FY14	FY13	% Change
Volumes (millions)	108.7	117.8	(7.7)
Revenue	150.0	176.3	(14.9)
Underlying EBITDA*	(7.5)	5.1	(>100.0)
Depreciation & amortisation	17.2	12.3	39.8
Impairment	19.9	17.3	15.0
Net loss after tax (consolidated)	(83.8)	(32.8)	(>100.0)
Earnings (cents per share)	(41.7)	(16.8)	(>100.0)
Operating cash flow	12.5	(2.7)	>100.0
Capital expenditure	5.9	12.3	(52.0)
Bank borrowings	10.9	36.1	(69.8)
Net debt	6.4	33.1	(80.7)
Shares on issue at balance date (millions)	191.0	191.0	-

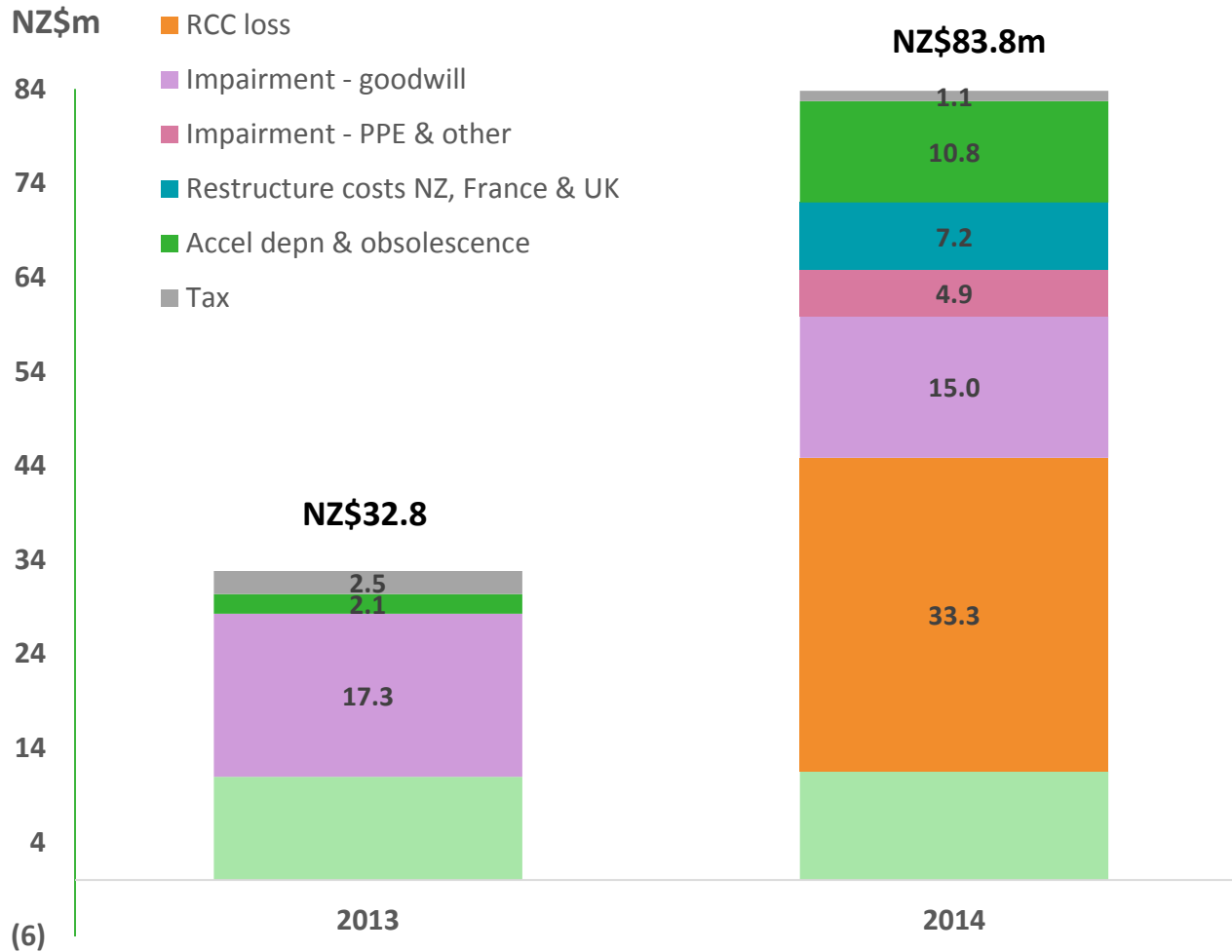
**refer slides 25-26 'Use of Non-GAAP Financial Information' for definition of Underlying EBITDA*

The release of F2014 results is based on unaudited results, with the audit in progress

Net Loss After Tax Bridge – FY13 to FY14



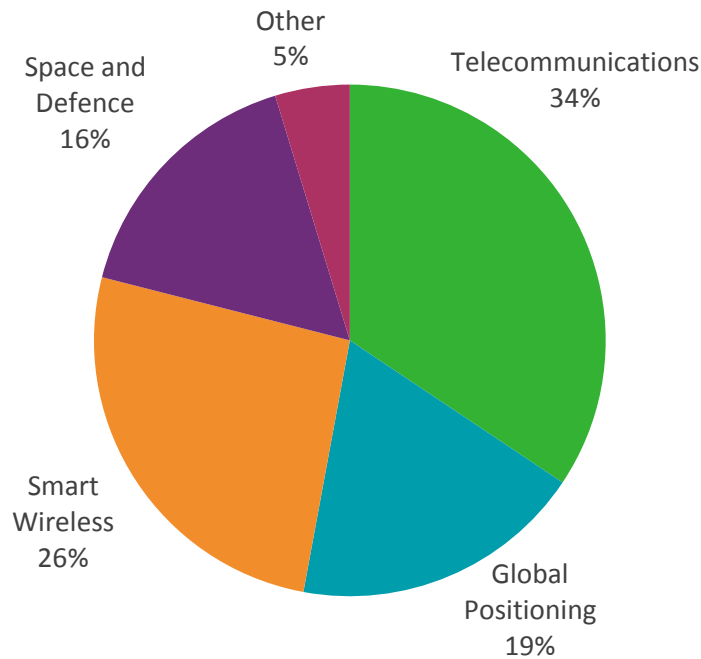
Analysis of Net Loss After Tax



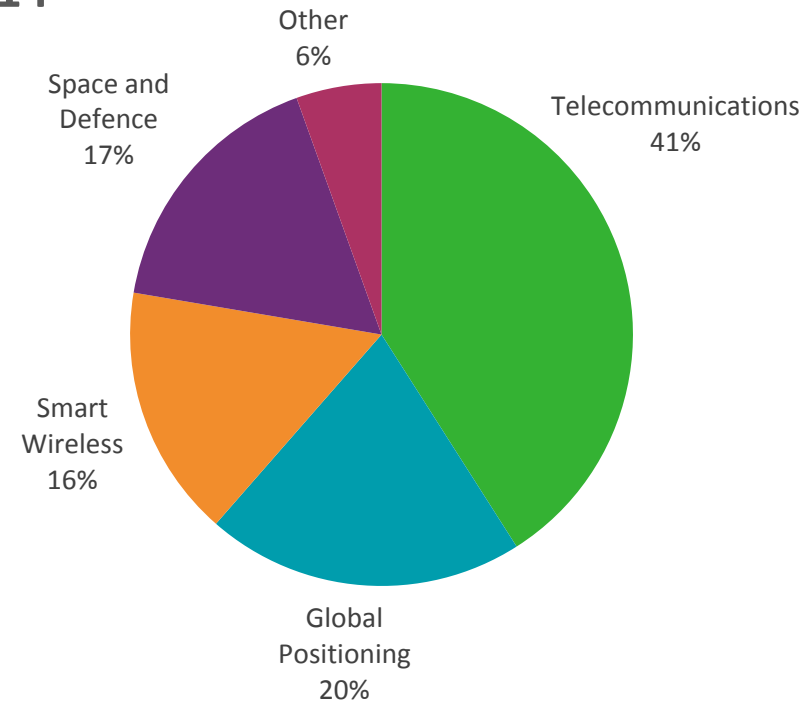
Revenue – FY13 vs. FY14



2013



2014



- Reliance and shift away from low margin Smart Wireless Devices underway during FY2014
- FY2015 focus on Telecommunications, Global Positioning and Space & Defence



Cash and Financing Update



Cash and Financing Key Points

- Positive operating cash flow of NZ\$12.5m during the period
- Reduction in Bank Borrowings from NZ\$36.1m to NZ\$10.9m as at 31 March 2014 (below target of NZ\$12.0m)
- Net Debt NZ\$6.4m as at 31 March 2014 (below target of NZ\$9.0m)
- Bank facilities renewed under a new arrangement to 31 May 2015
 - ❑ Allows Borrowings of up to NZ\$22m to fund cash outflows from current restructuring programmes and provide operating liquidity
- Future borrowings reduction (beyond FY2015) from positive operating cash flows and proceeds from Lincoln, Argenteuil property sales



Strategy & Outlook

Strategy



Rakon Strategy

Our Vision To be the preferred ‘frequency control product’ supplier to the Telecommunications, Global Positioning and Space & Defence markets with best-in-class application knowledge

Strategic Focus	Focus on Markets for Growth & Profitability			Technology Development		Operational Excellence	
	Telecomms	Global Positioning	Space & Defence	Products / Applications	R&D	Operating Platforms / Efficiency	People
FY15 Strategic Priorities	<ul style="list-style-type: none"> • Growth from 4G/LTE global deployments • Leverage the current strength in customer base and design-in activities • Capture market share through technology transitions 	<ul style="list-style-type: none"> • Maintain strong market share through superior product performance • Shift in focus to specialised applications 	<ul style="list-style-type: none"> • Develop a global market position by expanding beyond well established European markets • Leverage new product and platform developments 	<ul style="list-style-type: none"> • Develop application specific technology solutions and next generation products • Development of products for future emerging markets 	<ul style="list-style-type: none"> • Focus on delivering the technology roadmap • Continue the development of disruptive technologies • Implement a best practice ‘select-to-launch’ process 	<ul style="list-style-type: none"> • Complete the structural realignment initiated in FY14, to realise planned operating cost savings in FY15 • Implement the transfer of Lincoln manufacturing to NZ • Focus on speed 	<ul style="list-style-type: none"> • Embed new organisational structures following FY14 restructuring and market re-focus • Align our global effort to deliver the new strategic plan

Overarching Objective We will focus on shareholder value creation and our objective is to achieve an overall ROE > 12%



FY15 Market Outlook



Telecommunications



Global Positioning



Space

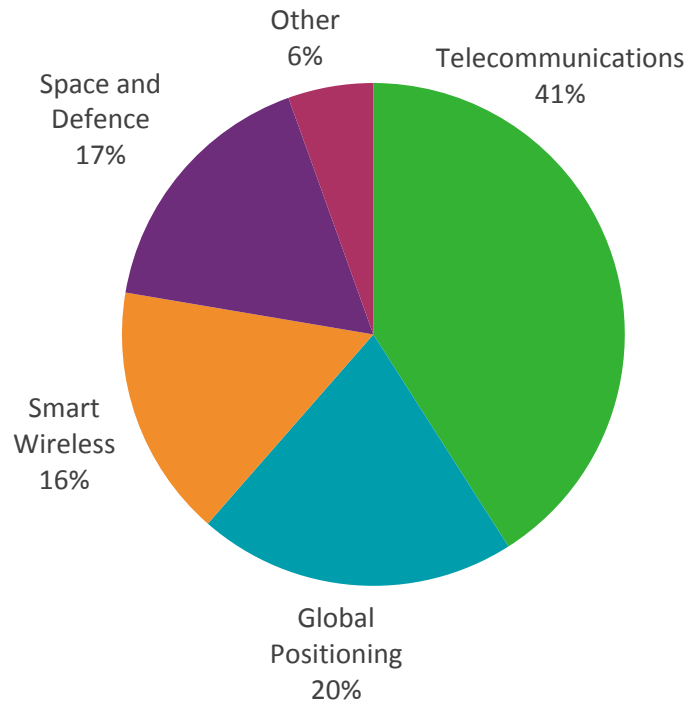


Defence

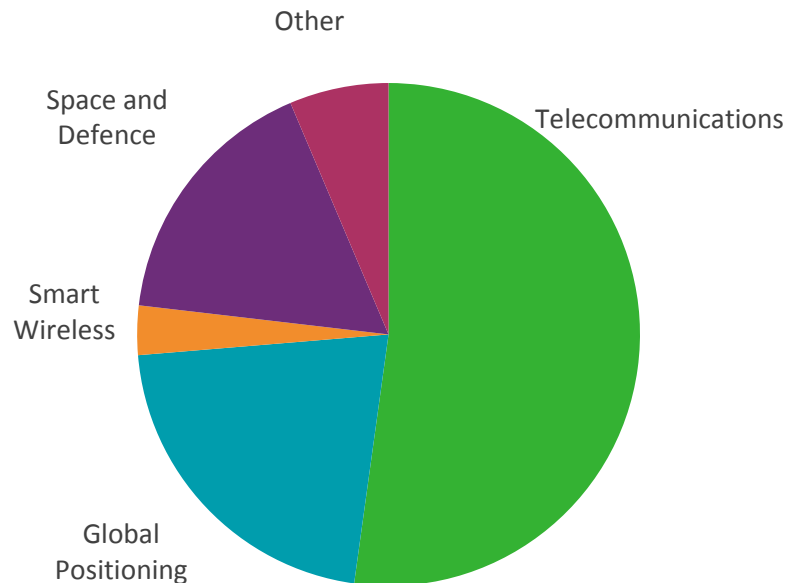
Revenue – FY14 vs. FY15



2014



Forecast 2015



- FY2015 focus on Telecommunications, Global Positioning and Space & Defence
- Exited previous negative impacts from Smart Wireless Devices

Telecommunications

- Continued market share and revenue growth
- Rakon supplying all Tier One OEM equipment suppliers
- Strong demand generated from 4G rollouts in the US and Asia
- Rakon product portfolio well positioned for new generation equipment
- 4G LTE Base Stations and supporting infrastructure is expected to drive demand for the next three years



Global Positioning + Space & Defence



Global Positioning

- Rakon has a strong reputation in the Global Positioning market and remains the leading frequency control supplier
- Margins improving as GPS customers focus on more industrial and specialised applications

Space & Defence

- Growing number of design wins from new product platforms
- Expanded focus into US, India and Asian markets expected to yield revenue growth in 18 to 24 months





Q&A Session



Closing Comments

Closing Comments



- Significant structural realignment activities undertaken in FY2014 with benefits to be realised from FY2015
 - ❑ Transfer of Lincoln manufacturing to NZ in 1H FY2015 is a key project, with significant focus on delivering successfully

- Company now redirected its focus on the markets where we see value and in which we want to operate – Telecommunications, Global Positioning, Space & Defence

- Well positioned for Telecommunications growth



Notes & Disclaimer

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 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 guidance announcement has been extracted from **unaudited financial statements for the full year, with the audit in progress.**

Non-GAAP Financial Information



Reconciliation of 'Underlying EBITDA' to Net Loss for the Year

2014	Continuing operations	Discontinued operations	Total
Underlying EBITDA	(9,340)	1,809	(7,531)
Depreciation and amortisation	(15,642)	(804)	(16,446)
Impairment	(19,920)	(21,467)	(41,387)
Loss on loss on disposal of assets (sale of shares in subsidiary)	-	(8,467)	(8,467)
Employee share schemes	(20)	-	(20)
Finance costs – net	(1,717)	2	(1,715)
Adjustment for associates and joint venture share of interest, tax & depreciation	(2,787)	-	(2,787)
Non controlling interest	-	(4,370)	(4,370)
Loss before income tax	(49,426)	(33,297)	(82,723)
Income tax/(expense)	(1,076)	-	(1,076)
Net loss for the year	(50,502)	(33,297)	(83,799)

2013	Continuing operations	Discontinued operations	Total
Underlying EBITDA	7,857	(2,803)	5,054
Depreciation and amortisation	(9,228)	(2,888)	(12,116)
Impairment	(17,331)	-	(17,331)
Loss on loss on disposal of assets (sale of shares in subsidiary)	-	-	-
Employee share schemes	(112)	-	(112)
Finance costs – net	(972)	(925)	(1,897)
Adjustment for associates and joint venture share of interest, tax & depreciation	(2,912)	-	(2,912)
Non controlling interest	-	(977)	(977)
Other non-cash items	(63)	5	(58)
Loss before income tax	(22,761)	(7,588)	(30,349)
Income tax/(expense)	(2,462)	(10)	(2,472)
Net loss for the year	(25,223)	(7,598)	(32,821)

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.



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