



12 September 2014

**RAKON LIMITED (NZX: RAK)**

**2014 ANNUAL SHAREHOLDERS MEETING - CHAIRMAN'S ADDRESS**

Fellow shareholders, welcome to this the 9<sup>th</sup> Annual Shareholders Meeting of Rakon Limited. This meeting is for the shareholders and provides an opportunity for you to question the Board and senior management about the business and if necessary improve your understanding of the firm's results, plans and strategies. There will be an opportunity during general business to ask any question you wish about Rakon, or if you prefer, the Directors and senior team will be pleased to talk to you one-on-one after the meeting.

Last year at this meeting, shareholders overwhelmingly agreed (99%) to the Board's recommendation that we sell an 80% equity stake in Rakon Crystal Chengdu (RCC) and remove ourselves from the smart wireless device component market (SWD), that our Chengdu factory was targeted at. It was a very wise decision as that market has become even more difficult and our exit was very timely.

The senior team did an excellent job in arranging that transaction and completing the sale.

With the sale of RCC underway and the change in focus for Rakon to the growing and more profitable Telecommunications' market, the Board kept the pressure on the senior team to generate further efficiencies that would build an even stronger platform for future profit growth. That pressure has brought about significant reductions to the personnel employed worldwide by Rakon with the notable planned closure of the United Kingdom factory, shifting that production to New Zealand, and the sped up transfer of Oven Compensated Crystal Oscillators (OCXO's) production from France to our Joint Venture in India. The resultant redundancies were significant with over 210 personnel being made redundant (or not re-employed) at a cost of \$7.2million. These redundancies and costs do not include those made as a result of the exit from RCC, and that have been well telegraphed to the markets previously.

Reducing the number of people in our global team, is not something the Board likes to do, but as with all businesses there are times when the difficult decisions need to be made to ensure a transition to a more favourable growth path.

The financial result for last year, as I am sure you are well aware, was an after tax loss of \$83.8 million, of which \$79.4 million was attributable to Rakon's shareholders, with the balance belonging to non-controlling interests. Of the total, \$63.8 million was from non-cash charges resulting from the Rakon Crystal Chengdu loss on sale, exit from the smart wireless device market and other impairment charges including goodwill.

Analysing the results more deeply, the reported Underlying EBITDA loss of \$7.5 million included total restructuring costs of \$10.4 million, which meant that the business operations produced a positive Underlying EBITDA of \$2.9 million. Not a great result, but importantly a positive one.



Our guidance for this financial year (that we provided to the market some time ago) is to improve on last year's result and generate an Underlying EBITDA of between \$10 million and \$15 million. We remain confident of achieving this - showing that Rakon is on track to return to profitability.

As I mentioned previously, we have made significant changes to our business in both France and the UK.

Changes in France will significantly reduce costs by concentrating the OCXO manufacturing at our Joint Venture in India (Centum Rakon India) where costs are much lower and quality is not compromised.

For the UK, we will have completely closed our manufacturing facility (at our Lincoln plant) by the end of October, with all production being shifted to New Zealand. This move creates further operating efficiencies and positions us well to make further adjustments to ensure our manufacturing costs and quality are at the leading edge of the business we supply globally.

Despite all this necessary disruption and change, Brent and his team have been steadily growing the business and gaining market share in new and important market segments. Most of this growth is driven off the back of the growing global demand to handle more data traffic and the mobile network evolution into 4G. Brent will talk more about this in his address, but what we have been signalling and planning for over the past 2 years is now gaining momentum and Rakon is well placed as the market leader, in both technology and volume share to capitalise on this growth.

Interestingly, all this disruption and change has added a new energy to the senior team at Rakon, being more determined than ever to produce results that they know the firm is capable of and yet has fallen well short of over the past few years. As well, the very competitive market environment in the SWD market and the fight against an overvalued Kiwi dollar has made us stronger, more resilient and determined to succeed. With the Kiwi weakening over the past month it does assist our profit goals, but it won't allow us to reduce our energies and efforts to generate the return that we are confident Rakon can deliver.

Our balance sheet ended the financial year in good shape with only \$6.4 million of net debt and an asset base that is capable of supporting the business growth anticipated. We expect the debt to rise by about \$10 million as we pay for the remaining restructuring changes mentioned, but anticipate this being repaid as we realise proceeds from the sale of surplus properties in both France and the UK.

In summary, it has been a very busy year where we have accomplished all the strategic tasks we set ourselves and as a result we have been able to restructure and realign Rakon. We believe that Rakon is well positioned now to take advantage of the market growth we have anticipated and are now seeing in our customer's order books. We expect this market growth to continue over the next few years keeping pace with the constant demand for data and improved networks to handle this growth.



Last year I stated that, “The Board is unanimously determined to ensure that Rakon’s future is about solid profit growth, little or no debt and as soon as possible to start to pay a dividend to shareholders from the business’s cash flows.” That determination still exists and we feel confident that the changes made this year will get us a few steps closer to those goals.

To you as shareholders I would like to thank you for your patience with Rakon. It has not been an easy journey for all of us who own shares and the pace of change never seems fast enough. Quartz crystal manufacture and the creation of sophisticated frequency control devices involves very high tech manufacturing processes that need dedicated equipment and facilities as well as highly trained people who have many years’ experience. Changing from one market to another and locations is not as simple as completing a software re-write, it involves much more and the significant adjustments required can take at least 18 months as a minimum.

The senior team at Rakon have completed a first class job of realigning the business well within that minimum time frame and as Chairman I would like to thank them for their efforts in what they have and continue to achieve as we move forward. That team is very confident of the future and believe that the new growth path we have established will be achieved and provide the returns that the Board and our shareholders expect.

I would now like to hand over to our Managing Director, Brent Robinson to provide more detail about the markets we address and how our products of today and tomorrow will provide those.

Brent .....

- Chairman’s Speech ends -



## **About Rakon**

Rakon Limited is a global high technology company that designs and manufactures world leading frequency control solutions. Embedded in telecommunications infrastructure, satellites in space, GPS products, smart phones and tablets, our products are at the forefront of enabling connectivity – faster and more reliably.

## **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 is a forecast for FY2015 and is not from audited financial statements for the full year.