



17 August 2017

Rakon Limited (NZX:RAK)

2017 ANNUAL SHAREHOLDERS' MEETING – CHAIRPERSON'S ADDRESS

Fellow shareholders, thank you for your attendance today and your ongoing interest in Rakon.

The last 12 months have been a year of significant change and the achievement of important milestones.

As you can see the Board has three new Directors replacing three who departed over the past twelve months. Also, this ASM is Rakon's Founder, Warren Robinson's last meeting as he retires today and is not standing for re-election. Warren started Rakon 50 years ago on April 4th, 1967 and deserves considerable credit for building a company such as this.

Yes, it's had some tough financial times in the last few years but its research and development, and its products spread throughout the globe have revolutionised, timing, GPS and the telecommunications systems in every country around the world. Something he can be very proud of and we as Kiwis should be too.

Companies built on solid foundations will last lifetimes and survive the volatility of markets. I believe Rakon to be such a company and to only judge it on a very small period of its life is tough, but I understand the impacts of being a listed company and as fellow shareholders we are sympathetic to that.

Thank you Warren, for your foresight, energy and ongoing support.

It is also very important to recognise Mrs Robinson for her energy and support over the past 50 years. Marjorie-Susan a huge thank you.

That belief about the inherent strength of Rakon is obviously shared by others as we received a good number of high quality candidates in our search for directors at the end of last year. This search allowed us to appoint Lorraine (Witten) and Keith (Oliver) in casual roles to be voted on today.

Also, no doubt Tony (Tseng) and Siward saw the future value too when they provided USD 10 million in return for 38 million shares and a technology transfer agreement. Tony has a wealth of global experience and is another causal appointed Director to be voted upon today.

Tony's attendance at our Board meetings is usually undertaken by Roger Yao as Tony's alternate. Roger is Siward's North America Director and has a better command of English. You will hear from both of them later today.

Earlier this week we made an announcement about our expectations for this fiscal year and you can see from that release that the hard work the team has completed over the past two years is now starting to pay off. I said in my Annual Review comments that "one swallow doesn't make a summer" but the positive feeling within the company at the moment is built upon sensible and solid change, which should see us return to a growing profit path.

That sensible and solid change, which among other things has delivered;

- 1) An 18% reduction in core operating expenses;
- 2) An enhanced focus on the areas of business opportunity;
- 3) Strong new product development that should see us in good stead for the future;
- 4) A strong partnership with Siward, our new cornerstone shareholder;
- 5) A stronger balance sheet including a significant reduction in net bank debt, which will likely be about only \$3 million at the end of September.

In this week's announcement, we forecast an Underlying EBITDA range for FY2018 of between \$9 million to \$11 million. This includes an estimate of a \$2 million loss from our start-up investment, Thinxtra, which if backed out would see a forecast of range of \$11 million to \$13 million for core Rakon business, a significant improvement over the prior years.

Thinxtra shouldn't be a drag on Rakon's reported profit for long as it is in the closing stages of its series B, and likely, last capital raising. This round is raising AUD \$20 million with a significant Australian Government Institutional investor in the final stages of signing to take AUD \$10 million of the AUD \$20 million. The post money value of Thinxtra when the round closes will be AUD \$66.2 million and Rakon will own 23% of the equity. This will value Rakon's shareholding in Thinxtra at 2.6 times what we paid at around AUD \$15.50 per share and we have 984,000 shares. This will naturally add to the value of Thinxtra within Rakon's balance sheet but will only yield a reportable profit if ever we sell some of the shares.

Rakon's involvement in Thinxtra is already providing very useful information about the IoT (Internet of Things) space and will allow Rakon inside knowledge that not only allows us to understand the Sigfox network system that Thinxtra uses, but the competing networks of LORA and NB-IoT. Rakon can build modules for all three IoT networks on a global basis.

Both of those other networks are beginning to arrive in Thinxtra's areas of Hong Kong, Australia and New Zealand, all of which is anticipated. Their arrival through the larger Telco's no doubt brings competition that we are ready for, but it also drives an uplift in the market opportunity for machine to machine (M2M) communications. This coming market is huge by comparison to existing data networks, albeit at much lower prices. This is fine for Thinxtra as an insurgent and a dedicated IoT network provider.

We see sufficient room in the growing and very large market for all the main participants to earn a reasonable return on their investments.

By way of background, Thinxtra's network has 70% of Australia covered, 90% of New Zealand covered and Hong Kong is going live next week with its first base station in a science-tech park that hosts 400 leading Asian Hi-Tech companies. The full roll out of Hong Kong will begin in October.

Thinxtra has 1.8 million committed connections for the network providing committed revenue of close to AUD \$20 million over the next 8 years. Within its sales pipe line Thinxtra has just over 50 million anticipated connections across Australia and New Zealand which should generate around AUD \$300 million in revenue over the next 8 years.

Some very interesting customers are signing up to use the Thinxtra network;

- Sydney based Water Group with 8 water utilities already using the network.
- In Auckland Kordia has arranged for Auckland Transport to connect school signs.



- Silicon Controls, an Australian company has started using the network for information from gas storage bottles throughout Australia and is about to launch in the USA. Once they do that Thinxtra will get 15% of the global network revenue (plus local territory revenue) via the Sigfox global network model.

That is all very positive news about Thinxtra, but it is important to remind ourselves that over the past 2-3 years the Rakon team has been working very hard to restructure and re-direct the company. A few years ago when we established a plant in Chengdu, China we were Apple's major supplier of TCXO's and our plan was for significant growth from that relationship. We knew we had to reduce our manufactured costs to keep that relationship, hence the China factory. We estimated that we had to be as low as 10% off the price we were charging at the time and the time to get to that point was short. The reward for this investment was around another \$30+ million of Underlying EBITDA so it was worth the significant effort required. We achieved all our price-downs in the timeframe set but unfortunately the gradient of price down was much steeper than we anticipated and the prices ended up not at 10%, but less than 5% of the opening prices. We couldn't make money there so we sold out, yes at a loss but we got back a considerable amount of money, USD \$18.8 million.

So, a very unpleasant experience but as we all know everyone learns from such difficult times and the team at Rakon is no exception. There is a determination to never return to those difficult times and as you now see they have the company in a positive shape going forward. Something I believe they can take some pride in.

With Rakon moving forward; a new strategic plan, a stronger balance sheet and a refocused team, I would like to think that this will lead to much better returns for us all as shareholders. Naturally we will always encounter some market challenges, but I firmly believe that Rakon is now much stronger both financially and mentally to deliver for the future.

Thank you and I now hand over to your Managing Director, Brent Robinson.

Brent

- Chairperson's Address ends -



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 for telecommunications, global positioning and space and defence applications. Rakon products are found at the forefront of communications where speed and reliability are paramount. The company's products create extremely accurate electric signals which are used to generate radio waves and synchronise time in the most demanding communication applications. Rakon has five manufacturing plants including two joint venture plants and has five research and development centres. Customer support centres are located in ten offices worldwide.

Rakon is proud of its New Zealand heritage; it was founded in Auckland in 1967. It is a public company listed on the New Zealand stock exchange, NZSX, ticker code RAK.

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