

# **CHAIR'S and CHIEF EXECUTIVE'S ADDRESSES FOR RAKON LIMITED ANNUAL MEETING**

**9 August 2019**

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Chair's Introduction

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## A. Chair's Address

Welcome to the 14<sup>th</sup> Annual Meeting of Shareholders of Rakon Limited. It is pleasing to see so many of you here today. My name is Bruce Irvine and I am Chair of the Board and will be chair of today's meeting.

I confirm we have a quorum for today's meeting and declare the meeting open.

The order of business for today's meeting is set out in the Notice of Annual Meeting which was sent to shareholders on 12 July 2019 and is summarised on the slide you can see behind me. You should also have received or had access to the Company's Annual Report and 2019 Review as released on 21 June 2019. If you have not been able to view either of these documents you may find them on our website or request a printed copy at any time.

There will be an opportunity for shareholders to ask questions in relation to each resolution before it is voted on and for more general questions and comments about the business after the addresses from myself and the Chief Executive.

We will be making an audio recording of the proceedings of the meeting which will be available on our website soon after the meeting.

I will say a few words before handing over to our Managing Director and Chief Executive Brent Robinson who will talk about the business in more detail.

Firstly I would like to introduce my colleagues who are here on stage with me:

Starting from my immediate right:

Brent Robinson is our Managing Director and Chief Executive – Brent is well known to you all for his long experience and leadership of the Company. As required by the NZX Rules Brent also retires as a Director and puts himself forward for re-election today. He will speak to you later.

- Keith Watson who was appointed by the Board in September last year. Keith has local and international management and governance experience in engineering and technology businesses. Keith is a member of Rakon's Audit and Risk Committee. As required under the NZX Rules Keith retires and puts himself forward for re-election at today's meeting. We will give Keith an opportunity to speak later in the meeting.
- JM Tseng who is General Manager of Siward Crystal Technology Limited, a substantial shareholder of Rakon, is with us today. JM Tseng is the brother of Yin Tang Tseng, (Tony Tseng) who is the Chairman of Siward, and has been on the Board since March 2017. Tony has sent an apology for today's meeting but we are very pleased to welcome his brother JM.
- Next to JM Tseng is Roger Yao who is the Alternate Director of Tony Tseng.
- Lorraine Witten. Lorraine has been on the Board since March 2017 and chairs our Audit and Risk Committee. Lorraine has extensive governance, senior management and business experience in the technology and communications sector.
- Keith Oliver has been on the Board since March 2017 and chairs our People Committee. Keith is professional director and business adviser and has experience with NZ and international technology companies.
- For myself – I have been on the Board since 2005 taking over the role of Chair at last year's annual meeting. I am a former managing partner of Deloitte in Christchurch and a professional director with experience across a broad range of New Zealand companies.
- Also on stage with us here today is our Chief Financial Officer, Anand Rambhai. Anand has been in this role since 1 November last year and has been with Rakon for six years.
- In the front row is our Company Secretary, Maureen Shaddick. Maureen joined the Rakon in November last year and was previously General Counsel and Company Secretary of a large listed entity.

I would also like to acknowledge the presence of representatives of our auditor PricewaterhouseCoopers, our principal legal advisers Bell Gully and the team

from Computershare. Computershare manage Rakon's share register and are responsible for managing and scrutineering the voting at today's meeting.

It has been a great privilege to serve as the Chair of Rakon Limited for a full year now.

I am proud to be a director of Rakon Limited which is a globally recognised leader in the frequency control product industry. Rakon strives to meet the demands of key players in these markets and to anticipate the new and exacting requirements of their ever-evolving technological developments.

In today's world where technological changes are occurring at an ever increasing rate this is an exciting but challenging industry to be part of.

### SLIDE 3

#### Financial Snapshot FY2019

In the financial year ended March 2019 there was growth in Rakon's core business - we built on the improvements recorded in the 2018 financial year, delivered a 13% increase in revenue and improved gross margin which contributed to Net Profit (albeit lower than the prior year due to one-off events in 2018). Underlying earnings also improved. We have seen a steady improvement in EBITDA<sup>1</sup> over the last three years.

We went from a net cash position in 2018 to net debt of \$7.7 million but this was to be expected as we integrated and grew the capacity of our operation in Rakon India after completing the acquisition of our former joint venture partner's interest in Centum Rakon India in May last year at a cost of \$6 million.

We also saw our inventory levels increase as a result of certain materials constraints and the need to build up inventory to meet growth in demand. Much of that demand is coming from the Telecommunications sector as investment in 5G networks infrastructure begins.

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<sup>1</sup> Refer to note B1 of the FY2019 audited financial statements for an explanation of how 'Non-GAAP Financial Information' is used, including a definition of 'Underlying EBITDA' and reconciliation to NPAT

## Strategy and Governance

We believe the strategic moves of obtaining 100 % ownership of Rakon India and the continued development of our technology and manufacturing partnership with Siward Crystal Technology will be key to enabling Rakon to meet growing demand for our products.

During the year we had a somewhat volatile ride with the valuation of our investment in Thinxtra Pty Limited. We waived our right to appoint a director and ceased to have a significant interest in Thinxtra.

Under the accounting standards we were therefore required to value our shareholding in Thinxtra at fair value. We engaged an accounting firm to undertake this exercise for us and adopted the low end of their valuation range. A subsequent capital raising by Thinxtra, during the 2019 financial year indicated a significant reduction in value. We therefore had to revise the initial fair value downwards and adopted this lower value in the year-end accounts presented to you. We do not see Thinxtra as core to Rakon's future strategy and we retain our investment with the intention of selling it down over time.

From a governance perspective, we were pleased to appoint Keith Watson to our Board, after former director and Chairman Bryan Mogridge retired at last year's Annual Meeting. Keith's broad engineering and technology experience has complemented the skills and experience of our existing directors and we look forward to his continued contribution to the work of the Board.

The work load and time commitment of our standing Audit and Risk Committee and People Committee has been increased to support the Board's Work Plan.

We have pursued, and we are committed to, continuous improvement in our governance practices. In our Corporate Governance Statement in the 2019 Annual Report, you can read a detailed account of our compliance with the New Zealand Stock Exchange (NZX) Corporate Governance Code and you will find new and updated governance policies and guidance on our website.

We adopted the new NZX Listing Rules from 1 April. The changes proposed to Rakon's Constitution at today's meeting are required to meet the requirements of those new Rules and changes to the Companies Act and we also took the opportunity to update the Constitution in line with current practice.

Your board considered whether or not it was prudent to pay a dividend this year. We decided that with the additional lock up of working capital and investment in India, that any decision to pay a dividend should be deferred. We continue to work with our bankers on ensuring we have sufficient facilities to pursue our growth aspirations.

I would like to thank the Rakon Executive and employees whether they are working here in Auckland, in India, France, the UK or in our sales offices around the world for your commitment and hard work for Rakon Limited. A special thank you also to our technology partners Siward Crystal Technology who are with us here today and working closely with the Rakon team. And most importantly thank you, to you our shareholders, for your continued support and loyalty. As a Board we are very focused on acting in the interests of our fellow shareholders and we look forward to seeing your loyalty rewarded when the continuing investment in R&D, and the new opportunities that are emerging, deliver the required returns.

I now invite Brent Robinson to provide further commentary on the Company's performance and a business update.

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### B. Chief Executive's Review

## SLIDE 7

### Financial Snapshot

#### 2019 Results

Financial Year 2019 was a year in which we demonstrated steady growth in our core business leading to an improvement in underlying financial performance.

As recorded in our annual accounts and reporting, Revenue grew from \$101 million to \$114 million, with the Telecommunications market delivering the most significant portion of that growth.

Underlying EBITDA was \$13.3 million, up from \$12.1 million in 2018, and Net Profit After Tax was \$3.4 million – which, excluding the prior year's one-offs, was an improved result.

Importantly we saw an improvement in Gross Margin, rising from 43% in 2018 to 45% in 2019. This increase was mainly due to improving our product mix

with new products - toward Telecommunications and Defence business where there are higher margins - away from the lower margin global positioning business. While growth in revenue is always a goal we are also very focussed on improving profitability and Gross Margin.

Increased demand and market shortages of some key materials led to increased inventory. The investment of \$6 million to purchase Rakon India as well as the purchase of equipment to increase the capacity of Rakon India, saw Rakon move from a Net Cash position to a Net Debt position. While this can feel less comfortable the expenditure is imperative to ensure we are in the position to respond to the demand we believe will come.

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### Achievements

#### Rakon India

Following our acquisition of Centum Electronics Limited's interest in Rakon India in May last year, Rakon India is now 100% owned and controlled by Rakon and made a positive earnings contribution.

We now have an independent management team in place and approximately 500 employees working at our manufacturing plant in Bangalore.

It was a very busy year in Bangalore, India. We leased additional space, streamlined our operations and invested in new manufacturing equipment.

We doubled our manufacturing capacity, mainly for new products and, over the course of the year, we increased our output by 56 % compared to FY2018.

Much of that output comes from year on year growth in OCXOs for Telecommunications, wins with our new designs and as a result of us getting an increased share of Tier One customers' business.

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### Rakon India Opportunities

For Rakon as a whole, Rakon India provides us with a cost effective manufacturing platform and the benefit of a highly skilled work force as well as the opportunity for collaboration with India-based engineers for new product development and to further penetrate the growing local market in India.

Rakon product was included in equipment for a recent Indian Space moon mission.

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### Achievements

#### Siward: High Volume, Low Cost Manufacturing Partner

Our strategic alliance with Siward Crystal Technology Limited which owns over 16% of Rakon, was established in 2017. Siward provides Rakon with the capacity to deliver higher volume, lower cost solutions and opens up new opportunities through expanded product offerings targeting wider markets for high volume telecommunications products with significant total addressable market opportunity.

Siward has been successfully audited to supply to significant Rakon Tier One customers.

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### Market Opportunities

#### 5G

In the Telecommunications market the upgrade of 4G networks to 5G networks represents a significant opportunity for Rakon.

Demand for 5G compatible products is expected to continue for a number of years as spectrum is released, the technology is developed and new end uses are established.

We believe the 5G roadmap will be more gradual and incremental than was seen for 4G. There will be an upgrade of existing 4G infrastructure to support an initial roll out of 5G. Then there will be deployment of new dedicated 5G infrastructure enabling much faster speeds of data transfer than possible with 4G, and much wider bandwidth, enabling mass connectivity, better reliability, latency and spectrum efficiency. In the near term, fixed wireless internet access to the home is one example of an application that will be enabled.

SLIDES 12, 13, 14, 15 (showing images relating to development of 5G)

Our Mercury+, OCXOs and ultra-stable TCXOs have been designed in to the 5G Remote Radioheads (RRH) and base stations. Rakon is designed in to the equipment of all Tier One 5G providers. The images in our presentation

illustrate the differences in the type and quantum of Rakon product used in 4G and that required for 5G.

In the longer term as data infrastructure evolves and applications are developed 5G is expected to facilitate the development of new technology for virtual reality, autonomous vehicles, Internet of Things - changing the way people work and live.

The roll-out of 5G is our biggest challenge and biggest opportunity. We already have a good share of business awarded by Tier One customers.

The challenge lies in meeting the existing demand and continuing to bring new products to market that meet the higher specifications demanded by 5G applications.

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### Space Market 'New Space'

Changes are also occurring in the Space sector which is another key market for Rakon. The growing need for connectivity increases the need for satellite connections for communications.

In FY2019 Rakon received its first order for our New Space OCXO for a new Low Earth Orbit (LEO) constellation.

LEO technology is a major disruptor to the traditional geosynchronous orbit (GEO) satellite market. LEO satellites operate only a few hundred kilometres above the earth's surface rather than 30 to 40,000 kilometres away. They are smaller, cheaper to make and to launch and therefore more dispensable and replaceable. LEO satellites are required in their thousands in constellations rather than solitary orbit and for use by commercial telecommunications and services businesses, not just governments.

The LEO development represents a new opportunity for Rakon's oscillator technology complementing its existing involvement in the traditional space market.

While overall Rakon's revenue from the Space sector grew in the 2019 financial year with the inclusion of the Rakon India domestic space market, Rakon's European space business saw lower returns, as this market enters a transition phase between the new LEO satellite technology and the traditional geosynchronous orbit satellites.

## SLIDE 17

### R&D

Rakon is proud of its significant and consistent investment in research and development which enables it to retain its position as a leading provider of new technologies in frequency control. In 2019 we introduced 15 new products, including several world first releases, enabling our customers to advance their technology.

We are investing in new manufacturing processes to address market needs for smaller and leading edge oscillator performance.

## SLIDE 18

### People and Capability

Over the last couple of years there has been a shift to a global management structure. In 2019 we established four new senior leadership positions and in recent weeks we created another new position – Chief Operating Office. This role will be filled by the existing General Manager of our European business – Sinan Altug. He will move from France to New Zealand later in the year to work more closely with me and to assume responsibility for leading, aligning and driving Rakon's global operations to best meet customer demand. Sinan has over 22 years' experience in frequency control products and 17 years with Rakon.

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### Market Impact

The Telecommunications market represents a significant part of our business but it is a market that has some particular characteristics which can make forecasting challenging and which is influenced not just by competition and consumer demand but also by macro-economic, global and regulatory factors. It is a big market and Rakon is small and just one of many players in that market.

Rakon is designed into all Tier One Telecommunication equipment providers' solutions. We work closely with those Telecom providers and we are ready to manufacture to their orders but sometimes the phasing of those orders does not come through as we expected. While our customers (the Telecom

equipment providers) want our product, they too are beholden to others. We both often find ourselves playing a waiting game. They must wait, and we in turn must wait, for orders from the Network Operators.

## SLIDE 20

### Outlook

Scanning all of the markets we serve, we see increasing opportunity for Rakon products. Our global markets and operations are well established and we are well placed to respond to the current and future demands and challenges of our customers, and of existing and new technology.

How does this opportunity translate to our expectations for the current year? While we are confident that we will get a good share of business across our markets, phasing of customer orders means returns for the current year are likely to remain flat compared to the prior year.

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### Future

We are a technology leader with deep application expertise, a global footprint, broad product offering and highly flexible product platforms who can deliver world class quality. We have developed a strong ecosystem of customer relationships through our 50 year heritage to become a trusted brand.

Rakon expects to stay at the forefront of the frequency control product industry. Within every node and every network a stable and reliable timing and frequency reference is required for successful transfer of data.

## SLIDES 22 to 31

Shareholders' Questions and Resolutions.

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