

25 November 2021

UNAUDITED RESULTS FOR THE HALF YEAR TO 30 SEPTEMBER 2021

## Rakon delivers record half-year earnings

### Highlights:

- Revenue \$85.4m (1H21: \$59.5m)
- Underlying EBITDA<sup>1</sup> more than doubles<sup>2</sup> to \$26.4m (1H21: \$11.4m)
- Net profit after tax \$18.9m (1H21: \$4.6m)
- Sustained core market growth, particularly 5G, data centres and industrial positioning
- Significant new opportunities from worldwide chip shortage captured
- Record manufacturing output from NZ operation
- Recent guidance upgrade confirmed for FY2022 Underlying EBITDA range of \$44–49m

All amounts are in New Zealand Dollars

Rakon (NZX.RAK) today announced significant improvements in revenue and earnings for the six-month period to 30 September 2021 as it continues to benefit from strong global demand growth for its industry-leading frequency control and timing solutions.

Revenue for the half year rose 43% to \$85.4m (1H21: \$59.5m). Gross margin improvements and disciplined management of supply risk drove a 132% increase in Underlying EBITDA to \$26.4m (1H21: \$11.4m). Net profit after tax increased 308% to \$18.9m (1H21: \$4.6m).

Chair Bruce Irvine said Rakon's success over the period was the result of the company's ability to secure and deliver new business as a result of the TCXO<sup>3</sup> chip shortage, while continuing to grow its core business.

"Our 50-year track record of innovation and technology leadership, combined with longstanding relationships with some of the world's leading technology companies, has ensured that we remain at the forefront in developing the next generation technologies. We have a deep understanding of our core markets and have created flexible and scalable global operations to support our growth and capture new opportunities."

Managing Director Brent Robinson said core business growth continued to be led by strong demand for Rakon's telecommunications solutions, particularly in 5G networks and data centre equipment; and increasing demand for positioning solutions to support industrial positioning applications. Additionally, the company was able to adapt and scale up its operations to secure new business stemming from the worldwide shortages of TCXO chips.

"Notably, this strong performance has been achieved in the face of considerable disruption to the global supply chain and the challenges of the global pandemic. It is a testament to the team, and the resilience and flexibility that has been embedded into the business over recent years.

"It has been a challenging half year, but we are delighted with the progress we have made and excited about the opportunities we see emerging across our core market segments."

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<sup>1</sup> Refer to Note 5 of the FY2021 audited 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

<sup>2</sup> All comparisons are against the prior corresponding period (1H21) unless otherwise stated

<sup>3</sup> Temperature compensated crystal oscillator

## Market segment performance

Telecommunications revenue grew 9% to \$41.7m, generating 49% of Rakon's total revenue for the period. Resultant gross margin increased \$2m to \$18m with GM% higher also at 42% from an improved product mix. The steady growth of this market is driven by the continued rollout of 5G networks.

Space and defence revenue increased 4% to \$11.9m (14% of total revenue), with gross margins remaining relatively consistent. Growth is currently being led by increasing momentum in the low-earth orbit (LEO) satellite business, where Rakon is receiving funding from the European Space Agency to develop subsystems and modules for these satellites. The defence segment continues to perform steadily.

Positioning revenue grew 108% to \$12.5m (15% of total revenue), with gross margin more than doubling to \$7m due to a significantly improved mix of higher margin products. Growth in this segment has been driven by a combination of core business and new opportunities. Rakon is now seeing the benefits of its strategic shift to industrial applications and its focus on building strong relationships with a number of Tier 1 equipment and machinery companies. The global TCXO chip shortage opportunities have also enabled Rakon to build new customer relationships and develop some longer term business.

Revenue from emerging markets, IoT (Internet of Things) and other areas grew 416% to \$19.3m (22% of total revenue). This was primarily from orders for IoT devices stemming from the TCXO chip shortages, with 50% of those orders delivered during the first half. The remaining orders are planned for delivery in the second half.

## Operations

Rakon's New Zealand operation increased its average monthly throughput by 60% against FY2021, providing a major capacity increase to enable the fulfilment of new orders and delivering record gross margins. The company's Indian and French operations demonstrated exceptional resilience through a number of Covid-19 outbreaks to achieve forecasted output.

Mr Robinson said materials supply has remained extremely tight, resulting in extended lead times, price increases and continued market consolidation.

"Capacity constraints, allocations and rising prices from suppliers have become the norm and we have worked extremely hard to overcome uncertainties around manufacturing capacity and the procurement of materials and parts. We have been fortunate to receive support from suppliers and key Tier 1 customers to secure the supply of materials in order to meet deliveries."

## Innovation

The company invested \$6.5m in research and development during the period, which was highlighted by the successful design-in and adoption of new products for new 5G millimetre wave radio heads and small cells (using major semiconductor reference designs).

Rakon also celebrated a milestone in commencing delivery of the new TCXO products designed specifically in response to global chip shortages. "The entire process from design to manufacture was completed in just three months and we have been delighted with the outcomes achieved from these efforts," said Mr Robinson.

## Balance sheet

The company remains in a strong financial position with total assets increasing to \$177m, and the lift in earnings contributing to an 18% increase in equity since March 2021. At balance date Rakon remains in a \$3.6m net cash position, slightly lower than the \$5.0m recorded on 31 March 2021 (FY2021). Operating cash flow was \$4.5m, down 43% from the prior year as the company increased its working capital to support its rapid growth and to help mitigate against supply chain risks.



Mr Robinson said that as Rakon further gears up to support growth opportunities, as well as managing ongoing risk around supply chain, inflation and Covid-19, it would continue its conservative approach to managing its balance sheet.

Directors have determined not to declare an interim dividend.

#### **Outlook for the remainder of FY2022**

Mr Robinson said orders are in place to deliver further revenue growth for the remainder of FY2022, particularly in 5G telecommunications networks as well as the final tranche of orders due to the worldwide TCXO chip shortage.

“Accordingly, we expect Rakon to continue to perform well, provided we are able to continue to manage the significant challenges related to the pandemic and ongoing challenges in securing raw materials and parts to meet orders.

“We remain confident of achieving our recently upgraded earnings guidance, with expected Underlying EBITDA in the range of \$44–49m for the year to 31 March 2022.”

-Ends-

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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 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 three manufacturing plants, and has six research and development centres. Customer support personnel are located in sixteen 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, NZX, ticker code RAK.