28 August 2024

2024 Rakon Annual Meeting

Chair's Address

Welcome

Tena Koutou. Tena Koutou. Tena Koutou Katoa
Welcome everyone, both here in Auckland and joining us virtually, to Rakon's 2024 Annual Shareholders Meeting. I am Lorraine Witten the Chair of your Board.
Thank you for joining us today to spend time focusing on the Rakon business, and thank you for your continued support for Rakon.
I am pleased to **confirm** that we have a quorum of shareholders and therefore **I** declare the 2024 Annual Shareholders Meeting open. I also advise that online voting is now open on all items of business.

Our Board

I am joined today by members of our senior management team, and our Board of Directors.

I would like to introduce you to our Board. I am joined by Independent Director, Keith Oliver, by Executive Director Brent Robinson, who is also the company Chief Technology Officer and **Director** Jung Meng (or JM) Tseng from Siward Crystal Technology Co., Limited (Siward). Independent Director, Keith Watson – who also leads the Board People Committee is an apology and could not join us today.
At full size, our board comprises five independent Directors plus a representative each from our two largest shareholders, the founding Robinson family, and Siward from Taiwan

There are no directors standing for election or re-election today, but we are underway with a board process to find suitable candidates for the two vacancies. One of these will be a director with financial skills to chair the Audit and Risk Committee. I will temporarily chair the Board committee until we appoint a new Director.
The vacancies have come about through the retirements of Steve Tucker (in March) and Sinead Horgan (in August). I and the Board wish to thank both Steve and Sinead, and acknowledge their very valuable contribution to the company. During her time on the Board, Sinead chaired our Audit and Risk committee and also chaired the Independent Committee, which considered the takeover offer.
Also on the podium is our Chief Executive Sinan Altug, and our recently appointed Interim Chief Financial Officer, Mark Dunwoodie. Finally, I would like to welcome representatives from our auditor, PricewaterhouseCoopers (**PwC)**, and our solicitors.

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Agenda

Today you will hear from myself and Sinan Altug our Chief Executive, before we open the meeting for shareholder questions, followed by resolutions. There will then be an opportunity for any other general business shareholders would like to discuss before the close of the meeting.
Shareholders here today are invited to join the board and Rakon team for refreshments at the end of the meeting.

Clear strategy to increase shareholder value

Rakon is a global technology innovator and a market leader in our field.

Our products and solutions are critical to managing the flows of data that allow people to connect, explore and innovate. They are the 'heartbeat' for electronic systems, delivering fast, precise and stable connectivity in everything from mobile networks and autonomous vehicles to satellite constellations and AI data centres.

Our strategy is focused on continuing our lead in our traditional Telecoms and core markets and to grow other industry verticals, specifically Space and Artificial Intelligence. We believe that over time these segments can be as substantial as our Telecoms business is today. Sinan will provide more detail on the addressable markets for Space and AI**,** as well as explain how and why we are relevant in those segments.
In previous years we have laid out the Growth Strategy in some detail, but it's worth reiterating the key areas of focus.

Firstly, we are continuing to grow our core business, that's the Telecommunications, Space & Defence and Positioning businesses. Our goal is to deliver 15% compound annual growth in revenue across this core.

Secondly, is maintaining our product leadership by engaging in the design phase with our customers, investing in smart R&D people and continuing to collaborate with the top tier customers and organisations. By leading and being designed into future solutions we ensure longevity of our business, and are more effectively able to hold our market pricing. In FY24 we have maintained our market share and achieved a near 100% design-win rate on targeted projects.

Thirdly is to expand into new markets. Over the long term we want to have a strong Telecoms business but also grow into other industries; diversifying revenue will provide increased protection through the business cycles**,** such as the down cycle we are in today with Telecoms.

We are seeing the validation of this strategy in the Space market, where we have leveraged our decades of experience to both expand into new geographies and move up the value chain with our products, including more complex sub-systems, as compared to components.

Pleasingly, during FY24 we received our largest Space contract win, and since then, have received a second contract for another satellite constellation. These are a direct result of this strategic focus, and recent R&D investments, and show that our confidence for securing future high level contracts in this sector is well placed.

We also continue to see significant potential for our AI computing hardware products, and we expect this revenue stream to increase significantly over the next five years.

The fourth pillar to our strategy is delivering world class manufacturing. With the inauguration of our manufacturing centre of excellence in Bengaluru, India last year, we now have the facility to manufacture at scale to the highest standard. Delivering on this initiative is key to maintaining our market position and profitability, especially gross margin.

This year, we have added a new fifth pillar to our plan. As we continue to grow and evolve, our organisational design also needs to adapt so we can focus on the new industry verticals – Sinan will provide more detail on this shortly.

Importantly, we have made good progress in ensuring ESG is considered throughout our strategic focus – including projects in the key area of climate change mitigation.

You may have seen that our Climate Related Disclosures Statement is now available to view on the Rakon website. This area is a journey of improvement that we will be on for some years.

FY24 business highlights

Let's move to the business highlights for the FY24 year. Despite the demanding challenges of the global recession, and down cycle in Telecoms, Rakon made significant progress on its growth strategy in FY24.

A major highlight was the 27% revenue growth in the Space segment. This momentum is expected to continue, backed by a strong order book, and key contract wins, including the 3-year, $17 million satellite subsystem contract, I mentioned earlier. We have achieved our goal of being one of the top 3 suppliers for the new Space subsystems, and expect to secure more subsystems contracts this year.

We also grew and diversified our products for the global space industry, including the recent launch of Mercury-R which Sinan will cover in more detail.

Another important highlight in FY24 was the launch of our AI computing hardware product portfolio, including our Niku and MercuryX chips.

Our technology and products are now uniquely positioned to tackle the timing and synchronisation challenges, that data centres face with AI workloads. We are making significant strides in the emerging market of AI computing hardware and, over the past 12 months, we have continued to work with the leading players in the AI hardware ecosystem.

Finally, cutting costs and driving efficiencies was a major focus to navigate the current cycle, and optimise our business. Part of this was starting the transfer of some manufacturing processes from both New Zealand and France to our factory in India, where costs are significantly lower. This does require cost expenditure to transfer the hardware and processes, but the investment is important for our future and will continue into the current year.

FY24 Key financial results and capital management

Our FY24 results reflect our focus on efficiency and growth investment, in a very challenging market. Continuing our investments in Space and AI are fundamental to future results, so we kept up this expenditure.

Our Net Profit after Tax was down as a result of top line revenue decline – primarily due to lower Telecoms and Positioning sales. This result includes the takeover proposal costs, and an annual loss of $2.3m from our Timemaker Crystal manufacturing affiliate, in China.

In response to the lower sales demand, we focused on cost efficiencies and inventory optimisation, with some good results.

Your Board previously anticipated that during the investment and execution of our three year business plan, a dividend at 1.5c per share would be sustainable. However, given the lower FY24 financial performance, and the unanticipated costs related to the takeover proposal, we did not declare a dividend in relation to FY24. This decision was made with an eye to maximising shareholder value, as we continue to strive to balance the distribution of profits to our shareholders with retaining enough reserves for investment, as well as managing through the longer and deeper recession. A return to dividends will be considered at the next annual result.

The Rakon share price rose 7% over the year, compared to NZX50 which rose 4% in the same period.

We recently entered into a three year banking facility with Hong Kong Shanghai Banking Corporation (**HSBC)**, for our global business. I have spoken before about the difficulty of getting support for our business from our local bank. You will recall our local bank would not give us debt financing to build the India factory, whereas HSBC has a significant presence in that market, and is sophisticated enough to understand our global business and operations. We can now use just one global platform for our business. The overall facility size is up to approximately NZ$47m and gives Rakon additional flexibility to invest to support capital investment, and other strategic activity, if that opportunity emerges.

Our People

Finally, I wish to acknowledge and thank all our people for their dedication and hard work through the last year. I especially want to thank and acknowledge Maureen Shaddick, Michael McIlroy, Margo Thomas and Sinan Altug. Maureen is our head of legal, Michael is our head of advanced technology**,** Margo our head of human resources and Sinan our CEO. All of these executives and other senior managers were asked to expend a significant amount of personal time and effort on the takeover process, as well as keeping up their day jobs. Sinan showed exceptional leadership, navigating the company through this process of uncertainty for our people, while still inspiring the team to strive for the future.

NBIO process recap

A major event in FY24 was the receipt of a confidential takeover proposal, on 8 December 2023, for an indicative price of $1.70 per share.
I'd like to take some time to talk you through our experiences and process. When a Board receives a non-binding indicative takeover proposal, it is usually kept confidential from the market, and both parties can privately evaluate the proposal. From a Board's perspective, this involves evaluating whether the proposal is in the best interests of Shareholders and sufficiently compelling to put to Shareholders. From a bidder's perspective, this involves assessing whether it wants to proceed with its proposal after having completed due diligence. This did not happen in Rakon's case, because someone with knowledge, leaked the proposal and this was then made known to the stock exchange regulator, only days after the proposal was received by the company. So, we were thrust into the market arena immediately.

We established a Board Committee of the Independent directors, and as is normal practice appointed expert legal and investment banking advisers. Given the size and location of the bidder, we needed advice from other jurisdictions, as well as NZ. Although our non-independent Directors weren't involved in the Board committee, or work streams such as valuation, they were engaged in some of the technical DD, as well as the ultimate decision to conclude the process.

Due diligence was undertaken for five months, which was subject to strict confidentiality requirements. Because the proposal was leaked to the market early, the Bidder became very nervous about confidentiality, and we needed to show good faith by agreeing to the bidder's requirement for strict confidentiality restrictions. Those restrictions limited our ability to provide updates to shareholders, except where we were legally required to do so under continuous disclosure obligations. I know this caused angst among some of you, but given the price and terms of the bidder's takeover proposal we formed the view it was in the best interests of shareholders to agree to the bidder's confidentiality restrictions to keep the bidder engaged and willing to progress the proposal.

As a global business, Rakon exports to and operates in many countries, and has vast technical IP, so the range of due diligence inquiry by the bidder, was broad and deep. At times our team was meeting with over a dozen representatives from the bidder. We could not attend these meetings without the appropriate advice and expertise, and our small team could not answer the hundreds of questions without assistance.

From our company's perspective, as well as the due diligence content, the evaluation process required an updated five year financial forecast, confirmed strategy and updated company valuation. The Board considered various scenarios and different transaction options.
The transaction costs to the end of June 24 are just under $3m. This includes $1m of staff retention costs.

The question of value and 'why that offer price' has been raised by various shareholders, and I understand the question given the significant premium the bidder offered to the undisturbed share price. We have no knowledge of how the bidder came to their price. The offer was made by them with access to only public information. They do however, deeply understand the industry, so they will have their own view of what is going to be valuable in the future to them. They also understand Rakon's technology, its uses today and its potential uses, which we endeavour to cover in our regular market reporting and events such as today.

The process ended on 19 June 2024, due to potential complexities encountered during due diligence, about which the parties were unable to reach a suitable resolution. We both spent significant time and effort trying to do so. This incompatibility only emerged at the later part of the due diligence process.

Thousands of hours of Board and management time was involved in the process. I can assure you that we all worked very hard to bring this proposal to you, but ultimately were not able to do so.

You may have read recently that NZRegCo had received a complaint about our disclosures, related to ending the process, they have confirmed that they have dismissed that complaint and will not be opening an investigation.

Looking for silver linings, we have validation of the global competitiveness of our technology. Now that the NBIO is off the table our focus is on continuing to unlock Rakon's full potential with the exciting market and product pipeline in front of us.

Summary

Our long-term strategy is clear – a continued focus on growing multiple strong, balanced verticals – creating diversity and resilience for the business, long term, and diversifying revenue to provide increased protection through the cycle.

As we enter the third year of our business plan, we are continuing to navigate through market uncertainty, which will suppress revenue this year, particularly in Telecoms and Positioning.

FY25 will be particularly challenging as to when the mobile operators will recommence investment in 5G networks. Like the recession, this has been longer and deeper than first expected.

However, the AI and Space segments are expected to continue to grow, with a solid pipeline in place. We have work to do to build manufacturing and deliver the new contracts we have recently won.

Rakon will also continue to focus on efficiency initiatives and cost savings, this includes moving more manufacturing to India, to improve profitability.
We continue to have confidence in the fundamental growth drivers supporting our core markets. We are holding our market share and achieving design wins.

The opportunities across our target segments remain significant and growing, these include the evolution of 5G, Cloud and Edge Computing, AI hardware, autonomous machines and vehicles, aerospace and the Global Space ecosystem.

I will now pass the meeting over to Sinan our Chief Executive.

CEO's Address

Thank you, Lorraine.

Tena Koutou Katoa.
Shareholders, both here and joining us virtually, welcome! It's always exciting to connect directly with you on this important day in Rakon's calendar.

Over the past year, despite challenges, our team has made remarkable progress. I'm incredibly proud to lead such a dedicated group, and today, I'm excited to share our journey and future direction with you.

As Lorraine also mentioned I'd like to introduce our new interim CFO, Mark Dunwoodie. Mark's exceptional leadership and experience speak for themselves, and we're thrilled to have him lead our global finance team through this crucial period. Additionally, we have several members of our senior management team here today. If I could ask them to please stand up. Please feel free to approach any of them after the meeting for a chat. We're here to listen, share, and engage with you as we look ahead to Rakon's exciting future.

Let's dive into our FY24 performance highlights. We've already covered much of this in our results presentation and annual report, but I want to emphasize the exceptional progress we've made in certain areas despite a cyclical slowdown in our core markets like Telecommunications and Positioning.

Our Space and Defence segment led the charge, with a remarkable 27% year-on-year revenue growth, hitting our highest-ever revenue level in this area. The great progress in our Space business saw us win several important new contracts and also reach our highest-ever revenue level for the segment, which for the first time, contributed more margin dollars than our Telecom segment. We've also solidified our position as a global leader in space subsystems, securing key contracts that have bolstered our standing.

Equally exciting, our AI computing hardware products, particularly with the Niku and MercuryX chips, have received a phenomenal response from leading industry players, positioning us at the forefront of this emerging market. This segment is on track to become as significant as telecommunications for Rakon.

We've also maintained strong market share and a high design win rate across all sectors, setting us up to capture even greater opportunities as conditions improve.

We remain very focused on cost management and efficiencies to navigate the current cycle and optimise our business for future success. Our focus on cost management, coupled with continued investment in our three-year growth plan, ensures that we're not just surviving but thriving, with resilience built into our future cycles. We didn't just weather the storm; we strategically positioned Rakon for a strong recovery and future growth.

At the FY24 results announcement we spoke in detail about the strong revenue and gross margin growth achieved across Rakon's three core markets. As I said, our Space and defence revenue was a record at $37m. This sector delivers attractive margins, and we continue to see a strong customer pipeline into 2025 and continuing in the next few years.We saw the cyclical slowdown in the Telecommunications sector continue to impact, as our customers and their customers resolve inventory build-ups, and mobile network operators continue to defer planned capital expenditures. This has led to lower orders and longer inventory cycles and our Telecoms revenue was down 34% year on year. Positively, our share of contract wins remains consistently high. In Positioning, we have seen similar market conditions play out and, while our market share remained consistent, revenue was down year on year.

At the group level, we reported $128 million in total revenue. While our Space sector showed impressive growth, it wasn't enough to offset the 34% revenue drop we saw due to the slowdown in Telecommunications—a trend consistent across the industry. However, our proactive approach to cost management and efficiency has put us in a strong position to rebound as the market stabilises. Our gross margin stood at 45%, impacted by one-off costs related to workforce restructuring and lower production volumes.

Despite these challenges, we achieved an underlying EBITDA of $13.5 million. We saw a significant increase in operating cash flow, which rose 60% to $17.8 million, driven by our strong focus on working capital management. These results underscore our financial resilience and strategic management during a very challenging year.

We have been driving hard to streamline operations globally to ensure each major expenditure contributes to our growth strategy. We've reduced operating expenses by $1.5 million to $57.3 million, reflecting the impact of our efficiency initiatives. Our global workforce has been streamlined by 13%, ensuring we are operating at peak efficiency while positioning ourselves to capitalize on growth opportunities.

Additionally, we've optimised our inventory, leading to a $7.7 million reduction—down 12% year-on-year. And as part of our strategy, we have accelerated the transfer of key production lines from New Zealand and France to our India facility. This strategic move will unlock significant cost savings and margin improvements when volumes ramp up in Q4 FY25.

As we enter the third year of our growth strategy, I remain very excited about Rakon's trajectory. Our strategy focuses on five key pillars: growing our core business, maintaining technology leadership, expanding into new markets, delivering world-class manufacturing, and newly added, driving organisational transformation.

- We're leveraging proprietary technologies in telecommunications and positioning, expanding market access in Space and defence, and accelerating time-to-market with our advanced semiconductor R&D and our XMEMS technology.
- We're also aggressively entering new markets, such as LEO satellite constellations and AI computing hardware, which hold massive growth potential.
- Our advanced world class manufacturing capabilities are crucial in meeting these demands.
- Organisational transformation is key to aligning our global operations with our strategy and our growth priorities. This is about more than efficiency—it's about positioning Rakon to scale effectively and capture the opportunities in front of us.

Rakon's strategy is not just about keeping pace with the industry; it's about leading the way. With our focus on innovation and strategic expansion, we're set for extraordinary growth and value creation as we move into this exciting new phase.

Looking now at our 3 year roadmap showing our major investments in growth, which we shared with you before and this year marks the last year of this plan. It is laser-focused on building long-term value by growing market share, improving margins, and diversifying our revenue streams in high-growth markets, reducing reliance on the cyclical telecommunications sector.

FY25 is a crucial transition year, setting the stage for the next phase of our journey as we introduce a refreshed roadmap aligned with our updated strategy. The four investment areas on the slide remain central to driving Rakon's growth and innovation, with AI Hardware taking a more prominent role as we build on the strides made in FY24. Our commitment to the ICC program and organisational transformation will ensure we reconfigure key aspects of our operations and we maximise our ability to deliver on strategic growth priorities.

We're at an exciting inflection point, with Space and AI computing emerging as massive growth opportunities for Rakon. These markets are poised to provide substantial additional revenue streams, and our strategy is laser-focused on making this happen.

- We have Space and AI; our "Capture" markets - where we are riding the exponential industry growth for each and capturing, or positioned to capture, significant market share
- In Telco and Positioning where the markets are more mature and stable with incremental gains in market share – we are seeking to "command" areas of the market where we are dominant and to leverage this tech leadership to retain share and capture opportunities.

You can see, in the presentation, the total and serviceable addressable markets for our core and emerging markets with all numbers being in USD. Let's break it down:

- **Aerospace (Space and defence)**: This is our largest opportunity, with a TAM of almost a Billion and a SAM of $800 million. Our strategic investments in this sector, particularly in space subsystems and our new Mercury-R radiation hardened chips, are positioning us to capture significant market share. The sheer scale of the serviceable market here at 80% of the TAM—speaks volumes about the opportunity in front of us. We're moving up the value chain, and our strong FY25 order book and recent important contract wins are just the beginning.
- **AI Computing Infrastructure:** The AI hardware market is rapidly expanding, and Rakon is perfectly positioned to capitalise on this growth. With a TAM of almost half a billion and a SAM of almost 200 million, our AI computing hardware products are leading the charge. The explosion in demand for AI in the data centers has created a

backlog, and Rakon is ready to deliver the performance gains these markets demand. We're already designing our products into the next-generation platforms and ecosystems.

- **Telecommunications:** Despite the current down cycle, Telecom remains a core and a crucial market for us, with a TAM of approximately a billion dollars and a SAM of $186 million. Our strong relationships with Tier-1 Telecom Infrastructure companies and high design-win rates position us well to grow our market share once demand stabilises.
- **Positioning:** While this is our smallest core market, it's still vital, with a TAM of over a quarter billion and a serviceable market of over $100 million. Our strength in high-end precise positioning ensures we maintain a significant share of this market, with new applications driving future growth.
- The space industry is on the cusp of explosive growth, set to soar to $1.8 trillion by 2035, with the commercial satellite market alone expected to triple—Rakon is right at the heart of this incredible opportunity, leveraging our 40+ years of Space heritage to develop leading edge products.
- We are capturing the momentum with our strategic investments, and in addition to the largest ever Space and defence revenue, we have won our largest-ever space contract, making Rakon a top-3 global supplier of space subsystems. The second major contract we won, while we cannot share details, marks the first phase of a game changing proprietary direct-to-device satellite constellation.

Our recent contract wins are projected to add over $5.5M this year and doubling the following year, fueling our continued ascent in space.

Innovating for the future, we've launched the groundbreaking Mercury-R, a radiation-hardened space chip that sets a new standard for performance and reliability in space. The market's response has been overwhelmingly positive, positioning us to capture even more market share.

Similar to Space, we are making bold strides in the rapidly growing AI Hardware and computing infrastructure market—an emerging core market for Rakon with huge potential. Industry analysts predict that AI deployments will push the data center physical infrastructure market over USD $50 billion by 2028, and Rakon is positioned to be a key player in this space. Our technology is uniquely suited to solve the toughest synchronisation challenges AI data centers face, driving efficiency, reducing power consumption, and enabling cutting-edge AI workloads running in a parallel and distributed manner which is a big deal.

An important point to emphasise is that in addition to the performance gains, our products also enable a more efficient use of available computing power – reducing lost time and power consumption - and we are working alongside customers to find additional ways to support lower power consumption within the ecosystem. The lower end of the AI hardware market is already growing rapidly. The segments we are targeting however are the higher end applications where Rakon thrives—our products based on our Niku and MercuryX chips are designed into several next generation platforms, ready to capture substantial market share.

For FY25, we are providing a guidance range for Underlying EBITDA of $5-15 million.

- While this reflects some of the challenges we've discussed, it also highlights the exciting growth opportunities we’re capitalising on in Space and AI computing hardware.
- **Space and Defence:** we expect this segment continues to be a standout performer.
- We have a solid order book for FY25, including two new subsystems contracts that are set to significantly boost our revenue.
- The opportunities in satellite constellations are vast, and we are well-positioned to lead in this high-growth market.
- **Telecommunications:** While the telecommunications market has been slower to recover than we anticipated, we're seeing positive signals in the North American market where our Tier-1 customers are starting to return to growth.
- We expect the market to stabilise in the second half of FY25, setting the stage for a stronger FY26.
- The growing demand for 5G services and Fixed Wireless Access is driving network upgrades, positioning us to capitalise when the market recovers.
- **Positioning**: The inventory correction in the Positioning segment is still ongoing, but our strong position in the high-end precise positioning segment remains intact. We expect mostly a flat year.
- AI Computing Hardware: Our AI computing hardware segment is an emerging powerhouse. The demand for our products is already generating revenue and capturing significant customer interest. We anticipate that this market could soon rival our telecommunications segment revenue within the next five years, making it a key driver of our growth strategy moving forward.

In summary, while the macroeconomic environment presents some headwinds, our strategic focus on growth markets like Space and AI, along with our efforts to streamline operations and drive efficiencies, positions us well to capture new opportunities and deliver value.

We remain committed to our strategy and are confident in our ability to navigate these challenges while capitalising on the growth opportunities ahead.

- The short-term outlook in telecom and positioning remains challenging due to the economic downturn, but we anticipate stabilisation in H2 FY25.
- Our Space and Defence segment is thriving, with a strong order book for FY25 and potential new contracts on the horizon, ensuring continued growth.

- Our high design-win rate reinforces confidence in our market leadership and share expansion.
- We're driving efficiency to enhance cost savings, resilience, and competitiveness across all product lines.
- Our three-year growth plan is set to boost revenue and margins while diversifying our streams, providing stability through economic cycles.
- We are poised to capitalise as telecom and positioning markets recover, with Space and AI hardware set to springboard Rakon into its next growth phase.

As we execute our strategy with focus, we are more excited than ever about the future of Rakon.

I am confident that our strategic investments and innovation will lead to significant value creation. We will continue to push the boundaries and secure a prosperous future for Rakon.

Thank you for your continued support. I now hand back to Lorraine for questions.

ENDS