Market Release

Rakon half-year results for FY2025

All numbers are stated in New Zealand dollars (NZ$) and relate to the six months ended 30 September 2024 (HY25), with comparisons to the six months ended 30 September 2023 (HY24) unless stated otherwise.

HY25 results reflected the anticipated pressures in Telecommunications and Positioning markets, driven by challenging conditions and temporary impacts on gross margins.

Despite these headwinds, Rakon made solid progress in advancing its operational transformation and cost efficiency initiatives, leaving the company well-positioned for growth. Strategic investments in diversifying revenue streams, alongside robust demand in Space and AI & Cloud Infrastructure, are expected to underpin sustained expansion.

27 November 2024 – Rakon Limited (NZX: RAK), a world leading manufacturer of frequency control and timing solutions, has today released its financial results for the six months ended 30 September 2024 (HY25).

Key takeaways:

- Strong performance in Aerospace and defence segment, delivering revenue growth for the fourth consecutive financial half-year, was offset by some of the toughest market conditions Rakon has seen in Telecommunications and Positioning.

- The first half was impacted by significantly lower demand in Telecommunications and Positioning, which led to lower order volumes and constrained economies of scale, impacting gross margins.

- Telecommunications showed signs of improvement in late HY25: inventory normalisation levelling off and selective global 5G network investment.

- Cost reduction programme is advancing effectively, balanced by R&D investments to extend technology leadership, safeguard growth pathways, and scale production to meet robust demand in high-growth Space business and AI & Cloud Infrastructure segment.

- Rising demand for Rakon’s AI & Cloud Infrastructure products from leading industry players in HY25. Segment is on track to deliver significant revenue in 1H26.

- On track with accelerated schedule for the transfer of key product lines to Rakon’s manufacturing centre of excellence in India; improved margins expected as production ramps up in the last quarter of the fiscal year.

- Achieved highest revenue month for HY25 in September 2024; company anticipates this momentum will persist in 2H25, supported by improving Telecommunications orders and substantial demand for Space products.

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- Rakon expects to track in the lower half of its FY25 Underlying EBITDA[1] guidance of $5m to $15m.

Rakon CEO, Sinan Altug says the challenges of the last six months were exceptionally tough in the Telecommunications and Positioning segments, driving total revenue and margins lower, despite year-on-year growth in Aerospace and defence.

“As we anticipated, the first half of FY25 presented significant challenges, particularly in Telecommunications and Positioning markets. These markets continued to be affected by macroeconomic conditions that slowed investments in 5G mobile networks globally, and extended timeframes for customer inventory normalisation across both markets,” says Altug.

"Despite these pressures, we have stayed focused on diligent execution of our cost reduction programme, balanced by investments in the company’s growth strategy. This has allowed us to emerge from this incredibly tough period streamlined and strengthened to capture more opportunities, particularly in our high growth Space business and AI & Cloud Infrastructure segment.

“Importantly, our growth drivers in these areas have strengthened over this period, with our Aerospace and defence segment performing well, and delivering record revenue for the past two years. Our AI & Cloud Infrastructure products are getting designed in and securing orders from leading industry players, and we are on track to start delivering significant revenue in this new segment in the first half of FY26.”

Altug says the Telecommunications segment also showed signs of improvement in late HY25 with inventory normalisation levelling off and indications of selective global 5G network investment, and the company expects this to continue into 2H25.

“We achieved our highest revenue month for HY25 in September 2024, fuelled primarily by a modest increase in Telecommunications orders. We anticipate this momentum will persist in the second half of the financial year, alongside high seasonal Space demand in Q4.”

HY25 financial results

Total HY25 revenue of $41.7m (HY24: $61.3m) was lower year-on-year, with strong revenue growth in Aerospace and defence unable to offset lower demand in Telecommunications and Positioning.

Telecommunications revenue was down 51% to $16.8m, and Positioning was down 23% to $5.5 million. Aerospace and defence delivered its highest ever revenue result, up 10% to $16.8m, and continues to validate Rakon’s strategy to invest in new high-growth market opportunities. AI & Cloud Infrastructure revenue is currently milestone-focused, with revenue expected to grow significantly from FY26.

Lower gross profit of $15.7m (HY24: $26.1m) and margin percentage of 37.8% (HY23: 42.6%) was primarily driven by lower order volumes in Telecommunications and Positioning and the impact on economies of scale.

Underlying EBITDA[1] was $(7.3)m (HY24: $5.3m), with a net loss after tax of $(10.4)m (HY24: $0.5m).

“The first half reflected the challenging market conditions, particularly in Telecommunications and Positioning,” Altug says. “Gross margins were impacted by reduced sales volumes,

$1.5m of increased inventory provisions, and one-off adjustments. Opex was impacted by $1.7m in unfavourable FX movements, and restructuring and acquisition proposal related costs."

Rakon's programme to reduce costs and carefully manage its working capital continues to advance effectively. Global workforce numbers are down by 22% year-on-year, keeping production utilisation at optimal levels while retaining necessary ramp-up capability. Effective efforts to drive inventory optimisation have carried over from FY24 and reduced inventory by a further 14% in HY25 to $51.5m (HY24: $60m).

HY25 Capex dropped by 6% to $6.9m with operating expenses relatively flat at $30m, reflecting the impact of Rakon's cost reduction and efficiency initiatives in offsetting the company's continued growth strategy investments.

Growth investments include Research & Development (HY25 $10.7m (HY24: $8.9m)), to extend Rakon's technology leadership for securing future design wins and market share. It also includes expansion of facilities to ramp up production to meet current and future AI & Cloud Infrastructure, and Space orders – including orders from contract wins announced in 2024 to supply subsystems for two new LEO satellite constellations.

Rakon retains a strong balance sheet, with net assets of $148.3m. The company had $15.8 million in net cash at balance date, $2.1 million lower than a year ago.

In April 2024, Rakon entered into a 2-3 year debt facility with global banking and financial services group, HSBC, which remains undrawn at HY25.

Strategic Progress

Rakon is successfully delivering on its strategic growth plan, with the diversification of its products and revenue solidifying the company's medium to long-term growth pathway. This gives the company added protection against traditional market cycles and leverages its technology leadership and reputation to gain market share and design wins in key high-growth areas.

Rakon's Space business and AI & Cloud Infrastructure segment represent the core revenue growth drivers for the company in the medium to long-term, and it anticipates they will account for close to 50% of total revenue by the end of the decade. LEO satellite subsystem contract wins and the recently announced selection of Rakon's MRO subsystem for an International Space Station mission, have continued to grow the company's stature in the Global Space Industry, as a top-3 supplier for its subsystems. In the AI & Cloud Infrastructure segment, Rakon is achieving design wins and securing orders from all of the key industry players.

Positively, the Telecommunications market showed indications of improvement in late HY25, with signs that customer inventory normalisation is almost complete, and reports of a gradual rise in 5G network investment.

Altug says: "We expected the Telecommunications market would remain subdued in the first half of FY25, consistent with what we shared at our FY24 results. We anticipate stabilisation on a year-on-year basis during the second half of the fiscal year, with inventory stockpiles normalising."

"Our largest customers are seeing some positive signs and sales growth in the North American market as mobile network traffic continues to grow at a 'healthy rate' – a combination of underlying traffic growth and also growth of Fixed Wireless Access demand, that is, using mobile networks to deliver high-speed home internet. On top of this we have seen indications of selective mobile network investment in Europe and also in India, where three of the four largest network operators have recently announced billion dollar investments in their network infrastructure, starting in 2025."

Rakon made good progress in HY25 with its 'Innovate, Capture, Capitalise' initiative to optimise research, product development and manufacturing across its global operations. This includes an accelerated schedule for transferring key product lines to Rakon's manufacturing centre of excellence in India. The company expects to achieve improved margins on the transferred products as production ramps at the start of calendar year 2025.

These product transfers are the first step of a comprehensive organisational transformation programme to reconfigure the company in line with its growth strategy. The organisational transformation programme is expected to deliver substantial overhead efficiencies and margin enhancements across Rakon's global operations within the next two years.

Outlook

Rakon is forecasting an improved second half, with its Aerospace and defence segment leading the way and continuing its growth trajectory. Rakon's Space business has a strong order book for FY25 and beyond, and annual seasonality means Space order volumes are weighted towards Q4.

The company's Telecommunications and Positioning segments are expected to remain subdued but improving in the second half. Rakon has retained its share of both markets and anticipates that Telecommunications demand will build in 2H25, as the market stabilises.

AI & Cloud Infrastructure product orders from leading industry players will deliver significant revenue in 1H26.

Rakon is tracking in the lower half of its FY25 Underlying EBITDA[1] guidance of $5m to $15m.

About Rakon

Rakon's products help 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.

Whether connecting to a 5G tower or to a rover exploring Mars, our technology is relied on to deliver the highest performance in even the most extreme conditions. Thanks to our constant drive to innovate, we continue to empower our customers to create the next-generation of life-transforming technologies, on Earth and beyond. For more information, visit rakon.com.

[1] Non-GAAP disclosures**.** Refer to note 4 of the FY2024 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 (NPAT).

ENDS

Authorised for release to the NZX by Rakon's Board of Directors.

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Financial Results and Business Update details

Rakon’s Half Year financial results presentation FY2025, is scheduled to start at 11.00am NZDT on Wednesday 27 November 2024. To view the live presentation webcast please pre-register using this registration link.