



Market Release

24 May 2023

Rakon delivers strong core business growth and all key milestones in growth plan

Global Technology company Rakon (NZX: RAK) has today released its financial results for the twelve months ended 31 March 2023.

All numbers are stated in New Zealand dollars (NZ\$) and relate to the twelve months ended 31 March 2023 (FY23), with comparisons to the twelve months ended 31 March 2022 (FY22) unless stated otherwise.

Highlights

- Revenue increased \$8.4 million (5%) to \$180.3 million reflecting core business growth offsetting chip-shortage revenue impacts
- Revenue growth was consistently strong across all core markets - Telecommunications up 17% to \$100.6 million, Space and Defence up 18% to \$28.9 million and Positioning up 21% to \$33.8 million
- Underlying EBITDA¹ of \$42.2 million (FY22: \$54.4 million) reflecting increased investment in growth initiatives and inflationary pressures
- Operating cash flow of \$11.1 million (FY22: \$30.2 million) reflects increased investments in growth initiatives, inventory built up to provide supply chain resilience and inflationary pressures
- Achieved all FY23 milestones in three-year growth plan including nearing completion of India Manufacturing facility and increased presence in Space and NewSpace ecosystem
- Commences dividend payments declaring fully imputed FY23 dividend of 1.5 cents per share and to introduce a Dividend Reinvestment Plan

Chief Executive Officer, Sinan Altug says "FY23 has been the best year ever for our core business with continued growth in global demand for Rakon's industry-leading products across all key markets. I'm proud that we were able to deliver on all of the key milestones for our three year growth plan which we outlined to shareholders last year."

"Over the last 4 years we have delivered a 36% CAGR of Underlying EBITDA for our core business reflecting Rakon's strong competitive advantages. The longer-term fundamentals of our markets remain strong and the opportunities significant. The strategic investments we are making in growth provide a strong foundation for future expansion in both core and new markets." said Mr Altug

Rakon Chair Lorraine Witten says "Today marks a landmark in Rakon's fiscal journey, with the commencement of dividends. Following careful management of our cashflow during the year and an improved operating risk profile, the Board have declared a fully imputed 1.5 cent per share dividend and will introduce a dividend reinvestment plan"

Financial Result

Total revenue for the year was up 5% at \$180.3 million, compared with \$172.0 million for FY22. Revenue growth was consistently strong across all core markets. Telecommunications, Rakon's largest market,

grew by 17% to \$100.6 million (FY22: \$86.0 million) on the back of continued 5G and 4G network infrastructure growth globally. Increased activity in both Space and Defence segments resulted in an 18% revenue increase, to \$28.9 million (FY22: \$24.5 million). Positioning grew by 21% to \$33.8 million (FY22: \$28.1 million) driven by increased demand for Rakon's precision timing products in the industrial, agricultural, automotive and emergency locator beacon segments. Additional revenue from the one-off chip shortage contracts fell \$15 million as contracts completed over the year and global chip supply normalised.

Gross profit was slightly lower at \$88.8 million, while gross margin percentage was 49% (FY22: 52%) reflecting a shift in the product mix. As expected, operating expenses increased in FY23 by \$9.5 million (19%). This increase is attributed to strategic investments in resources and innovation, supporting Rakon's future growth trajectory, combined with some impact from inflationary pressures on labour, energy costs and other overheads. The rise in operating expenses was partially offset by the favourable foreign exchange gains of \$3.0m million mainly from revaluation of our USD debtors and bank balances.

Underlying EBITDA of \$42.2 million was within the guidance range of \$40-44 million, representing an EBITDA margin of 23%. Net Profit After Tax (NPAT) was \$23.2 million, reflecting Underlying EBITDA as well as a share of a loss made by an associate.

Operating cash flow for the period was \$11.1 million, down on last year's \$30.2 million as the result of increased investments in growth-related initiatives, technology innovation, and increased inventory to provide supply chain resilience, in addition to increased overhead costs reflecting the current inflationary environment.

Balance Sheet

Rakon's balance sheet remains robust, with net assets increasing by 16% to \$156.9 million since March 2022. The company had \$16.5 million in net cash at balance date, \$6.8 million lower than a year ago as it continued to self-fund key growth-focused projects. Payments of \$9.5 million were made during the year for construction of the new manufacturing facility in India, which is now largely complete.

Borrowings reduced by \$10.7 million during the year. The \$10 million private debt facility held at the beginning of the year was repaid and a new, more flexible debt facility arrangement was agreed with ASB Bank, which remains undrawn.

Inventory levels increased over the first half, following the deliberate strategy to build safety stocks of raw materials and finished products to mitigate supply chain risks, ensure delivery continuity for key customers and also to support the transfer of Rakon India's manufacturing operation to the new facility. Since 30 September 2022 inventory has reduced 13% and it is expected the balance date inventory level of \$62.6 million (FY22: \$57.3 million) will continue reducing through FY24 as supply chain volatility reduces and manufacturing volumes build in the new facility.

Rakon will continue to manage its balance sheet to support the company's long-term sustainability and growth strategy, including maintaining capacity to execute on growth opportunities over time.

Growth strategy

FY23 marked the launch of Rakon's three-year growth plan and every objective set for FY23 has been successfully achieved.

The new XMEMS® nanotechnology frequency control products launched during the year has received exceptional feedback. The UK-based semiconductor development programme has been expanded and successfully released Niku™, Rakon's next generation semiconductor chip. Rakon is achieving strong industry support for its low earth orbit (LEO) satellite subsystems as well as the highest validation with multiple Rakon products onboard a groundbreaking European Space Agency mission to study Jupiter's moons for signs of life. The construction of Rakon's new manufacturing Centre in India is largely complete, and past the peak risk, with the first products already being produced and the relevant certifications achieved.

Rakon continues to evaluate and consider potential acquisition opportunities which align with its strategy, and sees clear synergies in acquiring a US-based business that provides access to top-tier US customers through local manufacturing and strengthens existing customer relationships. Rakon is engaging with a shortlist of suitable target companies and taking the necessary time to ensure any potential acquisition will enhance or be supported by our competitive advantage and capability, and be value-accretive.

Dividends

The Board has rigorously assessed Rakon's future capital requirements in line with its three-year growth plan, cash flow forecasts, and relevant external variables.

The careful management of free cash flow through the year has enabled borrowings to be repaid, a strong balance sheet to be maintained and growth initiatives to be funded. Alongside this there has been an improvement in the company's operational risk profile following the resolution of raw material shortages and the near completion of the Indian facility.

Therefore, the Board is pleased to confirm that Rakon will commence dividend distributions. The Board is declaring a FY23 fully imputed dividend of 1.5 cents per share, with a record date of 24 July 2023 and payment date of 8 August 2023. The payment date of this dividend has been set to allow time for the introduction of a Dividend Reinvestment Plan.

The Board believes this level of dividend payment is sustainable through the investment and execution of the three-year growth plan which is focussed on delivering shareholder value over time.

Outlook

The continued revenue and margin growth of the core business over the last five years highlights Rakon's competitive advantages and the trust customers have in its products, innovation and customer service, regardless of where they are in the world. The longer-term growth fundamentals for Rakon's core markets remain strong and the opportunities significant with the ongoing evolution of 5G, cloud and edge computing, autonomous machines and vehicles, aerospace and the entire NewSpace ecosystem..



In the short-term, Rakon expects FY24 Underlying EBITDA of between \$26 million and \$34 million. This reflects the industry-wide normalisation of inventory levels among customers, which is anticipated to have a \$10 - \$15 million revenue impact on FY24 principally affecting the first half of the year in the Telecommunications and Positioning Segments. The demand in Space and Defence remains strong. The one-off chip shortage contracts that benefited FY22 and FY23 also rolled-off during FY23. In addition, Rakon continues to feel the impacts of labour shortages and inflationary pressures and is focused on making appropriate operating adjustments to optimise short-term financial performance without diminishing its future growth path.

Focused on sustained growth and shareholder value, Rakon continues to invest in growth and is on track with its three-year growth plan that provides a strong foundation for future expansion in both core and new markets. Rakon's new India facility, which will be inaugurated in June, provides a vital long-term competitive advantage with significantly enhanced manufacturing capacity and capability and lower production costs. Rakon also continues to actively seek growth opportunities, including acquisitions, where it sees future value creation and alignment with our growth strategy.

Ends

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

Conference call details

Sinan Altug (Chief Executive Officer) and Anand Rambhai (Chief Financial Officer) will present the FY2023 Financial Results and Business Update at 11.00am NZST. All shareholders are invited to listen and view the presentation broadcast. To join the live broadcast online please pre-register using this Registration [link](#)

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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's products are found at the forefront of communications where speed and reliability are paramount. Its 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, six research and development centres, and sixteen customer support offices worldwide. Founded in Auckland in 1967, Rakon is proud of its New Zealand heritage. It is a public company listed on the New Zealand stock exchange, NZX, ticker code RAK.

¹Non-GAAP disclosures

Refer to note 4 of the FY2023 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 (NPAT)