

# FY24 financial results and business update



Twelve months to 31 March 2024



# Disclaimer



This presentation contains not only a review of operations, but also some forward looking statements about Rakon Limited and the environment in which the company operates. Because these statements are forward looking, Rakon Limited's actual results could differ materially.

Although management and directors may indicate and believe that the assumptions underlying the forward looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward looking statements will be realised.

Media releases, management commentary and investor presentations are available on the company's website and contain additional information about matters which could cause Rakon Limited's performance to differ from any forward looking statements in this presentation. Please read this presentation in the wider context of material previously published by Rakon Limited.

All figures are presented in New Zealand dollars unless otherwise indicated. All comparisons are to the prior corresponding period (twelve months to 31 March 2023) unless otherwise noted. Refer to note 4 of the FY2024 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).

## **Non-binding indicative proposal**

On 18 December, Rakon announced it was undertaking a process to consider an unsolicited, non-binding, indicative proposal (the Proposal). Rakon refers shareholders to its market announcements on this matter, with the latest announcement being on 13 May 2024.

Rakon has no further updates in respect of the Proposal at this time. Shareholders are reminded that there is no certainty that any transaction will eventuate from the Proposal or as to the pricing or timing of any transaction.

Please note that during the Q&A portion of this presentation we will not be commenting further in respect of the Proposal and Rakon's engagement with the bidder, in accordance with the confidentiality restrictions Rakon is subject to.

# Agenda



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- 16 Q&A



**Sinan Altug**

Chief Executive Officer



**Drew Davies**

Chief Financial Officer

# FY24 highlights

Continued focus on efficiency and execution of growth plan for Space and AI



Highest ever Space segment revenue. Cyclical slowdown impacting telecommunications and positioning



Continued delivery of 3-year growth plan



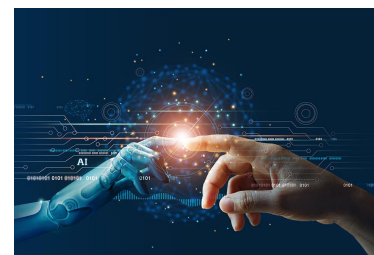
Consistent market share gains and high design win-rate



New contract positions Rakon as a Top 3 player in Space Subsystems



Continuing focus on cost control and driving efficiency



Launch of MercuryX product range for AI and cloud data centres

# FY24 Financial highlights



## Revenue

**\$128.0m**

▼ \$52.3m -29%

## Operating expenses

**\$59.5m**

▲ \$0.7m +1%

## Capex

**\$17.0m**

▼ \$1.7m -9%

## Gross Margin

**\$57.9m**

▼ \$30.9m -35%

## Underlying EBITDA<sup>1</sup>

**\$13.5m**

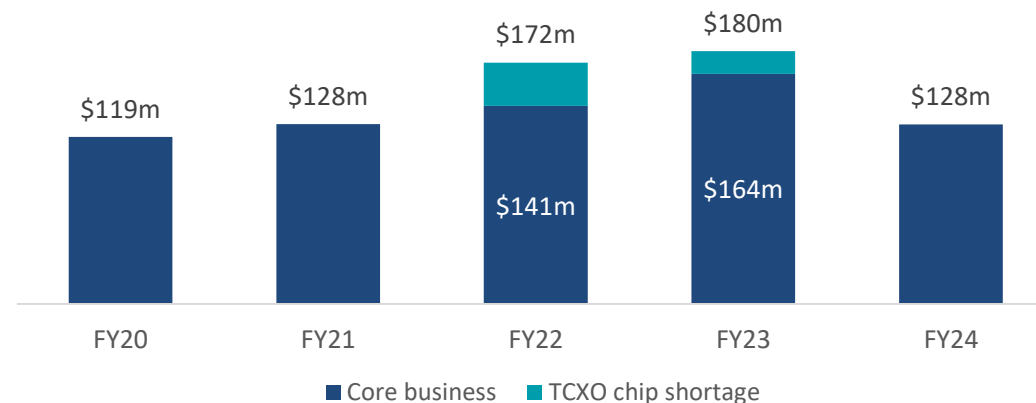
▼ \$28.7m -68%

## Operating cash flow

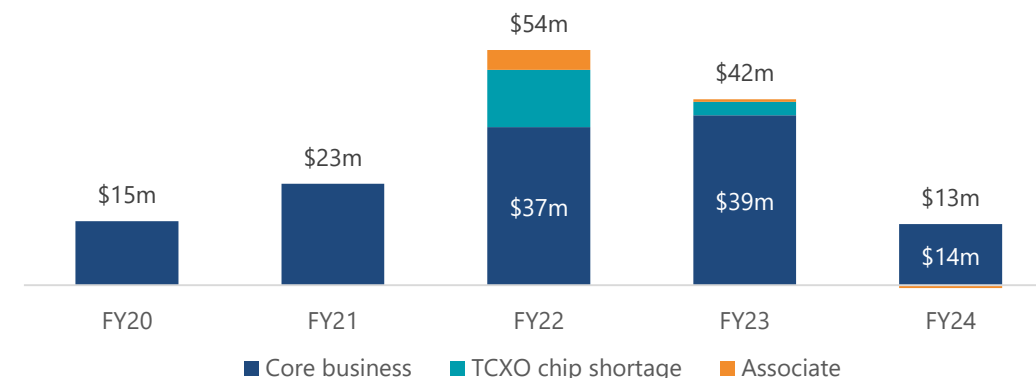
**\$17.8m**

▲ \$6.7m +60%

## Revenue (\$m)



## Underlying EBITDA<sup>1</sup> (\$m)



<sup>1</sup> Refer to note 4 of the FY2024 audited consolidated financial statements for an explanation of how 'Non-GAAP Financial Information' is used, including a definition of 'Underlying EBITDA'

# Space and Defence

Record revenue and \$17m 3-year contract win

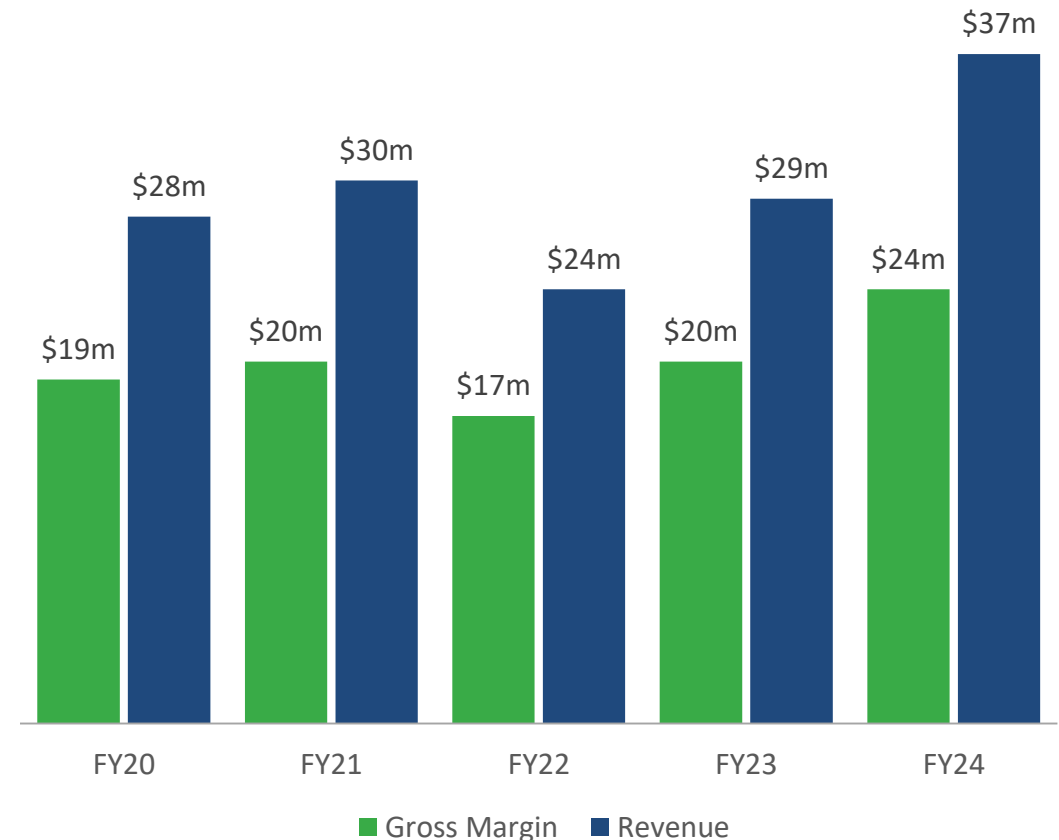
**Highest ever revenue** – up +27% to \$36.8m

**Gross margin** – up +22% to \$24m driven by the French and New Zealand business units

**Customer wins** – strong order book for FY25; secured largest space contract worth up to \$17m over 3-years

**Strategic success** – focus on diversifying products and growing market share has made Rakon a Top-3 supplier of its space subsystem products, ahead of schedule

Revenue and Gross Margin (NZD)



# Telecommunications



Recovery taking longer; design win rate remains high

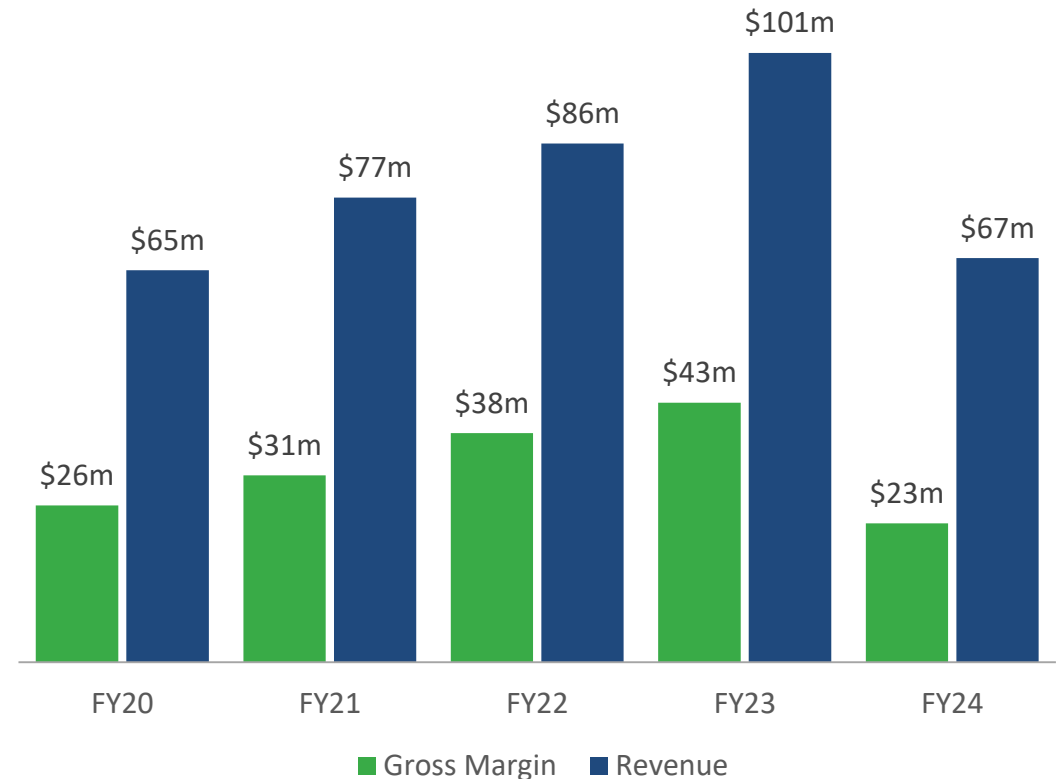
**Revenue impacted** – mobile network operators continuing to work through stock-piled inventory and deferring 5G capex

**Gross margin** – reflects one-off costs associated with workforce restructuring, inefficiencies of lower production levels

**Continued growth in market share** – design win rate also remains consistently high

**Emerging core market: AI** – already generating revenue projected to grow significantly

Revenue and Gross Margin (NZD)



# Positioning

Market share steady; design wins high

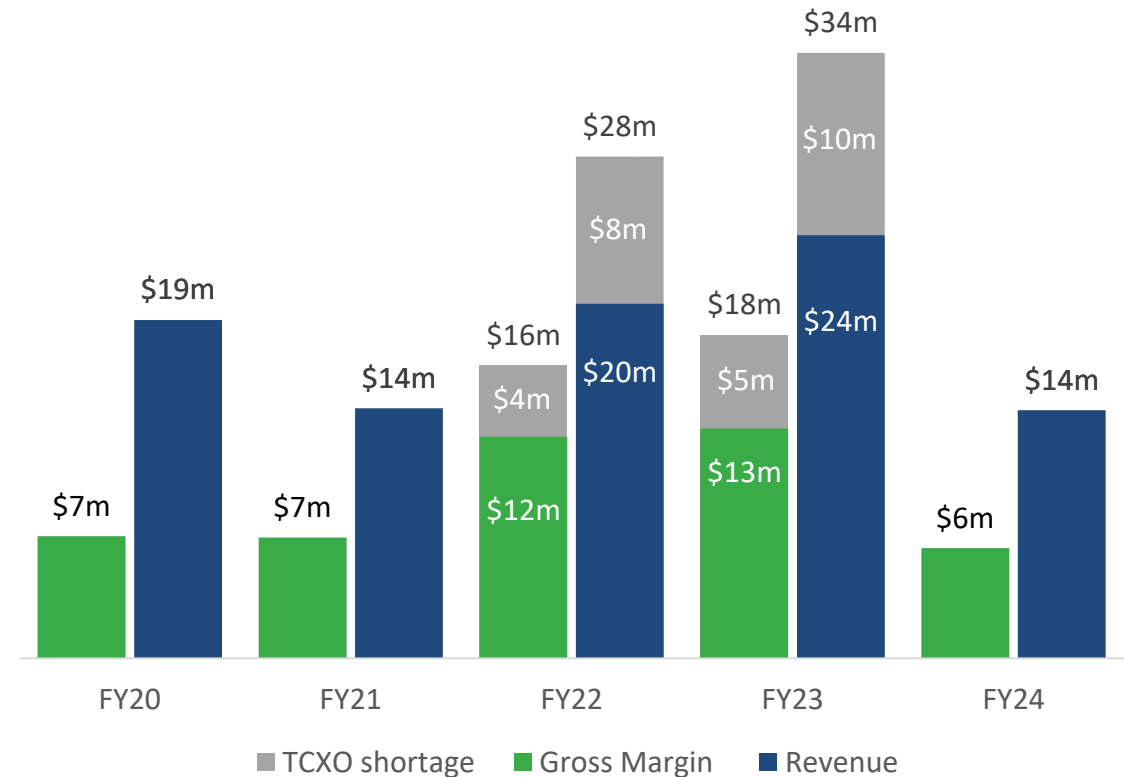
**Revenue** – revenue down; customers drawing down stockpiled inventories

**Gross margin** – maintained margins and prices

**Market share** – market share remains steady, and continuing to secure design wins at consistently high rate in the precision positioning segment



Revenue and Gross Margin (NZD)





# FY24 key financial results



<b>Performance for the year to 31 March 2024 NZ\$m</b>	<b>FY24</b>	<b>FY23</b>	<b>YoY change</b>	<b>% change</b>
Revenue	128.0	180.3	-52.3	-29%
Gross profit	57.9	88.8	-30.9	-35%
Gross margin %	45.2%	49.2%	-4.0 pts	
Operating expenses	59.5	58.8	+0.7	+1%
Net profit after tax	4.5	23.2	-18.7	-81%
Underlying EBITDA <sup>1</sup>	13.5	42.2	-28.7	-68%
Capital expenditure	17.0	18.7	-1.7	-9%
Operating cash flow	17.8	11.1	+6.7	+60%

## Financial Position

Cash and cash equivalents	17.8	21.7	-3.9	-18%
Debt <sup>2</sup>	6.6	5.2	+1.4	+26%
Inventory	54.9	62.6	-7.7	-12%

- Revenue down -29% YoY (down -22% YoY excluding prior year one-off chip shortage revenue) due to lower Telecommunications and Positioning orders
- Gross Margin % reduction driven by:
  - one-off workforce restructuring labour costs
  - Inefficiencies of lower production levels
- Operating expenses (excluding \$2.2m acquisition proposal costs) fell \$1.5m to \$57.3m reflecting efficiency initiatives
- Inventory down -12% YoY as we continue to focus on inventory management optimisation

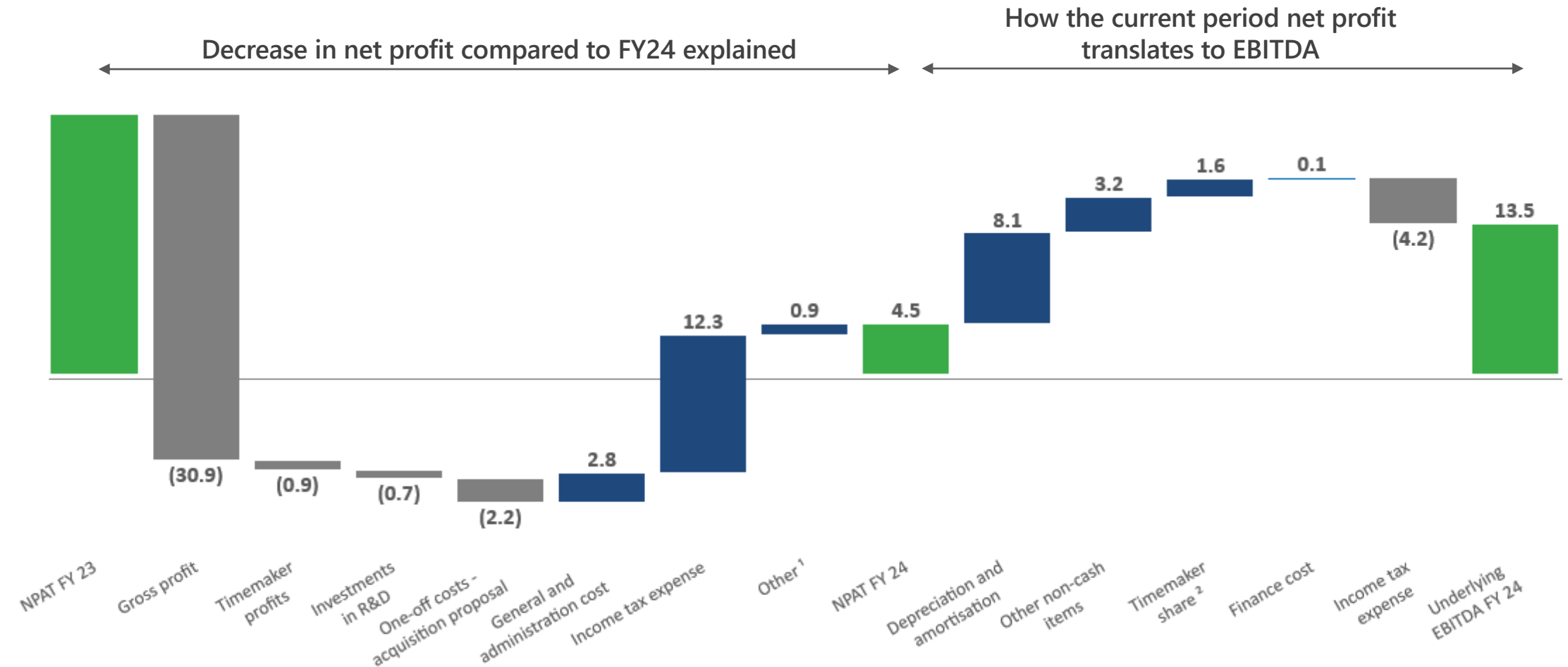
<sup>1</sup> Refer to note 4 of the FY2024 audited consolidated financial statements for an explanation of how 'Non-GAAP Financial Information' is used, including a definition of 'Underlying EBITDA'

<sup>2</sup> Excluding NZ IFRS 16

# Net profit and underlying EBITDA explained



Financial result reflects investment for growth and inflationary pressures



1. Include movement in finance cost, balance of operating expenses, other operating income, foreign exchange gains & net finance cost  
 2. adjustment for Timemaker share of interest, tax and depreciation

# Focused on asset optimisation



Underway with initiatives to deliver greater efficiency for global operations

## India Product Transfers

- Optimisation of manufacturing cost structures includes accelerated schedule for India facility production of key NZ/France product lines
- Anticipate realisation of benefits from improved margins when volume ramped up in Q4

## Inventory Management

- Continued focus on optimising inventory led to -\$7.7m overall decline YoY, and will continue to drive reductions

## HSBC Facility

- 2-3 year facility with HSBC; overall facility size is up to approximately NZ\$47m
- Gives Rakon additional flexibility to invest to support organic capital planning and other strategic activity


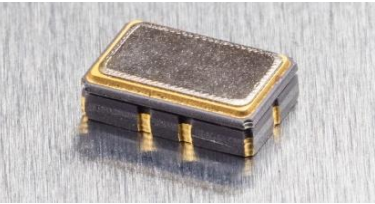
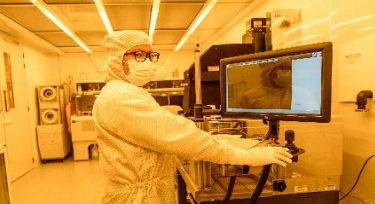

## Driving Efficiency Across Global Operations

- Ongoing process to streamline operations globally, ensuring all key expenditures across the board contribute to Rakon's growth strategy
- Global workforce numbers down -13% YoY; ensuring workforce count is within optimal levels for cost of production while positioning the business to capture greater efficiency from its global operations
- Proactively looking at all expense categories and association with revenue and future growth objectives

# Continued delivery of 3-year growth plan

Diversifying and growing market share, revenue and margins in high growth markets



		FY 2023	FY 2024	FY 2025
	<b>NEW MANUFACTURING FACILITY IN INDIA</b>	<ul style="list-style-type: none"> <li>Construction completed ✓</li> <li>Fitout / capacity expansion ✓</li> <li>Existing manufacturing transfer ✓</li> </ul>	<ul style="list-style-type: none"> <li>India facility transfer of select NZ products ✓</li> <li>India facility transfer of select NewSpace products ✓</li> </ul>	<ul style="list-style-type: none"> <li>India facility transfer of select Space subsystems</li> </ul>
	<b>RAKON DESIGNED SEMICONDUCTOR CHIPS</b>	<ul style="list-style-type: none"> <li>Substantial increase in R&amp;D and chip design capability ✓</li> <li>Release of Niku™ next generation chip ✓</li> </ul>	<ul style="list-style-type: none"> <li>Launch of enhanced MercuryX™ ✓</li> <li>Chip based product revenue growing to over 60% ✓</li> </ul>	<ul style="list-style-type: none"> <li>Chip based product revenue growing</li> <li>Release of Vulcan™ next generation chip</li> </ul>
	<b>XMEMS® NANOTECHNOLOGY MANUFACTURING</b>	<ul style="list-style-type: none"> <li>Continued investment in XMEMS® capability ✓</li> <li>Release of initial XMEMS® based products ✓</li> </ul>	<ul style="list-style-type: none"> <li>Volume production of XMEMS® ✓</li> <li>XMEMS® products qualified into key 5G platforms ✓</li> </ul>	<ul style="list-style-type: none"> <li>Leadership in targeted market segments</li> <li>Expansion into other product categories</li> </ul>
	<b>NEWSPACE BUSINESS</b>	<ul style="list-style-type: none"> <li>R&amp;D and supply chain investment ✓</li> <li>Strategic relationships established ✓</li> </ul>	<ul style="list-style-type: none"> <li>Recognised player in the NewSpace ecosystem ✓</li> <li>Significant orders secured ✓</li> </ul>	<ul style="list-style-type: none"> <li>Become a top 3 player in subsystems ✓</li> <li>Delivery of orders</li> </ul>

# Emerging core market: AI

Already generating revenue; project substantial benefits in next 12 months

- Rakon's technology and products ideally suited for overcoming the synchronisation challenges that datacentres face with AI workloads
- Working with leading players in AI hardware to enable the next generation platforms for new 'AI Factory' data centres
- Launched next generation semiconductor chip Niku in 2023, and enhanced MercuryX in 2024, creating foundation for new AI computing hardware product lines
- These products are already generating revenue; expect this to increase significantly over next 5 years



# Growing core market: NewSpace

Investments in this rapidly growing ecosystem are delivering results

- Awarded satellite subsystem contract with industry leader in May 2024
- Contract win makes Rakon a Top-3 global supplier for its space subsystems
- Diversified product portfolio has increased Rakon's addressable market for space to \$250m. On track to double share of serviceable addressable market in the next 5 years, largely driven by demand for subsystem products as evidenced by recent contract win
- Released several new products in FY24, including new GNSS (Global Navigation Satellite System) receivers, MROs (Master Reference Oscillators), and ultra-stable oscillators
- Rakon about to launch a new semiconductor chip designed for its space oscillator product; with another chip in the pipeline





# Core markets outlook



## Space

- Strong Space order book for FY25
- Diversified product portfolio has increased Rakon's addressable market for space to \$250m
- On track to double share of serviceable addressable market in the next 5 years, largely driven by demand for subsystem products as evidenced by recent contract win

## Telecommunications

- Dell'Oro projection for global RAN to decline 5-8% in 2024
- Similar to our largest Tier 1 customers, we see the market remaining weak in 2024, but with the potential for it to level out on a YoY basis during the second half
- We expect gross margin levels to return in FY25

## Positioning

- Increased competition driving down price but overall volumes steady
- Inventory correction cycle not yet completed
- Rakon has a good position in the high-end precise positioning segment

# Summary

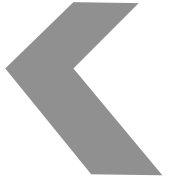


- Short-term outlook remains suppressed with the economic downturn for both telecommunications and positioning
- Space and Defence continuing to grow with a solid Space order book for FY25 and \$3m benefit in FY25 from new space \$17m/3-year contract. Rakon in a strong position to secure future wins from other targeted contracts
- High design rate win provides confidence of continued market share growth
- Continued focus on efficiency initiatives driving annualised cost savings and improving future resilience and competitiveness
- Delivery of 3-year growth plan will improve revenue and margins and, importantly, diversify revenue to provide increased protection through the cycle
- We are well positioned to benefit when markets recover and to continue momentum in Space and AI hardware





# Q&A



**rakon**

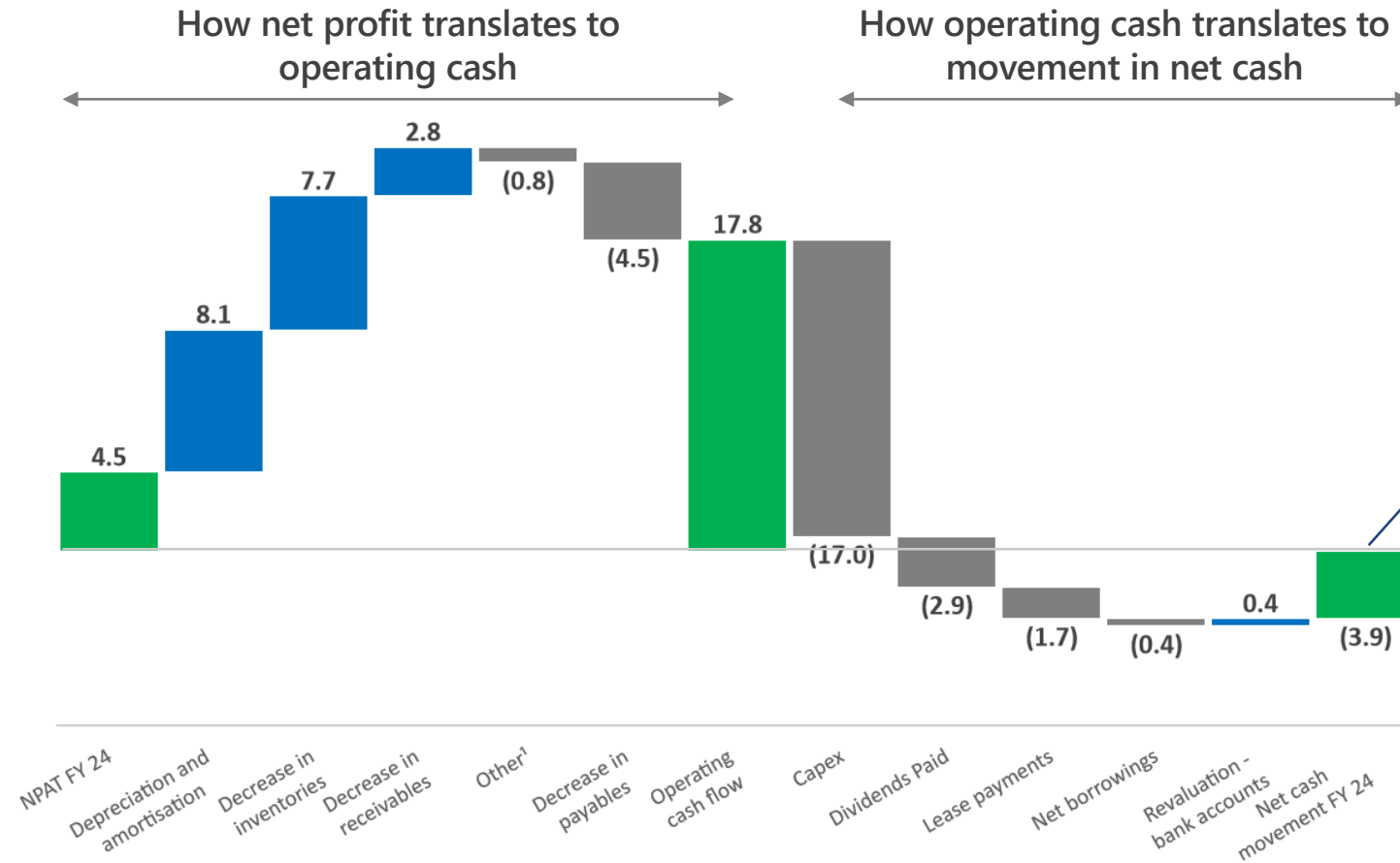
[www.rakon.com](http://www.rakon.com)

# Appendix

# How net profit translates to net cash movement



Inventory management and investment for growth impacting cash position



Cash balance  
**\$17.8m**

- Decrease in receivables reflects reduction in Telecommunications revenue
- Focus on reducing inventory (lower supply chain risks and transfer from former sites to new India facility completed)
- Operating cash up due to decreasing inventory balances as we optimise inventory sell-through
- Capex includes completion of India facility to enable transition from former sites
- Net dividends paid in August 2023: \$2.9m

Other<sup>1</sup> – non-cash items including unrealised foreign exchange, share of net profits of associate (Timemaker), employee share-based expense, and movements in other provisions