24 November 2022

UNAUDITED RESULTS FOR THE HALF YEAR TO 30 SEPTEMBER 2022

Core business growth drives strong Rakon half-year result

Highlights:

- **Revenue $87.2m (1H22: $85.4m)**
- **Underlying EBITDA[1] up 6%[2] to $28.1m (1H22: $26.4m)**
- **Net profit after tax $16.0m (1H22: $18.9m)**
- **Positive earnings impact from foreign exchange gains**
- **Sustained core market growth, particularly 5G and positioning**
- **India expansion on track for completion early 2023**

All amounts are in New Zealand Dollars

Rakon (NZX.RAK) today announced a strong result for the six months to 30 September 2022, on the back of continued growth in global demand for its industry-leading frequency control and timing solutions.

Solid core business revenue growth, combined with management of costs and margins and foreign exchange gains have driven a 6% increase in Underlying EBITDA.

“We are pleased with this first-half performance. Our customers have remained our priority and we are pleased to have achieved high levels of delivery despite challenging conditions through the period,” said Chief Executive Dr Sinan Altug.

“Last year was a significant step up in revenue as we took advantage of short-term market opportunities. With that business now tailing off, it is pleasing to see that the higher levels of revenue and margins were maintained in the first half through growth in our core business.”

Financial and market performance

Total revenue rose 2% to $87.2 million (1H22: $85.4 million). Dr Altug said that core business revenue growth has largely offset the decline in the one-off chip shortage business delivered during the period.

In our core business, Telecommunications remains the biggest driver of growth, with revenue up 14% to $47.5 million (1H22: $41.8 million) as 5G network infrastructure continues to be built

[1] Refer to Note 5 of the FY2022 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

[2] All comparisons are against the prior corresponding period (1H22) unless otherwise stated

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around the globe. Space and defence revenue increased 19% to $12.3 million (1H22: $10.3 million), and Positioning was also up 16% to $16.4 million (1H22: $14.2 million). Dr Altug said the company had experienced a post-Covid pick up in key space programmes and the emergency locator beacon market, both segments where Rakon's precision timing products excel.

Gross profit remained steady at $43.5 million, with a gross margin percentage of 50% (1H22: 51%). After a long period of cost stability, operating expenses were $3.7 million higher at $28.4 million. While this increase was partly due to increased investment in people and resources to support growth, cost inflation, including labour and energy prices, is also having an impact across the business.

Underlying EBITDA increased 6% to $28.1 million (1H22: $26.4 million). Over the half year, the significant reduction in the NZD/USD exchange rate had also favourably impacted Rakon's Underlying EBITDA.

Foreign exchange gains were made on USD sales where hedging was at less than 100%. Some of these gains were realised and the rest unrealised. The unrealised gains mainly relate to the revaluation of Rakon's USD bank balances and debtors not hedged at 30 September.

Despite higher operating earnings, net profit after tax fell 15% to $16.0 million due to a higher taxation expense after accumulated New Zealand tax losses were fully used in FY22.

Capital management

As signalled at the company's annual meeting in August 2022, Rakon's earnings growth has enabled the company to self-fund key strategic growth projects. During the six-month period, $6.8 million was invested in R&D including technology innovation, new product development and manufacturing capability to meet anticipated demand. This investment, comprising both capital and operating expenditure, was funded by a combination of operating cash and cash reserves.

Inventory increased over the six-month period by $14.7 million, following a decision to further build safety stocks of raw materials and finished products to mitigate supply chain risks and ensure delivery continuity for key customers. Rakon India has also built buffer stocks to ensure delivery continuity during the transfer of its manufacturing operation to the new facility, starting in 2023.

"We believe these actions have been prudent given the current macro environment and the Rakon India new facility project, but nonetheless expect inventory levels to start reducing in the coming months", Dr Altug said.

Rakon's balance sheet remains robust, with net assets increasing by 3% to $140 million. Net cash was $18.4 million, down $4.8 million since March as the company invested in additional inventory and in the construction of the new building in India. During the period, Rakon repaid an existing $10 million debt facility, which had been established in 2021.

Consistent with Rakon's dividend policy the board has determined not to declare an interim dividend.

Operations

Dr Altug said that while supply chain conditions had improved during the period, operating cost inflation and labour shortages remained a concern. These are being actively managed to ensure delivery for customers and protection of margins.

Construction at Rakon India's new manufacturing facility in Bengaluru is on track for completion by the end of 2022. Once the building is complete, Rakon India's manufacturing operations will be transferred from the existing sites to the new facility on a phased basis. This will include the commissioning of plant and equipment, product qualification by customers and commencement of production.

"We will be working extremely hard to execute the transfer of our Rakon India operation to its new facility effectively and with minimal disruption to customers or supply," said Dr Altug. "Once complete, we believe that the new operation, with its enhanced manufacturing capacity and capability will be a vital long-term competitive advantage for Rakon."

Growth plan

Rakon is making solid progress against its growth plan unveiled at the company's annual meeting in August.

The company is investing in people, products and capability to drive organic growth, as well as exploring potential acquisition opportunities that may provide access to new markets or technologies. Key growth projects are focused primarily on the development of new ASIC[3] semiconductor chips and their associated products, the new XMEMS® nanotechnology production process, and a new suite of NewSpace products for Low Earth Orbit (LEO) satellites.

"We are on track to achieve the milestones identified in our three-year roadmap," Dr Altug said. "We have a significant new semiconductor chip due for release in the second half, and we already have five products being manufactured using our new XMEMS® nanotechnology production process. We are establishing our presence in the NewSpace ecosystem and are excited to be aboard a planned In-orbit demonstration mission in early 2023."

Outlook

Rakon's board has updated guidance for Underlying EBITDA to be in the range of $38 million to $44 million for the financial year to 31 March 2023.

"Although we expect the first-half challenges and uncertainties, including exchange rate movements, to continue throughout the year, we remain well positioned to deliver a solid result for FY23," said Dr Altug.

"Our forward orders are strong. However, we are closely monitoring our markets and may see some dampening of customer demand due to macroeconomic volatility and inventory correction. We are also working hard to manage the ongoing impacts of supply chain disruptions, labour shortages and cost inflation; as well as the business continuity risks around

[3] ASIC stands for Application Specific Integrated Circuit, referring to a customised semiconductor chip

the critical transfer of our Indian manufacturing operation to its new facility."

"Nonetheless, we remain confident about Rakon's future growth. The quality of our core markets combined with our operating agility, technology innovation and strong customer relationships provide a high level of resilience and provide a solid platform for long-term success."

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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.