

1H23 financial results & business update

Six months to 30 September 2022



Enabling the connected future



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 all 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

Agenda



Key highlights and achievements

Operating performance & market update

Financial overview

Summary & outlook

Q&A

Sinan Altug (CEO)

Sinan Altug

Anand Rambhai (CFO)

Sinan Altug



Sinan Altug



Anand Rambhai

1H23 – key highlights & achievements



Strong core business growth offsets chip-shortage revenue impacts

Financial highlights



Revenue

\$87.2m

▲ \$1.7m +2%

Underlying EBITDA¹

\$28.1m

▲ \$1.7m +6%

Net profit after tax

\$16.0m

▼ \$2.9m -15%

Operating cash flow

\$0.0m

▼ \$4.5m -100%

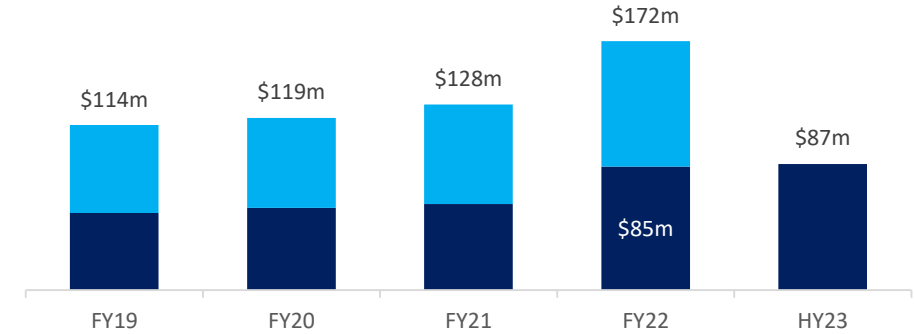
Net cash/(debt)

\$18.4m

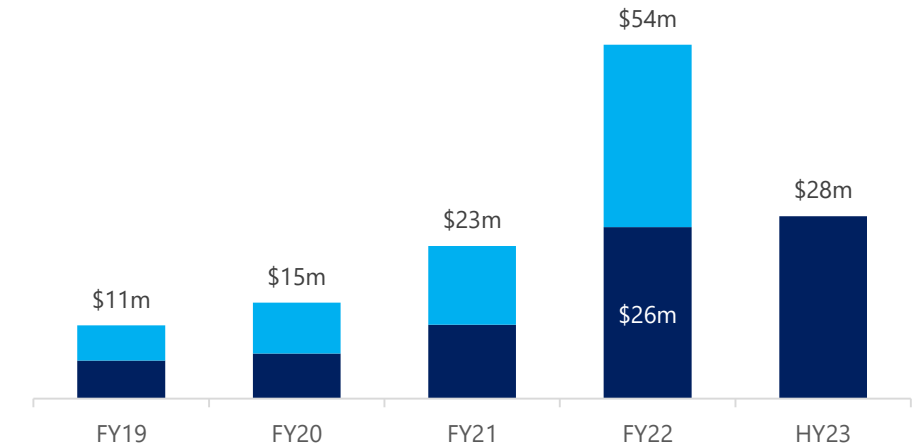
▼ \$4.8m -21%

v March 2022

Revenue



Underlying EBITDA¹



Notes:

All figures are presented in New Zealand dollars unless otherwise indicated

All comparisons are to the prior corresponding period (i.e. six months to 30 September 2021) unless otherwise noted

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 NPAT

1H23 highlights



Solid revenue and EBITDA performance



Increased delivery capacity of core product portfolio



Core business growth across all key markets



Key growth projects on track



Strong margins despite inflationary pressures



India manufacturing facility nearing completion

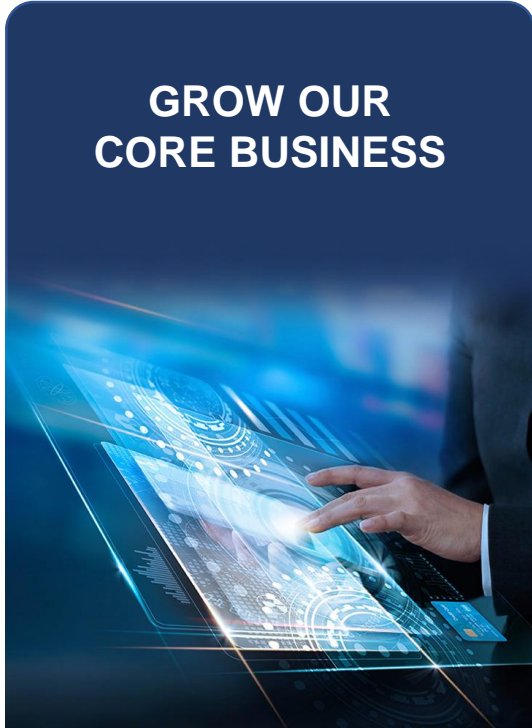
Operating performance and market update



Four-part growth strategy



**GROW OUR
CORE BUSINESS**



**MAINTAIN PRODUCT
& TECHNOLOGY
LEADERSHIP**



**EXPAND INTO
NEW MARKETS**



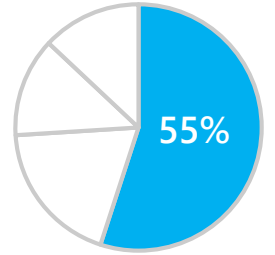
**DELIVER
WORLD CLASS
MANUFACTURING**



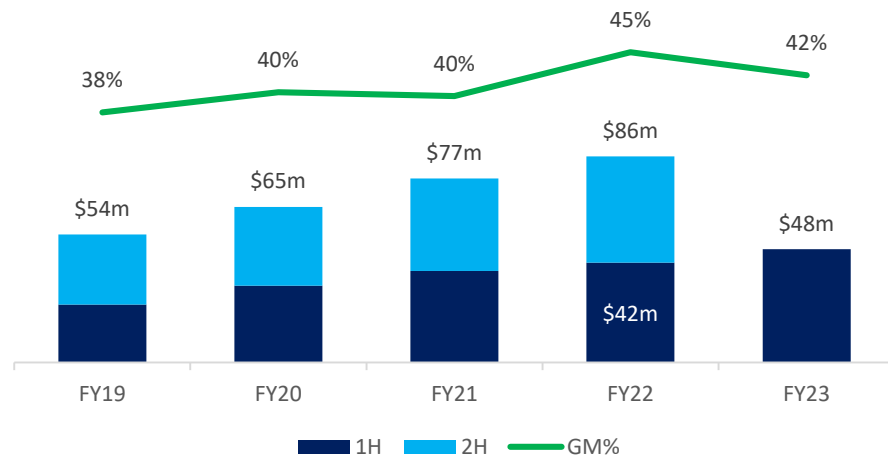
Strategic acquisitions supporting growth strategy

Core business – Telecommunications

Strong growth continues, driven by 5G and increased market share



Revenue & GM%



- Revenue up 14% driven by increased market share and 5G rollout
- Gross margin up \$2.4m (14%) to \$20.0m, GM% impacted by change in product mix
- Growth well balanced across networking, base stations and radioheads
- Strong order book, closely monitoring demand
- Synchronisation of edge servers & 5G roll out in India expected to drive medium term growth



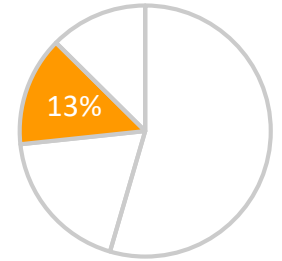
Rakon in the Telecommunications market:

Our market-leading telecommunications products enable data to be transmitted across networks at ever-increasing levels of speed and reliability. Market growth is driven by the unrelenting advancement of telecommunications, cloud computing equipment and infrastructure.

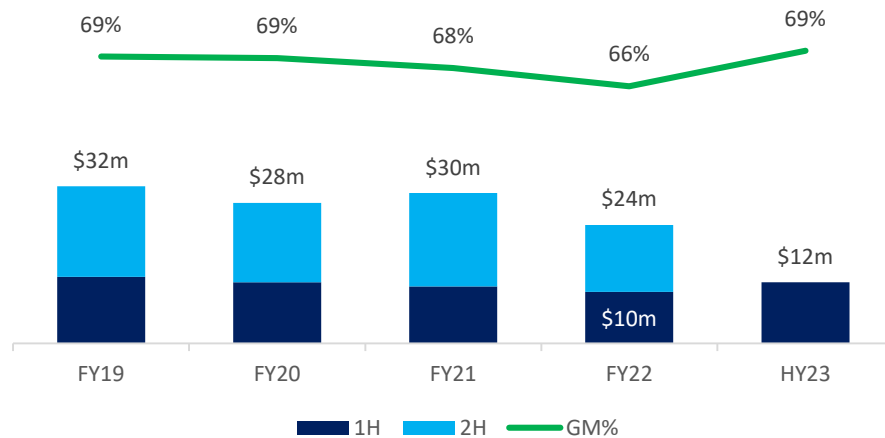
A primary supplier to 5 of the top 7 global telecommunications infrastructure companies.

Core business – Space & Defence

Increased revenue and strong stable margins in most demanding market



Revenue & GM%



- Revenue up 19%, driven mainly by demand for high-reliability space applications
- Gross margin up \$1.8m (26%) to \$8.5m with improved product mix
- Space
 - Space programmes resuming
 - LEO (NewSpace) momentum starting to build
- Defence - growing activity



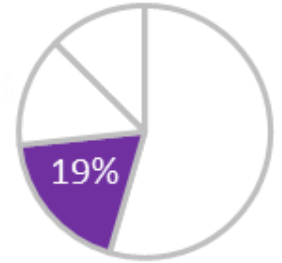
Rakon in the Space & Defence markets:

Our products deliver the highest levels of performance in extreme environments; in aviation, satellites, radar, communications and positioning systems. Market growth is being led by the emerging low earth orbit (LEO) satellite market.

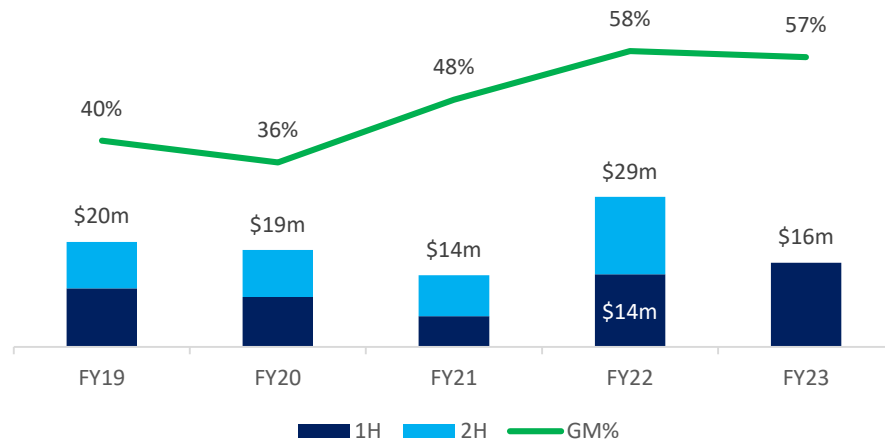
Longstanding worldwide customer relationships with government agencies and commercial programmes, with space generating 5% and defence 8.8% of Rakon's total 1H23 revenue.

Core business – Positioning

Steady industrial growth supported by strong locator beacon resurgence



Revenue & GM%



- Revenue up 16% driven by:
 - Continued growth in industrial positioning (e.g. agriculture and construction surveying)
 - Returning global travel driving higher emergency locator beacon business
- Gross margin up \$1.1m (14%) to \$9.3m
- Industrial/precision equipment market outlook remains strong however we may see an inventory correction in the short term



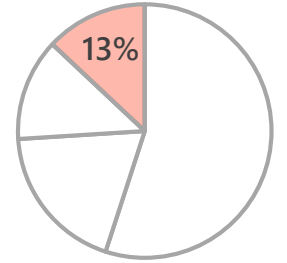
Rakon in the Positioning market:

Our products meet the most accurate positioning requirements in key industries: aircraft/marine navigation, emergency beacons, automotive, autonomous agriculture & mining. Market growth is being led by autonomous industrial equipment and vehicles and precision equipment.

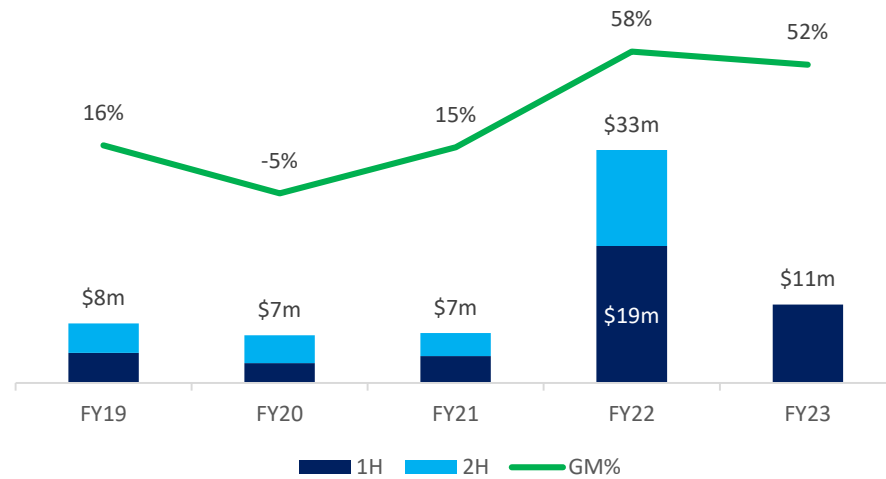
In recent years we have pivoted away from consumer high-volume/low value segments to focus on high-growth segments where we have a product performance advantage.

Emerging & Other

Completion of large chip-shortage order during period



Revenue & GM%



- Completion of major TCXO chip shortage order during the period



Key Investment Areas



New facility in India



Semiconductor chip R&D



XMEMS[®] Quartz nanotechnology





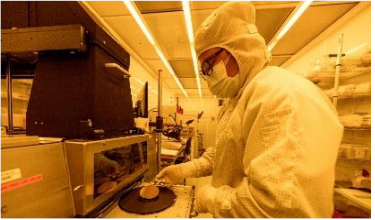

NewSpace portfolio



3-year growth roadmap

On track to achieve FY23 milestones



	FY23	FY24	FY25
 <p>New manufacturing facility in India</p>	<ul style="list-style-type: none"> Construction completed Fitout / capacity expansion Existing manufacturing transfer 	<ul style="list-style-type: none"> Select NZ products transferred Select NewSpace products transferred 	<ul style="list-style-type: none"> Select French NewSpace subsystem modules transferred
 <p>New Rakon designed semiconductor chips</p>	<ul style="list-style-type: none"> Substantial increase in R&D and chip design capability in NZ & UK Release of Niku™ next generation chip 	<ul style="list-style-type: none"> Release of Vulcan next generation chip Chip based product revenue growing to over 60% 	<ul style="list-style-type: none"> Chip based product revenue growing Release of Caduceus & Kepler chips
 <p>Commercialisation of XMEMS® nanotechnology manufacturing capability</p>	<ul style="list-style-type: none"> Continued investment in XMEMS® capability Release of initial XMEMS® based products 	<ul style="list-style-type: none"> Volume production of XMEMS® based products 	<ul style="list-style-type: none"> Leadership in targeted market segments Expansion into other product categories
 <p>NewSpace business</p>	<ul style="list-style-type: none"> R&D and supply chain investment Strategic relationships established 	<ul style="list-style-type: none"> Recognised player in the ecosystem Significant orders secured 	<ul style="list-style-type: none"> Become a top 3 player in subsystems Delivery of orders

New India facility on track

\$12-14m project to increase capacity and extend product lifecycles



Progress update

- Construction on track for completion by the end of FY23
- Phased transfer of manufacturing operations:
 - Crystal manufacturing FY23
 - Assembly and testing FY24
- Detailed transition plan to ensure business continuity and minimise customer disruption, including:
 - Product qualification schedule (developed with customers)
 - Inventories built to ensure continuity of supply



Expected outcomes

- Expanded capacity to support growth opportunities
- Production transferred from NZ and France
- Extended product life cycles from low-cost manufacturing base
- Manufacturing efficiencies through consolidating two existing sites



Steady progress in other key investment areas

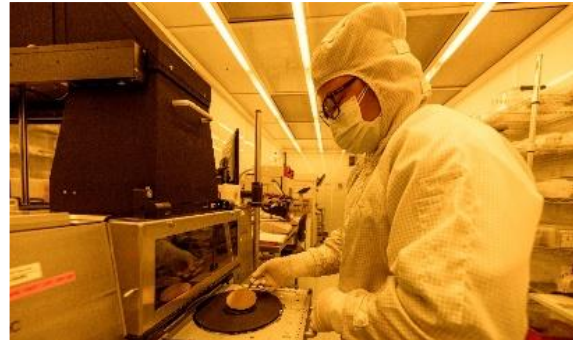


Rakon proprietary semiconductor chips



- Rakon's own chips deliver superior product performance and 15%+ higher margins
- Niku™ TCXO chip on track for release in FY23
- Continued investment in building capability (NZ and UK R&D teams)
- Further single source design-in approvals for Mercury+™ chip with multiple Tier 1 customers

XMEMS® nanotechnology manufacturing



- Miniaturised products with levels of performance not possible using existing manufacturing methods
- Three new products released in 1H23
- Five products now generating revenue at strong margins
- Investment in new equipment, significantly increasing manufacturing capacity

NewSpace - LEO satellites



- Products which combine space-grade performance with higher volume manufacturing capability
- Dedicated internal team
- On board a planned in-orbit demonstration mission (end FY23)
- Ongoing support from space agencies¹
- Strategic partnerships progressed to support key products

¹CNES (French National Centre for Space Studies) & ESA (European Space Agency)

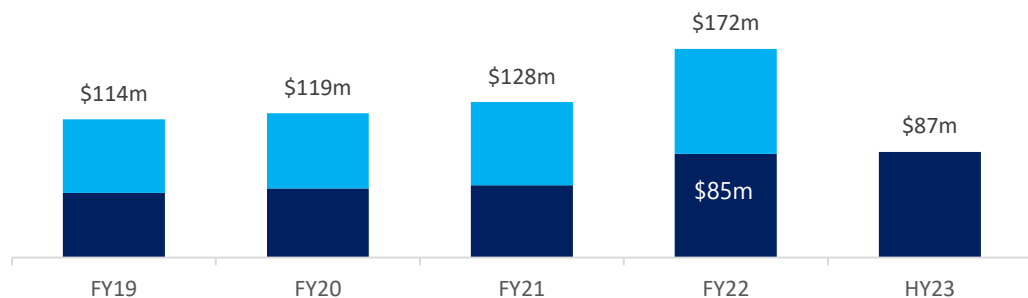
Financial overview



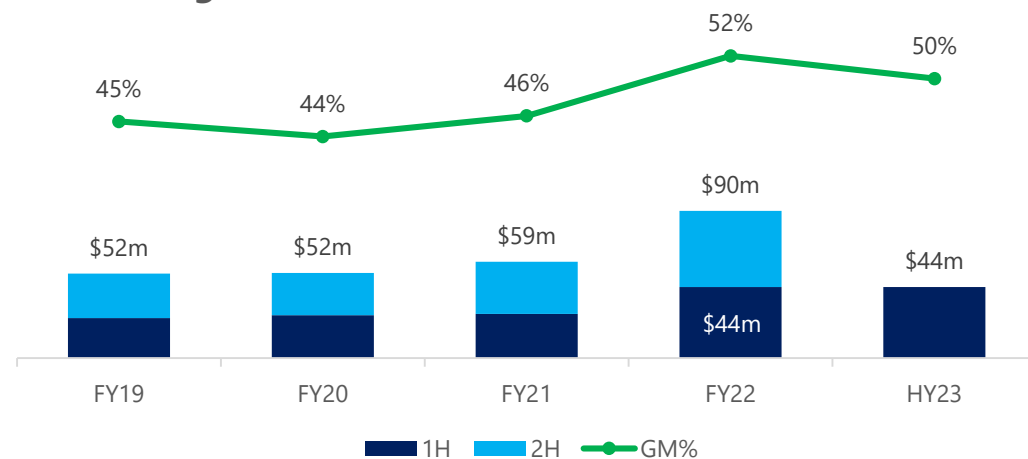
Revenue and earnings trends



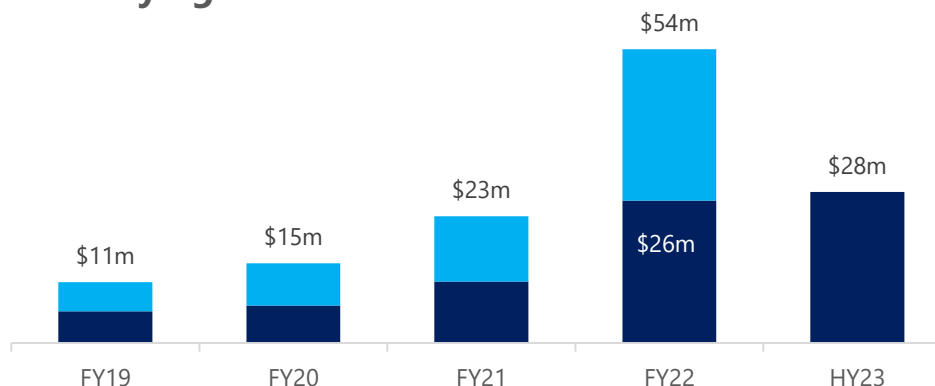
Revenue



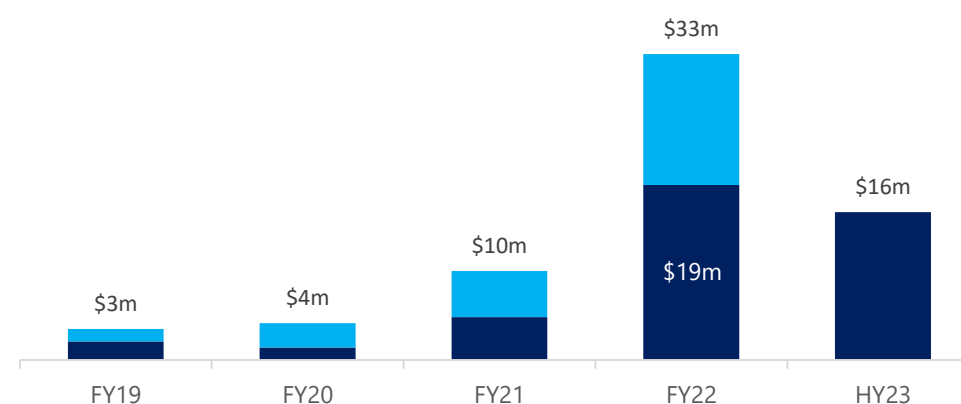
Gross Margin



Underlying EBITDA¹



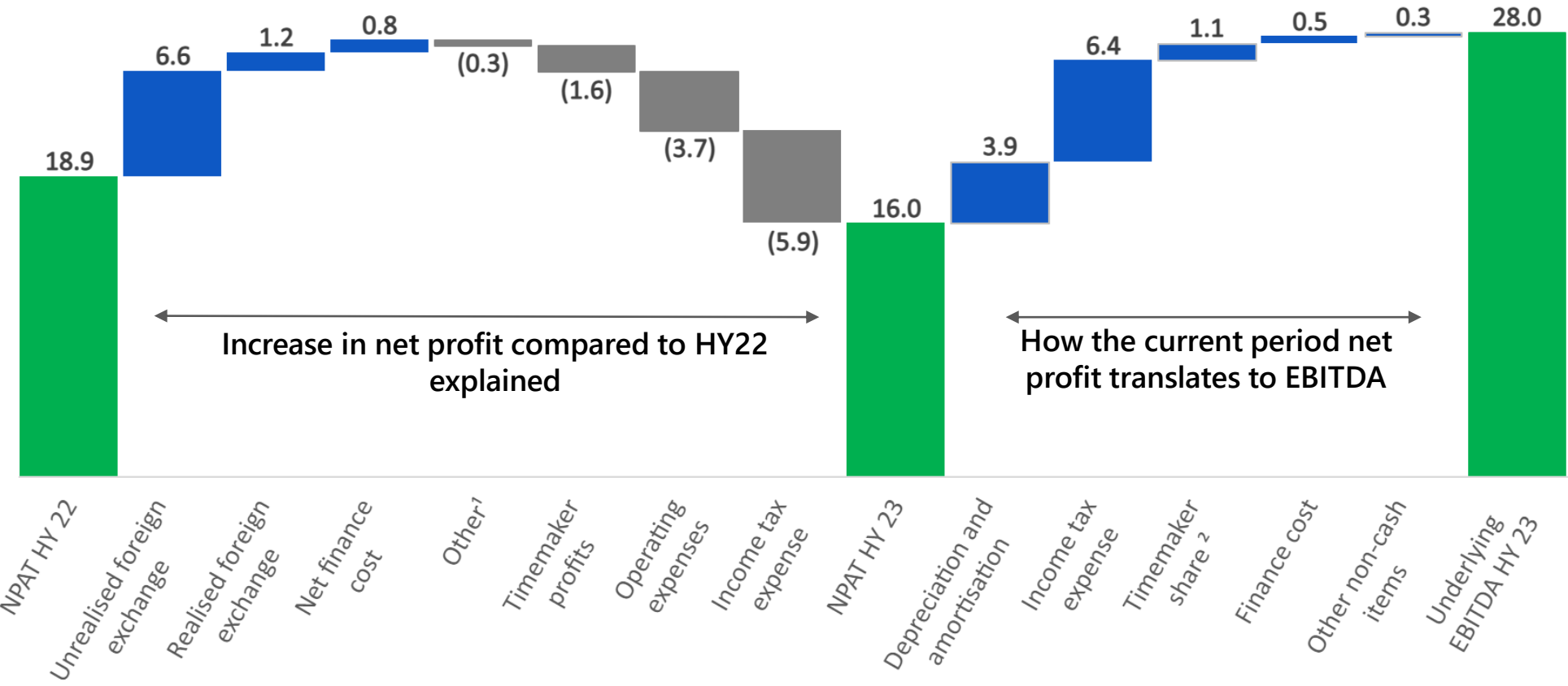
Net Profit



Notes

¹ Refer to Note 5 of the FY22 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

Net profit & Underlying EBITDA explained

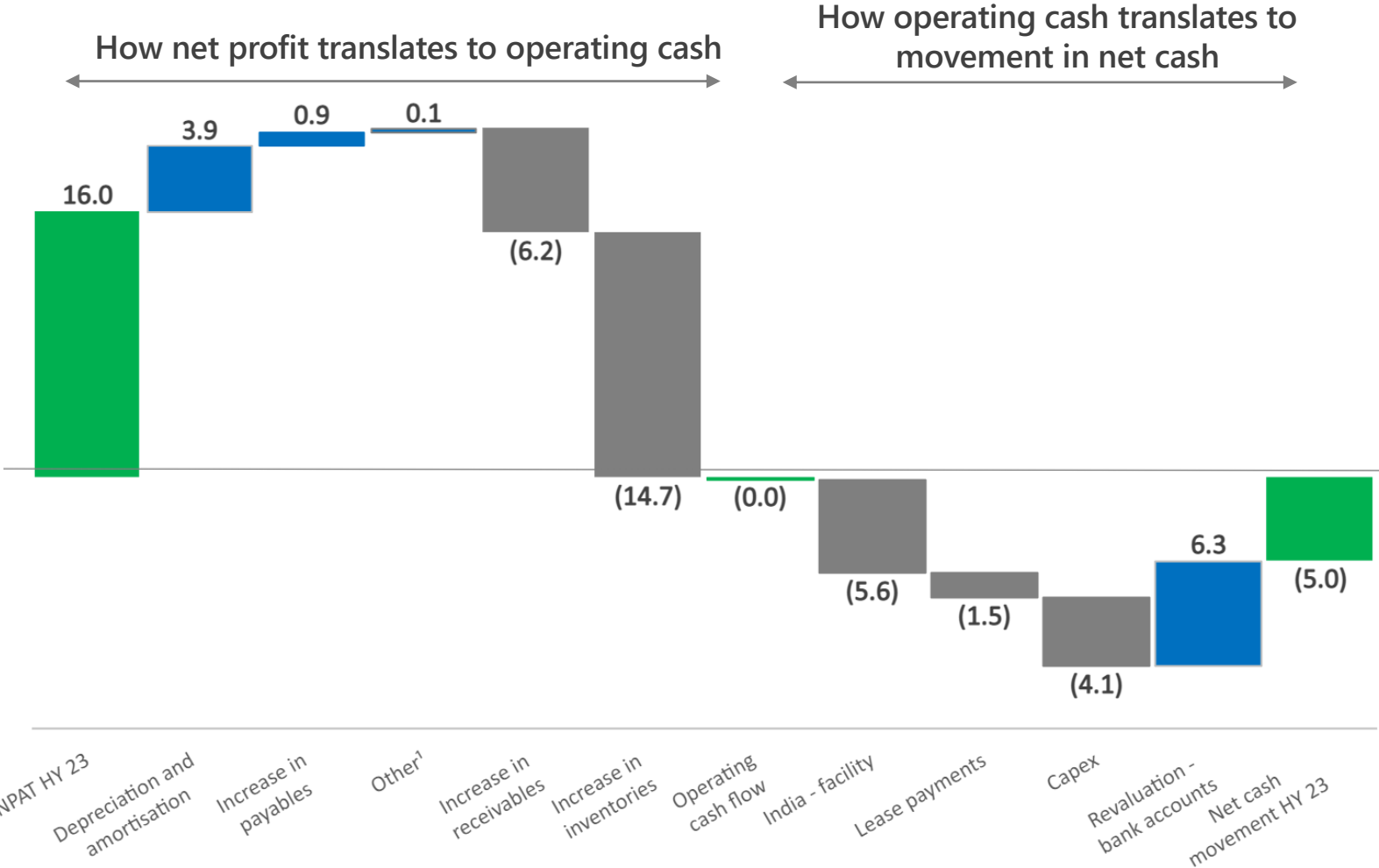


← Increase in net profit compared to HY22 explained →

← How the current period net profit translates to EBITDA →

Others¹ - include movement in other operating income
 Timemaker share² - adjustment for Timemaker share of interest, tax and depreciation

How net profit translates to cash



Others¹ - include unrealised foreign exchange, share of net profits of associate, employee share based expense, and movements in provisions, & trade and other payables

Financial metrics & hedging



Performance for the year to 30 September NZ\$m	HY23	HY22	variance	% change
Revenue	87.2	85.4	+1.7	+2%
Gross profit	43.5	43.5	+0.0	+0%
Gross margin %	49.9%	50.9%	-1.0 pts	
Operating expenses	28.4	24.6	+3.7	+15%
Other operating income	7.4	(0.4)	+7.8	n/a
Net profit after tax	16.0	18.9	-2.9	-15%
Underlying EBITDA ¹	28.1	26.4	+1.7	+6%
Capital expenditure	9.7	4.4	+5.3	+119%
Operating cash flow	0.0	4.5	-4.5	-100%
Financial Position	Sep-22	Mar-22	variance	% change
Net cash / (net debt) ²	18.4	23.2	-4.8	-21%
Inventory	72.0	57.3	+14.7	+26%

Hedging programme

- 99% of revenue is in non-NZD currencies (mostly USD)
- Most significant currency exposure is NZD/USD
- Hedging covers up to 24 months exposures on a net basis
- NZD/USD hedging position

Calendar year	2023	2024
% of net exposures covered by hedging	95-100%	35-40%
average rate of cover	0.6511	0.6368

Notes

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¹ Refer to Note 5 of the FY22 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 excluding NZ IFRS 16

Summary & outlook



Recap - 1H23 highlights



Solid revenue and EBITDA performance



Increased delivery capacity of core product portfolio



Core business growth across all key markets



Key growth projects on track



Strong margins despite inflationary pressures



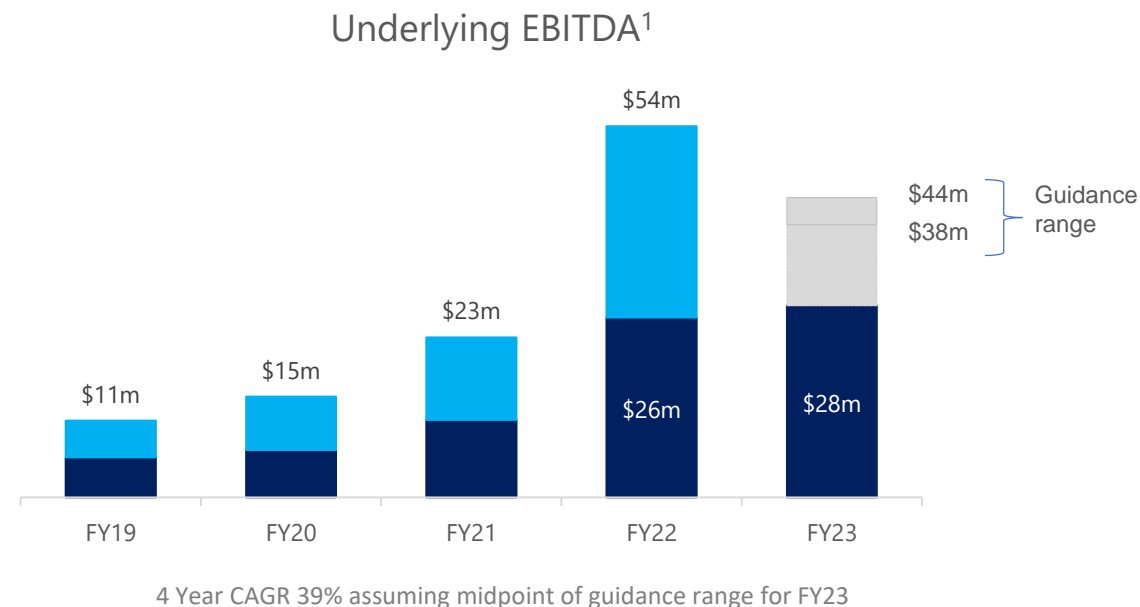
India manufacturing facility nearing completion



FY23 outlook and focus

Strong order book, active management of operating challenges

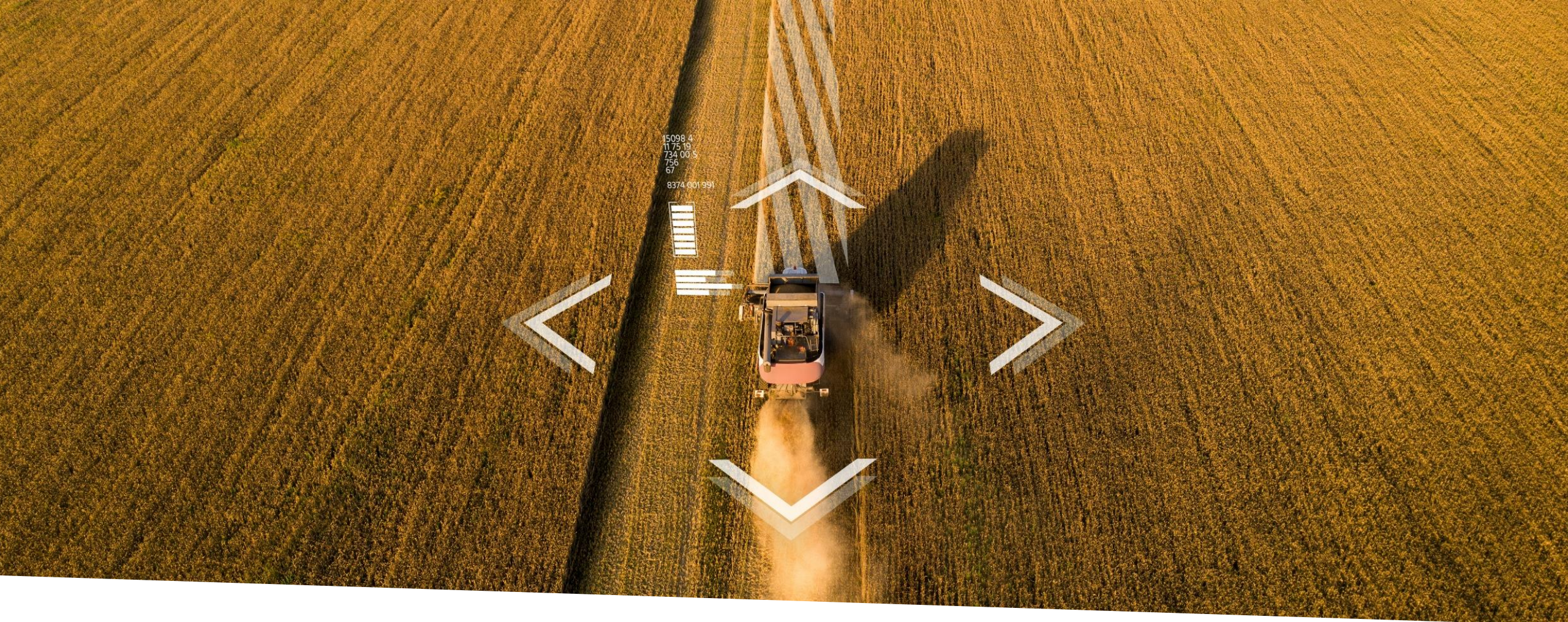
- **Earnings guidance updated**
FY23 Underlying EBITDA range \$38m - \$44m
- **Order book strong, but being closely monitored**
May see some dampening of demand due to macroeconomic volatility and inventory correction
- **Operating costs and risks being actively managed**
Labour shortages, cost inflation and supply chain
- **India facility completion and transition**
Execution of detailed transition and business continuity plan
- **Advancement of key growth projects**
Investment in projects, ongoing assessment of acquisition opportunities
- **ESG and climate-related reporting**
Continuing to progress programme and reporting framework
- **Confidence in long-term growth story**
Solid growth drivers, strong customer relationships, organisational resilience



Notes

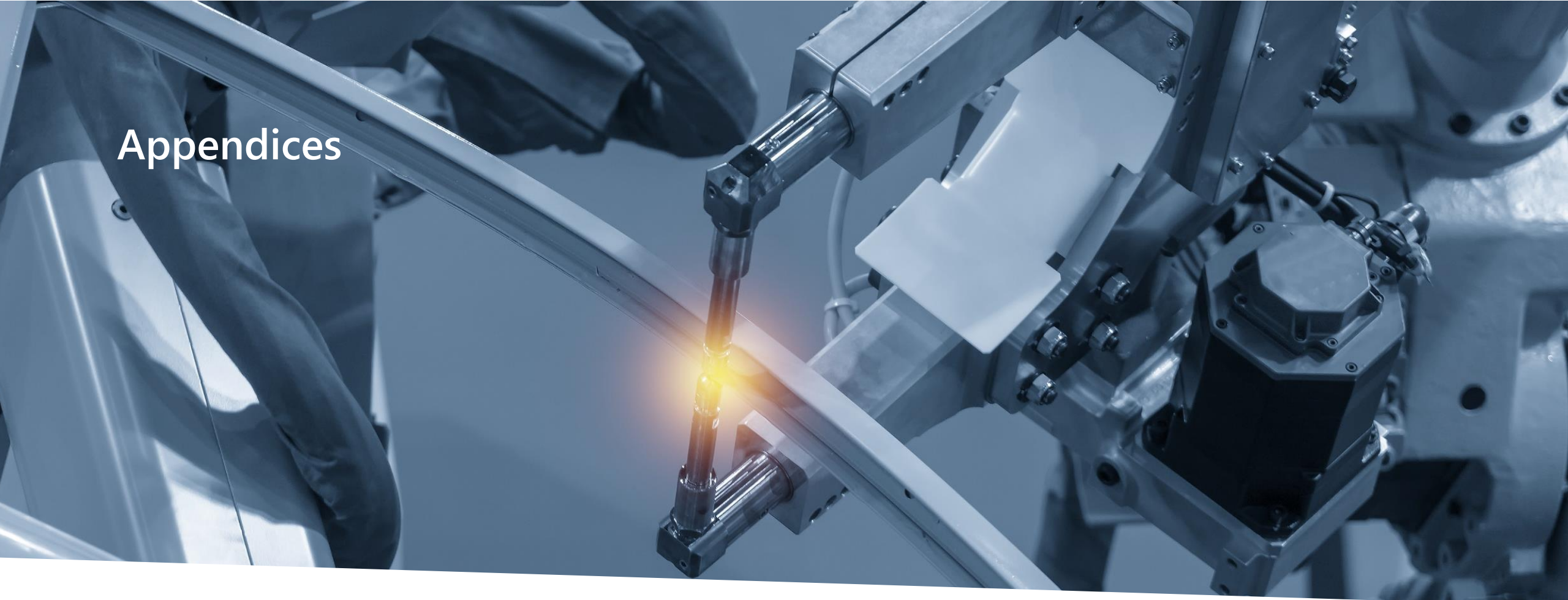
¹ Refer to Note 5 of the FY22 audited consolidated financial statements for an explanation of how 'Non-GAAP Financial Information' is used, including a definition of 'Underlying EBITDA' and reconciliation to net profit after tax

Q&A





Appendices



Glossary



Cloud computing: Allows users to have on-demand availability of a remote computer system's resources for improved computing power or data storage (usually located quite far from the user, such as in another country)

Datacentres: Usually a building that is used to hold a computer system and other components to backup data

Design-in: An opportunity that allows Rakon's product to be used as the reference component for certain customer reference designs (a technical blueprint of a system intended to be used by customers)

Edge computing: Allows users to have on-demand availability of a remote computer system's resources for improved computing power or data storage (usually located close to the user, such as within the same city)

5G: 5th generation of the telecommunications standard, providing 10 to 1000 times better performance in many different applications

5G millimetre wave technology: The equipment that enables higher frequency data transmission in 5G

NewSpace/ NewSpace LEOs: Refers to space sector commercialisation, that are mainly low earth orbit (LEO) satellites

Mercury™ / Mercury+™: Rakon's proprietary integrated circuit used in OCXOs to achieve clock variations to less than 1 billionth of a second, these enable precision timing in 5G applications

OCXO: Oven Controlled Crystal Oscillator. A crystal oscillator that uses a miniaturised oven to keep its internal temperature constant

O-RAN: Mobile networks that are more intelligent, open, virtualised and fully interoperable

Pluto®: Rakon's proprietary integrated circuit used in TCXOs to achieve clock variations to less than 100 millionth of a second; these enable higher data rates in 5G applications

System solutions: Refers to Rakon's solutions that include high performance products, equipment and consulting services for Space & Defence

TCXO: Temperature Compensated Crystal Oscillator. A crystal oscillator with additional circuitry to remove frequency variations due to temperature change

Tier 1 customers: recognised key players within their respective industries, that make up a significant market share

VCXO: Voltage Controlled Crystal Oscillator (VCXO). A crystal oscillator with an adjustable output frequency

XMEMS®: Crystal Micro-Electro-Mechanical System. Rakon's advanced quartz-based resonator technology. It is made with Rakon's nano-technology microfabrication process, delivering unprecedented resonator and oscillator performances



www.rakon.com