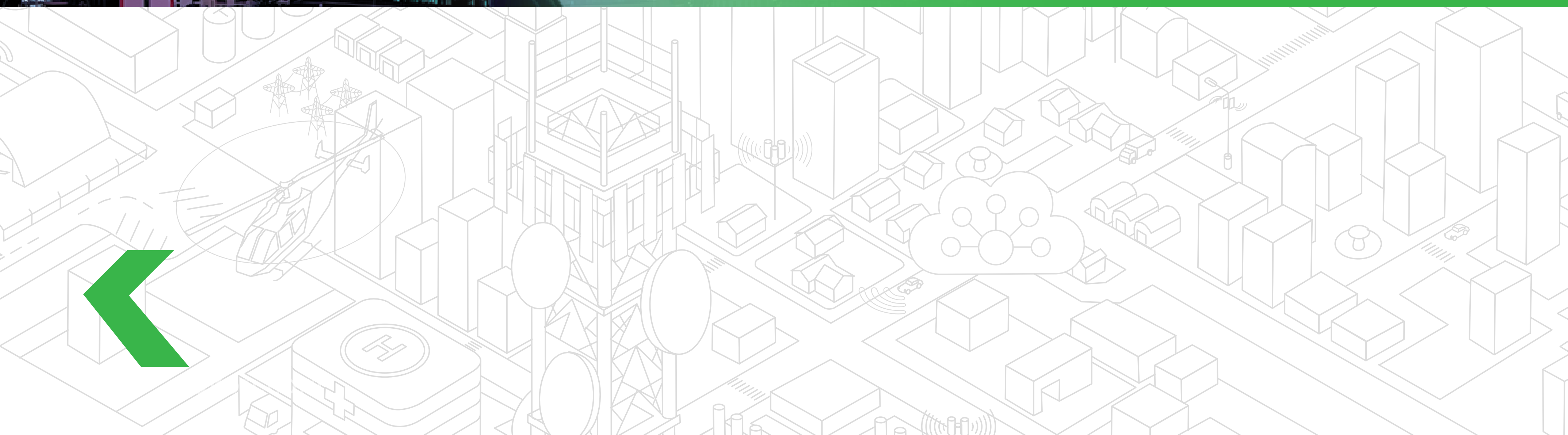
Half Year Review (HY2021)

April – September 2020

Enabling the connected future



rakon

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HY2021 Financial Overview

Rakon has reported an unaudited net profit after tax of $4.6m*[1] for the six months to 30 September 2020 (HY2021), compared with $1.3m in the September 2019 half-year (HY2020). Revenue was $2.6m higher at $59.5m.

Rakon reported Underlying EBITDA[2] of $11.4m – an increase of $4.5m from the previous corresponding period.

Despite severe initial effects from Covid-19, the company achieved a strong first half-year result due to prompt mitigation actions in the first quarter and increased demand in the second, particularly from the Telecommunications market segment. Telecommunications revenue was up $6.2m for the half-year and now comprises 64% of Rakon's total revenue. The increase in demand in the second quarter occurred mainly in the New Zealand business as many Tier One customers managed their supply chain risks by building safety stock.

Revenue growth in Telecommunications was offset by declines in the Global Positioning and Space & Defence market segments. Global Positioning revenue was down $3.7m, due predominantly to Rakon's continuing focus on its high-end positioning business, with less focus on the higher volume, lower margin, commoditised Global Navigation Satellite System (GNSS) business. The Space & Defence segment was down $0.8m, with lower Space revenue due to phasing of orders offsetting higher defence revenue out of Europe.

Inventory levels were higher at 30 September 2020 than at 31 March 2020 due to increasing customer demand for longer-lead-time products and the need for the company to carry safety stock as a mitigation for potential supply chain interruptions. Net profit after tax benefited from higher revenue, lower operating costs, Covid-19-related cost savings and government relief. Net debt reduced from $7.9m to $2.8m as a result of strong operating cash flows and lower capital expenditure. Operating cash was $7.9m, driven by the half-year earnings and historic research and development tax credits received during the period.

Operational Overview

Rakon's plants in New Zealand and India were restricted or shut down from late March through April 2020 due to the Covid-19 pandemic, while the French operations were largely unaffected. Strong actions were taken across Rakon's global operations in the first quarter to protect the business, including reductions in staff salaries, directors' fees, rents, travel, cuts in discretionary expenditure and recourse to government relief where eligible. Many measures have also been taken, and continue to be in place, to keep the team safe. The New Zealand and India operations recovered well in the second quarter and (at the time of writing), all plants continue to operate normally – even in the significantly Covid-affected regions of France and India.

Rakon expanded its TCXO[3] and OCXO[4] production capacity in both New Zealand and India during the first half-year in preparation for expected higher 5G demand. In India, the company's capacity for discrete OCXOs increased by 25%, while New Zealand's capacity for TCXOs increased by 10% and OCXO capacity doubled.

Focus on core technology continued – in particular on XMEMS®[5], Rakon's advanced quartz-based resonator technology which is delivering new levels of resonator and oscillator performance. The trademark for XMEMS® has been registered in key regions. Rakon also achieved design wins with strategic customers and their applications for new products using this proprietary technology.

Market Update

Supply Chain Disruption

At the end of October, there was a fire at one of Asahi Kasei Microdevices (AKM)'s factories. The Japanese company is the world's largest semiconductor manufacturers of TCXO Integrated Circuits (ICs). Fortunately, no one was seriously harmed in the fire; however it is creating TCXO chip shortages globally and these are used in many applications.

AKM supplies chips to Rakon which are mainly used in the Global Positioning market but also in some Telecommunications applications.

Within the Global Positioning market and other mid-tier specifications, Rakon has a good level of inventory and is able to support its customers. Rakon is also fielding increasing enquiries for its higher margin, Ultra Stable TCXOs where it uses its own proprietary chips. The company believes the overall effect on its business should be positive, mainly in FY2022, if and to the extent orders materialise and other supply chain constraints can be overcome.

Telecommunications

As mentioned, revenue was up in this segment despite the Covid-19 disruptions, particularly in the second quarter as customers tried to secure safety stock. It appears that many customers were making sure they had provision going forward, as the components that Rakon manufactures are key for their equipment. 5G products delivered out of New Zealand provided strong revenue growth including very strong demand from one large customer in Asia.

Key achievements included Rakon winning the major share of business in the 5G Remote Radio Head segment and a major Tier One cloud customer being secured.

Outlook

In the second half of the current year, with ongoing economic uncertainty from geopolitical tensions and Covid-19, 5G

Brent Robinson
CEO / Managing Director

*** Footnotes 1–5 are on page 4 of this document.**

roll-out has slowed but recent activity indicates demand improving.

Space & Defence

Combined revenue for Space & Defence was down 7% compared to the first half of the 2020 year. Space revenue was down due mainly to the phasing of orders and deliveries. Solid demand continues in the Defence market segment, with revenue up compared to the prior corresponding period, with good growth in Europe.

Outlook

In line with previous years, planned deliveries are higher in the second half than in the first. This should result in a similar revenue to the prior year. New business has been secured within the 'NewSpace' segment from a low-earth-orbit satellite network in Asia and revenue from this business is expected to start flowing in the last quarter of the current year. Growth is also expected in the domestic Space business in India.

Global Positioning

Global Positioning revenue was down 38% as the high-volume, low-margin GNSS business continued to decline. Covid-19 caused revenue to be lower from aviation customers and in the emergency beacon segment as a result of supply chain issues.

Outlook

Recovery is expected in the second half-year as industrial and precision demand return to normal levels – but some uncertainty still remains. Demand for emergency beacons and agricultural applications is expected to return and Rakon's continued focus is on its high-margin, precise positioning products.

Closing Comments and Outlook

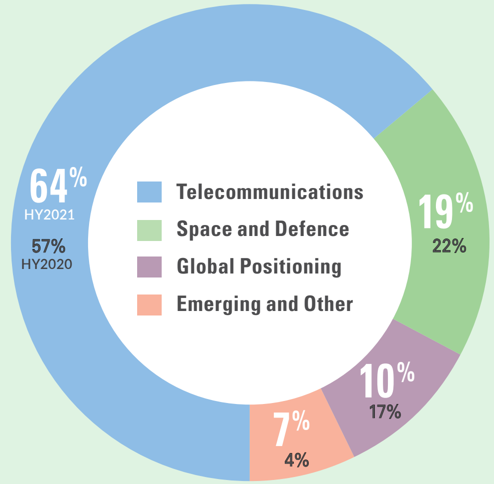
It was pleasing to achieve a good first-half result, which included the initial negative impacts from Covid-19 as well as subsequent strong demand from the Telecommunications market. Rakon continues to monitor performance and will update the market if required. Looking ahead, there are good opportunities for the company but some uncertainty still exists.

Bruce Irvine
Chair

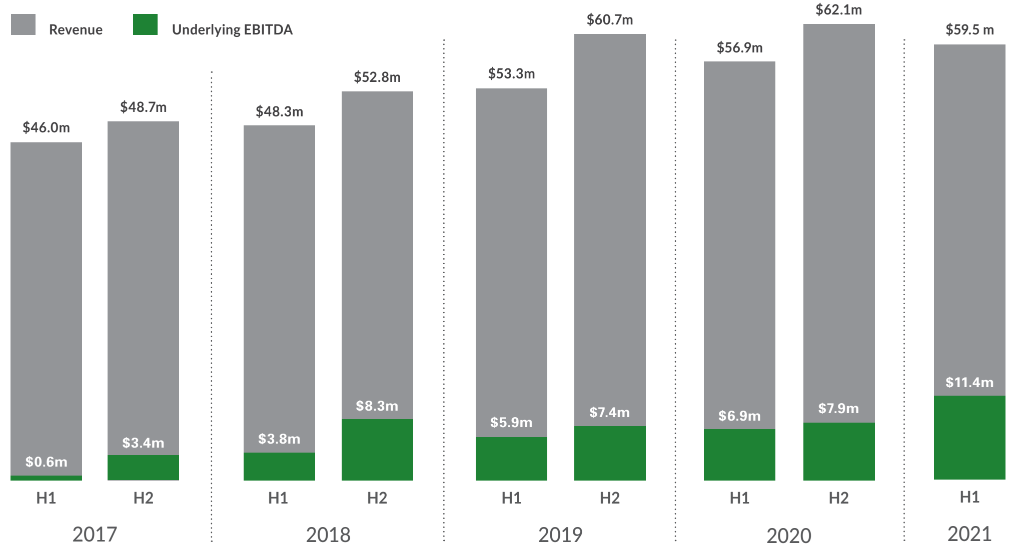
Half Year 2021 Performance Key Points

- Despite initial effects of Covid-19 being severe, a strong result due to prompt mitigation actions in Q1 and increased demand in Q2
- Net profit after tax: $4.6m vs. $1.3m
- Underlying EBITDA[2] of $11.4m vs. $6.9m
- Revenue of $59.5m vs. $56.9m
  - Telecommunications continued to grow: up $6.2m
  - Space & Defence was down $0.8m but expected to recover by year-end and exceed FY2020 result
  - Global Positioning was down $3.7m

Revenue % by Market Segment



REVENUE & UNDERLYING EBITDA



Half Year 2021 Financial Summary

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Summary of Revenue and Profit	Six months ended 30 September 2020 $000s	Six months ended 30 September 2019 $000s	Year ended 31 March 2020 $000s
Revenue	59,534	56,912	118,980
Underlying EBITDA[2]	**11,363**	**6,935**	**14,787**
Depreciation and amortisation	(4,344)	(4,326)	(8,823)
Finance costs – net	(407)	(525)	(1,055)
Adjustment for associates and joint venture share of interest, tax and depreciation	(875)	(649)	(1,447)
Other non-cash items	(127)	(8)	(178)
Income tax (expense)/ credit	(969)	(85)	696
Net profit after tax for the period	**4,641**	**1,342**	**3,980**

Summary Statement of Cash Flows	Six months ended 30 September 2020 $000s	Six months ended 30 September 2019 $000s	Year ended 31 March 2020 $000s
Net cash flow			
Operating activities	7,926	3,429	9,401
Investing activities	(1,860)	(3,040)	(6,631)
Financing activities	5,373	(1,531)	(3,078)
Net increase/ (decrease) in cash and cash equivalents	**11,439**	**(1,142)**	**(308)**
Foreign currency translation adjustment	487	570	(672)
Cash and cash equivalents at the beginning of the period	(7,762)	(6,782)	(6,782)
Cash and cash equivalents at the end of the period	**4,164**	**(7,354)**	**(7,762)**
Borrowings	(6,997)	(280)	(145)
Net debt (excluding lease liabilities)	**(2,833)**	**(7,634)**	**(7,907)**

Balance Sheets	As at 30 September 2020 $000s	As at 30 September 2019 $000s	As at 31 March 2020 $000s
Current assets	88,989	86,480	86,007
Non-current assets	60,028	62,769	64,237
Total assets	**149,017**	**149,249**	**150,244**
Current liabilities	41,108	46,447	45,740
Non-current liabilities	8,782	11,086	12,648
Total liabilities	**49,890**	**57,533**	**58,388**
Net assets/ Total equity	**99,127**	**91,716**	**91,856**

1. All amounts in this document are in NZ$ unless otherwise specified.

2. Disclosure of Non-GAAP Financial Information. Rakon has used 'Underlying EBITDA' as a measure of non-GAAP financial information in this 2021 Half Year Review document. Underlying EBITDA is defined as: 'Earnings before interest, tax, depreciation, amortisation, impairment, employee share schemes, non-controlling interests, adjustments for associates' and joint ventures' share of interest, tax & depreciation, loss on disposal of assets and other cash and non-cash items.' Underlying EBITDA is a non-GAAP measure that has not been presented in accordance with GAAP. The Directors present it as a useful non-GAAP measure for investors, enabling them to understand the underlying operating performance of the Group and each operating segment, before the adjustment of specific cash and non-cash items and before cash impacts relating to the capital structure and tax position. Underlying EBITDA is considered by the Directors to be the closest measure of how each operating segment within the Group is performing. Management uses Underlying EBITDA to assess the underlying operating performance of the Group and each operating segment. This document should be read in conjunction with the Rakon Limited Interim Report September 2020. A detailed reconciliation of Underlying EBITDA to net profit after tax is contained at Note 4 (Segment information) of the financial statements.

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

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

5. Crystal Micro-Electro-Mechanical System. Rakon's advanced quartz-based resonator technology. It is made with Rakon's NanoQuartz™ microfabrication process, delivering new levels of resonator and oscillator performance.