18 August 2016

Letter to Rakon Shareholders

Dear Shareholder,

I am writing to update you on a number of matters regarding Rakon.

I had intended to deal with these at the upcoming Annual Shareholders' Meeting (ASM), and will do so in more detail then. However, in light of the coverage given to recent comments made by the New Zealand Shareholders' Association (NZSA), I feel that it is very important to provide you with certain facts and background ahead of next month's meeting.

The Board shares the frustration of all shareholders at the company's failure to deliver a sustainable after tax profit, sufficient to invest in growth and pay a dividend to shareholders. Rakon's Directors who hold close to 30% of the shares in Rakon have continually strived to get to a position of sustainable profits and dividends. Clearly this hasn't occurred and the Board has been working for some time now on changes required to enhance the profit on a regular basis.

During the past year in particular the Board has vigorously debated a large number of areas for change, including; governance, management positions, culture, operating costs, locations of operation, strategy, research and development spend and customers. Seeking sensible change that will make a difference and bring value enhancement to all stakeholders of the company: shareholders, bankers, customers, suppliers and Rakon's global team of hard working people.

Change in any organisation needs to be well considered and carefully managed to ensure a positive result for all stakeholders. With any company and particularly a complex global crystal component manufacturing business like Rakon, sudden unplanned adjustments would only be detrimental to all shareholders' value.

Rakon has encountered more severe headwinds in its markets than anticipated as global telecommunications companies and their suppliers (our customers), close their cheque books due to downturns in their markets. To counter this, some months ago the Board approved a CEO led plan to reduce operating expenses by a minimum of 20% annually on top of the previously successful closure of the UK manufacturing plant and corresponding shift to New Zealand – which resulted in much enhanced margins reported in the FY2016 year. Such change involves cost, meaning the overall benefits typically register in the following financial year.

Further changes will be required. Other areas are currently under review, including senior remuneration packages and directors' fees to ensure they are consistent with the reduced revenue base of the company.

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The NZSA has called for shareholders to vote against Darren Robinson's re-election to the Board, suggested that Warren Robinson should stand down from the Board and described my position as "up in the air". The NZSA has also questioned Brent Robinson's suitability for the role of CEO and claimed that the Robinson family's influence on the Board is "holding back necessary change".

The Robinson family's influence on the Board has not been holding back necessary change, but for the future, the independent directors, myself and Bruce Irvine have been pointing out for some time that the diversity of the Board needs to alter and the number of family directors should reduce.

Warren, the company's largest shareholder is not up for re-election this year and his position will be discussed by the Board in line with our regular Board review process. Should Warren decide not to stand at his next re-election, then he should be able to retire with dignity and the applause due to him for what he achieved in founding Rakon almost 50 years ago.

The Board has nothing but praise for the efforts of Brent as the Managing Director in the very difficult market circumstances and refutes the comments that he is not a good CEO of Rakon. Brent is a highly skilled professional and regarded by many of those in the industry to be without peer globally.

As regards to myself and seeking re-election, the Board supports me unanimously but I must make it clear that if I am re-elected then I will not be seeking another term and will remain at Rakon only long enough to bring about substantial change in the profit, the structure of the organisation and the composition of the Board.

Yes change is necessary, but we need to ensure that it is such that it enhances shareholder value. Change doesn't always have to be about taking costs out, it is important to have an eye to new value enhancing and synergistic opportunities such as our recent investment in the Australasian Internet-of-Things company, Thinxtra.

In closing, I would like to reiterate that my fellow directors and I understand your frustrations, and reinforce that over the past year change is underway. We need to ensure that our plans add value for all stakeholders and seek your support to see those plans through in an orderly manner.

Yours sincerely

Bryan Mogridge
Chairman of the Board of Directors