

NERA TELECOMMUNICATIONS LTD

ANALYSTS' BRIEFING

Samuel Ang
President & CEO

Mark Weng Kwai
Financial Controller

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- Result analysis :
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 - 2Q FY16 vs 2Q FY15
 - 1H FY16 vs 1H FY15

- Outlook



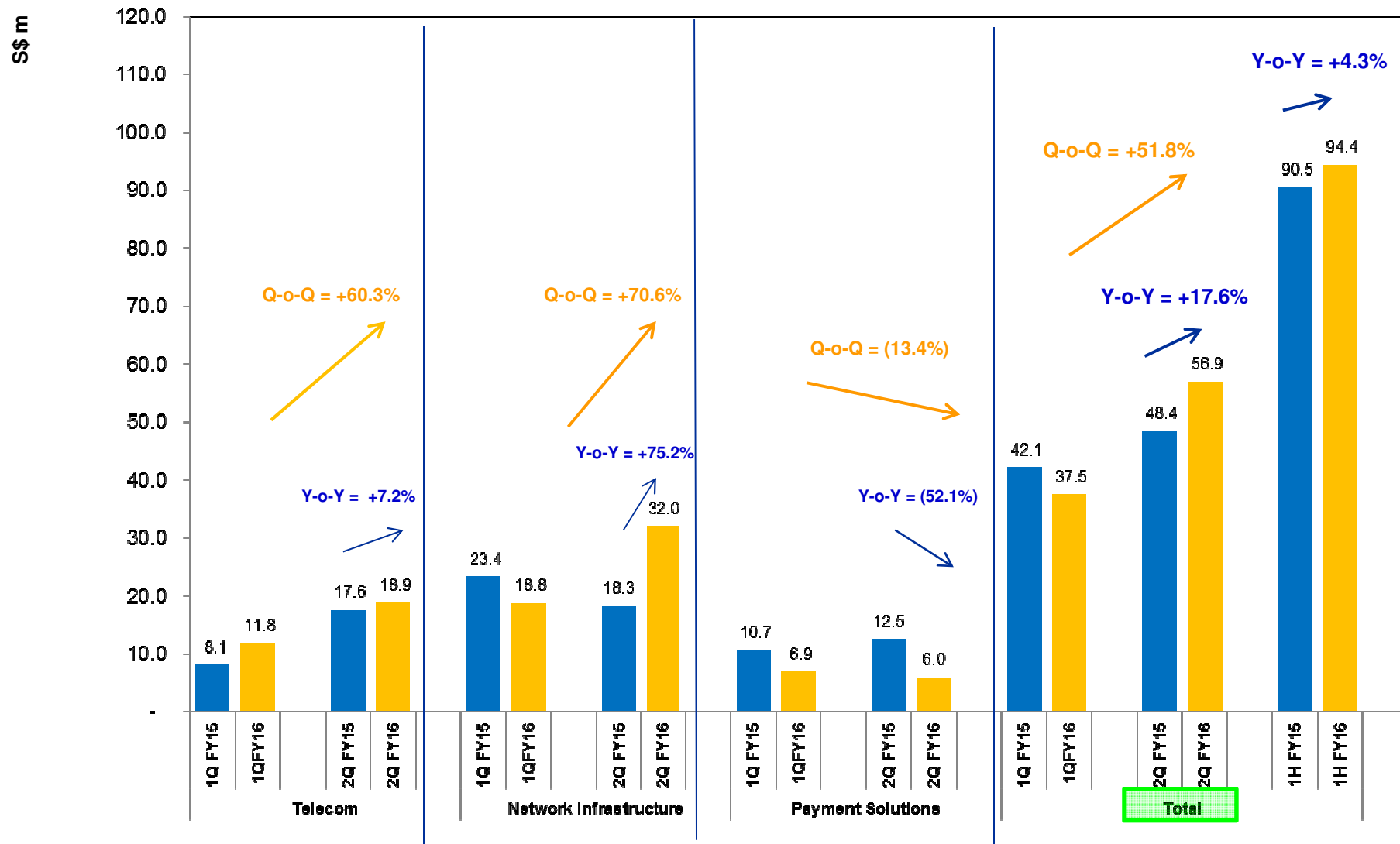
Financial performance summary



Nera Telecommunications Ltd

	Note	Group			Group		
		2nd Quarter			Period ended 30 June		
		2016	2015	Increase/ (Decrease)	2016	2015	Increase/ (Decrease)
		S\$'000	S\$'000	%	S\$'000	S\$'000	%
Turnover		56,925	48,415	17.6	94,416	90,520	4.3
Cost of sales		(41,601)	(32,537)	27.9	(66,313)	(60,538)	9.5
Gross profit		15,324	15,878	(3.5)	28,103	29,982	(6.3)
Other operating income		212	164	29.3	454	455	(0.2)
Distribution and selling expenses		(7,689)	(7,376)	4.2	(14,518)	(14,180)	2.4
Administrative expenses		(2,797)	(3,504)	(20.2)	(5,407)	(6,489)	(16.7)
Other operating expenses		(1,856)	(222)	736.0	(2,204)	(483)	356.3
Profit from operations		3,194	4,940	(35.3)	6,428	9,285	(30.8)
Financial expenses		(235)	(145)	62.1	(459)	(236)	94.5
Financial income		17	12	41.7	22	28	(21.4)
Profit before taxation		2,976	4,807	(38.1)	5,991	9,077	(34.0)
Taxation		(1,038)	(851)	22.0	(2,023)	(2,075)	(2.5)
Profit after taxation		1,938	3,956	(51.0)	3,968	7,002	(43.3)

Revenue overview



Revenue – Overall group

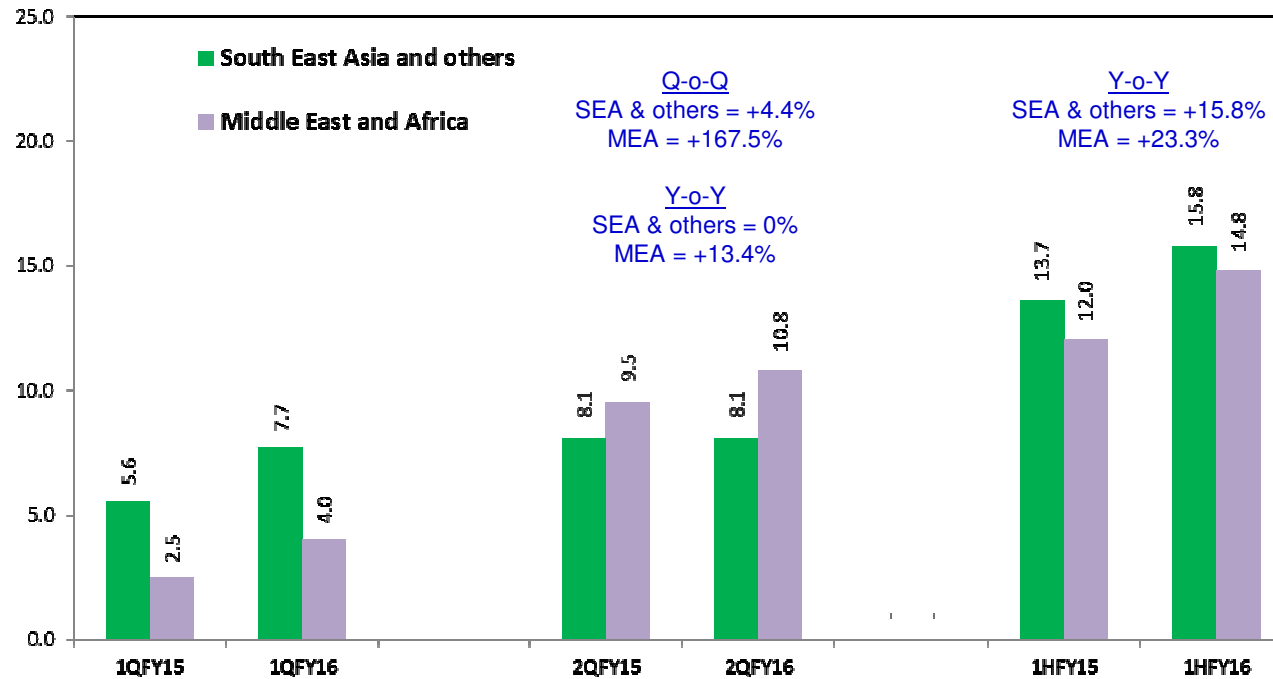
2Q FY16

- Revenue in 2Q FY16 increased 17.6% (\$8.5m) y-o-y from \$48.4m to \$56.9m
 - Telecom - increased 7.2% (\$1.3m) y-o-y from \$17.6m to \$18.9m
 - Network Infrastructure - increased 75.2% (\$13.7m) y-o-y from \$18.3m to \$32.0m
 - Payment Solutions - declined 52.1% (\$6.5m) y-o-y from \$12.5m to \$6.0m

1H FY16

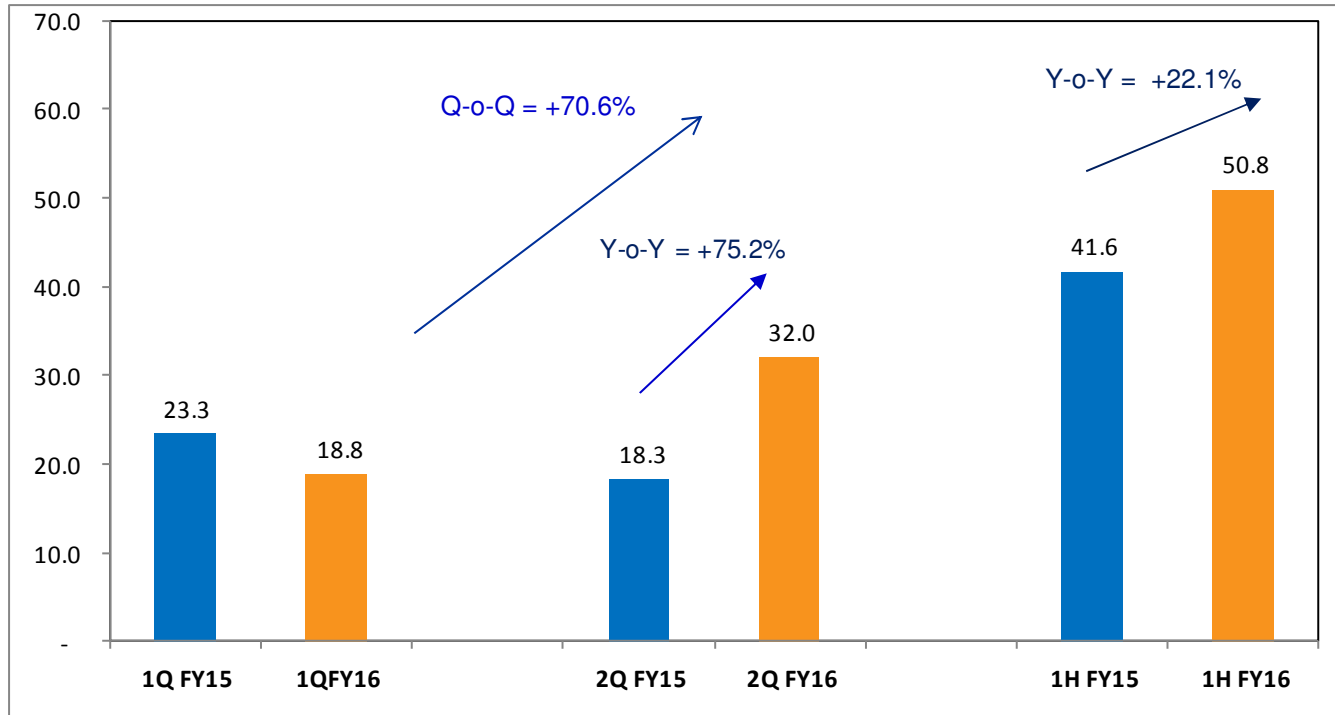
- Revenue in 1H FY16 increased 4.3% (\$3.9m) y-o-y from \$90.5m to \$94.4m
 - Telecom - increased 19.3% (\$5.0m) y-o-y from \$25.7m to \$30.7m
 - Network Infrastructure - increased 10.1% (\$9.2m) y-o-y from \$41.6m to \$50.8m
 - Payment Solutions - declined 44.3% (\$10.3m) y-o-y from \$23.2m to \$12.9m

Revenue – Telecom segment



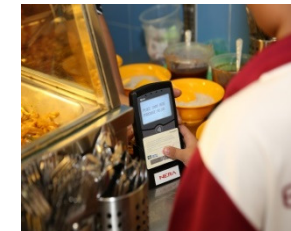
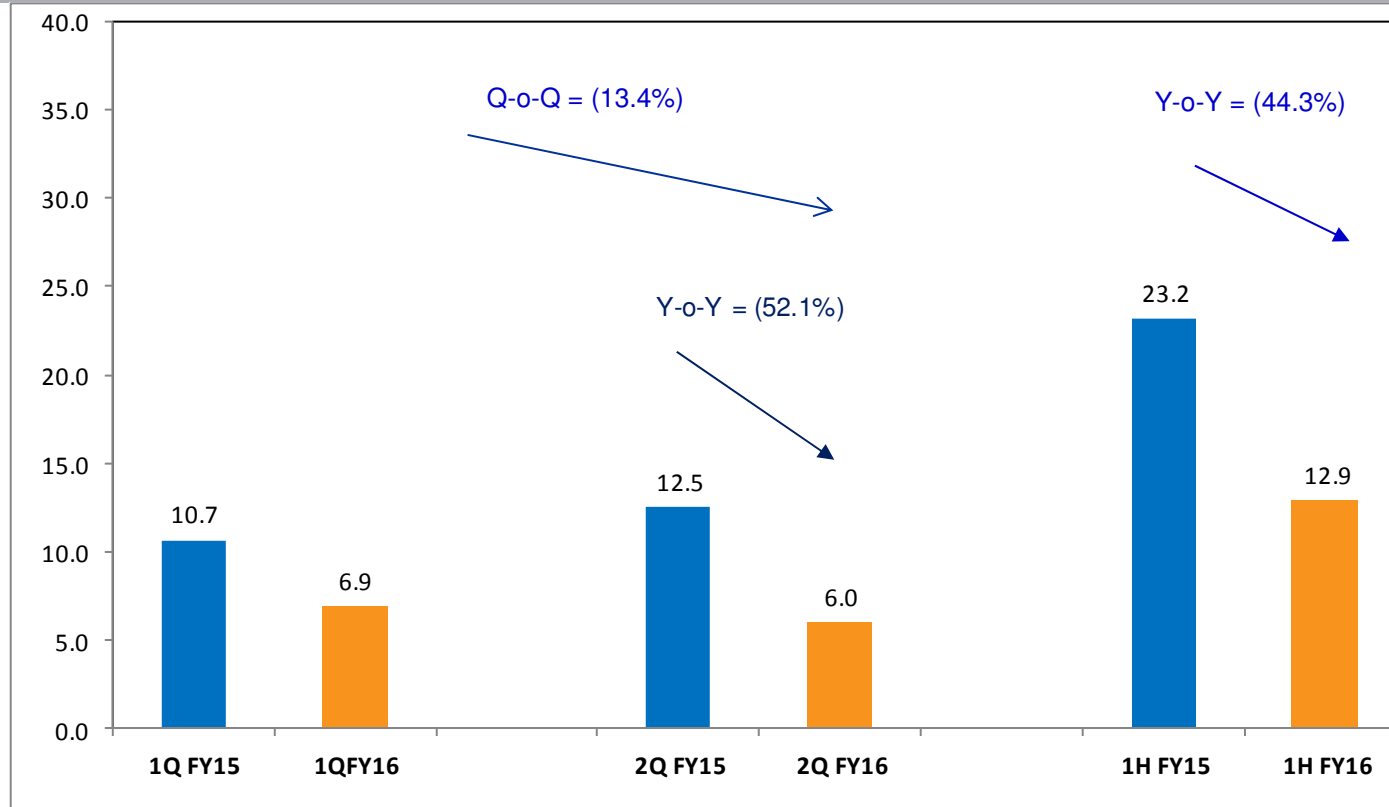
- In 2Q FY16, Telecom segment revenue from SEA & others region increased 4.4% Q-o-Q and stayed the same Y-o-Y.
- In 2Q FY16, Telecom segment revenue from Middle East and Africa region increased both Q-o-Q and Y-o-Y at 167.5% and 13.4% respectively.
- Accordingly, total Telecom segment revenue increased 19.3% Y-o-Y in 1H FY16 from S\$25.7m to S\$30.7m, due to higher sales in both regions.

Revenue – Network Infrastructure



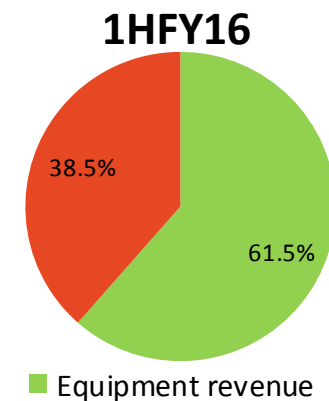
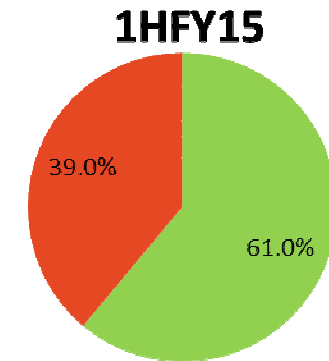
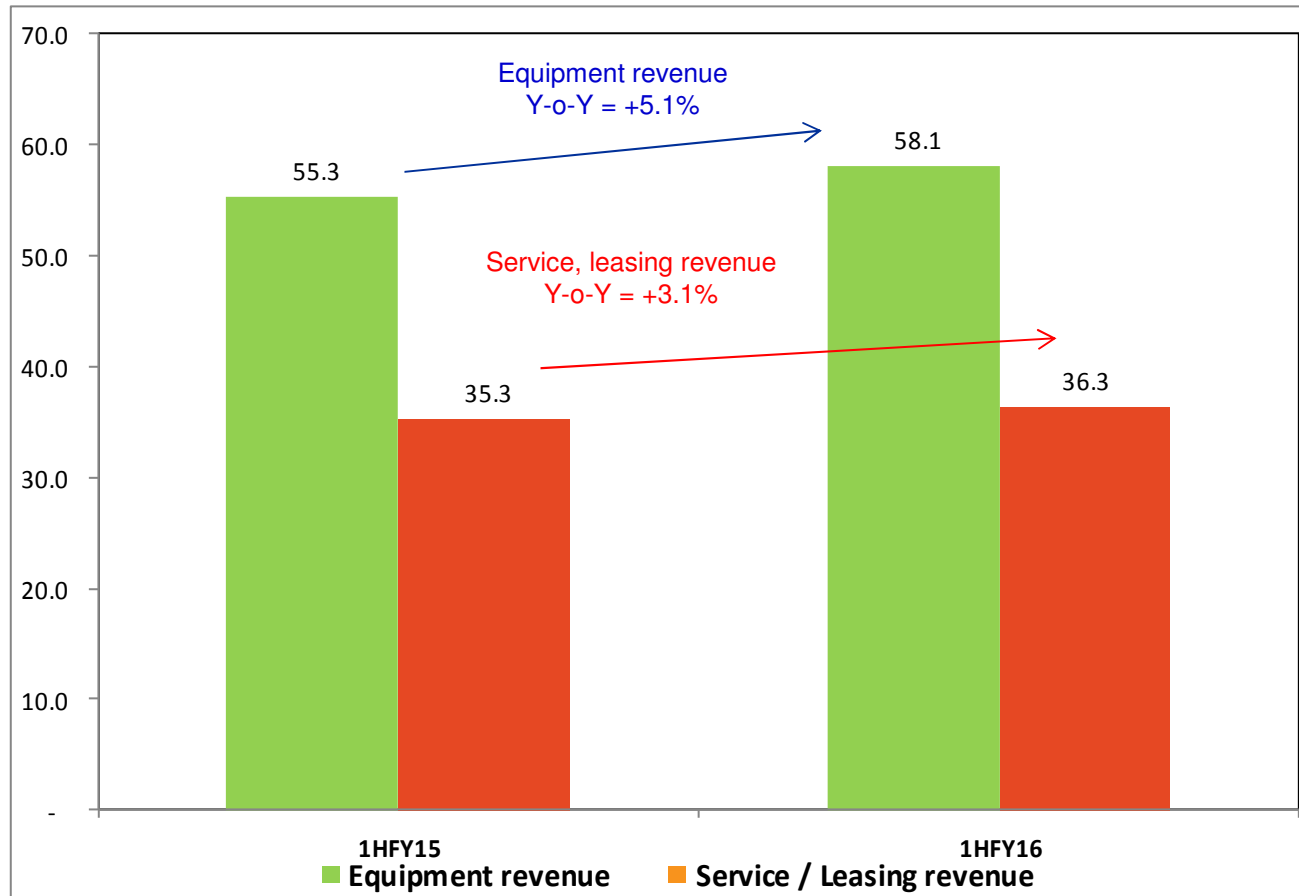
- 2Q FY16 revenue contribution from Network Infrastructure segment increased both Q-o-Q and Y-o-Y by 70.6% and 75.2% respectively.
- The higher revenue for 2Q FY16 Y-o-Y was mainly due to higher sales of network equipment to the Service Provider market.
- For 1H 2016, turnover increased 22.1% Y-o-Y from \$41.6 million to \$50.8 million, with higher sales of network equipment to the Service Provider market.

Revenue – Payment Solutions



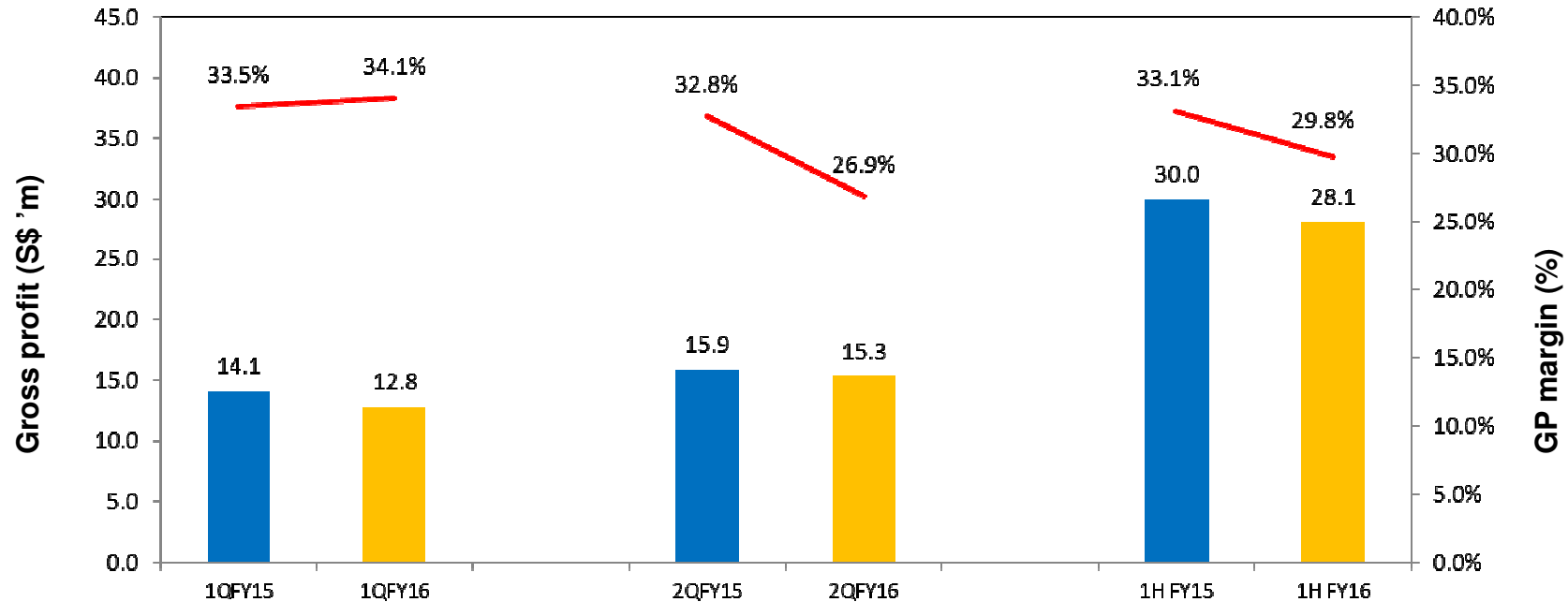
- For 2Q FY16, revenue contribution for Payment Solutions segment declined both Q-o-Q and Y-o-Y at 13.4% and 52.1% respectively.
- For 1H 2016, revenue contribution for Payment Solutions segment declined 44.3% Y-o-Y.
- Lower revenue for 2Q FY16 and 1H FY16 mainly due to lower sale of point-of-sale terminals to Thailand.

Revenue – Breakdown by nature



- Revenue contribution from service and leasing revenue increased 3.1% Y-o-Y for 1H FY16.
- Revenue contribution from equipment sales increased 5.1% Y-o-Y for 1H FY16.

Gross Profit, GP Margin



- On a YOY comparison, gross profit for Q2 2016 declined 3.5% from \$15.9 million to \$15.3 million. Compared to 1H 2015, gross profit for 1H 2016 declined by 6.3% from \$30.0 million to \$28.1 million.
- The gross profit margin % (“GP%”) declined from 32.8% to 26.9% for the quarter, and from 33.1% to 29.8%.
- The changes in gross profit and GP% can be attributed to sales mix in product, project and services. There were higher equipment sales in the quarter and 1H 2016 and lower writeback from project closures. There was also higher provision made for stock obsolescence.

Other income, Operating Expenses

Distribution and Selling expenses

- Distribution and selling expenses increased 4.2% (\$0.3 million) Y-O-Y for the quarter mainly due to higher payroll related costs.
- For 1H 2016, the increase of 2.4% (\$0.3 million) was mainly due to higher payroll and related costs and provision made for doubtful debts.

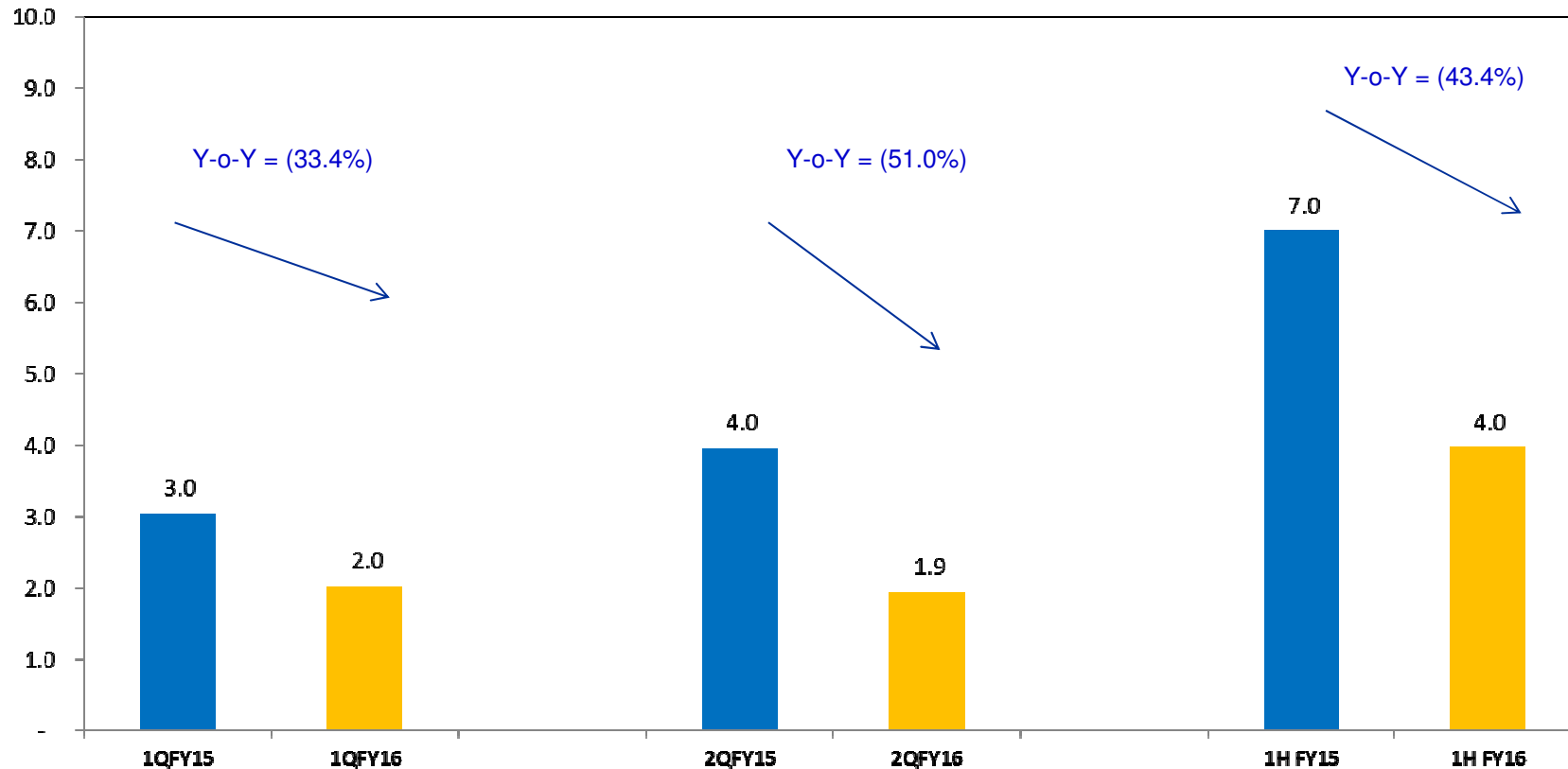
Administrative expenses

- Administrative expenses increased by 20.2% (\$0.7 million) Y-O-Y for the quarter and 16.7% (\$1.1 million) Y-O-Y for 1H 2016 mainly due to lower payroll and related costs.

Other expenses

- Higher other operating expenses in 2Q FY16 and 1H FY16 was mainly due to exchange loss.
- The significant increase in exchange loss for the quarter and year-to-date June 2016 was mainly due to the significant devaluation of Nigerian Naira against the US dollar by more than 40% towards the end of June 2016. As a result of revaluation of US dollar payables to Nigerian Naira, the Group recorded an unrealised exchange loss of \$1.2 million.
- The rest of the exchange loss was mainly due to the weakening of the US dollar against the Singapore dollar.

Profit after tax



- PAT for Q2 2016 and 1H 2016 registered a decline of 51.0% and 43.4% Y-o-Y respectively mainly due to lower gross profit and higher exchange losses

Financial Position

- **Borrowings**

As of 30 June 2016, long term and short term loans were \$17.4m and \$5.1m respectively.

- **Warranty provision, approximately \$2.4m**

- **Cash position of \$26.9m as of 30 June 2016**

For Q2 2016 and 1H 2016, there was an increase in cash and cash equivalents of \$9.4 million and \$6.3 million respectively. This was mainly due to :

- positive cashflow from operating activities of \$6.9 million and \$5.8 million respectively
- net loans taken up in Q2 2016 and 1H 2016 of \$6.3 million and \$6.2 million respectively.

The above was partially offset by payment of FY 2015 dividend of \$3.6 million in May 2016, and outlay on capital expenditure of \$0.3 million and \$2.2 million for Q2 2016 and 1H 2016 respectively.



Nera Telecommunications - Overall



- The Group's business comprises two main business segments, namely Telecommunications and Info-communications.

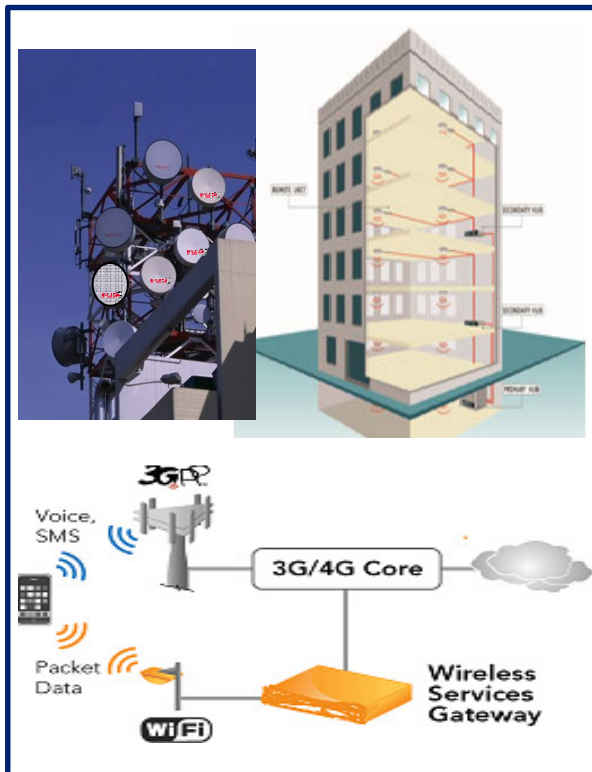
**Infocomm
Network Infrastructure**

**IP
Networks** **Optical
Networks** **Broadcast
Networks**

ezlink VISA
MasterCard
NETS
make life great
AMERICAN EXPRESS
JCB ONE
Diners Club International

- In 1H 2016, the Group secured a total of approximately \$125.9 million in order intake, an increase of 0.3% compared to 1H 2015 of \$125.6 million.

BA : Wireless Infrastructure Networks (“WIN”)



- In 1H 2016, the Group’s Telecom business segment secured approximately \$44.6 million in order intake, an increase of 1.3% compared to \$44.1 million in 1H 2015. Order intake from the Asia Pacific region was higher due to a major in-building infrastructure contract won by the Group in Q2 2016.
- The Group believes that the demand for wireless infrastructure networks will be driven by Mobile Operators expanding its wireless network coverage, capacity and capabilities to meet their customers’ need for mobility and broadband services as well as regulatory standards and compliances.
- The Group will continue to provide a comprehensive wireless infrastructure network, comprising point-to-point radios, point-to-multi-point radios, mobile coverage solutions (in-building and outdoor coverage solutions), wifi 3G data offload and network performances and management solutions to meet the demands of our customers.
- Competition remain intense as customers continue to demand for lower capex and opex costs and drive for higher services standards and lower cost to provide their services.

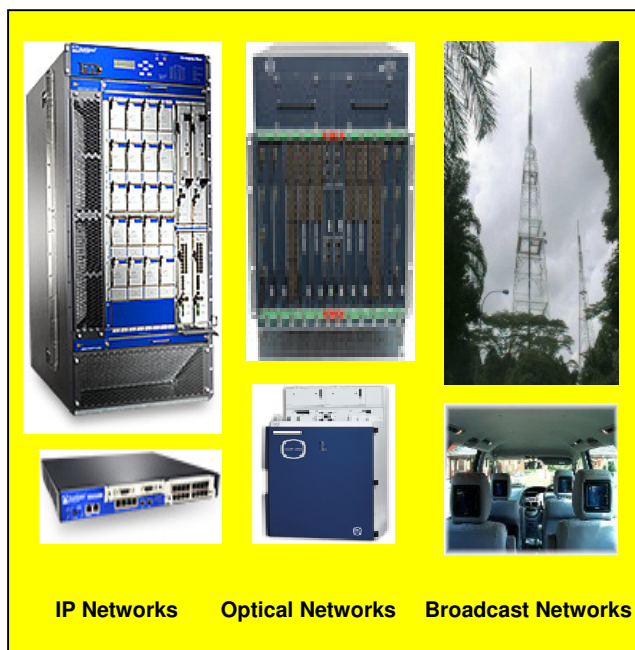
INFOCOMM BUSINESS SEGMENT



- The Infocomm business segment comprises two business areas, namely Network Infrastructure and Payment Solutions.
- The Group's Infocomm business segment managed to secure approximately \$81.3 million in order intake in 1H 2016, approximately the same level of order intake as in 1H 2015 of \$81.5 million. The Network Infrastructure business area achieved significant increase in order intake, which was offset by lower orders from the Payment Solutions business area.

INFOCOMM

BA : Network Infrastructure



- In 1H 2016, the Group's Network Infrastructure business area secured approximately \$61.0 million in order in-take, a significant increase of 29.3% compared to \$47.2 million in 1H 2015 due to strong order intake from our Service Provider customers.
- The Group believes that its Service Provider, Enterprise, and Government, Transport and Utilities customers will continue to invest and upgrade their ICT network infrastructure to support the growth in the number of users, number of devices, data and video traffic, web services, cyber threats, mobility as well as regulatory compliances.
- The Group will continue to focus on providing IP (routing and switching), Security, Optical, Broadcast network infrastructure, Cloud, Data Center products and solutions and build up a comprehensive range of IP network infrastructure products to enable our customers to roll out competitive ICT services to their customers..
- Competition in the Network Infrastructure business area remains high and very fragmented with local and global resellers, distributors, system integrators and some equipment vendors are competing in the various market verticals.

INFOCOMM BA : Payment Solutions



- In 1H 2016, the Group's Payment Solutions business area managed to secure approximately \$20.3 million in order intake, a decrease of 40.9% compared to \$34.3 million in 1H 2015 due to delay in order intake from a customer. Following Q2 2016 closing, the Group received a purchase order and a letter of award of approximately \$7.6 million of sales and leasing of point of sales ("POS") terminals from existing customers in South East Asia. On the POS terminal leasing order, the customer has the option to extend the tenor to 5 years and also deploy additional POS terminals of approximately \$17.5 million..
- Competition in the payment industry is fragmented with many local players offering various brands of payment products and services to banks, financial institutions and retailers.
- The Group believes that growth in the payment business will continue due primarily to the increase in number of plastic cards, consumer spending, transactions, governments' drive towards a cashless society, bank outsourcing their non-core payment infrastructure as well as security and regulatory compliances. The Group will continue to provide comprehensive payment infrastructure products and services to various payment market verticals.

Order in-take summary



Nera Telecommunications Ltd

