

NERA TELECOMMUNICATIONS LTD

ANALYST BRIEFING

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Content

- Result analysis :
 - 3Q FY15 vs 2Q FY15
 - 3Q FY15 vs 3Q FY14
 - YTD 3Q FY15 vs YTD 3Q FY14
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Financial performance summary



Nera Telecommunications Ltd

S\$'000	3QFY15	3QFY14	+ / (-) %	YTD3QFY15	YTD3QFY14	+ / (-) %
Turnover	39,597	49,650	(20.2%)	130,117	134,096	(3.0%)
Gross profit	12,759	15,015	(15.0%)	42,741	44,692	(4.4%)
Gross profit %	32.2%	30.2%	2.0%	32.8%	33.3%	(0.5%)
Other operating income	359	343	4.7%	516	1,002	(48.5%)
Distribution and selling expenses	(7,618)	(7,985)	(4.6%)	(21,798)	(21,907)	(0.5%)
Administrative expenses	(2,688)	(3,020)	(11.0%)	(9,177)	(8,699)	5.5%
Other operating expenses	(45)	(21)	114.3%	(230)	(96)	139.6%
Financial expenses	(197)	(74)	166.2%	(433)	(209)	107.2%
Financial income	9	13	(30.8%)	37	86	(57.0%)
Profit before taxation	2,579	4,271	(39.6%)	11,656	14,869	(21.6%)
Taxation	(573)	(730)	(21.5%)	(2,648)	(3,268)	(19.0%)
Profit after taxation	2,006	3,541	(43.3%)	9,008	11,601	(22.4%)

Revenue overview



Revenue – Overall group

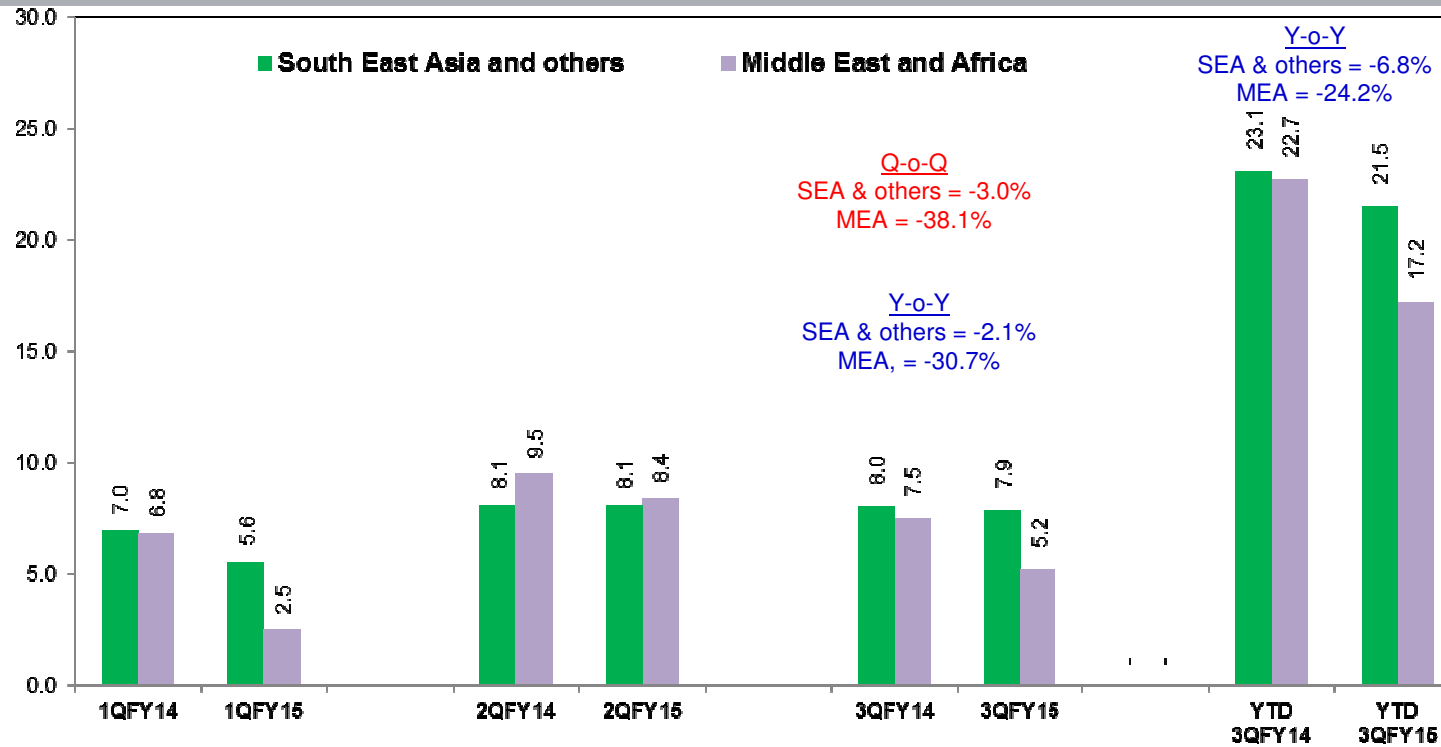
3Q FY15

- Revenue in 3Q FY15 declined 20.2% (\$10.1m) y-o-y from \$49.7m to \$39.6m
 - Telecom - declined 15.9% (\$2.4m) y-o-y from \$15.5m to \$13.1m
 - Network Infrastructure - declined 30.3% (\$6.5m) y-o-y from \$21.5m to \$15.0m
 - Payment Solutions - declined 8.3% (\$1.1m) y-o-y from \$12.6m to \$11.5m

YTD 3Q FY15

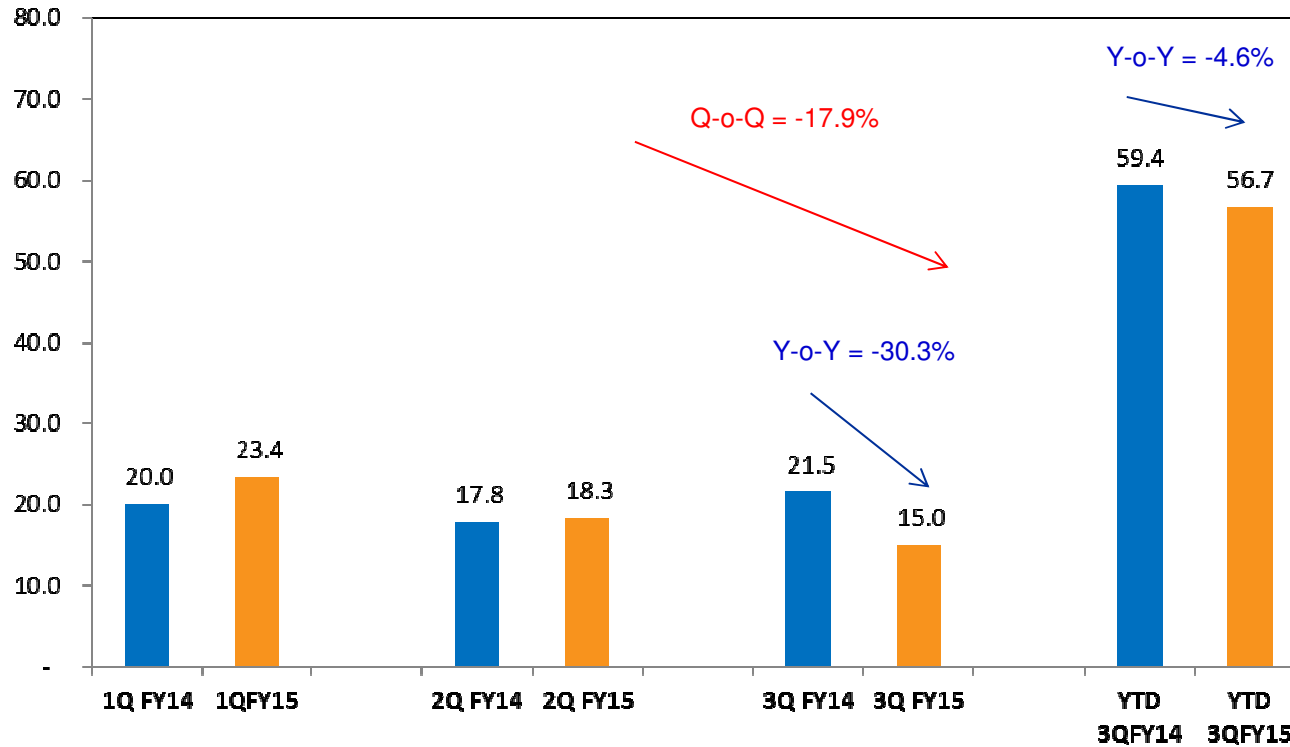
- Revenue for YTD 3Q FY15 declined 3.0% (\$4.0m) y-o-y from \$134.1m to \$130.1m
 - Telecom - declined 15.4% (\$7.1m) y-o-y from \$45.8m to \$38.7m
 - Network Infrastructure - declined 4.6% (\$2.7m) y-o-y from \$59.4m to \$56.7m
 - Payment Solutions - increased 20.0% (\$5.8m) y-o-y from \$28.9m to \$34.7m

Revenue – Telecom segment



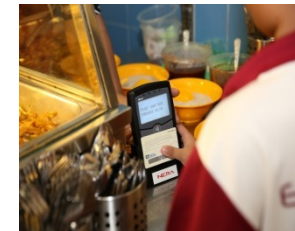
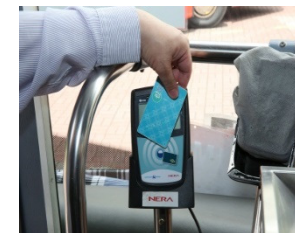
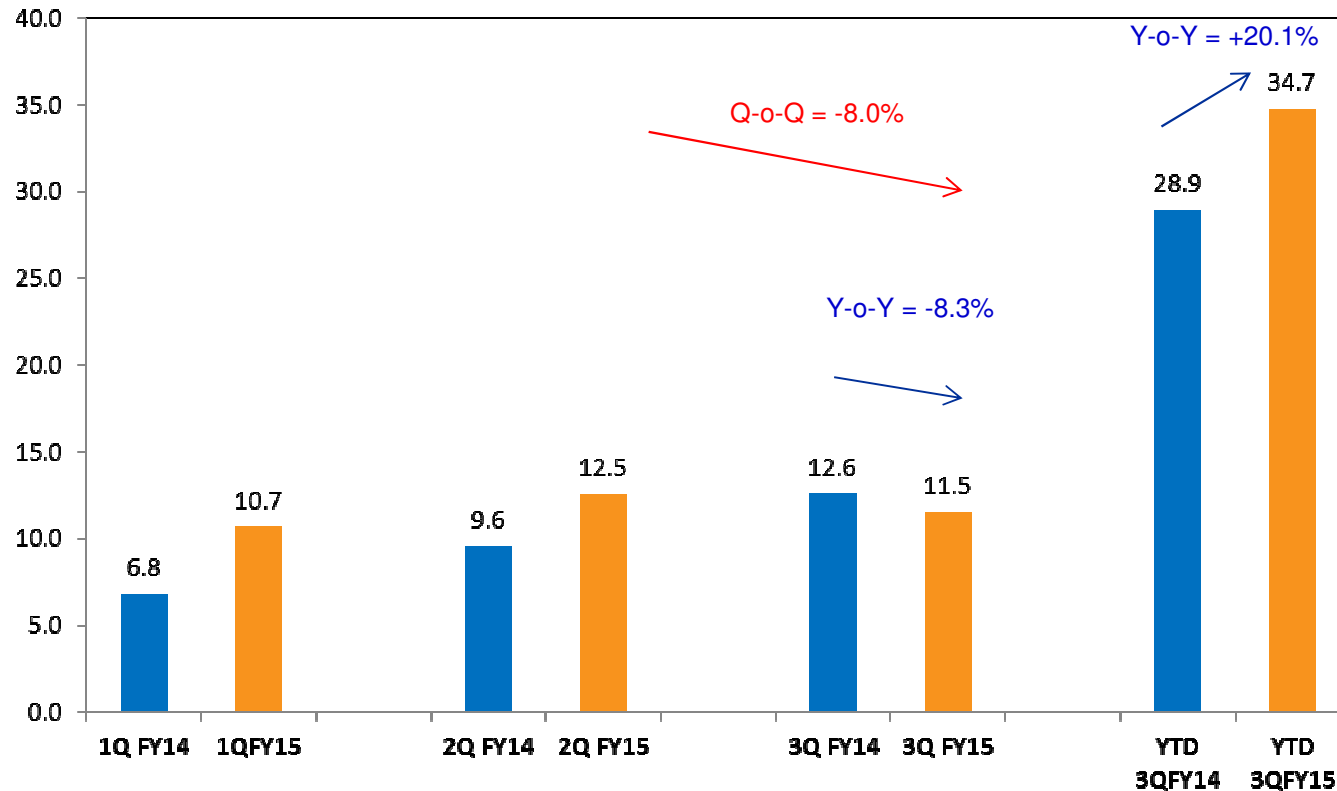
- In 3Q FY15, Telecom segment revenue from SEA & others region declined both Q-o-Q and Y-o-Y at 3.0% and 2.1% respectively.
- In 3Q FY15, Telecom segment revenue from Middle East and Africa region declined both Q-o-Q and Y-o-Y at 38.1% and 30.7% respectively.
- Total Telecom segment revenue declined 15.4% Y-o-Y for YTD 3Q FY15 from \$45.8m to S\$38.7m, due to lower sales in both regions.

Revenue – Network Infrastructure



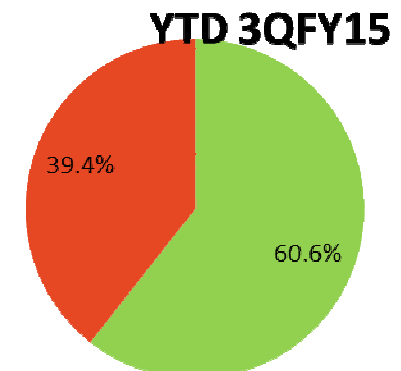
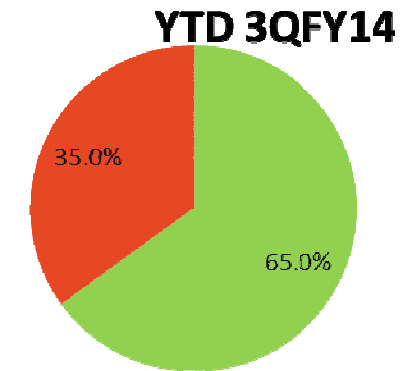
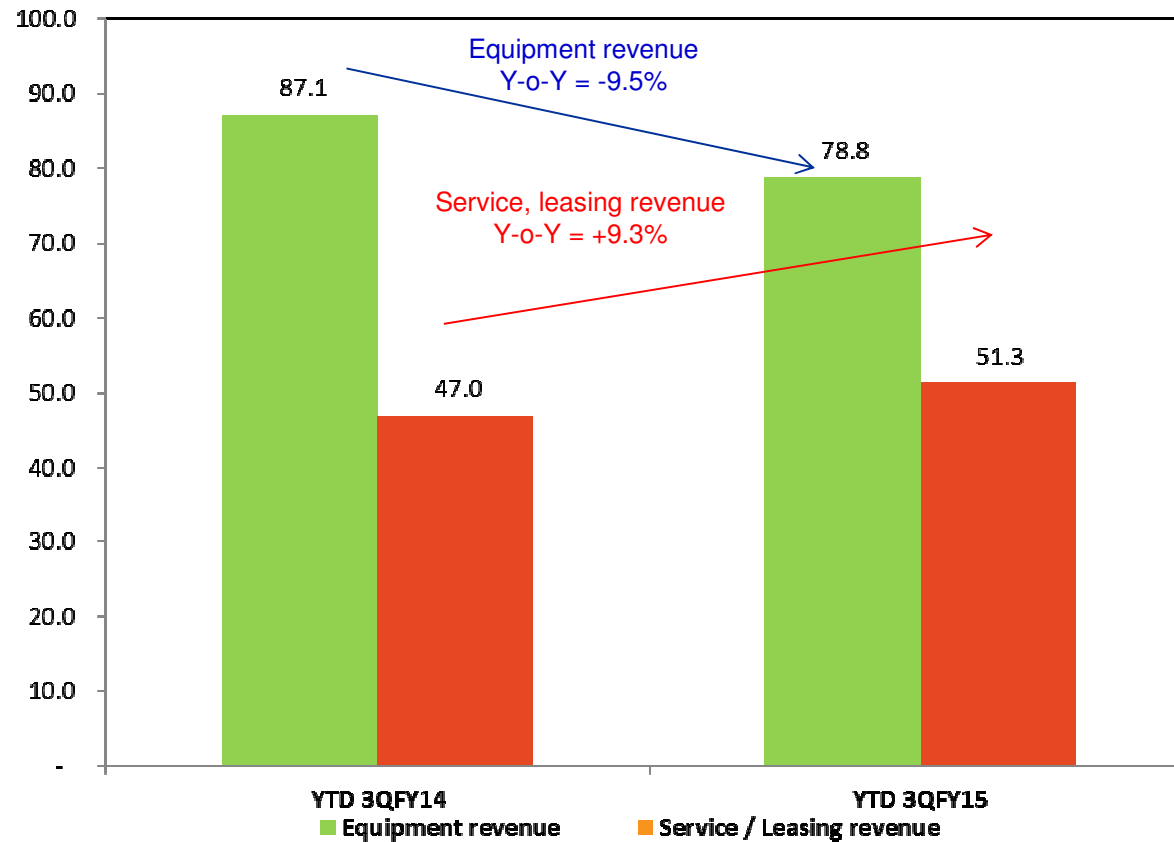
- 3Q FY15 revenue contribution from Network Infrastructure segment declined 17.9% Q-o-Q and 30.3% Y-o-Y.
- The lower revenue for 3Q FY15 Y-o-Y was mainly due to lower sales of network equipment to the Service Provider market.
- For YTD 3Q 2015, turnover declined 4.6% YOY from \$59.4 million to \$56.7 million, with lower sales of network equipment to the Service Provider market.

Revenue – Payment Solutions



- For 3Q FY15, revenue contribution for Payment Solutions segment declined both Q-o-Q and Y-o-Y at 8.0% and 8.3% respectively.
- For YTD 3Q 2015, revenue contribution for Payment Solutions segment increased 20.1% Y-o-Y.
- Higher revenue from the sale and leasing of point-of-sale terminals.

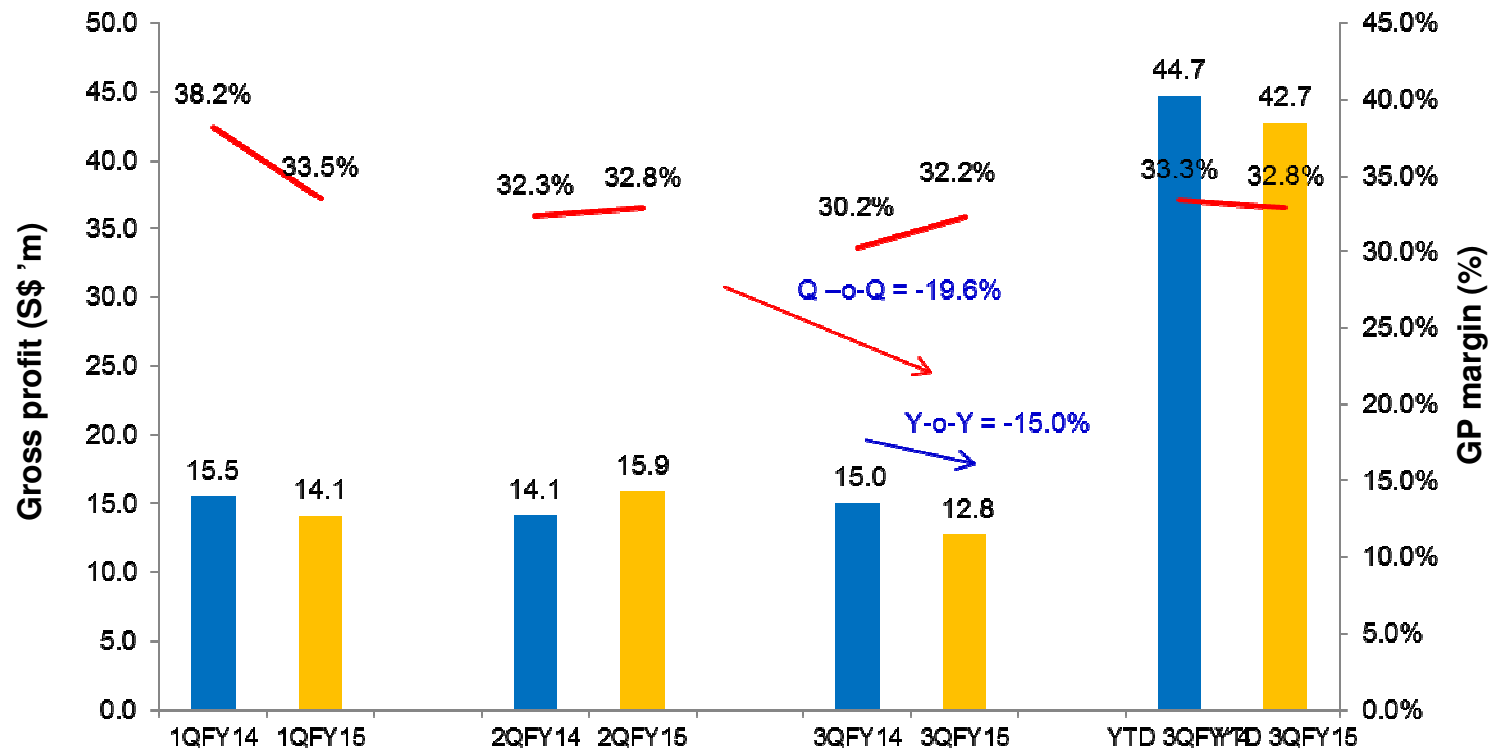
Revenue – Breakdown by nature



■ Equipment revenue ■ Service / Leasing revenue

- Revenue contribution from service and terminal leasing revenue increased 9.3% Y-o-Y for YTD 3Q FY15.
- Revenue contribution from equipment sales declined 9.5% Y-o-Y for YTD 3Q FY15.

Gross Profit, GP Margin



- In 3Q FY15, gross profit margin (“GP margin”) improved 2.0% Y-o-Y from 30.2% to 32.2%. However, the lower revenue resulted in a decrease of 15.0% in gross profit Y-O-Y from \$15.0m to \$12.8m.
- Gross profit for YTD 3Q 2015 declined 4.4% from \$44.7 million to \$42.7 million. GP% also declined from 33.3% to 32.8%.
- The changes in gross profit and GP% can be attributed to sales mix in product, project and services.

Other income, Operating Expenses

Other operating income

- The lower other operating income for YTD 3Q 2015 was mainly due to absence of exchange gain for the period and lower government grant.

Distribution and Selling expenses

- Distribution and selling expenses declined 4.6% (\$0.4 million) YOY for the quarter, and 0.5% (\$0.1 million) Y-O-Y for nine months of 2015. The decline was mainly due to lower payroll related costs.

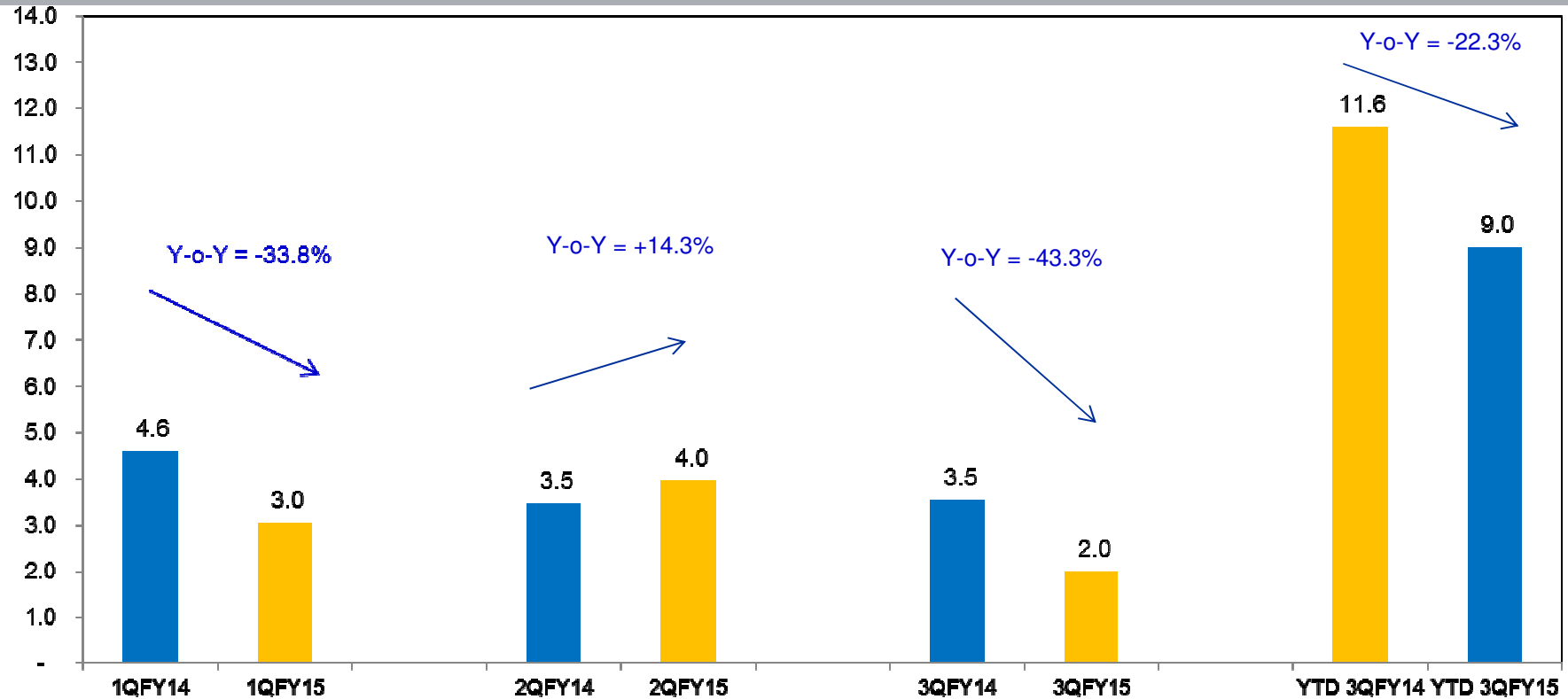
Administrative expenses

- Administrative expenses declined 11.0% (\$0.3 million) Y-O-Y for the quarter mainly due to lower payroll related costs.
- For YTD 3Q 2015, administrative expenses increased 5.5% (\$0.5 million) Y-O-Y mainly due to higher rental costs (from new office in Myanmar and expansion of office space in certain countries) and higher depreciation expenses.

Other expenses

- Higher other operating expenses for YTD 3Q 2015 was mainly due to exchange loss.

Profit after tax



- PAT for Q3 2015 registered a decline of 43.3% YOY mainly due to lower gross profit, partially offset by lower operating expenses.
- PAT for YTD 3Q 2015 registered a decline of 22.4% YOY mainly due to lower gross profit, higher operating expenses and exchange loss, partially offset by lower taxes.

Financial Positions

- **Borrowings**

- As of 30 September 2015, long term and short term loans of S\$13.1m and S\$2.8m respectively had been drawn.

- **Warranty provision, approximately S\$3.4m**

- **Cash position of S\$18.7m as of 30 September 2015**

For Q3 2015, the positive cashflow from operating activities and the loans taken up of \$5.2 million more than offset the payment of interim dividend of \$9.1 million in August 2015 and \$1.5 million outlay on capital expenditure.

For YTD 3Q 2015, the decrease in cash and cash equivalents of \$4.5 million was mainly due to

- payments of final dividend of \$7.2 million for FY2014 in May 2015, \$9.1 million interim dividend for FY 2015 in August 2015
- \$3.9 million outlay on capital expenditure
- The decrease was partially offset by loans taken up of \$11.2 million



Nera Telecommunications - Overall



- The Group's business comprises two main business segments, namely Telecommunications and Info-communications.
- In the first nine months of 2015, the Group secured approximately \$164.7 million in order in-take, a slight decline of 3.3% compared to the first nine months of 2014 of \$170.5 million

**Infocomm
Network Infrastructure**



IP
Networks

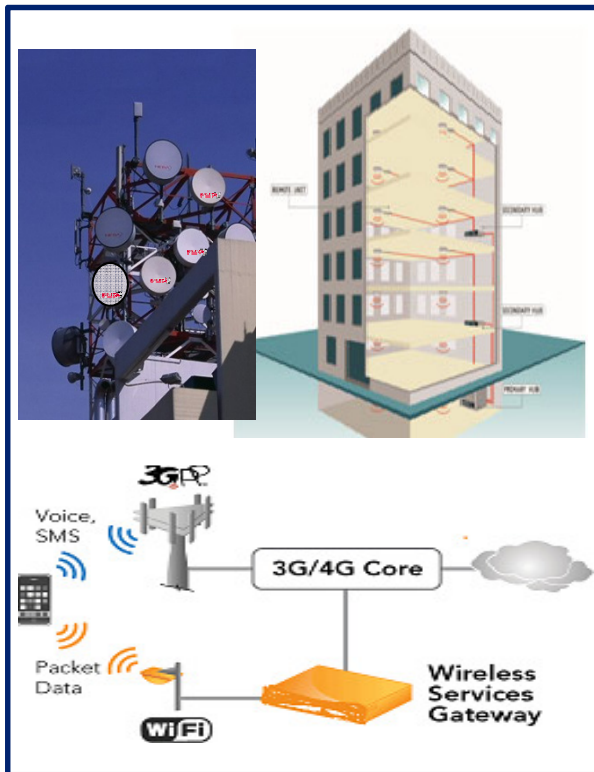


Optical
Networks



Broadcast
Networks

BA : Wireless Infrastructure Networks (“WIN”)



- Competition remains high with various local and global competitors offering their products and services to mobile operators who continue to demand for lower capex and opex costs, and seek new revenue streams.
- In the first nine months of 2015, the Group’s Telecom business segment secured approximately \$64.2 million in order in-take, an increase of 13.6% compared to \$56.5 million in the first nine months of 2014 as a result of higher point-to-point radio order in-take from customers in the Middle East & Africa market in Q1 2015.
- The Group believes that mobile operators will continue to invest in their wireless infrastructure networks coverage, capacity and capabilities due to rapid growth in data and video traffic, increase in mobile devices, demand for broadband services and regulatory compliances.
- The Group will continue to provide end-to-end wireless infrastructure network products and solutions such as point-to-point radios, point-to-multi-point radios, mobile coverage solutions, DAS (“Distributed Antenna System”) in-building and outdoor coverage solutions, wifi 3G data offload and network performances and management solutions to enable our customers to deploy a cost-effective wireless infrastructure.

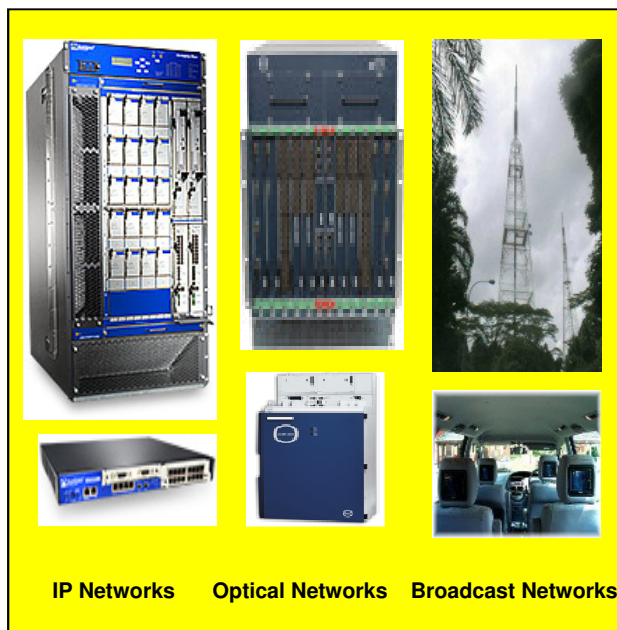
INFOCOMM BUSINESS SEGMENT



- The Infocomm business segment comprises two business areas, namely Network Infrastructure and Payment Solutions.
- The Group's Infocomm business segment managed to secure approximately \$100.6 million in order in-take in the first nine months of 2015 as compared to \$113.9 million in nine months 2014. The decline of approximately 11.7% was mainly due to lower order in-take from the Network Infrastructure business area, partially offset by a higher order in-take from the Payment Solutions business area.
- The Infocomm industry remains highly competitive and fragmented with resellers, distributors and system integrators and global equipment vendors competing in the various vertical markets such as the Service Providers, Enterprises, Government, Transport and Utilities where the Group operates

INFOCOMM

BA : Network Infrastructure



- In the first nine months of 2015, the Group's Network Infrastructure business area secured approximately \$61.2 million in order in-take, a decrease of 23.1% compared to \$79.7 million in the first nine months of 2014 due to delay in orders from our Service Provider customers and in Q3 2014, the Group received two significantly large orders from our Service Provider customers
- The Group believes that Service Providers, Enterprises and Government, Transport and Utilities customers will continue to invest in their network infrastructure capacity and capabilities to support the growth in the number of internet devices, data and video traffic, web services, demand for mobility, security and regulatory compliances as well as using IT to increase productivity, lower operating costs and improve their competitiveness.
- The Group will continue to focus on providing IP, Optical and Broadcast network infrastructure such as routing, switching, security, data centre and network performances products and solutions to meet our customers' objectives. The Group is gradually building up its multi-domain capabilities and a range of cloud infrastructure products and solutions to support our customers' journey towards cloud services.

INFOCOMM BA : Payment Solutions



- In the first nine months of 2015, the Group's Payment Solutions business area managed to secure approximately \$39.3 million in order in-take, an increase of 14.8% compared to \$34.3 million in the first nine months of 2014 due to strong order in-take in 1H 2015.
- The Group believes that our Payment Solutions business will continue to grow as a result of an increase in the number of plastic cards, credit, debit cards and consumer spending, increase in transactions, many government initiatives towards cashless transactions, banks outsourcing their point-of-sale infrastructure as well as security and regulatory compliances.
- The Group will continue to focus on providing a secured end-to-end payment infrastructure, offering various business models such as sales, rental, leasing of point-of-sale terminals and related services as well as mobile payment and e-Commerce payment products and solutions.

Order in-take summary



Nera Telecommunications Ltd

