

NERA TELECOMMUNICATIONS LTD

ANALYST BRIEFING

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President & CEO

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 - Y-o-Y : 4Q FY14 vs 4Q FY13
 - Y-o-Y : FY14 vs FY13
- Outlook

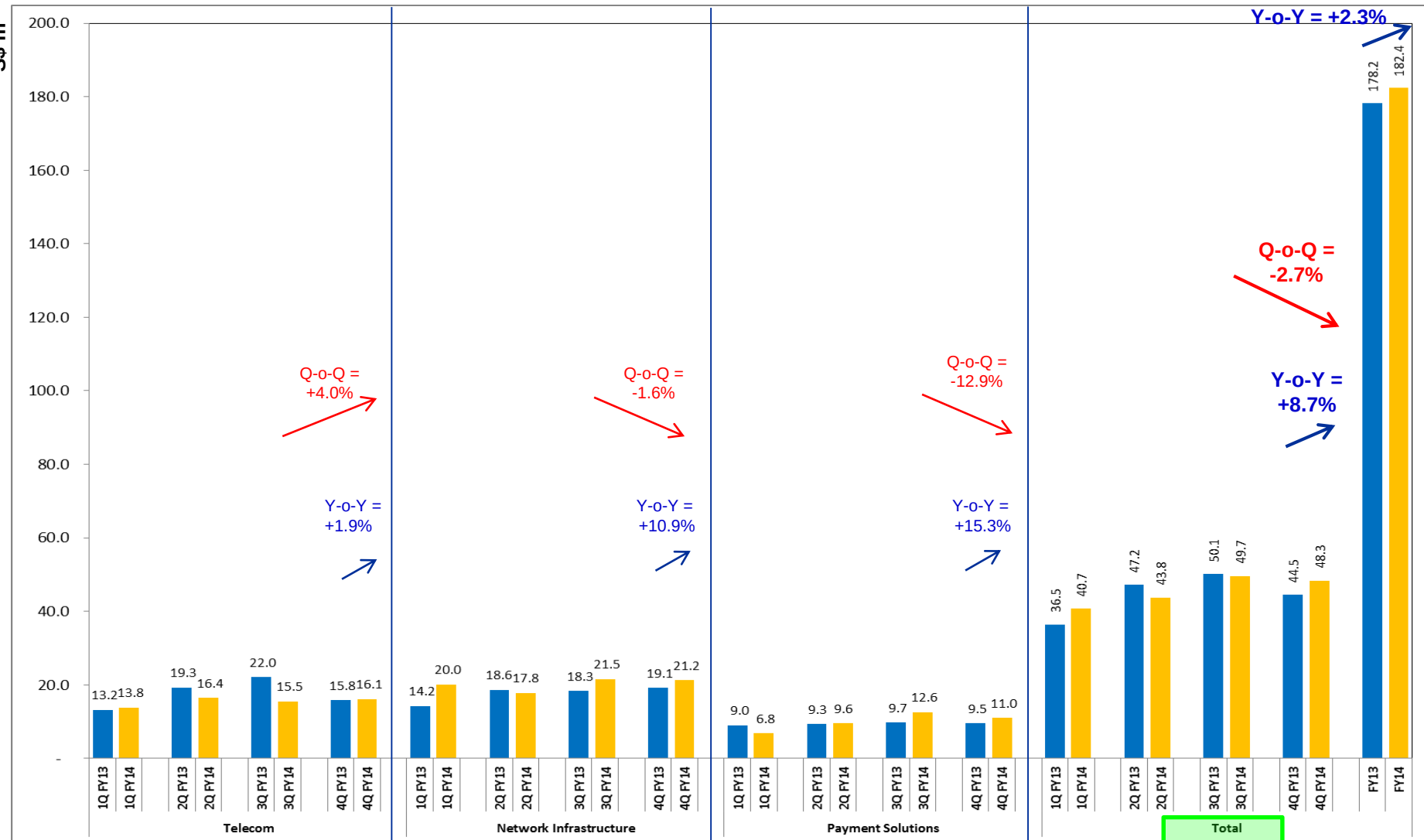


Financial performance summary

S\$'000	4QFY14	4QFY13	+ / (-) %	FY14	FY13	+ / (-) %
Turnover	48,302	44,455	8.7%	182,399	178,217	2.3%
Gross profit	15,687	15,611	0.5%	60,379	60,631	(0.4%)
Gross profit %	32.5%	35.1%	(2.6ppt)	33.1%	34.0%	(0.9ppt)
Other operating income	136	132	3.0%	823	1,122	(26.6%)
Distribution and Selling expenses	(7,018)	(7,757)	(9.5%)	(28,925)	(27,943)	3.5%
Admin expenses	(2,904)	(3,083)	(5.8%)	(11,603)	(11,544)	0.5%
Other expenses	(410)	(724)	(43.4%)	(191)	(1,916)	(90.0%)
One-off contribution from negative goodwill*	-	-	-	-	7,051	(100.0%)
PBT without one-off contribution from negative goodwill	5,358	4,173	28.4%	20,277	20,449	(1.1%)
Profit before taxation	5,358	4,173	28.4%	20,227	27,500	(26.4%)
PAT without one-off contribution from negative goodwill	4,626	3,849	20.2%	16,227	16,417	(1.2%)
Profit after taxation	4,626	3,849	20.2%	16,227	23,468	(30.9%)

* Arose from the acquisition of the remaining 70% equity interest in Nera (Malaysia)

Revenue overview



Revenue – Overall group

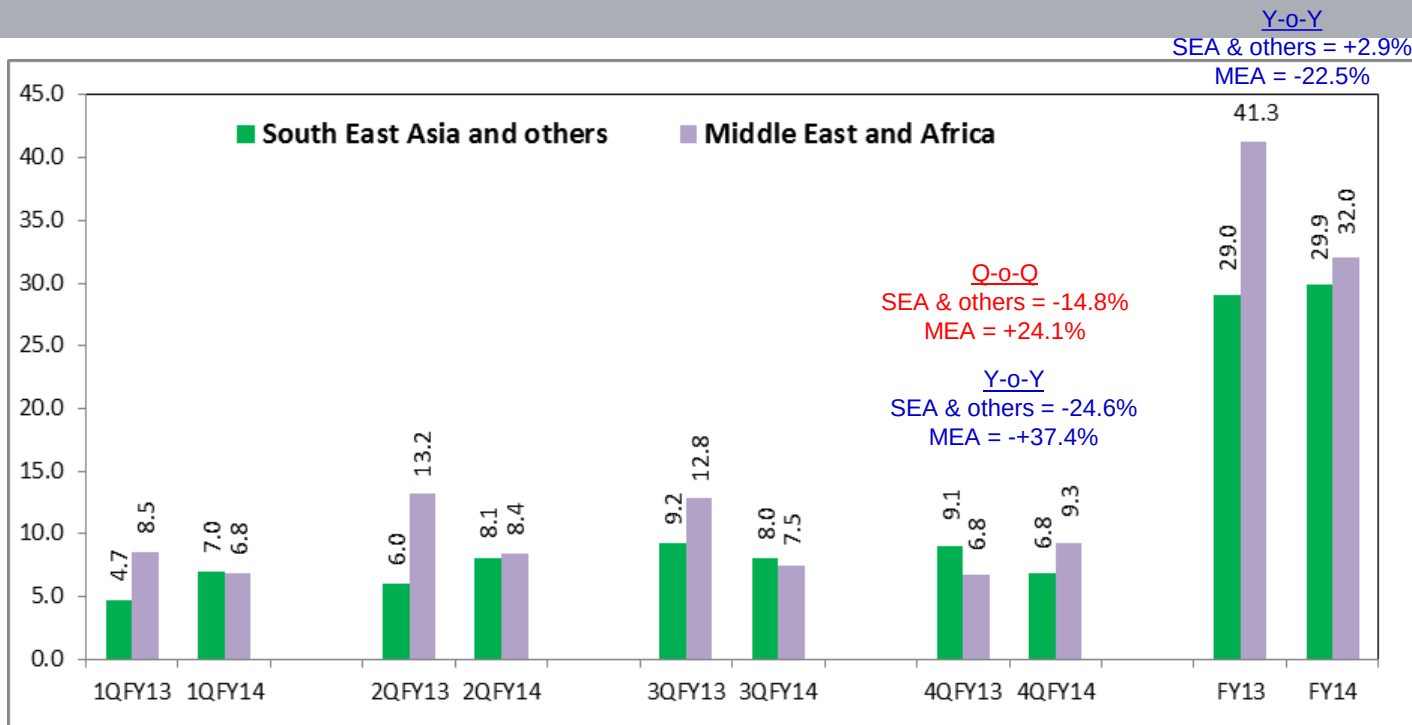
4QFY14

- Revenue in 4QFY14 increased 8.7% (\$3.8m) y-o-y from \$44.5m to \$48.3m
 - Telecom = increased 1.9% (\$0.3m) y-o-y from \$15.8m to \$16.1m
 - Network Infrastructure = increased 10.9% (\$2.1m) y-o-y from \$19.1m to \$21.2m
 - Payment solution = increased 15.3% (\$1.5m) y-o-y from \$9.5m to \$11.0m

FY14

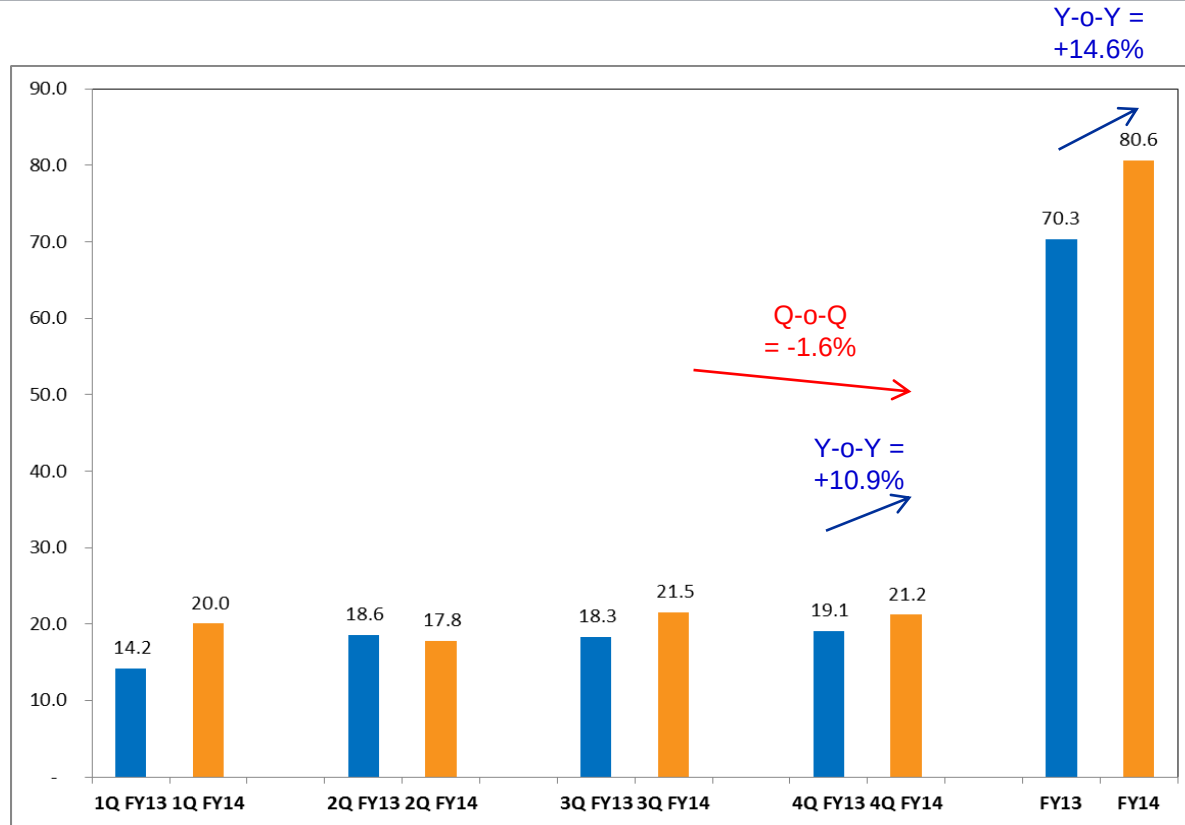
- Revenue in FY14 increased by 2.3% (\$4.2m) y-o-y from \$178.2m to \$182.4m
 - Telecom = decreased 12.0% (\$8.5m) y-o-y from \$70.4m to \$61.9m
 - Network Infrastructure = increased 14.6% (\$10.3m) y-o-y from \$70.3m to \$80.6m
 - Payment solution = increased 6.2% (\$2.4m) y-o-y from \$37.5m to \$39.9m

Revenue – Telecom segment



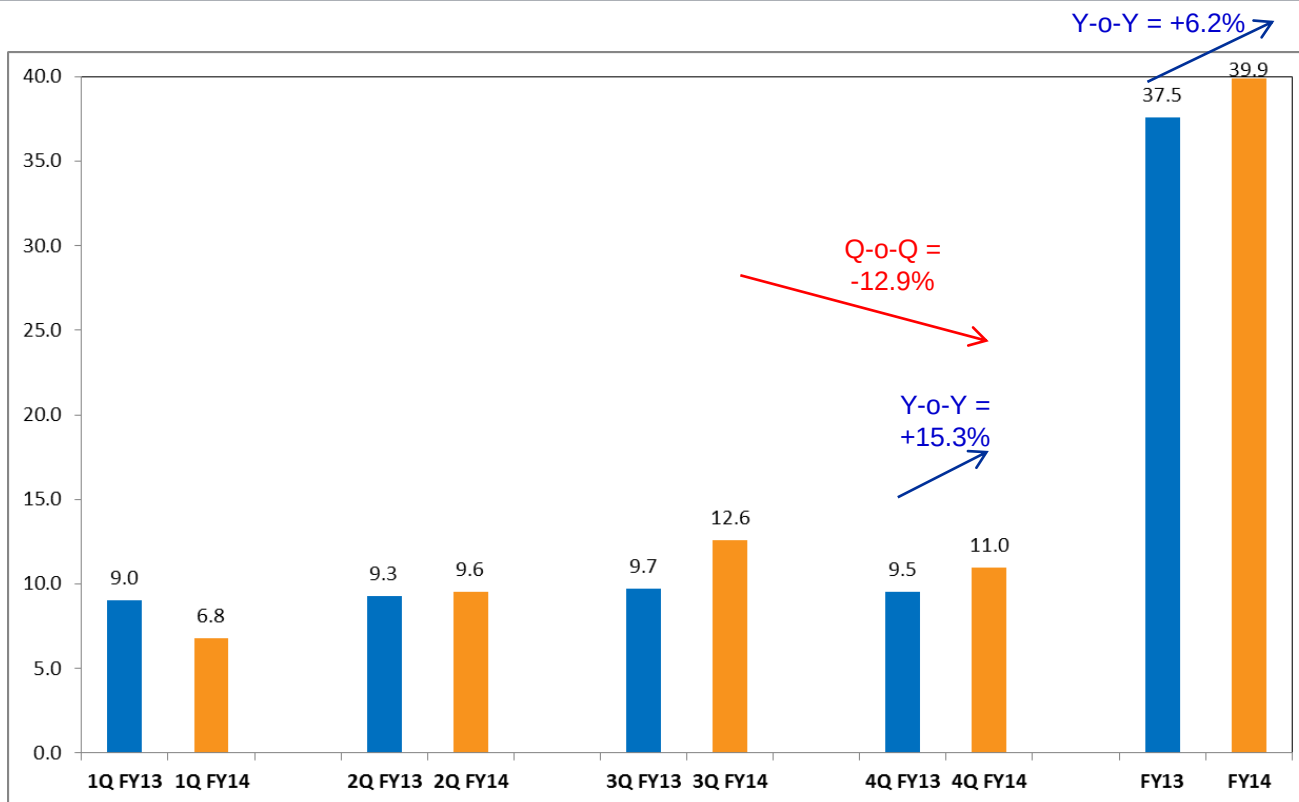
- In 4QFY14, Telecom segment revenue from SEA & Others region declined both Q-o-Q and Y-o-Y by 14.8% and 24.6%, mainly due to absence of lumpy WIN revenue recognition occurred in Thailand and Malaysia in 4QFY13.
- In 4QFY14, Telecom segment revenue from Middle East and Africa region increased both Q-o-Q and Y-o-Y at 24.1% and 37.4% respectively.
- As a result, total Telecom segment revenue declined 12.0% Y-o-Y in FY14 from S\$70.4m to S\$61.9m.
- The Group plans to gradually build up in-building mobile coverage network in major buildings in Indonesia. These in-building network will be leased to Telco in Indonesia. This will drive the growth of recurring revenue within the Telecom segment.

Revenue – Network Infrastructure



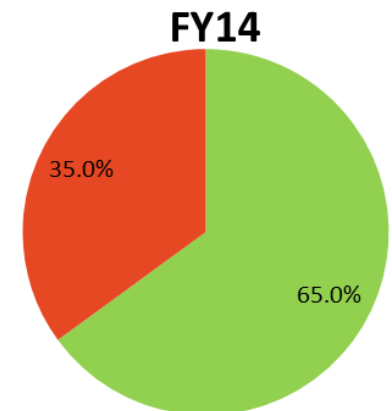
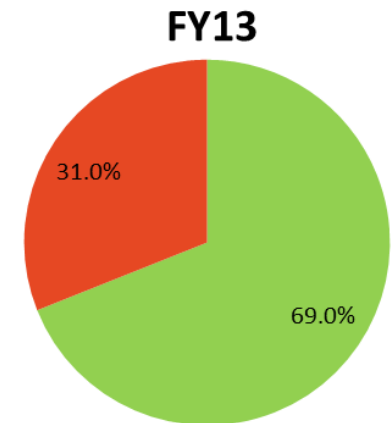
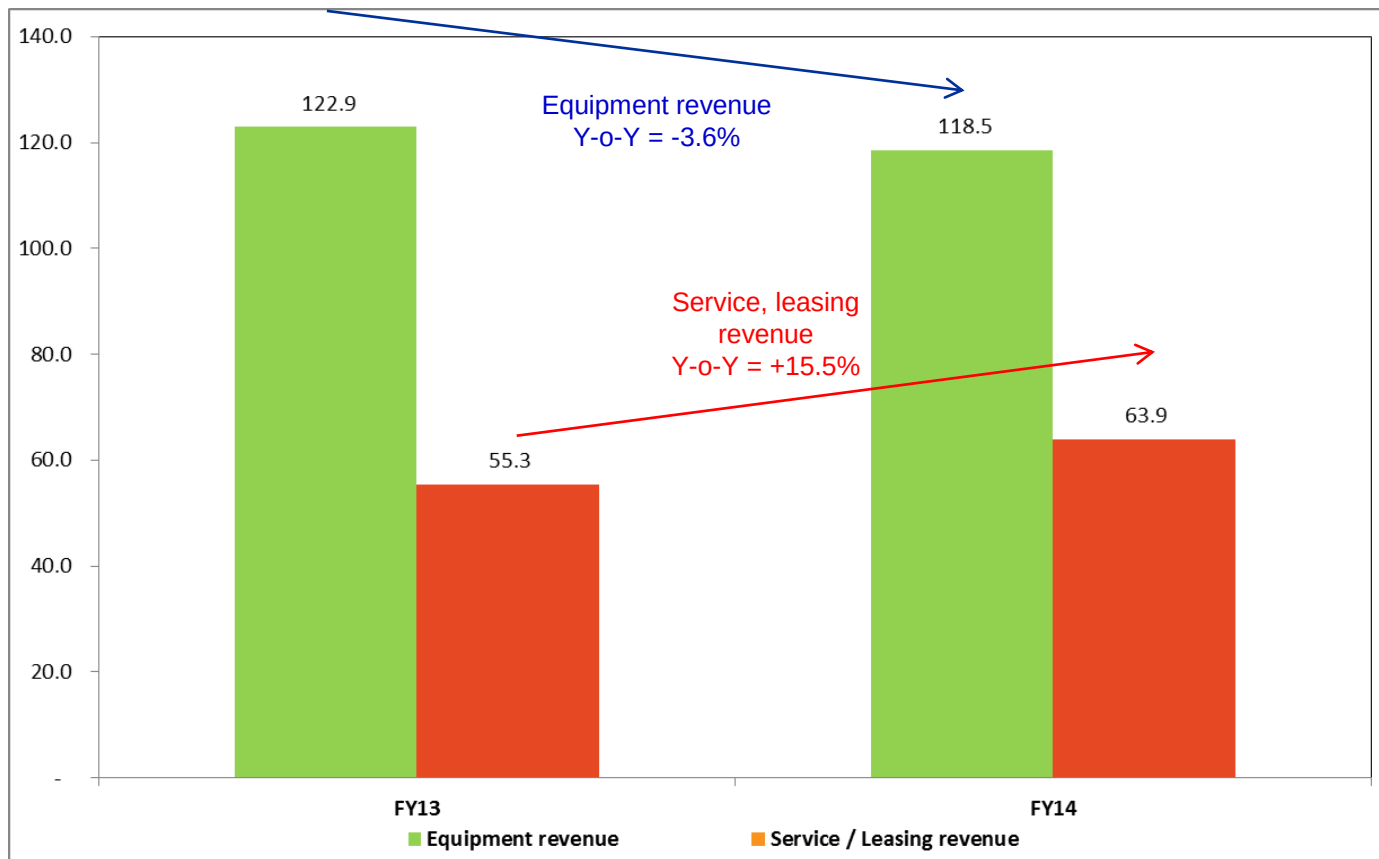
- In 4QFY14, Network Infrastructure segment revenue declined marginally 1.6% Q-o-Q but increased 10.9% Y-o-Y.
- Revenue contribution in the quarter was fairly even between inside and outside Singapore.
- For full year FY14, NI segment revenue increased 14.6% Y-o-Y, contributed by the strong growth outside Singapore.

Revenue– Payment Solutions



- Payment Solutions segment revenue increased 15.3% Y-o-Y in 4QFY14.
- After a historical revenue achieved in 3QFY14, PS segment revenue declined 12.9% Q-o-Q in 4QFY14. If not for the new order-in-take came in late in the quarter (PS order-in-take in 4QFY14 was S\$16.2m), PS revenue in 4QFY14 would not have declined 12.9% Q-o-Q.
- Despite a slow start in 1QFY14, PS revenue in FY14 increased 6.2% Y-o-Y in FY14.

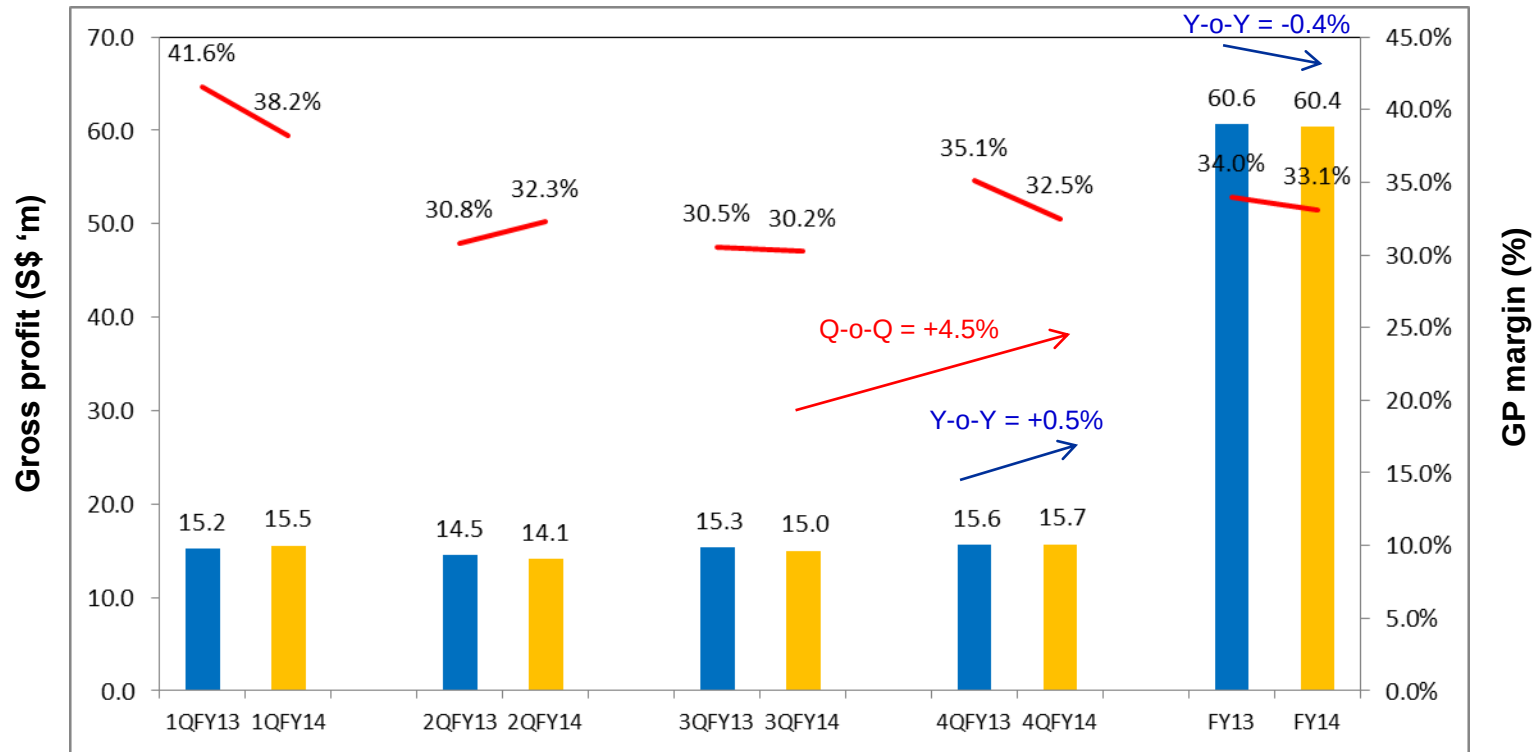
Revenue– Breakdown by nature



- Revenue contribution from service and terminal leasing revenue continued to increase with +15.5% Y-o-Y in FY14.

- **Three key pillars of revenue sources**
 - Wireless Infrastructure Networks (WIN), Network Infrastructure (NI) and Payment Solutions (PS)
- **Geographical and business expansion**
 - SEA (expanding Vietnam / Myanmar), ME, Africa (expanding into Nigeria / Libya), Pakistan
 - New businesses (NI / PS) into emerging markets
- **Increasing contributions from services**
 - WIN – engineering services (organize, optimize and overhaul), in-building mobile coverage network
 - NI – post sales maintenance services
 - PS – Point-of-Sales terminals leasing and maintenance services
- **Acquiring new capabilities**
 - RAN – In-building solutions, 3G offload, small cells and network performance
 - Software defined network (SDN), Data Centers and Cloud Infrastructure
 - Virtualisation of retailers / merchants (SMEs)

Gross Profit, GP Margin



- In 4QFY14, gross profit increased marginally by 0.5% Y-O-Y from \$15.6m to \$15.7m and the gross profit margin (“GP margin”) declined by 2.6ppt Y-o-Y to 32.5%
- Compared to 3QFY14, gross profit for 4QFY14 increased 4.5% Q-o-Q and the GP margin increased from 30.2% in 3QFY14 to 32.5% in 4QFY14.
- The change in GP margin is the net result of various factors, such as different sales mix in product / project and different mix of equipment / services / leasing income.

Other income, Operating Expenses

Other operating income

- The lower other operating income of \$0.8 million for FY 2014 as compared to FY 2013 was mainly due to lower accounts receivable collection fee, partially offset by government grants.

Distribution and Selling expenses

- Y-o-Y, Distribution and Selling expenses for 4QFY14 and FY14 decreased 9.5% (\$0.7 million) and increased 3.5% (\$1.0 million) respectively.

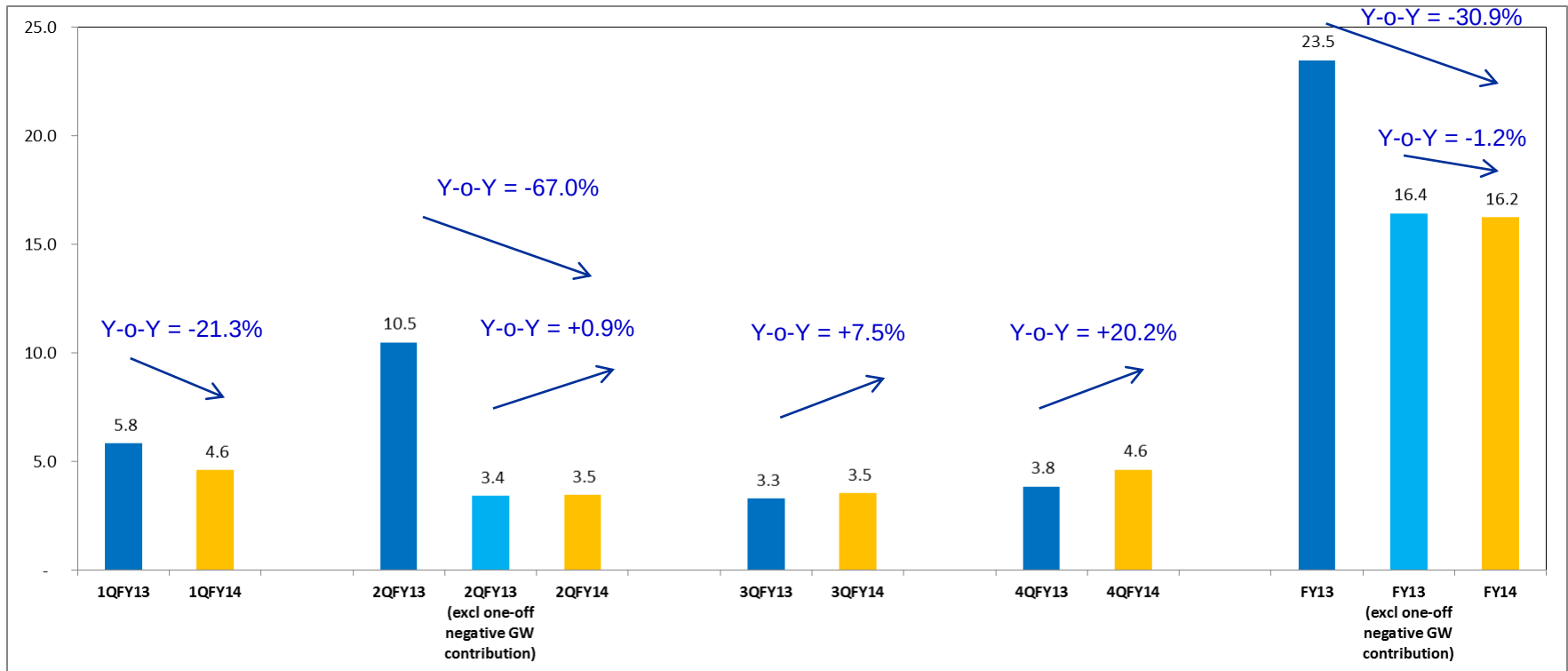
- The Y-o-Y increase in FY14 Distribution and Selling expenses was mainly due to higher payroll and selling related cost, full year consolidation of expenses at Nera Malaysia (acquired in April 2013) and full year operating expenses at Nera Nigeria (incorporated in February 2013).

Administrative expenses

- Y-o-Y, Administrative expenses for 4QFY14 and FY14 decreased 5.9% (\$0.2 million) and increased 0.5% (\$59k) respectively.

- Despite of the full year consolidation of administrative expenses at Nera Malaysia (acquired in April 2013) and full year admin expenses at Nera Nigeria (incorporated in February 2013), lower payroll and relate cost had mitigated that with only slight increase in the overall admin expenses.

Profit after tax



- With the combine effect from the gross profit, other operating income, operating expenses, tax expenses, and one-off negative goodwill contribution arises from Nera (Malaysia) acquisition occurred in 2QFY13, PAT for 4QFY14 and FY14 increased 20.2% and decreased 30.9% Y-o-Y respectively.
- Excluding the one-off contribution from the negative goodwill occurred in 2QFY13, the decline in FY14 PAT would reduce from 30.9% Y-o-Y to 1.2% Y-o-Y.

- **Strong balance sheet**

- The Group had put in place a 5 year, S\$25m financing facility. As of 31 Dec 2014, only S\$4.7m had been drawn in 3QFY14.
- The remaining facility amounting to S\$20.3m will be used for purchase of leasing equipment and potential M&A / new business initiative.

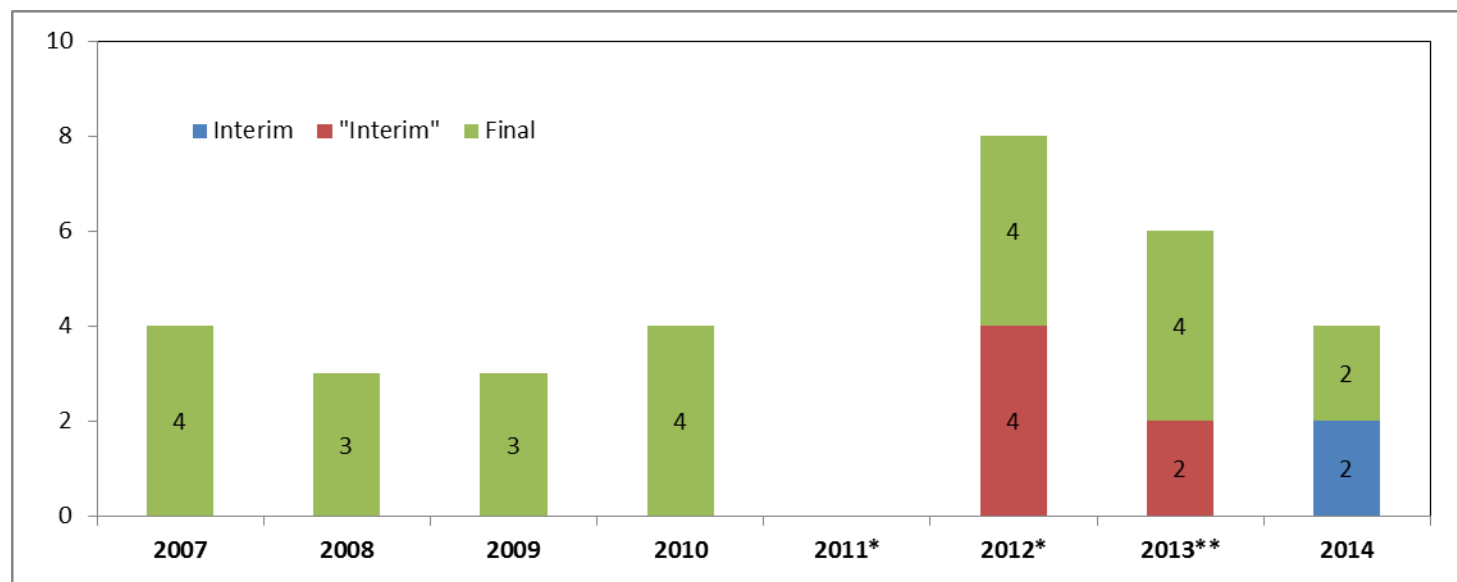
- **Warranty provision, approximately S\$4.6m**

- **Strong cash position with S\$24.9m as of 31 Dec 2014**

- The lower cash balance compared to FY13 was mainly due to payment of S\$14.5m FY13 final dividends, S\$7.2m FY14 interim dividend in May and Aug 2014 respectively, as well as S\$7.4m capex incurred in FY14, mainly for purchase of Point-of-Sales (POS) terminals for leasing.
- On top of growing recurring revenue from lease of POS terminals, the Group plans to gradually build up in-building mobile coverage network in major buildings in Indonesia. These in-building network will be leased to Telco in Indonesia. This will further drive the growth of recurring revenue in the years ahead.

Dividend recommendation

- Taking into consideration of the working capital requirement for the increase in order-intake, project pipeline, as well as the gradual approach to build-up the recurring revenue, and continue to show appreciation for the shareholders' support, the Board of Directors would like to recommend a 2 cents per share final dividend for FY14.
- Combine with the 2 cents per share interim dividend paid in Aug 2014, the total dividend for FY14 would be 4 cents per share.

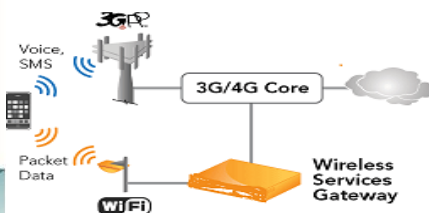
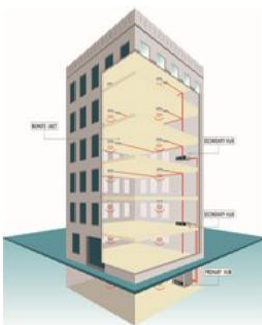


* The 8 cents total dividend paid in FY12 included 4 cents interim dividend paid in lieu for no dividend was declared for FY11

** The 2 cents interim dividend for FY13 was largely from the one-off cash inflow from Nera Malaysia acquisition occurred in Apr 2013.



Overall Nera Telecommunications



- The Group's business comprises two main business segments, namely Telecommunications and Infocommunications.
- In FY2014, the Group secured approximately \$217.0 million in order in-take, an increase of 12.3% compared to \$193.3 million in 2013.

Infocomm Network Infrastructure



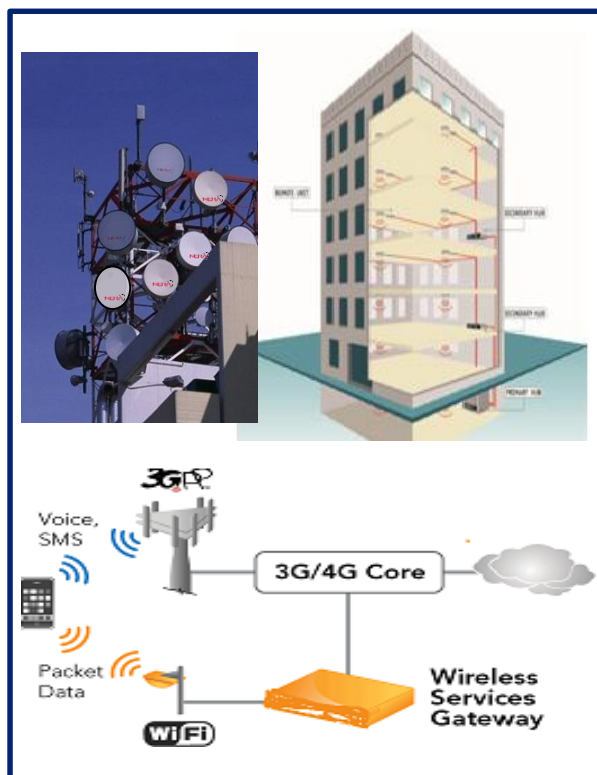
IP
Networks

Optical
Networks

Broadcast
Networks



BA : Wireless Infrastructure Networks (“WIN”)



- The Group believes that Operators will continue to invest in expanding their wireless infrastructure network capacity, coverages and capabilities. The demand for the Group's Telecom business, primarily the WIN, will continue to be driven by the rapid increase in internet data and video traffic as a result of growth in smart devices and broadband users, as well as regulatory compliances on the quality of services.
- In FY2014, the Group's Telecom business segment secured approximately \$71.0 million in order in-take, an increase of 5.0% compared to \$67.6 million in FY2013 due mainly to higher radio transmission equipment orders from mobile operators in Middle East and Africa market.
- The Group will continue to provide a comprehensive end-to-end wireless infrastructure network comprising of radio transmission, mobile coverage solutions, wifi 3G data offload and network performances management systems to meet our customers' needs. The Group continues to develop the radio access network market namely wifi and in-building coverage, as well as wireless solutions to non-mobile markets such as the Defence, Broadcast and Utilities customers.
- Competition in the mobile industry remains intense as operators continue to demand for lower opex and capex and seek new revenues to increase their market share.



- The Infocomm business segment comprises two business areas, namely Network Infrastructure and Payment Solutions.
- In FY 2014, the Group's Infocomm business segment managed to secure approximately \$145.9 million of order in-take compared to \$125.7 million in FY 2013, an increase of about 16.1% due to better order in-take from both the Network Infrastructure and Payment Solutions businesses.

INFOCOMM

BA : Network Infrastructure



- The Group believes that growth in network infrastructure from service providers will be driven by the increase in internet services, mobility, security concerns and regulatory compliances. In the Enterprises, Government, Transport and Utilities sectors, customers will continue to invest in their network infrastructure to increase productivity, improve their competitiveness, strengthen their cyber security and use IT to provide public services at lower costs.
- In FY 2014, the Group's Network Infrastructure business area managed to secure approximately \$95.5 million in order in-take, an increase of 13.2% compared to \$84.4 million in 2013 due to higher order in-take from customers outside Singapore.
- The Group will continue to focus on providing IP, Optical and Broadcast network infrastructure products and solutions to meet our various customers' business objectives and intends to also gradually build up a range of cloud infrastructure products and position the Group as a Cloud Infrastructure Provider to enable our customers to roll out cloud services.
- Competition in the network equipment market remains intense and fragmented with both local resellers, distributors and system integrators, as well as some global equipment vendors competing for market share.

INFOCOMM BA : Payment Solutions



- The Group believes that the growth in the payment solutions business will be driven by the increase in plastic cards, various types of transactions, credit and debit cards spending and government initiatives to go cashless, banks outsourcing their point-of-sale infrastructure as well as regulatory and industry compliances.
- In FY 2014, the Group's Payment Solutions business area secured approximately \$50.4 million in order in-take, an increase of 22.0% compared to \$41.3 million in FY 2013 due to strong point-of-sale terminal orders from various banks in South-East-Asia.
- The Group will continue to provide comprehensive and secured end-to-end electronic payment infrastructure products, solutions and related services to banks, financial institutions, transport and retail industry.
- Competition in the payment solutions business remains high and fragmented with many local players representing various brands.

Order in-take summary



Nera Telecommunications Ltd

