



RXP SERVICES LIMITED

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Growth in Digital sets up a stronger second half

Leading digital services consultancy provider RXP Services Limited (ASX: RXP) today announced its results for the six months ended 31 December 2017 (H1 FY18).

H1 FY18 key highlights

- Revenue of \$70.2 million (H1 FY17: \$70.6 million)
- Earnings Before Interest, Tax, Depreciation & Amortisation (EBITDA) of \$6.5 million (H1 FY17: \$9.2 million), impacted by a number of one-offs
- Underlying EBITDA of \$7.6 million (H1 FY17: \$9.3 million), impacted by decline in commoditised work
- NPAT of \$4.2 million (H1 FY17: \$5.9 million); EPS of 2.7 cents
- Solid cashflow generation and strong balance sheet in place
- Interim dividend of 1.5 cps fully franked (H1 FY17: 1.5 cps), payable 12 April 2018

A mixed half; digital performing strongly offset by decline in commoditised work

Commenting on the first half, RXP Chief Executive Officer Ross Fielding said: "RXP has had a transformative and digitally defining half, punctuated by some strong client wins and the achievement of key project milestones.

"Our digital evolution, which is positioning the Company for the long term, has supported a broadened client base, with RXP adding a number of new clients over the half. Further, we have been deeply involved in, and successfully delivered upon, significant high profile digital projects for several major clients. Our Digital capabilities are growing and as a result, our headcount accelerated late in the half to position the business for a stronger second half.

"Despite the positive digital performance, the first half of FY18 was significantly impacted by a faster than anticipated decline in revenue associated with commoditised work, as well as increased margin pressure on this work. This was due to a combination of exiting commercially unviable work, and a reduction in work with two major clients.

Happier Humans

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“Also impacting the first half earnings was reduced staff utilisation levels following the aggressive hiring process for digital specialists undertaken over the period, and the associated lag time to deploy these staff. In addition, there has been continued investment in digital marketing, business development, and training as part of RXP’s digital evolution. These initiatives, combined with the new client wins, provide a very solid platform for a stronger second half”, said Mr Fielding.

The Works – delivering on Digital

RXP’s digital future and leadership capabilities were bolstered by the acquisition of The Works – one of Australia’s leading independent digital and creative agencies. Pleasingly, the integration of The Works continues to progress well across all fronts. It is delivering financial results in line with forecasts and has enhanced RXP’s overall client offering. Importantly, the integrated “RXP The Works” has resulted in strategic client and project wins.

Mr Fielding commented, “The success of The Works integration within the broader RXP family has laid the path to formally establish the ‘RXP | The Works’ presence in Melbourne in the second half of FY18. We are very excited about the opportunity to further leverage the collaborative work space we have with our Experience Hub in Melbourne, that will serve to deliver even better outcomes for our clients.

“Bringing The Works into the fold was a significant step in RXP’s digital evolution. By partnering with clients on a deeper level we aim to change the way people operate, connect and ultimately live, for the better. Developing solutions that foster ‘Happier Humans’ is the essence of RXP’s digital evolution”, said Mr Fielding.

Balance sheet remains strong supported by solid cashflow

RXP continues to maintain a strong financial position. As at 31 December 2017, the cash balance was \$12.3 million, and the net debt position was \$2.7 million. A more efficient and flexible debt facility was finalised over the half, which provides RXP with significant flexibility.

Cashflow remains very healthy, with operating cashflow representing 72 per cent of reported EBITDA. Whilst this level was lower than expected due to a change in terms with a major client and a longer procurement process, the Company expects cashflow conversion to be over 90 per cent for FY18.

Reflecting the company’s strong balance sheet, positive growth outlook, and consistent with the company’s progressive dividend policy, the Board of Directors have declared an interim H1 FY18 fully franked dividend of 1.5 cents per share. Representing a payout ratio of 56 per cent, the dividend will be paid on 12 April 2018, with a record date of 22 March 2018.

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Outlook – continued impact from commoditised work with digital growth platform underpinning a stronger second half

Commenting on RXP’s outlook, Mr Fielding said: “The first half has been materially impacted by two major clients, with rate and margin pressure higher than anticipated. Unfortunately, this has continued into the early months of this period, and although this has now settled with growth opportunities evident, we will see some additional impact of this in the second half.

“This means that RXP now expects FY18 revenue to be \$150m+ with an EBITDA margin of 13.3%+.

“RXP’s digital evolution has resulted in a change in our work mix and is providing opportunities to further leverage our higher value Digital Services and Product capabilities in H2. Having retained all of our existing Master Service Agreements, and in some cases expanded on them, as well as adding over 20 new clients, we have a strong platform in place for growth. Despite the disappointing first half financial result, we look forward with confidence, as we stand to benefit from the strong client mix that we have, the strong pipeline in place, and the continued investment in digital.

“We remain focused on deepening our client relationships and becoming a trusted digital partner that helps our clients to maximise the benefits of the digital economy. We are confident this is the right path for ensuring a successful and sustainable business”, said Mr Fielding.

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About RXP Services Limited

RXP is a publicly listed, practice led Digital Services Partner with specialist consultants across 5 offices and 7 practices in the Asia Pacific region. We bring together creativity, design, insights and technology to help create Happier Humans.

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APPENDIX: H1 FY18 financial summary

(\$ million)	H1 FY18	H1 FY17	Change
Revenue	70.2	70.6	(0)%
EBITDA	6.5	9.2	(30)%
NPAT	4.2	5.9	(28)%
Underlying EBITDA	7.6	9.3	(18)%
Underlying EBITDA margin (%)	10.8	13.1	
Basic EPS (cents)	2.7	4.2	(36)%
Operating cash flow	4.7	7.4	(37)%
Interim dividend (cps)	1.5	1.5	0%

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