



rxp'

H1 FY18 UPDATE

22 February 2018

H1 FY18 Summary

Revenue \$70.2m

- H1 Impacted by faster than anticipated decline in revenue associated with commoditised work (across 2 major clients)
- Digital services revenue has grown (23% over pcp)

Underlying EBITDA \$7.6m

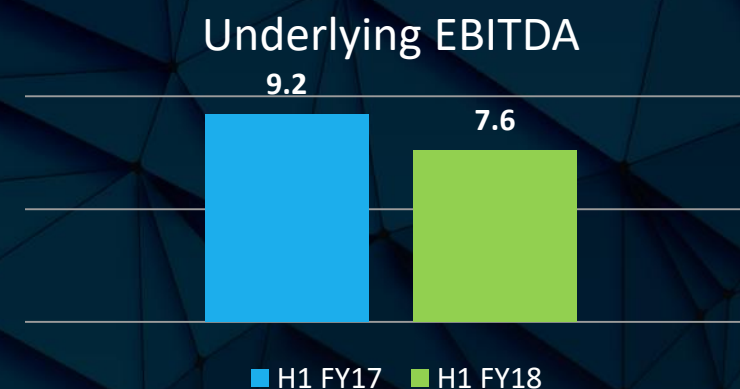
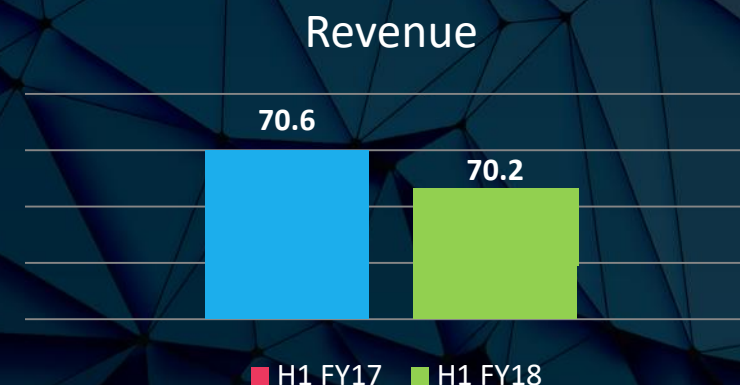
- Increased margin pressure on retained commoditised work
- Lower utilisation resulting from accelerated digital services recruitment
- Investment in digital expansion (marketing, business development and training)

Earnings guidance revised to Revenue \$150m+, EBITDA 13.3%+, to reflect

- Rate and margin pressure on commoditised work flowing into H2
(note that this is reducing as we manage transition)

Strong balance sheet in place; solid cash flow generation

Board has declared an interim dividend of 1.5 cps fully franked payable on 12 April 2017



H1 FY18 Summary

Strong client wins and key project milestones in H1 sets up a stronger H2

- All existing client MSAs retained in H1 (in some cases MSAs have been expanded)
- Over 20 new clients and MSA's added during H1
- A number of high profile digital projects have been successfully delivered for major clients underpinning RXP's digital reputation
- Digital services revenue is growing as we build up our capabilities, win new client work and broaden client agreements

Company is structured to support high value digital services with positive margin impact in H2

- Sales cycles and conversion rates associated with larger Digital work continues to improve as we enhance our track record and reputation
- Leadership capabilities bolstered with the addition of The Works

H1 FY18 headcount ended on a high

- Accelerated recruitment undertaken in the backend of H1 and this has continued, positioning for stronger H2

The Works acquisition – achieving key integration milestones

- Delivering in line with expectations with integration occurring seamlessly
- Achieved anticipated client retention
- Have added new clients to our portfolio



Brand

Understanding the brand promise, vision and strategy.



Insight

Using data and research to deliver insight into what the customer wants – knowing the “right thing”



Design

Human centred design is designing the “thing right”



Technology

Building digital products and business platforms to drive human experience



Review of H1 FY18 Financials

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1. H1 FY18 – P&L
2. Revenue and EBITDA movement
3. Balance Sheet
4. Cash flow Conversion
5. Capital Management

H1 FY18 – P&L



Revenue of \$70.2m; Underlying EBITDA of \$7.6m

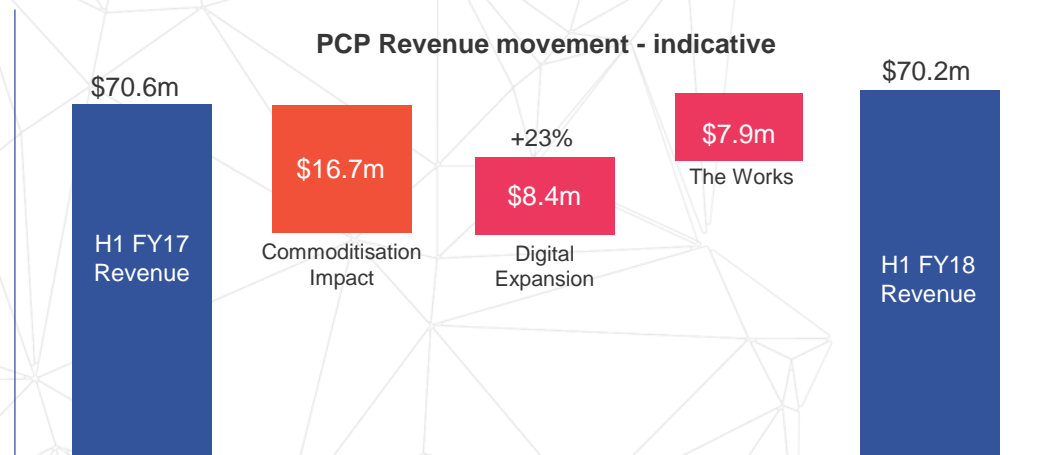
H1 FY18 impacted by faster than anticipated decline in commoditised work across 2 major clients

- Exiting of commercially unviable work
- Decreased rate and margin for retained commoditised work
 - Impact reducing in H2 as we as we further manage the transition

We experienced lower utilisation in H1 resulting from accelerated digital services recruitment (this will improve in H2)

We invested in digital marketing, business development and training as planned; will gain the benefit of this in H2

Digital work grew over 20%; expecting accelerated growth in H2



	1H FY18 (\$'000)	1H FY17 (\$'000)	Change %
Revenue	70,201	70,602	0%
Underlying EBITDA	7,607	9,296	(18%)
Underlying EBITDA margin	10.80%	13.10%	
- Non-recurring rebate	541	-	
- Redundancy expense	174	67	
- Borrowing Costs	76	-	
- Acquisition cost expense	366	-	
EBITDA	6,450	9,229	(30%)
EBITDA margin (%)	9.2%	13.1%	
Profit Before Tax	5,661	8,595	(34%)
Income Tax	(1,457)	(2,717)	
NPAT	4,204	5,878	(28%)
Reported EPS (cents)	2.7	4.2	(36%)

Balance sheet – remains strong with \$12.3m cash



Strong liquidity with \$12.3m cash and net debt of \$2.7m

Receivables & accrued income \$29.1m – up \$0.6m

Renegotiated \$25m bank debt facility

- 3-year interest only, general facility
- \$15.0m of debt facility owing
- \$10.0m of facility undrawn

Deferred liabilities of \$15.5m relating to The Works acquisition

- Deferred consideration on purchase price \$7.5m
– payable Aug 18
- FY18 performance based deferred consideration up to \$6m
– payable Aug 18
- FY19 performance based deferred consideration up to \$8m (less FY18)
– payable Aug 19

Property, plant & equipment \$2.3m – up \$0.7m

- Sydney experience hub \$0.5m; Other equipment \$0.2m

	31 Dec 17 (\$'000)	30 Jun 17 (\$'000)
Assets		
Cash	12,285	17,603
Receivables & Accrued Income	29,161	28,508
Property, plant & equipment	2,281	1,533
Deferred Tax Assets	2,484	1,864
Intangibles	119,962	87,694
Other	3,018	1,581
TOTAL ASSETS	169,191	138,783
Liabilities		
Trade and other Payables	16,645	17,207
Borrowings	14,963	15,426
Deferred Liabilities	15,500	-
Accrued Staff Provisions	3,416	3,050
TOTAL LIABILITIES	50,524	35,683
NET ASSETS	118,667	103,100
Contributed Equity	93,621	77,406
Reserves	127	146
Retained Earnings	24,919	25,548
TOTAL EQUITY	118,667	103,100

Cash flow conversion



Operating Cashflow of \$4.7m

- Impacted by lower revenue and EBITDA

1H FY18 operating cashflow represents 72% of reported EBITDA

- Lower than expected conversion to cash due to change in terms with major client and longer procurement process
- Expect improved operating cashflow in 2H FY18 - forecast 90%+ for FY18

Investing Cash Outflows of \$18.2m primarily:

- The Works acquisition related (\$17.1m)
- On Msg chatbot development (\$0.3m)
- RXP Sydney experience hub fit-out (\$0.5m)

Cashflow from financing \$10.6m

- \$15.9m capital raise (net of expenses)
- \$0.5m loan facility repaid during 1H FY18
- \$4.8m paid in dividends

Key cash flow Items	1H FY18 (\$'000)	1H FY17 (\$'000)	Change (%)
Operations (before interest and tax)	4,651	7,354	(37%)
Tax paid	(2,070)	(3,088)	(33%)
Net interest	(314)	(419)	(25%)
From operations	2,267	3,847	(41%)
From investments	(18,209)	(2,932)	
From financing	10,624	(1,421)	
Net cash flows	(5,318)	(506)	
Closing cash balance	12,285	13,076	(6%)
Operations as % of reported EBITDA	72%	80%	

Capital Management



Board declared an interim dividend of 1.50 cps, fully franked, payable on 12 April 2018

- Reflective of positive outlook in 2H FY18

Progressive dividend policy to be maintained

Expect “The Works” deferred and first earn-out payment in 1H FY19 - \$13.5m

- To be funded with a mix of cash and debt facility

	1H FY18	1H FY17
Interim Dividend	1.50cps	1.50cps
Payout Ratio on NPAT	56%	36%
Record Date	22 March 2018	16 March 2017
Expected Payment Date	12 April 2018	4 April 2017



Review of H1 FY18 Operations

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1. Operational overview
2. Strong growth in digital continues
3. Refreshing the brand
4. Product innovation

Operational overview

Client mix enhanced and remains strong

- All existing MSAs have been renewed and in some cases expanded
- Over 20 new clients and MSA's added during H1, providing further growth opportunities in H2 and beyond

H1 FY18 headcount ended on a high

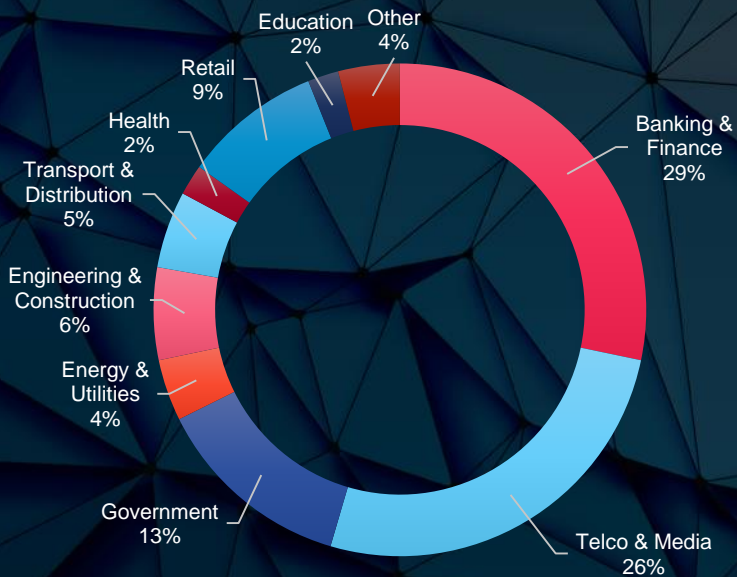
- Reduction in H1 associated with drop in commoditised work
- Accelerated recruitment undertaken in the backend of H1 to meet anticipated digital demand; strong recruitment continuing in H2
- Increased Sydney presence
- Headcount now back over 770

Strengthened leadership capabilities with the addition of The Works

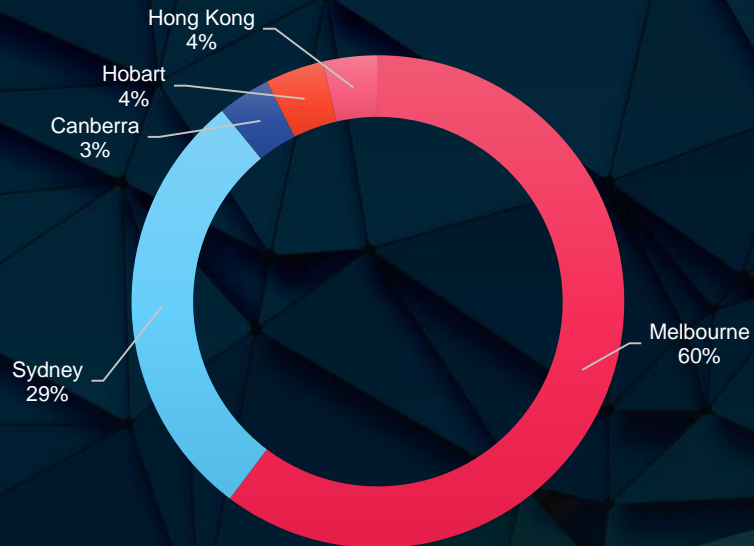
Employee experience remains a key priority

- We have introduced RXP Pulse – leveraging technology to connect with and gain feedback from our people
- We continue to implement RXP developed skill and capability enhancement programs for our people

Sector Spread



Geographic Spread



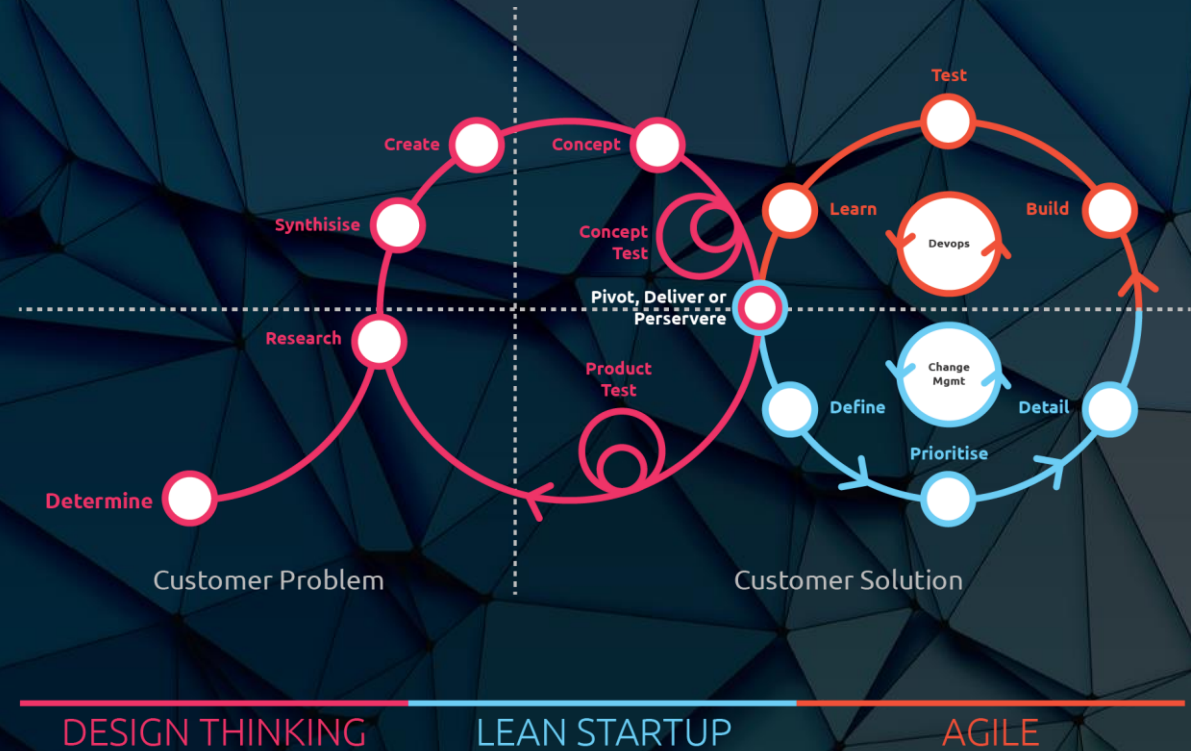
Growth in digital continues

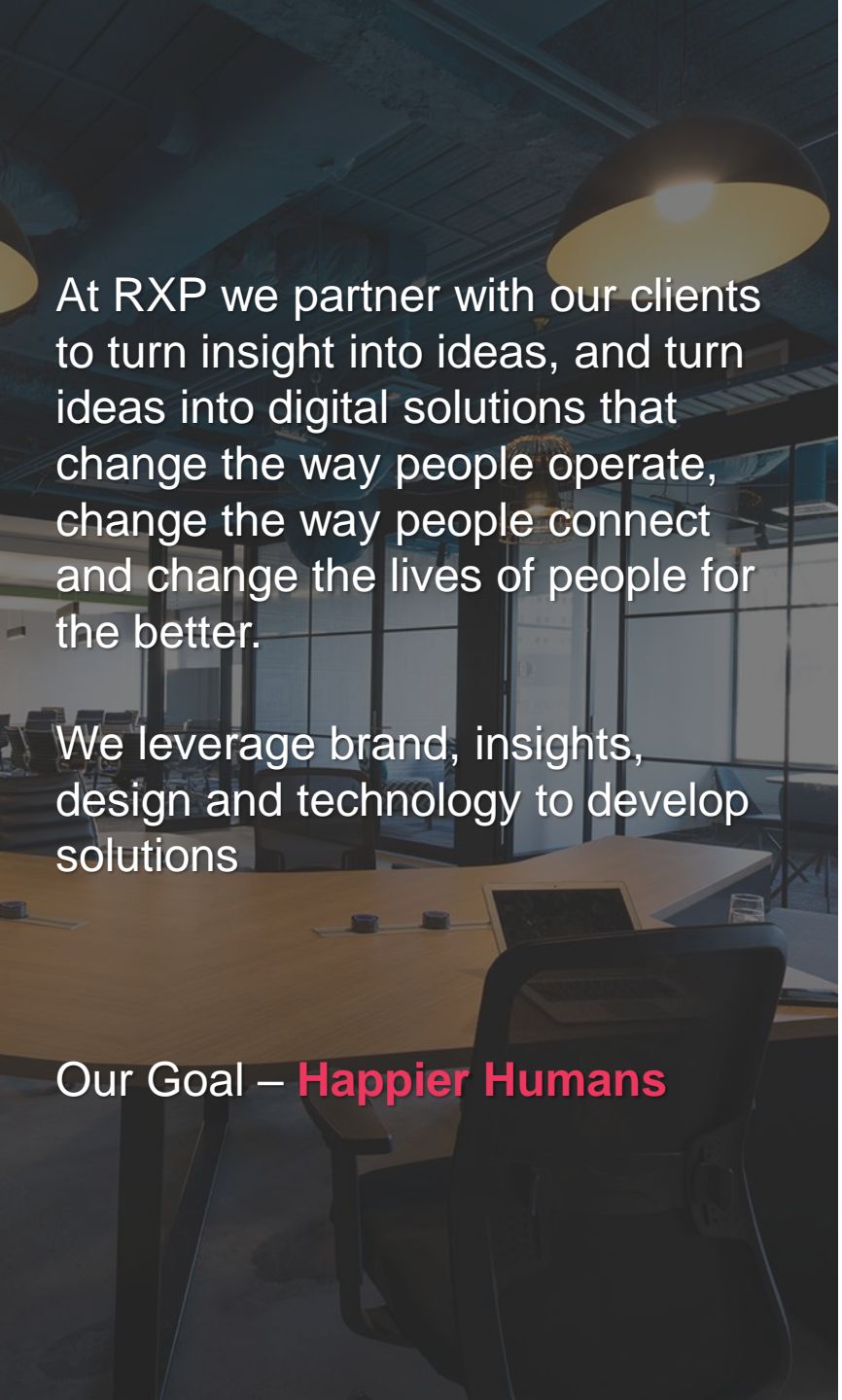
We continue to execute our digital growth strategy

- A number of high profile digital projects have been successfully delivered for major clients, enhancing our reputation
- Digital sales cycles continue to improve as we gain a proven track record
- Expanding our Digital capabilities into new “in-demand” areas remains a focus
 - New capabilities are enabling new client wins and broadening existing client mandates
- Our engagement and delivery methodologies have been refined – it’s what brings us together

The Works are delivering in line with expectations

- Integration has occurred seamlessly
- Achieved expected client retention
- The integrated RXP | The Works has enhanced our reputation for full service end-to-end delivery
- Has increased the overall client portfolio
- Will formally establish The Works Melbourne presence in H2





At RXP we partner with our clients to turn insight into ideas, and turn ideas into digital solutions that change the way people operate, change the way people connect and change the lives of people for the better.

We leverage brand, insights, design and technology to develop solutions

Our Goal – **Happier Humans**

Refreshing the brand

A refreshed brand to reflect our Digital evolution

- We continue to build out our capabilities into new in-demand areas through cross-training and targeted recruitment
- We expanded our Digital presence in the market and have refreshed our brand, brand values and overall “Intent” to reflect our evolution
- Our Goal – Happier Humans

Our “Spaces” have expanded – Experience and Development Hubs

- The Sydney RXP Experience Hub opened 7 February with clients already benefiting from co-creation and collaboration environments
- Follows on from the successful Melbourne Experience Hub launch in January 2017
- We continue to build up capabilities in our Hobart Development Hub

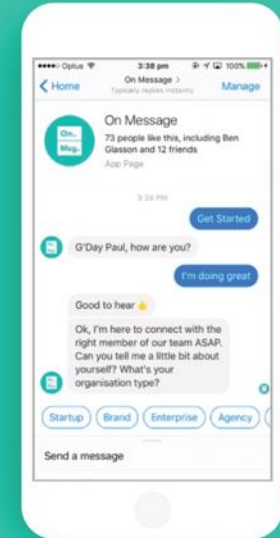
Product innovation

Our On_Msg chatbot messaging platform is best in class and gaining momentum

- Demonstrates our specialist capabilities across marketing through messaging apps including chatbots, Voice, AI and all forms of conversation interactions
- Focuses on both brand engagement and call deflection use cases
- Leverages our specialist skills and “datafication” proprietary research that we’ve developed
- 14 clients are now utilising our On_Msg platform including ING Direct, Facebook, Panadol, Fujitsu, Queensland Government Environment Protection Agency and Foxtel
- Expect accelerated growth in H2, with additional locked in annuity revenue



Hello, we're
On Message.



Part of the Facebook Messenger approved developer lists, winner of the ASTRA Innovation Award and two AC&E Award titles for its work with Foxtel, and was a finalist for Best Emerging Agency in the AdNews 2017 Awards



Outlook for H2 FY18

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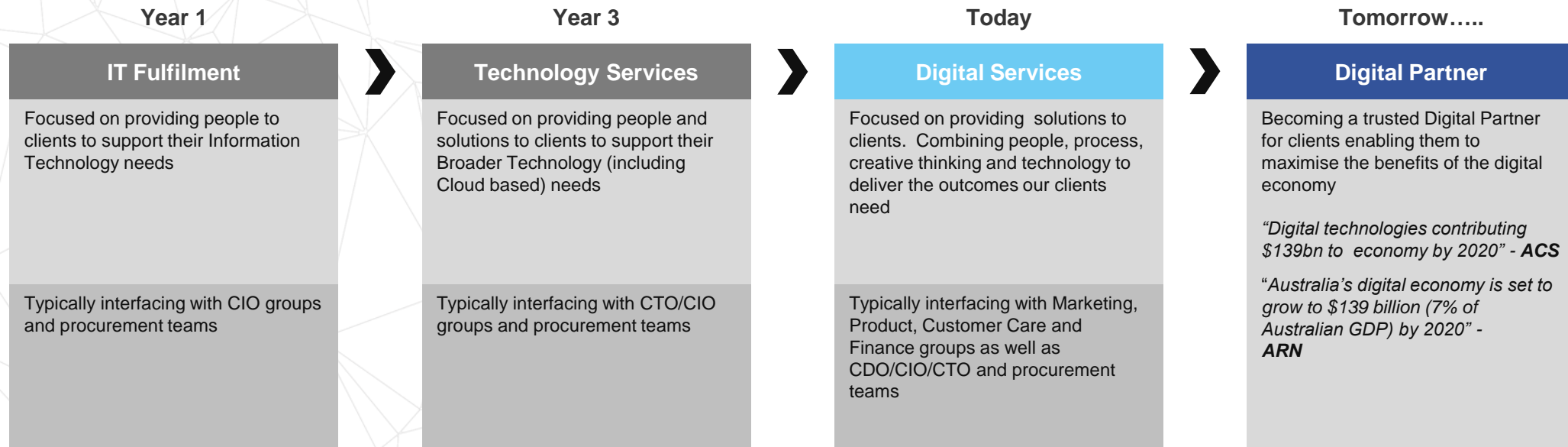
1. The strategy remains the same
2. Outlook – platform set for a stronger H2

The strategy remains the same



Moving left to right..... Constantly evolving

Working with clients to increase efficiencies, introduce new revenue streams and leverage insights to drive connection with people and grow their businesses through the combination of creativity, user centred design, people, process and technology



Driving an increased level of revenue from project based/outcomes based digital solutions

Constantly evolving to ensure we have the right mix of commoditised and higher value work = "Price-to-Value"

Deepening our client relationships; partnering rather than providing

Outlook – platform set for a stronger H2

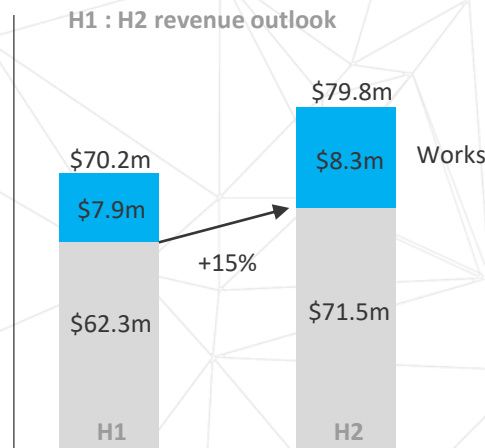


Client list and mix remains strong

- We have retained all of our existing MSAs, with recent renegotiated panel agreements providing growth opportunities
- We have added over 20 new clients in 1H FY18 with new MSAs in place (these are now driving growth)

Expect headcount growth in H2 FY18

- Our headcount grew towards the backend of H1 and this has continued into H2
- Digital pipeline is growing with work coming from existing client projects as well as new client work
- Sales cycles and conversion rates associated with larger Digital work continues to improve as we enhance our track record and reputation



Higher margins expected in H2

- Our overhead costs will remain stable in H2
- Impact of commoditisation within the primary 2 clients will reduce in H2 as we continue to transition to new rate cards
- Our evolving work mix means that we will further leverage our higher value digital services and product capabilities
- With the pipeline of work, we expect to fully leverage our employee fixed cost through higher utilisation

Guidance revised: Revenue \$150m+ and EBITDA margin 13.3%+

- Higher than anticipated impact of rate/margin pressure on commoditised work in H1 flowing into H2
- Improving sales cycles and conversion rates associated with the larger Digital projects
- Organic growth in revenue of ~15% (RXP ex the Works) in H2
- The Works expected to deliver in line with expectations

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