rxp group

H1 FY19 UPDATE

21 February 2019

H1 FY19 Operational Highlights

REVENUE
$71.4m
+1.6%

Underlying EBITDA
$8.4m
+10%

UTILISATION
>88%

DIGITAL TRANSFORMATION SALES
+36%

WORK MIX
80:20
Digital:Traditional

CAPITAL MANAGEMENT
1.75cps Interim Dividend
95% Cash Conversion

H1 FY19 Operational Highlights

Digital Services Momentum

- The Works continues to deliver in line with expectations
- Sales in Digital Transformations are up 36%, including human centered design, analytics, and platforms
- Overall Digital services now represents ~80% of revenue (across both Project and consulting based work)
- New client wins achieved; existing long-term clients are adopting our full-breadth of digital services capability

Double Digit Profit Growth

- Underlying EBITDA growth of 10% a result of improved gross margins and operational management
- Revenue structure more resilient with less dependence on large consulting panel agreements
- Digital transformation projects are commanding higher margins than traditional consulting
- Sales momentum is providing greater revenue coverage for the FY in comparison to previous years

Improved Operational Leverage

- Consultant utilisation improved (>88%) due to tighter management processes and improved fit for purpose hiring
- Average billings/consultant up 10%
- Better balanced permanent:contractor workforce mix (moved to ~75:25 from 65:35 pcp)

Strong Financial Outcomes

- Strong Operating cashflow with 95% cash conversion
- Net debt $11m
- Net Leverage Ratio - 0.69 x EBITDA (LTM)
- Interim fully franked dividend of 1.75cps

Review of H1 FY19 Financials

1. H1 FY19 – P&L
2. Balance Sheet
3. Cash flow
4. Capital Management

H1 FY19 P&L - digital sales continues to grow

	1H FY19 ($'000)	1H FY18 ($'000)	Growth
Revenue	**71,358**	**70,201**	**1.6%**
Underlying EBITDA	**8,361**	**7,607**	**9.9%**
Underlying EBITDA margin	**11.7%**	**10.8%**	
- Non-recurring rebate	-	*541*	
- Redundancy expense	669	174	
- Borrowing Costs	-	*76*	
- Acquisition cost expense	-	366	
EBITDA	**7,692**	**6,450**	**19.3%**
EBITDA margin (%)	**10.8%**	**9.2%**	
Profit Before Tax	**6,562**	**5,661**	**15.9%**
Income Tax	**(2,070)**	**(1,457)**	
NPAT	**4,492**	**4,204**	**6.9%**
Reported EPS (cents)	**2.79**	**2.67**	**4.5%**

Revenue of $71.4m

- Strong sales in digital transformations has resulted in less reliance on large consulting panel agreements

Underlying EBITDA of $8.4m up 10%

- Stabilised gross margins in traditional consulting
- Demand in digital transformation is lifting gross margins

Redundancy costs associated with business review

- Aligning cost structure to reflect the demand in digital work
- Move to a regionally focused operational model
- Restructured Hong Kong operation to better match client demand

Utilisation above 88%

- Operational efficiencies gained through workforce alignment, prudent & targeted hiring to support marketplace demand
- Business organised into regional-prime model has resulted in improved operational efficiencies

Strong Balance Sheet in place

	31 Dec 2018 ($'000)	30 Jun 2018 ($'000)
Assets		
Cash	12,040	14,011
Receivables & Accrued Income	33,174	31,469
Property, plant & equipment	2,223	2,412
Deferred Tax Assets	2,291	2,386
Intangibles	119,455	119,694
Other	1,869	2,359
TOTAL ASSETS	**171,052**	**172,331**
Liabilities		
Trade and other Payables	21,064	20,037
Borrowings	23,000	13,000
Deferred Liabilities	2,000	15,500
Accrued Staff Provisions	3,766	3,880
TOTAL LIABILITIES	**49,830**	**52,417**
NET ASSETS	**121,222**	**119,914**
Contributed Equity	93,621	93,621
Reserves	197	159
Retained Earnings	27,404	26,134
TOTAL EQUITY	**121,222**	**119,914**

Liquidity

- Strong position with $12m in cash and net debt of $11m
- Net leverage ratio of 0.69 on LTM EBITDA
- Receivables and accrued income at $33.2m, up $1.7m on prior year, primarily due to timing of milestone based projects

Borrowings & Deferred Liabilities

- 3 year, $25m interest-only general facility
- $23m has been drawn (additional $10m for The Works acquisition in Q1 FY19 – a mix of cash and debt used)
- $2m deferred consideration for final pay-out for The Works (due Q1 FY20)

Operating cash flow up 56%

Key cash flow Items	H1 FY19 ($'000)	H1 FY18 ($'000)	Change ($'000)	Change (%)
Operations (before interest and tax)	7,269	4,651	2,618	56%
Tax paid	(1,816)	(2,070)	254	12%
Net interest	(410)	(314)	(96)	(31%)
From operations	5,043	2,267	2,776	122%
From investments	(13,792)	(18,209)	4,417	
From financing	6,778	10,624	(3,846)	
Net cash flows	(1,971)	(5,318)	3,347	
Closing cash balance	12,040	12,285	(245)	(2%)
Operations (before interest and tax) **as % of EBITDA**	95%	72%		

Operating Cash Flow up 56% to $7.3m

- Represents 95% of EBITDA, up from 72% in H1 FY18
- Forecasting 90%+ cash conversion for FY19, in line with expectations

Investing Cash Outflows of $13.8m

- Primarily related to The Works acquisition

Cash Flow from Financing $6.8m

- $10.5m drawdown from loan facility in August 2018
- Repayment of loan facility during the H1 FY19 of $0.5m
- $3.2m paid in dividends

Capital management

	H1 FY19	H1 FY18
Interim Dividend	**1.75cps**	**1.50cps**
Payout Ratio on NPAT	**63%**	**56%**
Record Date	**21 March 2019**	**22 March 2018**
Expected Payment Date	**11 April 2019**	**12 April 2018**

Investments

- The Works final earn-out payment (capped at $2m) likely to be achieved and payable in H1 FY20 (funded from operating cash flow)

Dividend Pay-Out

- Reflective of the Board's positive outlook into the H2 FY19, an interim dividend of 1.75 cps, fully franked, payable on 11 April 2019 has been declared

Review of H1 FY19 Operations

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1. Growth in Digital continues
2. Refreshed organisation to accelerate growth
3. Operational settings

Growth in Digital continues

Our work mix continues to evolve – now 80:20

- Digital Services now represents ~80% of our revenue
- Project/outcome based Digital work continues to grow as too does our digital consulting work
  - Wins like Toyota, DHHS, Madi Homes, Subaru, Peugeot, Smith Family, Sydney Bridge Climb, H&R Block, etc. are examples of how we are winning in the market place
  - Combination of RXP/Works capabilities has been a key driver for client wins
- Our Human Centered Design approach to delivery, as part of our “3 e’s” framework, is helping us win
- Our evolving engagement and delivery methodologies are differentiating us in the market place
  - RXP Method Cards approach is the latest example of this, expanding on the RXP Lean Agile delivery methodology
  - We continue to build on the number of “multi practice” client engagements
- Our ‘pitch to win’ rate associated with Digital projects continues to improve as a result of the combined RXP/Works capabilities
- Building on our integrated Digital capabilities remains a focus (what we refer to as the seamless connection between the 3 e’s)

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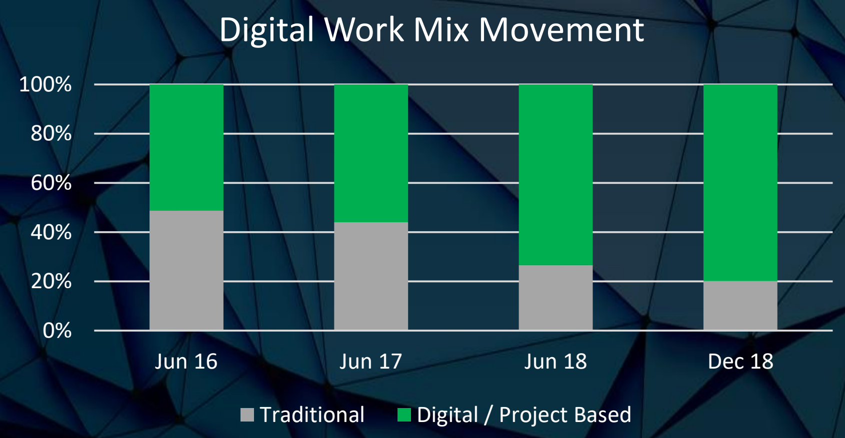
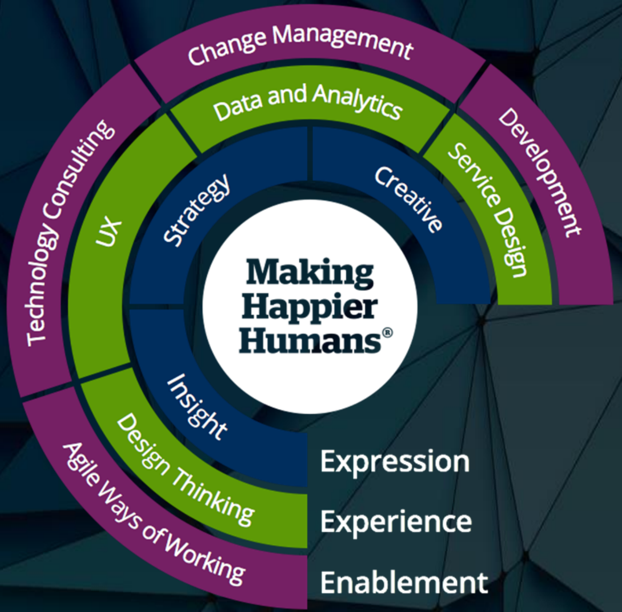


RXP helps clients creatively define, clearly articulate and efficiently deliver meaningful digital transformations



Refreshed organisation to accelerate growth

Realigned the organisation to a “Regional-Prime” model where P&L management resides at the regional level

- **Group Executive for each region has simplified decision making and driven greater accountability**
- **Resources and investments are allocated based on local regional opportunities and market conditions, driving greater focus and improved sales conversion**
- **Utilisation managed more tightly across specialisations within each region**
- **Recruitment and hiring decisions are optimised with regions across specialisations**

Greater accountability and streamlined management system

Improved sales pipeline and conversion

Improved utilization, operational efficiency and profitability

Operational settings – foundation for solid H2

We maintain a good spread of revenue across industry segments

- Industry diversification has remained stable, however reliance on our top 2 Banking & Finance and Telco & Media clients has reduced

Headcount split across regions relatively stable

- Headcount today 715 (down 40 people from 30 June '18)

Numerous key projects delivered in the first half further enhancing RXPs reputation

Significant client and project wins achieved in H1 setting up a solid H2

Enhanced RXP Group go-to-market approach

The Works continue to deliver in line with expectations

- Will achieve growth in FY19

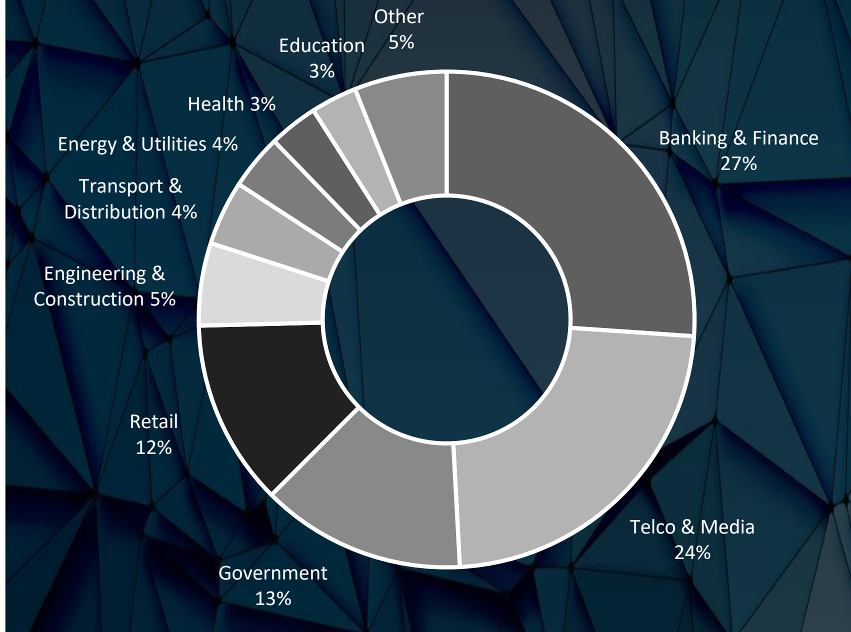
RXP Group is being recognised

- Several new client panel agreements, numerous technology partnerships (Alteryx Premier Partner, Salesforce Gold Partner, ServiceNow Gold Partner; Tableau Silver Partner, Collibra Strategic Partner), Branding, Design CX Agency of the year, Direct Response/Performance Agency of the year

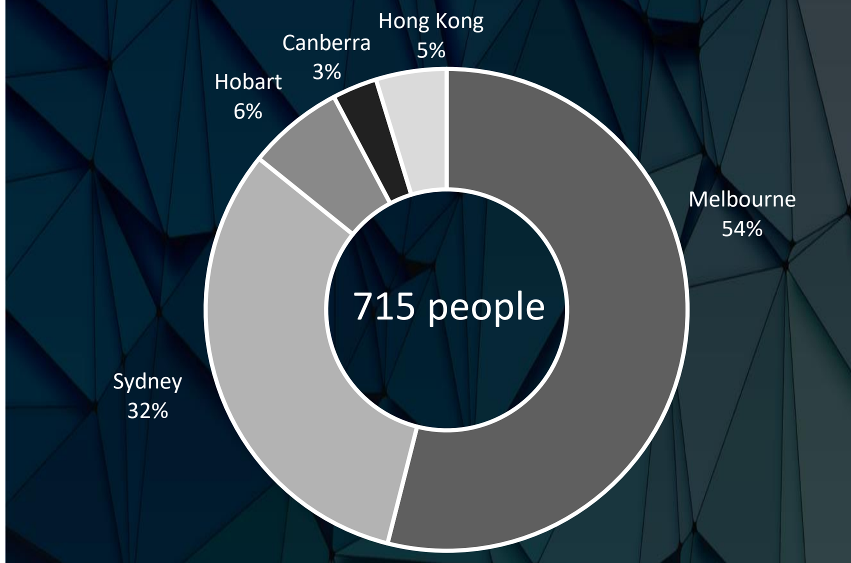
Our Making Happier Humans ethos continues to gain momentum in the market, demonstrated by:

- Client wins and feedback; Partner feedback and leads; Recruiting activities and feedback

Sector spread



Regional spread



Outlook for H2 FY19

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1. Remain focused on executing our strategy
2. Outlook – platform set for continued growth in H2

We remain focused on executing our plan

2015	2018	2019	2020…….
Technology Services	**Digital Services**	**Digital Partner**	**Innovation Partner**
Focused on providing **people** and **solutions** to clients to support their Broader Technology (including Cloud based) needs	Focused on providing **solutions** and **capability** to clients. Combine people, process, creative thinking and technology to deliver the outcomes our clients need	Provide trusted, long term capabilities across multiple aspects of their digital transformation journey, with value delivered throughout	Making Happier Humans by delivering customer-centric strategic advisory services and being the go-to implementation partner for clients
Typically interfacing with CTO/CIO groups and procurement teams	Typically interfacing with Marketing, Product, Customer Care and Finance groups as well as CDO/CIO/CTO and procurement teams	Australia's digital economy is set to grow to $139 billion (7% of Australian GDP) by 2020 ***ARN***	The trusted advisor for 'C' suite undertaking digital transformation

Continue to develop and evolve our capabilities combining technology and creativity = **Remain relevant, be a great place to work**

Increase digital work from consulting based and project /outcomes based engagements = **Improve predictability / stick-ability**

Continue to build our brand and our ability to sell the value of RXP = **Price-to-Value**

Drive up EPS; Improving Cash and Cash Conversion = **Deliver for shareholder**

Outlook – platform set for a strong H2

Client list, mix and pipeline remains strong

- Significant clients/projects won during H1, driving a strong pipeline and setting up a solid H2
- Billable headcount remains strong with strong utilisation in place
- Active recruitment program in place to match increasing client engagements

Organisational changes in place to accelerate growth

- Implemented organisational changes and added important depth and experience of leadership to drive growth

Continued growth expected in H2

- 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 further leverage our “employee fixed cost” through continued high utilisation
- Guidance of double digit earnings growth maintained

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Thankyou

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