

## RXP SERVICES LIMITED

ABN 30 146 959 917

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#### **Strong growth in digital services driving higher quality revenue and double-digit EBITDA growth**

Leading digital services business, RXP Services Limited (ASX: RXP) today announced its results for FY19 ended 30 June 2019.

#### **FY19 key highlights**

- Revenue of \$141.1 million (FY18: \$141.1 million), with digital transformation sales growth driving a higher quality and more resilient revenue base
- Earnings Before Interest, Tax, Depreciation & Amortisation (EBITDA) up 26.2% to \$16.4 million (FY18: \$13.0 million), supported by higher-margin digital service growth and benefits from organisation realignment
- Underlying EBITDA up 10.4% to \$16.7 million (FY18: \$15.2 million), in line with guidance
- Non-cash impairment of \$10.8 million to goodwill following adoption of more conservative impairment model assumptions, resulting in Net Profit After Tax (NPAT) of \$1.4 million loss
- Operating cash flow \$13.6 million, with cashflow conversion representing 95% of EBITDA
- Final dividend of 2.50 cps fully franked plus a special dividend of 0.50 cps fully franked, reflective of the strong balance sheet; total FY19 dividend of 4.75 cps (FY18: 3.50 cps)

#### **Further growth in digital sales driving improved margins and higher quality revenue**

Commenting on the full year result, RXP Chief Executive Officer Ross Fielding said: “Over the past 12 months we have focused on improving the quality of our revenue, which is now more predictable and more resilient. We have been able to grow our digital transformation work, and this now accounts for around 80 per cent of our total revenue. Pleasingly, this means we now have less reliance on large consulting agreements.

“Our strategy of shifting to digital is being led by our ‘Making Happier Humans’ focus and our Expression, Experience, and Enablement approach to client work. In addition, we successfully invested in our sales capabilities to enhance our digital services offering to meet the current demand for our solutions, and we are seeing the benefits of this through significant new client wins, such as DHHS, VicRoads, Aurora Energy, The Smith Family, Sydney Bridge Climb and H&R Block.

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“The growth in digital, combined with an organisational realignment that has improved operational leverage in the business, has meant we have been able to achieve our earnings guidance and deliver strong growth in underlying earnings, as well as deliver improved margins and strong staff utilisation levels,” said Mr Fielding.

#### **Strong cash flow conversion; balance sheet flexibility**

As at 30 June 2019, the cash balance was \$11.7 million, with net debt of \$10.3 million, ensuring RXP has a very comfortable gearing position and the flexibility required to grow the business. Cashflow conversion continues to be a key strength for RXP, with operating cash flow representing 95 per cent of EBITDA. This provides RXP the flexibility to reinvest in the business for future growth, pay down debt, and pay dividends.

Reflecting the balance sheet, debt profile and active capital management, the Board is pleased to declare a final dividend of 2.50 cents per share fully franked, payable on 13 September 2019, as well as a special dividend of 0.50 cents per share, taking the FY19 total dividend to 4.75 cents per share.

#### **Non-cash impairment impacting reported profit; Hong Kong operations to be exited**

Following the adoption of more conservative impairment model assumptions, a \$10.8 million non-cash impairment has been made to goodwill, leading to a reported net loss after tax for FY19 of \$1.4 million.

Also impacting reported profit was a provision for doubtful debt of \$1.2 million which is associated with a single client project. Discussions are continuing with the client and the Company remains hopeful of full settlement.

RXP has made the decision to exit its Hong Kong operations due to underperformance, with a sale option in progress.

Underlying profit after tax (pre-impairment and bad debt) for FY19 was \$10.7 million, reflecting strong growth driven by momentum in digital and operational improvements. Additionally, based on current clients and pipeline, the Board is confident of continued growth in FY20 as RXP continues to grow its digital services and leverage the operational efficiencies now in place.

#### **Organisation realignment providing operational improvements**

RXP realigned its organisational structure over FY19 to a ‘Regional-Prime’ model, where P&L management resides at the regional level. More specifically, the group executive for each region has simplified decision making and greater accountability, and resources and investments are allocated based on local opportunities. The benefits of this has seen improved utilisation, improved sales conversion, and broader operational efficiencies, which has helped to drive the growth in earnings.

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**People, clients, and partners remain at the core of what we do**

“We continue to invest in our people to ensure we are constantly building better connections with our staff. The number of awards won over the past year reflects the quality of our people and the work they deliver for our clients.

“In addition, relationships with technology partners remain a priority and we continue to nurture and invest in strengthening these relationships as well as creating new ones. They are an important part of the business, particularly as we continue to evolve our digital services offering to keep ahead of the market.

“In terms of our clients, we continue to maintain a strong client mix with a good spread across industries. The longevity of our customer partnerships remains strong, and pleasingly, we are also seeing more of these clients adopting our full-breadth of digital services capabilities,” said Mr Fielding.

**Strong outlook – expecting double digit earnings growth for FY20**

Commenting on RXP’s outlook, Mr Fielding said: “Having put in place a solid foundation around our digital offering, we look forward to FY20 with confidence. We remain committed to building on our Making Happier Humans focus and our Expression, Experience and Enablement capabilities. This focus, combined with our end-to-end digital services offering, positions us very well to continue to grow our business thoughtfully.

“We expect the investment we have made in digital to continue to drive higher quality revenue and higher margins, and are forecasting both revenue and earnings growth over FY20, with expectations to achieve double digit earnings growth.

“I want to take this opportunity to thank our hardworking team for their efforts over FY19, and for their ongoing commitment. The team we have in place, combined with the digital strategy we are executing on, places us well for a successful FY20 and beyond,” said Mr. Fielding.

**For further information, contact:**

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**About RXP Services Limited**

RXP Group is one of the leading ASX listed digital services businesses in Australia. We specialise in providing clients with digital expertise and support across current and emerging channels. From the initial design phase right through to final build, we go above and beyond to deliver effective, long lasting solutions to complex problems. We fuse brand, insights, design and technology, to help companies innovate and digitally transform – all with the aim of Making Happier Humans.

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## APPENDIX: FY19 financial summary

(\$ million)	FY19	FY18	Change
<b>Revenue</b>	141.1	141.1	0.1%
<b>Underlying EBITDA</b>	16.7	15.2	10.4%
<b>Underlying EBITDA margin (%)</b>	11.9%	10.7%	
<b>EBITDA</b>	16.4	13.0	26.2%
Impairment of Goodwill	(10.8)	-	
<b>NPAT from continuing operations</b>	(0.2)	7.8	
<b>NPAT from discontinued operations</b>	(1.1)	0.0	
<b>NPAT</b>	(1.4)	7.8	
<b>Basic EPS (cents)*excludes impairment</b>	5.86	4.86	20.6%
<b>Operating cash flow</b>	13.6	13.4	1.8%
<b>Full year dividend (cps)</b>	4.75	3.50	35.7%

### Making Happier Humans

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