rxp group

RXP SERVICES LIMITED

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First half results impacted by project deferral and lower sales conversion; over $25 million of wins in late H1 and early H2 setting up a strong second half

Leading digital services consultancy provider RXP Services Limited (ASX: RXP) today announced its results for the half year ended 31 December 2019 (H1 FY20).

H1 FY20 key highlights

- Revenue of $65.1 million (H1 FY19: $69.2 million), impacted largely by deferral of significant government project and lower than expected sales conversion
- Earnings Before Interest, Tax, Depreciation & Amortisation (EBITDA) of $5.3 million (H1 FY19: $8.0 million), impacted by lower utilisation in Southern region & Digital Marketing Services
- Underlying EBITDA of $6.7 million (H1 FY19: $8.4 million)
- Non-cash impairment of $7.5 million to goodwill, resulting in reported net loss after tax for H1 FY20 of $5.5 million
- Strong operating cash flow of $6.7 million, with cashflow conversion representing 127% of EBITDA
- Interim dividend of 1.00 cps fully franked (H1 FY19: 1.75 cps), payable 10 April 2020
- Over $25 million of wins secured in late H1 and early H2; will deliver significantly improved earnings in the second half

Softness in Southern Region and Marketing Services impacting H1 utilisation; Northern region performing strongly

Commenting on the half year result, RXP Chief Executive Officer Ross Fielding said: "The first half result was a disappointing outcome. The Southern region was impacted by an unexpected deferral of a significant government project, and an unexpected "10-day mandatory leave" initiative that was implemented by a key client, both of which adversely affected utilisation rates. In addition, we also experienced slower than expected sales conversion rates for our digital services in the Southern region as well as our marketing services generally (where clients have moved from a retainer-based model to a project-based model).

“Structural challenges in our Southern Region did impact on sales conversion rates. These have now been addressed, and we were pleased to announce that Jared Hill was appointed to the key role of Group Executive Southern Region. The changes made have already shown positive signs, with improved utilisation rates being achieved early in the second half. The other “one-off” impacts, while affecting the first half earnings, are not seen as indicators of longer-term weakness for the Southern Region.

“The Northern Region (Sydney and Canberra) along with Hobart, delivered in line with expectations, and are on track to deliver double digit growth in FY20. Also, with a number of significant client wins being closed out in late 2019 and early 2020 (totalling over $25 million in value), we are set up for a strong second half.

“RXP’s exposure to digital work continues to position us for the long term. The transition to digital across the globe continues to grow, and the investment that RXP has made in its digital capabilities over the past two years means the Company remains well placed to be a key provider of digital transformation services in the Australian market”, said Mr Fielding.

Strong cash flow conversion; balance sheet flexibility

As at 31 December 2019, RXP’s cash balance was $8.1 million, with net debt of $13.9 million, ensuring that the Company maintains a comfortable gearing position and the flexibility required to grow the business. It is expected that net debt will reduce to approximately $10.5 million by 30 June 2020.

Cashflow conversion continues to be a strength for RXP, with operating cash flow representing 127 per cent of EBITDA. The Company is forecasting cash conversion of over 95 per cent for FY20, which will provide further flexibility to reinvest in the business for future growth, pay down debt, and pay dividends.

Reflecting the first half performance, balance sheet, and active capital management, the Board has declared an interim dividend of 1.00 cents per share fully franked, payable on 10 April 2020.

Non-cash impairment impacting reported profit

As part of the half year audit review, there were indicators of impairment given the soft first half result. The Board has continued with the conservative approach and impaired goodwill by $7.5 million. The non-cash impairment, which has no impact on future earnings, lead to a reported net loss after tax for H1 FY20 of $5.5 million.

RXP notes that sale discussions continue for the Hong Kong part of its the business, however the Corona Virus outbreak has resulted in some delay. In the meantime, this part of the business will continue to be tightly managed.

Positive outlook for second half, underpinned by >$25 million in wins and a solid pipeline

Commenting on RXP's outlook, Mr Fielding said: "With over $25 million in wins late in the first half and early in the second half, all of which are now underway, RXP is well positioned for a strong second half. With utilisation now back to expected levels across all regions, we also anticipate improved margins in the second half.

"RXP expects to deliver an underlying EBITDA for FY20 that is largely in line with FY19.

"The digital economy is becoming increasingly pervasive, and the investments RXP has made in building out its's digital capabilities positions the Company to benefit from this trend. We enter the second half with momentum, both in terms of projects being won and growth in our pipeline", 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.

APPENDIX: H1 FY20 financial summary

($ million)	H1 FY20	H1 FY19	Change
Revenue	65.1	69.2	-6.2%
EBITDA	5.3	8.0	-34.0%
NPAT (excluding impairment)	2.0	4.5	-56.0%
Underlying EBITDA	6.7	8.4	-20.2%
Underlying EBITDA margin	10.3%	12.1%	
Basic EPS (cents)	1.3	2.8	-54.5%
Operating cash flow	6.7	6.9	-3.0%
Interim dividend (cps)	1.00	1.75	

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