

The Manager

Company Announcements
Australian Securities Exchange Level
5, 20 Bridge Street
SYDNEY NSW 2000

Dear Sirs

ASX Code: RHP

2020 Full Year Audited Results

Sydney, 25th August 2020 – rhipe Limited has today published its audited financial results for the 12 months ending 30 June 2020 (“FY20”) and operational highlights for the period.

Introduction

The Board is pleased to present the FY20 financial results for rhipe Limited (“rhipe” or “the Company” or “the Group”). The financial results for FY20 show rhipe’s resilience in the face of the COVID-19 global pandemic. Despite economic headwinds resulting from the pandemic, the Company has continued to grow across geographies, products, and services. In FY20 rhipe delivered an operating profit, excluding our investment in rhipe Japan, of \$15.0m and reported EBITDA of \$11.6m, a year on year increase of 17% and 16% respectively. Importantly, the operating profit of rhipe’s core licensing business grew 36% or \$3.3m compared to the FY19 financial year.

During the second half of FY20 the Company undertook a capital raise of \$32.5m, net of costs, to enable rhipe to take advantage of future acquisition opportunities. As a result, rhipe is pleased to report that our year end cash position was \$60.9m, compared to a cash position of \$25.5m at the end of the prior year. Excluding the cash proceeds from the capital raise our cash position increased by \$2.9m in the financial year despite \$2.8m paid in dividends and \$2m cash payment in relation to our acquisition of a Melbourne based software encryption product called SmartEncrypt in August 2019. In addition, the Company continues to invest in its Platform for Recurring Subscription Management (“PRISM”) which many partners and vendors use to help build and grow consumption of their cloud licences in Asia Pacific. The Directors believe that the cash position of the business will continue to be strong and as a result the Board has announced a final dividend of 2 cents per share to be paid in September 2020.

Trading Highlights for FY20

Significant trading highlights from the 2020 Financial Year include:

- Total Group Sales rose 29% to \$325.2m. Software licensing sales rose by 29% to \$311.7m with Solutions sales rising 38% to \$13.5m;
- Total Group revenue rose 15% to \$55.8m. Software license revenue increased 9% year on year to \$42.3m. Solutions revenue rose 40% to \$13.5m in FY20;
- Revenue growth in our Licensing business has been driven by strong momentum in the public cloud via the Microsoft Cloud Solutions Provider (CSP) program with rhipe’s partners now consuming more than 630,000 Office365 paid seats, up 40% year on year and more than 1.5m Office365 seats in total including zero fee academic seats. Annual Run Rate (ARR) sales from Microsoft CSP, including Office365 and Microsoft Azure, reached \$131m at the end of FY20 compared to \$80m at end of FY19 and \$42m at the end of FY18;

- Local Asian sales have grown by 47% excluding sales from ANZ customers buying through Asia with local Asian sales representing around one third of our sales growth in FY20;
- In FY20 we continued to invest and expand in our Solutions offerings. Our vendor and customer support operations in the Philippines on 30 June 2020 had over 156 full time equivalent employees, up 15% during the year and we continue to make further investment in our Microsoft Dynamics operations and in the SmartEncrypt software product. As a result of the continued investment and also the impact of the pandemic on our Dynamics business, the Solutions business delivered operating profit of \$2.6m in FY20 down \$1.2m year on year;
- Despite the challenging economic conditions, the Group delivered operating profit, excluding our investment in Japan, of \$15.0m in FY20 up \$2.2m or 17% year on year. This operating profit delivery was despite the Company taking an additional \$1.1m in bad debt provisions in relation to the pandemic. The Group operating profit including our investment in Japan was \$13.8m compared to market guidance made 12 months ago of \$14m.
- Reported EBITDA for FY20 was \$11.6m up 16% year on year; and
- A cash balance of \$60.9m at the year-end with capital raise of \$32.5m net of costs. Excluding the cash proceeds from the capital raise our cash position increased by \$2.9m in the financial year despite \$2.8m paid in dividends and \$2m cash payment in SmartEncrypt acquisition.

A summary of the financial performance for the financial year ending 30 June 2019 is shown below:

Financial Summary (\$ million)	FY19	FY20	Change
Sales	252.5	325.2	+29%
Revenue	48.4	55.8	+15%
Gross Profit	45.9	52.4	+14%
Operating Expenses	(33.0)	(38.6)	+17%
Operating Profit ⁽¹⁾	12.8	13.8	+7%
Operating Profit excluding Japan ⁽¹⁾	12.8	15.0	+17%
Reported EBITDA	10.0	11.6	+16%
Profit After Tax attributable to equity holders	6.2	5.0	-19%

(1) Operating profit excludes share-based payments, FX gains or losses, restructuring and due diligence transaction costs.

Sales and Revenue

FY20 sales and revenue growth was driven by the areas of the business where rhipeco has made material investments. Sales of Microsoft CSP public cloud products (Office 365 and Microsoft Azure) contributed to around two thirds of the \$69m sales growth in FY20. In addition, the growth in sales generated from clients in our Asian footprint contributed to around a third of overall sales growth.

rhipeco continues to see revenue growth in its traditional private cloud (data centre) licensing business, particularly in Asia. Overall growth in sales of Microsoft's private cloud service provider licensing program (SPLA) was 8% in FY20 similar to the prior year.

SPLA now represents 37% of total group sales in FY20 down from circa 44% in the prior year and 52% in FY18.

Revenue growth for FY20 was 15% compared to sales growth of 29%. Revenue growth lagged sales growth due to a reduction in the margin earned in our Licensing Sales which reduced from 15.9% to 13.6%. The reduction was caused by lower vendor incentives, product mix, geographical mix and competition.

Operating expenses

Operating expenses in FY20 increased by \$5.6m or 17% year on year. Excluding the investment in Japan, operating expenses increased by \$4.3m or 13%. As a direct result of the pandemic the Company increased its provision for bad debts from \$0.9m to \$2.0m to cover anticipated increase in bad debts arising from the current economic headwinds. The remaining increase in operating costs arose from further investments in our Solutions business offset by lower marketing and travel costs.

Investment and Capital Expenditure

rhipe continues to invest in its core subscription management platform (PRISM) to support the Company's leadership position in Asia Pacific as the platform of choice for monthly Pay-As-You-Go cloud license subscriptions. In FY20 the Group invested \$2.1m in PRISM which is a key part of the Company's intellectual property.

The Company incurred higher than normal capital expenditure in FY20 of \$1.4m versus \$0.7m in FY19 mainly due to the move to a new office in the Philippines to accommodate the growth in headcount supporting both the Licensing and Solutions businesses.

Dividend and Share Buyback

As a result of the strong cash position at 30 June 2020 of \$60.9m, the Board has announced the payment of a fully franked dividend of 2.0 cents per share.

Outlook for FY21

In FY21, rhipe expects its public cloud business to continue to be the growth engine for the business, with revenue growth to continue with numerous opportunities, challenges and uncertainties. The company also expects to continue investment in Licensing sales and Solutions capabilities although given the uncertainties arising from the pandemic management intend to manage costs carefully. Overall, the Company is targeting continued growth in its operating profit.

For more information contact:

Dominic O'Hanlon
Chief Executive Officer
investorrelations@rhipe.com

Mark McLellan
Chief Financial Officer
investorrelations@rhipe.com

Approved for release by the Board.

About rhipe

rhipe, (ASX: RHP) is the cloud channel company. It provides its partners with a complete end to end cloud solution, helping them to grow and thrive in the emerging Cloud economy. As Cloud 1st, Channel 1st company, rhipe is recognised as the leading expert in subscription software licensing in Asia Pacific and its multi-award-winning services and support division is the industry leader in Microsoft Office365 implementation.