

MARKET ANNOUNCEMENT

Strong Growth, Solid Foundation, New Public Cloud and Hybrid Cloud Programs

Sydney, Australia, 24 August 2015.

rhipe Limited (RHP.AX) today announced a new material contract with SoftLayer, an IBM Company. As a result of this contract, rhipe will be reselling IBM Cloud services through its partner ecosystem across seven countries in the Asia-Pacific region (refer separate detailed announcement). In addition to this new contract, rhipe today announced its full-year unaudited operating results for the Year ended June 30, 2015.

Review of Operations

The unaudited results presented in this financial report reflect the operations of rhipe Limited and all subsidiaries from 1 July 2014 to 30 June 2015 (together the "Group").

For the full year ended 30 June 2015, Group revenue was \$108.8m, up 46% compared to the prior year comparative period. Group earnings prior to growth investments, non-cash share based payments, non-recurring due diligence costs and non-recurring one off costs was \$4.9m, up 47% on a like-for-like basis compared to the prior year comparative period. Licensing Revenue was \$105.1m, up 41% and License Gross margin was \$16.45m, up 37% compared to the prior year comparative period. The Licensing Gross margin % for the financial year to 30 June 2015 was 15.66%. Group Gross margin was \$20.1m for the financial year, up 67% on the prior comparative period.

Financial Summary (\$'000)	FY14	FY15	Change
Licensing Revenue (Annuity Subscription) ⁽³⁾	74,548	105,052	+ 41%
Services Revenue	-	3,717	n/a
Total Revenue	74,548	108,769	+ 46%
Gross Margin Licensing	11,991	16,452	+ 37%
Gross Margin Services	-	3,632	n/a
Total Gross Margin	11,991	20,084	+ 67%
Underlying EBITDA pre growth investment & non-cash and non-recurring ⁽¹⁾	3,332	4,896	+ 47%
Underlying EBITDA pre non-cash and non-recurring ⁽²⁾	1,832	1,222	- 33%

(1) Underlying EBITDA pre Growth excludes Net Investment in SEA and Cloud LSP after local gross margin contribution, CSP teams and Group Support Costs.

(2) Underlying EBITDA excludes non-cash expenses relating to share based payments for executive options issued and non-recurring expenses such as transaction costs associated with nSynergy acquisition (Dec14), executive team recruitment and impairment write down for MineCamp.

(3) Licensing Revenue excludes approximately \$2.5m revenue received for prepaid licensing sales on 29 June 2015 which will be recognised in FY16.

During the 12-month period to 30 June 2015, rhipe invested heavily in the transition of its operations from a purely private-cloud licensing business to “Whole of Cloud” wholesaler with integrated divisions focused on cloud licensing (private, public and hybrid), cloud solutions (services and support), and cloud operations (billing, provisioning, marketing). rhipe’s investment in these operating divisions led to a number of significant achievements that have set the foundation for rhipe’s ongoing growth:

1. In December 2014, rhipe completed the strategic acquisition of nSynergy to form the new rhipe Solutions business unit. This acquisition paved the way for rhipe’s bid to represent Microsoft as a wholesaler of Microsoft’s public cloud offerings.
2. In April 2015 rhipe was awarded the Microsoft 2-Tier Cloud Solutions Program (CSP) for Australia. This program allows rhipe to wholesale Microsoft’s public cloud offerings such as Office365, Azure and Enterprise Mobility Suite (EMS) to rhipe’s reseller channel on a monthly subscription “pay-as-you-use” basis.
3. From December 2014 to June 2015, rhipe also engaged with Microsoft in 5 South East Asian countries in relation to their 2-Tier CSP wholesaler program. In July 2015 rhipe was subsequently awarded the 2-Tier CSP program in each of these countries.
4. As part of the acquisition of nSynergy, rhipe also made an investment in cloud software company, LiveTiles. This investment provided rhipe with exclusive distribution rights for the LiveTiles product to service providers in Asia Pacific.
5. During the financial year rhipe worked closely with SoftLayer, an IBM company, to explore how rhipe could wholesale the SoftLayer infrastructure to rhipe’s reseller channel in all seven of rhipe’s operating countries. rhipe was subsequently awarded the Cloud-wholesaler vendor agreement for Softlayer in APAC for Q1/ FY16 implementation
6. rhipe signed new licensing relationships with Intel Security (McAfee), Zimbra, LiveTiles and SkyKick.
7. rhipe built a dedicated Cloud Licensing Solutions Provider (LSP) team as a result of signing a new pilot cloud licensing program with Microsoft Australia (the Cloud LSP program) and achieved 200% attainment of targets.
8. The company opened an office in Indonesia following signing a new SPLA licensing agreement with Microsoft in August of 2014, and
9. Over the year, rhipe greatly expanded its executive team with a new Chief Executive Officer, Chief Financial Officer, Chief Commercial Officer, Chief Marketing Officer, Chief Technology Officer and Chief Strategy Officer.

rhipe’s key software vendor relationships include those with Microsoft, VMWare, Citrix, Datacore, Intel Security (McAfee), Red Hat, Trend Micro, Veeam, Zimbra, LiveTiles and SkyKick. rhipe sells and manages subscription software to over 1600 Channel customers including Managed Service Providers (MSPs), Independent Software Vendors (ISVs) and System Integrators (SIs). rhipe also supports these channel customers with value-add services including business transformation consulting, marketing and lead generation, order processing and license optimisation and compliance consulting.

rhipe's services and support offerings (resulting from the acquisition of nSynergy) are currently focused on Microsoft technologies such as Office365 and Azure. The nSynergy business was integrated into rhipe over a 6 month period and rebranded to "rhipe solutions" in June, 2015. The business generated un-audited revenue of \$3.72m and EBIT \$0.23m for the period to June 2015. The purchase price of nSynergy, post finalising completion accounts and agreement with the vendors, was reduced from the headline figure of \$25.35m (as announced on 28th November) to \$14.35m, which comprises:

- \$10m cash paid at completion in December 2014
- \$4.35m stock in rhipe issued, escrowed to December 2015

The reduction of \$11m from that announced on 28th November comprises:

- \$3m of cash which has been retained by rhipe to meet working capital requirements, and
- \$8m of potential earn out for 2016 and 2017 which will be replaced by standard rhipe bonus plans for senior team members

rhipe's growth continues to come from its heritage geographies of Australia and New Zealand with even higher growth from rhipe's investment in South East Asia.

The table below outlines the underlying EBITDA contribution from the Group for the year ending June 30, 2015:

	\$'000
Underlying EBITDA pre growth investment and non-cash and non-recurring ⁽¹⁾	4,896
Growth Investment expensed:	
Investment in South East Asia	(2,459)
Investment in Cloud Solutions Provider (CSP) Program	(610)
Investment in Cloud LSP Team	(484)
Investment in Group Support Costs	(121)
Underlying EBITDA pre non-cash and non-recurring costs ⁽²⁾	1,222
Non-cash and Non-recurring expenses:	
Non-recurring transaction costs and integration costs expensed	(478)
Non-cash share based payments expensed in accordance with accounting standards	(1,787)
Non-recurring impairment write-down for MineCamp	(157)
Non-recurring recruitment costs expensed for CEO	(153)
EBITDA reported	(1,353)
Depreciation	(182)
EBIT Reported	(1,535)

The directors believe that the Group is in a strong and stable financial position to continue to expand and grow the business. The Group currently has approximately \$12.4m in cash at bank.