

rhipe Limited (ASX code RHP)

CEO's Address to Shareholders

2015 Annual General Meeting

27th November 2015



rhipe
The Cloud
Channel Company

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Agenda

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Business
Overview

FY15
Achievements

The Cloud
Marketplace

Q1 FY16
Trading Update

Outlook

Q&A

Business Overview



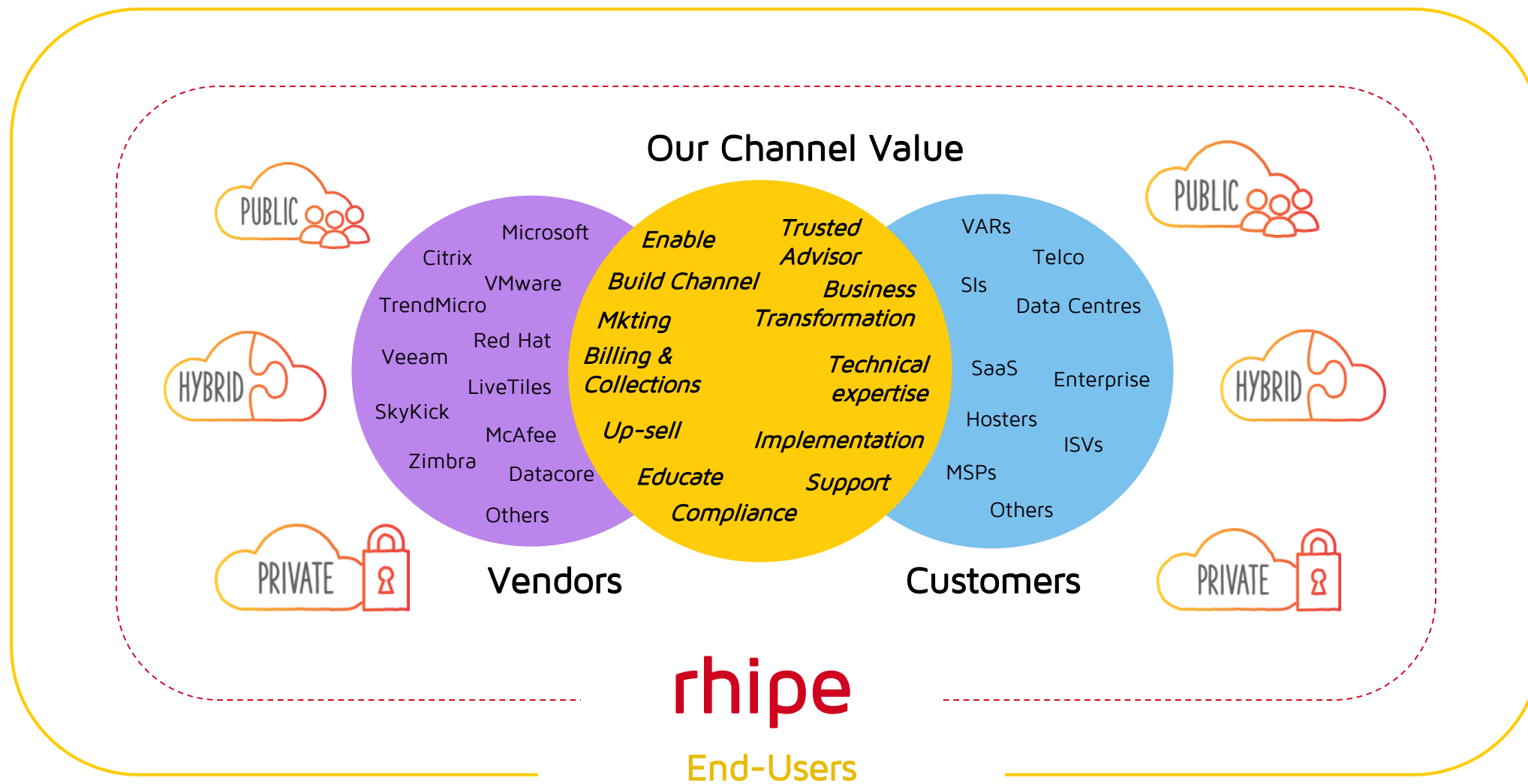
rhipe: the Cloud Channel Company

**Cloud
First**

**Channel
First**

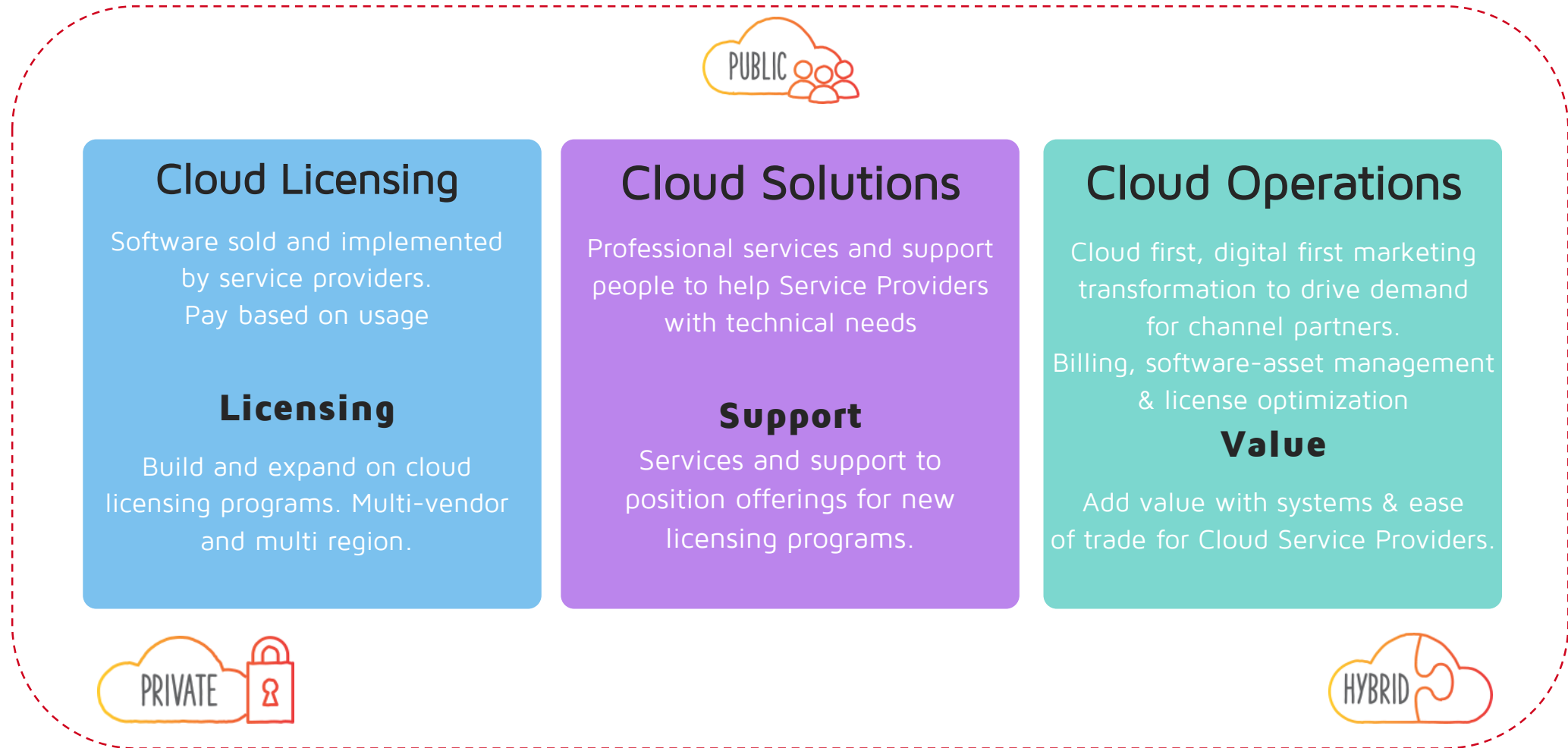
Passionate about helping service providers adapt
and thrive in the emerging cloud economy

Business Model Leverages the Channel



Strategic Operating Divisions

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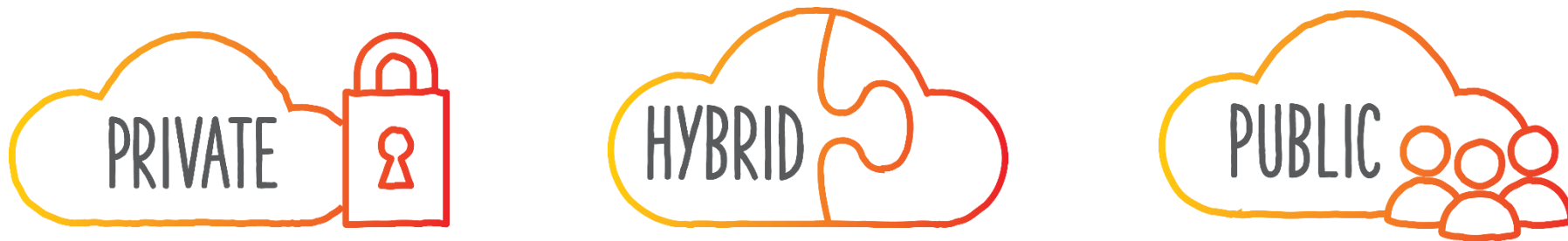


FY15 Achievements



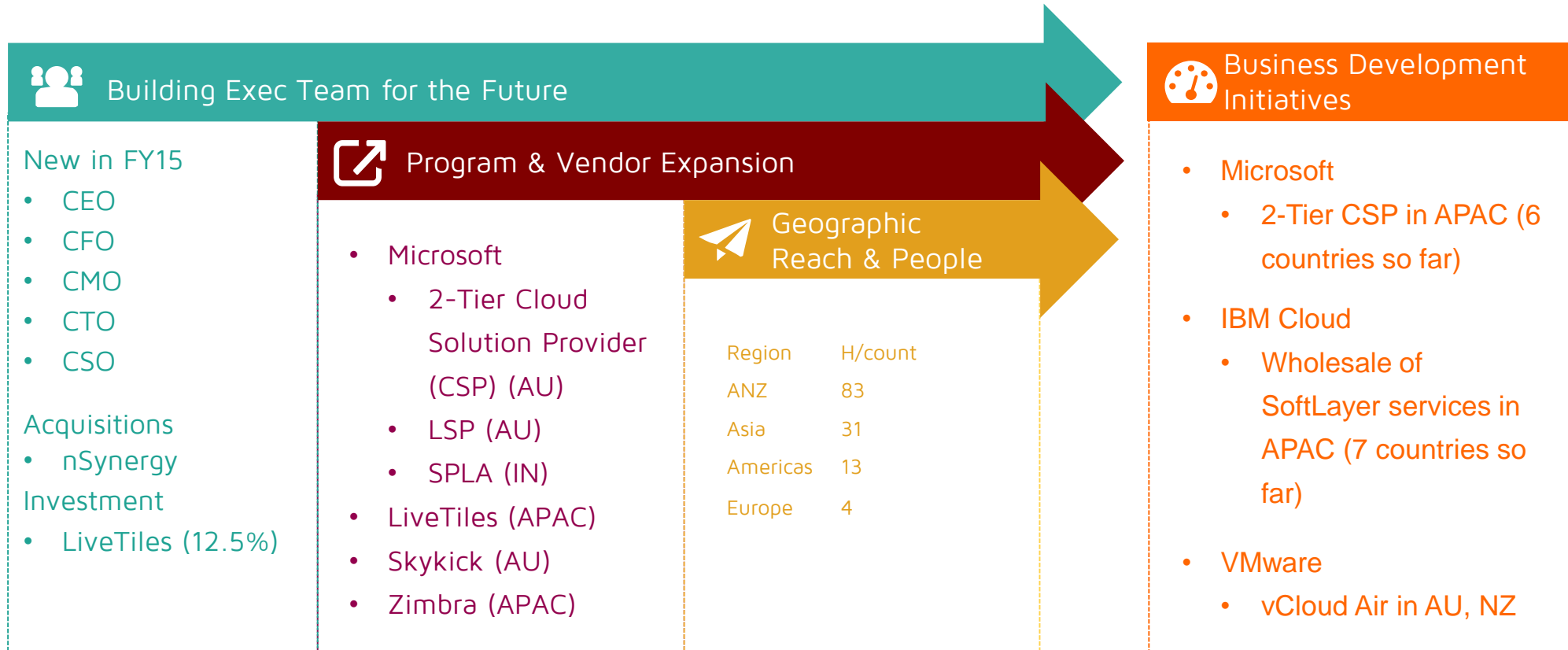
2015 in Review

Continued 40%+ growth in our traditional Private Cloud licensing business whilst investing in programs, people and systems to launch our Public, Hybrid or “Whole of Cloud” future



FY15 Strategic Achievements

Preparing for FY16



FY15 Financial Headlines (AUD)

[audited]

Total Revenue

\$108.8M

+46% growth

Group Gross Margin

18.46%

Underlying EBITDA

\$4.9M

excl. growth investments
& abnormals



Licensing
Revenue

\$105.1M

+41% growth

SEA
Revenue

\$32.2M¹

+66% growth



Licensing Gross
Margin

15.66%

Partner
Growth

+23%



Investments
New Markets
& Programs

\$3.7M

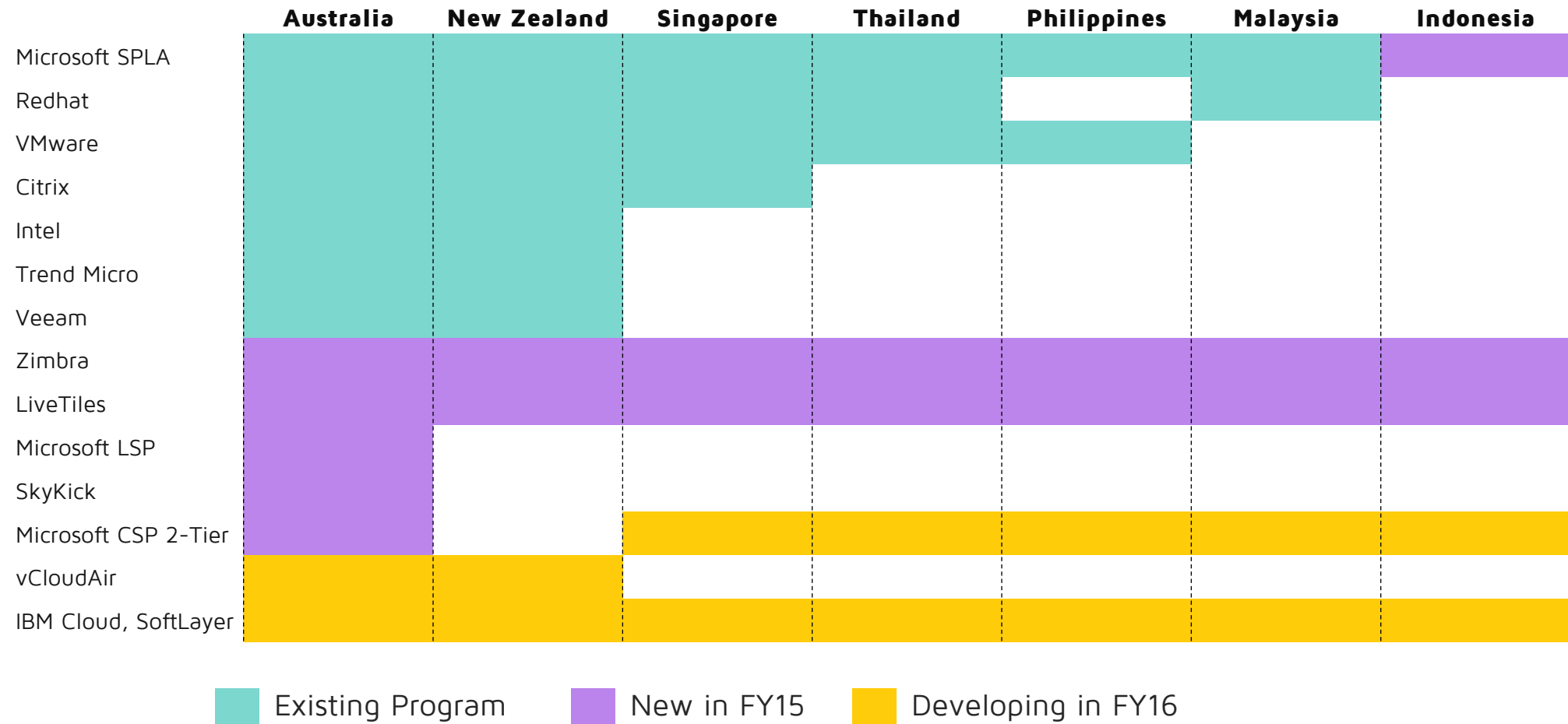
Non-cash & non-
recurring
expenses

\$2.6M

1. SEA revenue including arbitrage

Program Reach & Growth

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Detailed Financial Results

| | H1-2014 | H2-2014 | FY 2014 (Audited (\$000s)) | H1-2015 | H2-2015 | FY 2015 (Audited \$000s) | FY 2015 Growth % |
|---|---------|---------|----------------------------------|---------|---------|--------------------------------|---------------------|
| Operating Revenue | 33,318 | 41,230 | 74,548 | 48,249 | 60,520 | 108,769 | 46% |
| Group Gross Margin | 5,308 | 6,683 | 11,991 | 7,867 | 12,216 | 20,083 | 67% |
| License Gross Margin | 5,308 | 6,683 | 11,991 | 7,867 | 8,585 | 16,452 | 37% |
| Underlying EBITDA pre growth investment and non-cash and non-recurring ¹ | 1,136 | 2,196 | 3,332 | 2,805 | 2,091 | 4,896 | 47% |
| SEA Growth Costs | -659 | -841 | -1,500 | -996 | -1,463 | -2,459 | |
| LSP Growth Costs | 0 | 0 | 0 | -249 | -235 | -484 | |
| CSP Growth Costs | 0 | 0 | 0 | 0 | -610 | -610 | |
| Group Support Costs ² | 0 | 0 | 0 | 0 | -121 | -121 | |
| Subtotal | -659 | -841 | -1,500 | -1,245 | -2,429 | -3,674 | |
| Underlying EBITDA pre non-cash and non-recurring ³ | 477 | 1,355 | 1,832 | 1,560 | -338 | 1,222 | |
| Non-cash share based payments expenses in accordance with accounting stds | 0 | -310 | -310 | -856 | -931 | -1,787 | |
| Non-recurring impairment write-down for MineCamp | 0 | 0 | 0 | 0 | -157 | -157 | |
| Non-recurring transaction costs and integration costs expensed | 0 | 0 | 0 | -434 | -44 | -478 | |
| Non recurring costs expensed for exec recruitment | 0 | -54 | -54 | -153 | 0 | -153 | |
| Subtotal | 0 | -364 | -364 | -1,443 | -1,132 | -2,575 | |
| Reported EBITDA | 477 | 991 | 1,468 | 117 | -1,470 | -1,353 | |
| Depreciation and Amortization | -38 | -60 | -98 | -78 | -104 | -182 | |
| Reported EBIT | 439 | 931 | 1,370 | 39 | -1,574 | -1,535 | |
| Cash at Bank | | | 4,457 | | | 12,423 | |

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. Incremental cost of executive recruitment and new personnel

3. 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

FY15 Balance Sheet

- \$12.4m cash on hand
- No remaining deferred consideration or earn out payments remain on nSynergy deal
- No debt

| | FY 2014 (Audited (\$000s)) | FY 2015 (Audited (\$000s)) |
|--|----------------------------------|----------------------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents ¹ | 4,457 | 12,423 |
| Trade and other receivables | 15,061 | 27,332 |
| Other assets | 281 | 3,253 |
| Non-current assets held for sale | 507 | 350 |
| TOTAL CURRENT ASSETS | 20,306 | 43,358 |
| NON-CURRENT ASSETS | | |
| Other financial assets | 10 | 2,510 |
| Property, plant and equipment | 171 | 519 |
| Deferred tax assets | 329 | 770 |
| Intangible assets | 5,876 | 23,082 |
| TOTAL NON-CURRENT ASSETS | 6,386 | 26,881 |
| TOTAL ASSETS | 26,692 | 70,239 |
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Trade and other payables | 17,162 | 27,331 |
| Current tax liabilities | 527 | 709 |
| Deferred consideration ¹ | 0 | 3,000 |
| Liabilities associated with assets held for sale | 158 | 158 |
| TOTAL CURRENT LIABILITIES | 17,847 | 31,198 |
| NON-CURRENT LIABILITIES | | |
| Deferred tax liabilities | 205 | 508 |
| Provisions | 211 | 73 |
| TOTAL NON-CURRENT LIABILITIES | 416 | 581 |
| TOTAL LIABILITIES | 18,263 | 31,779 |
| NET ASSETS | 8,429 | 38,460 |
| EQUITY | | |
| Issued capital | 8,103 | 38,714 |
| Reserves | 214 | 1,955 |
| Retained earnings | 112 | -2,209 |
| TOTAL EQUITY | 8,429 | 38,460 |

1. Cash includes previous retention for acquisition of \$3m

The Cloud Marketplace



rhipe: the Cloud Channel Company

USD127B

Global Public Cloud
Market¹

USD20B

Microsoft Global
Cloud Market²

rhipe is well-positioned to capture this Cloud opportunity.
We have the programs, people and systems today to deliver
our Public, Hybrid or “Whole of Cloud” future



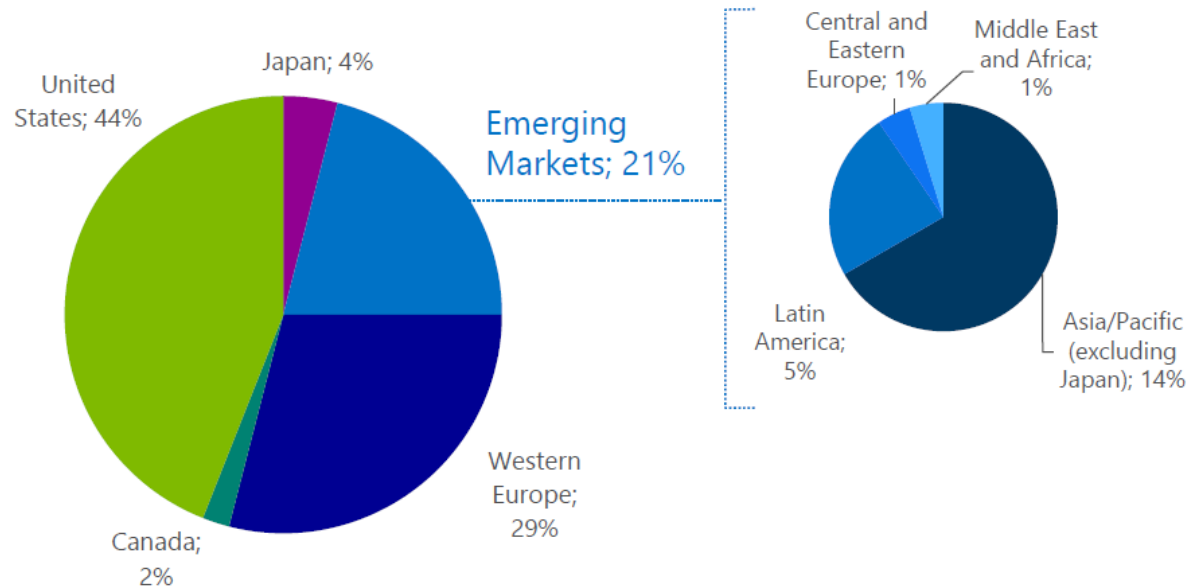
¹ 2018 IDC forecast. Reference: IDC #251730, Microsoft WPC 2015 Keynote

² MSFT target by FY2018, Morgan Stanley, Microsoft Maintaining Cloud Momentum, July 2015

What Does This Cloud Growth Look Like?

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\$127B Worldwide Public IT Cloud Services Revenue in 2018¹



\$256 B The managed services opportunity by 2018²

Public IT cloud services spending reached \$47.4 billion in 2013, and **will grow five times faster** than the IT industry as a whole

Emerging markets will grow 1.8X faster than developed markets and by 2017 will account for 21.3% of the public cloud opportunity



1. 2014 IDC study commissioned by Microsoft

2. Markets and Markets - Managed Services Market worth \$256.05 Billion by 2018(c) 2014 M2 COMMUNICATIONS

Global Public Cloud Growth

2018 PUBLIC CLOUD MARKET FORECAST

2013 – 2018 22.8% CAGR

6X Overall IT market growth

USD127B
Worldwide

USD8B
APAC (ex Japan)

USD1.8B
Australia

IDC – #251730 Oct 2014/#AP250883 Apr 2015

Microsoft Commercial Cloud*

"We have an ambition to get to \$20 billion of annualized run rate in the cloud in FY18. And this, by the way, is about really the combination of what we today have in Office 365, Dynamics, EMS, Azure"
—Satya Nadella, Microsoft CEO
(Financial Analyst Briefing, Apr 2015)

"I hope you realize this (CSP) is the single biggest investment we're making in expanding our channel for cloud, and we hope you participate with us."
—John Case, Corporate Vice President, Microsoft Office (Worldwide Partner Conference 2015)

"Our annualized commercial cloud run rate surpassed \$8 billion this quarter, and revenue grew 88% year over year. We're on a strong trajectory toward our goal of \$20 billion in fiscal year 18."
—Satya Nadella, Microsoft CEO
(Earnings Release FY15 Q4)

Microsoft Commercial Cloud: Covers Microsoft's Public Cloud Assets – currently O365, Azure, CRM Online, EMS

Local Opportunity

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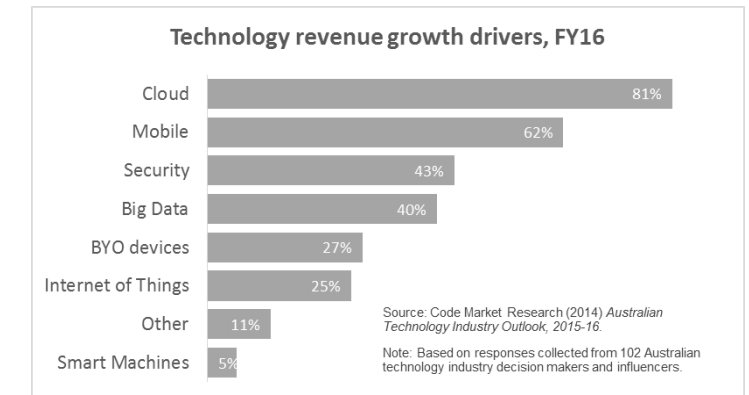
CLOUD INTENTIONS STILL STRONG:

84%

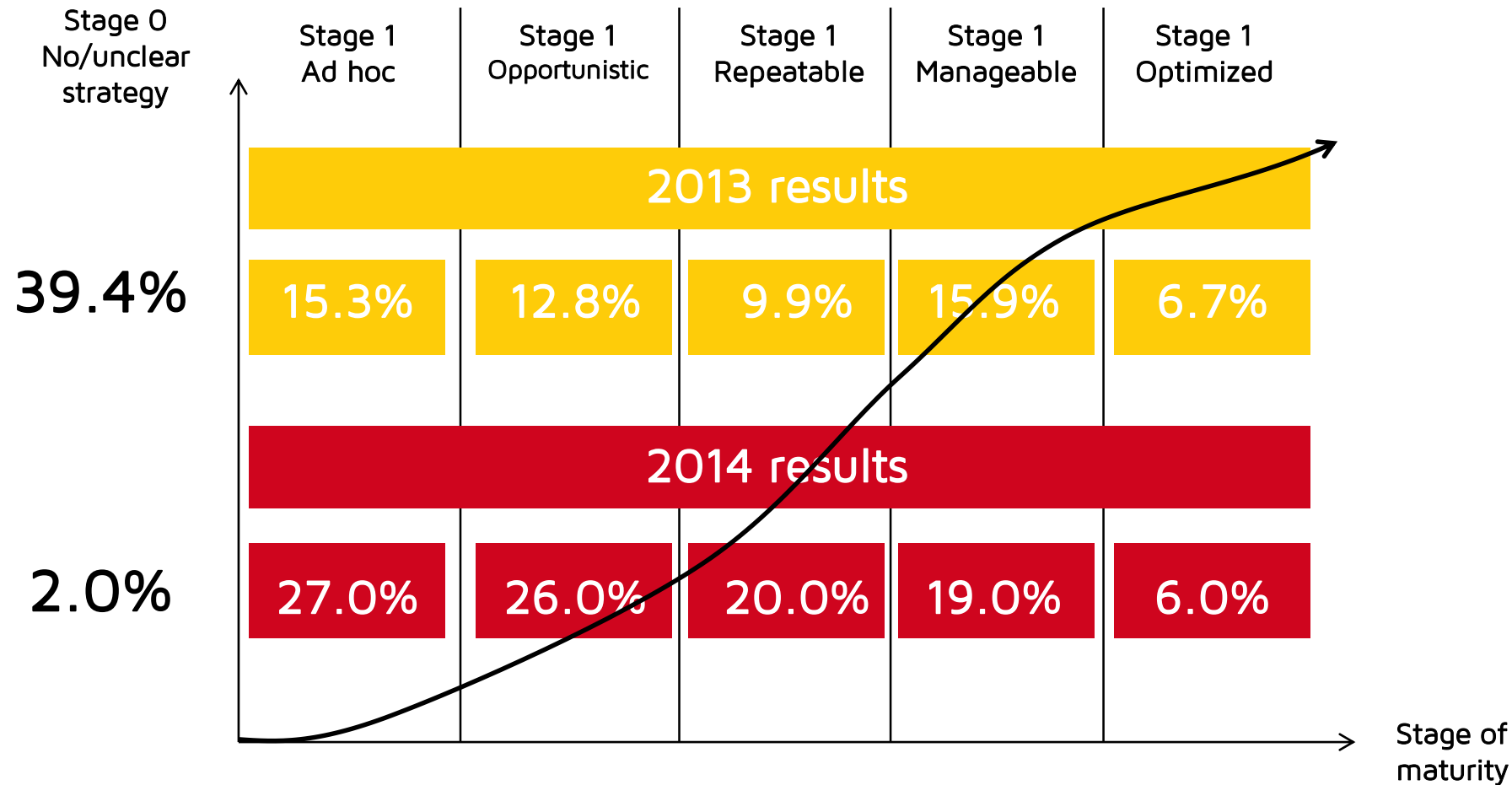
Intend to increase, or maintain, Cloud spending in 2015

Telsyte, Australian Digital Workplace Study 2015

Growth driven by Cloud & Mobile



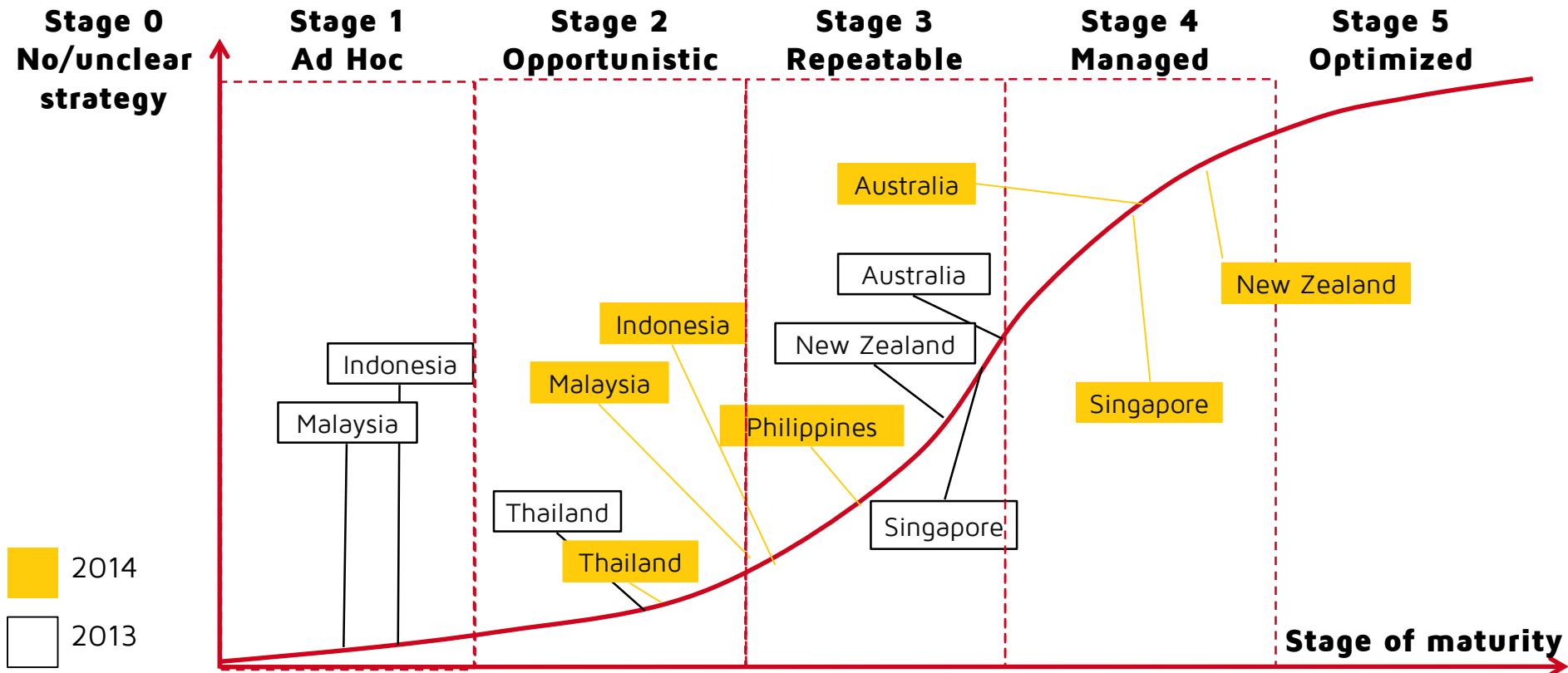
Maturing APAC Cloud Market - increased adoption & opportunity



Significant shift
in cloud awareness
and adoption

Lack of maturity
still creates
significant channel
opportunity

Maturing APAC Cloud Market - increased adoption & opportunity



Every country is experiencing uplift in Cloud maturity

Lots of upside and opportunity

Source: IDC Oct 2014 #AP250869

Microsoft's Cloud GTM Model



MSFT Cloud shift from traditional Office & Server products towards growth in Azure & O365

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MSFT Segmentation³
Commercial Licensing Division

| USD M'000 PRODUCT LINE | '13 | '14 | '15 | YOY GROWTH |
|------------------------------------|---------------|---------------|---------------|---------------|
| Windows Enterprise | 3,250 | 3,608 | 3,675 | 1.9% |
| Server & Tools | 15,105 | 16,850 | 18,209 | 8.1% |
| Skype | 1,354 | 591 | 1,004 | 70% |
| Office Business | 19,977 | 21,037 | 18,206 | (13.5%) |
| Commercial Licensing | <u>39,686</u> | <u>42,085</u> | <u>41,094</u> | <u>(2.4%)</u> |
| Enterprise Services | 4,222 | 4,606 | 5,042 | 9.5% |
| Azure | 290 | 431 | 666 | 54.3% |
| O365 Pro Dynamics CRM Online | <u>1,148</u> | <u>2,508</u> | <u>5,187</u> | <u>106.8%</u> |
| Commercial Other | 5,660 | 7,546 | 10,894 | 44.4% |

Microsoft's "Cloud First, Mobile First" strategy is focused on delivering the Cloud revenue target of USD20B by FY18

"Traditional" licensing

Majority of revenues still derived from traditional Office and Server products

- Commercial Licensing declined -2.4%

"Commercial Cloud"

High-growth experienced in Cloud product lines

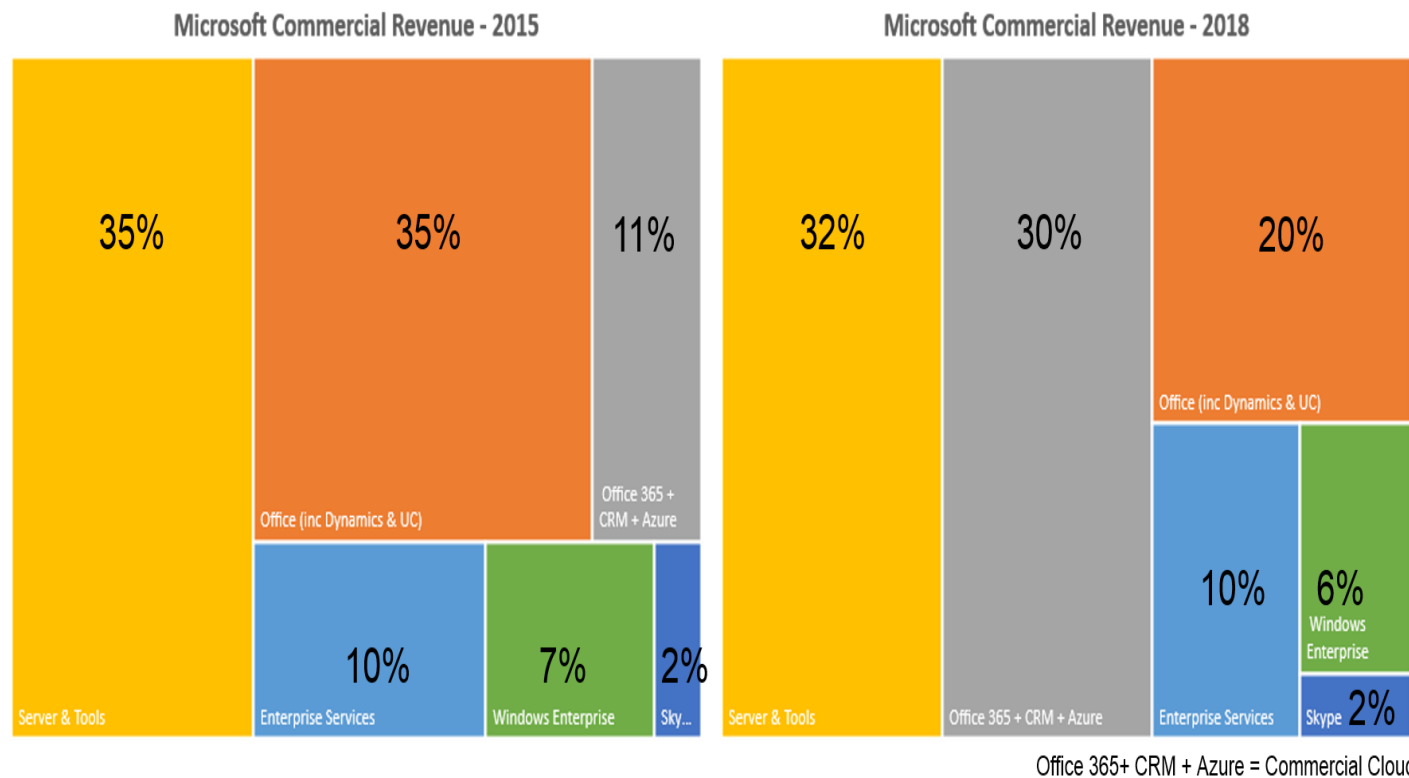
- CSP solutions:
 - O365 & CRM Online +106.8%
 - Azure +54.3%
- Commercial Cloud grew 44.4%

3. Morgan Stanley, Microsoft Maintaining Cloud Momentum, July 2015

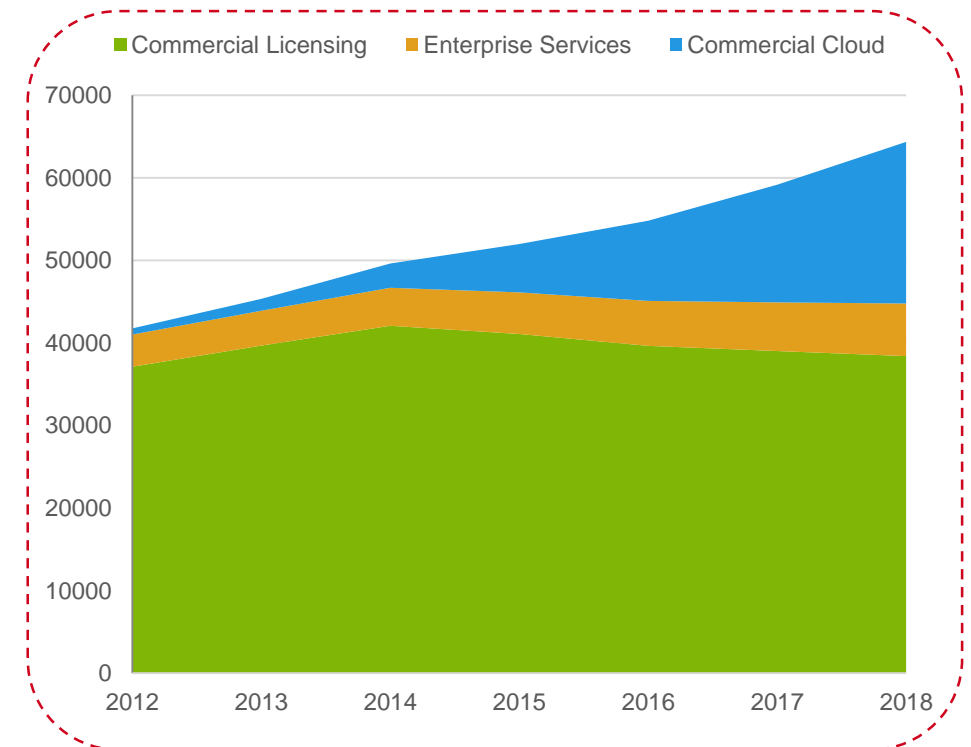
Morgan Stanley MSFT Cloud Growth Analysis

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- Morgan Stanley forecast Microsoft Cloud products (Office365+CRM+Azure) to represent 30% of revenue by 2018₃
- Microsoft believe new Cloud licensing will be 1.2x to 1.8x the equivalent traditional non-Cloud licensing revenue



Microsoft Commercial Revenue Growth 2013-18



3 Morgan Stanley, Microsoft Maintaining Cloud Momentum, July 2015

Q1 FY16 Trading Update



Summary of Latest Trading Headlines

- ➔ 2 Tier Microsoft CSP in Australia has launched with a strong start
- ➔ Q1 Revenue and Core Business Gross Margin in line with expectations
- ➔ Growth Investment Projects;
 - SEA growth momentum continues
 - CSP launched in Australia, Singapore, Malaysia and Thailand
 - IBM SoftLayer customer on boarding expected from Q3
- ➔ rhipe Solutions Update
 - Multiple significant project wins in Q1 with 5 over +\$200k
 - Commenced through sell to existing rhipe channel

2 Tier Microsoft CSP Update

Australia
Won April 2015
 Launched July 1 2015

South East Asia
Won July 2015
 Launched Oct 2015
 SG, ML & TH
 (PH & ID, H2 FY16)

MSFT CSP Key Stats

O365 Seats **11,510**
 Ave revenue per seat: **\$12**

As at 26th November 2015

190

partners on-boarding to CSP

266

signed partners

185

signed and now transacting

38%

net new partners to rhipe

As at 26th November 2015



AU since 1 July 2015
 SEA launched Oct 2015



Microsoft Dynamics CRM

Launch Date Q2 FY16



Launch Date Q3 FY16

rhipe's combined Cloud business continues to grow in all countries with a solid start in Q1 FY16

Offering Overview

- Wholesale of bare metal & virtualised servers in APAC
- Private & public cloud capability
- Unique global network with unmetered data
- Complementary to current rhipes subscription programs

Launch & Investment

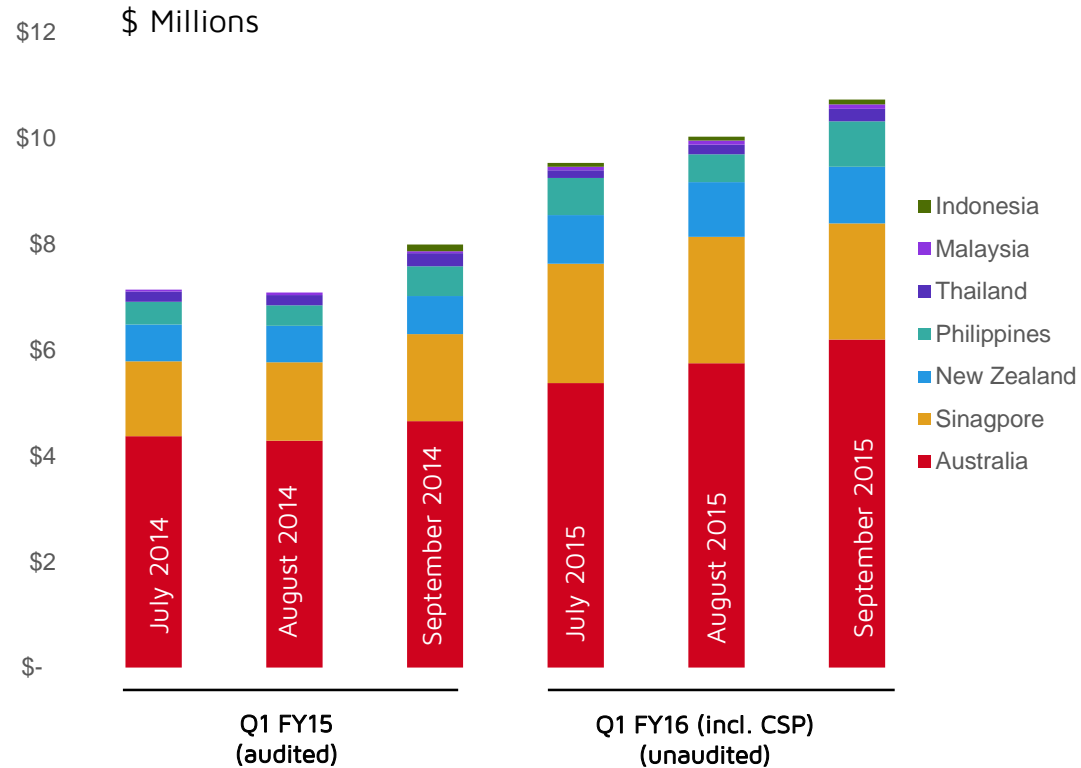
- Launch Nov 2015, customers from 2016
- Initiated in AU, NZ, SG
- Two year window for positive cash flow
- Expected FY16 investment \$1M+

Business Opportunity

- Infrastructure (IaaS) market¹
 - WW \$11B 32% AGR
 - APAC \$1.8B 40% AGR
 - AUS \$265M 45% AGR
- Margins similar to other rhipes licensing programs

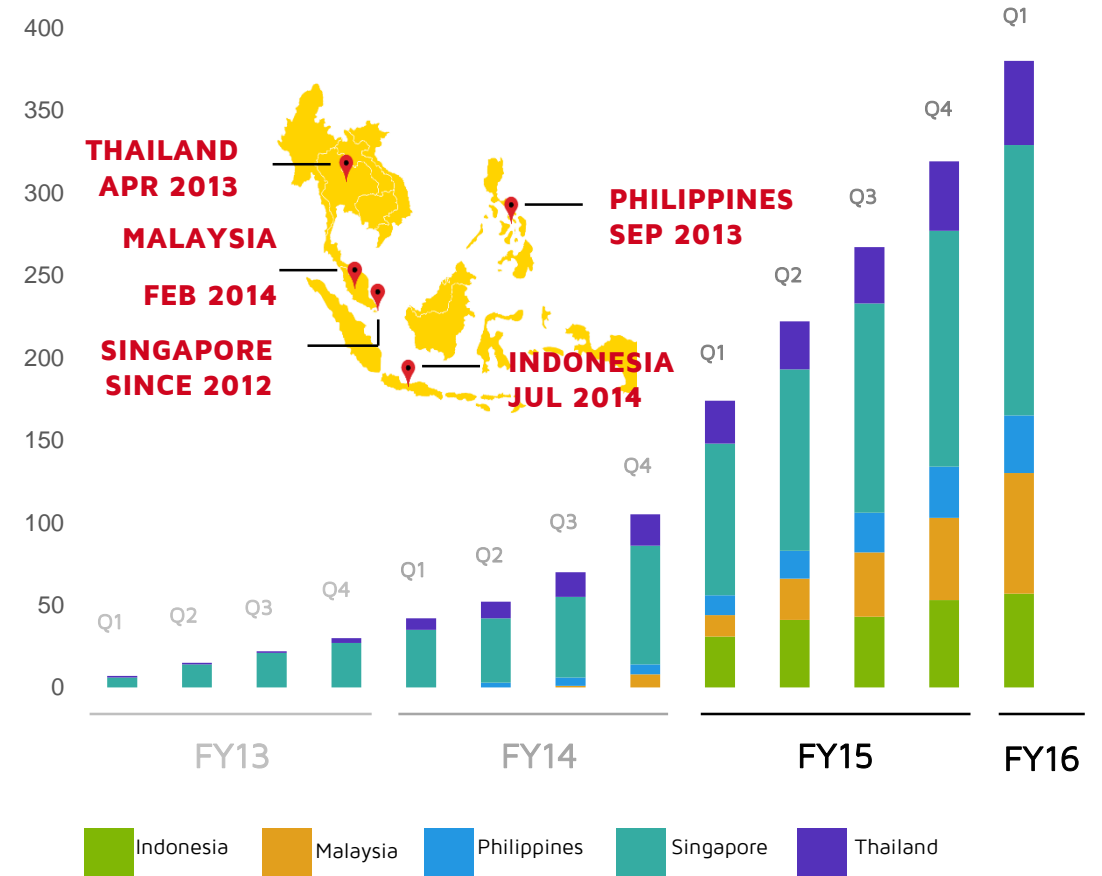
1. IDC IaaS Market estimate, 2015

FY16 Q1 Group Licensing Revenue Growth



SE Asia Performance

Cumulative partner agreements



FY16 Outlook



FY16 Outlook – Updated Summary

Financial

Revenue

- Target 40% growth

Gross Margin

- Target 14-16%

Investment

- People, Systems and Marketing
- Microsoft 2-Tier CSP & LSP
- Wholesale IBM Cloud

Vendor & Geographic

Microsoft CSP

- Will include Azure & CRM Online
- Expansion to Philippines and possibly Indonesia

IBM Cloud

- Wholesale SoftLayer services across APAC (India and Korea based on performance)

VMware

- vCloud Air Network AU, NZ

Operational

Microsoft CSP

- Investment across SEA

rhipe Solutions

- Packaging IP solutions
- LiveTiles industry solutions

Maturing Cloud Market

- New vendors & programs
- Competitive landscape
- Increasing co-opetition

Operations

- Marketing & Systems investment for scale & reach