

RXP SERVICES LIMITED

ABN 30 146 959 917

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Strong H2 result in the face of COVID-19; accelerated move towards “digitisation” driving digital revenue

Leading digital services consultancy provider RXP Services Limited (ASX: RXP) today announced its results for the full year ended 30 June 2020 (FY20).

FY20 key highlights

- Revenue of \$126.8 million (FY19: \$141.1 million), down 10%, with a relatively flat H2 despite advent of COVID-19; digital now represents 90% of revenue
- Earnings Before Interest, Tax, Depreciation & Amortisation (EBITDA) of \$14.0 million¹ (FY19: \$16.4 million), impacted by a soft H1
- Underlying EBITDA of \$15.4 million (FY19: \$16.7 million) H2 result up 29% on H1 despite COVID-19
- Non-cash impairment of \$7.5 million to goodwill taken in H1 (no further impairment in H2), resulting in Net Profit After Tax (NPAT) of \$1.9 million loss²
- Strong operating cash flow of \$21.9 million, with cashflow conversion exceeding 150% of EBITDA
- Strong balance sheet in place, with further debt reduction pushing net debt down to \$4.0 million
- Final dividend of 2.50 cps fully franked (FY19: 3.00 cps, including 0.5 cps Special Dividend), payable 9 October 2020; total FY20 dividend of 3.50 cps (FY19: 4.75 cps)
- Announced a Dividend Reinvestment Plan (DRP) available for final fully franked dividend, fully underwritten; provides further balance sheet flexibility to invest in value accretive growth areas

¹ Post AASB 16 impact; EBITDA pre AASB 16 impact was \$11.8 million

² Post AASB 16 impact; EBITDA pre AASB 16 impact was \$1.5 million

Making Happier Humans

Level 15
31 Queen Street, Melbourne
Victoria Australia

Phone (03) 8630 5800
Email info@rxpservices.com
Web www.rxpservices.com

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Northern region delivering growth while the recovery in Southern Region was slowed down by the advent of COVID-19

Commenting on the full year result, RXP Chief Executive Officer Ross Fielding said: “RXP experienced a strong recovery during the second half of the year, despite having to navigate the COVID-19 pandemic. Our team did a fantastic job in quickly adapting to ensure that we were able to continue deliver for our clients and add value.

“We are witnessing a once in a lifetime event that will have long lasting impacts on consumer behaviour, and particularly on how companies operate and digitally evolve moving forward. COVID-19 has resulted in businesses placing greater emphasis on “digitisation”, which has benefited RXP given our development and investment in digital transformation capabilities.

“After a strong first half, the Northern region continued to perform well in the second half, winning and delivering several significant digital projects. Having built a solid pipeline, the Northern Region is well positioned to continue the positive momentum into FY21.

“Whilst improvement was evident in the Southern Region early in the second half, the advent of COVID-19 did have a greater impact on this region, with a noticeable slowing in sales conversions. This followed on from the soft first half in the region where we were impacted by the deferral of a significant government project and a key client implementing a “10 days mandatory leave” initiative. We are now seeing the sales pipeline slowly building back up as businesses prioritise digital experience improvement. Tight alignment of resourcing to business wins resulted in improved utilisation during the second half.

“Pleasingly, we are seeing momentum build back up in Digital Marketing Services after a soft first half. By utilising our Sydney based team we have been able to win work with several key clients including Destination NSW, Aware Super, Goodman Fielder, and Containers for Change. We are encouraged by the strong pipeline of opportunities in this segment and remain committed to leveraging and enhancing our capabilities in this segment.”

Continued strong cash flow conversion; significant balance sheet flexibility

As at 30 June 2020, RXP’s cash balance was \$15.0 million, with net debt reducing to \$4.0 million, ensuring that the Company maintains a very comfortable gearing position and the flexibility required to grow the business. Cashflow conversion continued to be a strength, with operating cash flow of \$21.9 million representing over 150 per cent of EBITDA.

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<p>Level 15 31 Queen Street, Melbourne Victoria Australia</p>	<p>Phone (03) 8630 5800 Email info@rxpservices.com Web www.rxpservices.com</p>

Reflecting the full year performance, balance sheet, and active capital management, the Board has declared a final dividend of 2.50 cents per share fully franked, payable on 9 October 2020, taking the FY20 total dividend to 3.50 cents per share.

The Board is pleased to advise that it has resolved to implement a Dividend Reinvestment Plan (“DRP”) available to shareholders for the fully franked final dividend.

RXP is committed to capital management initiatives that will enhance shareholder value and implementation of the DRP provides shareholders with a cost effective means of reinvesting their dividends in the Company while enabling the Company to preserve cash for future investment opportunities as required.

First half impairment impacted reported profit

As part of the half year audit review, there were indicators of impairment given the soft first half result and the Board impaired goodwill by \$7.5 million. No further impairments were taken during the second half. The non-cash impairment lead to a reported net loss after tax for FY20 of \$1.5 million². Earnings per Share excluding impairment was 3.45 cents per share.

Positive outlook for FY21, underpinned by increased urgency for digital transformation due to COVID-19

Commenting on RXP’s outlook, Mr Fielding said: “Despite the advent of COVID-19, we were able to deliver a strong second half performance, including 29% growth in EBITDA on the first half, demonstrating that we were able to adapt to the challenges the pandemic presented.

“Both our Northern Region and Digital Marketing Services have strong sales pipelines in place, and we are seeing momentum build in the Southern Region. COVID-19 has driven greater urgency for digital transformation and has highlighted the need for businesses to improve the digital experience they provide. Our goal of ‘Making Happier Humans’ and our strategy of partnering with clients to enable their digital transformation agenda is resonating well, and positions RXP to take advantage of the structural shifts we are seeing.

“I want to take this opportunity to thank our team for their efforts over FY20, in what has been a challenging period. Their agility in responding, and commitment to our clients, has been extraordinary.

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“Whilst we are not out the other side of the COVID-19 pandemic just yet, RXP enters FY21 with a strong financial position, a solid pipeline of work, and the right set of digital capabilities and this provides us with optimism as we look forward”, said Mr. Fielding.

FY20 results conference call

CEO Ross Fielding and CFO David Royale will be conducting a briefing session for investors and analysts at 9:00am Australian Eastern Standard Time on Thursday, 20 August 2020. To pre-register for the briefing, please follow the link below.

<https://s1.c-conf.com/diamondpass/10008830-invite.html>

This announcement has been authorised for release by the Board.

For further information, contact:

Ross Fielding
Chief Executive Officer
P: +61 3 8630 5800
E: info@rxpservices.com

Eric Kuret
Investor Relations, Market Eye
M: +61 3 9591 8900
E: eric.kuret@marketeye.com.au

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.

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APPENDIX: FY20 financial summary

(\$'000)	FY20 reconciliation			Statutory FY19
	Pre AASB 16 FY20	AASB 16 Impact	Statutory FY20	
Revenue	126,771		126,771	141,144
Underlying EBITDA	15,360		15,360	16,733
Underlying EBITDA margin (%)	12.1%		12.1%	11.9%
- <i>Client Enforced Mandatory Leave</i>	(615)		(615)	-
- <i>Investment in Works Melbourne & HCD</i>	(819)		(819)	-
- <i>Redundancy Expense</i>	(995)		(995)	(925)
- <i>Provision for Doubtful Debts</i>	(245)		(245)	(1,232)
- <i>Other Adjustments #</i>	(858)		(858)	(207)
- <i>Deferred consideration revaluation</i>	-		-	2,000
- <i>AASB 16 Leases EBITDA Impact</i>	-	2,185	2,185	-
EBITDA	11,828	2,185	14,013	16,369
EBITDA margin (%)	9.3%		11.1%	11.6%
- <i>Depreciation & Amortisation</i>	(1,333)	(2,197)	(3,530)	(1,298)
- <i>Impairment of Goodwill</i>	(7,500)		(7,500)	(10,800)
- <i>Net Interest</i>	(627)	(304)	(931)	(814)
Profit Before Tax	2,368	(316)	2,052	3,457
Income Tax	(2,994)	(108)	(3,102)	(3,698)
Profit/ (Loss) from continuing operations	(626)	(424)	(1,050)	(241)
Profit/ (Loss) from discontinued operations	(897)		(897)	(1,112)
Profit / (Loss) for the year	(1,523)	(424)	(1,947)	(1,353)
Reported EPS (cents) excluding impairment	3.71	0.26	3.45	5.86

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