

RXP SERVICES LIMITED

ABN 30 146 959 917

Release to Australian Securities Exchange

10 February 2021

Strong performance from existing clients and digital marketing services; Q2 FY21 sales conversion impacted by COVID-19; anticipating a stronger second half

Leading digital services consultancy provider RXP Services Limited (ASX: RXP) today announced its results for the half year ended 31 December 2020 (H1 FY21).

H1 FY21 key highlights

- Revenue of \$58.6 million (H1 FY20: \$65.1 million), down 10%, as COVID-19 and associated sustained remote working arrangements impacted sales process/sales conversion in Q2
- Earnings Before Interest, Tax, Depreciation & Amortisation (EBITDA) up 1% to \$5.3 million
- Underlying EBITDA of \$5.3 million (H1 FY20: \$6.7 million)
- Non-cash impairment of \$12.2 million to goodwill as a result of proposed acquisition valuation; net loss after tax for H1 FY21 of \$10.2 million
- Operating cash flow of \$3.8 million, with cashflow conversion representing 71% of EBITDA
- Strong balance sheet maintained, with net debt reduced to \$3.8 million
- Anticipating stronger H2 results with improving economic confidence and a focus on return to the office
- Proposed acquisition of RXP by Capgemini announced on 11 November 2020 in board recommended transaction

After a solid Q1, sustained remote working arrangements impacted sales conversion in Q2

Commenting on the half year results, RXP Chief Executive Officer Ross Fielding said: “We entered FY21 with momentum and this continued during the first quarter of FY21, as businesses recognised the need to invest in brand development, brand awareness and call to action marketing. Despite this, sustained remote working arrangements impacted the effectiveness and efficiency of our sales processes in Q2, resulting in softness in new project pipeline development and conversion.

Making Happier Humans

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“Pleasingly, we had strong support from existing clients, with client retention remaining extremely high, and project extensions occurring. In addition, we continued to have strong demand for our digital marketing services, along with some good blue-chip client and project wins”, said Mr Fielding.

Cash conversion in line with expectations; Strong balance sheet maintained

As at 31 December 2020, RXP’s cash balance was \$14.7 million, with net debt reducing to \$3.8 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 representing 71% of EBITDA, which is forecast to exceed 80% over FY21.

First half impairment impacted reported profit

As part of the half year audit review, a non-cash impairment of \$12.2 million was made to goodwill as a result of the ‘fair value less cost to sell’ valuation in light of the proposed acquisition by Capgemini.

The non-cash impairment, which has no impact on future earnings, lead to a reported net loss after tax for H1 FY21 of \$10.2 million.

Positive outlook for H2 FY21, underpinned by strong support from existing clients and expected improvement in sales conversion

Commenting on RXP’s outlook, Mr Fielding said: “Despite the ongoing impacts we have seen from COVID-19 and the associated remote working arrangements, and the potential for ongoing uncertainty, we are seeing early signs of improvement in the operating conditions.

“With many businesses now focused on a return to the office, we are seeing more face-to-face meetings, resulting in increased activity in terms of our sales processes. Combined with growing business confidence and greater clarity of client priorities, we look forward to a stronger result in the second half of FY21.

“In what continued to be a challenging environment, I want to thank our dedicated team for their continued efforts over H1 FY21, as well as the ongoing support from our shareholders”, said Mr. Fielding.

This announcement has been authorised for release by the Board.

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About RXP Services Limited

RXP is a publicly listed, practice led Digital Services Partner with specialist consultants across 4 offices and 7 practices in Australia. We bring together creativity, design, insights and technology to help create Happier Humans.

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APPENDIX: H1 FY21 financial summary

(\$'000)	H1 FY21	H1 FY20	Growth
Revenue	58,596	65,072	-10.0%
Underlying EBITDA	5,271	6,710	-21.4%
Underlying EBITDA margin	9.0%	10.3%	
- Client Enforced Mandatory Leave	-	(615)	
- Investment in Digital Marketing Services	-	(573)	
- Redundancy expense	(658)	(454)	
- Provision for Doubtful Debts	-	-	
- Other adjustments [#]	(191)	(883)	
- Scheme of Arrangement expense	(273)	-	
- AASB 16 Leases EBITDA Impact	1,186	1,093	
EBITDA	5,335	5,278	1.1%
EBITDA margin (%)	9.1%	8.1%	
Depreciation & Amortisation	(1,838)	(1,609)	
Impairment of Goodwill	(12,244)	(7,500)	
Net Interest	(485)	(457)	
Profit Before Tax	(9,232)	(4,288)	-115.3%
Income Tax	(986)	(965)	
Profit / (Loss) from continuing operations	(10,218)	(5,253)	
Profit / (Loss) from discontinued operations	-	(201)	
Profit / (Loss) for the year	(10,218)	(5,454)	-87.3%
Reported EPS (cents) excluding impairment	1.17	1.27	-7.9%

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