

RXP SERVICES LIMITED

ABN 30 146 959 917

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Trading update with revised guidance for FY20

Leading digital services consultancy provider RXP Services Limited (ASX: RXP) today provides an update on expected earnings for the year ending 30 June 2020 (FY20).

RXP's previous guidance of double-digit earnings growth has been revised, with expectations for FY20 underlying earnings before interest, tax, depreciation and amortisation (EBITDA) now to be largely in line with prior year, reflecting the following:

1. Southern Region under performance

The Southern Region was impacted by an unexpected deferral of a significant government project in the latter stage of the first half. Given staff were retained in anticipation of project commencement, a significant adverse impact on utilisation resulted (\$0.55 million EBITDA impact).

Also impacting utilisation over the first half in the Southern Region was an unexpected "10 day mandatory leave" initiative that was implemented by a key client in late Q1. Given the short notice provided by the client, utilisation was adversely affected (0.6 million EBITDA impact).

It should be noted that the impacts outlined above are "one off" in nature, and while affecting the first half earnings, RXP does not see them as indicators of longer-term weakness for the Southern Region.

In general terms, sales conversion rates in the Southern region have been lower than expected. To address this, Jared Hill has been appointed to the key role of Group Executive Southern Region.

Making Happier Humans

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2. Lower than expected returns from investments in RXP's Digital Marketing Services

As the marketing services industry continues to change at pace, RXP has strategically invested in its digital marketing services capabilities including customer experience, human centred design, and general digital capabilities. While these investments position RXP for long term growth, the expected returns have been slower to materialise than forecast (\$0.6 million H1 EBITDA impact).

In addition, sales conversion rates for our digital marketing services has also been lower than expected. Changes have been made to our go-to-market approach and we anticipate improvement in the second half.

Despite the short term under performance, RXP remains committed to enhancing its capabilities in this rapidly evolving and growing segment.

First half underlying EBITDA in the order of \$6.7 million

The combination of the Southern Region underperformance and lower than expected returns from RXP's digital marketing services, means the expected underlying EBITDA for the first half of FY20 will be in the order of \$6.7 million, subject to final audit review.

\$20+ million of digital work won in December/January positions RXP for a strong H2; Northern region performing well

While the first half performance has been disappointing, pleasingly several significant client wins were closed out in December 2019/January 2020. These wins, mostly now underway and totalling over \$20 million in value, combined with the strong pipeline that is in place, provides RXP with confidence heading into the second half of FY20 and beyond.

Pleasingly, the Northern region performance has been in line with expectations and is on track to deliver double digit earnings growth in FY20.

RXP expects to release its financial results for the six months ending 31 December 2019 on 25 February 2020.

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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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