The Manager
Company Announcements
Australian Securities Exchange
Level 5, 20 Bridge Street
SYDNEY NSW 2000

Dear Sir or Madam,

ASX Code: RHP

FY20 Half Year Results

Sydney, 18th February 2020 – rhipe Limited ("rhipe" or "the Company") today provided its FY20 half-year financial results and operational highlights for the period.

Overview of Financial Results

The results presented in these financial statements reflect the operations of rhipe Limited and all subsidiaries (together the "Group") for the six months from 1 July 2019 to 31 December 2019 ("1H FY20").

For the half year ended 31 December 2019, the summary financial and operational highlights include:

Financial

- Group sales growth of 33% versus 30% in the prior corresponding period ("pcp"), largely due to demand for public cloud software and infrastructure, particularly Microsoft Azure and Office365.
- Group revenue growth of 24% versus 30% in pcp due to the increasing contribution from Microsoft Azure and sales coming from rhipe's Asian operations, plus ongoing changes to vendor incentives and competition.
- Group operating expense growth excluding investment in Japan was 20% or 23.6% including Japan.
- Group operating profit of $7.1m excluding Japan, up 26%; Group operating profit including Japan is $6.6m.
- Group reported EBITDA of $7.0m, up 53% year on year.
- Net profit after tax of $3.3m up 7% year on year.
- Cash at 31 December 2019 was $24m versus $23.2m at 31 December 2018 following $2.8m fully franked dividend plus $2m spent on acquisitions in the first half of FY20.
- Interim fully franked dividend of 1.0 cent per share.

Operational

- Microsoft Office365 seats at 31 December 2019 were 547,000, up 97,000 since 30 June 2019 and up 192,000 since 31 December 2018.
- Microsoft Office365 annual recurring sales up 50% to $71m compared to $47m in pcp.
- Azure annual recurring sales up 111% to $31.5m compared to $14.9m in pcp.
- Asian local sales growth 57% versus 53% in FY19.

Overall it was a strong financial performance in 1H FY20 which has allowed the Company to make material investments, mainly around headcount and systems, in both our Licensing and Solutions business.

Review of Financial Results

The table below summarises the financial results for the Company for 1H FY20.

Financial Summary $'000	**1H FY19**	**1H FY20**	**Change**
Sales from software products	110.4	145.4	+32%
Services sales[1]	4.3	7.9	+84%
Gross sales (excl. interco.)	**114.7**	**152.7**	**+33%**
Licensing revenue	17.2	20.3	+18%
Services revenue[1]	4.3	7.0	+63%
Revenue (excl. interco.)	**21.5**	**26.6**	**+24%**
Licensing margin	15.6%	14.0%	-10%
Gross Profit	20.5	25.0	+22%
Operating Expenses	(14.9)	(18.4)	+24%
Operating Profit excl. Japan JV [2]	**5.6**	**7.1**	**+26%**
Operating Profit incl. Japan JV [2]	5.6	6.6	+18%
Reported EBITDA [3]	4.6	7.0	+53%
Profit/(loss) after tax	3.0	3.3	+7%

(1) Services sales and revenue includes $0.6m of intercompany sales and revenue

(2) Operating profit is gross profit less operating expenses and excludes any FX gains or losses, share base payments and one-off cost including restructuring or due diligence costs. Operating profit also includes all costs incurred from the Company's property leases.

(3) Reported EBITDA is after the impact of AASB 16 Leases which reclassed leases costs from operating expenses to depreciation and finance costs; net impact on reported EBITDA was +$0.9m. In addition, reported EBITDA also includes a benefit of $1.7m arising for lower earn out payments on our DBITS acquisition.

The Group's operating profit has grown 26% year on year due to strong growth in the demand for cloud software which has permitted the Group to make continued investments in our operations across South East Asia, Korea, New Zealand and Australia and continued investment in operations to support the expansion of Microsoft's Public Cloud business including Microsoft Office365 and Microsoft Azure. Headcount in our Licensing business grew from 150 employees at 30 June 2019 to 186 employees at 31 December 2019, an increase of 24% with 80% of these additions in the front office operations.

In addition, we have made material investments in our Solutions business which provides support and consultancy services to our vendors and partners. Overall headcount in our Solutions business has increased from 163 individuals at the start of the FY20 to 199 employees at the end of the first half, an increase of 22% in just six months. This investment has covered many distinct service offerings including vendor and customer focused support as a service, consultancy services centred on Microsoft Dynamics product offering and investment in our newly acquired encryption software offering SmartEncrypt. rhipe will continue to invest in these operations with the objective of increasing the revenue and profitability of our Solutions business.

The investments made in both Licensing and Solutions activities have supported the continued strong growth in sales and revenue for the Group and explain why growth in operating expenses remains high particularly in our Solutions business as the company invests for the future.

Key operating highlights in the half-year to 31 December 2019 included:

- Group sales from software products and services was $152.7m for the period, up 33% or $38m compared to the prior year comparative period ("pcp"). Overall rhipe's sales from software products were $145.4m for 1H FY20, up 32% year on year driven by strong growth in Microsoft Office365 and Azure sales and continued strong growth in our Asian footprint with sales up 57% versus pcp. Sales from our services and support activities rose 84% from $4.3m to $7.9m driven by our investment in these activities and by our acquisition in March 2019 of our Microsoft Dynamics consultancy business, DBITS.

- Microsoft CSP sales (Office365 and Azure) were $48m in the 6 months to 31 December 2019 compared to $27m in the pcp, an increase of 78%. The current annualised run-rate sales ("ARR") for CSP is now $102.6m up 65% compared to the pcp, making CSP equivalent to the size of our Microsoft private cloud business (known as SPLA). At 31 December 2019 rhipe had approximately 547,000 CSP Office365 seats excluding academic O365 products sold at zero value. The installed base of +547,000 seats at 31 December 2019 compares to ~355,000 CSP O365 seats at 31 December 2018 and 450,000 at 30 June 2019.

- Group revenue for 1H FY20 was $26.6m compared to $21.5m in the pcp, up 24%. Licensing revenue of $20.3m for 1H FY20 was up 18% compared to pcp with Licensing net sales margin at 14.0% compared to 15.6% in the pcp. The net sales margin decreased in the first half of FY20 due to changes to our product and geographical mix arising from strong sales growth in Microsoft Azure and in the Asia region, plus lower incentives from software vendors and to a lesser extent competitive pressures in the market.

- Revenue from our services and support activities was $7.0m for the period, up 63% on the pcp driven by investment and growth in our support and service activities. If the impact of our acquisition of DBITS is excluded the year on year growth is 37%.

- Group gross profit for 1H FY20 was $25m up $4.5m or 22% year on year. Licensing gross profit grew 15% year on year to $20.6m for the period and gross profit from our services and support operations grew by 62% to $5.4m following the investment in its support as a service offering and our newly acquired Microsoft Dynamics consultancy business.

- Group operating expenses increased by 24% or $3.5m year on year to $18.4m. Excluding our investment in our Japan joint venture group operating expenses increased by 20% year on year and by 15.7% if we exclude the impact of the acquisition of DBITS.

- Operating profit, which represents reported EBITDA excluding non-cash share-based payments, FX gains or losses, non-recurring due diligence costs and non-recurring one-off costs was up 26% year on year to $7.1m before the impact of our Japanese joint venture or up 18% to $6.6m compared to pcp once Japan joint venture costs are incorporated.

- Group reported EBITDA for the six months ended 31 December 2019 increased by 53% to $7.0m. Group reported EBITDA was impacted by a number of one off items including $0.9m positive impact of AASB 16 Accounting for Leases which results in lease costs being charged as finance costs and depreciation and a $1.7m benefit arising from the expected lower deferred consideration payment for DBITS. Neither of these items impacted operating profit.

- rhipe delivered a positive net profit after tax of $3.3m compared to a net profit after tax of $3.0m in the prior year, an increase of 7% year on year.

Strong Cash Position

Cash at 31 December 2019 was $24.0m versus $23.2m at 31 December 2018 and $25.5m at 30 June 2019. For 1H FY20 net operating cashflow was $5.8m compared to $3.8m in the pcp, an increase of 52% year on year. During the first half of the financial year, rhipe paid dividends of $2.8m and invested a further $1.6m in our key subscription management platform, PRISM.

Earnings per share

Earnings per share for the six months to 31 December 2019 was AUD 2.33 cents per share versus AUD 2.22 cents per share in the pcp. an increase of 5%.

Dividend

The board of rhipe is pleased to announce a fully franked interim dividend of 1.20 cents per share in FY20, an increase of 20% compared with the prior year interim dividend. The interim dividend will be paid in May 2020.

Outlook

rhipe maintains its operating profit guidance for the full financial year to 30 June 2020 of $16m excluding the impact of investment in our joint venture in Japan.

In relation to our Japan joint venture, rhipe now expects full year investment in Japan to be lower than prior guidance due primarily to delays in hiring required resources. rhipe plans to use some of the savings to invest further in our recently acquired DBITS and SmartEncrypt businesses. As a result of the lower investment, operating profit guidance for the full financial year to June 30, 2020 is now increased from $13m to $14m after allowing for the impact of investment in Japan and additional investments in SmartEncrypt and DBITS.

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Authorised by the Board

This summary should be read in conjunction with the Appendix 4D and results presentation lodged with ASX today.

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Additional information about rhipe

rhipe (ASX: RHP) is the Cloud Channel Company whose mission is to provide the best platform, enablement and 24 x 7 support services so that partners of all sizes can derive value from their cloud investments. rhipe provides its partners with a complete end- to-end cloud solution, helping them to grow and thrive in the Cloud economy. As the Cloud 1st, channel 1st company, rhipe is recognised as the leading expert in subscription software licensing in Asia Pacific and its multi-award-winning services and support division is the industry leader in Microsoft Office365 implementation. rhipe has offices in Sydney, Melbourne, Brisbane, Auckland, Singapore, Bangkok, Manila, Kuala Lumpur, Jakarta, Seoul and Tokyo.