

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

Dear Sirs

ASX Code: RHP

2017 Full Year Results

Sydney, 21 August 2017 – rhipe Limited today provided its audited financial results for the 12 months ending 30 June 2017 (“FY17”) and operational highlights for the period.

Introduction

The Board is pleased to report that rhipe Limited (“rhipe” or “the Company” or the “Group”) has started to generate profitable returns from its strategic investment in building a public cloud subscription business across Asia Pacific. The investment phase has delivered in FY17 an operating profit of \$5m and reported EBITDA of \$4m, a material improvement from the prior year.

In addition, rhipe is pleased to report that our year end cash position was \$19.8m compared to \$13.8m at the same time last year, an increase of \$6m or 43%. The Directors believe that the cash position of the business will continue to be strong and as a result the Board is also announcing a share buy-back program of up to 10% of the ordinary equity of rhipe.

Trading Highlights for Full Year to 30 June 2017

Significant trading highlights from the 2017 Financial Year include:

- Software licence revenue of \$152m up 16% year on year with a gross margin of \$23.8m, up almost 20% year on year. Total Group revenue rose 14.5% to \$157m;
- Revenue growth has been driven by strong momentum in public cloud via the Microsoft Cloud Solutions Provider (CSP) program with rhipe’s partners now consuming more than 130,000 Office365 seats per month. These seats are billed on a monthly subscription basis with an annual run rate revenue now exceeding \$22m compared to \$6.7m at the end of FY 2016;
- Achieving a 70% growth in local Asian sales (excluding sales from ANZ customers buying through Asia) in FY17 enhancing our position in the Asian market;
- Appointment by Microsoft as a globally managed license partner and the leading Indirect Microsoft CSP partner in Asia Pacific;
- Appointment as a private and public cloud partner by Microsoft in Korea
- Restructure of our Solutions business which has led to elimination of losses that affected prior year results and Q1 FY17;

- Tight cost management with operating costs down 10% due to Solutions restructure and flat costs in our Licensing business, indicative of the operating leverage in our Licensing business;
- The Group reported a strong increase in profitability with group operating profit increasing from \$16,000 in the prior year to \$5m for FY17. Reported EBITDA for FY17 was \$4.0m compared to an EBITDA of \$1.5m to 30 June 2016 ("FY16"). The prior year also included a \$2.4m one off gain on sale of shares in LiveTiles Ltd; and
- A cash balance increase of \$6m or 43% driven by increased profitability and better working capital management.

A summary of the financial performance for the financial year ending 30 June 2017 is shown below:

Financial Summary (\$ million)	FY17	FY16 Restated	Change
Revenue	157.0	137.1	+ 14.5%
Gross Margin \$	28.2	25.8	+ 9.4%
Gross Margin - Group	18.0%	18.8%	
Gross Margin - Licensing	15.7%	15.3%	+50bps
Operating Expenses	(23.2)	(25.8)	(10%)
Operating Profit ⁽¹⁾	5.0	0.0	+\$5m
Reported EBITDA	4.0	1.5	173%
Reported EBITDA excl. one off gain on sale ⁽²⁾	4.0	(0.9)	+4.9m
Profit/(Loss) After Tax	2.5	(0.1)	+2.6m

(1) Operating profit excludes share based payments, FX gains or losses, restructuring and due diligence transaction costs.

(2) FY16 EBITDA includes a \$2.4m gain on sale of the Company's investment in LiveTiles Ltd.

Revenue

FY17 revenue growth of almost \$20m was driven by the areas of the business where we have made material investments. The revenue in our public cloud business under the Microsoft CSP program contributed to more than 50% of this revenue growth in FY17. In addition, the growth in revenue generated from clients in our South East Asian footprint contributed to almost 30% of overall growth. The increased stable of vendor products that rhiPE has invested in continues to be another growth area for the Company as does our expansion into North Asia via the South Korean launch.

We are seeing the growth in private cloud (SPLA) licensing continuing to grow strongly in Asia but becoming relatively flat in Australia as existing infrastructure reaches full capacity and as companies move towards public cloud platforms (Microsoft Azure and CSP). As the leading SPLA reseller and indirect CSP partner of Microsoft's in Asia Pacific rhiPE is well positioned to serve both private cloud to public cloud markets.

Gross Margin

Gross Margin increased by \$2.4m driven by a \$3.8m or 19% increase in Licensing margin but offset by a \$1.4m fall in Solutions' gross margins arising from the restructure in this business in Q1 FY17.

Operating expenses

Operating expenses in FY17 fell by \$2.6m or almost 10% year on year with all of this reduction driven by the restructure in our Solutions business. The Licensing business' operating expense base grew by only 2% versus revenue growth of 16% and it was this operating leverage trend that drove the improvement of financial performance of the business. We continue to focus on managing our cost base closely to ensure this operating leverage continues.

Investment and Capital Expenditure

rhipe continues to invest in its core billing and operational systems to ensure the company remains competitive. In the 12 months to 30 June 2017 the Group invested \$1.2m in its partner subscription platform which is a key part of the Company's intellectual property. We expect to increase investment in this platform in order to enhance the system's capability, improve operating efficiencies and maintain competitiveness.

Outlook for FY18

rhipe continues to invest in its core billing and operational systems to ensure the company remains competitive. In the 12 months to 30 June 2017 the Group invested \$1.2m in its partner subscription platform which is a key part of the Company's intellectual property. We will continue to invest in this platform in order to enhance the system's capability, improve operating efficiencies and maintain competitiveness.

Management and the Board continue to believe that the operating leverage seen in FY17 will continue into the financial year to 30 June 2018 ("FY18"). In FY 2018, rhipe's expects its public cloud business to grow faster than rhipe's traditional private cloud business. Ultimately the accelerated transition to public cloud will determine the revenue and margin growth for the business in FY18 and beyond.

Vendors including Microsoft is are expected to increase incentives and support for its public cloud CSP program including products such as Office365 and Azure and place less focus on older licensing programs such as traditional private cloud licensing.

rhipe intends to grow new programs and will follow the direction of incentives provided in pushing certain programs over others with a continued eye on the profitability and earnings profile of customers, channel partners and products.

rhipe, is now one of eight globally managed license partners for Microsoft which means rhipe has direct internal senior corporate dedicated resources assigned to working with rhipe. This brings an additional level of support rhipe hasn't had in the past and paves the way for an exciting future.

In FY18 rhipe is targeting to deliver operating profit in excess of \$7m and within this includes the intended new investment costs incurred with entering into a new market in South Korea. In order to drive results in excess of this target the Board has approved the issue of new performance rights to the Executive team with vesting criteria including the achievement of \$8.9m operating profit in a twelve month period prior to their expiry on 31 December 2018. These performance rights are subject to a new performance rights plan to be approved by shareholders at the next annual general meeting.

For more information contact:

Dominic O'Hanlon
Chief Executive Officer
Ph +61 457 001 001

Mark McLellan
Chief Financial Officer
Ph +61 452 521 34

About rhiPE

rhiPE, (ASX:RHP) is the cloud channel company. It provides its partners with a complete end to end cloud solution, helping them to grow and thrive in the emerging Cloud economy. As 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.