The Manager
Company Announcements
Australian Securities Exchange
Level 5, 20 Bridge Street
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Dear Sirs

**ASX Code: RHP**

**2016 Full Year Results**

**Sydney, 24 August 2016** – rhipe Limited today provided its 2016 full-year audited financial results and operational highlights for the period.

## Introduction

The Board is pleased to report that all key focus areas around growth, cost management and investment in new revenue streams have delivered strong results for the full year ended 30 June 2016.

Cash management and working capital improvements in the second half of the financial year resulted in $13.8m of cash on hand at financial year end.

Growth in the core Licensing division was maintained at +38% growth in sales of subscription software programs. The mix between large and small customers saw +39% growth in Licensing sales excluding the Top 10 largest customers.

Gross Margin in Licensing improved in the second half through 'add-on' strategies of other higher margin products to the large vendor programs and was further supported by the profitable margins in the customer list outside of Top 10.

Investments made in developing new regions in South East Asia resulted in growth of +87% in local sales in those markets, excluding large arbitrage Australian and New Zealand customers procuring through Asian countries.

Investments made in new vendor programs, such as the Microsoft 2 Tier CSP Program, resulted in high growth from a standing start in July 2015. As at the date of this release, rhipe has over 54,000 Office 365 seats sold on a monthly subcription basis at approximately $13 per seat per month. This investment alone has a revenue run rate of more than $8m within a year of commencing.

Investment in the business has begun to deliver operational leverage as expected. The Licensing division reported a profit of $2.4m up +72% on a reported basis and when adding back investments in new regions and new programs, accounted for a normalised profit of $7.1m, up +40% on the prior comparative period.[1]

The Solutions division, which makes up 4% of the Company revenue, achieved a lower than expected result in FY16, contributing a loss of $1.9m to the Group result. This loss was due to under-utilisation and delays in direct end customer projects. Management has made changes to the cost structure in this division and has focused resources towards channel customers, consistent with the Licensing division. These initiatives should deliver $2m of Opex savings in the Solutions division during 2017.

### Trading Highlights for Full Year to 30 June 2016

For the full year ended 30 June 2016, Group revenue was $143.0m, up 32% compared to the prior year comparative period. Group Reported EBITDA inclusive of all growth investment expenses, non-cash share based payments, non-recurring due diligence costs and non-recurring one off costs was $1.5m, up 208% on a like for like basis compared to the prior year comparative period. Gross Margin was $25.8m, up 28% compared to the prior year comparative period. The Group Gross Margin percentage year to date to 30 June 2016 was 18.0%. Licensing Gross Margin for the period was 14.6%.

The core Licensing division which consists of approximately 96% of Group revenue experienced strong growth in sales of +38% and increased divisional EBITDA by 72% to $2.4m for the financial year.[1] After adding back investment cost in new regions (South East Asia) and new programs (for example Microsoft 2 Tier CSP), the Licensing division contributed normalised EBITDA of $7.1m, up 40% on the prior comparative period.[1]

During this period rhipe has continued to deliver solid subscription revenue growth over the same comparative period from last year. The significant majority of this revenue is monthly annuity based licensing revenue generated from 1,800+ technology service provider customers. These partner numbers were boosted by the new Microsoft CSP program which added 663 signed customers to rhipe since its launch in July 15 (of which 48% were new to rhipe).

[1] Total Group based on audited financial statements. Divisional segmentation is unaudited.

The table below highlights the trading performance of the Group for the period to 30 June 2016 compared to prior periods.

| Revenue ($'000) | FY14 | FY15 | 1H FY16 | 2H FY16 | FY16 | *FY15/16 Change (%)* |
|---|---|---|---|---|---|---|
| Revenue | 74,548 | 108,769 | 69,505 | 73,538 | 143,043 | *+32%* |
| Gross Margin | 11,991 | 20,083 | 12,967 | 12,800 | 25,767 | *+28%* |
| *Gross Margin (%)* | *16.1%* | *18.5%* | *18.7%* | *17.4%* | *18.0%* | - |
| **EBITDA Reported** | **1,468** | **(1,353)** | **(254)** | **1,721** | **1,466** | *+208%* |
| Profit/(loss) before tax | 1,370 | (1,535) | (341) | 1,509 | 1,168 | *+176%* |

As with prior periods, when reconciling underlying EBITDA, we take into account non cash, non recurring expenses and profits on sale of investments to present Underlying EBITDA inclusive of all growth costs associated with investments in new regions and new programs. We also consider it important to understand the Underlying EBITDA when excluding these growth costs associated with new regions and programs. These Underlying earnings are as follows:

| Underlying Group EBITDA ($'000) | FY14 | FY15 | FY16 |
|---|---|---|---|
| **Reported EBITDA** | **1,468** | **(1,353)** | **1,466** |
| Add back/(less): | | | |
| Non cash share options expense | 310 | 1,787 | 963 |
| Profit on Sale of Investment | - | - | (2,384) |
| Non recurring costs | 54 | 788 | 434 |
| Sub-total | 364 | 2,575 | (987) |
| **Underlying EBITDA (incl. Growth costs)** | **1,832** | **1,222** | **479** |
| Add back: | | | |
| Investment in SEA | 1,500 | 2,459 | 3,031 |
| Investment in new Programs | - | 1,215 | 1,650 |
| Sub-total | 1,500 | 3,674 | 4,681 |
| **Underlying EBITDA (ex. Growth costs)** | **3,332** | **4,896** | **5,160** |

Refer to detailed investor presntation for more information

| Underlying Licensing EBITDA ($'000) | FY14 | FY15 | FY16 |
|---|---|---|---|
| **Licensing Reported EBITDA** | **1,832** | **1,387** | **2,380** |
| *% growth* | – | *(24.3%)* | *71.6%* |
| **Underlying Licensing EBITDA (ex. Growth costs)** | **3,332** | **5,061** | **7,061** |
| *% growth* | _ | *51.9%* | *39.5%* |

Refer to detailed investor presntation for more information

## Outlook for FY17

Management and the Board have confidence in the growth and earnings trajectory to provide more extensive guidance looking into FY17.

**Revenue Growth** continues to be generated by the nature of the underlying subscription based revenue streams which benefit from new product offerings, new geographies and the demand in the cloud market from end users to adopt subscription models for IT needs.

This is anticipated to grow in FY17 at a rate of greater than 30% . The revenue outlook represents some upside and downside aspects with regard to new investment trajectory and new market entrants respectively.

**Licensing Margin** has always fluctuated slightly depending on the mix of software products sold by rhipe partners from month to month, by region and depending on the mix of large to small customers. Larger customers contribute lower margins than smaller customers and different vendor products carry different margins. Management is always focused on strategies to bundle products for rhipe customers to meet demand and improve margins. FY17 guidance remains at between 14-16% Gross Margin for the core Licensing division which contributes approximately 96% of Company revenue.

**Cash Flow** has remained positive in FY16 in line with growth in the underlying business. A cash balance of $13.8m as at 30 June 2016 plus benefits from operational leverage commencing provide confidence of future positive cash flow.

**Investment** in new regions (South East Asia) and new programs (such as Microsoft 2 Tier CSP 2) remains a key growth strategy. Strong growth in both areas is expected to continue into FY17.

**Operating Costs** remain a key focus area and will benefit from the Licensing division reaching a plateau in costs since November 2015. The Licensing division is expected to remain largely flat on the 2H FY16 run rate. Cost reductions have been made in the Solutions division which is expected to lead to a reduction in costs of approximately $2m in FY17. Total Group Opex is forecast to be circa $26m for FY17 assuming no new significant growth investments are made.

EBITDA guidance for FY17 is to deliver a target Underlying EBITDA of greater than $8m and a Reported EBITDA of greater than $5m.

**Dividend Policy** Assuming cash generation and operational leverage is as expected into FY17, and subject to growth requirements, the board will seek to implement an appropriate dividend policy reflective of the shift to profitability.

**Ends.**

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**Additional information**

**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.