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Lodgement of Market Briefing**

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Market Briefing

RXP Services CEO on 1H15 results FY15 outlook

Interview with Ross Fielding (CEO & Executive Director)

In this Market Briefing interview, Ross Fielding, RXP Services CEO and Executive Director, discusses the recently announced half year results and the company's outlook, including:

- *the key drivers for the half year results*
- *impact of deferrals on utilisation and staffing*
- *strength in the pipeline and business outlook for 2H15 and beyond.*

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Today you released RXP's results for the six months ended 31 December 2014 (1H15) and you noted that the company's first half profit performance was lower than planned. What drove this profit result, particularly in light of the solid revenue results achieved and the confidence back in early November?

Ross Fielding

As I mentioned in the market update we gave back in December 2014, in the last few of months of the 2014 calendar year the commencement dates for a number of significant client projects were unexpectedly deferred to the third quarter of this financial year. Given we had already hired to the expected pipeline, this unfortunately meant our utilisation level for the last couple of months was much lower than planned.

At the time of our November update the outlook for RXP Services was still positive as we expected the start dates for these projects, and associated product sales, to be imminent. Unfortunately, as we drew toward the end of 2014, it became clear that these projects would be delayed and that we would not receive the associated revenue and more importantly profit streams in the first half of this financial year.

I am pleased to say that we do have traction on a number of these projects now. This, combined with new client project wins, means that utilisation is returning to planned levels and in turn our revenue and profit results are as we expect.

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What drove these project deferrals, and were they within any specific industry sectors, or any specific areas of your business, and do they reflect either short- or long-term trends?

Ross Fielding

From time to time, the internal workings within our clients means it is necessary for them to adjust spend and delivery profiles. Towards the back end of last year we did have some unexpected deferrals in a small number of key client projects.

These deferrals weren't all in a specific area of the business, or any particular sector. We don't believe that this was a trend or an indication of generic slow-down in the business. In fact our pipeline is strong and we are looking forward to a very good second half for FY15.

While these timing differences had a very short-term impact on earnings, the key drivers of the business remain strong. It is important to remember that client rates and staff costs are in line with expectations, and that we have a well-diversified client base, leveraging the various parts of our business.

With most of the deferred projects now commenced, we are confident in our pipeline and ability to execute projects going forward and continue growing the business in a sustainable and value accretive way.

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Are you able to update us on the status of the deferred projects, and the likelihood of their commencement in the second half of FY15?

Ross Fielding

As I mentioned earlier, it is pleasing to see that, as we expected, most of the deferred projects have commenced whilst at the same time new client projects have been won and kicked off.

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Given you have been hiring staff ahead of the curve, how did these deferrals impact your utilisation and intentions for future hiring?

Ross Fielding

Whilst in the past we have aggressively hired ahead of the curve, in this case it was a little different in that we actually hired to the expected curve. The curve just unfortunately shifted.

It was important for us to hire to the expected curve to ensure we had the right people available to support our clients in what was agreed work whilst still having the capacity to undertake the other larger projects that RXP had been winning. Unfortunately, the project deferrals meant that utilisation rates were significantly down in the second quarter of the 2015 financial year and as a result impacted short term earnings seen in the first half results.

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Can you comment on the outlook for the rest of the 2015 financial year and beyond?

Ross Fielding

As I mentioned in our results release today, we are expecting to deliver FY15 revenue in the range of \$75 million to \$80 million, and underlying EBIT of between \$9 million to \$11 million.

We have a strong pipeline of work for the second half. With most of the deferred projects having commenced, combined with other new client wins, we expect to see, as we have in past years, a strong second half in FY15.

In addition, we expect to start seeing the benefits of the range of “as a service” offerings beginning to come through in the later part of FY15, with a number of “proof of concept” projects already underway in this area.

We continue to operate with key clients across a range of industries including Financial Services, Health, Education, Government and Utilities. This diversification stands us in good stead to maintain our strong pipeline of projects throughout the economic cycles.

The projects we are undertaking have been increasing in scale, and have been increasing in terms of the teams of people involved across the areas of specialisation in our business. This trend is reflective of the successful integration of the acquired businesses, our winning culture and the way we operate as a team.

Despite the short term impact on earnings in the first half as a result of the deferred projects, we continue to remain upbeat about the outlook for RXP and the growth opportunities available to the company. We have a talented and committed team, a very healthy balance sheet with no debt, and are continuing to win new projects.

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Thank you, Ross.

For further information, please contact Ross Fielding, RXP Services CEO on +61 3 8630 5800, info@rxpservices.com

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