3P Learning

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ASX ANNOUNCEMENT

20 November 2020

Receipt of non-binding indicative proposal from Blake eLearning Pty Ltd

3P Learning Limited ("**3PL**") announces that it has received the attached correspondence from its largest shareholder, Viburnum Funds Pty Ltd ("**Viburnum**"), in relation to a unsolicited proposal from Blake eLearning Pty Ltd ("**Blake**") in relation to a potential merger between Blake and 3PL ("**Indicative Merger Proposal**").

A copy of the Indicative Merger Proposal is attached to this announcement.

The Board of 3PL will immediately review and assess the Indicative Merger Proposal, consistent with its obligations under the Scheme Implementation Agreement with IXL Learning, Inc. and IXL Australia Pty Ltd (**"IXL**") announced on 14 August 2020.

The Company will update the market as soon as it has additional information to share with investors.

This announcement has been authorised for release by the Chairman of 3PL.

For further information, please contact:

3P Investor Relations	Sam Weiss
investors@3plearning.com	sam.weiss@3plearning.com

Viburnum Funds Pty Ltd
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NEDLANDS, WA 6009
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20 November 2020

Mr Sam Weiss
Chairman
3P Learning Limited
L18/124 Walker Street
NORTH SYDNEY, NSW 2060

Dear Sam,

Viburnum Funds ("**Viburnum**" or "**we**") is the largest shareholder of 3P Learning Limited ("**3PL**") with an ownership stake of 25%. We are writing to inform you that we have voted **against** the proposed acquisition of 3PL by IXL Learning, Inc. ("**IXL**") by way of a scheme of arrangement for $1.35 per share.

Notwithstanding the revised indicative proposal received from BYJU'S at $1.50 per share on 17th November 2020, we believe an alternative pathway is available that will see substantially more value delivered to 3PL shareholders. This involves 3PL remaining publicly listed and undertaking a transformational combination with Blake eLearning Pty Ltd ("**Blake**"). Blake is a high margin, fast growing and highly complementary edTech business. Blake is well known to 3PL through its existing distribution arrangements for Blake's Reading Eggs and Mathseeds products. The combined business would be expected to generate over $110 million[1] in pro forma revenue and ~$38[2] million of pro forma EBIT for FY21. If 3PL's capitalisation policy is applied to the combined company this would result in ~$56[2] million of pro forma EBITDA.

Viburnum has held discussions with Blake's shareholders in relation to a possible combination of Blake and 3PL and has facilitated the making of a proposal by Blake's shareholders which, subject to due diligence, we think is highly attractive for 3PL and its shareholders. In Appendix 1, we have attached a letter we received from Blake's shareholders, which confirms their:

- desire to have the 3PL Board consider a combination on terms outlined in the term sheet attached to their letter; and
- agreement to an exclusive period of negotiation with 3PL to agree definitive documentation for the proposed combination.

Whilst we understand the 3PL Board's fiduciary duties will require it to consider the BYJU'S indicative proposal and any subsequent offers, we believe a transaction with Blake will realise the most value for 3PL and its shareholders over time. **Our analysis of peer group multiples indicates a combination with Blake has the potential to immediately re-rate 3PL's share price to an estimated indicative range of $2.36 – 3.22, being 1.8 – 2.4x IXL's offer[3].**

[1] Based on Morgan Stanley's FY21 revenue estimate for 3PL of $72.5 million (see 16 August 2020 report) and Blake's FY21 budget revenue of $41.0 million.
[2] Based on Morgan Stanley's FY21 EBITDA and EBIT for 3PL of $27.1 million and $16.7 million (see 16 August 2020 report), mid-point of Blake's estimated FY21 EBIT range of $10-12 million and Viburnum's estimated synergies of $10 million. Blake EBITDA of $19.3 million has been adjusted to reflect a similar R&D capitalisation policy as 3PL (76% of R&D costs in FY20). Earnings exclude any one-off costs associated with achieving the cost synergies outlined below.
[3] Based on Viburnum's analysis of similar publicly listed businesses, refer to Page 4 of this letter for assumptions supporting our analysis.

Below we have provided additional background on Blake, summarised the terms proposed by Blake and outlined the compelling rationale for a combination of the two businesses.

About Blake eLearning Pty Ltd

Blake is a high growth Australian publisher of online educational products for children of all ages. Blake's core literacy product, Reading Eggs was launched in 2008 and is used by 3.4 million users in 169 countries. In addition, Blake owns several other high growth products, including Mathseeds, Reading Eggspress, Word Flyers and Fast Phonics. Blake's strong presence in the direct-to-consumer market (approximately 2/3rd of revenue) is complemented by their distribution arrangements with 3PL into the Australian and numerous international school markets. Blake's products have been a significant contributor to 3PL's revenue growth in recent years.

Blake has a strong 12-year track record of developing high quality educational products that resonate with children and are effective in enhancing learning. Over the past 3 years Blake's revenue has grown at close to 30% per annum and Blake has demonstrated the ability to operate profitably (EBIT margins well above 20%) along with high levels of cash conversion. For the year ending 30 June 2021, Blake is expected to deliver revenues of approximately $41 million and EBIT of $10-12 million (after expensing $10-12 million of R&D costs).

Summary of Proposed Terms

The table below summarises the key terms proposed by Blake in relation to a combination with 3PL. A more detailed term sheet is attached to this letter.

Purchase price	Purchase price of $188 million for 100% of the shares in Blake
Consideration	▪ 90% of the purchase price ($169.2 million) to be satisfied in 3PL scrip ▪ Remaining 10% of the purchase price to be paid in cash ($18.8 million)
3PL scrip valuation	3PL scrip issued as consideration to be valued at $1.35 per share (i.e. the same value as the offer under the IXL scheme)
3PL scrip issuance	Approximately 125.3 million shares will be issued to the shareholders in Blake representing approximately 47% of the combined entity (subject to 3PL shareholder approval)
Board composition	▪ Blake founder Matthew Sandblom to be appointed Executive Chairman following completion ▪ Other Board changes as outlined in the attached term sheet
Exclusivity	Blake's shareholders have agreed to negotiate exclusively with 3PL until 31 March 2021 Exclusivity will end if: ▪ 3PL's Board does not meet with the Blake shareholders within 10 business days of the date of this letter ▪ 3PL does not provide the Blake shareholders data room access within 4 weeks of the above meeting ▪ any data room access provided is subsequently withdrawn by 3PL ▪ 3PL's Board terminates negotiations ▪ 3PL undergoes, or enters into a binding agreement to undergo, a change of control transaction with another party

Combination Rationale

We believe Blake is the most complementary asset to 3PL in the global education software industry. The proposed combination has several significant highlights for investors:

1. **Immediately creates a scale education software business**
   - The combined business is expected to generate over $110 million[4] in pro forma revenue and ~$38[5] million of pro forma EBIT for FY21. If 3PL's capitalisation policy is applied to the combined business this would result in ~$56[5] million of pro forma EBITDA
   - At a price of $1.35 per share the business would have a pro forma market capitalisation of ~$360 million significantly enhancing broader capital market appeal, and the potential to re-rate in line with peer multiples

2. **Returns 3PL to a growth trajectory**
   - Growth would be underpinned by a continuation of Blake's track record of high revenue growth
   - Full IP ownership of all key products and full alignment through all distribution channels enhances the ability to develop existing international markets (e.g. Canada) and win additional enterprise contracts

3. **Highly complementary asset bases**
   - 3PL's strong incumbent position in the school market would be complemented by Blake's strong product development platform and position and expertise in the direct-to-consumer market
   - 3PL's strength in mathematics would be complemented by Blake's strength in literacy – the two key spend categories for K-12 edTech

4. **Opportunity for material cost synergies and improved cash conversion**
   - Viburnum estimates the cost savings in the combined business to be at least $10 million per annum
   - Estimated savings result from high levels of overlap and duplication in product development, content development and general and administrative expenses

5. **Presence of a highly aligned owner-operator on the 3PL board post-merger**
   - Blake's shareholders' confidence in the outlook for the combined entity is underscored by their willingness to accept 90% of the consideration in 3PL scrip at $1.35 per share
   - Executive Chairman Matthew Sandblom and associated interests would own ~47% of the combined entity
   - Matthew brings considerable experience in the edTech industry as well as familiarity with both the Blake business and 3PL's core product, having been instrumental to the creation of Mathletics. Matthew would be heavily involved in the integration of the two businesses

Ultimately, we believe the combined entity would compare favourably to listed software peers globally given expected:

- quality business attributes including high customer retention and a diversified customer base;
- sustained double digit revenue growth potential based on industry tailwinds, growth in multiple products and markets and large addressable markets;
- high EBIT margins (>30%); and
- high levels of cash conversion.

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[4] Based on Morgan Stanley's FY21 revenue estimate for 3PL of $72.5 million (see 16 August 2020 report) and Blake's FY21 budget revenue of $41.0 million

[5] Based on Morgan Stanley's FY21 EBITDA and EBIT for 3PL of $27.1 million and $16.7 million (see 16 August 2020 report), mid-point of Blake's estimated FY21 EBIT range of $10-12 million and Viburnum's estimated synergies of $10 million. Blake EBITDA of $19.3 million has been adjusted to reflect a similar R&D capitalisation policy as 3PL (76% of R&D costs in FY20). Earnings exclude any one-off costs associated with achieving the cost synergies outlined below.

Given the above, we believe the combined business should see a significant "Day One" re-rating to at least the trading multiples of its broader Australia & New Zealand listed SaaS and software peer group. 3PL shareholders will also have an opportunity to share in potential "Day Two" value upside as the businesses are integrated and the combined business pursues growth. The following table details our estimate of an indicative range for a "Day One" re-rating based on peer multiples and yields a **share price that is 1.8 – 2.4x the IXL offer price of $1.35**.

		Ex. MoE contract[6]			Inc. MoE contract		
		Revenue multiple	**EBITDA multiple**	**EBIT multiple**	**Revenue multiple**	**EBITDA multiple**	**EBIT multiple**
Pro forma FY21 combined	A$m	100	48	29	114	56	38
Peer multiple[7]	x	6.2	14.0	22.4	6.2	14.0	22.4
Implied enterprise value	**A$m**	**618**	**670**	**652**	**705**	**790**	**844**
Less: pro forma net debt/(cash)[8]	A$m	(8)	(8)	(8)	(8)	(8)	(8)
Equity value	**A$m**	**626**	**678**	**660**	**713**	**798**	**853**
Pro forma shares outstanding[9]	#	265	265	265	265	265	265
Indicative "Day 1" share price range	**A$ p.s.**	**2.36**	**2.56**	**2.49**	**2.69**	**3.01**	**3.22**
IXL offer price	*A$ p.s.*	*1.35*	*1.35*	*1.35*	*1.35*	*1.35*	*1.35*
Multiple of IXL offer price		1.8x	1.9x	1.9x	2.0x	2.2x	2.4x

Next Steps

Given the attractiveness of the combination, it is our desire as 3PL's largest shareholder that the 3PL Board take this opportunity forward by engaging directly with Blake's shareholders, promptly facilitating a due diligence process and the negotiation of definitive transaction documentation.

We also request Board changes involving the appointment of myself as a representative of Viburnum and an additional independent director be made as soon as practically possible to help facilitate consideration of this transaction.

The work done by Viburnum to facilitate this alternative pathway is to the benefit of all 3PL shareholders. We will seek re-imbursement from 3PL for reasonable out-of-pocket costs incurred in relation to the Blake letter and term sheet.

Importantly, notwithstanding the fact that Viburnum has assisted in the presentation of this proposal to the 3PL Board, it will ultimately require a shareholder vote along with the necessary disclosure. We would act independently and in our own interests in reviewing the terms of the then proposed transaction at that stage.

Regards,

Craig Coleman
Managing Partner

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[6] Analysis excludes the estimated revenue, EBITDA and EBIT impact of the MoE contract announced in June 2020 per Morgan Stanley's 28 June 2020 report to reflect uncertainty over the renewal potential of the contract.

[7] As at 13th November 2020 per Capital IQ. Median NTM revenue multiple of 6.2x for 26 ASX and NZX listed SaaS and software businesses. Median NTM EBITDA multiple of 14.0x for 14 ASX and NZX listed SaaS and software businesses where a meaningful NTM EBITDA forecast was available. Median NTM EBIT multiple of 22.4x for 10 ASX and NZX listed SaaS and software businesses where a meaningful NTM EBIT forecast was available.

[8] Based on 3PL net cash of $27.1 million (last reported as at 30 June 2020) less $18.8 million of cash consideration paid out to Blake shareholders.

[9] Based on issuance of 125.3 million shares to Blake shareholders per the proposed combination terms.

APPENDIX 1

BLAKE LETTER AND TERM SHEET FOR THE PROPOSED TRANSACTION

20 November 2020

Viburnum Funds Pty Ltd
31 Carrington Street
Nedlands WA 6009

Attention: Craig Coleman

Email: craig@viburnumfunds.com.au

Dear Craig,

Blake eLearning Pty Ltd opportunity

In our capacity as the owners of Blake eLearning Pty Ltd (**Blake**), we wish to confirm that we are interested in participating in a transaction whereby 3P Learning Limited (**3PL**) would acquire 100% of the shares in Blake in exchange for cash and scrip in 3PL (**Proposed Transaction**).

We have discussed the possibility of pursuing the Proposed Transaction on the terms of the term sheet attached to this letter (**Term Sheet**).

You have indicated that, as the largest shareholder in 3PL, you are prepared to facilitate the submission of our proposal to the board of 3PL and indicate to the board that you support the consideration of the Proposed Transaction by the board of 3PL.

In consideration of your undertaking to support the 3PL board's consideration of the Proposed Transaction, we each undertake (in our capacity as the owners of Blake) from the date of this letter until 31 March 2021 (**Exclusivity Period**), that we will, and we will procure Blake, our respective officers, employees and advisors to:

- not permit access to or make available any non-public information in relation to Blake or any of its subsidiaries or business to;
- not directly or indirectly, continue, engage or participate in any discussions with, deal or negotiate with, or solicit offers or expressions of interest from; or
- not enter into, or agree to enter into, any agreement, arrangement or understanding or take any actions to facilitate an agreement, arrangement or understanding,

with any person other than Viburnum Funds Pty Ltd or 3PL and their respective officers, employees and advisors with respect to the sale of the shares in Blake or in any subsidiary of Blake or the sale or other direct or indirect dealing in respect to the business of Blake and its subsidiaries.

The Exclusivity Period will terminate if, prior to 31 March 2021:

1. 3PL's board (or a sub-committee of the 3PL board) fails to make itself available to meet with us within 10 business days of the date of this letter to discuss the Proposed Transaction (**Initial Meeting**);

2. 3PL does not provided us with access to a data room within 4 weeks of the Initial Meeting;

3. if dataroom access is granted as described above and such access is subsequently withdrawn at the direction of 3PL;

4. 3PL's board notifies us in writing that it is terminating negotiations with us in relation to the Proposed Transaction; or

5. 3PL undergoes a change of control or 3PL enters into a binding agreement to undergo a change of control transaction.

You have advised us, and we confirm, that you are unable to give any undertaking and we have no understanding as to the voting of your shares at the 3PL scheme meeting on 20 November 2020 or any 3PL shareholder meeting convened by the board to consider a transaction between us and 3PL in relation to Blake.

This letter is signed as a deed poll in favour of you and is legally binding on us.

Yours sincerely

Matthew Sandblom
Director
Blake eLearning Pty Ltd
and
Sole director
Pascal Educational Services Pty Ltd as trustee for each of the Blake Sandblom Trust and BEL Unit Trust

Yours sincerely

Katherine Pike
Director
Blake eLearning Pty Ltd
and
Sole Director
KPIT Pty Ltd as trustee for KP Investment Trust

APPENDIX 1

TERM SHEET FOR THE PROPOSED TRANSACTION

TERM SHEET – PROPOSED PURCHASE OF 100% OF BLAKE BY 3PL

Background	• Pascal Educational Services Pty Ltd as trustee for the Blake Sandblom Trust and the BEL Unit Trust, and KPIT Pty Ltd as trustee for the KP Investment Trust (together the **Sellers**) own 100% of the shares in the capital of Blake eLearning Pty Ltd (**Blake**). • The Sellers wish to negotiate a proposed transaction under which 3P Learning Limited ACN 606 520 192 (**3PL**) (or one of its wholly owned subsidiaries) would acquire all of the shares of Blake materially on the terms set out in the term sheet (**Proposed Transaction**). • This term sheet sets out the basis on which the Sellers are prepared to proceed with the Proposed Transaction, subject to negotiation with 3PL (acting reasonably).
Proposed Transaction	3PL to acquire 100% of the issued share capital in Blake from the Sellers (**Proposed Transaction**).
Formal agreement	The parties will use best endeavours to enter into a formal legally binding agreement containing detailed provisions reflecting the basic commercial terms in this term sheet and other provisions that are mutually acceptable to the Sellers and 3PL (**Share Sale Agreement**) on or before 31 January 2021.
Purchase price	The purchase price will be A$188 million, subject to completion account adjustments. The purchase price (before adjustments) will be satisfied: • 10% in cash of A$18.8 million (**Cash Consideration**); and • 90% in 3PL shares, being A$169.2 million of shares in 3PL (**Scrip Consideration**). The number of 3PL shares making up the Scrip Consideration will be determined based on a price of $1.35 per ordinary 3PL share, being 125.3 million ordinary 3PL shares. 3PL shareholder approval will be required under ASX Listing Rule 7.1 for 3PL to issue the Scrip Consideration. The Sellers will enter into a voluntary escrow in respect of their Scrip Consideration for a period of 18 months from completion under the Share Sale Agreement. Any completion adjustments to the purchase price will be made against the Cash Consideration.
Conditions	The Share Sale Agreement will be subject to customary conditions, including: • completion of financial, technical and legal due diligence on Blake to the reasonable satisfaction of 3PL; • completion of financial, technical and legal due diligence on 3PL to the reasonable satisfaction of the Sellers; and • 3PL shareholder approval as required under the ASX Listing Rules.

Due diligence by 3PL	In order to confirm the proposed purchase price and terms, 3PL will require access to the Sellers and Blake's management and management information. The Sellers will us best endeavours to make the due diligence materials requested by 3PL available as soon as practicable following the date of the letter to which this term sheet is attached.
Period before signing of a Share Sale Agreement	From the date of the letter to which this term sheet is attached, until a Share Sale Agreement is signed (or both parties elect not to pursue the Proposed Transaction): • the Sellers must ensure that Blake's business; and • 3PL must ensure that its business, is conducted in the ordinary course of ordinary business.
Executive chairman and board composition following completion	On completion under the Share Sale Agreement, Matthew Sandblom will be appointed as the executive chairman of 3PL (on terms to be agreed between Matthew Sandblom and 3PL). Following completion under the Share Sale Agreement, the board of 3PL will be constituted by: • 2 of the current directors of 3PL (to be determined) • Matthew Sandblom (as executive chairman) • Craig Coleman (as a nominee of 3PL's shareholder Viburnum Funds) • a new independent director (whose identity is to be agreed)
Warranties and liability regime	The Seller will provide warranties and indemnities as are usual in similar transactions and are reasonably required by 3PL. Given the relatively small percentage of Cash Consideration (as compared to the Scrip Consideration) and the ongoing relationship between the Sellers and 3PL, the parties will look to 3PL obtaining buy-side W&I insurance in respect of the Sellers' warranties and indemnities and for such insurance to be its sole recourse (other than title warranties above the limit of liability of the W&I insurance policy). 3PL, as the issuer of the Scrip Consideration, will provide warranties and indemnities as are usual in similar transactions and are reasonably required by the Sellers.
Governing Law	The Share Sale Agreement and other Transaction Documents will be governed by the laws of NSW, Australia.
Expenses	Each Party is to bear its own expenses incurred in preparing and negotiating this document and other Transaction Documents.
Indicative Timetable	

Date	*Details*
19 Dec 2020	• Blake prepare and populate virtual data room for due diligence • 3PL and Blake enter into NDA and process deed

	31 Jan 2021	Due diligence completed and execute Share Sale Agreement
	8 Feb 2021	3PL despatches Notice of Meeting
	8 March 2021	3PL shareholder meeting
	22 March 2021	Completion