3P Learning

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ASX ANNOUNCEMENT

12 April 2021

3PL TO MERGE WITH BLAKE TO CREATE A LEADING EDTECH PLATFORM

- **3P Learning Limited ("3PL") to merge with Blake eLearning Pty Ltd ("Blake") ("Merger") by acquiring 100% of Blake from 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, "Sellers") to create a leading EdTech platform ("MergeCo")**
- **Blake is a privately owned, Australian-headquartered, global provider of online education products focused on pre-K to year 10 students, offering a broad range of literacy and numeracy products with a growing presence in the direct-to-consumer market**
- **The Merger will create a large scale, high growth, global EdTech platform with ownership of a comprehensive product suite and diversified channel mix**
- **3PL and Blake have identified significant synergies and strategic cost efficiencies of between \$7.5m - \$12.5m[1] per annum**
- **MergeCo will have pro forma CY20 revenue of \$100.5 million and pro forma CY EBIT of \$20.8 million (including annualised synergies and strategic cost efficiencies[2])**
- **3PL will issue 137.0 million shares to the Sellers, representing 49.6% of the merged company's issued securities[3]**
- **The Merger is expected to be approximately 279% earnings per share ("EPS") accretive on a pro forma CY20 basis[4]**
- **The Merger is subject to shareholder approval by ordinary resolution (>50%) at a general meeting ("Meeting") expected to take place in mid-to-**

[1] Based on accounts of 3PL and Blake for the last twelve months to 31 December 2020, which in respect of Blake are not audited and in respect of 3PL are audited to 30 June 2020 and reviewed for the 6 months to 31 December 2020.
[2] Assumes the mid-point (\$10.0m) of the identified synergies and strategic cost efficiencies range.
[3] Based on 3PL's current basic shares on issue of 139.5 million shares.
[4] EPS accretion calculated on a pro forma basis and excluding any revenue synergies. The pro forma CY20 calculation includes a full year contribution from both 3PL and Blake as if the Merger had occurred prior to 1 January 2020 and is based on diluted SOI of 140.1m shares, which assumes 0.6m of the 0.9m employee share rights will vest as a result of 100% of the target incentive being awarded under 3PL's FY20 and FY21 LTI plans with the remaining rights to lapse. However, if 3PL's performance levels warrant 150% of the target being awarded, the additional 0.3m employee share rights will also vest. 3PL has an additional 3.6m employee options outstanding exercisable at a price of \$1.75 per option which are excluded from the diluted share calculation.

late May

- **The Board unanimously recommends that 3PL shareholders vote in favour of the Merger, in the absence of a superior proposal and subject to an Independent Expert concluding the Merger is fair and reasonable or not fair, but reasonable**

Overview

3P Learning Limited (ASX:3PL) announces that it has entered into a Share Sale Agreement dated 9 April 2021 with the Sellers, under which it is proposed that 3PL will acquire 100% of the equity in Blake in exchange for issuing 137.0 million shares in 3PL, which implies a purchase price of $185m assuming a $1.35 issue price and represents 49.55% of the MergeCo share register based on 3PL's current issued share capital[5].

About Blake

Blake is a privately owned and Australian headquartered publisher of online education products focused on pre-K to year 10 students. Blake was launched in 2009 with its breakthrough reading app, Reading Eggs, which currently has users in over 100 countries and develops, markets and sells branded EdTech websites and associated digital products. Blake's main products focus on the most essential academic skills such as literacy (Reading Eggs) and numeracy (Mathseeds) that use Blake's "better ways to learn" approach to engage students and support teachers.

Blake's products are marketed directly to parents in the (B2C) channel and distributed in the schools (B2B) channel through partners such as 3PL (including in Australia, New Zealand and the UK) and Edmentum (in the United States and Canada). With over 100 full time employees, and offices located in Australia, US, UK and China, Blake services c.320k student subscribers each month through its B2C channel.

Blake has a strong track record of growth, growing topline at a 35% CAGR from FY18 to CY20 and EBIT at a CAGR of c.260% over the same time period. Blake has delivered $40.4m of revenue and $11.9m of EBIT in CY20.

Strategic and financial rationale for the Merger

The Merger immediately creates a leading, global EdTech platform.

Commenting on the Merger, Sam Weiss, the Chairman of 3PL said, "The proposed merger provides an opportunity to unite two complementary businesses with a long-standing relationship which, if approved, should propel 3PL's current growth trajectory and broaden its customer reach."

The strategic rationale for the Merger includes:

- **Creates a large scale EdTech platform**: Creates a scale EdTech business with MergeCo CY20PF revenue of $100.5m and CY20PF EBIT of $20.8m
- **Enhances growth trajectory**: 3PL's strength in numeracy is complemented by Blake's strength in literacy (the two key spend categories for K-12 EdTech) which will enable

[5] Based on basic shares on issue of 139.5m. As a result of the Merger, the Sellers together with their associates will have a relevant interest in 49.63% of 3PL shares based on 3PL's current issued share capital.

further penetration in existing and new markets

- **Ownership of complementary customer offering with broader geographic, channel and curriculum mix:** 3PL's strong incumbent position in the school market is complemented by Blake's capability in the high growth direct-to-consumer market, allowing MergeCo to reach all channels. In addition, MergeCo will have full control of the intellectual property rights in its key products Reading Eggs and Mathseeds, resulting in a comprehensive product offering across subjects and student year groups

- **Generates significant synergies and strategic cost efficiencies:** 3PL and Blake have identified efficiencies ($7.5m - $12.5m annually) across a range of cost categories focused on product rationalisation and simplification of business processes. There is also potential for additional revenue synergies across the combined product suite through cross-sell and new business opportunities. These revenue benefits are yet to be quantified

- **Experienced Board and Management:** Complementary combination of 3PL and Blake senior leadership team, including the appointment of Matthew Sandblom as Non-Executive Chairman of MergeCo (who has considerable experience in EdTech and familiarity with the 3PL and Blake businesses)

Proposed changes to the management and Board as a result of the Merger

On completion, Jose Palmero will serve as interim CEO. Following completion of the integration of the businesses, the Board of MergeCo will consider whether to retain Mr Palmero as CEO or undertake a search to appoint a new CEO.

Following completion, the MergeCo Board of Directors will comprise:

- Non-Executive Chairman: Matthew Sandblom, founder and current Executive Chairman of Blake;

- Sam Weiss, current Chairman of 3PL;

- Claire Hatton, current director of 3PL; and

- Mark Lamont, current director of 3PL.

On completion of the Merger, Roger Amos will resign as a director of 3PL.

The Sellers, together with their associates, who on completion of the Merger will have an aggregate voting power in respect of 137.2m 3PL shares (representing approximately 49.6% of the issued capital of 3PL[6]), have confirmed to the directors of 3PL that from completion of the Merger until the completion of 3PL's first annual general meeting after completion of the Merger they will vote, or procure the vote of, those shares to procure that the MergeCo Board will be constituted by a majority of independent directors.

Implementation of the Merger

To give effect to the Merger, 3PL and the Sellers have entered into a share sale agreement ("the SSA"). The key terms of the SSA, including the conditions precedent and 3PL's exclusivity undertakings, are set out in Annexure A.

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[6] Based on basic shares on issue of 139.5m.

An Independent Expert has been appointed by 3PL to opine on whether the Merger is fair and reasonable to 3PL shareholders.

The Board unanimously recommends that 3PL shareholders vote in favour of the Merger, in the absence of a superior proposal and subject to an Independent Expert concluding that the Merger is fair and reasonable or not fair, but reasonable.

Indicative transaction timetable

3PL shareholders do not need to take any action at this time.

The Merger is subject to shareholder approval by ordinary resolution (>50%) at the Meeting scheduled to take place in May 2021.

A Notice of Meeting and Explanatory Statement, which will include an Independent Expert's report, will be sent to shareholders in mid-to-late April.

A high level summary of the proposed Merger timetable is outlined below:

Key Event	Expected Date (2021)
Distribution of Explanatory Statement and Notice of Meeting	Mid-to-late April[7]
Meeting and shareholder vote	Mid-to-late May
Transaction completes	Late May[8]

Risks associated with the Merger

The Merger is subject to a number of risks which will be set out in the Explanatory Statement accompanying the Notice of Meeting. A summary of these risks is set out in the investor presentation released to the ASX today.

3PL Trading Update

3PL provides the following update on its business operations for the period ended 31 March 2021 (Q3-FY21) and conditions for the remainder of FY21.

Expectations for licence revenue and EBITDA growth by region remain consistent with those contained in our outlook statement as at the 1H results announcement on 21 February 2021 (excluding any impacts from the timing of delivery of ME MOE).

APAC: We exited the key back to school selling season in ANZ and maintained our strong school retention rates despite the first wave of COVID-19 enhancing pcp demand.

EMEA: We saw pleasing growth during Q3-FY21 with retention rates and new business in the UK business improving from pcp. The impact of the vaccination rollout, particularly in the UK market, creates future market uncertainty. The timing of the delivery of the ME MOE contract remains uncertain due to the impacts of COVID-19, however we continue to have engagement with the ME MOE and expect services will be delivered in FY21 and FY22 after cash is received.

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[7] Subject to review by ASX.
[8] Subject to 3PL shareholder approval and satisfaction or waiver of conditions precedent under the Share Sale Agreement.

AMER: Although COVID-19 has generated uncertainty in the market and to school funding, the key selling period of Q4-FY21 will be supported by substantial USA COVID-19 relief funding directed towards K-12 schooling which has occurred since December 2020.

Further information

Shareholders are advised to refer to the investor presentation released to the ASX for further details of the Merger. It is proposed that the Notice of Meeting, together with the Explanatory Statement, will be available in mid-to-late April.

Allier Capital is acting as financial advisor and Gadens is acting as legal advisor to 3PL. Blake's financial advisor is Jacanda Capital and its legal advisor is Holding Redlich.

-ENDS-

This announcement has been authorised for release to the ASX by the Board of Directors of 3PL.

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Annexure A: Key Terms of the SSA

3PL, the Sellers and Matthew Sandblom, Jose Palmero and Katherine Pike (**Covenantors**) entered into the Share Sale Agreement (**SSA**) on 9 April 2021. The SSA sets out the obligations of the parties in connection with the Merger, including conditions precedent to completion and certain other contemplated arrangements if the Merger is approved and completed.

The table below summarises certain key terms of the SSA. A more detailed summary will be included in the Explanatory Statement accompanying the Notice of Meeting that will be sent to 3PL shareholders in due course.

Background	Under the terms of the SSA, 3PL has agreed to acquire all shares in Blake from the Sellers for $185 million on a cash-free, debt-free basis (**Purchase Price**). The Purchase Price is to be satisfied through the issue of 137m 3PL shares (with a deemed issue price of $1.35 per 3PL share) to the Sellers on completion of the Merger and is subject to a customary post-completion working capital and net debt adjustment which will be settled in cash.
Conditions precedent	Completion under the SSA is subject to the following conditions precedent being satisfied or waived: • 3PL obtaining all shareholder and regulatory approvals required in relation to the Merger; • the Sellers completing a restructure of the Blake group in accordance with the agreed documents and steps; • no regulatory intervention; • the Independent Expert concluding that the Merger is fair and reasonable or not fair, but reasonable and not publicly withdrawing, qualifying or changing its opinion; • the 15% minority shareholder in Blake China (a subsidiary of Blake) consenting to the Merger; • no material adverse change having occurred in relation to the Blake group or the 3PL group prior to completion; • certain prescribed events not occurring in relation to 3PL; and • Jose Palmero entering into an employment agreement with the 3PL group as interim CEO of MergeCo. Unless otherwise agreed by the parties, the cut-off date for satisfaction or waiver of the above conditions precedent is 9 October 2021. If the conditions precedent are not satisfied or waived by this date, either party may terminate the SSA.
Other termination rights	In addition to termination for non-fulfilment of the conditions precedent (as described above), the SSA may be terminated if: • a party fails to complete when required to do so and cannot complete within a further 5 business days; • certain insolvency events occur in relation to a party or, in the case the Sellers, a member of the Blake group; and • in the case of 3PL, the Board determines that a competing proposal (not solicited, invited, encouraged or initiated in breach of the no-shop restriction) is a superior proposal.

Restructure	The Sellers have undertaken to complete a restructure of the Blake business and entities in preparation for the acquisition of Blake by 3PL. This includes ensuring that all intellectual property rights are held, and employees required to operate the Blake business are employed, by the Blake group. The restructure is a condition precedent to and will be undertaken at the Sellers' expense.
Exclusivity	The SSA provides that 3PL is subject to certain exclusivity obligations during the period from signing until the earlier of the termination of the SSA or completion of the Merger. These are: • **'no shop' obligation**: 3PL must not solicit, encourage or initiate a competing proposal; • **'no talk' obligation:** 3PL must not participate in any discussions or negotiations about, or which may reasonably lead to, a competing proposal; • **'no due diligence' obligation:** 3PL must not provide, or make available, non-public information regarding 3PL (including due diligence information) to a third party for the purpose of formulating, developing or finalising a competing proposal; • **notification obligation:** 3PL is required to notify the Sellers within 48 hours of receiving any competing proposal with such notification to contain the material terms of the competing proposal, including, if known, the identity of the rival acquirer; • **fiduciary out:** If, after taking financial and legal advice, the Board determines that a competing proposal is, or could reasonably become, a superior proposal and complying with the no talk or no due diligence restrictions or the notification obligation would be reasonably likely to constitute a breach of the fiduciary or statutory duties owed by the Board, it need not do so, and in those circumstances 3PL would be permitted to respond to any competing proposal or refrain from notifying the Sellers of any competing proposal; and • **matching right:** If the Board determines that a competing proposal is a superior proposal, it must not enter into any agreement in relation to the competing proposal unless it gives the Sellers 3 business days to provide a counter-proposal (**Matching Right Period**) and the Matching Right Period passes without the Board receiving a counter-proposal, or the Board receives a counter-proposal but does not consider it provides an equivalent or superior outcome.
Voluntary escrow	The Sellers will enter into voluntary escrow arrangements in respect of 90% of the consideration shares received until the release of 3PL's FY22 results.
Standstill	The Sellers have agreed to a standstill to not acquire any additional 3PL shares for a period of 12 months from completion subject to customary exceptions.
Period before completion	The Blake business must be conducted in a usual and prudent manner (having regard to past practice) and, in particular, any member of the Blake group must not do or agree to do certain specified actions, except as expressly permitted by the SSA or as consented to by 3PL.

Restrictive covenants	The Covenantors have provided certain non-compete and non-solicitation undertakings. These undertakings apply during any period in which the Sellers' aggregate voting power in 3PL is 20% or more and for up to 3 years thereafter. The Covenantors and entities associated with them are engaged in various online education ventures which will not form part of MergeCo. Subject to certain conditions, these pre-existing interests are an exception to the restraint. Corporate governance and fiduciary obligations will apply, and information sharing protocols will be established, to mitigate any conflicts which may arise in relation to these interests. Further disclosure on the nature of these interests, and the associated risks posed to MergeCo, will be included in the Notice of Meeting and Explanatory Statement. From the date of the Share Sale Agreement until the earlier of (i) the date the Sellers aggregate voting power in 3PL is less than 20%; or (ii) if completion does not occur, the termination of the Share Sale Agreement, the Sellers and the Covenantors have undertaken to 3PL that where they propose to actively be involved in the creation or development of any new ed-tech product (**New Ed-Tech Opportunity**) they will do all things necessary to ensure that the New Ed-Tech Opportunity is developed through 3PL or an entity within the 3PL group.
Excel Test Zone	In connection with the Share Sale Agreement, 3PL will be granted an option to acquire the assets required to operate the Excel Test Zone business, being a test preparation and practice website conducted by an entity associated with the Sellers, Matthew Sandblom and Jose Palmero. In addition to the option, 3PL has a first right of refusal if a third party makes an offer to buy the assets required to operate Excel Test Zone
Warranties and indemnities	The SSA contains customary warranties and indemnities for a transaction of this nature. 3PL has obtained buy-side warranty and indemnity insurance (**W&I Insurance**). The W&I Insurance covers 3PL in respect of a breach by the Sellers of certain warranties and certain indemnities provided to 3PL under the SSA. On the basis that 3PL is a disclosing entity, it has provided a limited set of warranties to the Sellers. Broadly reciprocal limitations of liability apply in relation to claims made by the Sellers in relation to the warranties provided by 3PL.