



Keypath Education International, Inc.
ARBN: 649 711 026
ASX code: KED
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ASX Announcement

October 26, 2022

Q1 FY23 (September 30, 2022) Activity Report and Appendix 4C

[Keypath Education International, Inc.](#) (Keypath or the Company) (ASX: KED) today released its Quarterly Activity Report and Appendix 4C – Quarterly Cash Flow Report for the quarter ended September 30, 2022 (Q1 FY23). The Appendix 4C is prepared in US dollars (the Company's functional and presentation currency) under US GAAP and is unaudited. Similarly, any financial measures presented in the Quarterly Activity Report are unaudited.

Highlights of Q1 FY23

- **Revenue growth aligned with FY23 full-year guidance**
 - Q1 FY23 revenue of US\$31.4 million, 3.4% higher than Q1 FY22 (7.7% higher on a constant currency basis)
 - Q1 FY23 revenue within our Healthcare segment was 17% higher than Q1 FY22
 - As outlined in our FY22 results, FY23 is a transition year positioning the Company for long-term growth
- **Continued partner and program additions**
 - Two new partners and seven new programs added in Q1 FY23 in our Nursing, Health and Social Services verticals
- **Contribution margin and adjusted EBITDA impacted by the investment in newer vintages comprising programs with improved growth, unit economics and returns profiles**
 - Q1 FY23 contribution margin of US\$6.2 million, US\$2.7 million lower than Q1 FY22
 - Q1 FY23 adjusted EBITDA of US\$(3.4) million (including US\$0.6 million foreign currency exchange losses), US\$4.5 million lower than Q1 FY22
- **Strong cash position**
 - US\$40.7 million (no debt) as of September 30, 2022
 - Organic growth fully funded through to cash flow breakeven
- **As we continue to position the Company for long-term growth, we remain confident in achieving our guidance for FY23¹ and breakeven adjusted EBITDA from H2 FY24 with continuing improvement beyond H2 FY24**

Keypath's Founder and CEO, Steve Fireng, said "Our significant progress in global Healthcare OPM continues with our market leading Healthcare platform delivering outstanding outcomes for our partners, students and society more broadly as we work to close the significant shortages of

¹ FY23 guidance: Revenue: US\$125 million – US\$130 million on a constant currency basis; Adjusted EBITDA: US\$(7) million – US\$(9) million on a constant currency basis assuming USD:AUD rate of 0.695.

healthcare workers globally. We continue to transition our investments to vintages and programs where we see the strongest demand and, as expected, contribution margin and adjusted EBITDA have been impacted by this.

We have already closed 18 programs from our FY24 vintage of which 17 are in Healthcare. With the unprecedented demand we are converting into our largest ever partner and program pipeline, Keypath is well positioned across the globe to expand its technology and services to continue to help universities provide quality access to education in a digital environment including by continuing to grow our programs in Southeast Asia.”

Key Financial Metrics²

US\$M	Q1 FY23	Q1 FY22	Change	Change (%)
Revenue	31.4	30.4	1.0	3.4%
Contribution margin ³	6.2	8.9	(2.7)	(30.6%)
Contribution margin %	19.6%	29.2%	(9.6%)	(960 bps)
Adjusted EBITDA ⁴	(3.4)	1.1	(4.5)	(414.8%)

Key Operating Metrics

	Q1 FY23	Q1 FY22	Change	Change %
Partners	41	32	9	28.1%
Active programs ⁵	185	133	52	39.1%
Course enrollments	33,263	32,936	327	1.0%

Revenue growth continues in a transition year

Keypath has delivered revenue growth in Q1 FY23 of 3.4% to US\$31.4 million (7.7% growth on a constant currency basis when adjusted for unfavorable foreign exchange impacts of US\$1.3 million⁶). The quarter-on-quarter revenue comparability has been impacted in Australia by the COVID-related increase in enrollments due to lockdowns in Q1 FY22 and by the expected

² Financial information in this presentation including, totals and percentages, may be subject to rounding.

³ Contribution margin is revenue less direct costs, which consists of salaries and wages, direct marketing and general & administrative expenses attributable to direct departments. Contribution margin is not a US GAAP based measure.

⁴ Adjusted EBITDA is earnings before interest, tax, depreciation, amortization and excluding stock-based compensation. Adjusted EBITDA is not a US GAAP based measure. Note that reported EBITDA for Q1 FY23 was US\$2.6 million as compared to US\$(3.0) million in Q1 FY22. Q1 FY23 adjustments to reported EBITDA include US\$0.6 million of one-time stock-based compensation, US\$0.6 million of ongoing stock-based compensation, offset by a \$2.0 million favorable adjustment from the final settlement of the long-term incentive plan cash awards. Q1 FY22 adjustments to reported EBITDA include US\$3.6 million of one-time stock-based compensation and long-term incentive plan cash awards and US\$0.5 million of ongoing stock-based compensation.

⁵ Keypath defines a program as a bachelor's, master's, or doctoral degree program, a post master's degree certificate (in the United States) or a graduate diploma program (in APAC) that we are actively supporting on behalf of one of our university partners or for which we have executed contracts for a future program launch.

⁶ The comparisons at constant currency rates (foreign exchange) reflect comparative local currency foreign exchange rates at the prior period's average foreign exchange rates. This measure provides information on the change in revenue assuming that foreign currency exchange rates have not changed between the prior period and the current period. Management believes the use of this measure aids in the understanding of changes in revenue without the impact of foreign currency.

softening of enrollments in some programs from mature vintages, weighted to the business vertical, in Q1 FY23.

As of September 30, 2022, our current program count is 185, which represents an increase of seven programs from the June 30, 2022 (FY22) period. The seven programs added in the quarter came from the North American region, with five coming from the Nursing vertical and two coming from the Health and Social Services vertical, showing the continued strength of our Healthcare offering. Our pipeline of new programs continues to be at historically high levels and is exceeding expectations, underpinning our confidence in the longer-term growth prospects of the Company.

Contribution margin and EBITDA reflects investment in new programs

Contribution margin for Q1 FY23 decreased by US\$2.7 million to US\$6.2 million which reflects the large number of programs we have signed recently that are in their deepest investment phase and the FY21-FY23 vintages⁷ being the largest vintages in the history of the Company, in terms of size and investment and expected steady-state revenue.

Adjusted EBITDA of US(\$3.4) million for Q1 FY23 reflects the investment of US\$3.4 million (compared to US\$2.8 million in Q1 FY22) in incremental costs associated with the large, new vintages noted above, system and people investments and continued investment in our Southeast Asia operation.

Cash Flows and Position

As of September 30, 2022, the Company had total cash on hand of US\$40.7 million, consisting of US\$40.4 million of cash and cash equivalents and US\$0.3 million of restricted cash reflecting net cash outflow of US\$18.5 million in Q1 FY23.

The Company remains debt-free and fully funded to pursue the Company's growth objectives.

Net cash used in operating activities was US\$15.0 million Q1 FY23, reflecting the timing of collections and payments, employee costs and direct marketing required to procure, develop and manage new programs ahead of their launch. Q1 and Q3 are typically lower cash receipt quarters as our largest student starts / enrollments are typically in these quarters with a relatively high cash outflow versus cash inflow. Quarterly cash flow is also impacted by the timing of launches and therefore spending on new programs. The use of cash in the quarter was expected and is in line with our plan for the full year.

Net cash used in investing activities was US\$1.4 million in Q1 FY23, primarily representing the capitalized value of employee and contractor costs directly involved in the development of programs and eligible for capitalization under US GAAP.

Net cash used in financing activities was US\$1.4 million in Q1 FY23, representing the amount of cash outflow to satisfy employees' income tax withholding obligations as part of a net-share settlement of stock-based awards.

⁷ Vintage year or vintage cohort refers to the fiscal year in which the first student intake occurred for any given program. For example, if a program commences on July 1, 2022, it will be classified as an FY23 vintage. Fiscal year is from July 1 to June 30.

FY23 Outlook

As outlined at our FY22 results, we continue to proactively and analytically transition our focus and investment into newer vintages comprising programs with improved growth, unit economics and returns profiles. The performance of our vintages in FY23 and recent partner and program additions continue to underline our confidence in the outlook for these newer vintages.

Having seen the strong growth and profitability performance of our FY21 vintage when compared to our earlier “pre-KeypathEDGE” vintages, we are confident investment in these newer vintages will drive strong revenue growth and profitability.

As we continue to position the Company for long-term growth, we remain confident in achieving our guidance for FY23 of:

- Revenue: US\$125 million – US\$130 million on a constant currency basis⁸
- Adjusted EBITDA: US\$(7) million – US\$(9) million on a constant currency basis

With our track record of revenue growth, the largest vintages with the strongest programs in our history moving through our proven unit economic model and our record partner and program pipeline, we remain confident in driving revenue growth into the future.

We are well funded to cash flow positivity and remain confident in our target of adjusted EBITDA profitability from H2 FY24.

Q1 FY23 Results briefing

A briefing on our Q1 FY23 results will be held at 10.30am (AEDT) on October 26, 2022. Participants can register for the Investor Briefing webcast through the following link: [Register for Investor Briefing](#)

Further Information

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About Keypath

Founded in 2014, Keypath is a global, market-leading edtech company in the online program management (OPM) market. In collaboration with its 41 university partners, Keypath delivers career-relevant, technology-enabled online higher education programs with the goal of preparing students for the future of work. The suite of services Keypath provides to its university partners includes designing, developing, launching, marketing, and managing online programs. Keypath also undertakes market research and provides student recruitment, support and placement services. The services Keypath provides are underpinned by KeypathEDGE, its integrated

⁸ FY23 guidance is on constant currency basis assuming USD:AUD rate of 0.695.

technology and data platform. Keypath has approximately 750 employees with operations in Australia, the United States, Canada, the UK, Malaysia and Singapore.

Forward Looking Statements

This announcement contains forward-looking statements. Forward-looking statements may include statements regarding Keypath's intentions, objectives, plans, expectations, assumptions and beliefs about future events, including Keypath's expectations with respect to the financial and operating position or performance of its business, its capital position and future growth. Forward-looking statements are based on assumptions and contingencies that are subject to change without notice and are not guarantees of future performance. They involve known and unknown risks, uncertainties and other important factors, many of which are beyond the control of Keypath, its directors and management and which may cause actual outcomes to differ materially from those expressed or implied in this announcement. Forward-looking statements should be read in conjunction with, and are qualified by reference to, information in this announcement or previously released by Keypath to ASX. Readers are cautioned not to place undue reliance on forward looking statements, which are provided for illustrative purposes only and are not necessarily a guide to future performance. No representation or warranty is made by any person as to the likelihood of achievement or reasonableness of any forward-looking statements, and to the maximum extent permitted by law, responsibility for the accuracy or completeness of any forward-looking statements is disclaimed, and except as required by law or regulation (including the ASX Listing Rules), Keypath undertakes no obligation to update any forward-looking statements. Keypath also notes that past performance may not be a reliable indicator of future performance.

Restriction on Purchases of CDIs by US Persons

Keypath is incorporated in the US State of Delaware and none of its securities have been registered under the US Securities Act of 1933 or the laws of any state or other jurisdiction in the United States. Trading of Keypath's CHES Depositary Interests (CDIs) on the Australian Securities Exchange (ASX) is not subject to the registration requirements of the US Securities Act in reliance on Regulation S under the US Securities Act and a related 'no action' letter issued by the US Securities and Exchange Commission to the ASX in 2000. As a result, the CDIs are "restricted securities" (as defined in Rule 144 under the U.S. Securities Act) and may not be sold or otherwise transferred except in transactions exempt from, or not subject to, the registration requirements of the US Securities Act. For instance, US persons who are qualified institutional buyers (QIBs, as defined in Rule 144A under the US Securities Act) may purchase CDIs in reliance on the exemption from registration provided by Rule 144A. To enforce the transfer restrictions, the CDIs bear a FOR Financial Product designation on the ASX. This designation restricts any CDIs from being sold on ASX to US persons excluding QIBs. In addition, hedging transactions with regard to the CDIs may only be conducted in compliance with the US Securities Act.

Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

Keypath Education International, Inc.

ABN

649 711 026 (ARBN)

Quarter ended ("current quarter")

30 September 2022

Consolidated statement of cash flows	Current quarter \$US'000	Year to date (3 months) \$US'000
1. Cash flows from operating activities		
1.1 Receipts from customers	28,049	28,049
1.2 Payments for		
(a) research and development		
(b) product manufacturing and operating costs	(580)	(580)
(c) advertising and marketing (Direct Marketing)	(13,668)	(13,668)
(d) leased assets (Facilities/Office copiers)	(520)	(520)
(e) staff costs (excluding staff costs included in 2.1(e) below)	(24,246)	(24,246)
(f) administration and corporate costs	(3,991)	(3,991)
1.3 Dividends received (see note 3)		
1.4 Interest received		
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid	(3)	(3)
1.7 Government grants and tax incentives		
1.8 Other – costs of the Offer and other transaction costs expensed		
1.9 Net cash from / (used in) operating activities	(14,959)	(14,959)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities		
(b) businesses		
(c) property, plant and equipment	(367)	(367)
(d) investments		

Consolidated statement of cash flows		Current quarter \$US'000	Year to date (3 months) \$US'000
	(e) intellectual property (mainly capitalized employee costs directly involved in program development)	(1,034)	(1,034)
	(f) other non-current assets		
2.2	Proceeds from disposal of:		
	(g) entities		
	(h) businesses		
	(i) property, plant and equipment		
	(j) investments		
	(k) intellectual property		
	(l) other non-current assets		
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)		
2.6	Net cash from / (used in) investing activities	(1,401)	(1,401)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)		
3.2	Proceeds from issue of convertible debt securities		
3.3	Proceeds from exercise of options		
3.4	Transaction costs related to issues of equity securities or convertible debt securities		
3.5	Proceeds from borrowings		
3.6	Repayment of borrowings		
3.7	Transaction costs related to loans and borrowings		
3.8	Dividends paid		
3.9	Other - payments of taxes from withheld shares	(1,355)	(1,355)
3.10	Net cash from / (used in) financing activities	(1,355)	(1,355)

Consolidated statement of cash flows		Current quarter \$US'000	Year to date (3 months) \$US'000
4.	Net increase / (decrease) in cash and restricted cash for the period		
4.1	Cash and restricted cash at beginning of period	59,179	59,179
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(14,959)	(14,959)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(1,401)	(1,401)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(1,355)	(1,355)
4.5	Effect of movement in exchange rates on cash held	(760)	(760)
4.6	Cash and restricted cash at end of period	40,704	40,704

5.	Reconciliation of cash and restricted cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$US'000	Previous quarter \$US'000
5.1	Bank balances	40,358	58,810
5.2	Call deposits		
5.3	Bank overdrafts		
5.4	Other (Restricted Cash)	346	369
5.5	Cash and restricted cash at end of quarter (should equal item 4.6 above)	40,704	59,179

6.	Payments to related parties of the entity and their associates	Current quarter \$US'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	102
6.2	Aggregate amount of payments to related parties and their associates included in item 2	
<i>Note: Related party costs paid in the quarter relate to independent board director fees.</i>		

Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

7.	Financing facilities <i>Note: the term "facility" includes all forms of financing arrangements available to the entity.</i> <i>Add notes as necessary for an understanding of the sources of finance available to the entity.</i>	Total facility amount at quarter end \$US'000	Amount drawn at quarter end \$US'000
7.1	Loan facilities	-	-
7.2	Credit standby arrangements	-	-
7.3	Other (please specify)	-	-
7.4	Total financing facilities	-	-
7.5	Unused financing facilities available at quarter end		N/A
7.6	Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.		

8.	Estimated cash available for future operating activities	\$US'000
8.1	Net cash from / (used in) operating activities (item 1.9)	(14,959)
8.2	Cash and cash equivalents at quarter end (item 4.6)	40,704
8.3	Unused finance facilities available at quarter end (item 7.5)	-
8.4	Total available funding (item 8.2 + item 8.3)	40,704
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	3
<i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i>		
8.6	If item 8.5 is less than 2 quarters, please provide answers to the following questions:	
8.6.1	Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?	
	Answer:	
8.6.2	Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?	
	Answer:	
8.6.3	Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?	
	Answer:	
<i>Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.</i>		

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date: October 26, 2022

Authorized by: By the Board
(Name of body or officer authorizing release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorized for release to the market by your board of directors, you can insert here: "By the board". If it has been authorized for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – e.g., Audit and Risk Committee]". If it has been authorized for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorized for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.