



Keypath Education International, Inc.
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ASX code: KED
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ASX Announcement

April 26, 2023

Q3 2023 (March 31, 2023) 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 March 31, 2023 (Q3 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 Q3 FY23 and Q3 YTD FY23

- **Revenue growth aligned with FY23 full-year guidance:**
 - Q3 FY23 revenue of US\$33.0 million, 7.0% higher than Q3 FY22 (10.4% higher on a constant currency basis)
 - Q3 YTD FY23 revenue of US\$91.7 million, 4.5% higher than Q3 YTD FY22 (8.9% higher on a constant currency basis)
 - Q3 FY23 revenue within our Healthcare segment of US\$18.4 million was 21.9% higher than Q3 FY22, while Q3 YTD FY23 revenue within our Healthcare segment of US\$49.7 million was 22.1% higher than Q3 YTD FY22
- **Significant partner and program additions:**
 - Seven new programs added in Q3 FY23, of which six were in the Healthcare segment in both the US and Australia
 - Melbourne Business School ("MBS") and Southeast Asia continue to perform in line with internal expectations with strong pipelines underpinning future growth
- **Contribution margin and adjusted EBITDA reflect investment in large vintages:**
 - There continues to be a large number of programs we have signed recently that are in their deepest investment phase
 - Year-over-year comparisons impacted primarily by a tough comparison in Q3 YTD FY22 due to the COVID bump in FY22, with timing of launches, and expected continued pressure in more mature vintages, also contributing
 - Continue to target adjusted EBITDA profitability from H2 FY24
- **Strong cash position:**
 - US\$36.8 million (no debt) as of March 31, 2023
 - Confident organic growth fully funded to cash flow breakeven

Keypath's Founder and CEO, Steve Fireng, said "We continue to transition our investments from older vintages to newer vintages and programs where we see the strongest demand and, as expected, contribution margin and adjusted EBITDA have been impacted. We are pleased with the progress and outcomes within our Healthcare and Social Services programs as we continue

to build out a global Healthcare platform. These investments, along with the continued expansion in APAC including with such high-profile partners as MBS, will provide strong and long-term sustainable growth for Keypath.

We have already signed 40 programs from our future vintages (32 of which are from the FY24 vintage). Of the 40 programs, 35 are in Healthcare. Keypath is well-positioned globally 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 across partners and regions.”

Key Financial Metrics

US\$M	Q3 FY23	Q3 FY22	Change	Change (%)	Q3 YTD FY23	Q3 YTD FY22	Change	Change (%)
Revenue	33.0	30.9	2.2	7.0%	91.7	87.8	3.9	4.5%
Contribution margin ¹	7.5	5.8	1.7	29.3%	16.8	18.0	(1.2)	(6.7%)
Contribution margin %	22.6%	18.7%	3.9%	389 bps	18.3%	20.5%	(2.2%)	(219 bps)
Adjusted EBITDA ²	(1.2)	(1.6)	0.3	(21.2%)	(7.9)	(5.3)	(2.6)	49.3%

Key Operating Metrics

	Q3 FY23	Q3 FY22	Change	Change (%)
Partners	43	38	5	13.2%
Active programs ³	204	168	36	21.4%
Course enrollments - QTR	33,398	34,346	(948)	(2.8%)
Course enrollments - YTD ⁴	79,128	79,036	92	0.1%

Revenue growth continues

Keypath has continued to deliver revenue growth in line with our FY23 guidance with Q3 FY23 revenue growing 7.0% to US\$33.0 million (10.4% growth on a constant currency basis when adjusted for unfavorable foreign exchange impacts of US\$1.0 million⁵) and Q3 YTD FY23 revenue growing 4.5% to US\$91.7 million (8.9% growth on a constant currency basis). The revenue comparability has been impacted in Australia by the COVID-related increase in enrollments due

1 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.

2 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 Q3 YTD FY23 was US(\$9.0) million as compared to US(\$13.9) million in Q3 YTD FY22. Q3 YTD FY23 adjustments to reported EBITDA include US\$1.3 million of one-time stock based compensation, US\$1.8 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. Q3 YTD FY22 adjustments to reported EBITDA include US\$7.1 million of one-time stock based compensation and long term incentive plan cash awards and US\$1.5 million of ongoing stock based compensation.

3 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.

4 Year-to-date March 31, 2023 (Q3 YTD FY23) include estimates for enrollments pending invoicing. Note that course enrollments are counted in the quarter in which the applicable term began.

5 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.

to lockdowns in Q3 YTD FY22 and by the expected softening of enrollments in some programs from mature vintages, weighted to the business vertical, in Q3 FY23.

As of March 31, 2023, our current program count is 204, which represents an increase of 36 programs from March 31, 2022. The seven programs added in the quarter came from the US and Australia, with six coming from the Healthcare and Social Services verticals.

Contribution margin and EBITDA performance reflect investment in large vintages

Contribution margin for Q3 FY23 increased by 29.3% to US\$7.5 million and for Q3 YTD FY23 decreased by 6.7% to US\$16.8 million which reflects the large number of programs we have signed recently that are in their deepest investment phase and the FY21-FY23 vintages⁶ being very large vintages, in terms of size and investment and expected steady-state revenue.

Adjusted EBITDA of US\$(1.2) million for Q3 FY23 (US\$(7.9) million for Q3 YTD FY23) reflects investments in the new vintages noted above as well as unfavorable foreign currency and increased travel in FY23 exiting COVID lockdowns

The contribution margin and adjusted EBITDA performance also reflects the COVID boost seen in Q3 YTD FY22 creating a challenging comparison figure, and the softening enrollments in mature vintages flowing through to revenue and therefore contribution margin and adjusted EBITDA.

Cash Flows and Position

As of March 31, 2023, the Company had total cash on hand of US\$36.8 million reflecting US\$14.7 million of net cash outflow in Q3 FY23 and US\$22.3 million of net cash outflow in Q3 YTD FY23. The Company remains debt-free and confident we are fully funded to cash flow breakeven for the Company's growth objectives.

Net cash used by operations in the quarter was US\$13.2 million and in Q3 YTD FY23 was US\$16.1 million, primarily driven by the seasonality of our cash flows, investments into our large vintages and continuing investments into Asia.

Net cash used in investing activities in the quarter was US\$1.4 million and in Q3 YTD FY23 was US\$4.0 million, 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 Q3 YTD FY23 was US\$2.1 million, representing the amount of cash outflow to satisfy employees' income tax withholding obligations as part of a net-share settlement of stock-based awards and employee stock repurchases.

Current Trading and Outlook

Keypath is driving positive business momentum through FY23 and into FY24 with our growth in partners and programs proving the value of our OPM offering. Our continued expansion in Healthcare and Asia Pacific is providing the foundation for our future growth.

⁶ 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.

We are pleased with the progress we are making in the FY23 transition year of positioning the company for long-term growth through proactively and analytically transitioning our focus and investment into newer vintages comprising programs with improved growth, unit economics and returns profiles.

We are reconfirming our guidance for FY23 of:

- Revenue: US\$125 million – US\$130 million on a constant currency basis⁷
- Adjusted EBITDA: US\$(7) million – US\$(9) million on a constant currency basis

As of March 31, 2023, we had US\$36.8 million cash (no debt) on our balance sheet; we continue to remain confident we are well funded to cash flow positivity on our organic growth plans and continue to target adjusted EBITDA profitability from H2 FY24.

Keypath is well positioned with growing acceptance among universities and a clear trajectory of accelerating global growth in online learning.

Q3 FY23 Investor Briefing

A Q3 FY23 results Investor Briefing webcast will be held at 10.30am (AEST) on April 26, 2023. Participants can register for the Investor Briefing webcast through the following link: [Register for Q3 FY23 Investor Briefing webcast](#)

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 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 technology and data platform. Keypath has approximately 800 employees with operations in Australia, the United States, Canada, the UK, Malaysia and Singapore.

⁷ FY23 guidance is on constant currency basis assuming USD:AUD rate of 0.695.

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 CHESS 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")

31 March 2023

Consolidated statement of cash flows	Current quarter \$US'000	Year to date (9 months) \$US'000
1. Cash flows from operating activities		
1.1 Receipts from customers	21,829	95,043
1.2 Payments for		
(a) research and development		
(b) product manufacturing and operating costs	(719)	(2,001)
(c) advertising and marketing (Direct Marketing)	(11,895)	(38,118)
(d) leased assets (Facilities/Office copiers)	(347)	(1,195)
(e) staff costs (excluding staff costs included in 2.1(e) below)	(19,278)	(60,716)
(f) administration and corporate costs	(2,503)	(8,712)
1.3 Dividends received (see note 3)		
1.4 Interest received	1	1
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid	(285)	(390)
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	(13,197)	(16,088)

2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities		
(b) businesses		
(c) property, plant and equipment	(159)	(630)
(d) investments		

Consolidated statement of cash flows		Current quarter \$US'000	Year to date (9 months) \$US'000
	(e) intellectual property (mainly capitalized employee costs directly involved in program development)	(1,219)	(3,324)
	(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	(1,378)	(3,954)

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 and repurchase of stock	(25)	(2,127)
3.10	Net cash from / (used in) financing activities	(25)	(2,127)

Consolidated statement of cash flows		Current quarter \$US'000	Year to date (9 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	51,513	59,179
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(13,197)	(16,088)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(1,378)	(3,954)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(25)	(2,127)
4.5	Effect of movement in exchange rates on cash held	(65)	(162)
4.6	Cash and restricted cash at end of period	36,848	36,848

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	36,848	51,513
5.2	Call deposits		
5.3	Bank overdrafts		
5.4	Other (Restricted Cash)		
5.5	Cash and restricted cash at end of quarter (should equal item 4.6 above)	36,848	51,513

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	96
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)	(13,197)
8.2	Cash and cash equivalents at quarter end (item 4.6)	36,848
8.3	Unused finance facilities available at quarter end (item 7.5)	-
8.4	Total available funding (item 8.2 + item 8.3)	36,848
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: April 26, 2023

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.