Investor Presentation

Acquisition of Australian Institute of Education and Training

ReadCloud Limited ASX: RCL, RCLO   **November 2018**

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ReadCloud Overview

ASX Code: RCL, RCLO

Share Price (7 November 2018)	$0.375
Market capitalisation (@ 37.5 cents)	$32.8m
Shares on issue (listed)	43.9m
Escrowed shares	43.6m
Options on issue	21.6m
Performance Rights	7.5m
Current cash (30 September 2018)	$3.7m
Turnover (month rolling)	$192,000

Substantial Shareholders

Amity Agency Pty Ltd	16.4%
Thorney Group*	11.5%
Lars Lindstrom	9.8%
Hunmar Holdings/Darren Hunter*	8.0%
Pollaers Family Trust	5.9%
Joshua Fisher	5.6%
Kimberley Marshall	5.5%
Top 20	76.3%
Total Board Shareholdings*	20.6%

*Includes indirect holdings
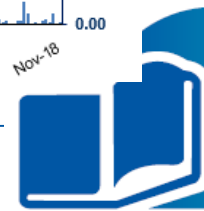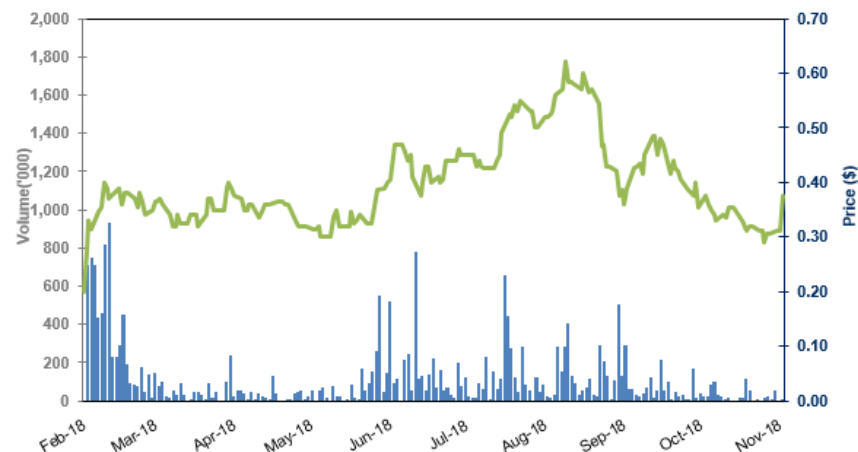
Directors

Paul Collins	Non-Executive Chairman
Lars Lindstrom	Chief Executive Officer
Darren Hunter	Chief Information Officer
Guy Mendelson	Non-Executive Director
Luke Murphy	Chief Financial Officer

Share Price Performance and Volume

Acquisition Overview

Agreement to acquire 100% of Australian Institute of Education and Training (AIET) for up to $2.95 million

1 AIET Overview

▸ Leading Registered Training Organisation ("RTO") with a presence in over 90 Australian secondary schools. Headquartered in Melbourne with school customers in Victoria, SA and WA

▸ AIET provides Vocational Education and Training ("VET") courses and accreditation that enables schools to offer VET courses under AIET's RTO licence. AIET creates and delivers proprietary course content for 34 VET courses including Certificate II, Certificate III and diploma courses

▸ AIET approached ReadCloud after an extensive search to find technology to protect its Intellectual Property, reduce printing costs and enhance its course delivery

▸ Achieved over 60% revenue growth in FY18 (to over $950k) with further growth expected in FY19

2 Compelling Strategic Rationale

▸ Provides a complimentary (and proprietary) product which is sold into the same secondary school market which RCL focusses on and provides significant cross-selling opportunities

▸ Acquisition more than doubles the number of ReadCloud's (FY18) school customer relationships

▸ AIET and its customers will benefit from ReadCloud's digital delivery platform as AIET will have substantial printing/handling cost savings and VET digital courses will contain videos

▸ AIET's Chief Executive Officer Nic Mardling (the vendor) will head up ReadCloud's VET business

3 Acquisition Snapshot

▸ Acquisition consideration will be satisfied by existing cash and shares, with consideration based on performance

▸ Maximum acquisition cost is up to $810,000 in cash and up to 5.35 million ReadCloud shares with the assumption of $50,000 in liabilities

▸ Total acquisition cost is < 4.5 times FY19 EBIT, assuming Revenue and EBIT performance targets are met for FY19. The acquisition will be earnings accretive in FY19

Overview of AIET

- AIET was established as a Registered Training Organisation ("**RTO**") in 2003 and is one of the largest RTO's in Victoria in the Secondary School market

- The business specialises in providing nationally accredited Vocational Education and Training ("**VET**") to secondary schools throughout Australia. AIET does not employ teachers or own classrooms. It provides the compliance oversight, sells the course material and provides an online assessment

- AIET enters into partnering arrangements with secondary schools ("auspicing"), as schools cannot deliver VET programs unless they are an RTO themselves

- AIET oversees the compliance and delivery of programs (including assessments) and provides training manuals and workbooks which it has developed in-house over a number of years

- In 2018 AIET provided its programs to over 90 schools and 4,000+ students with schools in Victoria, South Australia and Western Australia

- There are currently 34 courses in its curricula including Certificate II, Certificate III and Diploma courses in subjects such as:

    - Hospitality   - Business   - Dance

    - Sport and Recreation   - Information Technology   - Early Childhood Education

    - Engineering   - Kitchen Operations   - Building and Construction

- AIET derives 100% of its revenue from schools, with no direct government funding

- Courses start at $225 per student per annum (including online student and trainer resources) plus an annual auspicing cost per VET program offered by the school

The Australian Vocational Education Sector

- VET, as delivered to secondary school students, is a key component of the Australian government's strategy to increase student retention and improve year 12 or equivalent completion rates, by providing options for all students. It also addresses skill shortages across all sectors.

- There were 242,000 school students taking VET courses in 2017[1] , implying that nearly 1 in 2 senior students in years 11 and 12 are studying VET courses[2]

- VET in school courses are delivered by:

  – bricks and mortar training colleges like TAFE;

  – school-based industry traineeships (often with State Government funding);

  – schools that are an RTO themselves (who will still purchase course material); and

  – schools that are auspiced through an external RTO such as AIET who provide the whole package

- AIET estimates that the auspiced market would account for approximately 30-40% of all VET in school students

- RTOs are subject to a compliance audit once every 7 years. AIET was subject to an audit conducted by the Australian Skills Quality Authority in August 2018 with no non-compliance being identified

- In October 2018 AIET's RTO registration was renewed until April 2025

[1] National Centre for Vocational Education Research – VET in Schools 2017 report (up from 60,000 students in 1996)

[2] Based on 1.6 million secondary students in 2016 (Australian Bureau of Statistics) and assuming that one third of these students were in years 11 & 12

Transaction Rationale

Provides a complimentary (and proprietary) product and relationships with 90+ additional schools

Entry to the VET in Schools Sector	▪ Provides immediate entry into the growing Vocational Education Training in schools sector ▪ Expands ReadCloud's product offering ▪ AIET offers courses in 34 subjects
Direct access to new School relationships	▪ Access to AIET's existing relationships with over 90 schools across Australia ▪ AIET more than doubles ReadCloud's (FY18) school relationships
Digital delivery benefits	▪ Digital delivery of AIET's course materials (currently paper-based) via the ReadCloud platform will protect AIET's IP, reduce printing & postage costs and improve user experience ▪ VET courses are significantly enhanced by video content, which can be embedded within course materials via the ReadCloud digital platform
Significant cross-selling potential	▪ Ability to cross-sell AIET VET courses to ReadCloud customer schools ▪ AIET provides a point of entry to introduce the ReadCloud digital platform to its schools
Value accretive transaction	▪ AIET achieved over 60% revenue growth in FY18 and was profitable ▪ Immediate cost savings through digital delivery of AIET's courses and from shared services ▪ The acquisition will be earnings accretive in FY19

Benefits for Schools and Students

VETiS 2019 Auspicing Programs

Building and Construction
22338VIC Certificate II in Building and Construction (Pre-Apprenticeship)
52824WA Certificate II in Building and Construction (Pathway Trades) (WA)
CPC20112 Certificate II in Construction (SA)

Business
BSB20115 Certificate II in Business
BSB30115 Certificate III in Business
22247VIC Certificate II in Small Business (Operations / Innovation)

Community Services
CHC22015 Certificate II in Community Services
CHC32015 Certificate III in Community Services
CHC30113 Certificate III Early Childhood Education and Care

Creative and Digital Media
CUA20215 Certificate II in Creative Industries
CUA31015 Certificate III in Screen and Media

Dance
CUA40113 Certificate IV in Dance (Vic)
CUA40313 Certificate IV in Dance Teaching and Management
CUA40513 Certificate IV in Musical Theatre (Vic)
CUA50113 Diploma of Dance (Elite Performance)
CUA50213 Diploma of Musical Theatre

Employment Pathways
22280VIC Certificate I in Employment Pathways

Engineering
MEM20413 Certificate II in Engineering Pathways (Vic & SA)
22470VIC Certificate II in Engineering Studies

Furnishing
MSF20516 Certificate II in Furniture Making Pathways

Hair and Beauty
SHB20116 Certificate II in Retail Cosmetics
SHB20216 Certificate II in Salon Assistant
SHB30115 Certificate III in Beauty Services

Hospitality
SIT20316 Certificate II in Hospitality
SIT20416 Certificate II in Kitchen Operations
SIT30516 Certificate III in Events
SIT31016 Certificate III in Patisserie

Information, Digital Media and Technology
ICP20115 Certificate II in Printing and Graphic Arts (General)
ICT20115 Certificate II in Information, Digital Media and Technology
ICT30115 Certificate III in Information, Digital Media and Technology

Sport and Recreation
SIS20115 Certificate II in Sport and Recreation
SIS20213 Certificate II in Outdoor Recreation
SIS30115 Certificate III in Sport and Recreation

Students

- All VET course material in one App
- Operates on all hardware/operating systems
- Social collaboration and annotations
- Social learning – share notes, videos & ideas
- Single Login to all content
- Offline reading – notes and annotations are automatically synchronised

Schools & Teachers

- Automatically creates and synchronises students and classes
- Automated provisioning of resources – detects new students and class movements
- Curate own content – teachers can upload their own content
- Rich analytical data on student usage and progress
- Management console reporting

Acquisition Terms

- ReadCloud to acquire 100% of AIET

- Acquisition consideration will be satisfied by existing cash and the issue of shares to the vendor, with consideration to be paid in up to three tranches based on performance:

  - $350,000 cash and 250,000 ReadCloud shares payable on completion, with the assumption of $50,000 in liabilities

  - Up to $50,000 in cash and up to 1,000,000 ReadCloud shares payable on a sliding scale based on achieving up to $900,000 in Revenue in FY19

  - Up to $410,000 in cash and up to $1.64 million in ReadCloud shares payable on a sliding scale on achieving from $200,000 and up to $600,000 in EBIT for FY19

- Shares issued as deferred consideration relating to the EBIT hurdle to be issued at the greater of $0.40 per share and the VWAP in the 30 days prior to issue

- All shares will be escrowed - 50% for 1 year and 50% for 2 years from the date of issue

- Total acquisition cost is < 4.5 times FY19 EBIT at the maximum acquisition price

- The acquisition will be earnings accretive in FY2019

ReadCloud Business Update

Direct Sales

- All existing direct customer school contracts are rolling into the 2019 school year

- Although still in the selling season for 2019, several new large direct schools have signed-up for 2019

- Curriculum changes for 2019 occurring in some States has delayed school purchasing decisions (publishers are still finalising content)

- This will provide an opportunity to sell right up to the Christmas break

Channel Partners – OfficeMax

- OfficeMax (ReadCloud's largest Reseller) has been successful in re-signing its existing schools and has already signed several new schools for 2019

- OfficeMax recently won a tender to be one of two on the purchasing panel for The Catholic Archdiocese of Sydney (responsible for educating over 63,000 students in 149 schools)

- Of these schools, 38 are secondary schools that will have to choose between OfficeMax/ReadCloud and a competitor for the 2020 school year

ReadCloud Business Update (cont'd)

New Channel Partners

- New reseller agreements with a further 3 school stationery / book suppliers (bringing the total number of resellers to 7), including:

  – Adelaide Direct Stationers – servicing 200+ schools in South Australia

  – Bennetts Office Supplies – relationships with 40+ schools in New South Wales; and

  – Blue Ink Education – currently services approximately 30 schools in the ACT

New Distribution Agreement

- Direct distribution agreement with Oxford University Press ("OUP"), enabling ReadCloud to sell OUP digital textbooks to schools directly (previously could only be sold via ReadCloud's Resellers)

Technology Platform

- Significant enhancements to the ReadCloud technology platform, including:

  – common code base across all Native Applications (Windows, OSX, iOS, Android and ChromeBooks), enabling huge efficiencies in deploying new features

  – introduction of dyslexic fonts, text to speech and a drawing module

  – new content curation and management features enabling users to upload and organize their own content (including teacher notes, PDFs and videos)

  – automated syncing of school timetable changes

  – seamless integration with school Learning Management Systems

Outlook

readcloud

- ReadCloud continues to see a record direct sales pipeline, with several new large direct schools signed up for 2019

- School purchasing decisions have been delayed by curriculum changes for 2019, which has extended the selling season (decisions on a number of tenders submitted are imminent)

- The Company expects significant revenue growth from its existing direct school customers as a result of both expansion of year levels using the ReadCloud platform and additional eBook sales

- Sales via ReadCloud's Resellers are also expected to increase significantly for FY19

- A further update will be provided at the Company's AGM on 29 November

Key Investment Highlights

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- ReadCloud is the leading digital education solution for Australian schools, delivering clear educational benefits and saving schools and students money

- Large market opportunity in Australia with an immediate target market of 2,700 secondary schools with 1.6 million students

- Growing rapidly with over 50,000 users in over 70 schools as at 30 June 2018 (up from 21,800 users in 50 schools as at 30 June 2017), with the opportunity to rapidly increase market share

- Increasing proportion of high margin direct sales to schools (29% in FY18 versus 12% in FY17)

- Strategically positioned with 7 Channel Partners

- Strategic acquisition of AIET provides entry to the Vocational Education in schools sector and adds 91 school customer relationships

- Highly scalable platform is leveraged to improving operating margins as user numbers increase

- Experienced and motivated team with a clear growth strategy

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