Annual General Meeting

ReadCloud Limited ASX: RCL, RCLO   29 November 2018
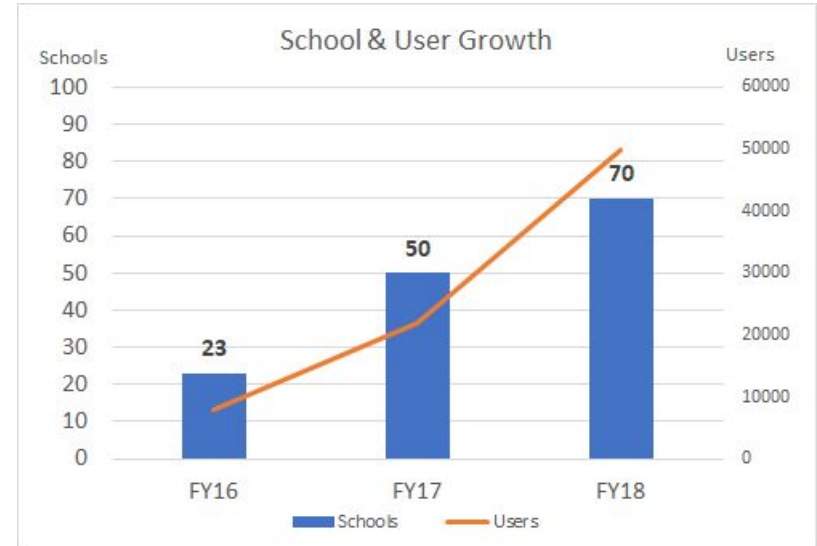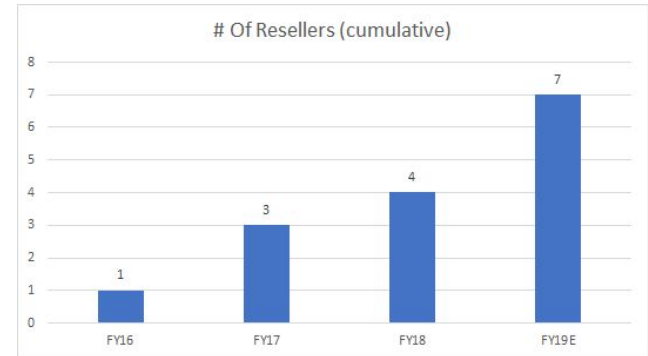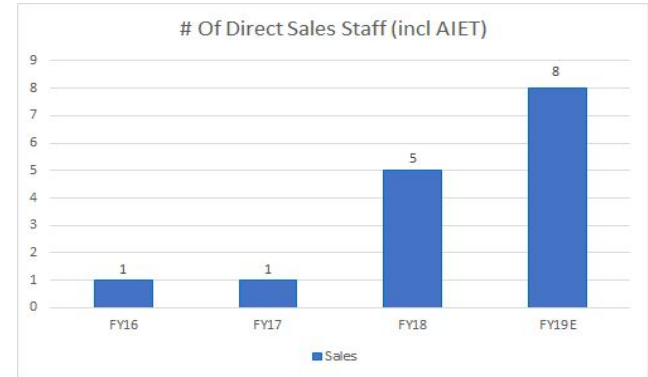
2018 Highlights

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- Oversubscribed initial public offering in February that raised $5.5 million after costs (corner-stoned by Thorney Investment Group)

- Expansion of the Company's direct sales team – team now in place to scale and significantly grow the Company

- Solid traction in new school sign-ups

- Partnership with Queensland Secondary Principals' Association, representing the Principals of 210 Queensland State secondary schools with a combined student number in excess of 175,000

School & User Growth

	FY16	FY17	FY18
Schools	23	50	70

2018 Highlights

- New publisher distribution agreements, including Oxford University Press

- New Resellers, with a further 3 school stationery / book suppliers (bringing the total number of Resellers to 7)

- Acquisition of leading Registered Training Organisation ("RTO") Australian Institute of Education and Training

Of Direct Sales Staff (incl AIET)

Of Resellers (cumulative)

FY18 Financial Highlights

Maiden result as an ASX-listed company included:

- 155% increase in total revenue to $2.1 million, including a 189% increase in sales revenue

- Substantial increase in contracted users and schools on the ReadCloud platform

- Increase in the proportion of total users represented by direct (higher margin) school contracts (29% versus 12% in FY17)

- Underlying EBITDA of $(147,055) – reconciled to statutory result as follows:

	$
Reported (statutory) net loss after tax	(1,152,779)
Add back: Depreciation and amortisation	257,567
Share based payments	610,630
IPO costs expensed (incl. prior year audit fees)	174,000
Net interest revenue	(36,473)
Underlying EBITDA	**(147,055)**

FY18 Financial Highlights

- ReadCloud is well funded – cash at bank as at 30 June 2018 was $4.6 million, with zero debt

- Cash as at 30 September 2018 was $3.7 million

- The Company's results are highly seasonal (in line with the school year cycle) with the 2nd and 3rd quarters in each financial year being the strongest for sales and cash receipts

As at 30 June 2018	$ '000
Assets	
Cash and cash equivalents	4,593
Other current assets	583
Property, plant and equipment	44
Intangibles - software	1,690
Total assets	**6,910**
Liabilities	
Trade and other payables	615
Employee benefits	50
Unearned revenue	106
Total liabilities	**771**
Net assets	**6,139**

Technology Platform

- **Major enhancements to the ReadCloud technology platform ready for the 2019 school year, ensuring it continues to be the leading digital solution for schools**

  - Complete rewrite of ReadCloud Applications' reading engines to enable a common code base across all Native Applications (Windows, OSX, iOS, Android and ChromeBooks) – enables 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

  - Single Sign-On, enabling teachers and students to sign into the ReadCloud Applications using their school provided credentials

  - Seamless integration with school leading Learning Management Systems including Canvas, Moodle and Schoolbox

ReadCloud Has Acquired AIET

In November 2018 ReadCloud acquired 100% of Australian Institute of Education and Training (AIET) for up to $2.95 million

Overview of AIET

- Leading Registered Training Organisation ("RTO") that specialises in providing Vocational Education and Training ("VET") courses and accreditation to secondary schools

- Creates and delivers proprietary course content for 34 VET courses including Certificate II, Certificate III and diploma courses

- In FY18 AIET provided its programs to over 90 schools and 4000+ students with schools in Victoria, South Australia and Western Australia

- 100% of AIET's revenue is derived from schools, with no direct government funding

- Compelling strategic rationale for the acquisition:
  - provides a complementary (and proprietary) product which is sold into the same secondary school market
  - significant cross-selling opportunities
  - more than doubles the number of ReadCloud's (FY18) school customer relationships
  - AIET's margins are significantly higher per student than in the traditional school textbook segment
  - 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

ReadCloud Is Taking AIET Fully Digital

Pre-Training Compliance

- AIET online portal
  - Teacher CV
  - Teacher Diploma
  - Equipment Checklist

Course Material

- ReadCloud
  - Teacher Material
  - Student Material
  - All Encrypted

Assessment/Accreditation

- AIET online portal
  - Student Exams
  - Assessment
  - Accreditation

- AIET does not own training locations nor does it employ the teachers who teach the course and do the assessments of students. As the RTO, AIET is responsible for the compliance of the VET process and provided the course material

- The above 3 steps provided by AIET was historically entirely paper based which increases compliance risks (eg. all records need to be kept) and carries high printing and handling costs

- In 2018, it commenced its transition to digital by setting up an online portal for Pre-Training Compliance and Assessment/Accreditation paperwork handling. However, AIET was missing the critical piece of content protection of its 34 course materials

- ReadCloud allows AIET to deliver its entire course material digitally (with full encryption) and seamlessly integrate into its online portal

- Once the process of conversion to digital is completed in early 2019, the business is highly scalable moving forward

Sales Update

Sales Update – FY19

- The 2019 selling season has been successful so far:

  - 30 new direct school customers have agreed to use the ReadCloud platform for school year 2019 (bringing the total to 50 schools)

  - this represents 150% growth over the 20 direct school customers that ReadCloud had in FY18

- Existing direct school customers are expected to grow organically (users and eBook sales) as the use of ReadCloud has been expanded to additional year levels

- As some publishers have still not released the final digital version of textbooks for the senior years in Queensland (due to curriculum changes), schools are still in the process of making decisions for 2019

- Consequently, the selling season hasn't finished and ReadCloud will be able to sell for another 3-4 weeks

- Cross selling of AIET products into existing direct ReadCloud customers has begun and looks promising

  - first sale of VET course content into a ReadCloud direct customer school has already occurred

  - AIET's school customers will be approached early 2019 for selling into both 2019 and 2020

Sales Update – FY19

Whilst the 2019 selling season hasn't finished, management anticipates overall growth from 70 schools to 200+ in the 2019 school year (including schools using ReadCloud for VET courses), with:

- higher margin direct schools growing 150% from 20 to at least 50; and

- 22% growth so far in Reseller school numbers from 50 (FY18) to 61.

Note:

- ReadCloud's school contracts commits schools to use ReadCloud and purchase eBooks. However, the final user numbers and eBook volumes are not stated in the contract as they will not be finalised until December 2018 or January 2019

- ReadCloud will not have full visibility into the volume of eBooks that will be sold in 2019 through Resellers and through the newly acquired AIET until orders are completed in early 2019

- As such, management is not in a position to provide financial guidance at this point in time

School Growth

	FY16	FY17	FY18	FY19E
Schools	23	50	70	200

106% CAGR
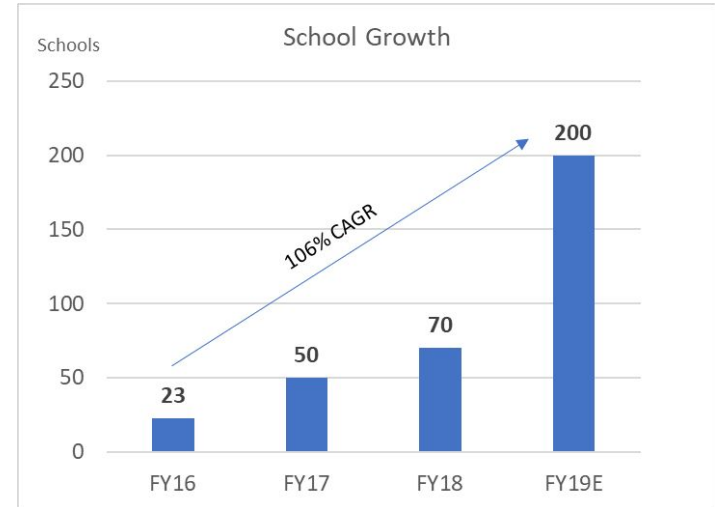
Key Investment Highlights

Key Investment Highlights

- 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

- Management estimates that ReadCloud will be in 200+ schools in school year 2019 (including schools using ReadCloud for VET) - 106% compound annual growth since FY16)

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

- Increasing take-up by new users in existing direct school customers as the use of ReadCloud is expanded to additional year levels

- Strategically positioned with 7 Resellers

- Acquisition of AIET provides a strategic entry to the Vocational Education in schools sector and adds over 90 direct 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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ReadCloud Limited

426 Glen Huntly Rd

Elsternwick VIC 3185

Contact: Lars Lindstrom - CEO - lars@readcloud.com