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Board of Directors:

Paul Collins, *Non- Exec Chairman*
Lars Lindstrom, *Managing Director*
Darren Hunter, *Executive Director*
Guy Mendelson, *Non-Exec Director*

Company Secretary:

Melanie Leydin

Securities on Issue:

RCL: 87,750,000 ordinary shares
RCLO: 15,000,000 options

Website:

<https://www.readcloud.com/>

ASX Announcement

28 February 2019

Half-year results announcement

The Directors of ReadCloud Limited ("ReadCloud" or "the Company"; ASX: RCL, RCLO) are pleased to release the Company's half-year results for the period ended 31 December 2018.

Highlights include:

- 197% increase in schools using the ReadCloud platform in calendar 2019 to over 200 schools including full curriculum and Vocational Education and Training ("VET") courses;
- Revenue for the half-year to 31 December 2018 increased by 97% to \$2.33 million (1H18: \$1.19 million), which exceeds the FY18 full-year revenue of \$2.1 million;
- Sales and fee revenue increased by 102% to \$2.1 million (1H18: \$1.0 million);
- 90% increase in the number of Direct customer schools from 20 in FY18 to 38;
- Significant ground work was laid in the Direct school business by the newly appointed sales staff in building the implementation pipeline for 2020, which is stronger than ever;
- 48% increase in the number of ReadCloud Reseller schools from 50 in FY18 to 74;
- The release of the new 2019 ReadCloud Applications, with highly positive feedback from both customers and resellers;
- Completion of the acquisition of Australian Institute of Education and Training ("AIET"), a leading RTO that provides VET courses and accreditation to 90+ secondary schools which ReadCloud will be endeavouring to cross-sell its platform to for school year 2020; and
- 3 new direct schools have committed to using the full ReadCloud platform and 25 new VET schools have signed since 31 December 2018.

Underlying EBITDA for the half-year ended 31 December 2018 (adjusted for non-cash share-based payments and professional services fees incurred as part of the AIET acquisition) was \$(441,980). This includes two months of costs of the AIET business, which will generate almost all of its school revenue in the second half of FY19. Also, significant investment was made in the transformation of AIET's course material and processes into a digital end to end delivery platform during the period.

Sales and fee revenue

The increase in sales and fee revenue for the 1H18 half-year reflects both the increase in school numbers (direct customer schools and reseller schools) and an increase in average revenue per school, in turn driven by expansion of use of the ReadCloud platform across additional year levels for the 2019 school year in a number of ReadCloud's direct customer schools.

As at 31 December 2018 a number of ReadCloud's direct customer schools were yet to finalise their eBook requirements for 2019. As a result, the eBook sales revenue from these schools will be recorded in the second half of the financial year. Three new direct schools have committed to using the full ReadCloud platform since 31 December 2018. ReadCloud expects to sign up additional direct customer schools before the financial year-end.

Sales and fee revenue for the 31 December 2018 half included revenue from AIET customers for 2 months of \$29,760 (the effective date of the acquisition was 31 October 2018). AIET's VET-schools business is highly seasonal, with the business expected to record almost all of its revenue in the second half of the financial year. AIET had sales in FY18 of \$900,000.

As noted in the ASX announcement on 15 November 2018, it is anticipated that the total consideration paid for the acquisition will be less than 5 times AIET's FY19 EBIT. The Directors have estimated the acquisition date fair value of the consideration to be transferred for the acquisition to be \$1.84 million, comprising the initial cash and share consideration paid to the vendor on completion (\$0.44 million) and a contingent consideration liability of \$1.4 million. The contingent consideration will be paid to the vendor in cash (20%) and escrowed shares (80%) and is dependent on AIET achieving certain revenue and EBIT targets for FY19.

Gross margins

Gross margin (sales and fee revenue less publisher and bookseller fees) for the 31 December 2018 half was \$606,133, or 29.1% of sales and fee revenue (1H17 \$377,590, 36.6%; FY18 \$466,065, 26.5%). The lower percentage for the 31 December 2018 half compared to 1H17 is due to:

- a lower proportion of software licence fee revenue in 1H19 due a higher proportion of deferral of licence fees to the second half than in the previous year; and
- revenue from reseller schools (on which ReadCloud makes a lower margin, but with correspondingly lower selling and support costs) representing a higher proportion of sales and fee revenue in the current half.

The gross margin received on eBook sales was stable compared to the previous corresponding period.

Reported result

For the 31 December 2018 half-year the consolidated entity recorded a 97% increase in consolidated revenue to \$2,338,427 (1H18: \$1,185,683), a consolidated Underlying EBITDA of \$(441,980) (1H18: profit of \$324,764) and a consolidated statutory loss of \$939,196 (1H18: loss of \$95,559) comprised of:

- sales and fee revenue of \$2,083,226 (1H18: \$1,032,484) – refer above for commentary;
- other revenue of \$255,201 (1H18: \$153,199), including government grant and interest income;
- publisher and bookseller costs of \$1,477,093 (1H18: \$654,894), with the increase a result of growth in sales during the period (refer above for a discussion of gross margin);
- employment costs of \$866,115 (1H18: \$92,047), with the increase from 1H18 due to the employment of additional staff following the Company's initial public offering in February 2018 in direct sales and customer support roles. The current half also includes 2 months of employment expenses incurred by ReadCloud subsidiary AIET. The Directors consider that the infrastructure is now in place to drive significant growth, with minimal further investment in human resources required;
- share based payments of \$335,000 (1H18: \$208,585), the majority of which relates to performance rights issued to management prior to the Company's Initial Public Offering;

- depreciation and amortisation of \$159,665 (1H18: \$102,984), with the increase from 1H18 due to more capitalised development costs from previous years commenced amortising during the current period; and
- other expenses of \$439,750 (1H18: \$222,732), the larger components being advertising and marketing, professional services expenses and travel expenses for the sales team.

Outlook

Significant ground work was laid during 2018 in the Direct school business by the newly appointed sales staff. With the majority of contacted schools deciding to defer digitisation to school year 2020, as the schools prepare internally for a digitally delivered curriculum, management estimates that the pipeline for 2020 is stronger than ever.

With the increased number of ReadCloud Resellers signed up during 2018, management estimates that the channel will continue to grow significantly for school year 2020.

A leading provider of VET in schools in Western Australia had its RTO licence cancelled in January 2019, which has resulted in ReadCloud already signing up 20 new schools in Western Australia for VET for 2019 since 31 December 2018. Additional schools expected to be signed up in the coming weeks. AIET has recently had its RTO registration renewed until April 2025.

Following the announcement of ReadCloud's acquisition of AIET a significant number of potential partnership opportunities with content publishers have presented themselves, with these publishers seeking a digital solution that both protects their content and works offline. Commercial negotiations are underway with a number of VET content publishers that have relationships with a significant number of RTOs operating in the wider VET market.

The Directors anticipate releasing an investor presentation in conjunction with an investor roadshow in March.

-Ends-

CONTACTS:

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About ReadCloud Limited ("ReadCloud")

ReadCloud is a leading provider of software solutions, including eBooks, to schools within Australia. ReadCloud's proprietary eBook reader delivers digital content to students and teachers with extensive functionality, including the ability to make commentary in, and import third party content into eBooks.

Students and teachers can share notes, questions, videos and weblinks directly inside the eBooks turning the eBook into a place for discussion, collaboration and social learning, substantially improving learning outcomes. ReadCloud sources content for its solutions from multiple publishers so that together with its reseller Channel Partners, ReadCloud is able to deliver the Australian school curriculum in digital form in all States, on one platform.