Investor Presentation

ReadCloud Limited ASX: RCL, RCLO

May 2019

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Corporate summary

Stock Overview

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ASX code	RCL
Share Price (3 May 2019)	$0.325
Market capitalisation (@ 32.5 cents)	$28.5m
Shares on issue (listed)	44.2m
Escrowed shares	43.6m
Listed options on issue (RCLO)	16.6m
Unlisted options on issue	5.1m
Performance Rights	5.6m
Current cash (31 March 2019)	$2.4m
Trading range (since listing)	$0.22 to $0.62
Average daily volume (since listing)	101,721

Directors

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

Substantial Shareholders

Amity Agency Pty Ltd	16.3%
Thorney Group	11.5%
Lars Lindstrom	9.7%
Hunmar Holdings/Darren Hunter[*]	8.0%
Pollaers Family Trust	5.9%
Joshua Fisher	5.6%
Kimberley Marshall	5.4%
Top 20	76.8%
Total Board & Management Shareholdings*	26.3%

*Includes indirect holdings

Share price performance and volume
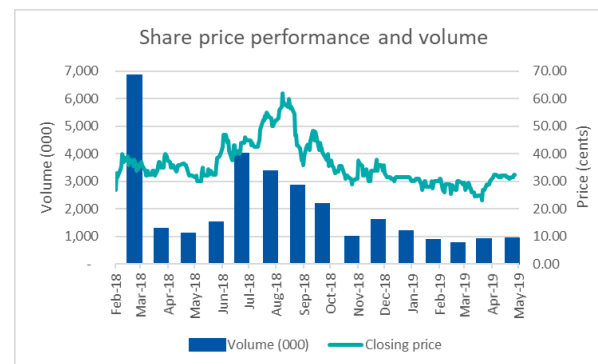
Company overview

ReadCloud is a leading provider of software solutions, including eBooks, to schools within Australia

- ReadCloud delivers the full school curriculum, including Vocational Education and Training ("VET") content, integrated seamlessly from publisher to student

- The ReadCloud platform includes social and collaborative learning tools that substantially improve learning outcomes

- ReadCloud became a leading provider of VET courses and accreditation to secondary schools with the acquisition of Australian Institute of Education & Training ("AIET") in November 2018

Snapshot

- 257 school customers[1] in the 2019 school year

- Highly scalable, cloud based platform

- Large market opportunity
  - 2,700 secondary schools with 1.6m students
  - 4,100 training providers with 4.2m students in VET courses

- Number of full-time employees – 20

The ReadCloud platform is the complete solution for eLearning and management of all Digital Content

[1] Customers using ReadCloud Curriculum + ReadCloud VET (AIET) + ReadCloud Reseller schools

ReadCloud is a complete eLearning solution

One Platform for your School's eBooks and Digital Resources

ReadCloud is an Australian Software Company

Locally developed and all IP is 100% owned

Your entire classroom based digital resources in one app – educational content and eNovels

Over 175,000 eBooks from the world's leading publishers

Cross platform – eBooks can be read both online & offline

eReading platform enables collaboration between teachers and students

Virtual class clouds that promote social eLearning, turning eBooks into a place of discussion and collaboration

Auto login to publishers interactive websites, no activations required

Curate your own content to further contextualise learning

Integrates with timetable software providers

LMS Integration

Seamless Single Sign-on (SSO) integration

Proprietary DRM enabling multiple student logins on the same device

Login on up to 6 devices

Learning Analytics – individual student reading analytics

ReadCloud supports blended classrooms

Professional Development programmes at all levels in school

Revenue streams

School Curriculum	VET in Schools	Resellers	Broader VET
• Users are secondary school students and teachers in years 7-12 • The ReadCloud platform is sold for an annual SaaS fee • eBooks for the curriculum are sold to schools and in turn parents/students from the ReadCloud eBookstore which contains 200,000 eBooks from a wide range of global and local publishers • ReadCloud makes a margin on each eBook sold • The customer is the school, which ReadCloud invoices annually (December/January) with the school generally passing on the charge to parents	• Users are secondary school students and teachers in years 10, 11 and 12 • ReadCloud operates a Registered Training Organisation ("RTO") which oversees the compliance for VET courses that are delivered by school teachers • Schools are charged per student for the compliance oversight and for VET eBooks • ReadCloud sells both proprietary VET eBooks as well as other publishers' eBooks (on which it makes a margin)	• Users are secondary school students and teachers in years 7-12 • ReadCloud is the exclusive eReading platform for a range of resellers who provide booklist services to schools • The customers are parents who purchase eBooks from the resellers' online store integrated with ReadCloud • ReadCloud receives a platform fee per user and a share of the margin on eBook sales from the reseller • OfficeMax is ReadCloud's largest reseller • ReadCloud has appointed an additional 6 resellers across Australia	• Users are VET students in Universities, TAFEs and RTOs • ReadCloud provides eBook encryption and a distribution and eReading platform • ReadCloud receives a platform fee per user and a small share of the eBook price • ReadCloud is the exclusive eBook encryption, distribution and reading platform for Australian Training Products ("ATP") • ATP is a leading provider of VET resources to over 1,000 RTOs in Australia and overseas • Distribution agreements are also in place with a number of smaller publishers in the broader VET market

Recent financial & operational highlights

$2.3 million
1H19 Revenue

97% on 1H18
($1.2 million)

80,000
ReadCloud users

60% on FY18
(50,000 users)

43
ReadCloud Curriculum
customer schools

115% on FY18
(20 schools)

74
ReadCloud Reseller schools

48% on FY18
(50 schools)

140
ReadCloud VET Schools

54% on FY18
(91 schools)[1]

257
School customers on the
ReadCloud platform in 2019

267% on FY18
(70 schools)

Building the foundations for long term scalable growth

[1] VET School customers of AIET, acquired by ReadCloud in November 2018

ReadCloud recently partnered with ATP

In April 2019, ReadCloud entered into a 3-year exclusive Strategic Distribution Agreement with Australian Training Products ("ATP")

- ATP provides a range of bespoke learner resources for both Australian and international customers across VET (including TAFE), university and commercial sectors. Key industries supported include Aged Care, Defence (the Australian Navy), Government, Commercial Cookery, Hospitality, Business and Management

- ATP has committed to using ReadCloud as its digital content encryption and eReading delivery platform for its customer base, which includes over 1,000 RTOs in Australia and overseas

- The ReadCloud platform offers ATP the ability to reduce piracy by encrypting their digital content and to achieve significant savings in printing and mailing costs.

- The partnership with ATP also demonstrates that the ReadCloud software suite has applications to add value in education outside of the secondary school curriculum business that it currently operates in
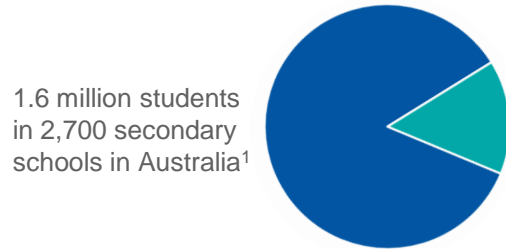
Market opportunity

Immediate Market Opportunity

Broader Market Opportunity

1.6 million students in 2,700 secondary schools in Australia[1]

Secondary Schools

242,000 students in VET in-school courses[2]

4.2 million students enrolled in VET courses with 4,193 training providers in Australia[3]

Vocational Education & Training

Current market position (Q3 FY19)

- 43 Direct school customers
- 74 schools via Resellers
- 140 VET school customers (circa 7,000 students)
- Partnership with Australian Training Products (over 1,000 RTO customers)

Sales Strategy

- Direct sales into Secondary Schools
- Cross-selling between VET and Secondary Schools
- Resellers into Secondary Schools
- Content publishers using ReadCloud for content delivery, protection and delivery

[1] Australian Bureau of Statistics   [2] National Centre for Vocational Education Research VET in Schools 2017   [3] National Centre for Vocational Education Research Total VET students and courses 2017

Strong growth in school and user numbers and revenue

Recent wins

- 5 new direct school customers since announcement of ReadCloud's 1H19 result

- 49 new VET customer schools signed up in WA

- 1 new reseller in Mackay, QLD

- A ReadCloud competitor LearningField recently decided to withdraw from the market for 2020 leaving 60 new direct school or reseller school opportunities

- Significant ground work was laid in the direct school business by the newly appointed sales staff during 2018 in building the sales pipeline for 2020, which is stronger than ever

- Management is confident that there will be substantial cross-selling opportunities between ReadCloud's Curriculum and VET schools

- 3-Year distribution agreement with Australian Training Products provides access to over 1,000 RTOs

- Revenue for 1H19 exceeded FY18 full-year revenue

School & User Growth[1]

Total Revenue[2]
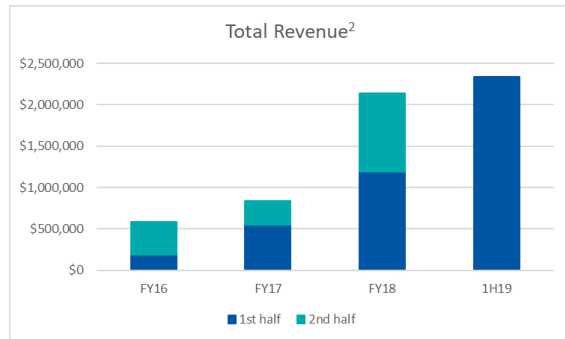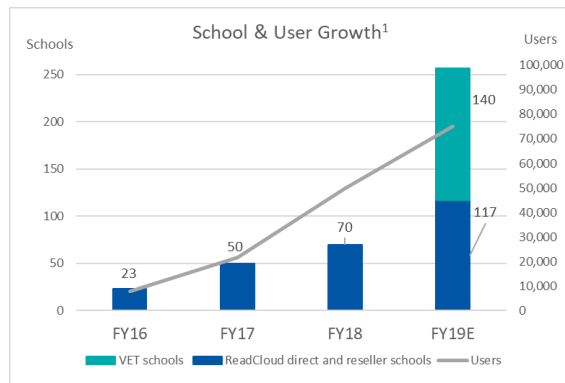
[1] As at date of this presentation a large number of ReadCloud's 140 VET schools are still in the process of inviting their VET students onto the ReadCloud platform. User numbers are expected to increase further in FY19.

[2] Includes revenue from AIET for the 2 months from the acquisition date to 31 December 2018 of $30,000. The VET segment is expected to record almost all of its revenue in 2H19.

Update on AIET acquisition

- AIET is a leading Registered Training Organisation ("RTO") that provides Vocational Education and Training ("VET") courses and accreditation that enables secondary schools to offer VET courses under AIET's RTO licence

- ReadCloud acquired 100% of AIET in Q2 FY19

- The AIET business is now fully-integrated into ReadCloud's operations

- Significant investment has been made in the transformation of AIET's course materials and processes into a digital end to end enrolment and learning resource delivery platform

- Anticipated synergies from the acquisition are now being realised:

  - cross-selling VET courses to full curriculum schools and selling the full curriculum ReadCloud platform into VET schools

  - digitisation and delivery of VET course materials via the ReadCloud platform will see significant printing and handling cost savings

- The VET segment is highly seasonal, with the business expected to record almost all of its revenue in 2H19 (revenue for 2 months to 31 December $30,000)

- In FY18 AIET had sales of $950,000 from 96 school customers. As at the date of this presentation ReadCloud has 140 schools for VET courses in 2019

1H19 Financials

	1H19	1H18
Sales and fee revenue	$2,083,226	$1,032,484
Other revenue	$255,201	$153,197
Total revenue	**$2,338,427**	**$1,185,681**
Less operating expenses:		
Publisher and bookseller fees expense	($1,477,093)	($654,894)
Employment expenses	($866,115)	($92,047)
Professional services expenses	($106,608)	($22,157)
Travel expenses	($87,934)	($42,830)
General & administrative expenses	($210,070)	($48,172)
Interest revenue	($32,587)	($818)
Underlying EBITDA	**($441,980)**	**$324,764**

- Sales and fee revenue up 102%

- % Margin on eBook sales (sale and fee revenue excluding software licence revenue less publisher and bookseller fees) consistent with prior periods

- 1H19 Revenue per school for curriculum customer schools that were on the ReadCloud platform in FY18 increased on average by 20% over FY18, reflecting expanded usage of the platform across additional year levels within these schools

- Employment expenses relate to a full-time head-count of 20 full-time employees (ReadCloud and AIET combined)

- The infrastructure is now in place to drive significant growth with minimal further investment in human resources

Consolidated Balance Sheet

	Note	31-Dec-18	30-Jun-18
Cash and cash equivalents		2,915,920	4,593,330
Trade and other receivables	1	1,988,656	548,940
Prepayments		50,714	33,871
Total current assets		4,955,290	5,176,141
Property, plant & equipment		63,371	44,045
Intangibles	2	3,779,577	1,689,877
Total non-current assets		3,842,948	1,733,922
Total assets		**8,798,238**	**6,910,063**
Trade and other payables	3	1,680,029	615,123
Other current liabilities		87,501	154,747
Contingent consideration	4	1,406,250	0
Total current liabilities		**3,173,781**	**769,870**
Non-current liabilities		4,169	709
Total liabilities		3,177,950	770,579
Net assets		**5,620,288**	**6,139,484**

1. $1.55 million received from customers in March 2019 quarter
2. Comprises capitalised software development ($1.9 million), goodwill ($0.7 million) and other intangibles acquired as part of the AIET acquisition including:
   - customer relationships
   - intellectual property in VET course materials
   - acquired software and
   - the value of the Registered Training Organisation licence
3. Amounts owing primarily to publishers and booksellers
4. Deferred consideration payable to the vendor of AIET
   - to be paid in cash (20%) and shares (80%) with quantum dependent on the achievement of FY19 revenue and EBIT targets)
   - shares issued as deferred consideration to be issued at the greater of $0.40 per share and 30-day VWAP and escrowed for 12 months (50%) and 24 months (50%)

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Growth Strategy

School Curriculum

- Expanded use of platform in existing schools across additional year levels
- New schools - capitalise on pipeline for 2020 school year
- Leverage relationships
  - Queensland Secondary Principals Association
  - Australian Secondary Principals Association

VET in Schools

- New schools
- Cross-selling ReadCloud platform for full curriculum content delivery into VET school customers
- Cross-selling the VET course offering to ReadCloud full curriculum schools
- Margin expansion from cost savings via digital delivery of VET course content

Resellers

- Cost effective sales channel
- New reseller arrangements with booksellers
  - leverage their local relationships with schools
  - enables these booksellers to have a digital offering
- 3 new resellers signed late in the sales season for 2019
- Additional new reseller signed in March 2019

Broader VET

- Partnerships with educational content publishers looking for a secure digital delivery solution
- Distribution agreement with Australian Training Products
  - Leading provider of VET resources to over 1,000 RTOs
- Distribution agreements also in place with leading publishers of early childhood education and beauty services resources

Outlook

- Revenue for 2H19 expected to exceed 1H19 revenue ($2.3 million) which will be more than double the revenue of FY18 ($2.1m)

- Additional schools signed up since 1H19 (both curriculum schools and for VET courses)

- Additional penetration of school year levels in existing schools

- Significant ground work laid during 2018 in the Direct school business by the newly appointed sales team

- Large number of schools contacted decided to defer digitisation to school year 2020, as the schools prepare internally for a digitally delivered curriculum

- Pipeline for 2020 is stronger than ever

- New reseller signed up in March 2019 in Far-North Queensland with additional regional schools to be targeted

- Leverage new partnership agreement with ATP – network of over 1,000 RTOs

Investment summary

- ReadCloud is the leading digital education solution for Australian schools delivering clear educational benefits

- It has rapidly grown from 50 school customers when listed in February 2018 to over 250 school customers in school year 2019

- Revenue for 2H19 expected to exceed 1H19 revenue ($2.3 million) which will be more than double the revenue of FY18 ($2.1m)

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

- Broader market opportunity with 4.2 million students enrolled in VET courses with 4,193 training providers in Australia

- Rapidly growing school and user numbers translating to strong revenue growth

- Highly scalable platform is leveraged to improving operating margins as user numbers increase (infrastructure is now in place to drive significant growth with minimal further investment)

- Experienced and motivated team with a clear growth strategy

ReadCloud Limited
426 Glenhuntly Rd
Elsternwick VIC 3156

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