ASX Release

27 August 2020

ReadCloud Limited full-year results release

Highlights

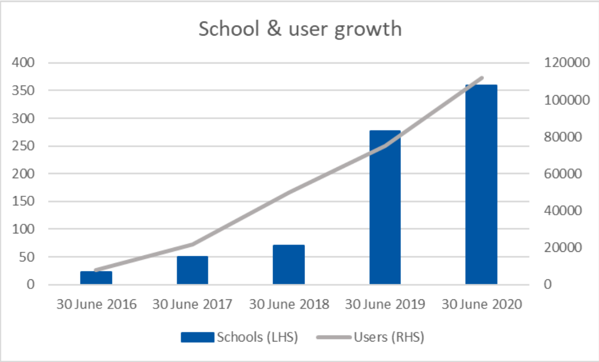
- 55% revenue growth to $7.46 million (FY19: $4.81 million)
- 30% growth in the number of customer schools and 40% increase in users of the ReadCloud platform
- FY20 Average Revenue per User $65 (excluding new schools at 30 June 2020 that were using but not paying for the ReadCloud software in FY20) versus $55 in FY19
- Strong growth achieved across both of the Group's key operating segments (full curriculum and VET in schools)
- Positive Underlying EBITDA for the second half of the financial year ($0.53 million) and overall Underlying EBITDA loss for the full-year of $0.16 million (FY19: $0.42 million)
- Strong cash position at the end of the financial year ($3.4 million)
- Well placed for strong growth in FY21

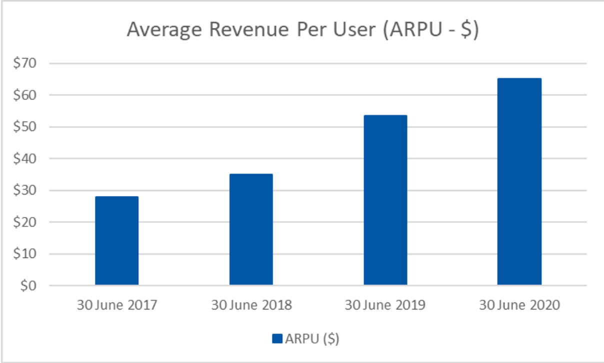
ReadCloud Limited ("ReadCloud" or "the Company"; ASX: RCL, RCLO), a leading provider of digital eLearning solutions to secondary schools and the Vocational Education and Training ("VET") sector in Australia, is pleased to release the Company's full-year results for the year ended 30 June 2020.

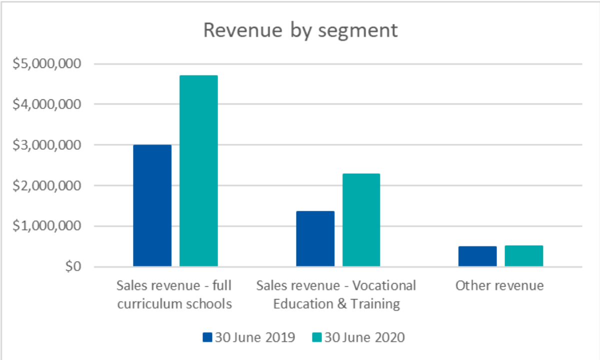
The Directors are pleased to report that for FY20 ReadCloud achieved 55% revenue growth to $7.46 million (FY19: $4.81 million), driven by:

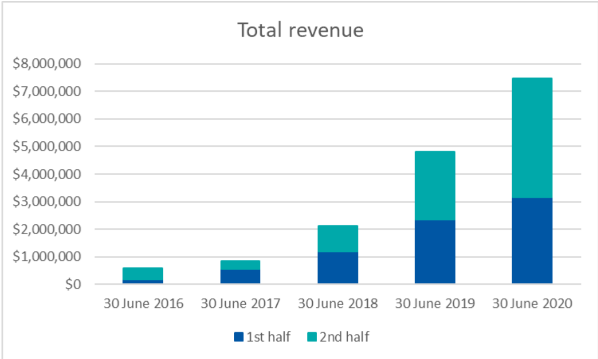
- a 30% increase in the number of school customers to 360 secondary schools located throughout Australia (FY19: 277);
- a 40% increase in the number of ReadCloud platform users to 112,000 users (FY19: 80,000); and
- an increase in average revenue per user from $55 in FY19 to $65 in FY20 (excluding schools at 30 June 2020 that were using but not paying for the ReadCloud software in FY20 but have entered into multi-year contracts where the software is paid for in 2021 and onwards).

Strong growth was achieved across both of the Group's key operating segments.









The full curriculum schools segment (servicing direct and reseller school customers) achieved sales revenue growth of 58% over FY19, driven by both new school wins and "organic" sales growth within existing direct customer schools. Notable new school wins in FY20 included:

- three of the largest State High schools in Brisbane (each with over 2,000 students, including the largest State High School in Queensland with over 3,000 students);
- a large independent Anglican School in New South Wales; and
- two prestigious Grammar schools in Melbourne that used the ReadCloud eLearning platform in conjunction with ReadCloud partner OfficeMax for physical books in the 2020 school year.

FY20 Revenue from these new school customers was in line with expectations. Pleasingly, on a "like-for-like" basis, revenue from direct full-curriculum school customers that were customers in 2019 grew by 22% in FY20 (over FY19) as use of the ReadCloud platform was expanded within those schools.

The VET business also achieved strong sales growth in FY20 (up 61% on FY19), driven by:

- new school wins in Victoria, South Australia and Western Australia. A number of new customer schools that had commenced VET subjects under the auspices of competitor Registered Training Organisations ("RTO's") at the beginning of 2019 came across to AIET to complete the delivery of these subjects from Term 3 2019; and
- an increase in average revenue per VET course student as a result of the adoption of a new pricing structure for AIET's services for the 2020 school year.

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ReadCloud recorded an Underlying EBITDA[1] loss for FY20 of $161,141 (FY19 Underlying EBITDA loss $421,960), which is reconciled to the statutory loss as detailed below. Underlying EBITDA for the second half of the financial year was $533,173 (positive) versus an Underlying EBITDA loss for the first half of the financial year of $694,314, reflecting the normally strong bias of revenue from reseller full curriculum schools and VET auspicing services towards the second half of each financial year.

		Consolidated	
		30 June 2020	30 June 2019
		$	$
Underlying EBITDA[1]		**(161,141)**	**(421,960)**
Less:	Depreciation and amortisation	(702,262)	(416,624)
	Share based payments	(130,392)	(471,365)
	Fair value movement on contingent consideration	-	(405,000)
	Transaction costs incurred on business acquisition (expensed) and one-off ASX fees	(27,751)	(40,520)
	Net interest (expense) / revenue	(5,764)	37,296
	Income tax expense / (benefit)	45,326	87,750
Reported (statutory) net loss after tax		**(981,984)**	**(1,630,423)**

Significant expenses included in the statutory net loss after tax for FY20 include:

- publisher and bookseller expenses of $3.89 million (FY19: $2.32 million), with the increase from FY19 broadly a result of sales growth (the FY20 expense amounted to 56% of FY20 Sales & fee revenue, versus 54% for FY19). Gross margins on eBook sales to direct full-curriculum and reseller schools were almost identical to FY19. Expenditure on externally sourced VET course materials supplied to VET school customers was higher in FY20 than in the prior comparable period, mainly as a result of a broader scope of VET courses offered to VET school customers;
- employment expenses of $2.63 million (FY19: $1.89 million), with the increase a result of:
  - the hiring of additional software development, sales and operational support staff;
  - a full year's employment costs in FY20 for AIET employees versus 8 months of costs for these employees (from the AIET acquisition date of 31 October 2018) in FY19; and

[1] *EBITDA and underlying EBITDA are non-statutory financial measures which are not prescribed by Australian Accounting Standards (AAS). They represent the profit under AAS adjusted for Interest, Tax, Depreciation and Amortisation and certain other specified items. The Directors consider that EBITDA and underlying EBITDA reflect core earnings of the entity consistent with internal reporting.*

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- the employment of additional (mainly casual) staff to assist with the implementation of a new compliance, student enrolment and student management software platform for the VET business.

  At 30 June 2020 the Group had 24 full-time equivalent employees (30 June 2019: 20 full-time equivalent employees);

- depreciation and amortization expenses of $0.70 million (FY19: $0.4 million), with the increase from FY19 due to more capitalised development costs from previous years commencing amortision during FY20 and adoption of new Accounting Standard AASB 16 *Leases* from 1 July 2019, which resulted in the recognition of "right-of-use assets" equal to $426,398 on the Group's balance sheet and depreciation of these assets during the year of $136,255;
- professional services expenses of $0.30 million (FY19: $0.17 million), with the main components including audit fees, share registry costs, company secretarial fees, contract bookkeeping costs and tax consulting fees; and
- legal & compliance expenses of $0.14 million (FY19: $0.11 million) comprising legal fees, ASX and ASIC fees, RTO licence fees and the cost of external RTO compliance consultants.

Funding / Cash flow

As at 30 June 2020 the Group had a strong balance sheet with cash at bank of $3.39 million (30 June 2019: $3.07 million) and zero debt. Net cash used in operating activities for FY20 was $0.31 million (FY19: $0.44 million), which approximated Underlying EBITDA reasonably closely (with the difference mainly explained by higher receivable and lower payable balances at 30 June 2020).

Outlook

The Directors believe the Group is well-placed for strong growth in FY21. Whilst the selling season for the 2021 school year wouldn't ordinarily commence until well into the September quarter, leading up to 30 June 2020 ReadCloud signed up 10 new full-curriculum schools for the remainder of the 2020 school year and for 2021. These new direct full-curriculum school customers provide a good headstart on budgeted revenue growth for FY21. The direct sales pipeline has significantly expanded in recent months, driven by the COVID-19 pandemic and the resultant need for schools to have a remote learning solution. The ReadCloud sales team is working to convert this pipeline in the coming months. Whilst State border closures have hindered some in-person sales contact, the recent new school wins have proven our ability to sell the ReadCloud platform via video conferencing.

During the June quarter ReadCloud signed up 2 new reseller partners, Western Australia-based Ziggies Educational Supplies which currently supplies booklisting services to over 300 Western Australian schools, and Victorian-based Lilydale Books which currently supplies booklisting services to circa 30 Victorian schools. ReadCloud's sales team is now actively working with these new partners to jointly promote the ReadCloud eReading solution to both existing and potential new school customers of these resellers. Discussions with other potential new resellers are continuing in the current quarter.

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Whilst the sales cycle for VET-in-schools does not ordinarily commence until late in the school year for the following school year, the AIET sales team has already signed up several new schools for delivery of VET courses in 2021, including existing ReadCloud full-curriculum customers. In addition, the vast majority of VET courses provided by AIET are run over 2 years, resulting in a large proportion of revenue being "locked in" for 2021.

In summary, FY21 growth is expected to be driven by:

- new customer (school) acquisitions across the full-curriculum and VET school segments;
- organic growth within existing school customers, driven by expanded usage of the ReadCloud platform across additional year levels within existing school customers; and
- cross-selling of ReadCloud's VET course offering to ReadCloud full-curriculum schools and vice-versa.

The Directors expect to be in a position to provide an update on the sales outlook for the 2021 school year at the Company's Annual General Meeting in November 2020.

-Ends-

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About ReadCloud Limited

ReadCloud is the leading provider of eLearning software solutions, including eBooks, to Schools and the Vocational Education and Training (VET) sector in Australia. ReadCloud's proprietary eBook platform 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, delivering the full Australian school curriculum in digital form in all States, on one platform. In the Vocational Education and Training (VET) sector, ReadCloud provides over 40 digital VET courses and auspicing services to schools across Australia.

ReadCloud currently has over 112,000 users on its platform.

This announcement is authorised for release to the market by the Board of Directors of ReadCloud Limited.

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