



ReadCloud Limited

Acquisition of College of Sound and Music Production
- a leading Vocational Education and Training provider

Investor presentation - 27 October 2020



Disclaimer



This presentation has been prepared by ReadCloud Limited ("Readcloud"), based on information available as at the date of this presentation. The information in this presentation is provided in summary form and does not contain all information necessary to make an investment decision.

This presentation does not constitute an offer, invitation, solicitation or recommendation with respect to the purchase or sale of any security in ReadCloud, nor does it constitute financial product advice or take into account any individual's investment objectives, taxation situation, financial situation or needs. An investor must not act on the basis of any matter contained in this presentation but should make its own assessment of ReadCloud as part of its own investigations. Before making an investment decision, investors should consider the appropriateness of the information having regard to their own objectives, financial situation and needs, and seek legal, taxation and financial advice appropriate to their jurisdiction and circumstances. ReadCloud is not licensed to provide financial product advice in respect of ReadCloud securities or any other financial products.

Although reasonable care has been taken to ensure that the facts stated in this presentation are accurate and that the opinions expressed are fair and reasonable, no representation or warranty, express or implied, is made as to the fairness, accuracy, completeness or correctness of the information, opinions and conclusions contained in this presentation. To the maximum extent permitted by law, neither ReadCloud, nor any of its officers, directors, employees and agents, nor any other person, accepts any responsibility and liability for the content of this presentation including, without limitation, any liability arising from fault or negligence, for any loss arising from the use of or reliance on any of the information contained in this presentation or otherwise arising in connection with it.

The information presented in this presentation is subject to change without notice and ReadCloud does not have any responsibility or obligation to inform you of any matter arising or coming to their notice, after the date of this presentation, which may affect any matter referred to in this presentation. The cover image is illustrative only.

The distribution of this presentation may be restricted by law and you should observe any such restrictions.

Forward looking statements

This presentation may contain certain forward looking statements that are based on ReadCloud's beliefs, assumptions and expectations and on information currently available to ReadCloud's management. Such forward looking statements involve known and unknown risks, uncertainties, and other factors which may cause the actual results or performance of ReadCloud to be materially different from the results or performance expressed or implied by such forward looking statements. Such forward looking statements are based on numerous assumptions regarding present and future business strategies and the political and economic environment in which they operate in the future, which are subject to change without notice. Past performance is not necessarily a guide to future performance and no representation or warranty is made as to the likelihood of achievement or reasonableness of any forward looking statements or other forecast. To the full extent permitted by law, ReadCloud and its directors, officers, employees, advisers, agents and intermediaries disclaim any obligation or undertaking to release any updates or revisions to information to reflect any change in any of the information contained in this presentation (including, but not limited to, any assumptions or expectations set out in the presentation).

Corporate Snapshot

ASX Code: RCL, RCLO

Share Price (23 October 2020)	\$0.39
Market capitalisation (@ 39 cents)	\$39.0m
Shares on issue (listed)	99.9m
Options on issue (listed)	14.8m
Options on issue (unlisted)	5.2m
Current cash (23 October 2020)	\$3.3m
Turnover (month rolling)	\$3.6m

Substantial Shareholders

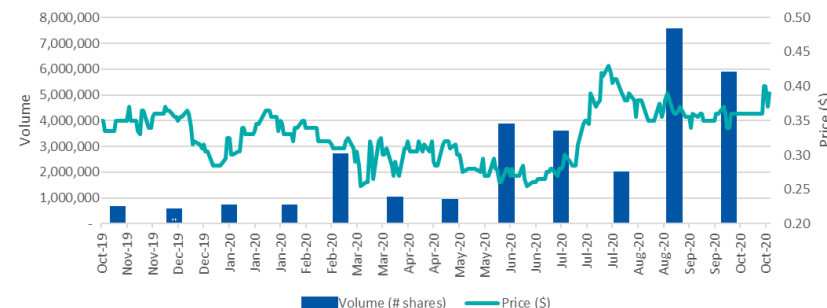
Thorney Group*	10.5%
Lars Lindstrom	8.5%
Hunmar Holdings/Darren Hunter*	7.0%
Brindle Holdings Pty Ltd <O'Connor S/F A/C>	5.8%
Pollaers Family Trust	5.2%
Joshua Fisher	5.0%
Top 20	77.1%
Total Board and management shareholdings*	27.8%

*Includes indirect holdings

Board & Management

Paul Collins	Non-Executive Chairman
Cristiano Nicolli	Non-Executive Director
Guy Mendelson	Non-Executive Director
Lars Lindstrom	Executive Director (CEO)
Darren Hunter	Executive Director (CIO)
Luke Murphy	Chief Financial Officer
Melanie Leydin	Company Secretary

Share price performance and volume



Acquisition Overview



Agreement to acquire 100% of College of Sound and Music Production (“COSAMP”) for up to \$1.45 million

1

Compelling Strategic Rationale

- ▶ COSAMP’s proprietary product is entirely complimentary to ReadCloud’s current VET offering
- ▶ Acquisition adds an additional 184 schools to ReadCloud’s current 358 secondary school customer relationships
- ▶ ReadCloud has a track record of successfully acquiring and growing businesses, having grown the ALET business (acquired in November 2018) from revenue of \$0.95 million in FY18 to \$2.3 million in FY20 (up 140% in 2 years)
- ▶ COSAMP’s secondary school customers are in ReadCloud’s core target market and offer a rich opportunity to cross-sell ReadCloud’s broader Vocational Education and Training (“VET”) and digital education platform
- ▶ COSAMP and its customers will benefit from ReadCloud’s digital delivery platform - COSAMP still relies on paper processes and course materials which can be enhanced on the ReadCloud platform with rich media content, including audio and video

2

COSAMP Overview

- ▶ Headquartered in Melbourne, COSAMP is a leading Registered Training Organisation (“RTO”) delivering proprietary VET courses to 184 secondary schools throughout Australia
- ▶ COSAMP creates and delivers VET courses for the music industry, including Certificate II and Certificate III in Music Industry and Diploma of Music Industry
- ▶ COSAMP is the number one supplier in the music industry vertical in VET schools (which is in the Top-10 of VET in Schools courses)
- ▶ The business generated sales revenue of \$0.84 million in FY20 and delivered EBITDA of \$0.22 million

3

Acquisition Snapshot

- ▶ Acquisition will be funded by existing cash and shares, with consideration based on performance
- ▶ The purchase price is up to \$1.45 million, comprising an upfront cash payment of \$1.05 million and up to \$400k of RCL shares contingent on achievement of two year revenue targets
- ▶ Total acquisition cost is between 4.7 and 6.5 times FY20 EBITDA subject to revenue performance in the two year earn-out period

Overview of COSAMP



- An accredited RTO, supplying Auspicing services to schools for the delivery of Certificate II and III in Music Industry and Diploma of Music Industry courses
- Produces 85 units in music performance & composition, sound engineering, use of recording software and mixing equipment
- Also provides flexible (non-VET) courses mapped to the Australian Curriculum for The Arts for earlier years, 7-10
- Number one supplier in the music vertical in schools (which is in the Top-10 of VET in Schools courses)
- 45% market share, currently in 184 schools across Australia
- Provides ReadCloud with an outstanding opportunity to cross-sell its 43 VET courses and full curriculum digital education platform into COSAMP's schools, and deliver music industry courses into ReadCloud's 358 existing school customers
- COSAMP's FY20 revenue was \$0.84 million delivering an EBITDA of \$0.22 million
- Operating for over 10 years, COSAMP has a leading product and a strong reputation within the secondary school system
- School customer retention has been consistently high, built on high quality course resources and customer support
- COSAMP has 6 employees (including part-time and casual employees) including the two founders Kye Thomas and Peter Frawley that are staying on with the business



The Australian Vocational Education Sector



- VET is a key component of the Australian government's strategy to increase secondary school student retention and improve year 12 or equivalent completion rates, by providing broader options for all students
- VET courses also help to address skill shortages across all industry sectors
- 236,000 school students took VET courses in 2019¹, implying that nearly 1 in 2 senior students in years 11 and 12 study VET courses²
- With VET in secondary school courses costing approximately \$250-300 per course per annum, ReadCloud estimates it is a \$50-75 million industry
- 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 maintain their own Registered Training Organisation (RTO) licence (and still need to purchase course material); and
 - schools that are auspiced through an external RTO such as AIET who provide the content and compliance services
- ReadCloud estimates that the auspiced market accounts for approximately 30-40% of all VET in school students

1. National Centre for Vocational Education Research – VET in Schools 2019 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

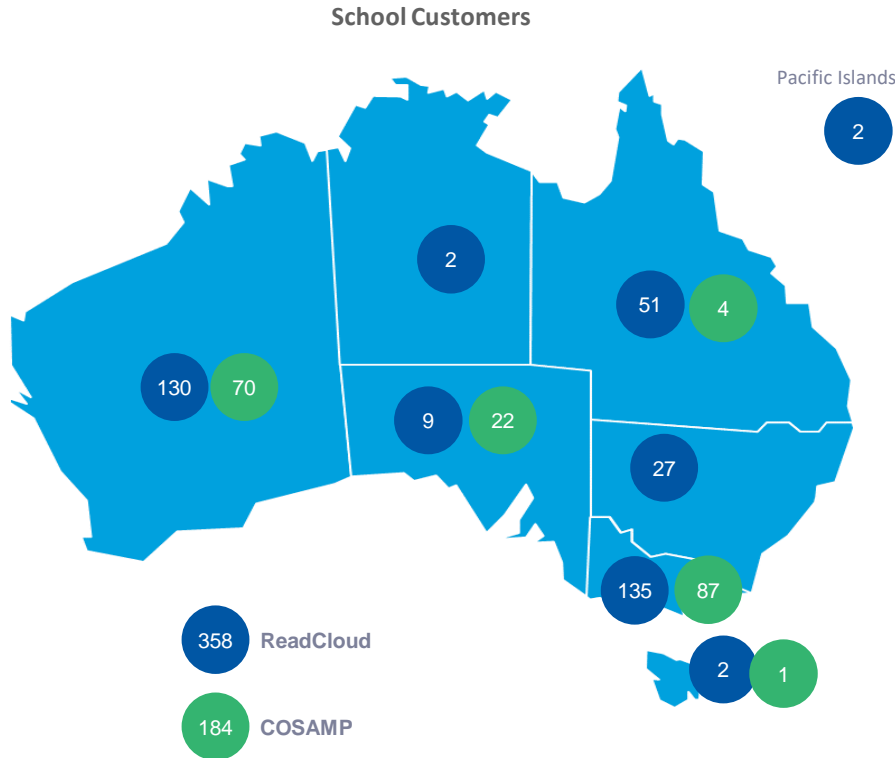
Transaction Rationale



Provides a complimentary and highly regarded proprietary VET product to 184 schools across Australia

Expands presence in the VET in Schools Sector	<ul style="list-style-type: none">▪ COSAMP provides music industry courses to 184 schools and is the clear market leader in this segment of the VET-in-schools market▪ Expands ReadCloud's product offering in the VET-in-schools market, which is a key strategic focus for ReadCloud▪ Integrates the market leader in VET music industry courses, which is a Top-10 vertical in the VET-in-schools sector
Direct access to new School relationships	<ul style="list-style-type: none">▪ Access to COSAMP's existing relationships with 184 schools across Australia▪ The acquisition takes ReadCloud to over 500 secondary school customers (+40%)
Digital delivery benefits	<ul style="list-style-type: none">▪ Digital delivery of COSAMP's course materials (some still paper-based) via the ReadCloud platform will protect COSAMP's IP, reduce costs and improve user experience▪ VET courses are significantly enhanced by audio and video content, which can be embedded within course materials via the ReadCloud digital platform
Significant cross-selling potential	<ul style="list-style-type: none">▪ ReadCloud has existing customers seeking VET music industry courses, providing an immediate cross-sell opportunity▪ COSAMP provides a unique point of entry to new schools to introduce ReadCloud's broader VET and digital education platform
Value accretive transaction	<ul style="list-style-type: none">▪ COSAMP is growing and was profitable in FY20▪ High average revenue per user and high margin per user (no external publisher costs)▪ Immediate cost savings through conversion to digital delivery of courses and from shared services▪ ReadCloud has a track record of successfully acquiring and growing businesses, having grown the AIET VET business (acquired in November 2018) from revenue of \$0.95 million in FY18 to \$2.3 million in FY20

Strategic Fit – Significant Cross-Selling Upside



- The acquisition of COSAMP improves and expands ReadCloud's geographic footprint in Australia
- COSAMP adds 184 school relationships to ReadCloud's 358 school customer network with only 24% cross-over
- Presents a significant cross-selling opportunity
 - deliver proprietary VET music industry courses to ReadCloud's existing school customers
 - introduce COSAMP's schools to ReadCloud's broader offering of 43 VET courses and ReadCloud's full digital education platform

Acquisition Terms



- ReadCloud to acquire 100% of the issued capital of PKY Media Pty Ltd trading as COSAMP
- The purchase price is up to \$1.45 million based on a 2 year earn-out
- Acquisition will be funded by existing cash and the issue of shares, with consideration in three tranches based on performance:
 - \$1.05 million in cash up front; and
 - shares in ReadCloud up to the value of \$400,000, contingent on achievement of Revenue performance hurdles in FY21 and FY22
- The business is being acquired on a cash free - debt free basis
- Shares issued as deferred consideration relating to the performance hurdles to be issued at the greater of \$0.38 per share and the Volume Weighted Average Price in the 30 days prior to issue
- The deferred consideration shares will be escrowed, 50% for 1 year from the date of issue, with the balance escrowed for 2 years from the date of issue
- Total acquisition cost represents between 4.7 and 6.5 times FY20 EBITDA depending on achievement of performance hurdles
- The two vendors (and founders) of COSAMP and the other 4 employees will join the ReadCloud team to continue to grow the combined business

Key Investment Highlights



- ReadCloud is the leading digital education solution for Australian schools, delivering clear educational benefits and saving schools and students money
- ReadCloud is growing rapidly with over 112,000 users in over 500 school customers with ongoing growth in market share
- Strategic acquisition of COSAMP provides a valuable addition to ReadCloud's VET in Schools business together with near-term cross-sell opportunities across COSAMP's 184 secondary school customers nation wide
- Large market opportunity in Australia with an immediate target market of 2,700 secondary schools with 1.6 million students and 236,000 students yearly taking VET in Schools courses
- ReadCloud expects significant revenue growth from its existing direct school customers - from expansion of year levels using the ReadCloud digital education platform, additional eBook sales, and further penetration of the VET sector
- ReadCloud's highly scalable platform is leveraged to improving operating margins as user numbers increase
- ReadCloud has a record direct sales pipeline leading into the 2021 school year, with schools showing a heightened awareness of the need for effective digital education capabilities
- Experienced and motivated team with a clear growth strategy
- A further update will be provided at the Company's AGM on 10 November 2020



ReadCloud Limited

284 Bay Street
Brighton VIC 3186

Lars Lindstrom | CEO

lars@readcloud.com

