



ReadCloud Limited

Australia's Leading eReading Solution

Half-Year Results Presentation
March 2021

ASX : RCL



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 contains 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).

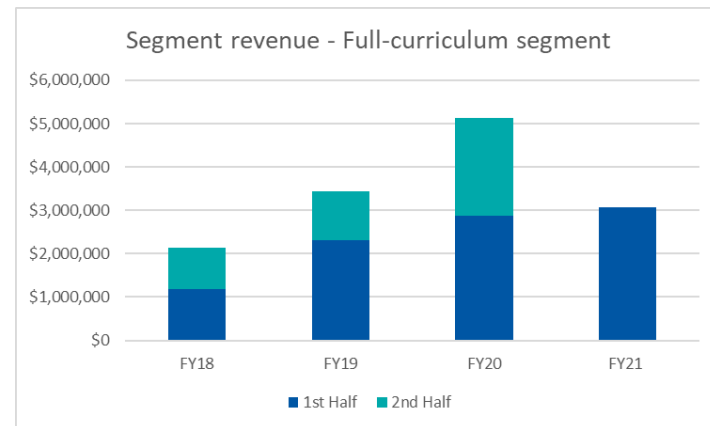
1H FY21 Highlights

- H1 FY21 consolidated revenue ↑ 11% to \$3.49 million (1H FY20: \$3.15 million), with FY21 full-year revenue expected to be skewed to the second half as in prior years
- Completion of the acquisition and integration of College of Sound and Music Production (“COSAMP”)
- 50 new school customers across both the School Curriculum and Vocational Education and Training (“VET”) segments
- ReadCloud is now in over 530 school customers¹ (↑ 51% from January 2020)
- Over 117,000 users¹ on the ReadCloud platform (↑ 14% from January 2020), with user numbers set to increase in the coming weeks
- The Group is well capitalised, with \$7.04 million cash and zero debt as at 31 December 2020

¹ As at end February 2021

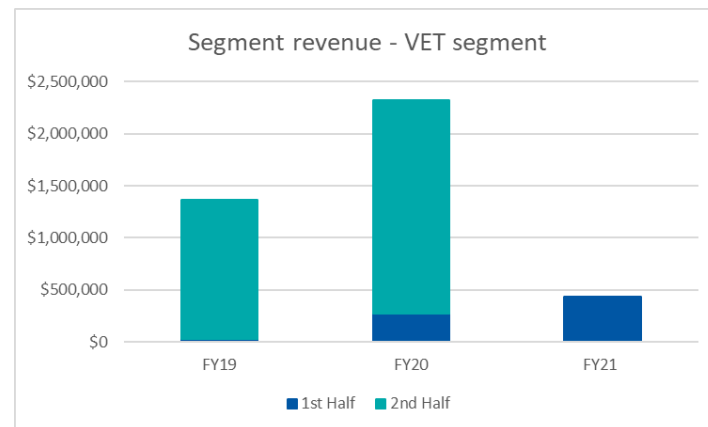
Full-curriculum segment

- 1H FY21 segment revenue ↑ 6% to \$3.06m (1H FY20: \$2.88m)
- 1H FY21 segment revenue affected by:
 - 22 new direct full-curriculum customer schools for 2021 (QLD, VIC, TAS, WA)
 - 4 lost direct full-curriculum customers that have moved to a single publisher model for their eBooks (lost eBook revenue \$0.45m, negligible lost margin)
 - delayed school eBook purchasing decisions and sales orders (direct and Reseller schools) – this revenue will be picked up in 2nd half
 - publishers sympathetic to impact of COVID-19 on schools in 2020 offering significantly discounted digital reactivations
 - significant under-performance of an existing Reseller partner (lost schools)
 - COVID-19, with schools facing challenging priorities and this impacting marketing efforts
- Improved growth dynamics expected to return as COVID-19 restrictions are lifted and COVID-19 issues become less of a burden
- Two new Reseller partners for 2021 (Ziggies and Lilydale Books) successful in signing up new school customers for delivery of the full-curriculum
 - notable wins include two prestigious private schools in Perth and a leading independent school in Melbourne
- On-boarding process for full-curriculum schools for the 2021 school year has gone well, leveraging new streamlined systems that ReadCloud has built into its back-end platform



Vocational Education & Training (“VET”) segment

- 1H FY21 segment revenue ↑ 58% to \$0.43m (1H FY20: \$0.27m)
- Acquisition of COSAMP, the leading VET-in-schools provider of music industry qualifications, completed 28 October 2020
- Integration of COSAMP has gone well and the significant cross-selling opportunity is already being capitalised on
- COSAMP contributed revenue of \$0.04m for 1H FY21, with a further \$0.44m of invoiced auspicung fee revenue deferred to 2H FY21
- ReadCloud’s existing VET business (Australian Institute of Education & Training, “AIET”) has 30 new school customers for 2021 school year (VIC, QLD, SA & WA)
 - includes 2 existing ReadCloud direct full-curriculum customer schools that are Registered Training Organisations in their own right – new revenue stream
- Some customer churn in the AIET business, mainly due to strict approach to compliance
- AIET contributed revenue of \$0.39m for 1H FY21 (1H FY20: \$0.27m), with a further \$0.35m of invoiced auspicung fee revenue deferred to 2H FY21
- The enrolment process for VET school customers and students is well underway - final school and user numbers for this segment to be ascertained following completion of student enrolments and VET subject choices in March
- As in prior periods, student auspicung fees for AIET VET courses being delivered in 2021, comprising the majority of AIET’s auspicung fee revenue, will be invoiced to schools in late March / early April 2021





1H FY21 Results – Underlying EBITDA

| | (\$) | Note | 1H FY21 | 1H FY20 | 1H FY21 vs 1H FY20 |
|---------------------------------------|------|------|--------------------|--------------------|-----------------------|
| Sales and fee revenue | | 1 | 3,179,785 | 2,964,130 | 7% |
| Less publisher & bookseller fees | | 2 | (1,928,312) | (1,979,631) | -3% |
| Gross profit | | | 1,251,473 | 984,499 | 27% |
| Gross profit (%) | | 3 | 39.3% | 32.9% | |
| Add: Other revenue | | 4 | 311,022 | 188,668 | 65% |
| Less operating expenses: | | | | | |
| Advertising and marketing | | 5 | (23,070) | (76,124) | -70% |
| Employment expenses | | 6 | (1,471,981) | (1,254,050) | 17% |
| Legal & compliance | | | (58,149) | (64,613) | -10% |
| Professional services expenses | | 7 | (187,138) | (140,808) | 33% |
| Telephone, internet & data hosting | | | (42,315) | (40,928) | 3% |
| Travel expenses | | 5 | (28,031) | (96,193) | -71% |
| Other expenses | | | (225,367) | (192,485) | 17% |
| Finance costs | | | (6,416) | (2,839) | 126% |
| Total operating expenses | | | (2,042,467) | (1,868,040) | 9% |
| Add: Net interest expense / (revenue) | | | 5,509 | 559 | |
| Underlying EBITDA* | | | (474,463) | (694,314) | -32% |

1. Refer commentary on full-curriculum segment revenue - page 4
2. \$ Decline from prior comparable period reflects improved margins on eBook sales as a result of change in product sales mix (towards higher margin products in 1H FY21) and a new digital distribution agreement with a major textbook publisher
3. Gross profit % improvement a result of improved margins on eBook sales, increased software licence fee revenue (1H FY21 \$0.44m vs 1H FY20 \$0.36m) and increased auspicing fee revenue (1H FY21 \$0.44m vs 1H FY20 \$0.36m)
4. Comprises R&D tax incentive income and Federal Government cash-flow boost
5. Impacted by COVID-19
6. Increase over 1H FY20 attributable to both the COSAMP acquisition (\$0.09 million) and additional operational staff in both the VET and full-curriculum segments
7. Increase attributable to additional investment in RTO compliance monitoring and systems via the use of external consultants

* EBITDA adjusted for Interest, Tax, Depreciation and Amortisation, Share-based payments, transaction costs incurred on the COSAMP and AIET acquisitions

1H FY21 Result – Balance Sheet



| | \$ | Note | 31-Dec-20 | 30-Jun-20 |
|----------------------------------|----|------|-------------------|------------------|
| Cash and cash equivalents | | 1 | 7,040,591 | 3,387,609 |
| Trade and other receivables | | 2 | 3,231,137 | 597,366 |
| Prepayments | | | 95,193 | 55,946 |
| Total current assets | | | 10,366,921 | 4,040,921 |
| Property, plant & equipment | | | 244,700 | 111,385 |
| Intangibles | | 3 | 5,769,030 | 4,450,488 |
| Right-of-use assets | | | 336,844 | 290,143 |
| Total non-current assets | | | 6,350,574 | 4,852,016 |
| Total assets | | | 16,717,495 | 8,892,937 |
| Trade and other payables | | 4 | 2,219,941 | 389,416 |
| Other current liabilities | | 5 | 966,232 | 356,571 |
| Contingent consideration | | 6 | 250,000 | - |
| Lease Liabilities | | | 157,610 | 164,064 |
| Total current liabilities | | | 3,593,783 | 910,051 |
| Non-current liabilities | | 6 | 389,992 | 183,553 |
| Total liabilities | | | 3,983,775 | 1,093,604 |
| Net assets | | | 12,733,720 | 7,799,333 |

1. Strong cash position at 31 December and zero debt. \$5.96m (net of transaction costs) received from exercise of ASX-listed and unlisted options
2. December quarter typically the low point in the Group's cash cycle. 31-Dec-20 trade receivables balance reflects extended payment terms given to direct full-curriculum school customers in order to match schools' funding cycles
3. Intangibles include capitalised software development (\$2.2m), goodwill (\$2.21m for AIET acquisition and \$1.15m for COSAMP acquisition) and other acquired intangibles
4. Mainly comprises amounts owing to publishers in respect of 1H FY21 eBook sales to full-curriculum schools
5. Comprises employee entitlements (31-Dec-20: \$0.16m, 31-Dec-19: \$0.15m) and contract liabilities / unearned revenue (31-Dec-20: \$0.81m, 31-Dec-19: \$0.21m)
6. Up to \$0.40m in RCL shares payable to the vendors of COSAMP (present value \$0.37m, \$0.12m classified as non-current), contingent on defined revenue targets for FY21 and FY22



1H FY21 Result – Cash Flow

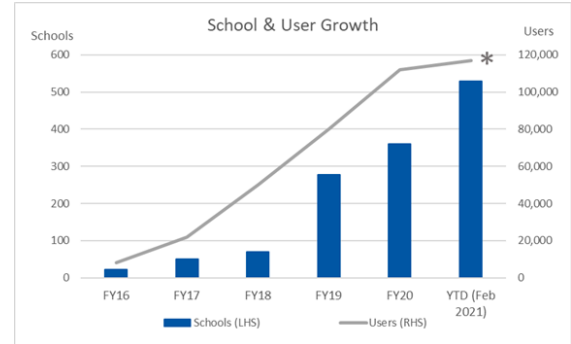
| | (\$) | Note | 1H FY21 | 1H FY20 | 1H FY21 vs 1H FY20 |
|---|------|------|--------------------|--------------------|-----------------------|
| Receipts from customers | | 1 | 1,081,439 | 673,118 | +61% |
| Payments to suppliers & employees | | 2 | (2,293,685) | (2,342,819) | -2% |
| Research and development tax incentive refund | | | 390,614 | 393,123 | -1% |
| Interest income | | | 907 | 2,280 | -60% |
| Net cash used in operating activities | | | (820,725) | (1,274,298) | -36% |
| Payment for purchase of business | | 3 | (1,033,155) | (360,000) | |
| Payments for PP&E | | | (9,701) | (66,137) | |
| Software development | | | (319,074) | (331,700) | |
| Net cash used in investing activities | | | (1,361,930) | (757,837) | |
| Lease payments – principal & interest | | | (96,711) | (45,770) | |
| Proceeds from issue of shares (net of costs) | | 4 | 5,955,594 | 1,850,496 | |
| Repayment of borrowings | | | (23,246) | - | |
| Net cash from financing activities | | | 5,835,637 | 1,804,726 | |
| Net (decrease) in cash | | | 3,652,982 | (227,409) | |
| Cash at the beginning of year | | | 3,387,609 | 3,067,599 | |
| Cash at end of year | | | 7,040,591 | 2,840,190 | |

1. Receipts from customers ↑ 61% over the prior comparable period
2. Includes transaction costs of \$0.13m associated with the COSAMP acquisition
3. \$1.05m up-front cash consideration paid for COSAMP acquisition less \$17k cash acquired
4. 1H FY21 represents proceeds received from the exercise of ASX-listed and unlisted options. Prior comparable period represents the proceeds (net of costs) from June 2019 share placement

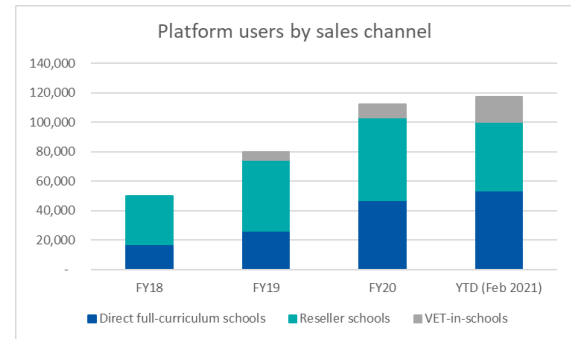
Outlook



- ReadCloud platform users 117,000 as at the end of February 2021 (↑ 14% from January 2020), with user numbers set to increase (VET enrolments)
- The Group is well-placed to continue its strong growth, driven by:
 - a strong balance sheet (\$7.04 million cash and zero debt) - provides ability to continue expansion through targeted acquisitions and increased business development activities;
 - strong momentum in new school acquisitions in both the direct full-curriculum and VET-in-school segments, especially as COVID-19 impacts reduce pressure on schools;
 - Increased investment and focus in the VET sector, supported by favourable recommendations in the Productivity Commission’s recent report on the VET sector (released in January 2021), including a focus on improved career pathways encouraging more secondary students in Years 9 to 12 to undertake VET-in-schools programs;
 - organic growth within existing school customers driven by expanded usage of the ReadCloud platform and VET auspicing services across additional courses and year levels;
 - continuing success in cross-selling; and
 - accelerating digital adoption within both the full-curriculum and VET in school, especially after experiencing COVID-19 impacts.



- * Lower rate of user growth reflective of the loss of Reseller school users, which are being replaced by higher margin direct full curriculum and VET-in-school users



Corporate Snapshot

ASX Code: RCL

| | |
|------------------------------------|---------|
| Share Price (26 February 2021) | \$0.51 |
| Market capitalisation (@ 51 cents) | \$60.2m |
| Shares on issue | 118.3m |
| Options on issue (unlisted) | 1.5m |
| Current cash (31 December 2020) | \$7.0m |

Board & Management

| | |
|-------------------|--------------------------|
| Cristiano Nicolli | Non-Executive Chairman |
| Paul Collins | 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 |

Substantial Shareholders

| | |
|--|--------------|
| Thorney Group* | 10.9% |
| Kinderhook 2 LP | 8.5% |
| Lars Lindstrom | 7.2% |
| Hunmar Holdings/Darren Hunter* | 6.0% |
| West Elk Partners LP | 5.8% |
| Top 20 | 74.4% |
| Total Board and management shareholdings* | 19.8% |

*Includes indirect holdings

Chart generated on 29/1/2021 at 7:48 am



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 117,000 users in over 530 school customers and continues to grow market share
- Strategic acquisition of COSAMP provides a valuable addition to ReadCloud's VET-in-schools business together with significant cross-sell opportunities that are already being capitalised on
- Strong momentum in new school acquisitions in both the direct full-curriculum and VET-in-school segments expected to continue, especially as COVID-19 impacts reduce pressure on schools
- Large market opportunity in Australia with an immediate target market of 2,775 secondary schools with 1.6 million students and 236,000 students yearly taking VET courses in school
- ReadCloud's highly scalable platform is leveraged to improving operating margins as course and user numbers increase
- A strong balance sheet (\$7.04 million cash and zero debt) provides ability to continue expansion through targeted acquisitions and increased business development activities, particularly in the VET segment
- Experienced and motivated team with a clear growth strategy



ReadCloud Limited

284 Bay Street
Brighton VIC 3186

Lars Lindstrom | CEO
lars@readcloud.com

ASX : RCL

