FY21 Full-year results announcement

Highlights

Highlights for the FY21 full-year include:

- Maiden full-year Underlying EBITDA profit of $15,553 for FY21 (FY20: Underlying EBITDA loss of $161,141)

- Strong growth in ReadCloud platform user and school customer numbers - ReadCloud now has over 116,000 users on its platform with over 550 schools and educational institution customers

- Completion of the strategic acquisitions of College of Sound & Music Production ("COSAMP") and Ripponlea Institute

- Current annualised run rate of over $9.0 million pro-forma revenue for FY21

- Investment from the fourth quarter in business development and a new outbound sales force to drive accelerated growth in FY22

- The Group is well capitalised to pursue growth initiatives, with $6.3 million cash as at 30 June 2021

ReadCloud Limited ("ReadCloud" or "the Group"; ASX: RCL) is a leading provider of digital eLearning solutions to secondary schools and the VET sector in Australia. The Directors of ReadCloud are pleased to release the Company's full-year results for the year ended 30 June 2021.

Operational update

Full-curriculum segment (eBook solutions)

ReadCloud signed up 22 new school customers for delivery of the full curriculum in 2021. This was a strong performance in a difficult year when our sales efforts were heavily impacted by COVID-19 through the challenging priorities faced by schools and the difficultly in marketing and presenting ReadCloud solutions to schools.

As a result of a concerted strategy to accelerate growth of the Reseller sales channel, ReadCloud was successful in signing up three new full-curriculum Resellers during FY21, with one in each of Victoria, Western Australia and South Australia. These new Resellers won a number of new schools for delivery of the full curriculum in 2021.

At the conclusion of FY21 ReadCloud had over 57,000 direct full-curriculum school customer users (up 21% compared to June 2020) and over 45,000 Reseller full-curriculum school customer users (down 20% compared to June 2020). The 20% decline in Reseller full-curriculum school customer users reflects significant school customer losses suffered by one of our Reseller partners due to servicing issues unrelated to the ReadCloud platform. ReadCloud has invested in working more closely with the new

management team at this Reseller in order to assist in rebuilding their schools business through extensive training of their sales staff and joint marketing efforts.

Vocational Education & Training segment

Increased strategic focus on the VET-in-schools segment during FY21 saw a 56% increase in VET-in-school user numbers to 14,000 (compared to 9,000 users in June 2020), driven by a combination of organic and acquisitive growth.

ReadCloud's existing VET business Australian Institute of Education and Training ("AIET") signed up 30 new school customers for the delivery of VET courses in the 2021 school year and achieved an 11% increase in VET-in-school users for FY21, which translated to a 12% increase in revenue.

In October 2020 ReadCloud completed the acquisition of COSAMP, the market leading Registered Training Organisation ("RTO") in VET courses for the music industry (a top 10 vertical in the VET-in-schools market). Headquartered in Melbourne, COSAMP provides nationally accredited VET programs for the music industry to over 180 secondary schools throughout Australia, including Certificate II and Certificate III in Music Industry and Diploma of Music Industry qualifications. Integration into the ReadCloud Group has gone well and the digitisation of COSAMP's course resources to enable digital delivery via the ReadCloud platform will be ready for the 2022 school year. COSAMP contributed revenue of $0.71 million and a profit after tax of $0.06 million for FY21.

In June 2021 ReadCloud completed the acquisition of Ripponlea Institute Pty Ltd ("Ripponlea Institute), the national market leader in VET-in-Schools courses for Applied Languages (another key vertical in the VET sector). Headquartered in Melbourne, the business provides nationally accredited VET programs mainly in the language segment to 70 secondary schools throughout Australia, including Certificate II and Certificate III in Applied Languages. Ripponlea Institute also offers courses in Fashion, Music (similar to COSAMP's VET courses) and Small Business.

Of key strategic interest to ReadCloud, Ripponlea offers the TAE40116 Certificate IV in Training and Assessment ("TAE"), a required qualification for all teachers of VET across the entire sector. This new qualification for the ReadCloud Group provides an immediate cross-sell opportunity to ReadCloud's existing 500+ school customers.   Since the acquisition was completed just prior to year-end, Ripponlea Institute did not contribute any revenue or profit to the FY21 consolidated result.

Following the acquisitions of COSAMP and Ripponlea Institute ReadCloud is now the second largest private operator in the Vocational Education & Training-in-Schools market in Australia by number of students and the largest by number of VET qualifications offered.

Financial results

ReadCloud recorded a maiden Underlying EBITDA[1] profit for FY21 of $15,553 (FY20 Underlying EBITDA loss $161,141consolidated statutory loss of $0.98 million), driven by a change in revenue mix towards higher margin revenue.

The Underlying EBITDA[1] profit for FY21 is reconciled to the statutory loss as detailed below.

		Consolidated	
		30 June 2021 $	30 June 2020 $
Underlying EBITDA[1]		**15,553**	**(161,141)**
Less:	Depreciation and amortisation	(928,536)	(702,262)
	Share based payments	(59,603)	(130,392)
	Transaction costs incurred on business acquisitions (expensed) and one-off ASX fees	(144,830)	(27,751)
	Net interest (expense) / revenue	(12,833)	(5,764)
	Income tax expense / (benefit)	(21,122)	45,326
Reported (statutory) net loss after tax		**(1,151,371)**	**(981,984)**

The FY21 consolidated statutory result reflects:

- 44% Sales and fee revenue growth for the VET segment to $3.26 million (FY20: $2.27 million), reflecting a 12% increase in revenue from the AIET business and the FY21 revenue contribution from the COSAMP acquisition

- a 17% decline in Sales and fee revenue for the full-curriculum segment to $3.92 million (FY20: $4.69 million) as a result of a $1.0 million reduction in Reseller revenue (compared to FY20) attributable to one Reseller and the loss of four existing direct full-curriculum school customers that contributed revenue of $0.52 million in FY20 (with negligible margin), which were partially offset by increased eBook sales to continuing direct full-curriculum customer schools and sales to new direct full-curriculum customer schools for FY21;

- gross profit for the full-curriculum segment (sales and fee revenue less publisher and bookseller fees) of $1.18 million, which was consistent with FY20 ($1.11 million) despite the decline in (lower margin) revenue;

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[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.

- a 52% increase in gross profit for the VET segment for FY21 (sales and fee revenue less direct costs mainly comprising publisher fees) to $2.90 million (FY20: 1.91 million), reflecting increased usage of ReadCloud Group-owned VET course materials for the delivery of VET programs to schools in FY21 (i.e. less reliance on external publishers);

- a 22% decline in Publisher and bookseller expenses for FY21 to $3.05 million (FY20: $3.89 million). Publisher and bookseller expenses as a percentage of consolidated sales and fee revenue decreased in FY21, reflecting an increase in gross margins on eBook sales as a result of a change in the sales mix for FY21 and increased use of Group-owned VET course materials;

- a 28% increase in Employment costs for FY21 to $3.37 million (FY20: $2.63 million), with the increase over the prior comparable period attributable to the COSAMP and Ripponlea Institute acquisitions ($0.45 million) and investment in additional sales and marketing and operational staff in both the VET and full-curriculum segments;

- a 64% increase in Professional services expenses for FY21 to $0.49 million (FY20 $0.30 million), including transaction costs (expensed) associated with the COSAMP and Ripponlea Institute acquisitions of $0.10 million, audit fees, share registry costs, company secretarial fees, contract bookkeeping costs, tax consulting fees and RTO compliance consulting services (with additional investment in RTO compliance monitoring and systems via the use of external consultants in FY21);

- a 49% increase in "Other expenses" for FY21 to $0.47 million (FY20 $0.32 million), with the main components including payroll tax, software licences, insurance and occupancy expenses; and

- a 32% increase in Depreciation and amortisation expenses for FY21 to $0.93 million (FY20 $0.70 million), with the increase due to more capitalised software development costs from previous financial years commencing amortisation during 2H FY21 and the depreciation and amortisation of property, plant & equipment and intangible assets acquired in connection with the acquisition of COSAMP.

Funding / Cash flow

As at 30 June 2021 the Group had a strong balance sheet with cash at bank of $6.30 million (30 June 2020: $3.39 million) and $0.46 million of debt. Cash at bank increased by $2.91 million for the year, with significant cash flows during the year including:

- net cash used in operating activities for FY21 was $0.09 million (FY20: $0.31 million);

- cash consideration of $2.04 million (net of cash acquired) paid for the acquisitions of COSAMP and Ripponlea Institute;

- investment in software development associated with the ReadCloud platform of $0.64 million; and

- proceeds received from the exercise of share options (net of transaction costs) of $6.0 million.

The Group is well capitalised to pursue growth initiatives.

Outlook

Following the acquisition of COSAMP and Ripponlea Institute, ReadCloud's annualised revenue run-rate at the end of FY21 stands at over $9.0 million (assuming COSAMP and Ripponlea Institute were owned for all of FY21). ReadCloud is confident that its strategy to accelerate growth through investment in organic marketing and business development combined with targeted acquisitions will result in strong revenue growth in FY22 underpinned by:

Cross-selling within the VET segment and between the VET and full-curriculum segments:	Of the three ReadCloud RTO's collective schools, 85% of those schools use only one of ReadCloud's VET providers (AIET, COSAMP or Ripponlea). This presents a substantial cross-selling opportunity over the coming years to: • deliver proprietary music industry, fashion and applied languages VET courses to AIET and ReadCloud full-curriculum school customers; and • deliver ReadCloud's pre-acquisition offering of 43 VET courses and ReadCloud's full digital education platform to COSAMP's and Ripponlea Institute's school customers. Schools in general prefer to deal with fewer RTOs to simplify the compliance process requirements and gain familiarity with only one software platform. This opportunity is already being capitalised on, with existing ReadCloud VET school customers contracted to deliver COSAMP VET courses in 2021 as a direct result of cross-selling initiatives. Management expects to see further positive results from the cross-selling between the three ReadCloud-owned RTOs in FY22.
Investment in the full-curriculum sales channel	In recent months, partially in response to COVID lockdown restrictions, ReadCloud has implemented a new outbound phone / online video sales force servicing the full-curriculum segment. The outbound sales strategy is being well received as schools are more receptive to finding solutions that can support a remote learning environment in light of the last COVID-impacted year.

	Given COVID learnings to date, this additional sales strategy, supported by dedicated sales staff actively managing numerous opportunities across each key market, has yielded a comprehensive pipeline that is being worked on for the 2022 school selling season.
Growth of the Reseller (full-curriculum) sales channel	ReadCloud continues discussions with a number of school booksellers about becoming a ReadCloud Reseller. The ReadCloud platform provides traditional booksellers with a platform for digital delivery of the full-curriculum that they do not currently offer.

Since the end of FY21 ReadCloud has signed up a further two new Reseller partners (one in each of Queensland and New South Wales). ReadCloud's sales team is now currently working with these new partners to train their respective sales teams and develop joint marketing plans.

With the recruitment of the two new Resellers and targeted recruitment of additional new resellers, further growth in FY22 is anticipated in the Reseller full-curriculum segment. |

The Directors expect to be in a position to provide an update on the sales outlook for the 2022 school year at ReadCloud's Annual General Meeting in November 2021.

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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 55 digital VET courses and auspicing services to schools across Australia.

ReadCloud currently has over 116,000 users on its platform.

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