



ReadCloud Limited

Full Year Results – FY21 30 August 2021

Overview



ReadCloud is a market leader in digital content delivery to schools in Australia

We deliver the school curriculum and VET-in-Schools content and assessments digitally

- ReadCloud is a highly scalable SaaS platform and is integrated from publisher to student
- Our product provides sophisticated collaborative learning tools and is well placed for both in-school and remote learning settings

We operate in a large and growing market

- 2,775 secondary schools with 1.6 million students
- 236,000 students yearly doing VET-in-Schools



FY21 Finances

- ❑ \$7.7m Revenue
- ❑ \$9.0m Pro-Forma Revenue
- ❑ Underlying EBITDA positive for the first time
- ❑ \$6.3m Cash Balance



550 Schools

- ❑ 53% increase over FY20



116,000 Students and Teachers

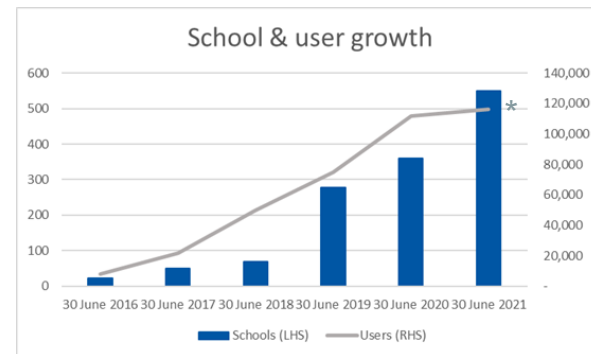
- ❑ 56% increase in VET-in-School
- ❑ 21% increase in Direct Curriculum



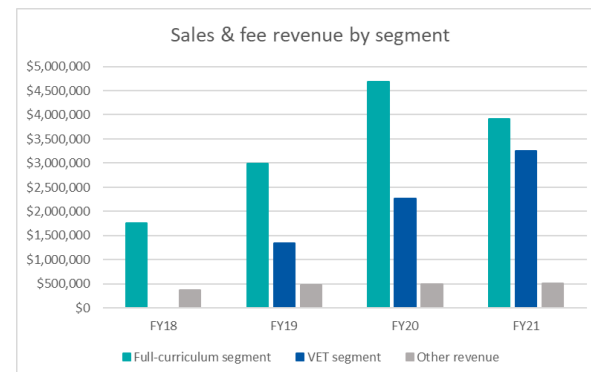
\$63 Average Revenue Per User

FY21 Financial Highlights

- Maiden full-year Underlying EBITDA profit of \$15,552 for FY21 (FY20: Underlying EBITDA loss of \$161,141)
- 3% increase in consolidated revenue to \$7.69 million (FY20: \$7.46 million)
- 43% increase in VET segment revenue to \$3.32 million (FY20: \$2.32 million)
- 17% decline in full-curriculum segment revenue to \$4.36 million (FY20: 5.13 million), reflecting a \$1.0 million reduction in Reseller revenue compared to FY20
- Current annualised run rate of over \$9.0 million pro-forma revenue for FY21 (assuming COSAMP and Ripponlea Institute were owned for all of FY21)
- The Group is well capitalised to pursue growth initiatives with a cash balance of \$6.3 million as at 30 June 2021



* Lower rate of user growth - loss of Reseller school users, which have been replaced by higher margin direct full curriculum and VET-in-school users



FY21 Financials

Underlying EBITDA

- Sales and fee revenue up 3% vs FY20:
 - VET segment sales & fee revenue ↑ 44% (AIET revenue ↑ 12%, revenue contribution from COSAMP)
 - Full-curriculum sales & fee revenue ↓ 17% (loss of lower margin Reseller and direct full-curriculum revenue)
- Publisher and bookseller fees ↓ 22% - reduced eBook sales due to:
 - reduction in lower margin Reseller revenue
 - greater use of proprietary VET course materials for delivery of VET programs
- Operating expenses ↑ 24% (↑ \$0.90 million) due to:
 - employment costs ↑ 28% (↑ \$0.75 million) as result of COSAMP and Ripponlea Institute acquisitions (\$0.45 million) and investment in additional sales and marketing and operational staff
 - investment in RTO compliance and quality systems (mainly reflected in increased professional services expenses); and
 - 8 months and 1 month of operating costs for COSAMP and Ripponlea Institute respectively

* EBITDA adjusted for Interest, Tax, Depreciation and Amortisation, Share-based payments, transaction costs incurred on the COSAMP and Ripponlea Institute acquisitions and one-off ASX fees. See Appendix A for reconciliation to statutory result.

	(\$)	FY21	FY20	YOY
Sales and fee revenue		7,172,072	6,956,136	3%
Less publisher & bookseller fees		(3,050,995)	(3,891,795)	-22%
Margin after publisher & bookseller fees		4,121,077	3,064,341	34%
Add: Other revenue		515,304	500,096	3%
Less operating expenses:				
Advertising and marketing		(114,172)	(115,831)	-1%
Employment expenses		(3,373,377)	(2,628,224)	28%
Legal & compliance		(87,033)	(143,465)	-39%
Professional services expenses		(391,871)	(301,014)	30%
Telephone, internet & data hosting		(90,364)	(80,811)	12%
Travel expenses		(92,059)	(136,713)	-33%
Other expenses		(470,527)	(315,720)	49%
Finance costs		(14,257)	(9,563)	49%
Total operating expenses		(4,633,660)	(3,731,341)	24%
Add: Net interest expense / (revenue)		12,833	5,764	123%
Underlying EBITDA*		15,553	(161,140)	N/A

FY21 Financials

Balance Sheet

Notes

1. Strong cash position at year-end of \$6.3m
2. Includes FY21 R&D tax refund (\$0.40 m) that will be received in the September 2021 quarter
3. Intangibles include capitalised software development (\$2.27 m), goodwill (\$5.4m) and other intangibles acquired as part of the AIET, COSAMP and Ripponlea Institute acquisitions
4. Represents a bank loan assumed with the Ripponlea Institute acquisition (repaid in full post year-end)
5. Includes contract liabilities (unearned revenue - \$0.30 million) and company tax payable in respect of COSAMP and Ripponlea Institute
6. Deferred consideration payable in ReadCloud shares to the vendors of COSAMP and Ripponlea Institute upon achievement of FY21 and FY22 revenue performance hurdles (any shares to be issued will be at greater of \$0.40 and 30-day VWAP and these shares will be escrowed)

	\$	Note	30-Jun-21	30-Jun-20
Cash and cash equivalents	1		6,295,556	3,387,609
Trade and other receivables	2		928,268	597,366
Prepayments			59,927	55,946
Total current assets			7,283,751	4,040,921
Property, plant & equipment			267,675	111,385
Intangibles	3		8,038,723	4,450,488
Right-of-use assets			300,603	290,143
Total non-current assets			8,607,001	4,852,016
Total assets			15,890,752	8,892,937
Trade and other payables			627,330	389,416
Borrowings	4		462,837	-
Other current liabilities	5		412,020	207,308
Employee entitlements (Current & NC)			330,050	179,994
Contingent consideration (Current & NC)	6		1,000,000	-
Lease Liabilities (Current & NC)			328,045	316,887
Total liabilities			3,160,282	1,093,604
Net assets			12,730,470	7,799,333

FY21 Financials

Cash Flow

1. See Appendix A for reconciliation to statutory result
2. Payments for acquisitions of COSAMP and Ripponlea Institute (net of cash acquired)
3. Proceeds from exercise of 20.26 million (mainly ASX-listed) options

	\$	Note	30-Jun-21	30-Jun-20
Underlying EBITDA		1	15,553	(161,141)
Interest income			1,425	3,799
Transaction costs uncured on business acquisitions and one-off ASX fees			(144,830)	(27,751)
Working capital changes			36,706	(122,573)
Net cash used in operating activities			(91,146)	(307,666)
Payment for purchase of business		2	(2,044,220)	(360,000)
Payments for PP&E			(45,394)	(95,530)
Purchase of intangible assets			(67,297)	-
Software development			(642,568)	(676,295)
Net cash used in investing activities			(2,799,479)	(1,131,825)
Lease payments – principal & interest			(201,896)	(119,073)
Proceeds from issue of shares (net of costs)		3	6,022,906	1,878,574
Repayment of Borrowings			(22,438)	-
Net cash from financing activities			5,798,572	1,759,501
Net (decrease) in cash			2,907,947	320,010
Cash at the beginning of year			3,387,609	3,067,599
Cash at end of year			6,295,556	3,387,609

Platform improvements

Continued investment in the ReadCloud platform strengthens our competitive advantage

- During FY21, ReadCloud continued to invest in the Company's proprietary eReader platform to improve user experience, remove pain points for our customers and maintain a strong competitive advantage in regard to the platforms' feature sets
- In addition to customer-centric enhancements, ReadCloud has also successfully rolled out a new sales quoting, ordering and provisioning system for Direct Curriculum customers that greatly enhances the scalability of this business (more schools can be on-boarded with the same customer support team)
- The VET-in-schools platform has also been further advanced with more features and an improved onboarding process will be implemented for 2022
- FY21 R&D investment was \$0.91 million (\$0.64 million capitalised, \$0.27 million expensed). Over \$3.4 million R&D investment over last 4 years

The screenshot displays the ReadCloud Admin Console interface. On the left is a dark sidebar with navigation options: Home, Utilities (expanded), Onix Generator, Reseller Options, Mapped Orders, Actions Manager, Bulk Import (Utils), Institutions (expanded), Search, Recent, Users (expanded), Search, Add, and a lock icon. The main content area is titled 'User Details' and shows information for a user with the role 'Teacher' at 'readcloud.com'. Below this is an 'Activity Log' section with a filter input and a table of recent activities.

Date	OS	App Version	Type
2021-08-25 10:33 pm	iOS 12.5.4	5.5.11	BookOpen
2021-08-25 10:33 pm	iOS 12.5.4	5.5.11	Login

How we accelerate growth / 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)

Management is confident that its strategy to accelerate growth through investment in organic marketing and business development will result in strong revenue growth in FY22 underpinned by:

- **Existing VET-in-Schools Customers**

- Following two acquisitions in FY21, ReadCloud is now the second largest private operator of VET-in-Schools offering over 60 qualifications for Year 11 and 12 students
- A substantial cross selling opportunity exists over the coming years to deliver a wider range of courses to existing schools who, in general, prefer to deal with fewer RTOs to uniform compliance and gain familiarity with only one software platform
- Of the three ReadCloud RTO's collective schools, 85% of those schools use only one of ReadCloud's VET providers (AIET, COSAMP or Ripponlea)

- **Existing Direct Curriculum Customers**

- Continued organic growth in existing schools choosing to expand user numbers across year levels and increase the eBooks penetration rate
- Continued cross selling of VET into Direct Curriculum Customers

How we accelerate growth / outlook (cont'd)

- **Investment in the Direct Curriculum sales channel and increased marketing**

- 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
- 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
- In recent months, ReadCloud has launched an Australian wide school marketing campaign to promote ReadCloud and its now three RTOs which is showing promising results and adding to a strong VET-in-Schools pipeline for FY22

- **New Resellers Curriculum**

- ReadCloud continues to partner with Resellers who offer a one-stop-shop solution to schools wanting a combination of eBooks and physical books/stationary and in August 2021 signed up two new Resellers (one in each of Queensland and New South Wales) who both have large school customer bases
- ReadCloud's sales team is currently working with these new partners to train their respective sales teams and develop joint marketing plans

- **M&A**

- ReadCloud will continue to access further consolidation opportunities as management has a strong track record of successfully acquiring and growing businesses substantially

Key investment highlights

- ReadCloud is the leading digital education solution for Australian schools, delivering clear educational benefits and saving schools and parents money
- 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 doing VET-in-Schools courses for Year 11 and 12
- Growing strongly with over 116,000 users in over 550 schools
- Strategically well positioned with VET-in-Schools, Direct and Reseller sales channels working well and partnerships with an increasing number of educational content publishers seeking a digital delivery solution
- Highly scalable platform with improving operating margins as user numbers increase, leveraging fixed platform costs
- Strong growth outlook with early “pre-selling season” new school wins for the 2022 school year, an expanded sales pipeline and the recent appointment of new reseller partners
- Management is confident that its strategy to accelerate growth through investment in organic marketing and business development will result in strong revenue growth in FY22
- Experienced and motivated management team (combined equity ownership around 20%) with a clear growth strategy

Corporate snapshot

ASX Code: RCL

Share Price (25 August 2021)	\$0.31
Market capitalisation (@ 31 cents)	\$36.7m
Shares on issue (listed)	118.3m
Options on issue (unlisted)	1.6m
Current cash (30 June 2021)	\$6.3m
Turnover (month rolling)	\$632,956

Board & Management

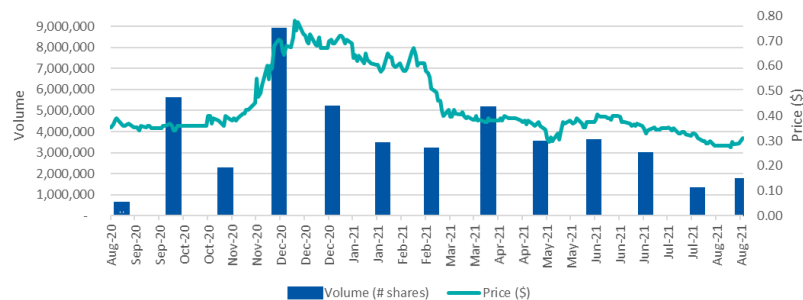
Cristiano Nicolli	Non-Executive Chairman
Paul Collins	Non-Executive Director
Guy Mendelson	Non-Executive Director
Lars Lindstrom	Executive Director (CEO)
Darren Hunter	Executive Director (CIO)
Luke Murphy	Chief Financial Officer
Melanie Leydin	Company Secretary

Substantial Shareholders

Thorney Group*	10.9%
Kinderhook LP	8.5%
Lars Lindstrom	7.2%
Hunmar Holdings/Darren Hunter*	6.0%
West Elk Partners LP	5.8%
Top 20	71.8%
Total Board and management shareholdings*	19.8%

*Includes indirect holdings

Share price performance and volume



Appendix A:

Reconciliation Underlying EBITDA* to statutory result

1. FY21 Maiden Underlying EBITDA profit
2. Higher depreciation & amortisation expense in FY21 due to:
 - more capitalised development costs from previous years commencing amortisation during FY21; and
 - amortisation of intangible assets acquired as part of COSAMP and Ripponlea Institute acquisitions
3. Reduced share-based payments expense in FY21 due to exercise and lapse of options issued under ReadCloud ESOP
4. Transaction costs incurred on acquisitions of COSAMP and Ripponlea Institute (expensed)

\$	Note	FY21	FY20	YOY
Underlying EBITDA*	1	15,553	(161,141)	110%
Depreciation & amortisation	2	(928,536)	(702,262)	32%
Share based payments	3	(59,603)	(130,392)	-54%
Transaction costs incurred on business acquisitions and one-off ASX fees	4	(144,830)	(27,751)	422%
Net interest revenue / (expense)		(12,833)	(5,764)	123%
Income tax benefit		(21,122)	45,326	-147%
Reported (statutory) net loss after tax		(1,151,371)	(981,984)	17%

* EBITDA adjusted for Interest, Tax, Depreciation and Amortisation, Share-based payments, transaction costs incurred on the COSAMP and Ripponlea Institute acquisitions and one-off ASX fees.

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