

ASX Release

31 May 2022



Half-year results announcement

Highlights

- 25% year on year increase in Vocational Education and Training-in-Schools (“VET-In-Schools”) user numbers to 15,000 users, driven by organic growth, cross-selling, and the acquisition of Ripponlea Institute
- 23% year on year increase in Direct full-curriculum ReadCloud platform user numbers to 69,000 users
- Strong retention of existing school customers and new school wins for the 2022 school year across three sales channels, being VET-In-Schools, Direct Curriculum and Reseller
- Most successful on-boarding season for both VET-In-Schools and the full-curriculum segment to date, further validating the investment in our core platform and IP
- ReadCloud platform is now used by more than 600 schools and educational institutions

Financial highlights for 1H FY22 include:

- 33% increase in consolidated revenue and other income to \$7.08 million (versus \$5.34 million in the prior corresponding period), with orders still being received from customer schools that will flow into second half revenue
- 89% increase in VET segment revenue to \$3.10 million (\$1.64 million for the prior corresponding period), driven by organic growth, the Ripponlea Institute acquisition and the earlier achievement of the performance obligations relating to auspicing fee revenue leading to additional accrued revenue as at 31 March 2022 of \$1.45 million
- \$1.35 million 1H FY22 underlying EBITDA (\$0.44 million for the prior corresponding period)
- Strong cash balance of \$5.4 million on 31 March 2022, positioning the Company well for growth

ReadCloud Limited (“ReadCloud” or “the Company”; 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 half-year results for the period ended 31 March 2022.



Management is pleased with year-to-date progress against the strategic plan with good ReadCloud platform user and revenue growth achieved for the half year. In addition, the on-boarding of schools onto the ReadCloud platform at the commencement of the 2022 school year constituted the most successful on-boarding season to date in terms of accuracy and timeliness.

The Company has achieved 33% growth in 1H consolidated revenue over the prior corresponding period via a combination of organic growth and the Ripponlea Institute acquisition completed in late June 2021. This revenue growth has translated into 1H FY22 Underlying EBITDA of \$1.35 million.

As noted in previous Company announcements, ReadCloud has changed financial year-end from 30 June to 30 September, with the accompanying financial report being the first half-year report in the new reporting cycle. As a result of the change in year-end, revenue and associated cost of sales will be heavily skewed towards the first half of the financial year (which incorporates the key school purchasing period for ReadCloud software and course content). In contrast, the Company's cost base (with the exception of publisher and bookseller fees) is largely fixed and incurred evenly across the financial year. Therefore, the 1H FY22 EBITDA result is not indicative of the likely full-year result.

Operational update

Vocational Education & Training segment

The VET-in-Schools segment achieved a 25% increase in ReadCloud platform users (from 12 months ago) to 15,000 users, driven by organic growth (more existing customer schools taking more VET programs), an increase in new school customers, and the acquisition of Ripponlea Institute (completed in late June 2021). 1H FY22 revenue for the segment is up 89% on the prior corresponding period, noting that the earlier achievement of performance obligations relating to auspicing fee revenue in 1H FY22 led to additional accrued revenue as at 31 March 2022 of \$1.45 million. Segment revenue is not expected to show the same level of growth for the FY22 full-year.

Significant investment has been made in the VET-in-Schools segment in 1H FY22 with the delivery of two major projects. The first was the development of a new learning management system ("LMS") for the end-to-end delivery of auspicing services to our VET-in-Schools customers. The front-end of the new system integrates with the ReadCloud platform for the digital delivery of VET course materials to students and teachers.

The new LMS significantly improves customer experience and reduces our reliance on third-party software for key components of our service delivery. The new system has been successfully launched to Australian Institute of Education and Training customers for the 2022 school year. The planned migration of COSAMP and Ripponlea Institute customers onto the new LMS in readiness for the 2023 school year will provide significant benefits and synergies.

The other major project delivered in 1H FY22 was the upgrading (in terms of quality and breadth) of a large proportion of the VET course resources used by the 3 VET-in-Schools businesses. The upgraded resources conform with the latest compliance requirements, are better suited to the unique requirements for delivery of Vocational Education and Training in a secondary school (as opposed to tertiary) environment and provide the ReadCloud VET-in-Schools businesses with a competitive advantage.

Full-curriculum segment (eBook solutions)

ReadCloud achieved a 23% increase (from 12 months ago) in Direct full-curriculum platform user numbers to 69,000 users for the 2022 school year, driven by:

- increased user numbers in existing school customers; and
- new school wins.

This is particularly encouraging considering the travel restrictions affecting the sales team for a large part of the key selling season.

The Company experienced modest (4.4%) year-on-year growth in ReadCloud platform user numbers for full-curriculum Reseller schools for the 2022 school year. However, ReadCloud's main Reseller, having contributed to a \$1 million Reseller revenue decline in FY21, has stabilised with year-to-date eBook sales being up on the FY21 full year.

ReadCloud delivered an 8% increase in revenue to \$3.99 million in the full-curriculum segment (direct and Reseller full-curriculum schools) for 1H FY22 over the prior corresponding period. The Company continues to take eBook and print orders from schools, whilst headstart orders for 2023 years 11 & 12 are still to occur. Schools have held off on some purchases as result of proposed curriculum changes for the 2023 school year.

Financial result

The Company recorded a 1H FY22 consolidated Underlying EBITDA* of \$1.35 million (underlying EBITDA of \$0.44 million in the prior comparable period) and a 1H FY22 consolidated statutory profit after tax of \$1.19 million (loss of \$0.17 million in the prior comparable period). Underlying EBITDA* is reconciled to the statutory profit as detailed below.

		Consolidated	
		31 March 2022	31 March 2021
		\$	\$
Underlying EBITDA*		1,349,652	444,091
Add:	Fair value movement in contingent consideration	375,000	-
Less:	Depreciation and amortisation	(514,107)	(456,075)
	Share based payments	(17,170)	(23,268)
	Transaction costs incurred on business acquisition (expensed in legal and compliance and professional fees)	-	(126,382)
	Net interest revenue	(4,156)	(5,854)
Reported (statutory) net profit / (loss) after tax		1,189,220	(167,487)

* 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.

The 1H FY22 consolidated statutory result reflects:

- 33% growth in consolidated revenue and other income to \$7.08 million (\$5.34 million for the prior comparable period), mainly driven by revenue growth for the VET segment;
- a 20% increase in Publisher and bookseller expenses (representing the cost of digital only and print-digital learning resources sold to schools) to \$2.94 million (\$2.45 million for the prior comparable period). Margins on 1H FY22 eBook sales for the full-curriculum segment (to which the expenses mostly relate) were broadly in line with prior periods;
- increased investment in advertising and marketing for both key operating segments (\$0.16 million versus \$0.06 million for the prior comparable period);
- a 16% increase in employment expenses to \$1.99 million (\$1.72 million for the prior comparable period) attributable to both the Ripponlea Institute acquisition completed in late June 2021 (\$0.22 million) and additional sales and marketing staff;
- 1H FY22 Professional services expenses of \$0.29 million (\$0.20 million for the prior corresponding period after excluding one-off transaction costs incurred in connection with business acquisitions), with the increase attributable to the Ripponlea Institute acquisition as well as increased use of recording studio engineers by PKY Media's Salt Studio's recording studio business;
- a 20% decline in "Other expenses" to \$0.24 million (\$0.31 million for the prior corresponding period), with the main components including payroll tax, software licences, insurance and occupancy expenses;
- increased depreciation and amortisation expense (\$0.51 million versus \$0.46 million for the prior corresponding period) attributable to more capitalised development costs from previous financial years commencing amortisation during 1H FY22 and the addition of identifiable intangible assets following the acquisition of Ripponlea Institute; and
- a \$375,000 movement in the fair value of contingent consideration payable for the PKY Media and Ripponlea Institute acquisitions, representing the downward revision of management's expectations for the final deferred consideration payable to the vendors that is based on revenue targets for the 12 months to 30 June 2022. Management considers the revisions to the revenue expectations for the businesses to be attributable to short-term factors.

Outlook

Due to the nature of ReadCloud's operations, the vast majority of FY22 revenue has been recognised in 1H. However, orders are still being received that will flow into the second half.



The period post-Covid lockdowns has seen an uplift in school re-engagements around digital educational platforms and an increased interest in exploring the ReadCloud platform for the digital delivery of school curriculum and VET courses. The combination of:

- the investment in the platform providing improved customer on-boarding delivery;
- the strong retention of customers over the past 12 months;
- the uplift in interest for digital delivery together with the improved sentiment across direct schools and VET; and
- the upcoming major brand and marketing launch aimed at cross-selling for the VET segment

provides the Directors and management with the confidence for delivering accelerating scale and growth into the 2023 year.

As a group of Registered Training Organisations, we maintain confidence that our platform, compliance and support systems can scale and be leveraged into new opportunities in the broader VET market.

In addition, we are in the early stages of investigating opportunities to deliver publisher content in overseas markets via the ReadCloud platform. We will provide more detail on these activities as it becomes available.

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

-Ends-

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About ReadCloud Limited

ReadCloud is the leading provider of eLearning software solutions, including eBooks, to over 600 Schools and in 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 60 digital VET courses and auspicing services to schools across Australia.