



ASX Release

14 October 2022

Accelerating growth via the acquisition of Southern Solutions

Highlights

- ReadCloud has acquired 100% of Southern Solutions – Training Services Pty Ltd (“Southern Solutions”) which is a leading national provider of training for certificates in Early Childhood Education & Care
- The acquisition provides a large growth opportunity for ReadCloud in a market that is adjacent to our core business and in an industry with skills shortages and high national government funding and focus
- The acquisition broadens ReadCloud’s total addressable market beyond the school market as 3.9 million Australians take a Vocational Educational & Training course yearly
- The owners of the business were attracted to the ReadCloud platform which they will be adopting to deliver efficiencies and better scaling opportunities
- The transaction is EPS accretive

ReadCloud Limited (“ReadCloud” or “the Company”; ASX: RCL) is pleased to announce the acquisition of Southern Solutions Training Services Pty Ltd (“Southern Solutions”).

Established in 2014, Southern Solutions is a Registered Training Organisation (RTO) that predominantly delivers training in Early Childhood Education and Care nationally. The business has developed strong partnerships with industry and earned a reputation as a provider of innovative, quality and service focused training.

The acquisition positions ReadCloud in the broader VET market, which has a target audience of 3.9 million students annually and provides a large growth opportunity in an industry with skills shortages and government funding. The Australian childcare sector is estimated to be in need of an additional 16,000 educators.

The training provided by Southern Solutions is delivered under the same compliance oversight regulations as VET-in-Schools with four state government funding contracts. The owners of the business were attracted to the ReadCloud platform, which they will be adopting to deliver efficiencies and better scaling opportunities.

In FY22, Southern Solutions generated sales revenue of \$2.0m and delivered EBIT of \$364k.

The acquisition consideration is up to \$3.15 million for 100% of the issued shares in Southern Solutions – Training Services Pty Ltd. The upfront payment of \$1.35m includes \$975,000 cash and \$375,000 in equity (RCL shares) at 20 cents payable on completion.



Deferred payments of up to \$1.8 million are based on FY23 and FY24 EBIT performance and paid with 75% cash and 25% shares at the higher of 20 cents or the share price at the time the earn-out targets are being met.

The acquisition will be funded through ReadCloud's existing cash reserves. The total acquisition cost represents between 3.6x and 4.5x times FY24 EBIT depending on achievement of performance hurdles. Post-acquisition ReadCloud continues to have a strong balance sheet and no debt.

The Share Purchase Agreement is subject to the satisfaction of customary conditions for completion, which are expected to be satisfied in the coming week.

ReadCloud has a track record of successfully acquiring and expanding businesses, having grown Ripponlea Institute (acquired in June 2021), COSAMP (acquired in October 2020) and Australian Institute of Education and Training (acquired in November 2018).

The owners of Southern Solutions, Jayne Marsh and Janina Puttick, will continue to work in the business post completion of the acquisition.

Jayne Marsh, the CEO of Southern Solutions said: "We are very excited to join ReadCloud and to combine our expertise in VET training with ReadCloud's platform to further accelerate our growth".

The CEO & Co-Founder of ReadCloud, Lars Lindstrom, said, "This acquisition represents a large growth opportunity for ReadCloud as we are utilising the ReadCloud technology to address the national skills shortage issue in the childcare sector. The industry has a high demand for training of new and existing teachers and strong government focus and funding, and we believe we can assist in solving this issue with the ReadCloud online training platform".

Accompanying this announcement is a presentation containing an overview of the Southern Solutions acquisition.

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

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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.

ReadCloud currently has over 131,000 users on its platform.



readcloud

ReadCloud Limited

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EXPANDING GROWTH OPPORTUNITIES



ReadCloud has acquired 100% of Southern Solutions – Training Services Pty Ltd (“Southern Solutions”) which is a leading national provider of training for certificates in Early Childhood Education & Care



The acquisition broadens ReadCloud's total addressable market beyond the school market, with 3.9 million Australians taking a Vocational Educational & Training course yearly



The acquisition provides a large growth opportunity for ReadCloud in a market that is adjacent to its core business and in an industry with skills shortages and high national government funding and focus



The National Skills Commission predicts strong future demand for childcare workers, with more than 16,000 extra workers needed across Australia



The owners of the business were attracted to the ReadCloud platform, which they will be adopting to deliver efficiencies and better scaling opportunities



Successfully expanding into the childcare sector using the ReadCloud technology may open up new opportunities in other markets where there are skills shortages, such as aged care and health

CONTINUING TO PURSUE OUR STRATEGY



Broader VET

- Acquiring Southern Solutions broadens ReadCloud total addressable market, beyond the school market, to 3.9 million Australians who yearly take a Vocational Educational & Training course
- We are pursuing industry alliances to provide improved alignment between market needs, quality training and job opportunities



VET-In- Schools

- Increased investment in the division to expand on the position of being the largest private provider in Australia by number of qualification on scope
- Capitalise on the trend of schools wanting to deal with only one RTO
- Positive feedback from customers using the new ReadCloud VETHub platform this year has built a strong cross-selling pipeline from schools leading into FY23



eBooks Solutions

- Continued investment in the ReadCloud platform to expand the footprint in Australian secondary schools
- Following the signing of King's InterHigh in London, UK we continue to pursue international opportunities
- Strong existing pipeline for FY23

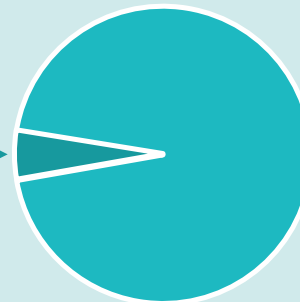
READCLOUD'S MARKET OPPORTUNITY



1.7 million students in
2,816 secondary
schools in Australia²



241,000
students in
VET-in-school
courses¹



3.9 million students
enrolled in VET
courses with 3,519
training providers in
Australia

Continued Investment

ReadCloud eBook solutions

- The full-curriculum eBooks (maths, English, science etc.)
- We estimate a market size in Australia of \$170 million (conservative estimate of \$100 per student p.a. for learning resources)
- Continue to pursue overseas expansion after signing King's InterHigh

Increased Investment

ReadCloud Vocational Education & Training-in-schools

- 241,000 school students took VET courses in 2020¹, implying nearly 1 in 2 senior students in years 11 and 12 study VET courses
- With VET in secondary school courses costing approximately \$250-300 per course per annum, ReadCloud estimates it is a \$60-75 million industry

New Investment

Broader VET market

- Acquiring Southern Solutions launches ReadCloud into a large market with skills shortages
- Government funding in this area averages in excess of \$8,000 per student and the total funding in VET is \$7.5 billion
- The ReadCloud SaaS Platform is designed to support the Broader VET market

1. National Centre for Vocational Education Research – VET in Schools 2020 report (up from 60,000 students in 1996)

2. Australian Curriculum, Assessment & Reporting Authority

ACQUISITION OVERVIEW

ReadCloud has acquired 100% of Southern Solutions – Training Services Pty Ltd



Southern Solutions Overview

- Registered Training Organisation established in 2014 delivering qualifications nationally
- Training is predominantly delivered in Early Childhood Education and Care
- State government funding contracts in four states
- \$2.0m revenue and \$364k EBIT in FY22, with high growth ambitions



Strategic Rationale

- Positions ReadCloud in the broader VET market
- Opportunity in an industry with skills shortages and government funding
- Owners of the business were attracted to the ReadCloud VET platform
- Adds another revenue growth stream, provides a more regular cash flow and augments existing organic growth targets



Acquisition Snapshot

- Purchase price is up to \$3.15m
- \$1.35m upfront payment - \$975k cash and \$375k in RCL shares at 20 cents
- Deferred payments of up to \$1.8 million based on FY23 and FY24 EBIT performance (75% cash and 25% shares)
- Acquisition is funded by existing cash reserves

SOUTHERN SOLUTIONS OVERVIEW



- An approved registered training organisation (RTO) that provides Nationally Accredited Training
- The business has developed strong partnerships with industry and earned a reputation as a provider of innovative, quality and service focused training
- It has government funding contracts in four states
- Training is predominantly in Early Childhood Education and Care
- Southern also delivers courses in leadership, management and food processing with long-standing contracts
- Training revenue is through fee for service and state-based funding arrangements
- \$2.0m revenue and \$364k EBIT in FY22 with high growth ambitions
- 650 current student enrolments





Positive supply/demand trends in the childcare sector



Favourable government funding initiatives, which should continue to support growth in demand



Staff shortages continue to impact the conversion of rising demand

Jobs and Skills Summit – key outcomes with respect to Early Childhood Education and Care

- Government to identify priority areas where it can help tackle ECEC workforce shortages
- National Cabinet to work on a long-term vision for early childhood education and care reform (with a focus on increasing workforce participation for parents)

National Skills Commission

- Identified childcare workers as an occupation experiencing national skill shortages and predicts strong future demand
- More than 16,000 extra workers are needed across Australia
- Childcare was Labor's biggest election commitment (in terms of cost), with a \$5.4 billion plan to increase subsidies and raise the maximum family income threshold to get more parents using childcare

Overview of key VET statistics in Australia

Government- funded students and courses

2021



1.25 million

**Government –
funded vet
students**



7.4%

Of 15 to 64-year-
old Australians
participated in
**government-
funded VET**

VET in Schools

2020



241 200

**VET in Schools
students**



17 800

School-based
apprentices and
trainees



223 300

Students in other
VET in Schools
programs

Total VET students and courses

2020



3.9 million

VET students



2.1 million

Students enrolled in
nationally recognised
programs



2.4 million

Students enrolled in
subjects not delivered
as part of a nationally
recognised program

VET Funding

2020



\$7.5 billion

**Government
spending for VET**



\$5.0 billion

Vet delivery funding



\$1.5 billion

Employer
assistance funding

TRANSACTION RATIONALE



Takes ReadCloud into the broader VET market, which has a target audience of 3.9 million students annually



Entering an industry with state government funding and skills shortages – childcare sector estimated to be in need of an additional 16,000 educators



Owners of the business were attracted to the ReadCloud VET platform, which the business will be adopting to deliver efficiencies and better scaling opportunities



ReadCloud already has access to premium course materials in the sector through its eBook distribution partnerships



Training provided by Southern Solutions is delivered under the same compliance oversight regulations as VET-in-Schools, which the ReadCloud organisation is highly experienced in



Annual Revenue Per User ("ARPU") for VET-In-Schools is between \$250-300, whereas for a Diploma in Early Childhood Education and Care, the state funding provided is in excess of \$8,000 per student (although it varies by state)





- ReadCloud to acquire 100% of the issued shares in Southern Solutions – Training Services Pty Ltd
- The upfront payment of \$1.35m includes \$975,000 cash payable on completion and \$375,000 in equity (RCL shares) at the higher of 20 cents or the share price at the time of completion
- Deferred payments of up to \$1.8 million are based on FY23 and FY24 EBIT performance
- RCL shares to be issued as deferred consideration are to be valued at the 30-day volume-weighted average price (VWAP) of RCL shares traded on the ASX in the 30 days immediately prior to the deferred consideration payment date, with a minimum price of 20 cents regardless of market conditions at the time
- 50% of shares issued as equity consideration are to be escrowed for 12 months from the date of their issue, with the remaining 50% escrowed for 24 months from the date of their issue.
- Total acquisition cost represents between 3.7x and 4.5x times FY24 EBIT depending on achievement of performance hurdles
- Joint vendors, Jayne Marsh and Janina Puttick, to continue to work in the business to drive growth going forward

ACQUISITION SUMMARY



The new market acquisition broadens ReadCloud's total addressable market beyond the school market as 3.9 million Australians take a Vocational Educational & Training course yearly



The provision of training in the childcare sector will leverage the existing ReadCloud SaaS platform and improve the delivery of training to assist with closing the gap in an important skills shortages area



The compliance and governance strengths of ReadCloud provides a strong base to integrate the business and accelerate its growth



The acquisition adds another revenue growth stream, provides a more regular cash flow and augments existing organic growth targets



Pursuing industry alliances is currently underway to provide improved alignment between market needs, quality training and job opportunities



Successfully expanding into the childcare sector using the ReadCloud technology may open up new opportunities in other markets where there are also skills shortages such as aged care and health



KEY INVESTMENT HIGHLIGHTS



Acquisition of Southern Solutions **launches ReadCloud into a large market in Broader VET training**



Investment in platform, compliance and support systems can be scaled and leveraged into new opportunities such as this acquisition



Major **brand and marketing launch** aimed at cross-selling for the VET-in-schools segment to drive growth late 2022 and 2023



After signing an agreement with King's InterHigh in London, ReadCloud is now **delivering publisher content in overseas markets** via the ReadCloud platform, with additional plans to expand



Following the acquisition, ReadCloud maintains a **strong balance sheet with a solid cash position and no debt**

