



Keypath Education International, Inc.
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ASX Announcement

August 28, 2023

Keypath drives revenue growth and improving profitability in FY23

[Keypath Education International, Inc.](#) (Keypath or the Company) (ASX: KED) today released its results and Appendix 4E for the year ended June 30, 2023 (FY23). The Appendix 4E is prepared in US dollars under US GAAP.

FY23 results in line with guidance with accelerating growth and profitability expected into the future

- **Revenue growth aligned with FY23 full-year guidance:**
 - FY23 revenue of US\$124.2 million, 4.9% higher than FY22 (9.1% higher on a constant currency basis); at guidance exchange rates¹ FY23 revenue was US\$126.2 million
 - FY23 revenue within Healthcare² of US\$68.0 million was 21.6% higher than FY22
- **Significant partner and program additions:**
 - Seven new partners and 34 new programs added in FY23; 23 of 34 new programs signed were in Healthcare and 13 continuing our expansion with our Asia Pacific (“APAC”) enterprise partners
 - APAC continues to grow strongly with the addition of new partners further building the pipeline for future growth
- **Adjusted EBITDA within FY23 full-year guidance:**
 - Adjusted EBITDA (including adjustments for one-time restructuring and US Securities and Exchange Commission (“SEC”) registration costs³) was US\$(9.4) million; when adjusted using guidance exchange rates, adjusted EBITDA was within FY23 guidance at US\$(8.4) million
 - Continue to target adjusted EBITDA profitability from H2 FY24
- **Strong cash position:**
 - US\$46.8 million (no debt) as of June 30, 2023, reflecting flat year-over-year cash burn of US\$8.1 million after removing US\$4.2 million of FY23 non-operating cash outflows for previously disclosed one-time long-term incentive plan cash awards payout, employee net-share settlements of stock-based awards and employee stock repurchases
 - Confident organic growth fully funded to cash flow breakeven
- **We are confident of continuing to innovate with our partners to drive impact, growth and profitability:**
 - We have already signed 48 new programs from our future vintages

¹ FY23 revenue guidance was US\$125 million to US\$130 million and FY23 adjusted EBITDA guidance was US\$(7) million to US\$(9) million on a constant currency basis assuming USD:AUD rate of 0.695.

² Healthcare includes Nursing and the Health & Social Services verticals.

³ Please see below in this announcement for details.

- Utilizing KeypathEDGE, we are continuing to focus our investment for long-term growth through proactively and analytically transitioning our focus and investment into newer vintages comprising programs with improved growth, unit economics and returns profiles
- As a result, we expect revenue growth and profitability improvements in FY24 with:
 - Revenue: US\$130 million – US\$135 million on a constant currency basis⁴
 - Adjusted EBITDA: US\$(1) million – US\$(3) million on a constant currency basis
- We continue to remain confident in our target of adjusted EBITDA profitability from H2 FY24 and expect longer-term annual revenue growth rates to be in the mid-teens

Keypath's Founder and CEO, Steve Fireng, said "We are proud to have achieved our FY23 revenue and adjusted EBITDA guidance in a challenging operating environment which gives us confidence in our ability to continue to drive revenue growth into the future and achieve breakeven adjusted EBITDA from H2 FY24.

We continued to move our investment from our mature vintages to newer vintages and programs where we see the strongest demand, and, as expected, contribution margin and adjusted EBITDA have been impacted by this. However, this has been offset by our recent larger vintages progressing through our proven unit economic model driving improvements in profitability this year. We are pleased with the progress and outcomes within our Healthcare and Social Services programs as we continue to build out a global Healthcare platform. These investments, along with the continued expansion in APAC, will provide long-term sustainable growth for Keypath. We have also seen continued growth in APAC with the signing of three new partners in the year building on our track record of market leadership and innovation in the region.

Underlining our confidence in the future, we have already signed 48 programs from our future vintages (39 of which are from the FY24 vintage, seven from the FY25 vintage and two from the FY26 vintage). Of the 48 programs, 37 are in Healthcare. Keypath is well positioned across the globe to expand its technology and services to continue to help universities provide quality access to education in a digital environment including by continuing to grow our programs across partners and regions."

Key Financial Metrics

US\$M	FY23	FY22	Change	Change (%)
Revenue	124.2	118.4	5.8	4.9%
Contribution margin ⁵	23.1	22.0	1.1	5.2%
Contribution margin %	18.6%	18.6%	0.1%	5 bps
Adjusted EBITDA ⁶	(9.4)	(10.5)	1.1	(10.9%)

⁴ FY24 guidance is on constant currency basis assuming USD:AUD rate of 0.67.

⁵ Contribution margin is revenue less direct costs, which consists of salaries and wages, direct marketing and general & administrative expenses attributable to direct departments. Contribution margin is not a US GAAP based measure.

⁶ Adjusted EBITDA is earnings before interest, tax, depreciation, amortization and excluding stock-based compensation. Adjusted EBITDA is not a US GAAP based measure. Note that reported EBITDA for FY23 was US(\$13.8) million as compared to US(\$20.7) million in FY22. FY23 adjustments to reported EBITDA include US\$1.5 million of one-time stock based compensation, US\$2.7 million of ongoing stock based compensation, \$2.0 million restructuring costs, \$0.3 million SEC Registration costs, partially offset by a \$2.0 million favorable adjustment from the final settlement of the long-term incentive plan cash awards. FY22 adjustments to reported EBITDA include US\$8.1 million of one-time stock based compensation and long term incentive plan cash awards and US\$2.1 million of ongoing stock based compensation.

Key Operating Metrics

	FY23	FY22	Change	Change %
Partners	46	39	7	17.9%
Active programs ⁷	212	178	34	19.1%
Course enrolments ⁸	104,157	101,561	2,596	2.6%

Revenue growth continues

FY23 revenue grew 4.9% to US\$124.2 million (9.1% higher on a constant currency basis when adjusted for unfavorable foreign exchange impacts of US\$5.0 million⁹). FY23 revenue was US\$126.2 million at guidance exchange rates, within our FY23 guidance range. The revenue comparability has been impacted by the expected softening of enrollments in some programs from mature vintages, weighted to the business vertical, which our increased strategic focus on the Healthcare vertical is addressing.

As of June 30, 2023, our current program count is 212, which represents an increase of 34 programs from the June 30, 2022 (FY22) period. The 34 programs added in the year came from the North American and APAC regions, with 23 coming from Healthcare.

Breakeven adjusted EBITDA expected in H2 FY24

Contribution margin for FY23 increased by 5.2% to US\$23.1 million which reflects the recent vintages progressing through our proven unit economic model to maturity, and the large number of programs we have signed recently that are in their deepest investment phase and the FY21-FY24 vintages¹⁰ being very large vintages, in terms of size and investment and expected steady-state revenue.

Adjusted EBITDA was US\$(9.4) million for FY23 (including adjustments for one-time restructuring and SEC registration costs), within our FY23 guidance range (at US\$(8.4) million on guidance exchange rates) showing improvements in profitability as recent vintages progress through our proven unit economic model and despite investments in the new vintages noted above, and continued investment in our Southeast Asia operation.

The contribution margin and adjusted EBITDA performance also reflects the softening enrollments in mature vintages flowing through to revenue and therefore contribution margin and adjusted EBITDA, which our increased strategic focus on the Healthcare vertical is addressing.

We are proud to have achieved our FY23 adjusted EBITDA guidance in a challenging operating environment which gives us confidence in our ability to continue to drive revenue growth and increasing profitability and breakeven adjusted EBITDA from H2 FY24.

7 Keypath defines a program as a bachelor's, master's, or doctoral degree program, a post master's degree certificate (in the United States) or a graduate diploma program (in APAC) that we are actively supporting on behalf of one of our university partners or for which we have executed contracts for a future program launch.

8 FY23 include estimates for enrollments pending invoicing. Note that course enrollments are counted in the year in which the applicable term began.

9 The comparisons at constant currency rates (foreign exchange) reflect comparative local currency foreign exchange rates at the prior period's average foreign exchange rates. This measure provides information on the change in revenue assuming that foreign currency exchange rates have not changed between the prior period and the current period. Management believes the use of this measure aids in the understanding of changes in revenue without the impact of foreign currency.

10 Vintage year or vintage cohort refers to the fiscal year in which the first student intake occurred for any given program. For example, if a program commences on July 1, 2022, it will be classified as an FY23 vintage. Fiscal year is from July 1 to June 30.

One-off restructuring and SEC registration costs

To continue to focus our strategy and investment on where we can make the biggest impact with our unique competitive strengths, during FY23 we reduced our workforce by approximately 50 people and restructured our Canadian, UK and some US operations resulting in one-time restructuring charges of US\$2.0 million, of which US\$0.8 million was non-cash asset impairments. These activities primarily occurred in our UK and Canada businesses, given our strategic focus on Healthcare in the US and growing throughout the APAC region. The restructuring, and increased focus on US Healthcare and APAC expansion, is expected to result in margin accretion over the medium term.

Due to SEC requirements, the Company commenced preparing for registration with the SEC. This process resulted in one-time costs incurred in FY23, including accounting and legal advice, of US\$0.3 million. This registration may increase the Company's flexibility to access a broader range of investors in the future and list its securities on a national security exchange, but the Company has no current plans for any such listing or any US capital raising.

Due to the one-time, non-recurring nature of the above costs, they have been removed from adjusted EBITDA.

Cash Flows and Position

As of June 30, 2023, the Company had total cash on hand of US\$46.8 million reflecting US\$12.3 million net cash outflow in FY23. After removing US\$4.2 million of FY23 non-operating cash outflows for previously disclosed one-time long-term incentive plan cash awards payout, employee net-share settlements of stock-based awards and employee stock repurchases, the cash burn of US\$8.1 million was flat year-over-year. The Company remains debt-free and confident we are fully funded to cash flow breakeven for the Company's growth objectives.

Net cash used by operations in the year was US\$4.6 million, primarily driven by strong working capital management. For comparison, net cash used in by operations in FY22 was US\$1.7 million.

Net cash used in investing activities in the year was US\$5.4 million, primarily representing the capitalized value of employee and contractor costs directly involved in the development of programs and eligible for capitalization under US GAAP. For comparison, net cash used in FY22 was US\$4.9 million.

Net cash used in financing activities in the year was US\$2.2 million, representing the amount of cash outflow to satisfy employees' income tax withholding obligations as part of a net-share settlement of stock-based awards and employee stock repurchases. There were no financing cash flow activities in FY22.

Current trading and outlook

Keypath is driving positive business momentum into FY24 with our growth in partners, programs and innovations across online Higher Education proving the value of our offering. Our strategic focus and continued expansion in Healthcare and the APAC region is providing the foundation for our sustainable future growth.

We are pleased with the progress we made in the FY23 transition year of positioning the company for long-term growth through proactively and analytically transitioning our focus and investment into newer vintages comprising programs such as Healthcare with improved growth, unit economics and returns profiles.

We are confident of continuing to innovate with our partners to drive growth and impact and have already signed 39 programs from our FY24 vintage, seven from the FY25 vintage and two from the FY26 vintage.

With this and our continued strategic focus on markets where we can make the biggest impact with our unique competitive strengths, we expect revenue growth and profitability improvements in FY24 with:

- Revenue: US\$130 million – US\$135 million on a constant currency basis
- Adjusted EBITDA: US\$(1) million – US\$(3) million on a constant currency basis

As of June 30, 2023, we had US\$46.8 million cash (no debt) on our balance sheet; we continue to remain confident we are well funded to cash flow positivity on our organic growth plans. We continue to remain confident in our FY24 target of adjusted EBITDA profitability from H2 FY24 and expect longer-term annual revenue growth rates to be in the mid-teens.

Keypath is well positioned with growing acceptance among universities and a clear trajectory of accelerating global growth in online learning.

We look forward to updating the market on our progress in FY24 at our Q1 FY24 results.

FY23 Results Investor Briefing

An Investor Briefing webcast will be held commencing at 10.30am (AEST) on Monday, August 28, 2023. Participants can register for the Investor Briefing webcast through the following link: [Register for Keypath Investor Briefing webcast](#)

Further Information

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About Keypath

Founded in 2014, Keypath is a global, market-leading edtech company in the online program management (OPM) market. In collaboration with its university partners, Keypath delivers career-relevant, technology-enabled online higher education programs with the goal of preparing students for the future of work. The suite of services Keypath provides to its university partners includes designing, developing, launching, marketing, and managing online programs. Keypath also undertakes market research and provides student recruitment, support and placement services. The services Keypath provides are underpinned by KeypathEDGE, its integrated technology and data platform. Keypath has approximately 750 employees with operations in Australia, the United States, Canada, the UK, Malaysia and Singapore.

Forward Looking Statements

This announcement contains forward-looking statements. Forward-looking statements may include statements regarding Keypath's intentions, objectives, plans, expectations,

assumptions and beliefs about future events, including Keypath's expectations with respect to the financial and operating position or performance of its business, its capital position and future growth. Forward-looking statements are based on assumptions and contingencies that are subject to change without notice and are not guarantees of future performance. They involve known and unknown risks, uncertainties and other important factors, many of which are beyond the control of Keypath, its directors and management and which may cause actual outcomes to differ materially from those expressed or implied in this announcement. Forward-looking statements should be read in conjunction with, and are qualified by reference to, information in this announcement or previously released by Keypath to ASX. Readers are cautioned not to place undue reliance on forward-looking statements, which are provided for illustrative purposes only and are not necessarily a guide to future performance. No representation or warranty is made by any person as to the likelihood of achievement or reasonableness of any forward-looking statements, and to the maximum extent permitted by law, responsibility for the accuracy or completeness of any forward-looking statements is disclaimed, and except as required by law or regulation (including the ASX Listing Rules), Keypath undertakes no obligation to update any forward-looking statements. Keypath also notes that past performance may not be a reliable indicator of future performance.

Restriction on Purchases of CDIs by US Persons

Keypath is incorporated in the US State of Delaware and none of its securities have been registered under the US Securities Act of 1933 or the laws of any state or other jurisdiction in the United States. Trading of Keypath's CHESS Depositary Interests (CDIs) on the Australian Securities Exchange (ASX) is not subject to the registration requirements of the US Securities Act in reliance on Regulation S under the US Securities Act and a related 'no action' letter issued by the US Securities and Exchange Commission to the ASX in 2000. As a result, the CDIs are "restricted securities" (as defined in Rule 144 under the U.S. Securities Act) and may not be sold or otherwise transferred except in transactions exempt from, or not subject to, the registration requirements of the US Securities Act. For instance, US persons who are qualified institutional buyers (QIBs, as defined in Rule 144A under the US Securities Act) may purchase CDIs in reliance on the exemption from registration provided by Rule 144A. To enforce the transfer restrictions, the CDIs bear a FOR Financial Product designation on the ASX. This designation restricts any CDIs from being sold on ASX to US persons excluding QIBs. In addition, hedging transactions with regard to the CDIs may only be conducted in compliance with the US Securities Act.