ReadCloud Limited

Acquisition of College of Sound and Music Production

- a leading Vocational Education and Training provider

Investor presentation - 27 October 2020

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Corporate Snapshot

ASX Code: RCL, RCLO

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Share Price (23 October 2020)	$0.39
Market capitalisation (@ 39 cents)	$39.0m
Shares on issue (listed)	99.9m
Options on issue (listed)	14.8m
Options on issue (unlisted)	5.2m
Current cash (23 October 2020)	$3.3m
Turnover (month rolling)	$3.6m

Substantial Shareholders

Thorney Group[*]	10.5%
Lars Lindstrom	8.5%
Hunmar Holdings/Darren Hunter[*]	7.0%
Brindle Holdings Pty Ltd <O'Connor S/F A/C>	5.8%
Pollaers Family Trust	5.2%
Joshua Fisher	5.0%
Top 20	77.1%
Total Board and management shareholdings[*]	**27.8%**

*Includes indirect holdings

Board & Management

Paul Collins	Non-Executive Chairman
Cristiano Nicolli	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

Share price performance and volume

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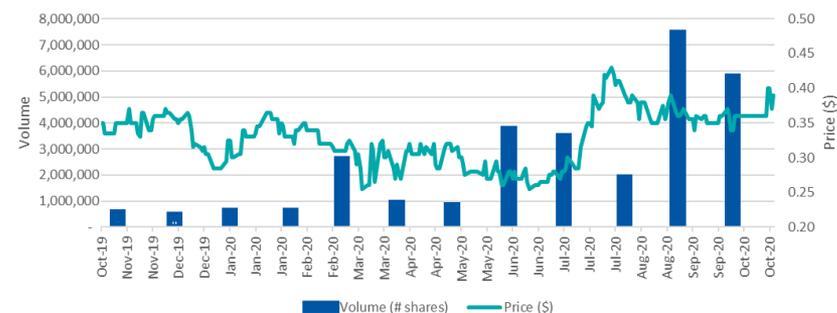
Acquisition Overview

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Agreement to acquire 100% of College of Sound and Music Production ("COSAMP") for up to $1.45 million

1 Compelling Strategic Rationale

▸ COSAMP's proprietary product is entirely complimentary to ReadCloud's current VET offering

▸ Acquisition adds an additional 184 schools to ReadCloud's current 358 secondary school customer relationships

▸ ReadCloud has a track record of successfully acquiring and growing businesses, having grown the AIET business (acquired in November 2018) from revenue of $0.95 million in FY18 to $2.3 million in FY20 (up 140% in 2 years)

▸ COSAMP's secondary school customers are in ReadCloud's core target market and offer a rich opportunity to cross-sell ReadCloud's broader Vocational Education and Training ("VET") and digital education platform

▸ COSAMP and its customers will benefit from ReadCloud's digital delivery platform - COSAMP still relies on paper processes and course materials which can be enhanced on the ReadCloud platform with rich media content, including audio and video

2 COSAMP Overview

▸ Headquartered in Melbourne, COSAMP is a leading Registered Training Organisation ("RTO") delivering proprietary VET courses to 184 secondary schools throughout Australia

▸ COSAMP creates and delivers VET courses for the music industry, including Certificate II and Certificate III in Music Industry and Diploma of Music Industry

▸ COSAMP is the number one supplier in the music industry vertical in VET schools (which is in the Top-10 of VET in Schools courses)

▸ The business generated sales revenue of $0.84 million in FY20 and delivered EBITDA of $0.22 million

3 Acquisition Snapshot

▸ Acquisition will be funded by existing cash and shares, with consideration based on performance

▸ The purchase price is up to $1.45 million, comprising an upfront cash payment of $1.05 million and up to $400k of RCL shares contingent on achievement of two year revenue targets

▸ Total acquisition cost is between 4.7 and 6.5 times FY20 EBITDA subject to revenue performance in the two year earn-out period

Overview of COSAMP

- An accredited RTO, supplying Auspicing services to schools for the delivery of Certificate II and III in Music Industry and Diploma of Music Industry courses

- Produces 85 units in music performance & composition, sound engineering, use of recording software and mixing equipment

- Also provides flexible (non-VET) courses mapped to the Australian Curriculum for The Arts for earlier years, 7-10

- Number one supplier in the music vertical in schools (which is in the Top-10 of VET in Schools courses)

- 45% market share, currently in 184 schools across Australia

- Provides ReadCloud with an outstanding opportunity to cross-sell its 43 VET courses and full curriculum digital education platform into COSAMP's schools, and deliver music industry courses into ReadCloud's 358 existing school customers

- COSAMP's FY20 revenue was $0.84 million delivering an EBITDA of $0.22 million

- Operating for over 10 years, COSAMP has a leading product and a strong reputation within the secondary school system

- School customer retention has been consistently high, built on high quality course resources and customer support

- COSAMP has 6 employees (including part-time and casual employees) including the two founders Kye Thomas and Peter Frawley that are staying on with the business

COSAMP School Services
COLLEGE OF SOUND AND MUSIC PRODUCTION

PD
REMOTE ACCESS
MASTERCLASSES
ONSITE TAILORED PD

STUDIO WORKSHOPS
ONSITE AT SALT STUDIOS

VIRTUAL CLASSROOM
YEARLY ACCESS FOR YOUR SCHOOL

TAILORED PROGRAMS
SPECIALISED CURRICULUM DESIGN

Available to *COSAMP Member School Teachers* to assist with the delivery of their music/music technology programs!

The Australian Vocational Education Sector

- VET is a key component of the Australian government's strategy to increase secondary school student retention and improve year 12 or equivalent completion rates, by providing broader options for all students

  VET courses also help to address skill shortages across all industry sectors

- 236,000 school students took VET courses in 2019[1], implying that nearly 1 in 2 senior students in years 11 and 12 study VET courses[2]

  With VET in secondary school courses costing approximately $250-300 per course per annum, ReadCloud estimates it is a $50-75 million industry

- VET in school courses are delivered by:

  – bricks and mortar training colleges like TAFE;

  – school-based industry traineeships (often with State Government funding);

  – schools that maintain their own Registered Training Organisation (RTO) licence (and still need to purchase course material); and

  – schools that are auspiced through an external RTO such as AIET who provide the content and compliance services

- ReadCloud estimates that the auspiced market accounts for approximately 30-40% of all VET in school students

1. National Centre for Vocational Education Research – VET in Schools 2019 report (up from 60,000 students in 1996)
2. Based on 1.6 million secondary students in 2016 (Australian Bureau of Statistics) and assuming that one third of these students were in years 11 & 12

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Provides a complimentary and highly regarded proprietary VET product to 184 schools across Australia

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Expands presence in the VET in Schools Sector	▪ COSAMP provides music industry courses to 184 schools and is the clear market leader in this segment of the VET-in-schools market ▪ Expands ReadCloud's product offering in the VET-in-schools market, which is a key strategic focus for ReadCloud ▪ Integrates the market leader in VET music industry courses, which is a Top-10 vertical in the VET-in-schools sector
Direct access to new School relationships	▪ Access to COSAMP's existing relationships with 184 schools across Australia ▪ The acquisition takes ReadCloud to over 500 secondary school customers (+40%)
Digital delivery benefits	▪ Digital delivery of COSAMP's course materials (some still paper-based) via the ReadCloud platform will protect COSAMP's IP, reduce costs and improve user experience ▪ VET courses are significantly enhanced by audio and video content, which can be embedded within course materials via the ReadCloud digital platform
Significant cross-selling potential	▪ ReadCloud has existing customers seeking VET music industry courses, providing an immediate cross-sell opportunity ▪ COSAMP provides a unique point of entry to new schools to introduce ReadCloud's broader VET and digital education platform
Value accretive transaction	▪ COSAMP is growing and was profitable in FY20 ▪ High average revenue per user and high margin per user (no external publisher costs) ▪ Immediate cost savings through conversion to digital delivery of courses and from shared services ▪ ReadCloud has a track record of successfully acquiring and growing businesses, having grown the AIET VET business (acquired in November 2018) from revenue of $0.95 million in FY18 to $2.3 million in FY20

Strategic Fit – Significant Cross-Selling Upside

School Customers

Pacific Islands
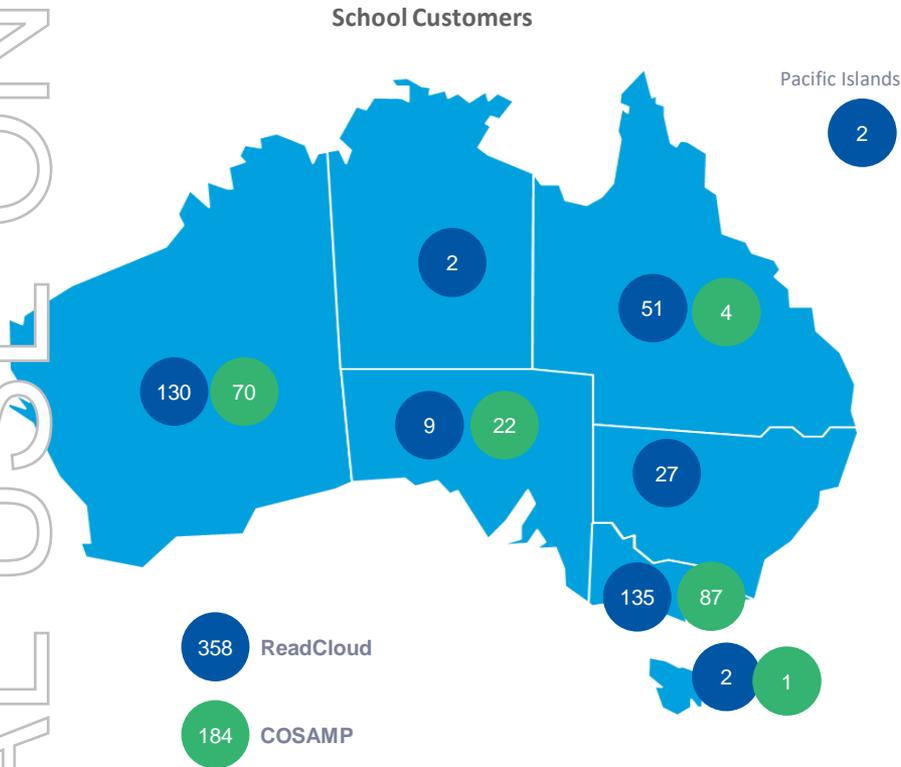
- The acquisition of COSAMP improves and expands ReadCloud's geographic footprint in Australia

- COSAMP adds 184 school relationships to ReadCloud's 358 school customer network with only 24% cross-over

- Presents a significant cross-selling opportunity

  – deliver proprietary VET music industry courses to ReadCloud's existing school customers

  – introduce COSAMP's schools to ReadCloud's broader offering of 43 VET courses and ReadCloud's full digital education platform

358 **ReadCloud**

184 **COSAMP**

Acquisition Terms

- ReadCloud to acquire 100% of the issued capital of PKY Media Pty Ltd trading as COSAMP

- The purchase price is up to $1.45 million based on a 2 year earn-out

- Acquisition will be funded by existing cash and the issue of shares, with consideration in three tranches based on performance:

  o $1.05 million in cash up front; and

  o shares in ReadCloud up to the value of $400,000, contingent on achievement of Revenue performance hurdles in FY21 and FY22

- The business is being acquired on a cash free - debt free basis

- Shares issued as deferred consideration relating to the performance hurdles to be issued at the greater of $0.38 per share and the Volume Weighted Average Price in the 30 days prior to issue

- The deferred consideration shares will be escrowed, 50% for 1 year from the date of issue, with the balance escrowed for 2 years from the date of issue

- Total acquisition cost represents between 4.7 and 6.5 times FY20 EBITDA depending on achievement of performance hurdles

- The two vendors (and founders) of COSAMP and the other 4 employees will join the ReadCloud team to continue to grow the combined business

Key Investment Highlights

- ReadCloud is the leading digital education solution for Australian schools, delivering clear educational benefits and saving schools and students money

- ReadCloud is growing rapidly with over 112,000 users in over 500 school customers with ongoing growth in market share

- Strategic acquisition of COSAMP provides a valuable addition to ReadCloud's VET in Schools business together with near-term cross-sell opportunities across COSAMP's 184 secondary school customers nation wide

- Large market opportunity in Australia with an immediate target market of 2,700 secondary schools with 1.6 million students and 226,000 students yearly taking VET in Schools courses

- ReadCloud expects significant revenue growth from its existing direct school customers - from expansion of year levels using the ReadCloud digital education platform, additional eBook sales, and further penetration of the VET sector

- ReadCloud's highly scalable platform is leveraged to improving operating margins as user numbers increase

- ReadCloud has a record direct sales pipeline leading into the 2021 school year, with schools showing a heightened awareness of the need for effective digital education capabilities

- Experienced and motivated team with a clear growth strategy

- A further update will be provided at the Company's AGM on 10 November 2020
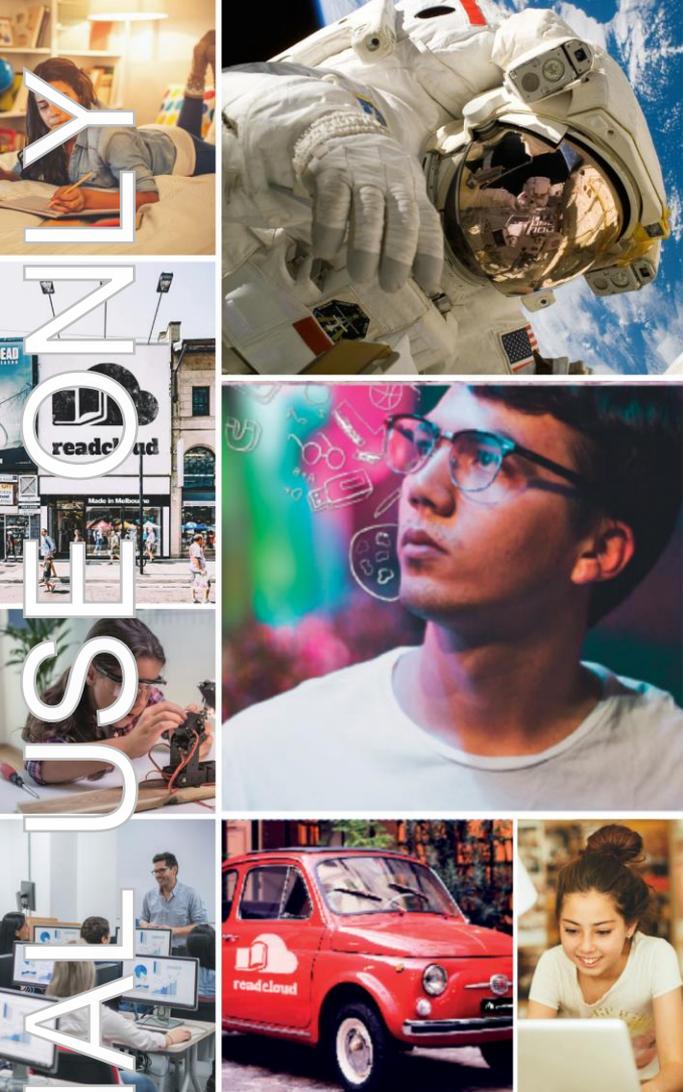
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