



# ReadCloud Limited

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Australia's Leading eReading Solution

Half-Year Results Presentation  
March 2021

ASX : RCL



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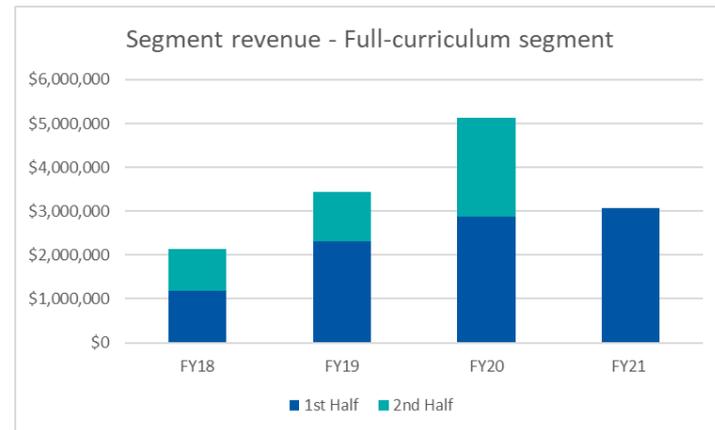
# 1H FY21 Highlights

- H1 FY21 consolidated revenue ↑ 11% to \$3.49 million (1H FY20: \$3.15 million), with FY21 full-year revenue expected to be skewed to the second half as in prior years
- Completion of the acquisition and integration of College of Sound and Music Production (“COSAMP”)
- 50 new school customers across both the School Curriculum and Vocational Education and Training (“VET”) segments
- ReadCloud is now in over 530 school customers<sup>1</sup> (↑ 51% from January 2020)
- Over 117,000 users<sup>1</sup> on the ReadCloud platform (↑ 14% from January 2020), with user numbers set to increase in the coming weeks
- The Group is well capitalised, with \$7.04 million cash and zero debt as at 31 December 2020

<sup>1</sup> As at end February 2021

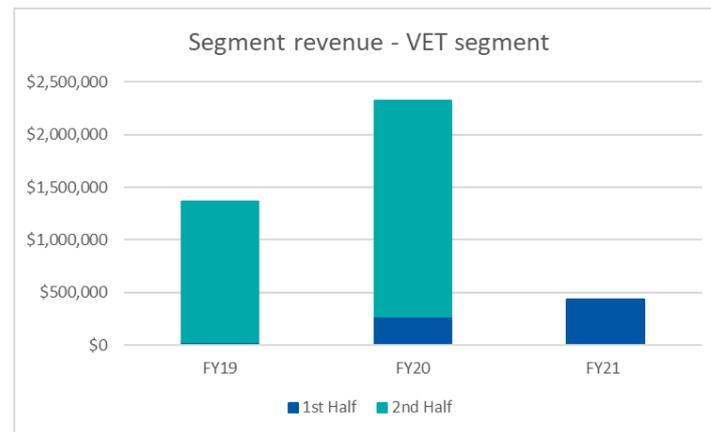
# Full-curriculum segment

- 1H FY21 segment revenue ↑ 6% to \$3.06m (1H FY20: \$2.88m)
- 1H FY21 segment revenue affected by:
  - 22 new direct full-curriculum customer schools for 2021 (QLD, VIC, TAS, WA)
  - 4 lost direct full-curriculum customers that have moved to a single publisher model for their eBooks (lost eBook revenue \$0.45m, negligible lost margin)
  - delayed school eBook purchasing decisions and sales orders (direct and Reseller schools) – this revenue will be picked up in 2<sup>nd</sup> half
  - publishers sympathetic to impact of COVID-19 on schools in 2020 offering significantly discounted digital reactivations
  - significant under-performance of an existing Reseller partner (lost schools)
  - COVID-19, with schools facing challenging priorities and this impacting marketing efforts
- Improved growth dynamics expected to return as COVID-19 restrictions are lifted and COVID-19 issues become less of a burden
- Two new Reseller partners for 2021 (Ziggies and Lilydale Books) successful in signing up new school customers for delivery of the full-curriculum
  - notable wins include two prestigious private schools in Perth and a leading independent school in Melbourne
- On-boarding process for full-curriculum schools for the 2021 school year has gone well, leveraging new streamlined systems that ReadCloud has built into its back-end platform



# Vocational Education & Training (“VET”) segment

- 1H FY21 segment revenue ↑ 58% to \$0.43m (1H FY20: \$0.27m)
- Acquisition of COSAMP, the leading VET-in-schools provider of music industry qualifications, completed 28 October 2020
- Integration of COSAMP has gone well and the significant cross-selling opportunity is already being capitalised on
- COSAMP contributed revenue of \$0.04m for 1H FY21, with a further \$0.44m of invoiced auspicating fee revenue deferred to 2H FY21
- ReadCloud’s existing VET business (Australian Institute of Education & Training, “AIET”) has 30 new school customers for 2021 school year (VIC, QLD, SA & WA)
  - includes 2 existing ReadCloud direct full-curriculum customer schools that are Registered Training Organisations in their own right – new revenue stream
- Some customer churn in the AIET business, mainly due to strict approach to compliance
- AIET contributed revenue of \$0.39m for 1H FY21 (1H FY20: \$0.27m), with a further \$0.35m of invoiced auspicating fee revenue deferred to 2H FY21
- The enrolment process for VET school customers and students is well underway - final school and user numbers for this segment to be ascertained following completion of student enrolments and VET subject choices in March
- As in prior periods, student auspicating fees for AIET VET courses being delivered in 2021, comprising the majority of AIET’s auspicating fee revenue, will be invoiced to schools in late March / early April 2021





# 1H FY21 Results – Underlying EBITDA

|                                       | (\$) | Note | 1H FY21            | 1H FY20            | 1H FY21 vs<br>1H FY20 |
|---------------------------------------|------|------|--------------------|--------------------|-----------------------|
| Sales and fee revenue                 |      | 1    | 3,179,785          | 2,964,130          | 7%                    |
| Less publisher & bookseller fees      |      | 2    | (1,928,312)        | (1,979,631)        | -3%                   |
| <b>Gross profit</b>                   |      |      | <b>1,251,473</b>   | <b>984,499</b>     | <b>27%</b>            |
| Gross profit (%)                      |      | 3    | 39.3%              | 32.9%              |                       |
| Add: Other revenue                    |      | 4    | 311,022            | 188,668            | 65%                   |
| <b>Less operating expenses:</b>       |      |      |                    |                    |                       |
| Advertising and marketing             |      | 5    | (23,070)           | (76,124)           | -70%                  |
| Employment expenses                   |      | 6    | (1,471,981)        | (1,254,050)        | 17%                   |
| Legal & compliance                    |      |      | (58,149)           | (64,613)           | -10%                  |
| Professional services expenses        |      | 7    | (187,138)          | (140,808)          | 33%                   |
| Telephone, internet & data hosting    |      |      | (42,315)           | (40,928)           | 3%                    |
| Travel expenses                       |      | 5    | (28,031)           | (96,193)           | -71%                  |
| Other expenses                        |      |      | (225,367)          | (192,485)          | 17%                   |
| Finance costs                         |      |      | (6,416)            | (2,839)            | 126%                  |
| <b>Total operating expenses</b>       |      |      | <b>(2,042,467)</b> | <b>(1,868,040)</b> | <b>9%</b>             |
| Add: Net interest expense / (revenue) |      |      | 5,509              | 559                |                       |
| <b>Underlying EBITDA*</b>             |      |      | <b>(474,463)</b>   | <b>(694,314)</b>   | <b>-32%</b>           |

1. Refer commentary on full-curriculum segment revenue - page 4
2. \$ Decline from prior comparable period reflects improved margins on eBook sales as a result of change in product sales mix (towards higher margin products in 1H FY21) and a new digital distribution agreement with a major textbook publisher
3. Gross profit % improvement a result of improved margins on eBook sales, increased software licence fee revenue (1H FY21 \$0.44m vs 1H FY20 \$0.36m) and increased auspicing fee revenue (1H FY21 \$0.44m vs 1H FY20 \$0.36m)
4. Comprises R&D tax incentive income and Federal Government cash-flow boost
5. Impacted by COVID-19
6. Increase over 1H FY20 attributable to both the COSAMP acquisition (\$0.09 million) and additional operational staff in both the VET and full-curriculum segments
7. Increase attributable to additional investment in RTO compliance monitoring and systems via the use of external consultants

\* EBITDA adjusted for Interest, Tax, Depreciation and Amortisation, Share-based payments, transaction costs incurred on the COSAMP and AIET acquisitions



# 1H FY21 Result – Balance Sheet

|                                  | \$ | Note | 31-Dec-20         | 30-Jun-20        |
|----------------------------------|----|------|-------------------|------------------|
| Cash and cash equivalents        |    | 1    | 7,040,591         | 3,387,609        |
| Trade and other receivables      |    | 2    | 3,231,137         | 597,366          |
| Prepayments                      |    |      | 95,193            | 55,946           |
| <b>Total current assets</b>      |    |      | <b>10,366,921</b> | <b>4,040,921</b> |
| Property, plant & equipment      |    |      | 244,700           | 111,385          |
| Intangibles                      |    | 3    | 5,769,030         | 4,450,488        |
| Right-of-use assets              |    |      | 336,844           | 290,143          |
| <b>Total non-current assets</b>  |    |      | <b>6,350,574</b>  | <b>4,852,016</b> |
| <b>Total assets</b>              |    |      | <b>16,717,495</b> | <b>8,892,937</b> |
| Trade and other payables         |    | 4    | 2,219,941         | 389,416          |
| Other current liabilities        |    | 5    | 966,232           | 356,571          |
| Contingent consideration         |    | 6    | 250,000           | -                |
| Lease Liabilities                |    |      | 157,610           | 164,064          |
| <b>Total current liabilities</b> |    |      | <b>3,593,783</b>  | <b>910,051</b>   |
| <b>Non-current liabilities</b>   |    | 6    | <b>389,992</b>    | <b>183,553</b>   |
| <b>Total liabilities</b>         |    |      | <b>3,983,775</b>  | <b>1,093,604</b> |
| <b>Net assets</b>                |    |      | <b>12,733,720</b> | <b>7,799,333</b> |

1. Strong cash position at 31 December and zero debt. \$5.96m (net of transaction costs) received from exercise of ASX-listed and unlisted options
2. December quarter typically the low point in the Group's cash cycle. 31-Dec-20 trade receivables balance reflects extended payment terms given to direct full-curriculum school customers in order to match schools' funding cycles
3. Intangibles include capitalised software development (\$2.2m), goodwill (\$2.21m for AIET acquisition and \$1.15m for COSAMP acquisition) and other acquired intangibles
4. Mainly comprises amounts owing to publishers in respect of 1H FY21 eBook sales to full-curriculum schools
5. Comprises employee entitlements (31-Dec-20: \$0.16m, 31-Dec-19: \$0.15m) and contract liabilities / unearned revenue (31-Dec-20: \$0.81m, 31-Dec-19: \$0.21m)
6. Up to \$0.40m in RCL shares payable to the vendors of COSAMP (present value \$0.37m, \$0.12m classified as non-current), contingent on defined revenue targets for FY21 and FY22



# 1H FY21 Result – Cash Flow

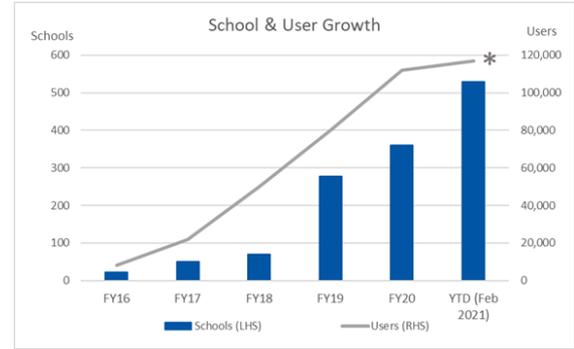
|   | (\$) | Note | 1H FY21            | 1H FY20            | 1H FY21 vs<br>1H FY20 |
|---|------|------|--------------------|--------------------|-----------------------|
| Receipts from customers                       |      | 1    | 1,081,439          | 673,118            | +61%                  |
| Payments to suppliers & employees             |      | 2    | (2,293,685)        | (2,342,819)        | -2%                   |
| Research and development tax incentive refund |      |      | 390,614            | 393,123            | -1%                   |
| Interest income                               |      |      | 907                | 2,280              | -60%                  |
| <b>Net cash used in operating activities</b>  |      |      | <b>(820,725)</b>   | <b>(1,274,298)</b> | <b>-36%</b>           |
| Payment for purchase of business              |      | 3    | (1,033,155)        | (360,000)          |                       |
| Payments for PP&E                             |      |      | (9,701)            | (66,137)           |                       |
| Software development                          |      |      | (319,074)          | (331,700)          |                       |
| <b>Net cash used in investing activities</b>  |      |      | <b>(1,361,930)</b> | <b>(757,837)</b>   |                       |
| Lease payments – principal & interest         |      |      | (96,711)           | (45,770)           |                       |
| Proceeds from issue of shares (net of costs)  |      | 4    | 5,955,594          | 1,850,496          |                       |
| Repayment of borrowings                       |      |      | (23,246)           | -                  |                       |
| <b>Net cash from financing activities</b>     |      |      | <b>5,835,637</b>   | <b>1,804,726</b>   |                       |
| Net (decrease) in cash                        |      |      | 3,652,982          | (227,409)          |                       |
| Cash at the beginning of year                 |      |      | 3,387,609          | 3,067,599          |                       |
| <b>Cash at end of year</b>                    |      |      | <b>7,040,591</b>   | <b>2,840,190</b>   |                       |

1. Receipts from customers ↑ 61% over the prior comparable period
2. Includes transaction costs of \$0.13m associated with the COSAMP acquisition
3. \$1.05m up-front cash consideration paid for COSAMP acquisition less \$17k cash acquired
4. 1H FY21 represents proceeds received from the exercise of ASX-listed and unlisted options. Prior comparable period represents the proceeds (net of costs) from June 2019 share placement

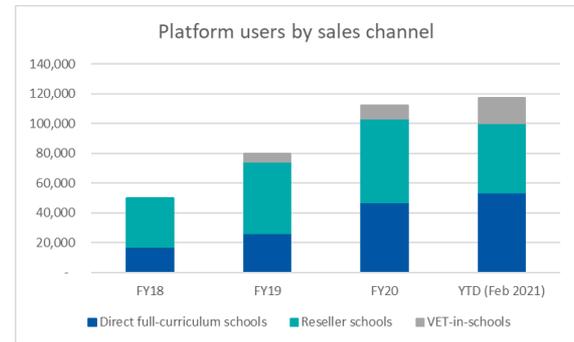
# Outlook



- ReadCloud platform users 117,000 as at the end of February 2021 (↑ 14% from January 2020), with user numbers set to increase (VET enrolments)
- The Group is well-placed to continue its strong growth, driven by:
  - a strong balance sheet (\$7.04 million cash and zero debt) - provides ability to continue expansion through targeted acquisitions and increased business development activities;
  - strong momentum in new school acquisitions in both the direct full-curriculum and VET-in-school segments, especially as COVID-19 impacts reduce pressure on schools;
  - Increased investment and focus in the VET sector, supported by favourable recommendations in the Productivity Commission’s recent report on the VET sector (released in January 2021), including a focus on improved career pathways encouraging more secondary students in Years 9 to 12 to undertake VET-in-schools programs;
  - organic growth within existing school customers driven by expanded usage of the ReadCloud platform and VET auspicing services across additional courses and year levels;
  - continuing success in cross-selling; and
  - accelerating digital adoption within both the full-curriculum and VET in school, especially after experiencing COVID-19 impacts.



\* Lower rate of user growth reflective of the loss of Reseller school users, which are being replaced by higher margin direct full curriculum and VET-in-school users



# Corporate Snapshot



## ASX Code: RCL

|                                    |         |
|------------------------------------|---------|
| Share Price (26 February 2021)     | \$0.51  |
| Market capitalisation (@ 51 cents) | \$60.2m |
| Shares on issue                    | 118.3m  |
| Options on issue (unlisted)        | 1.5m    |
| Current cash (31 December 2020)    | \$7.0m  |

## 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 2 LP                                  | 8.5%         |
| Lars Lindstrom                                   | 7.2%         |
| Hunmar Holdings/Darren Hunter*                   | 6.0%         |
| West Elk Partners LP                             | 5.8%         |
| Top 20   | 74.4%        |
| <b>Total Board and management shareholdings*</b> | <b>19.8%</b> |

\*Includes indirect holdings

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# 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 117,000 users in over 530 school customers and continues to grow market share
- Strategic acquisition of COSAMP provides a valuable addition to ReadCloud's VET-in-schools business together with significant cross-sell opportunities that are already being capitalised on
- Strong momentum in new school acquisitions in both the direct full-curriculum and VET-in-school segments expected to continue, especially as COVID-19 impacts reduce pressure on schools
- 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 taking VET courses in school
- ReadCloud's highly scalable platform is leveraged to improving operating margins as course and user numbers increase
- A strong balance sheet (\$7.04 million cash and zero debt) provides ability to continue expansion through targeted acquisitions and increased business development activities, particularly in the VET segment
- Experienced and motivated team with a clear growth strategy



## ReadCloud Limited

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ASX : RCL

