



ASX Release

30 August 2019

ReadCloud Limited full-year results release

Highlights

- **125% revenue growth (the second consecutive year of over 100% revenue growth) to \$4.8 million (2018: \$2.1 million)**
- **129% growth in the number of customer schools and 60% increase in users of the ReadCloud platform**
- **Strong contribution to the Group result from ReadCloud's Vocational Education and Training ("VET") business**
- **Positive Underlying EBITDA for the second half of the financial year and overall Underlying EBITDA loss for the full-year of \$(421,960) (2018: loss of \$(147,055))**
- **Strong cash position at the end of the financial year (\$3.1 million), supplemented by a placement completed post year-end that raised \$2.0 million before costs**
- **Well placed for strong growth**

ReadCloud Limited ("ReadCloud" or the "Company") (ASX: RCL, RCLO), a leading provider of education software solutions, including eBooks, to schools and the Vocational Education and Training ("VET") sector in Australia, is pleased to announce the Company's financial results for the full-year ended 30 June 2019.

Sales and fee revenue

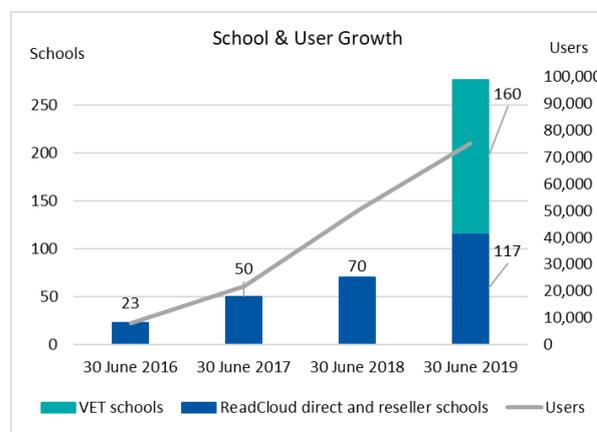
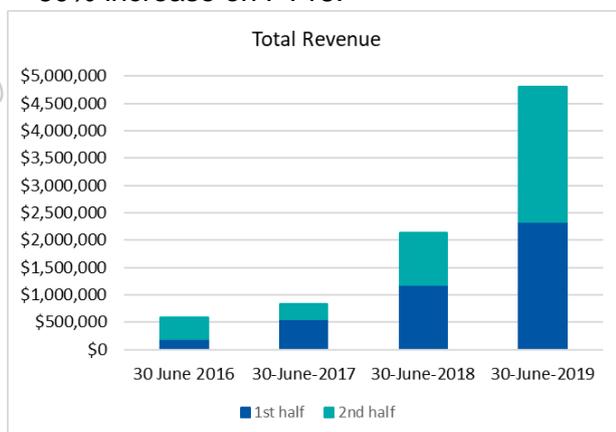
The Directors are pleased to report that for the 2019 financial year ReadCloud achieved 125% revenue growth (the second consecutive year of over 100% revenue growth) to \$4.8 million (2018: \$2.1 million), driven by:

- a 115% increase in the number of direct full-curriculum school customers to 43 (2018: 20), translating to a 96% increase in eBook sales and licence fee revenue;
- a 48% increase in the number of ReadCloud reseller schools to 74 (2018: 50), translating to a 44% increase in revenue from reseller schools; and
- the acquisition of Australian Institute of Education and Training ("AIET"), effective from 1 October 2018, which contributed revenues of \$1,363,056. AIET provided auspicing and related services to 160 schools in this period (as compared to 91 VET school customers that AIET had in the 2018 financial year).

Growth in the number of direct full-curriculum and reseller schools has exceeded growth in revenue from these schools due to minimal revenue being recorded in respect of some of the new schools signed up late in the financial year, with significant eBook sales revenue from these schools expected for the 2020 school year. On a "like-for-like" basis, revenue from direct full-curriculum schools that were customers in 2018 grew by 26% in the 2019 financial year (compared to the 2018 financial year) as use of the ReadCloud platform expanded within those schools.



At the conclusion of the 2019 financial year ReadCloud had over 80,000 users on the ReadCloud platform (across direct full curriculum, reseller and VET schools), representing a 60% increase on FY18.



Underlying EBITDA

ReadCloud recorded an Underlying EBITDA¹ loss for the 2019 financial year of \$(421,960) (as compared to an Underlying EBITDA loss of \$(441,980) for the first half of the financial year and \$(147,055) for the 2018 financial year).

The statutory net loss after tax for the 2019 financial year was \$1,630,423 (2018: \$1,285,855). Significant expenses included in the statutory net loss after tax for the 2019 financial year include:

- publisher and bookseller expenses of \$2,329,507 (2018: \$1,290,463), with the increase from 2018 a result of growth in eBook sales during the period. Gross margins on eBook sales to direct full-curriculum and reseller schools improved slightly on the prior year as a result of both:
 - new direct distribution agreements with leading textbook publishers (enabling ReadCloud to sell these publishers' eBooks directly to schools rather than via its reseller partners at a lower margin); and
 - higher-margin eBook sales to direct full-curriculum customers accounting for a greater proportion of overall eBook sales;
- employment expenses of \$1,889,310 (2018: \$474,568), with the increase over 2018 due to a full year of costs incurred for additional sales and operations staff employed late in the 2018 financial year and the acquisition of AIET effective from 1 October. At year-end the Group had 20 full-time equivalent employees;
- depreciation and amortisation of \$416,624 (2018: \$257,567), with the increase from 2018 largely due to more capitalised development costs from previous years commenced amortising during the 2019 financial year;
- fair value movement on contingent consideration of \$405,000 (2018: \$nil), representing a proportion of the increased contingent consideration owing to the vendor of AIET

¹ Underlying EBITDA (a non-statutory financial measure) represent the statutory profit/loss adjusted for Interest, Tax, Depreciation and Amortisation, non-cash share-based payments, movement in the fair value of contingent consideration and professional services fees incurred as part of the AIET acquisition.

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(compared to the contingent consideration liability that was recognised in ReadCloud's 31 December half-year accounts) that has resulted from the performance of the AJET business having significantly exceeded expectations. The value of deferred consideration owing to the vendor at year-end was \$1.8 million (comprising \$0.36 million in cash and \$1.44 million in ReadCloud shares);

- printing and stationery expenses of \$79,834 (2018: \$12,287), with the increase from 2018 largely due to the cost of in-house production of printed VET course materials for supply to VET schools;
- professional services expenses of \$252,220 (2018: \$277,578), with the main components including audit fees, share registry costs, company secretarial fees, outsourced accounting expenses incurred prior to the employment of a full-time Chief Financial Officer and legal fees incurred in relation to the acquisition of AJET;
- travel expenses of \$192,917 (2018: \$98,485), with the increase from 2018 due to increased marketing efforts and establishment of services to new customers; and
- other expenses of \$377,016 (2018: \$226,334), the main components being ASX fees, web hosting, insurance and office expenses.

Cash flow

Net cash outflows from operating activities for the 2019 financial year were \$0.4 million (2018: \$0.2 million). The net cash outflow for the 2019 financial year after cash consideration paid to the vendor of AJET during the year (\$0.4 million) and payments for software development (\$0.7 million) was \$1.5 million.

As at 30 June 2019 the Group had a strong balance sheet with cash at bank of \$3,067,599 (2018: \$4,593,330) and zero debt. As previously announced to ASX, subsequent to year end the Company raised \$2 million before costs via a placement of fully-paid ordinary shares.

Outlook

The Directors believe the Company is well-placed for strong growth via:

- new school acquisitions across the full-curriculum and VET school segments;
- organic growth within existing school customers, driven by expanded usage of the ReadCloud platform and AJET's auspicing services within existing school customers; and
- cross-selling of ReadCloud's VET course offering to ReadCloud full-curriculum schools and vice-versa.

Although still very early in the selling season for the 2020 school year, the Company is very encouraged by the strength of the sales pipeline following the significant groundwork laid by the ReadCloud sales team in the last 12 months.

In addition, the Group entered into a Strategic Distribution Agreement with Australian Training Products ("ATP") in April 2019 that provides ReadCloud with an exciting opportunity to expand into the broader (non-school) VET sector. ATP is a leading provider of training resources to over 1,000 Registered Training Organisations (RTOs) in Australia and internationally.

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Under this exclusive 3-year agreement, ReadCloud's software platform will enable the protection and delivery of ATP's digital content to its RTO customers, for which ReadCloud will receive software licence fees from end-users. Integration of ATP's full eBookstore into the ReadCloud platform commenced during the June quarter. This integration involves the digitisation and encryption of ATP's entire textbook range and delivery of this content via the ReadCloud platform. A "media overlay" feature will be added to the ReadCloud software platform by the end of the September 2019 quarter, enabling ATP-produced videos to be embedded inside ATP's course materials, significantly enriching this content and further entrenching ReadCloud's technology into ATP's training services.

The Directors expect to be in a position to provide an update on the sales outlook for the 2020 school year at the Company's Annual General Meeting in November 2019.

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About ReadCloud Limited

ReadCloud is a leading provider of software solutions, including eBooks, to Schools and the Vocational Education and Training sector in Australia. ReadCloud's proprietary eBook reader 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 so that together with its Reseller Channel Partners, ReadCloud is able to deliver the Australian school curriculum in digital form in all States, on one platform.

ReadCloud also provides digital Vocational Education and Training (VET) course materials and services to schools through its subsidiary Australian Institute of Education and Training (AIET), which offers 40 VET courses and Auspicing services to schools across Australia.

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