

ASX Release

28 February 2020



Half-year results announcement

Highlights

- H1 FY20 revenue \$3.15million (up 35% on H1 FY19 revenue of \$2.34 million), with FY20 revenue being more skewed to the second half than in prior years
- Year-to-date unaudited revenue to the end of February 2020 \$5.51 million is up 83% compared to \$3.01 million for the same period in FY19 reflecting strong sales for the 2020 school year
- eBook orders from full-curriculum schools are still being received and ReadCloud is still winning new full curriculum schools for the 2020 school year
- As in FY19, the vast majority of revenue for the Vocational Education and Training (“VET”) in schools segment will be generated in the second half. School auspicing fees for the 2020 school year (charged to schools on the basis of VET courses delivered) have largely been invoiced in February 2020, however student fees for 2020 are still to be invoiced following completion of student enrolments in March
- Notable new school wins in 1H20 for both the full-curriculum and VET segments
- At the end of January 2020 ReadCloud was in over 350 schools (up 75% from January 2019) and had over 103,000 users on its platform (up 72% from January 2019), with user numbers set to increase in the coming weeks with further new schools and new enrolments in VET courses

ReadCloud Limited (“ReadCloud” or “the Company”; ASX: RCL, RCLO) is a leading provider of digital eLearning solutions to secondary schools and the VET sector in Australia. The Directors of ReadCloud are pleased to release the Company’s half-year results for the period ended 31 December 2019.

Operational update

The Directors are pleased to report that ReadCloud achieved strong growth in H1 FY20 across both the full-curriculum school and VET in-school segments and commenced penetration of the broader VET market. Notable new school wins for Direct full-curriculum schools in H1 FY20 included three of the largest State High schools in Brisbane (each with over 2,000 students, including the largest State High School in Queensland with over 3,000 students) and a large independent Anglican School in New South Wales. These successes have already led to additional new referrals and inbound enquiries in that market.

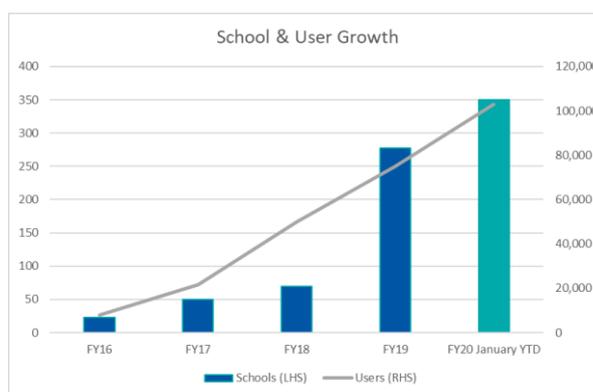


Direct sales efforts for the 2020 school year have been focused on targeting larger schools as reference customers and for operational efficiencies (the on-boarding process for a school with larger user numbers is not dissimilar to that for a smaller school in terms of set-up and eBook provisioning).

Notable school wins by Resellers have included two prestigious Grammar schools in Melbourne that will be using the ReadCloud eLearning platform in conjunction with ReadCloud partner OfficeMax for physical books in 2020.

In H1 FY20 ReadCloud signed up new VET in-school customers across Victoria, Queensland, South Australia and Western Australia. The months of February and March each year represent the peak enrolment period for VET-in-school students. As at the date of this announcement, the enrolment process for VET school customers and students is well underway, with final school and user numbers for this segment to be ascertained following completion of student enrolments and VET subject choices in March.

ReadCloud platform users increased to 103,000 as at the end of January 2020 (up 72% from the same time in 2019), with user numbers set to increase in 2H20 as enrolments in VET courses are completed in the coming weeks.



Sales and fee revenue

ReadCloud's revenue for H1 FY20 increased 35% to \$3.15 million compared to H1 FY19. The Company expects a higher proportion of revenue to be generated in the second half year compared to FY19. eBook sales to direct full-curriculum schools are usually strongly biased towards the first half of the financial year with 88% of FY19 eBook revenues generated in H1 FY19. However, a number of direct full-curriculum schools (including new schools signed late in the calendar year) were still finalising timetables and eBook orders in late December 2019, with orders not placed until January and February 2020. As a result, eBook sales to this segment in H2 FY20 are expected to account for a significantly larger proportion of full-year FY20 eBook sales than the 12% of FY19 revenue generated in H2 FY19.

eBook sales to Reseller full-curriculum schools are normally biased towards the second half of the financial year with 70% of FY19 revenue generated in H2 FY19. Given the strong eBook sales through Resellers in January and February 2020, a significantly higher proportion of annual eBook sales to this segment is expected in H2 FY20.

eBook sales to full-curriculum schools (direct school customers and Reseller schools) in January and February 2020 have exceeded \$1.55 million (versus \$0.48 million for January and February 2019).



VET auspicings fee revenue of \$0.24 million was generated in H1 FY20 (H1 FY19: \$4,000), as new VET qualifications were commenced and completed by VET school customers in the second half of the calendar year. A number of new customer schools that had commenced VET subjects with competitor Registered Training Organisations at the beginning of 2019 came across to AIET to complete the delivery of these subjects from Term 3 2019. At the conclusion of FY19 the generation of auspicings fees in respect of the 2019 school year was considered largely complete and as such, the auspicings fee revenue generated in H1 FY20 exceeded expectations.

The enrolment process for 2020 VET courses commenced in February 2020 and will be largely completed by March 2020. In January and February 2020 school VET auspicings fees have exceeded \$0.77 million, with further invoicing still to be completed. In addition, student fees for 2020 (charged to schools on a per enrolled student basis and accounting for the majority of total auspicings fees) are also yet to be invoiced (invoicing will be done once enrolments have been finalised in March).

For the 8 months to the end of February 2020, the consolidated entity has recorded (unaudited) revenue of \$5.51 million (up 83% compared to \$3.01 million for the same period in FY19).

Reported result

In H1 FY20 ReadCloud recorded a 35% increase in consolidated revenue to \$3.15 million (\$2.34 million in H1 FY19), a consolidated Underlying EBITDA loss of \$0.69 million (loss of \$0.44 million in H1 FY19) and a consolidated statutory loss of \$1.10 million (loss of \$0.94 million in H1 FY19). The H1 FY20 consolidated statutory loss reflects six months of costs for the AIET VET business (compared to two months of costs for this business from the acquisition date of 31 October 2018 in the prior comparable period), investment in additional human resources for this business for growth and increased depreciation and amortisation costs (explained below). As a consequence, whilst H1 FY20 revenue increased over the prior comparable period, the statutory loss for H1 FY20 has also increased. Further, due to the cyclical nature of ReadCloud's business, with revenue (particularly for the AIET VET business) skewed to the second half of the financial year, the H1 FY20 result is not indicative of the likely FY20 full-year result.

The H1 FY20 consolidated statutory loss is comprised of:

- sales and fee revenue of \$2.96 million (\$2.08 million in H1 FY19), with growth over H1 FY19 driven by eBook sales to new full-curriculum schools, increased eBook sales to existing FY19 full-curriculum schools and VET auspicings fee revenue generated in H1 FY20 (VET auspicings fee revenue for H1 FY19 was negligible);
- other revenue of \$0.19 million (\$0.26 million in H1 FY19), including government grant and interest income;
- publisher and bookseller expenses of \$1.98 million (H1 FY19: \$1.48 million), with the increase from H1 FY19 a result of growth in eBook sales during the period. Gross margins on eBook sales to full-curriculum schools (direct school customers



and Reseller schools) declined by 1.6% from FY19 due to a change in the product mix (towards lower margin products) of eBooks sold to schools in FY20;

- employment expenses of \$1.25 million (H1 FY19: \$0.87 million), with the increase over the prior comparable period attributable entirely to the acquisition of the AIET VET business on 31 October 2018 (employment costs for full-curriculum business for 1H20 were in line with H1 FY19). Employment costs for H1 FY19 only included two months of AIET employment costs (from the acquisition date to 31 December 2018). In addition, significant investment has been made in the AIET business with two new employees in Perth to service nearly 80 West Australian VET school customers, a full-time Compliance Officer, and in a new student management platform for AIET that enforces better compliance due to an end to end electronic process and ensures AIET is well placed to scale with expected future growth;
- depreciation and amortisation of \$0.30 million (H1 FY19: \$0.16 million), with the increase attributable to the Group's adoption (from 1 July 2019) of new Accounting Standard AASB16 Leases, which has resulted in the capitalisation of depreciating "right-of-use assets" on the Group's consolidated balance sheet. In addition, more capitalised development costs from previous financial years commenced amortising during 1H20;
- professional services expenses of \$0.14 million (H1 FY19: \$0.14 million), including audit fees, tax consulting fees, share registry costs and company secretarial fees;
- share based payments of \$0.09 million (H1 FY19: \$0.34 million), with the decline in 1H20 attributable to the lapse of performance rights during the period due to performance hurdles not being met; and
- other expenses of \$0.29 million (H1 FY19: \$0.15 million), the main components being ASX fees, insurance, web hosting, telephone & internet and office expenses.

Outlook

The Company is well-placed to continue its strong growth in the eLearning sector in Australia, driven by:

- increasing momentum in new school acquisitions in both the full-curriculum and VET-in-school segments. Increasing market penetration, in particular in larger schools, is generating an increasing pipeline of new sales leads;
- the continued difficulties experienced by the main competitors in delivering digital solutions to schools in a timely manner;
- organic growth within existing school customers, driven by expanded usage of the ReadCloud platform and VET auspicing services across additional courses and year levels within existing school customers;
- accelerating digital adoption within both the full-curriculum and VET in school sectors driven by student preference for digital delivery and increasing willingness of teachers and school administrations to adopt digital;
- increasing success in cross-selling between ReadCloud's VET course schools and ReadCloud full-curriculum schools; and



- adoption of the ReadCloud platform and ReadCloud's growing resource library within the broader tertiary VET market.

-Ends-

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About ReadCloud Limited

ReadCloud is the leading provider of eLearning software solutions, including eBooks, to Schools and 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 40 digital VET courses and auspicing services to schools across Australia.

ReadCloud currently has over 100,000 users on its platform.

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

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