ReadCloud Limited

Full-Year Results – FY20

2 September 2020

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The leading SaaS eReading solution for Australian secondary schools and the Vocational Education and Training (VET) sector

readcloud

Delivers the full curriculum seamlessly and securely

- integrated from Publisher to Student
- sophisticated social and collaborative learning tools that substantially improve learning outcomes
- ideally suited to in-school, remote and WFH settings

Highly scalable, cloud-based SaaS platform

Large market opportunity

- 2,775 secondary schools with 1.6 million students
- 4,100 VET training providers with 4.2 million students

360 Schools	↑ 30%*
112,000 Students and Teachers	↑ 40%*
$7.46 m Revenue	↑ 55%*
$65 Ave Revenue Per User	↑ 18%*

* FY20 vs FY19

Corporate snapshot

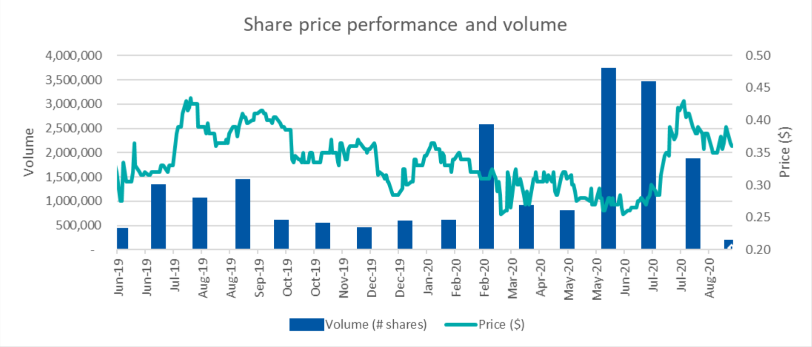
readcloud

ASX Code: RCL, RCLO	
Share Price (28 August 2020)	$0.39
Market capitalisation (@ 39 cents)	$38.8m
Shares on issue (listed)	99.5m
Options on issue (listed)	15.4m
Options on issue (unlisted)	5.2m
Current cash (30 June 2020)	$3.4m
Turnover (month rolling)	$1,352,048

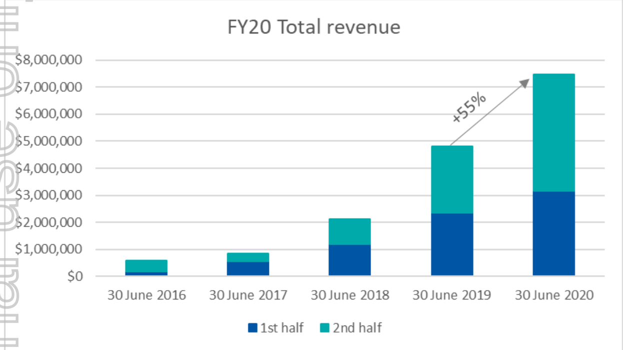
Substantial Shareholders	
Thorney Group*	10.6%
Amity Agency Pty Ltd	9.4%
Lars Lindstrom	8.6%
Hunmar Holdings/Darren Hunter*	7.1%
Brindle Holdings Pty Ltd <O'Connor S/F A/C>	5.7%
Pollaers Family Trust	5.2%
Joshua Fisher	5.1%
Top 20	76.8%
Total Board and management shareholdings*	**23.3%**

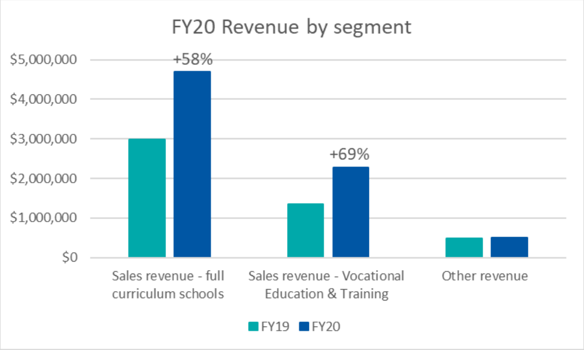
*Includes indirect holdings

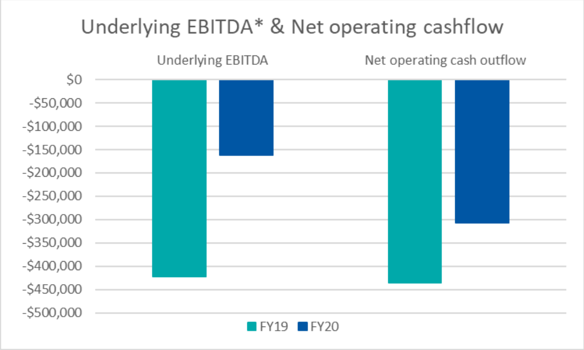
Board & Management	
Paul Collins	Non-Executive Chairman
Guy Mendelson	Non-Executive Director
Cristiano Nicolli	Non-Executive Director (from 1 Sept 2020)
Lars Lindstrom	Executive Director (CEO)
Darren Hunter	Executive Director (CIO)
Luke Murphy	Chief Financial Officer
Melanie Leydin	Company Secretary



FY20 Results



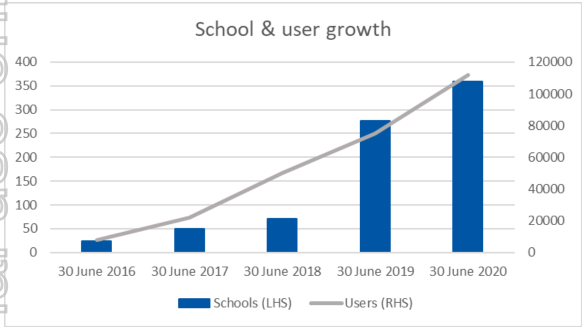


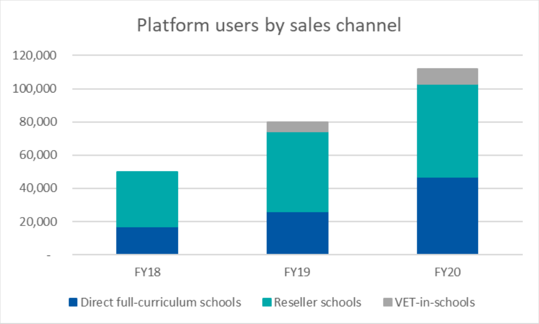


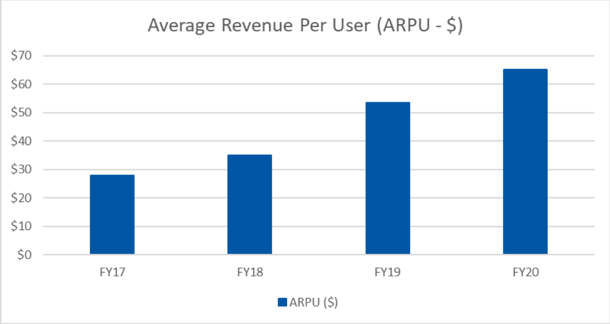
- Total revenue up 55% from $4.80 million in FY19 to $7.46 million in FY20
- Strong growth achieved across both key operating segments
- Underlying EBITDA* loss reduced from $0.42 million in FY19 to $0.16 million in FY20
- Positive Underlying EBITDA* for 2H20 $0.53 million (1H20 Underlying EBITDA* loss $0.69 million)
    - reflects normally strong bias of revenue from reseller full curriculum schools and VET auspicing services towards 2nd half
- FY20 Net operating cash outflow closely approximated Underlying EBITDA: $0.31 million (FY19: $0.44 million)
- Strong balance sheet at year-end: $3.39 million cash and no debt

* Earnings Before Interest, Tax, Depreciation & Amortisation, Share-based payments, transaction costs incurred on AIET acquisition and one-off ASX fees

FY20 Highlights







- FY20 Revenue growth was driven by:
  - a 30% increase in number of customer schools to 360 secondary schools (FY19: 277 schools)
  - a 40% increase in number of ReadCloud platform users to 112,000 (FY19: 80,000 users)
  - an increase in average revenue per user (ARPU) from $55 in FY19 to $65 in FY20 (excluding users at new schools that are using but not paying for the platform in FY20 but have entered into multi-year contracts where the software is paid for in 2021 and onwards)
- Growth in ARPU was in turn driven by:
  - "organic" sales growth (expansion of usage of the ReadCloud platform to additional year levels) within existing direct school customers: on a "like-for-like" basis, revenue from direct full-curriculum school customers that were customers in 2019 grew by 22% in FY20 (over FY19)
  - an increase in average revenue per VET course student as a result of the adoption of a new pricing structure for AIET's services for the 2020 school year

FY20 Highlights

- Notable wins in FY20 in the full curriculum schools segment 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);
  - a large independent Anglican School in New South Wales; and
  - two prestigious Grammar schools in Melbourne that used the ReadCloud eLearning platform in conjunction with ReadCloud partner OfficeMax for physical books in the 2020 school year
- FY20 Revenue from these new school customers was in line with expectations
- Direct sales efforts for the 2020 school year were deliberately focused on targeting larger schools as reference customers and for operational efficiencies
- The VET business also achieved strong sales growth in FY20 (up 61% on FY19), driven by:
  - new school wins in Victoria, South Australia and Western Australia (in part driven by the collapse of competitor RTO's during the year); and
  - adoption of a new pricing structure for AIET's services for the 2020 school year

FY20 Financials – Underlying EBITDA

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($)	FY20	FY19	FY20 vs FY19
Sales and fee revenue	6,956,136	4,316,479	61%
Less publisher & bookseller fees	(3,891,795)	(2,329,507)	67%
Gross profit	**3,064,341**	**1,986,972**	**54%**
Gross profit (%)	44%	46%	
Add: Other revenue	500,096	492,089	
Less operating expenses:			
Advertising and marketing	(115,831)	(112,711)	
Employment expenses	(2,628,224)	(1,889,309)	39%
Legal & compliance	(143,465)	(114,439)	
Professional services expenses	(301,014)	(165,005)	
Telephone, internet & data hosting	(80,811)	(47,019)	
Travel expenses	(136,713)	(192,917)	
Other expenses	(315,720)	(342,087)	
Finance costs	(9,563)	(238)	
Total operating expenses	***(3,731,341)***	***(2,863,725)***	***30%***
Add: Net interest expense / (revenue)	5,764	(37,296)	
Underlying EBITDA*	**(161,140)**	**(421,960)**	-62%

- Revenue up 61% vs FY19
- Publisher and bookseller fees increased faster than revenue due to a change in mix:
  - a higher proportion of VET course materials sourced from external publishers due to broader scope of courses offered
  - gross margins on eBook sales to curriculum schools were consistent with prior year
- Employment costs up 39% or $0.74 million due to:
  - full year of employee costs from AIET acquisition employees (versus 8 months in FY19)
  - full-time equivalent staff up 4 to 24 at end FY20
- Reduced Employment costs as a percentage of Sales and Fee Revenue
  - reduced to 38% compared to 44% in FY19 with a further reduction expected in FY21
- Operating expenses up $0.87 million (30%) mainly due to:
  - the increase in employment costs; and
  - full year of operating costs for AIET

* EBITDA adjusted for Interest, Tax, Depreciation and Amortisation, Share-based payments, transaction costs incurred on AIET acquisition and one-off ASX fees

FY20 Financials – Balance Sheet

$	Note	30-Jun-20	30-Jun-19
Cash and cash equivalents	1	3,387,609	3,067,599
Trade and other receivables	2	597,366	470,165
Prepayments		55,946	75,119
Total current assets		**4,040,921**	**3,612,883**
Property, plant & equipment		111,385	59,756
Intangibles	3	4,450,488	4,296,301
Right-of-use assets	4	290,143	-
Total non-current assets		**4,852,016**	**4,356,057**
Total assets		**8,892,937**	**7,968,940**
Trade and other payables		389,416	508,712
Other current liabilities	5	356,571	272,144
Contingent consideration	6	-	1,800,000
Lease Liabilities	4	164,064	
Total current liabilities		**910,051**	**2,580,856**
Non-current liabilities	4	183,553	55,734
Total liabilities		**1,093,604**	**2,636,590**
Net assets		**7,799,333**	**5,332,350**

1. Strong cash position at year-end and zero debt. $0.4m received since 30 June 2020 from exercise of ASX-listed RCLO options. Potentially another $4.6m from RCLO option exercises
2. Includes FY20 R&D tax refund ($0.4m) that will be received in the September 2020 quarter
3. Intangibles include capitalised software development ($2.2m), goodwill ($2.2m) and other intangibles acquired as part of the AIET acquisition
4. Adoption of AASB16: Leases in FY20 resulted in recognition of Right-of-use assets and lease liabilities in equal amount of $0.4m (less depreciation for FY20 leaves $0.29 million carrying value @ 30 June 2020)
5. Comprises employee entitlements and contract liabilities (unearned revenue)
6. Deferred consideration paid to the vendor of AIET in Sept 2019 ($0.4 million cash and $1.4 million of escrowed RCL shares)

FY20 Financials – Cash Flows

$	Note	30-Jun-20	30-Jun-19
Underlying EBITDA		(161,141)	(421,959)
Interest income		3,799	37,534
Transaction costs uncured on business acquisition and one-off ASX fees		(27,751)	(40,520)
Working capital changes		(122,573)	(10,594)
Net cash used in operating activities	1	**(307,666)**	**(435,539)**
Payment for purchase of business	2	(360,000)	(396,893)
Payments for PP&E		(95,530)	(10,513)
Software development		(676,295)	(682,786)
Net cash used in investing activities		**(1,131,825)**	**(1,090,192)**
Lease payments – principal & interest	3	(119,073)	-
Proceeds from issue of shares (net of costs)	4	1,878,574	-
Net cash from financing activities		**1,759,501**	**-**
Net (decrease) in cash		**320,010**	**-1,525,731**
Cash at the beginning of year		3,067,599	4,593,330
Cash at end of year		**3,387,609**	**3,067,599**

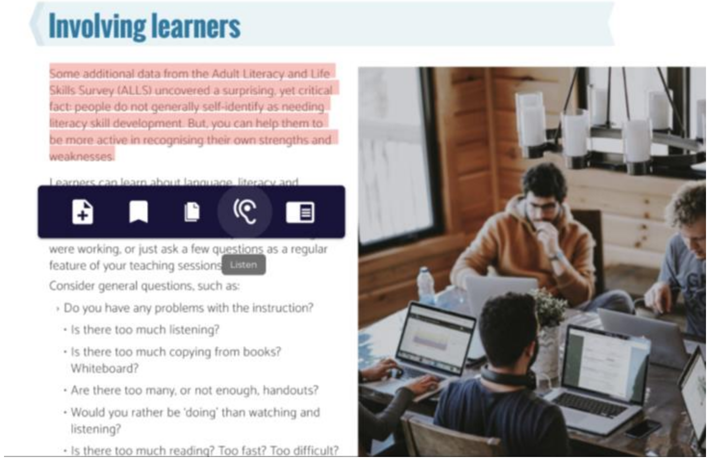
1. After cash receipts from customers of $6.9m in FY20, up 52% (FY19: $4.5m)
2. Payments for acquisition of AIET
3. Adoption of AASB16: Leases for FY20
4. Includes July 2019 share placement that raised $1.85m net of costs and $0.03m from exercise of options

New Platform Features

New features and continuing investment in the ReadCloud platform strengthens ReadCloud's competitive advantage.

Significant development of the ReadCloud platforms was undertaken during FY20, including:

- Automation of back-end processes to improve scalability and reduce the time to on-board new schools
- New eBook quoting and ordering system to streamline the production and processing of sales quotes to school customers
- New platform features, either in development or released to customers include:
  - — new Media Overlay feature, enabling publishers to embed videos, audio podcasts, rich text editing and images into their eBooks
  - — text to speech, enabling teachers and students to select text in an eBook and have it read or translated for them in any language
  - — real-time social annotations, enabling annotations and comments added to an eBook by a teacher or student to be shared with the class cohort in real-time
  - — advanced reading analytics that provide a class teacher with insights ("heat-maps") into which pages of an eBook students are spending the most time on



New text to speech feature

- FY20 R&D investment $0.9 million ($0.7 million capitalised, $0.2 million expensed). Over $2.5 million R&D investment over last 3 years

Impact of COVID-19

- Minimal impact on operations in FY20, as the Company is fully capable of operating in a remote capacity whilst supporting current and new customers and continuing our product development
- On-boarding of full-curriculum schools for the 2020 school year, including eBook purchases, was completed successfully prior to the outbreak in Australia
- ReadCloud VET in-school customers were able to continue to deliver VET courses even after schools went to remote learning due to the ability to deliver VET course materials digitally to students and teachers supported by fully automated compliance monitoring and student management processes
- The pandemic has raised awareness of the ReadCloud platform's ability to cater for remote learning
  - — ReadCloud produced a White Paper in conjunction with the Australian Secondary Principals Association with recommendations as to how schools should approach the technical challenges around Home Schooling (in particular addressing the problem of poor / no access to the internet at home)
  - — the White Paper has been been circulated widely across Australia and can be found at https://readcloud.com/
- Whilst State border closures have hindered some in-person sales contact, recent new school wins have proven our ability to sell the ReadCloud platform via video conferencing

ReadCloud expects schools' heightened awareness of the need for effective remote learning capabilities to provide another element of strong momentum into the selling season for 2021

A Pathway Towards Home Schooling

We live in uncertain times. The unprecedented events that are unfolding around us highlight now, more than ever, the need for schools to forward plan and build learning contingency plans in the event of mass school closures of undefined duration.

The following paper aims to address and identify the various factors schools should consider in order to effectively establish, run and maintain remote learning for the staff, students and communities more broadly.

The top five factors to consider are set out below:

1. **Equity Considerations - Internet Bandwidth & Device Access**
2. **Accessing Digital Resources**
3. **Collaboration Tools**
4. **Remote Student Monitoring**
5. **Self-Managing Bottlenecks & IT Environments**

1. **Equity Considerations - Internet Bandwidth & Device Access**

- Schools need to consider that some parent households have low speed internet connections, or none at all, which makes Home Schooling strategies based around video conferencing (Skype/Zoom) problematic.
- This makes it important to choose technology platforms that also offer an offline capability. Teachers and students will not always be connected; however, they always need access to their school books. eBook resources need to be able to be downloaded to the device once connectivity is available and these resources can then be accessed at any time.
- If parents do not have internet at home, schools should consider using platforms that allow eBooks to be downloaded to their devices once using phone tethering.
- Many schools will face a situation where not all students have their own computers. However, many students will have mobile phones and potentially access to parents' computers or shared school devices, and as such schools need to consider technology platforms which support sharing eBooks on multiple devices.

2. **Accessing Digital Resources**

- Home schooling obviously requires that students can still access their physical or digital resources. Technology platforms that provide access to a school's in-classroom resources will become a necessity as they afford teachers and students the ability to seamlessly access all required resources from the one location.
- The more technically progressive platforms have gone one step further and solved

Outlook

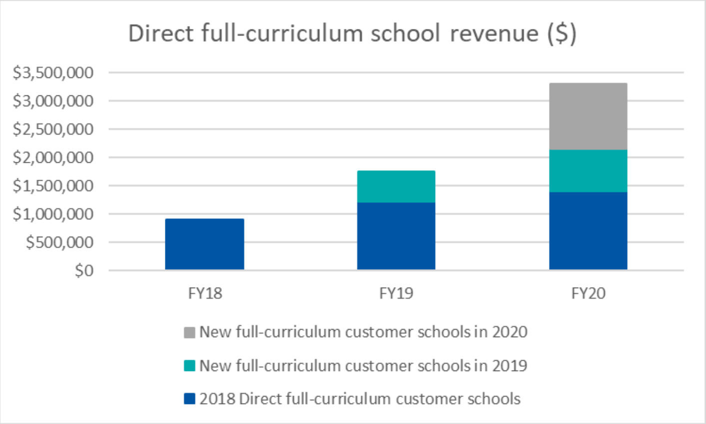
- The Company is well-placed for strong growth in FY21 via:
  - organic growth within existing school customers, driven by expanded usage of the ReadCloud platform and AIET's auspicing services within existing school customers;
  - new customer (school) acquisitions across the full-curriculum and VET school segments; and
  - cross-selling of ReadCloud's VET course offering to ReadCloud full-curriculum schools and vice-versa.

Organic growth

- Organic growth is embedded in school customers as the ReadCloud platform is typically introduced to one or two year levels initially (typically years 7 and 8) with the platform then extended to later years as students progress through school year levels
- This "organic" sales growth within the direct full-curriculum business is reflected in the revenue break-down for this business over the last 3 financial years
- Approximately 30% of direct full-curriculum customer schools are in the first year of their contract

New customer acquisitions

- 10 new full-curriculum schools were signed In the lead-up to 30 June 2020
  - selling season for the 2021 school year doesn't ordinarily commence until well into the September quarter
  - provides a good headstart on budgeted revenue growth for FY21
- The direct sales pipeline has expanded significantly in recent months, driven by the COVID-19 pandemic which focussed schools on their remote learning capabilities



Outlook

New reseller partners

- ReadCloud signed up 2 significant new reseller partners in the June quarter:
  - Western Australia-based Ziggies Educational Supplies which currently supplies booklisting services to over 300 Western Australian schools; and
  - Victorian-based Lilydale Books which currently supplies booklisting services to circa 30 Victorian schools.
- ReadCloud's sales team is now actively working with these new partners to jointly promote the ReadCloud eReading solution to both existing and potential new school customers of these resellers
- Discussions with other potential new resellers are continuing in the current quarter

VET-in-schools

- Whilst the sales cycle for VET-in-schools doesn't ordinarily commence until late in the calendar year, the AIET sales team has already signed up several new schools for delivery of VET courses in 2021
- Cross-sell of VET-in-schools to existing ReadCloud full-curriculum customers has achieved good recent results
- In addition, the vast majority of VET courses provided by AIET are run over 2 years, resulting in a large proportion of revenue being "locked in" for 2021

Improved operational leverage

- No significant investment in additional human resources is planned for FY21. Employment costs (the largest operating expense line) are expected to further reduce as a percentage of Sales & Fee revenue in FY21 (44% in FY19 reduced to 38% in FY20)
- The highly scalable ReadCloud platform will deliver improving operating margins as user numbers increase, leveraging fixed platform costs

The Directors expect to be in a position to provide an update on the sales outlook for the 2021 school year at the Company's Annual General Meeting in November 2020.

Key investment highlights

- ReadCloud is the leading digital education solution for Australian schools, delivering clear educational benefits and saving schools and parents money
- Large market opportunity in Australia with an immediate target market of 2,700 secondary schools with 1.6 million students
- Growing rapidly with over 112,000 users in over 360 schools driving 55% revenue growth in FY20
- Increasing Average Revenue per User up 18% to $65 in FY20 (CAGR 32.4% over last 3 years)
- Strategically well positioned with direct and reseller sales channels working well and partnerships with an increasing number of educational content publishers seeking a digital delivery solution
- Highly scalable platform with improving operating margins as user numbers increase, leveraging fixed platform costs
- Strong growth outlook with early “pre-selling season” new school wins for the 2021 school year, a significantly expanded sales pipeline and the recent appointment of new reseller partners
- Experienced and motivated management team (combined equity ownership > 23%) with a clear growth strategy

ReadCloud Limited

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Lars Lindstrom | CEO

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Appendix A: Reconciliation Underlying EBITDA* to statutory result

$	FY20	FY19	FY20 vs FY19 (%)
Underlying EBITDA*	**(161,141)**	**(421,960)**	-62% [a]
Depreciation & amortisation	(702,262)	(416,624)	69% [b]
Share based payments	(130,392)	(471,365)	-72% [c]
Fair value movement of contingent consideration	-	(405,000)	-100% [d]
Transaction costs uncured on business acquisition and one-off ASX fees	(27,751)	(40,520)	
Net interest revenue / (expense)	(5,764)	37,296	
Income tax benefit	45,326	87,750	-48% [e]
Reported (statutory) net loss after tax	**(981,984)**	**(1,630,423)**	-40%

a) 62% reduction in Underlying EBITDA loss

b) Higher depreciation & amortisation expense in FY20 due to:

- more capitalised development costs from previous years commencing amortision during FY20; and
- adoption of AASB 16 Leases in FY20, resulting in recognition of “right-of-use assets” equal to $0.4million and depreciation of these of $0.14 million

c) Reduced share-based payments expense in FY20 due to lapse of performance rights

d) Fair-value adjustment to measurement of final tranche of consideration paid for AIET acquisition in Sept 2019 (the business performed better than expectations)

e) Relates to temporary differences and unused tax losses

* EBITDA adjusted for Interest, Tax, Depreciation and Amortisation, Share-based payments, transaction costs incurred on AIET acquisition and one-off ASX fees