



# ReadCloud Limited

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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

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

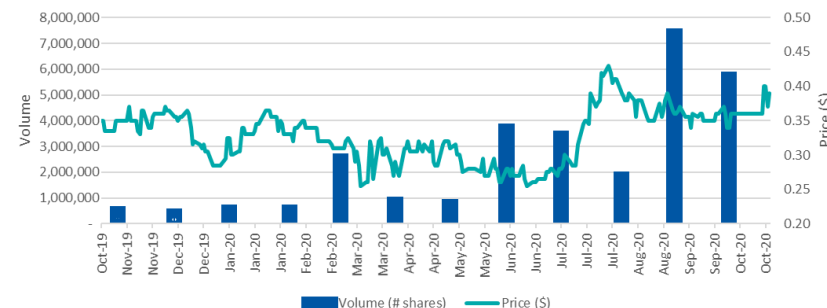
Thorney Group*	10.5%
Lars Lindstrom	8.5%
Hunmar Holdings/Darren Hunter*	7.0%
Brindle Holdings Pty Ltd <O'Connor S/F A/C>	5.8%
Pollaers Family Trust	5.2%
Joshua Fisher	5.0%
Top 20	77.1%
<b>Total Board and management shareholdings*</b>	<b>27.8%</b>

\*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



# Acquisition Overview



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

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## 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

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## 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

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## 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



# 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<sup>1</sup>, implying that nearly 1 in 2 senior students in years 11 and 12 study VET courses<sup>2</sup>
- 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

<sup>1</sup> National Centre for Vocational Education Research – VET in Schools 2019 report (up from 60,000 students in 1996)

<sup>2</sup> 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

# Transaction Rationale

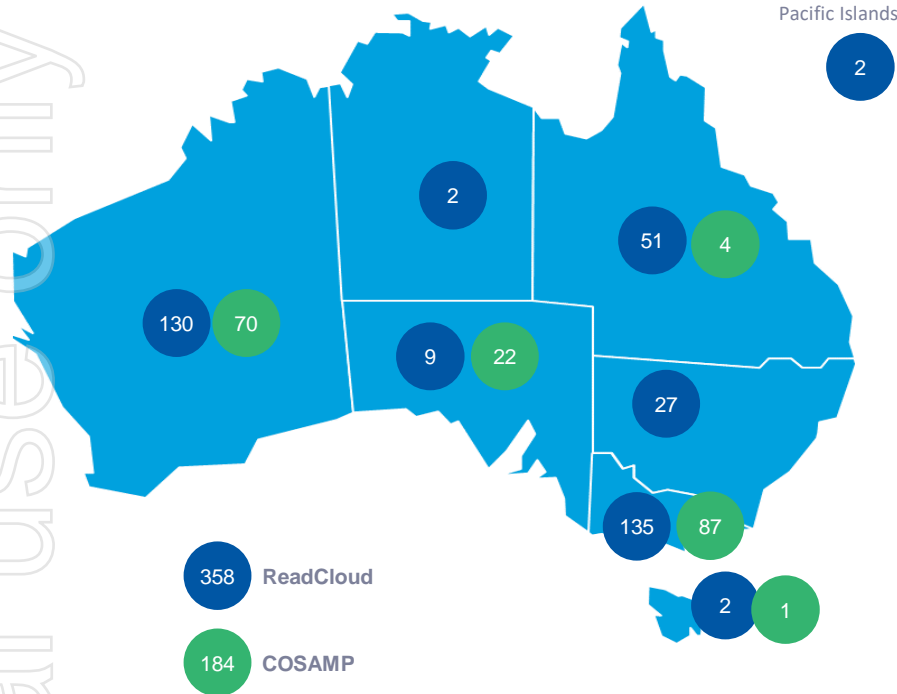


**Provides a complimentary and highly regarded proprietary VET product to 184 schools across Australia**

<b>Expands presence in the VET in Schools Sector</b>	<ul style="list-style-type: none"><li>▪ COSAMP provides music industry courses to 184 schools and is the clear market leader in this segment of the VET-in-schools market</li><li>▪ Expands ReadCloud's product offering in the VET-in-schools market, which is a key strategic focus for ReadCloud</li><li>▪ Integrates the market leader in VET music industry courses, which is a Top-10 vertical in the VET-in-schools sector</li></ul>
<b>Direct access to new School relationships</b>	<ul style="list-style-type: none"><li>▪ Access to COSAMP's existing relationships with 184 schools across Australia</li><li>▪ The acquisition takes ReadCloud to over 500 secondary school customers (+40%)</li></ul>
<b>Digital delivery benefits</b>	<ul style="list-style-type: none"><li>▪ 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</li><li>▪ VET courses are significantly enhanced by audio and video content, which can be embedded within course materials via the ReadCloud digital platform</li></ul>
<b>Significant cross-selling potential</b>	<ul style="list-style-type: none"><li>▪ ReadCloud has existing customers seeking VET music industry courses, providing an immediate cross-sell opportunity</li><li>▪ COSAMP provides a unique point of entry to new schools to introduce ReadCloud's broader VET and digital education platform</li></ul>
<b>Value accretive transaction</b>	<ul style="list-style-type: none"><li>▪ COSAMP is growing and was profitable in FY20</li><li>▪ High average revenue per user and high margin per user (no external publisher costs)</li><li>▪ Immediate cost savings through conversion to digital delivery of courses and from shared services</li><li>▪ 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</li></ul>

# Strategic Fit – Significant Cross-Selling Upside

School Customers



- 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



# 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:
  - \$1.05 million in cash up front; and
  - 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 236,000 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



## ReadCloud Limited

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