



ReadCloud Limited

Australia's Leading eReading Solution

CEO's Presentation to Annual General Meeting
10 November 2020

ASX : RCL, RCLO



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

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



500+ Schools¹



120,000 Students and Teachers¹



\$7.46 m
Revenue

↑ 55%²



\$65
Ave Revenue Per User

↑ 18%²

¹ Current number post acquisition of COSAMP

² FY20 vs FY19

Corporate Snapshot



ASX Code: RCL, RCLO

Share Price (9 November 2020)	\$0.41
Market capitalisation (@ 41 cents)	\$41.5m
Shares on issue (listed)	101.2m
Options on issue (listed)	13.5m
Options on issue (unlisted)	5.2m
Current cash (6 November 2020)	\$2.5m*
Turnover (month rolling)	\$3.8m

* Post settlement of the COSAMP acquisition (\$1.05 million)

Substantial Shareholders

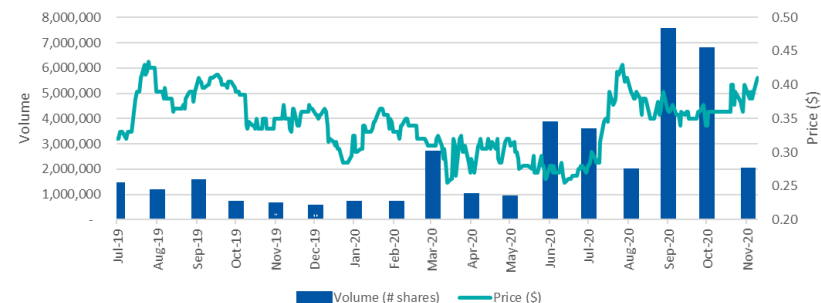
Thorney Group*	10.5%
Lars Lindstrom	8.5%
Hunmar Holdings/Darren Hunter*	7.0%
Brindle Holdings Pty Ltd <O'Connor S/F A/C>	5.8%
Pollaers Family Trust	5.2%
Joshua Fisher	5.0%
Top 20	77.1%
Total Board and management shareholdings*	27.8%

*Includes indirect holdings

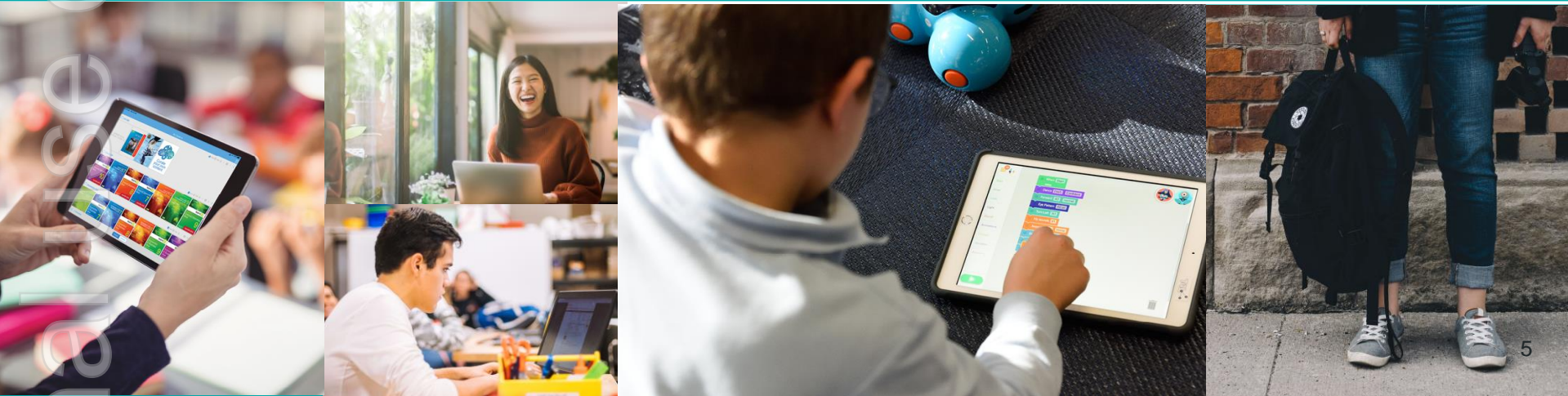
Board & Management

Paul Collins	Non-Executive Chairman
Cristiano Nicoli	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



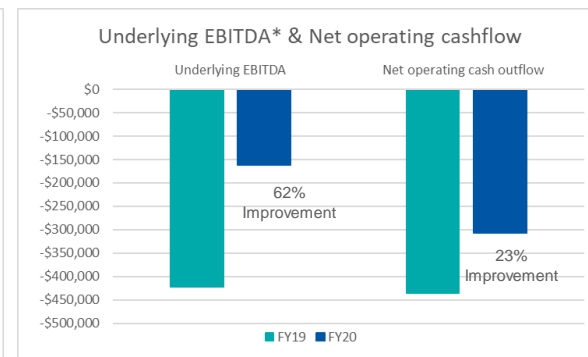
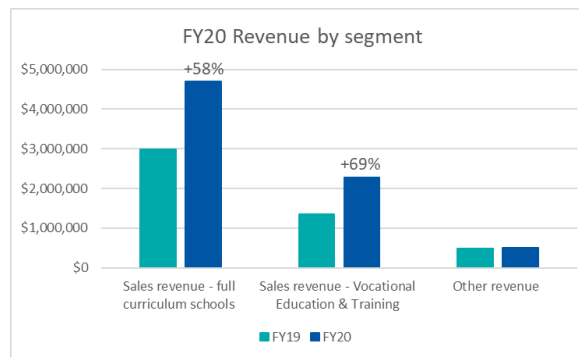
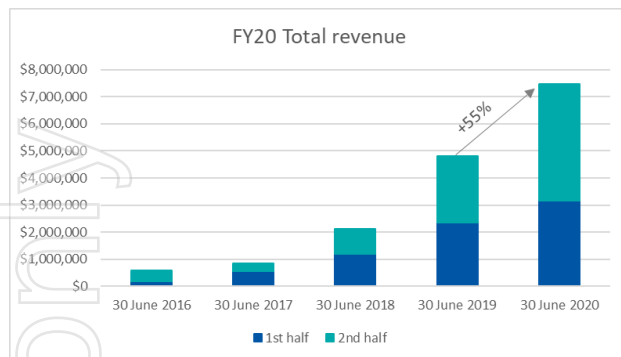
FY20 Highlights



FY20 Highlights

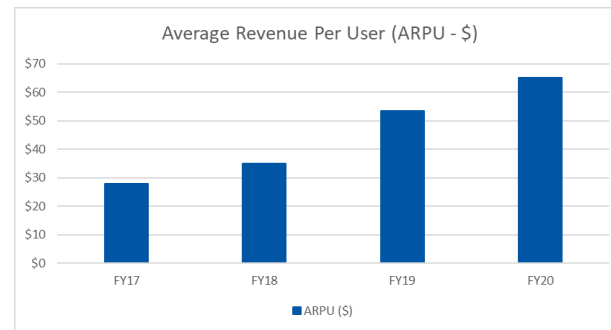
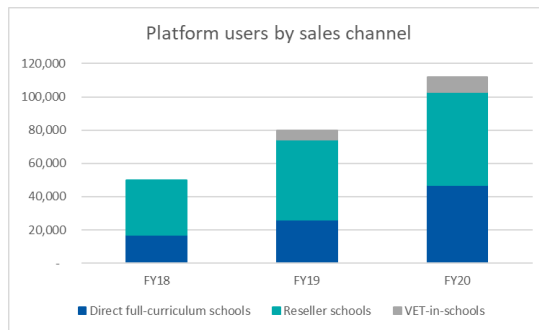
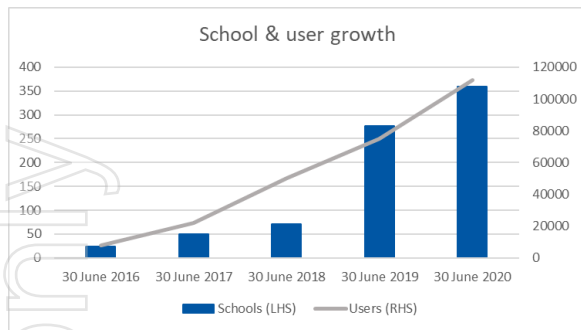
- 55% growth in Revenue, with strong growth in both school customers (+30% to 360 Schools) and users (+40% to over 112,000 students and teachers)
- The strong growth in full curriculum schools segment included:
 - three of the largest State High schools in Brisbane (each with over 2,000 students, including 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
- The VET-in-schools division achieved strong revenue growth in FY20 (up 61% on FY19), driven by:
 - over 30 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
- Heightened awareness of the need for effective remote learning capabilities due to COVID-19 has driven strong momentum leading into the selling season for 2021

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

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 Financials – Underlying EBITDA

(\$)	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. \$1.0m received since 30 June 2020 from exercise of ASX-listed RCLO options. Potentially another \$4.0m from RCLO option exercises
2. Includes FY20 R&D tax refund (\$0.4m) that has been received in the current 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:

- 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
 - The ReadCloud Immersive Reader enables text in an eBook to be read or translated 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
- 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

Archangel, 28th March, 17--

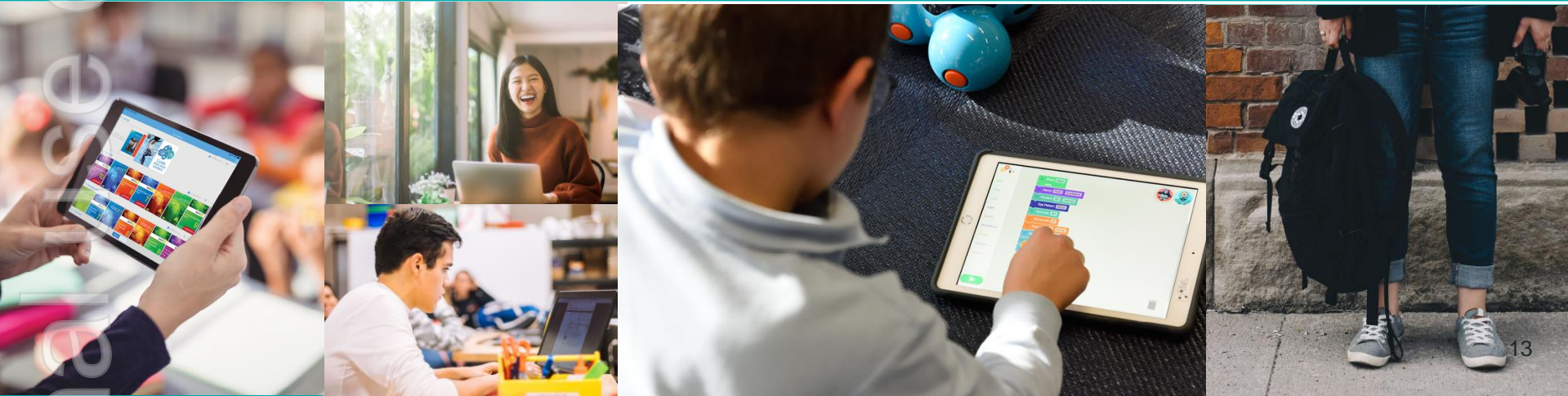
To Mrs. Saville, England

How slowly the time passes here, encompassed as I am by frost and snow! Yet a second step is taken towards my enterprise. I have hired a vessel and am occupied in collecting my sailors; those whom I have already engaged appear to be men on whom I can depend and are certainly possessed of dauntless courage.

But I have one want which I have never yet been able to satisfy, and the absence of the object of which I now feel as a most severe evil, I have no friend, Margaret: when I am glowing with the enthusiasm of success, there will be none to participate my joy; if I am assailed by disappointment, no one will sympathize with me, whose eyes would reply to mine. You may deem this excessive sensitivity of honour inconsistent with the character of a friend. I have no one near me, gentle yet courageous, possessed of a cultivated as well as of a capacious mind, whose tastes are like my own, to approve or amend my plans. How would such a friend repair the faults of your poor brother! I am too ardent in execution and too impatient of difficulties. But it is a still greater evil to me that I am self-educated: for the first fourteen years of my life I ran wild on a common and read nothing but our Uncle Thomas' books of voyages. At that age I became acquainted with the celebrated poets of our own country; but it was only when it had ceased to be in my power to derive its most important benefits from such a conviction that I perceived the necessity of becoming acquainted with more languages than that of my native country. Now I am twenty-eight and am in reality more illiterate than many schoolboys of fifteen. It is true that I have thought more

New text to speech feature

Acquisition of College of Sound and Music Production



Acquisition Overview

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

1

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 360 secondary school customer relationships
- ▶ 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

2

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

3

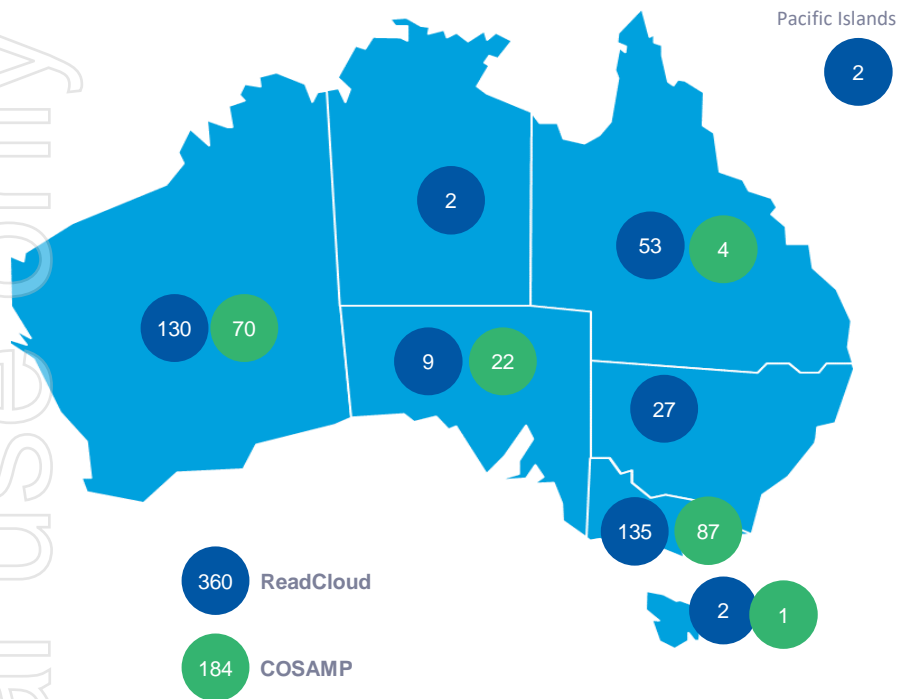
Acquisition Snapshot

- ▶ 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

Strategic Fit – Significant Cross-Selling Upside

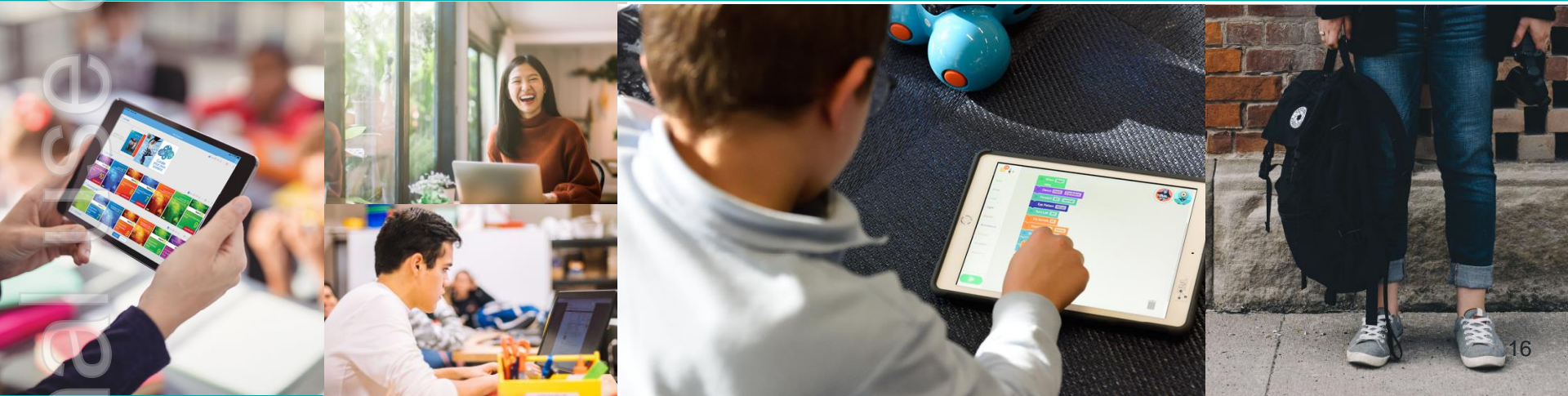


School Customers



- The acquisition of COSAMP improves and expands ReadCloud's geographic footprint in Australia
- COSAMP adds 184 new school relationships to ReadCloud's 360 school customer network with only 24% cross-over between existing ReadCloud VET schools and COSAMP schools
- 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
- 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

FY21 Outlook



FY21 Outlook

ReadCloud is entering the FY21 sales season with well over 500 school customers and 120,000 users for the 2021 school year for both VET and the full-curriculum

ReadCloud expects the strong recent momentum in new school sign ups for 2021 to continue into early next year

Direct (full-curriculum)

- The Company has already signed 16 new Direct secondary schools this calendar year to date, prior to the start of the main selling season for 2021
 - ahead of where the Direct full-curriculum business was in November 2019 leading into the 2020 school year
- ReadCloud is well positioned to add a significant number of new Direct school customers between now and 30 June 2021
- A number of Direct full-curriculum school customers whose contracts were due to expire at the end of 2020 have already re-committed to multi-year contracts
- Whilst the vast majority of eBook sales to Direct full-curriculum school customers occur in the period December to March, “Year 12 HeadStart” sales (where these schools buy Year 12 textbooks in Term 4 for current Year 11 students) are currently tracking ahead of “Year 12 Headstart” sales in FY20

Resellers (full-curriculum)

- The 2 new Reseller partners signed up in the June quarter (WA-based Ziggies Educational Supplies and Victorian-based Lilydale Books) have been successful in winning new school customers for delivery of the full curriculum in 2021
- Recent wins include two prestigious private schools in Perth and a leading independent school in Melbourne

FY21 Outlook cont.

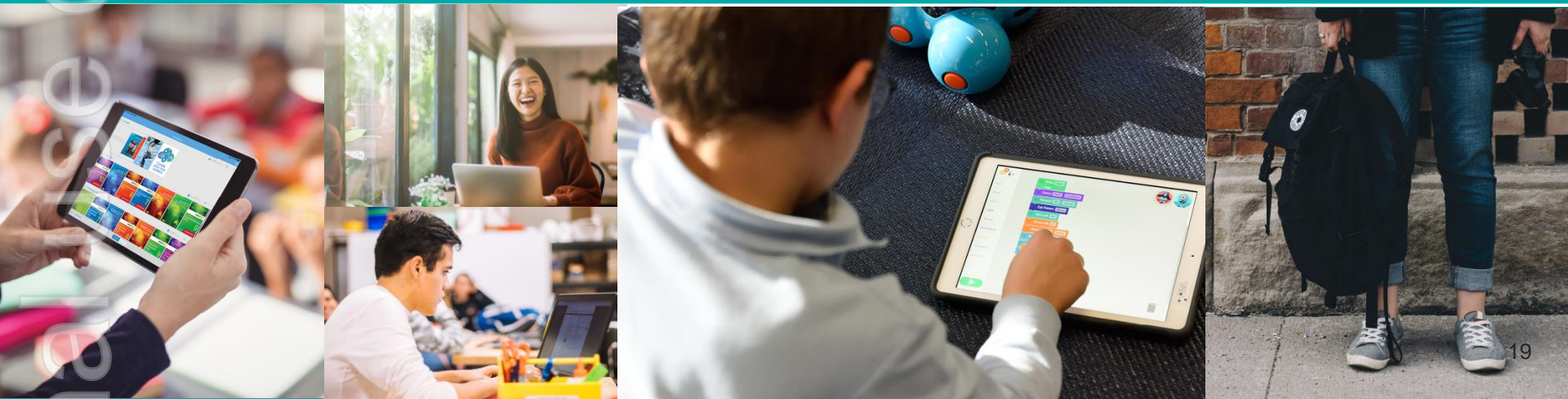
VET-in-Schools

- ReadCloud's VET business, Australian Institute of Education and Training ("AIET"), has had a rapid early start to sales of VET courses for 2021:
 - 23 new schools have signed-up for 2021 already (in addition to the new school customers coming on board as part of the COSAMP acquisition) across Victoria, Tasmania, New South Wales, Queensland, South Australia and WA
 - Contract renewals of existing school customers are significantly ahead of last year
- ReadCloud is targeting the delivery of more VET courses per school customer
 - Schools prefer to deal with only one Registered Training Organisation ("RTO") for the delivery of all their VET courses and AIET offers one of the broadest ranges of qualifications (over 45) of any RTO servicing the VET-in-schools market
 - As an example, one existing Victorian school has gone from one course in 2020 to 10 courses in 2021
- AIET has sold VET course content and compliance oversight services to a number of non-aided schools (schools that are RTO's in their own right), opening up a new revenue stream for the business
- Removal of the ability for South Australian schools to offer VET courses under TAFE SA's RTO licence has created an opportunity to target these schools for 2021, with a number are already in the process of contracting with AIET
- Cross-selling has already begun since the recent acquisition of COSAMP with three existing ReadCloud schools signing up to the COSAMP product in the last two weeks

Strong Balance Sheet

- Solid cash balance of \$2.5 million as at 6 November 2020 (post settlement of the COSAMP acquisition) with no debt
- \$1.0 million received from the exercise of ASX-listed RCLO options since 30 June 2020 with up to a further \$4.0 million if all RCLO options are exercised before expiry on 30 November 2020

Key Investment Highlights



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 120,000 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 2,775 secondary schools with 1.6 million students and 236,000 students yearly taking VET courses in School
- 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
- 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 course and user numbers increase
- Experienced and motivated team with a clear growth strategy



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