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ASX Release

26 February 2021

Half-year results announcement

Highlights

Highlights for FY21 year to date include:

- 11% increase in consolidated revenue for H1 FY21 to $3.49 million compared to H1 FY20 ($3.15 million) with FY21 full-year revenue expected to be skewed to the second half as in prior years
- Completion of the acquisition and integration of College of Sound and Music Production
- Strong number of new school customer wins (over 50 new school customers) across both the School Curriculum and Vocational Education and Training ("VET") segments
- As at the end of February 2021 ReadCloud is in over 530 school customers (up 51% from January 2020) and has over 117,000 users on its platform (up 14% from January 2020), with user numbers set to increase in the coming weeks
- The Group is well capitalised, with $7.04 million cash and zero debt as at 31 December 2020

ReadCloud Limited ("ReadCloud" or "the Company"; ASX: RCL) 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 2020.

Operational update

Full-curriculum segment (eBook solutions)

ReadCloud delivered a 6% increase in revenue to $3.06 million in the full-curriculum segment (direct and Reseller full-curriculum schools) for 1H FY21 over 1H FY20 (prior comparable period). The result in part reflects the complex impacts of COVID-19 on the sector and the underperformance of one of ReadCloud's Reseller partners.

ReadCloud has signed up 22 new school customers for digital delivery of the full curriculum in 2021 across Queensland, Victoria, Tasmania (a growing market for ReadCloud's direct full-curriculum business) and Western Australia. Included in the 22 new school customers is one school with over 2,000 users and another six schools with over 1,000 users.

Four existing full-curriculum school customers have not renewed for 2021 having moved to a single publisher model for their eBook requirements. While these schools contributed 1H FY20 eBook sales revenue of $0.45 million (1H FY21 $0), the margin impact is not material, reflecting the fact they almost exclusively purchased heavily discounted bundled publisher products.

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Direct sales were impacted by COVID-19 through the challenging priorities faced by schools and the difficultly in marketing and presenting ReadCloud solutions to schools. This is expected to improve as COVID-19 restrictions are lifted and schools become more focused on the future of digital learning as COVID-19 issues become less of a burden.

In late June 2020 ReadCloud signed up two new Reseller partners, West Australian based Ziggies Educational Supplies and Victorian-based Lilydale Books. Both Resellers have been successful in signing up new school customers for delivery of the full curriculum in 2021, with notable wins including two prestigious private schools in Perth and a leading independent school in Melbourne.

The on-boarding process for both direct and Reseller customer schools for the 2021 school year commenced in December 2020 and has continued in the current quarter. The on-boarding process has been more efficient than in prior years as a result of new streamlined processes that ReadCloud has built into its platform back-end.

Other factors that have affected 1H FY21 revenue for the full-curriculum segment have included:

- a number of schools (in particular the new school customers for 2021 that were signed up late in 2020) were still finalising their timetables and eBook orders in late December, with orders not placed until January 2021. In addition, schools have delayed learning resource purchasing decisions until the commencement of Term 1 in order to assess the potential impacts of COVID-19 and whether to go down a blended print-digital resource model or a pure digital only option;
- publishers sympathetic to the impact of COVID-19 on schools in 2020 have offered schools the ability to reactivate eBooks for the 2021 school year at a significant discount to the price of new digital resources; and
- due to one of ReadCloud's larger Reseller partners adopting a new internal ordering and provisioning system, a significant proportion of Reseller school eBook orders (particularly from some larger schools) were unable to be processed until January and February 2021. This Reseller partner has suffered significant school customer losses due to servicing issues.

Vocational Education & Training segment

As ReadCloud increases its strategic focus on the VET-in-schools segment, the business has been bolstered by both new school customer wins and the acquisition of PKY Media Pty Ltd, trading as College of Sound and Music Production ("COSAMP"), during the period.

ReadCloud completed the acquisition of COSAMP on 28 October 2020. COSAMP is the market leading Registered Training Organisation ("RTO") in VET courses for the music industry. The acquisition has expanded ReadCloud's product offering and market presence in the VET-in-Schools sector, with music industry VET qualifications being a top-10 vertical in the VET-in-schools market.

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Integration into the ReadCloud Group has gone well and the digitsation of COSAMP's course resources to enable digital delivery via the ReadCloud platform is well underway. The acquisition has provided a significant cross-selling opportunity both to deliver proprietary VET music industry courses to ReadCloud's existing school customers and to deliver ReadCloud's pre-acquisition offering of 43 VET courses and ReadCloud's full digital education platform to COSAMP's school customers. This opportunity is already being capitalised on, with three existing ReadCloud VET school customers contracted to date to deliver COSAMP VET courses in 2021 as a direct result of cross-selling initiatives.

COSAMP contributed revenue of $0.04 million for H1 FY21, mainly from sales of course resources to schools. As at 31 December 2020 COSAMP had invoiced a large number of schools for auspicing fees relating to the 2021 school year. In accordance with the Group's revenue recognition policies, $0.44 million of this revenue has been deferred to H2 FY21 when performance obligations in respect of this revenue have been met (with this amount forming part of the balance of contract liabilities on the 31 December 2020 balance sheet).

As of the date of this announcement ReadCloud's existing VET business Australian Institute of Education and Training ("AIET") has 30 new school customers for the 2021 school year across Victoria, Queensland, South Australia and Western Australia. As in prior years, there has been some customer churn in the AIET VET business mainly as a result of the Group's strict approach to compliance. A number of schools to which auspicing services were delivered in FY20 have not been offered services for the 2021 school year due to the schools' trainers not having an adequate level of qualifications for the courses offered.

Included in the 30 new school customers for 2021 are two existing ReadCloud direct full-curriculum school customers that are RTO's in their own right. The provision of course materials and compliance services to schools that are RTO's in their own right generates a new revenue stream for AIET with no compliance obligations in respect of AIET's RTO licence and opens up a new segment of the VET-in-schools market.

AIET contributed revenue of $0.39 million for H1 FY21 (H1 FY20: $0.27 million), mainly relating to student fees for AIET VET courses completed in the 2020 school year (including revenue that was deferred at 30 June 2020 pursuant to the Group's revenue recognition policy). As with COSAMP and in accordance with the Group's revenue recognition policies, $0.35 million of school auspicing fees invoiced prior to 31 December 2020 and relating to the 2021 school year has been deferred to H2 FY21 when performance obligations in respect of this revenue have been met.

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. As in prior periods, student auspicing fees for AIET VET courses being delivered in 2021, comprising the majority of AIET's auspicing fee revenue, will be invoiced to schools in late March / early April 2021.

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Reported result

The Group has recorded a 1H FY21 consolidated Underlying EBITDA* loss of $0.47 million (loss of $0.69 million in H1 FY20) and a 1H FY21 consolidated statutory loss of $1.06 million (loss of $1.10 million in H1 FY20). Due to the cyclical nature of ReadCloud's business, with revenue (particularly for the VET segment) skewed to the second half of the financial year, the H1 FY21 result is not indicative of the likely FY21 full-year result.

The H1 FY21 consolidated statutory result reflects:

- an 11% increase in consolidated revenue to $3.49 million (H1 FY20: $3.15 million). Revenue growth from new school customer wins across both the full-curriculum and VET segments has been countered by revenue deferral to the second half of the financial year, the loss of four direct full-curriculum school customers moving to a single direct publisher learning resource model and the significant under-performance of an existing Reseller partner;
- publisher and bookseller expenses of $1.93 million (H1 FY20: $1.98 million). Publisher and bookseller expenses as a percentage of eBook sales have decreased in 1H FY21, reflecting an increase in gross margins on eBook sales (mainly to full-curriculum schools) as a result of both a change in the product sales mix for 1H FY21 (towards higher margin products) and a new digital distribution agreement with one of the major textbook publishers;
- employment expenses of $1.47 million (H1 FY20: $1.25 million), with the increase over the prior comparable period attributable to both the COSAMP acquisition ($0.09 million) and additional operational staff in both the VET and full-curriculum segments;
- depreciation and amortisation expenses of $0.41 million (H1 FY20: $0.30 million), with the increase due to more capitalised development costs from previous financial years commencing amortisation during 1H21 and the addition of identifiable intangible assets following the acquisition of COSAMP;
- 1H FY21 professional services expenses of $0.29 million (1H FY20: $0.14 million), with the increase attributable to transaction costs associated with the COSAMP acquisition ($0.10 million) and additional investment in RTO compliance monitoring and systems via the use of external consultants;
- 1H FY21 advertising and marketing expenses of $0.02 million (H1 FY20: $0.08 million), with the decline explained by the COVID-19 pandemic, which resulted in the cancellation of a number of annual education technology conferences that ReadCloud has sponsored and exhibited at in the past. 'The pandemic also resulted in a decline in travel expenditure in 1H FY21 ($0.03 million) versus 1H FY20 ($0.10 million); and
- 1H FY21 share based payments expense of $0.03 million (H1 FY20: $0.09 million), with the decline in 1H21 attributable to the vesting and lapse of options during the period.

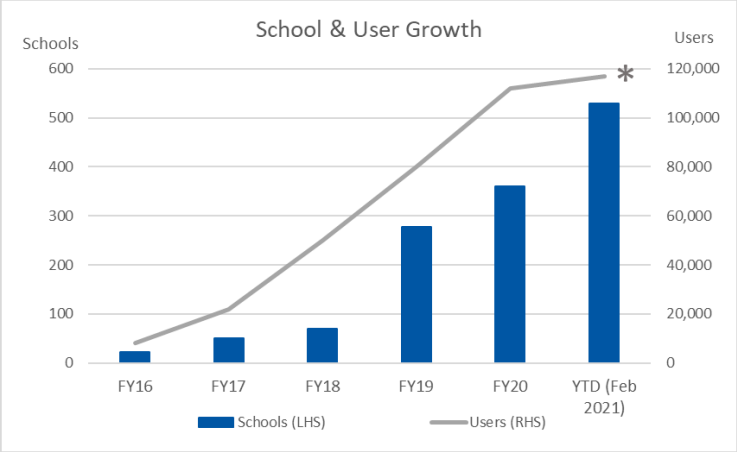
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Funding

During 1H FY21 ReadCloud received $5.96 million (net of transaction costs) from the exercise of ASX-listed and unlisted options. As at 31 December 2020 the Group had $7.04 million in cash and zero debt. The December quarter is typically the low point in the Group's cash cycle. As at 31 December 2020 the Group had trade and other receivables owing to it of $3.23 million (compared to $0.60 million at 30 June 2020), reflecting the extended payment terms given to full-curriculum school customers that place eBook orders prior to 31 December each year in order to match the schools' funding cycles.

Outlook

ReadCloud platform users increased to 117,000 as at the end of January 2021 (up 14% from the same time in 2020), with user numbers set to increase in 2H FY21 as enrolments in VET courses are completed in the coming weeks.



* Lower rate of user growth reflective of the loss of Reseller school users, which are being replaced by higher margin direct full curriculum and VET-in-school users

The Company is pleased with the growth achieved to date as well as its strategic positioning in the VET segment, especially considering the impacts of COVID-19 on schools and the challenges faced in direct marketing and through Resellers.

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

- a strong balance sheet, with $7.04 million cash and zero debt as at 31 December 2020, provides the ability to continue expansion through targeted acquisitions and increased business development activities;
- strong momentum in new school acquisitions in both the direct full-curriculum and VET-in-school segments, especially as COVID-19 impacts reduce pressure on schools;
- favourable recommendations in the Productivity Commission's recent report on the VET sector (released in January 2021), which included a focus on improved

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career pathways encouraging more secondary students in Years 9 to 12 to undertake VET-in-schools programs;

- 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;
- continuing success in cross-selling between ReadCloud's VET business and ReadCloud full-curriculum schools;
- continued investment in the VET-in-schools segment to grow revenue and leverage the infrastructure, compliance processes and systems that have been put in place; and
- 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, especially after experiencing COVID-19 impacts.

-Ends-

CONTACTS:
Investors & Media:
Luke Murphy, Chief Financial Officer
+61 409 933 924

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 services over 530 secondary school customers with over 117,000 users on its platforms.

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