



ASX Release

19 July 2019

## Quarterly Activities Report & Appendix 4C

### Highlights

- **Second consecutive quarter of record cash receipts from customers: \$1.9 million for the June quarter**
- **Positive net operating cash flows for the quarter: \$0.7 million**
- **Unaudited FY19 revenue: \$4.8 million (up~129% on FY18)**
- **Breakeven underlying H2 FY19 EBITDA achieved (unaudited)**
- **Solid cash position at end of FY19: \$3.1 million and no debt**
- **80,000 Users of the ReadCloud platform at end of FY19 (up 60% on FY18)**
- **Average revenue per user for FY19 up 55% on FY18 (to \$55)**
- **FY19 Financial performance of ReadCloud's Vocational Education and Training (VET) business has exceeded expectations**
- **Strong pipeline of new schools for 2020, additional new School contracts signed**

The Directors of ReadCloud Limited ("ReadCloud" or "the Company"; ASX: RCL, RCLO) are pleased to provide a quarterly update and quarterly cash flow statement for the June 2019 quarter.

The Company is delighted to report its first positive operational cash flow quarter as a listed entity, record cash receipts and breakeven underlying H2 FY19 EBITDA (unaudited), finishing the financial year strongly and entering FY20 with a strong growth pipeline.

### Revenue update

ReadCloud has recorded unaudited consolidated revenue for FY19 of \$4.8 million (representing a 129% increase on FY18 revenue of \$2.1 million). This increase has been driven by:

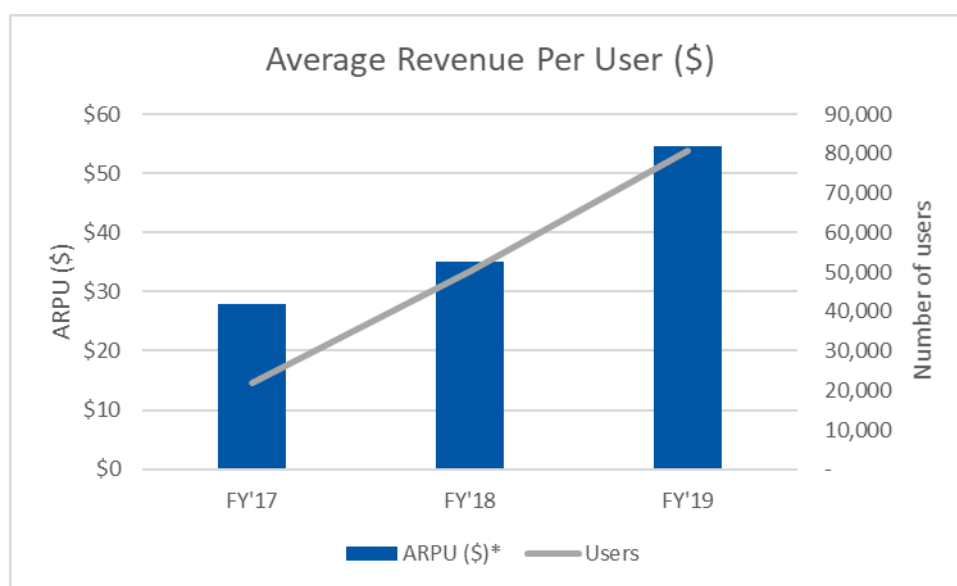
- a 115% increase in the number of direct full-curriculum School customers, translating to a 96% increase in eBook sales and licence fee revenue from these customers. Usage of the ReadCloud platform in a number of the new Schools only covered two year levels in the first year of the contract, with expanded usage expected in subsequent years;
- a 48% increase in the number of ReadCloud Reseller Schools, translating to a 44% increase in revenue from Reseller Schools; and
- revenue from ReadCloud VET schools of circa \$1.3 million.

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Growth in direct full-curriculum and Reseller schools has exceeded growth in revenue due to minimal revenue being recorded in respect of some of the new schools signed up late in the financial year, with significant eBook sales revenue from these schools expected for the 2020 school year.

At the conclusion of FY19 ReadCloud had 80,000 users on the ReadCloud platform, representing a 60% increase on FY18. Average Revenue Per User (“ARPU”) for FY19 was \$55, representing a 55% increase on FY18 and a compound annual growth rate of 40% over the last 3 financial years.



\* Revenue used in this calculation excludes R&D income and interest income

The increase in ARPU is a function of the higher proportional increase in full-curriculum and VET schools versus Reseller Schools and management estimates that ARPU will continue to grow in FY20.

### Publishers

In July 2019 ReadCloud, in conjunction with a number of publishers, will launch a multi-year buying opportunity for the 200+ member schools of the Queensland Secondary Principal Association (“QSPA”). ReadCloud’s exclusive Partnership Agreement with QSPA, which represents schools with in excess of 200,000 students, continues to present a significant opportunity for the Company. Only a small portion of these students are currently using the ReadCloud platform. Once the multi-year buying opportunity is in place, QSPA schools will be able to take advantage of the offer by purchasing their digital resources from ReadCloud. ReadCloud expects this significant initiative to result in increased conversion rates. ReadCloud will earn annual SaaS fees for use of its platform, in addition to margins on the eBooks purchased.

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During the June quarter, ReadCloud entered into an eBook distribution agreement with leading global education publisher McGraw Hill Education (Australia), which will enable ReadCloud to supply best-of-breed VET content that is highly sought after by our VET school customers.

### **Australian Training Products Partnership**

The Directors of ReadCloud are excited at the scope of opportunities in the VET sector presented by its Strategic Distribution Agreement with Australian Training Products (“ATP”), signed in April 2019. ATP is a provider of a wide range of training resources to over 1,000 RTOs in Australia and internationally, representing approximately 25% of all RTOs in the Australian education market. This exclusive 3-year Strategic Distribution Agreement with ReadCloud will assist ATP with protection and delivery of its digital content.

Integration of ATP’s full eBookstore into the ReadCloud platform commenced during the June quarter. This integration involves the digitisation and encryption of ATP’s entire textbook range and delivery of this content via the ReadCloud platform. ReadCloud will participate in a number of joint marketing events with ATP in the coming months, including attendance at the 2019 Queensland Schools VET Conference (9 August 2019) and the 2019 National VET Conference (12-13 September 2019). The Company looks forward to showcasing its technology’s unique capabilities at these conferences and pursuing the sales leads that may follow.

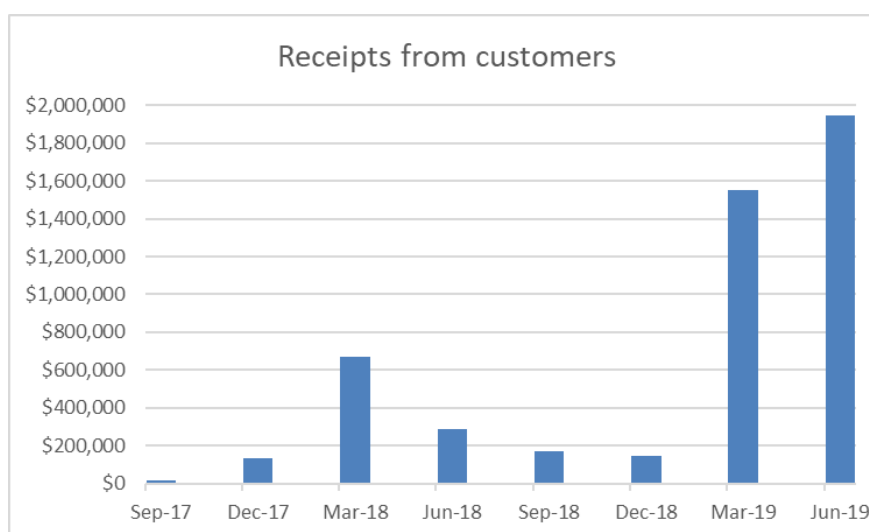
ReadCloud has also commenced enhancing the ReadCloud software platform with an integrated “media overlay” feature to enable ATP-produced videos to be embedded inside ATP’s course materials, significantly enriching this content and further entrenching the ReadCloud technology into ATP’s training services. It is expected these capabilities will be added to the Platform by the end of the September quarter.

The ReadCloud platform also has the potential to offer unique and compelling benefits to the VET sector which often uses practical demonstrations of capability as part of its course assessments. As an example of the innovations possible, students will be able to video their practical demonstration of say a cookery or trade skill, upload the geo-tagged and secure video for assessment which will then be archived on the ReadCloud system for compliance and audit purposes.

### **Finance Update**

As shown in the accompanying Appendix 4C Cash Flow Statement, ReadCloud received \$1.94 million from customers in the June quarter, representing a 580% increase over the June 2018 quarter and a record quarter for the Company. The Company has recorded its first positive net operating cash quarter, with positive \$713,000 received in the quarter.

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As noted previously, ReadCloud’s full-curriculum and VET school businesses are highly seasonal in line with the school year, with the majority of revenue from full-curriculum and VET school customers generated and received in the first half of the calendar year.

Other points to note on the accompanying Appendix 4C Cash Flow Statement:

- payments for research and development for the quarter were \$160,000 (versus \$178,000 for the March quarter). The Company is in the process of finalising its R&D Tax claim for FY19 (expected to amount to circa \$376,000);
- cost of sales for the June quarter was \$303,000 (slightly lower than forecast for the June quarter in the Company’s March 2019 Appendix 4C), with amounts owing to publishers and booksellers as at 30 June 2019 totalling \$60,000; and
- staff costs for the June quarter were \$510,000 (in line with the March quarter).

During the quarter ReadCloud paid the vendor of Australian Institute of Education and Training (“AIET”) \$50,000 in cash and issued 1 million RCL shares as deferred consideration for the acquisition. As announced to ASX on 13 May 2019, AIET has generated revenue in excess of \$0.9 million for FY19, exceeding the performance hurdle for this deferred consideration tranche. One deferred consideration tranche remains to be paid to the vendor comprising up to \$410,000 in cash and up to \$1.64 million in RCL shares payable / to be issued on a sliding scale on AIET achieving from \$200,000 and up to \$600,000 in EBIT for FY19. In its 31 December 2018 half-year report ReadCloud recorded a contingent liability in respect of this final deferred consideration tranche of \$956,250 on the basis of a probability-weighted estimate of likely FY19 EBIT outcomes. Whilst AIET’s FY19 EBIT result (and therefore the final deferred consideration amount) is still being finalised and subject to audit, the performance of the AIET business has significantly exceeded expectations at the time that the contingent consideration liability was estimated for the purposes of the 31 December 2018 half-year report. As a result, the final tranche of deferred consideration to be paid for the AIET acquisition will exceed \$956,250, with a proportion of the excess to be accounted for as a non-cash expense “Fair value movement on contingent consideration” in ReadCloud’s full-year FY19 accounts.



ReadCloud has recorded unaudited consolidated revenue for FY19 of \$4.8 million, up 129% from FY18 Revenue of \$2.1 million. Subject to audit confirmation, underlying EBITDA for H2 FY19 (after adding back the effect of certain non-operating and/or non-cash items) is expected to be breakeven. The Company currently has cash reserves of \$3.1 million, expects to receive circa \$376,000 from its R&D Tax claim for FY19 and has no debt.

## Outlook

Management believes the Company is well placed for strong organic growth in its four revenue streams being; School Curriculum, Resellers, VET in Schools and Broader VET. Revenue from existing direct full-curriculum Schools in FY19 grew by 22% compared with FY18. Management expects this trend to continue in 2020 as use of the ReadCloud platform is expanded within new schools that were signed up in 2019. Although still very early in the selling season for the 2020 school year, the Company is very encouraged by the strength of the sales pipeline and the number of trials of the ReadCloud platform currently underway. ReadCloud has had a strong success rate in converting trial Schools to paying customers in the past. In addition, whilst ReadCloud's revenue from both full-curriculum and Vocational Education and Training ("VET") Schools is skewed towards the first half of the calendar year:

- ReadCloud anticipates increased sales (over the prior comparable period) of full-curriculum eBooks for "senior" year levels (Years 11 and 12) in 1H20, reflecting expansion of usage of the platform within existing full-curriculum Schools into Year 12 (FY19 eBook sales for senior year levels were predominantly for Year 11 only); and
- a number of VET schools (both existing and new customer schools) have indicated an intention to commence VET courses in Term 3 of the current school year.

Cross-selling of ReadCloud's VET course offering to ReadCloud full curriculum schools and vice-versa remains a key part of ReadCloud's sales strategy. ReadCloud is seeing early results from cross-selling VET products, with several existing ReadCloud full-curriculum schools already committing to using ReadCloud VET courses in 2020.

Overall, the Company's sales pipeline remains stronger than ever following the significant groundwork laid by the ReadCloud sales team in the last 12 months. The Company's primary focus is on its organic growth opportunities and accelerating development of the ReadCloud platform for the broader VET market.

-Ends-

## CONTACTS:

### Investors & Media:

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## About ReadCloud Limited

ReadCloud is a leading provider of software solutions, including eBooks, to schools within Australia. ReadCloud's proprietary eBook reader 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 so that together with its Reseller Channel Partners, ReadCloud is able to deliver the Australian school curriculum in digital form in all States, on one platform.

ReadCloud also provides digital Vocational Education and Training (VET) course materials and services to schools through its subsidiary Australian Institute of Education and Training (AIET), which offers 40 VET courses and Auspicing services to schools across Australia.

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+Rule 4.7B

## Appendix 4C

### Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

**Name of entity**

ReadCloud Ltd

**ABN**

44 136 815 891

**Quarter ended ("current quarter")**

30 June 2019

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$A'000</b>	<b>Year to date (June 2019) \$A'000</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	1,943	3,812
1.2 Payments for		
(a) research and development	(160)	(703)
(b) cost of sales	(303)	(1,856)
(c) advertising and marketing	(61)	(108)
(d) leased assets	-	-
(e) staff costs	(510)	(1,832)
(f) administration and corporate costs	(198)	(820)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	2	38
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives (R&D)	-	352
1.8 Other (provide details if material)	-	-
<b>1.9 Net cash from / (used in) operating activities</b>	<b>713</b>	<b>(1,117)</b>

<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire:		
(a) property, plant and equipment	(5)	(12)
(b) businesses (see item 10)	(50)	(397)
(c) investments	-	-

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Consolidated statement of cash flows	Current quarter \$A'000	Year to date (June 2019) \$A'000
(d) intellectual property	-	-
(e) other non-current assets	-	-
<b>2.2 Proceeds from disposal of:</b>		
(a) property, plant and equipment	-	-
(b) businesses (see item 10)	-	-
(c) investments	-	-
(d) intellectual property	-	-
(e) other non-current assets	-	-
<b>2.3 Cash flows from loans to other entities</b>	-	-
<b>2.4 Dividends received (see note 3)</b>	-	-
<b>2.5 Other (provide details if material)</b>	-	-
<b>2.6 Net cash from / (used in) investing activities</b>	<b>(55)</b>	<b>(409)</b>

<b>3. Cash flows from financing activities</b>		
3.1 Proceeds from issues of shares	-	-
3.2 Proceeds from issue of convertible notes	-	-
3.3 Proceeds from exercise of share options	-	-
3.4 Transaction costs related to issues of shares, convertible notes or options	-	-
3.5 Proceeds from borrowings	-	-
3.6 Repayment of borrowings	-	-
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other (provide details if material)	-	-
<b>3.10 Net cash from / (used in) financing activities</b>	<b>-</b>	<b>-</b>

<b>4. Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1 Cash and cash equivalents at beginning of quarter/year to date	2,409	4,593
4.2 Net cash from / (used in) operating activities (item 1.9 above)	713	(1,117)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(55)	(409)
4.4 Net cash from / (used in) financing activities (item 3.10 above)	-	-

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<b>Consolidated statement of cash flows</b>		<b>Current quarter \$A'000</b>	<b>Year to date (June 2019) \$A'000</b>
4.5	Effect of movement in exchange rates on cash held	-	-
<b>4.6</b>	<b>Cash and cash equivalents at end of quarter</b>	<b>3,067</b>	<b>3,067</b>

<b>5.</b>	<b>Reconciliation of cash and cash equivalents</b> at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	<b>Current quarter \$A'000</b>	<b>Previous quarter \$A'000</b>
5.1	Bank balances	3,067	2,409
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>3,067</b>	<b>2,409</b>

**6. Payments to directors of the entity and their associates**

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

<b>Current quarter \$A'000</b>
136
-

Directors' remuneration for the June 2019 Quarter.

**7. Payments to related entities of the entity and their associates**

- 7.1 Aggregate amount of payments to these parties included in item 1.2
- 7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

<b>Current quarter \$A'000</b>
-
-

N/A

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<b>8. Financing facilities available</b> <i>Add notes as necessary for an understanding of the position</i>	<b>Total facility amount at quarter end \$A'000</b>	<b>Amount drawn at quarter end \$A'000</b>
8.1 Loan facilities	-	-
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		
N/A		

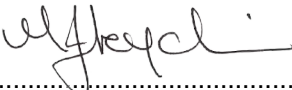
<b>9. Estimated cash outflows for next quarter</b>	<b>\$A'000</b>
9.1 Research and development	160
9.2 Cost of sales	145
9.3 Advertising and marketing	30
9.4 Leased assets	-
9.5 Staff costs	612
9.6 Administration and corporate costs	244
9.7 Other	360
<b>9.8 Total estimated cash outflows</b>	<b>1,551</b>

\* Please note that the above estimated cash outflows for the next quarter do not include inflows of receipts from customers. The cash outflows are estimates only and variable outflows are calculated on forecast revenue for the quarter. Variable outflows will change if actual revenue differs from forecast revenue. Other cash outflows (item 9.7) represent anticipated final deferred cash consideration to be paid for the acquisition of Australian Institute of Education & Training.

<b>10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)</b>	<b>Acquisitions \$A'000</b>	<b>Disposals</b>
10.1 Name of entity Australian Institute of Education & Training Pty Ltd and Australian Institute of Education & Training Unit Trust	-	-
10.2 Place of incorporation or registration Melbourne, Australia	-	-
10.3 Consideration for acquisition or disposal (cash)	397	-
10.4 Total net assets	(50)	-
10.5 Nature of business	-	-

**Compliance statement**

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Sign here:  ..... Date 19 July 2019  
(Company Secretary)

Print name: Melanie Leydin

**Notes**

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.

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