



ASX Release

30 November 2021

Financial Report for the quarter ended 30 September 2021

The Directors of ReadCloud Limited (“ReadCloud” or “the Group”; ASX: RCL) are pleased to release the Company’s audited financial report for the quarter ended 30 September 2021.

Highlights

Key highlights for the 2021 September quarter included:

- strong retention and recommitment of existing schools across the Company’s three sales channels (VET-in-schools, Direct Full-Curriculum and Reseller Full-Curriculum) for the 2022 school year;
- new school signings for the 2022 school year across all three sales channels;
- cross selling of VET courses across the customer base;
- continued investment in the ReadCloud platform; and
- identification of potential new revenue generating opportunities on the back of increasing interest in the ReadCloud platform.

In October 2021 the Company announced a change of financial year-end from 30 June to 30 September. Previously, ReadCloud has reported on a 30 June year-end financial year, with half-year reporting as at 31 December annually. The key School purchasing period for ReadCloud software and course content is from October to March. This results in ReadCloud’s key revenue period being split over two financial reporting periods, making it more difficult for investors to interpret the Company’s reported results. The Company considers a change in financial year-end to 30 September for full year and 31 March for half year results will greatly improve the clarity of the Company’s results.

The Company has previously released an annual report for the year ended 30 June 2021. The attached financial report covers the quarter ended 30 September 2021 with comparative financial information for the 12-month period ended 30 June 2021. Looking forward, the 1H22 period will be the 6 months ending 31 March 2022 (with comparatives being for the 6 months ended 31 March 2021) and the FY22 period will be the 12 months ending 30 September 2022.

Operational update

A key focus for the Company in the 2021 September and current quarters is the retention and recommitment of existing school customers across the Company’s three sales channels and new school signings for the 2022 school year. Management has been pleased with progress to date:



- the majority of existing schools across the three sales channels have already recommitted for 2022 school year; and
- new schools have signed up for the 2022 school year across all three sales channels.

The Company continues to partner with Full-Curriculum Resellers that offer a one-stop-shop solution to schools wanting a combination of eBooks and physical books/stationary. Two new Full-Curriculum Resellers were signed up in the 2021 September quarter and joint marketing of the ReadCloud platform to their existing schools as well as promoting the joint offering more widely has already borne fruit with new school signings.

Following the acquisitions of Registered Training Organisations PKY Media Pty Ltd (trading as College of Sound and Music Production, “COSAMP”, acquired in October 2020) and Ripponlea Institute Pty Ltd (acquired in June 2021), the ReadCloud VET Group (comprising Australian Institute of Education and Training, COSAMP and Ripponlea Institute) is now the largest Private operator of VET-in-Schools in Australia by scope of courses offered.

Of the three ReadCloud RTO’s collective schools, 85% of those school customers used only one of ReadCloud’s VET providers in 2021. A substantial cross selling opportunity exists over the coming years to deliver a wider range of courses to existing school customers who, in general, prefer to deal with fewer RTOs to reduce the administrative compliance burden. Cross selling has already been achieved this selling season and management expects the number of school customers using more than one of ReadCloud’s RTOs for the 2022 school year will be substantially higher.

Platform update

Investment in the ReadCloud platform is seen as a core part of our growth strategy in that it delivers increased levels of automation, streamlines the user experience and continues to provide a strong differentiator in the market. Investment in the platform continued in the 2021 September quarter, with:

- various back-end systems used by the three ReadCloud VET Group RTO’s being unified and the ReadCloud eReader integrated for the delivery of VET course materials;
- further improvements to the sales quoting, onboarding and invoicing system for the Direct Full-Curriculum business, greatly enhancing the scalability of this business where more schools can be on-boarded with the same level of customer support; and
- further investment in the Company’s proprietary eReader platform to improve user experience and remove pain points for our customers.

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Financial results

The September quarter is typically the lowest revenue quarter for both of the Company's operating segments (eBook solutions and Vocational Education and Training, "VET"), with the vast majority of Full-Curriculum eBook sales occurring in the months of December to March each year (coinciding with the commencement of the school year) and the majority of revenue for the VET segment occurring in the months of February to April (coinciding with the peak enrolment period for VET-in-school enrolments).

The Company recorded a loss after tax for the 2021 September quarter of \$1.67 million and an underlying loss before interest, taxation, depreciation and amortisation ('Underlying EBITDA*') of \$1.40 million. This is compared to the Company's reviewed loss after tax and Underlying EBITDA for the prior corresponding period (2020 September quarter) of \$0.84 million and \$0.62 million respectively. Underlying EBITDA is reconciled to the net loss after tax as follows:

\$	Quarter ended 30 September	
	2021 (audited)	2020 (reviewed)
Sales & fee revenue	134,412	318,088
Other revenue	88,906	174,533
Total revenue	223,318	492,621
Less operating expenses:	<u>(1,623,799)</u>	<u>(1,108,539)</u>
Underlying EBITDA*	(1,400,481)	(615,918)
Less: Depreciation and amortisation	(257,679)	(198,748)
Share based payments	(10,197)	(18,951)
Transaction costs incurred on business acquisition (expensed) and one-off ASX fees	-	-
Net interest expense	(5,987)	(2,466)
Reported (statutory) net loss after tax	<u>(1,674,344)</u>	<u>(836,084)</u>

* EBITDA and underlying EBITDA are non-statutory financial measures which are not prescribed by Australian Accounting Standards (AAS). They represent the profit under AAS adjusted for Interest, Tax, Depreciation and Amortisation and certain other specified items. The Directors consider that EBITDA and underlying EBITDA reflect core earnings of the entity consistent with internal reporting.

Significant variances versus the prior comparable quarter include:

- lower Sales and fee revenue for the full-curriculum segment (\$0.03 million for the 2021 September quarter versus \$0.23 million for the prior corresponding quarter) as a result of later processing of "Year 11 & 12 headstart" orders this year (eBooks ordered for 2021 Year 10 and Year 11 students starting 2022 subjects in Term 4 of the 2021 school year). The generation of these sales orders and eBook



provisioning was deliberately delayed until after the commencement of Term 4 this year to enable greater accuracy of sales quoting and provisioning with the benefit of updated school timetables (avoiding significant subsequent reconciliation work). As a result, eBook sales related to “Year 11 & 12 headstart” orders from schools have pushed into the months of October and November 2021 (eBook sales for these months are significantly higher than in the corresponding months in 2020);

- September 2021 quarter Sales and fee revenue for the VET segment was slightly higher than for the prior corresponding quarter, albeit the September quarter falls outside of the normal revenue cycle for this segment;
- other revenue for the 2021 September quarter was \$0.08 million lower than the prior comparable quarter due to the receipt of Federal government grants (cashflow boost) in the September 2020 quarter;
- the Company incurred operating costs in the 2021 September quarter of \$0.40 million in respect of the PKY Media and Ripponlea Institute businesses that were acquired in October 2020 and June 2021 respectively (2020 September quarter: \$nil). The peak revenue generation period for both businesses ordinarily occurs in the March and June quarters (coinciding with the peak enrolment period for VET-in-school enrolments); and
- the Company also incurred additional costs in the 2021 September quarter in relation to advertising and marketing (a national marketing campaign to promote the ReadCloud VET Group), professional services fees associated with the requirement to produce a 30 September 2021 audited financial report and higher employment costs associated with additional annual leave accrued by employees (less leave taken by employees).

Funding

As at 30 September 2021 the Company had a strong balance sheet with cash at bank of \$4.47 million and zero debt. The end of the September quarter each year is typically near the low point of the Company’s cash cycle, with the March and June quarters in each year being the strongest for sales and cash receipts. The Company is well capitalized to pursue growth initiatives.

Outlook

Management is confident that its strategies to accelerate growth in its three sales channels, which to date have yielded high customer retention rates, new school signings and confirmed cross sales between the 3 ReadCloud RTO’s, will result in strong revenue growth in FY22 (year ending 30 September 2022). Management estimate that ReadCloud will have well over 600 school customers for 2022.

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Global Victoria recently selected ReadCloud for participation in a number of Virtual Trade Expo events across South East Asia and the United Kingdom. The learnings so far suggest that there may be a gap in certain overseas markets for ReadCloud's platform and in particular the ability to encrypt and protect publishers' eBooks. As such, ReadCloud is making an investment in exploring and quantifying a Distributor/Reseller model in a number of overseas markets.

-Ends-

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

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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 55 digital VET courses and auspicing services to schools across Australia.

ReadCloud currently has over 116,000 users on its platform.

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