

ASX Release

30 October 2020



Quarterly Activities Report & Appendix 4C

Highlights

- Acquisition of College of Sound and Music Production (“COSAMP”) is expected to drive significant growth and expand ReadCloud’s presence in the Vocational Education and Training (“VET”) in Schools market
- ReadCloud now has over 500 school customers and cross-marketing between ReadCloud and COSAMP school customers is showing promising results
- Sales of “Year 12 HeadStart” resources to full-curriculum schools are tracking well ahead of last year
- Sales momentum for the 2021 school year continued in the September 2020 quarter, with new school wins for 2021 across key segments
- Record sales pipeline leading into 2021 school year
- Solid cash balance of \$2.9 million as at 30 September 2020 with no debt
- The Company has received \$0.6 million from the exercise of ASX-listed RCLO options since 30 June 2020 (up to today’s date) and up to an additional \$4.4 million would be raised if all RCLO options are exercised

ReadCloud Limited (“ReadCloud” or “the Company”) (ASX: RCL, RCLO) is the leading provider of digital eLearning solutions to secondary schools and the VET sector in Australia. The Directors of ReadCloud are pleased to provide a quarterly update and cash flow statement for the September 2020 quarter. As detailed below, the Company’s cash receipts are highly seasonal, in line with the school year, with the September quarter being the lowest for cash receipts in the annual cycle.

Sales update

The September quarter has seen ReadCloud continue to build on sales momentum for the 2021 school year, having won new school customers across key segments.

In the Direct schools segment, where ReadCloud provides a digital eLearning platform covering the full school curriculum, schools typically make purchasing decisions for the following school year well into November and December. The Company is pleased to have signed 16 new Direct secondary schools this calendar year to date, prior to the start of the main selling season for 2021. Management considers that ReadCloud is well positioned to add a significant number of additional Direct school customers between now and 30 June 2021.

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A significant focus for the Direct (full curriculum) school segment in the September and December quarters is “Year 12 HeadStart” sales, where Direct school customers buy Year 12 textbooks (including eBooks) in Term 4 for current Year 11 students. Year-to-date Year 12 HeadStart sales (including October month-to-date) are \$0.4 million, with sales quotes totalling a further \$0.3 million awaiting school purchase approval, which indicate that FY21 Year 12 HeadStart sales should significantly exceed FY20.

The Directors are pleased to report that the two new Reseller partners signed up in the June quarter, Western Australia-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.

During the quarter ReadCloud’s existing VET business, Australian Institute of Education and Training (“AIET”), had a successful start to sales of VET courses for 2021, including four new schools in Victoria, two in Tasmania, four in Western Australia, two in South Australia and two in Queensland. Three of these new schools are expected to each have circa 600 VET students (versus a historical average of circa 50 VET students per school).

ReadCloud’s strategy to broaden the range of VET courses delivered per school is generating success. Schools’ preference to deal with only one Registered Training Organisation (“RTO”) for the delivery of all their VET courses is proving beneficial for ReadCloud which now offers over 45 VET qualifications.

AIET has also contracted to sell VET course content and provide compliance oversight services to two new non-auspiced schools (schools that are RTO’s in their own right). This new arrangement will see the digital delivery of AIET’s proprietary course materials to these schools via the ReadCloud platform with digital access to compliance systems via the AIET Hub. This generates a new revenue stream for AIET with no RTO compliance obligations and opens up a new segment of the VET-in-schools market.

Proposed changes in auspicing arrangements for South Australian schools offering VET courses under TAFE SA’s RTO licence have created an opportunity for AIET to target these schools for 2021. AIET commenced marketing to over 130 South Australian schools during the quarter and a number are already in the process of contracting with AIET for 2021.

The Board and management are confident in the outlook for the 2021 school year. The Company looks forward to providing a further sales update at the Company’s Annual General Meeting on 10 November 2020.

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Acquisition of College of Sound and Music Production

On 27 October ReadCloud announced the acquisition of COSAMP, the market leader in VET courses for the music industry in Australia, which is a top-10 vertical in the VET-in-schools sector. Headquartered in Melbourne, COSAMP provides nationally accredited VET programs to 184 secondary schools throughout Australia, including Certificate II and Certificate III in Music Industry and Diploma of Music Industry qualifications.

The rationale for the acquisition is compelling, including:

- COSAMP's proprietary VET-in-schools offering is entirely complimentary to ReadCloud's current VET offering
- ReadCloud's ability to enhance COSAMP's proprietary VET course materials with audio and video content with delivery in digital form via the ReadCloud platform
- Adding an additional 184 school customers, taking ReadCloud to over 500 secondary school customers in total
- the very significant cross-selling opportunity both to deliver proprietary VET music industry courses to ReadCloud's existing school customers and to deliver ReadCloud's broader offering of 43 VET courses and ReadCloud's full digital education platform to COSAMP's school customers.

Marketing and cross-selling has already commenced and is showing promising results.

COSAMP generated sales revenue of \$0.84 million in FY20 and delivered EBITDA of \$0.22 million. 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).

eLearning Platform Update

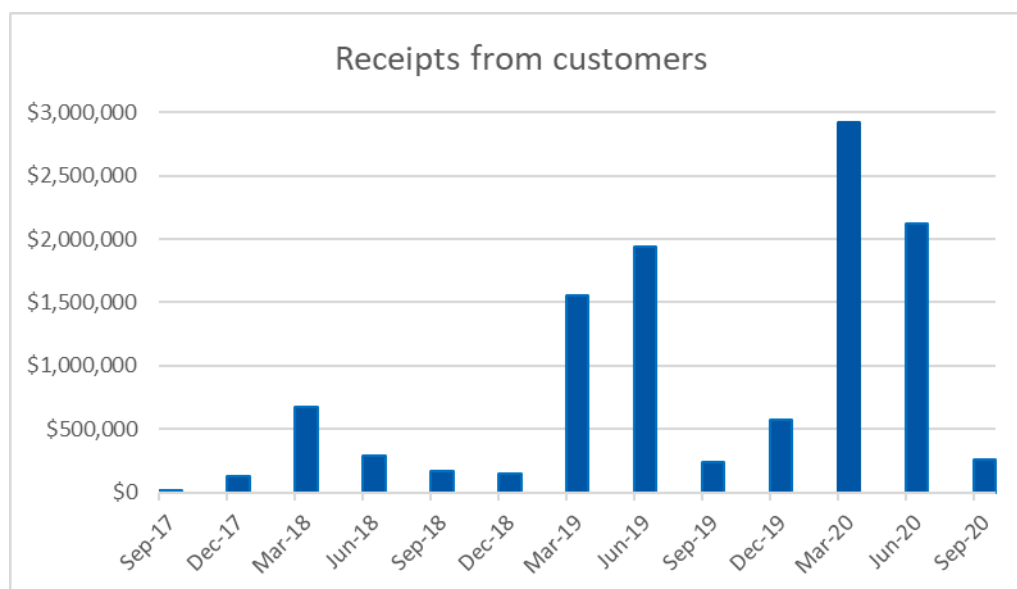
The focus of software development in the September quarter included the roll-out of the new eBook quoting and ordering system in conjunction with Year 12 HeadStart sales. The new system has successfully streamlined the sales quoting and eBook provisioning processes.

During the quarter the ReadCloud Immersive Reader was deployed to the production environment. This new platform feature has been extremely well received by schools and its usage is steadily growing. The ability to have text in an eBook translated into any language and read aloud is receiving very positive feedback.

To explore this feature, see more here: <https://www.youtube.com/watch?v=sgudsz007Y8>

Finance Update

The Company notes that its results are highly seasonal in line with the school year cycle, with the 2nd and 3rd quarters in each financial year being the strongest for sales and cash receipts.



In this context the key points from the accompanying Appendix 4C Cash Flow Statement are:

- cash receipts from customers in the September quarter were \$0.3 million;
- cost of sales (payments to publishers) for the September quarter were \$0.1 million relating to eBook sales during the June and September quarters;
- staff costs for the September quarter were \$0.7 million, including payments to related parties of \$155,000 (Directors' remuneration for the September 2020 quarter); and
- the Company received \$0.5 million from the exercise of ASX-listed RCLO options in the September quarter (with a further \$0.1 million received from options exercised to date in October).

As at 30 September 2020 the Company had cash reserves of \$2.9 million and no debt. ReadCloud received a R&D tax refund of \$0.39 million for FY20 in early October. As at 30 October 2020 the Company has 14.8 million ASX-listed RCLO options on issue, exercisable at \$0.30 each and expiring on 30 November 2020. If all of these options are exercised, the Company would raise a further \$4.4 million.

The Company's Appendix 4C Cash Flow Statement accompanies this report.

-Ends-

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CONTACTS:

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

ReadCloud services over 500 secondary school customers with over 115,000 users on its platforms.

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

Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

ReadCloud Ltd

ABN

44 136 815 891

Quarter ended ("current quarter")

30 September 2020

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	257	257
1.2 Payments for		
(a) research and development	(171)	(171)
(b) product manufacturing and operating costs	(148)	(148)
(c) advertising and marketing	(24)	(24)
(d) leased assets	(50)	(50)
(e) staff costs	(708)	(708)
(f) administration and corporate costs	(152)	(152)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	75	75
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(921)	(921)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(5)	(5)
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	-	-

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Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	(5)	(5)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	452	452
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	-
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)	-	-
3.10	Net cash from / (used in) financing activities	452	452

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	3,388	3,388
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(921)	(921)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(5)	(5)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	452	452
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	2,914	2,914

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	2,914	3,388
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	2,914	3,388

6. Payments to related parties of the entity and their associates

- 6.1 Aggregate amount of payments to related parties and their associates included in item 1
- 6.2 Aggregate amount of payments to related parties and their associates included in item 2

**Current quarter
\$A'000**

155

-

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments

7. Financing facilities

Note: the term "facility" includes all forms of financing arrangements available to the entity.

Add notes as necessary for an understanding of the sources of finance available to the entity.

- 7.1 Loan facilities
- 7.2 Credit standby arrangements
- 7.3 Other (please specify)
- 7.4 **Total financing facilities**

Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
-	-
-	-
-	-
-	-

7.5 Unused financing facilities available at quarter end

N/A

- 7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.

N/A

8. Estimated cash available for future operating activities**\$A'000**

8.1 Net cash from / (used in) operating activities (Item 1.9)	(921)
8.2 Cash and cash equivalents at quarter end (Item 4.6)	2,914
8.3 Unused finance facilities available at quarter end (Item 7.5)	-
8.4 Total available funding (Item 8.2 + Item 8.3)	2,914
8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	3.16

Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.

- 8.6 If Item 8.5 is less than 2 quarters, please provide answers to the following questions:

8.6.1. Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

Answer: N/A

8.6.2. Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer: N/A

8.6.3. Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer: N/A

Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.

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.

Date: 30 October 2020

Authorised by: The Board
(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow 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 cash flow 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.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.