Tel: +61 2 9019 2800
Fax: +61 2 8214 5869
ABN: 50 103 827 836

19 April 2021

Despatch of Shareholder Documents in Relation to the Merger with Blake

3P Learning Limited (ASX:3PL) ("3PL") is pleased to announce the details of an Extraordinary General Meeting of 3PL shareholders to consider its proposed merger ("Merger") with Blake eLearning Pty Ltd ("Blake"), which was announced on 12 April 2021.

Notice of Extraordinary General Meeting and Explanatory Statement

A copy of the Notice of Extraordinary General Meeting and Explanatory Statement attached to this release sets out information that 3PL shareholders require to evaluate the Merger, including a voting form and an Independent Expert's Report (together, the "NOM Booklet"). An electronic version of the NOM Booklet will also be available for viewing and downloading online at 3PL's website (https://www.3plearning.com/investors/blake2021).

Copies of the NOM Booklet will not be sent by post ahead of the Extraordinary General Meeting. This approach is consistent with the "no action" position adopted by the Australian Securities & Investments Commission in their media release announced on 29 March 2021 in response to the issuance of electronic notices during the COVID-19 pandemic.

Extraordinary General Meeting

The Extraordinary General Meeting will be held at 2:00pm (AEST) on Friday, 21 May 2021 at 124 Walker Street North Sydney NSW 2060.

All 3PL Shareholders are encouraged to vote either by participating in the Extraordinary General Meeting or by lodging a direct vote or directed proxy if they cannot participate in the Extraordinary General Meeting.

Independent Expert's Conclusion

Lonergan Edwards & Associates Limited has been appointed as the Independent Expert by the 3PL Board to assess the merits of the Merger.

The Independent Expert has concluded that the Merger is not fair but is reasonable to Shareholders in the absence of a superior proposal.

The Merger is not fair when assessed based on the guidelines set out in Regulatory Guide 111 because the Merger does not provide value to 3PL shareholders which is equal to the full controlling interest value of 3PL shares prior to the Merger. However, this is to be expected as the Merger does not involve a takeover offer (or similar proposal) for 100% of 3PL shares.

The Merger is reasonable because the Independent Expert has concluded that the advantages of the Merger significantly outweigh the disadvantages.

Shareholders should read the Independent Expert's Report in its entirety before making a decision as to whether or not to vote in favour of the Merger.

Directors' Recommendation

In the absence of a superior proposal, the Board of Directors unanimously recommend that eligible 3PL shareholders vote in favour of the Merger. The Board also draws to 3PL shareholder's attention that there are a number of risks associated with the Merger, which are set out in detail in Sections 3.2 and 7 of the NOM Booklet. The Board of Directors highly recommend that all 3PL Shareholders read the NOM Booklet in its entirety before deciding whether or not to vote in favour of the Merger.

Further Information

For further information in relation to NOM Booklet or the Extraordinary General Meeting, please direct your email enquiries to investors@3plearning.com.

-ENDS-

This announcement has been authorised for release to ASX by the Board of 3PL.

For further information, please contact:

3P Investor Relations
investors@3plearning.com

Sam Weiss
sam.weiss@3plearning.com

3P Learning Limited

Notice of Extraordinary General Meeting and Explanatory Statement

This Explanatory Statement has been prepared in relation to the proposed merger between 3P Learning Limited and Blake eLearning Pty Ltd to be undertaken by 3P Learning Limited acquiring all of the issued share capital in Blake eLearning Pty Ltd in return for the issue of 3PL Shares to the Blake Sellers.

This Explanatory Statement includes a Notice of Meeting as Annexure A, and a Voting Form for the General Meeting. A full copy of an Independent Expert's Report prepared by Lonergan Edwards & Associates Limited on the fairness and reasonableness of the Merger is included as Annexure B.

The 3PL Directors unanimously recommend that you vote in favour of the Merger Resolution, in the absence of a Superior Proposal.

The General Meeting will be held at 2.00pm (AEST) on Friday 21 May 2021 at 124 Walker Street North Sydney NSW 2060.

If you are in any doubt about how to deal with this document, you should contact your broker or financial, taxation, legal or other professional adviser immediately.

3P Learning

3P Learning Limited ABN 50 103 827 836
www.3plearning.com

Important notices

General

You should read this Explanatory Statement in full before making any decision as to how to vote at the Meeting.

Purpose of this document

This Explanatory Statement has been prepared for 3P Learning Limited shareholders in connection with the General Meeting to be held at 2.00pm (AEST) on Friday 21 May 2021.

The purpose of this Explanatory Statement is to provide Shareholders with information that the 3PL Directors believe to be material to deciding whether or not to approve the Merger Resolution detailed in the Notice of Meeting.

ASX

A copy of this document has been lodged with ASX. Neither ASX nor any of its officers takes any responsibility for the contents of this document.

Investment decisions

The information contained in this Explanatory Statement does not constitute financial product advice. This Explanatory Statement does not take into account the investment objectives, financial situation, tax position or particular needs of individual Shareholders or any other person. Before making any investment decision and any decision as to whether or not to vote in favour of the Merger Resolution, you should consider whether that decision is appropriate in light of your particular investment needs, objectives and financial circumstances.

This Explanatory Statement is important and requires your immediate attention. It should be read in its entirety before making a decision on whether or not to vote in favour of the Merger Resolution.

In particular, it is important that you consider the potential risks of the Merger, as set out in Section 7 of the Explanatory Statement, and the views of the Independent Expert set out in the Independent Expert's Report.

If you are in doubt as to the course you should follow, you should consult an independent and appropriately licensed and authorised professional adviser.

Not an offer

This Explanatory Statement does not constitute or contain an offer to Shareholders, or a solicitation of an offer from Shareholders, in any jurisdiction.

Disclaimer

This Explanatory Statement has been prepared by 3PL based on the information available to it. The historical information is derived from sources believed to be accurate at the date of this Explanatory Statement. However, no representation or warranty, express or implied, is made as to the fairness, accuracy, completeness or correctness of any information, opinions and conclusions contained in this Explanatory Statement.

Unless otherwise stated, all information regarding Blake, the Blake Business or the Blake Sellers, including financial information (Blake Information), has been sourced from the Blake Sellers. Despite making reasonable efforts, 3PL cannot verify the accuracy, reliability or completeness of all the Blake Information. 3PL does not assume any responsibility for the accuracy, completeness or correctness of the Blake Information.

The historical information in this Explanatory Statement relating to 3PL is, or is based upon, information that has been released to the market. It should be read in conjunction with 3PL's other periodic and continuous disclosure announcements including 3PL's results for the year ended 31 December 2020 lodged with the ASX and announcements to the ASX available at www.asx.com.au.

Financial data

Shareholders should note that this Explanatory Statement includes unaudited financial information for Blake that has been prepared by the Blake Sellers for various periods and has been adjusted by 3PL based on its due diligence. Pro-forma adjustments have been made in order to restate Blake reported financials on a like-for-like basis with 3PL and adjustments associated with the Merger. Shareholders should note that this information has not been audited and is based on management estimates and not on financial statements prepared in accordance with applicable statutory requirements. Accordingly, Shareholders should treat this information with appropriate caution.

Financial information in relation to Blake has been derived from management accounts and other financial information made available by the Blake Sellers in connection with the Merger. The pro forma financial information for 3PL following the acquisition of Blake is provided for illustrative purposes only.

Shareholders should also be aware that certain financial data included in this Explanatory Statement including EBITDA and measures described as "pro-forma", are "non-IFRS financial information" under ASX Regulatory Guide 230 (Disclosing non-IFRS financial information). The non-IFRS financial information financial measures do not have a standardised meaning prescribed by AIFRS and, therefore, may not be comparable to similarly titled measures presented by other companies, nor should they be construed as an alternative to other financial measures determined in accordance with AIFRS. Shareholders are cautioned, therefore, not to place undue reliance on any non-IFRS financial measures included in this Explanatory Statement.

Forward looking statements

This Explanatory Statement contains both historical and forward looking statements. All statements other than statements of historical fact are, or may be deemed to be, forward looking statements.

The forward-looking statements in this Explanatory Statement are not based on historical facts, but rather reflect the current views of 3PL held only as at the date of this Explanatory Statement concerning future results and events and generally may be identified by the use of forward-looking words or phrases such as "believe", "aim", "expect", "anticipated", "intending", "foreseeing", "likely", "should", "planned", "may", "estimated", "potential", or other similar words and phrases. Similarly, statements that describe 3PL's or the Blake Sellers' objectives, plans, goals or expectations are or may be forward-looking statements. The statements in this Explanatory Statement about the impact that the Merger may have on the results of 3PL's operations, and the advantages and disadvantages anticipated to result from the Merger, are also forward-looking statements.

Any other forward-looking statements included in this Explanatory Statement and made by 3PL have been made on reasonable grounds and reflect its present intentions as at the date of this Explanatory Statement and may be subject to change.

All forward-looking statements involve known and unknown risks, uncertainties, assumptions and other factors that may cause 3PL's actual results, performance or achievements to differ materially from the anticipated results, performance or achievements expressed, projected or implied by these forward-looking statements. The operations and financial performance of 3PL are subject to various risks, including those summarised in this Explanatory Statement, which may be beyond the control of 3PL. Those risks and uncertainties include factors and risks specific to the industry in which 3PL and Blake operate as well as general economic conditions, prevailing exchange rates and interest rates and conditions in the financial markets. The actual results, operations and earnings of 3PL (whether or not the Merger is implemented), as well as the actual advantages or disadvantages of the Merger, may differ significantly from those that are anticipated in respect of timing, amount or nature and may never be achieved. Shareholders should note that the historical financial performance of 3PL or Blake is no assurance of future financial performance of 3PL (whether or not the Merger is implemented). Shareholders should review carefully all of the information included in this Explanatory Statement. The forward-looking statements included in this Explanatory Statement are made only as of the date of this Explanatory Statement.

Although 3PL believes that the views reflected in any forward-looking statements included in this Explanatory Statement have been made on a reasonable basis and as at the date of this Explanatory Statement reflect its present intentions, no assurance can be given that such views will prove to have been correct or not subject to change. None of the 3PL Group, or any of its directors, officers, employees, advisers or any person involved in the preparation of this Explanatory Statement gives any representation, warranty, assurance or guarantee to Shareholders that any forward-looking statements will actually occur or be achieved, except to the extent required by law. Shareholders are cautioned not to place undue reliance on such forward-looking statements.

All subsequent written and oral forward-looking statements attributable to the 3PL Group or any person acting on their behalf are qualified by this cautionary statement.

Subject to any continuing obligations under law or the Listing Rules, the 3PL Group does not give any undertaking to update or revise any forward-looking statements after the date of this Explanatory Statement to reflect any change in expectations in relation to those statements or any change in events, conditions or circumstances on which any such statement is based.

Foreign jurisdictions

The release, publication or distribution of this Explanatory Statement in jurisdictions other than Australia may be restricted by law or regulation in such other jurisdictions and persons outside of Australia who come into possession of this Explanatory Statement should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable laws or regulations.

This Explanatory Statement has been prepared in accordance with the laws of Australia and the information contained in this Explanatory Statement may not be the same as that which would have been disclosed if this Explanatory Statement had been prepared in accordance with the laws and regulations of a jurisdiction outside of Australia. This Explanatory Statement and the Merger do not constitute an offer of securities in any place in which, or to any person to whom, it would not be lawful to make such an offer.

References to currency and exchange

References to dollars ($ or A$) in this Explanatory Statement are to Australian dollars, unless otherwise stated. All share prices and trading volumes refer to ordinary shares in the capital of 3PL trading on the ASX.

Rounding

Certain financial figures in this Explanatory Statement have been rounded as applicable, unless otherwise stated. Such figures should be considered as approximate figures. Accordingly, the actual calculation of these figures may differ from the figures set out in this Explanatory Statement. Any discrepancies in any table between totals and sums of amounts listed therein or to previously published financial figures are due to rounding.

Defined terms and interpretation

Capitalised terms used in this Explanatory Statement are defined either in the Glossary in Section 10 of this Explanatory Statement or in the body of this Explanatory Statement. Section 10 also sets out some rules of interpretation which apply to this Explanatory Statement.

Any diagrams, charts, graphs and tables appearing in this Explanatory Statement are illustrative only and may not be drawn to scale. Unless otherwise stated, all data contained in diagrams, charts, graphs and tables is based on information available at the date of this Explanatory Statement.

Times and dates

Unless otherwise stated, a reference to time in this Explanatory Statement is a reference to the Australian Eastern Standard Time. All dates are indicative only and, among other things, are subject to the satisfaction or, where capable, waiver of the conditions precedent under the Share Sale Agreement which are summarised in Section 8.1(c) of this Explanatory Statement.

Date

This Explanatory Statement is dated 19 April 2021.

Table of contents

Letter from the Chairman

19 April 2021

Dear 3PL Shareholder,

On behalf of the 3PL Board, I have the pleasure of inviting you to a General Meeting of the members of 3PL which will be held at 124 Walker Street North Sydney NSW 2060 on Friday 21 May 2021 at 2.00pm (AEST). The Notice of Meeting and Explanatory Statement are enclosed. Please read these documents carefully.

Summary of the Merger

On 12 April 2021 3PL announced an all scrip merger with Blake.

Blake is a privately owned, Australian-headquartered, global provider of online education products focused on pre-K to year 10 students. Blake offers a broad range of literacy and numeracy products and has built a strong and growing presence in the direct-to-consumer market.

The Merger involves 3PL acquiring all of the shares in Blake which will result in Blake becoming a wholly-owned subsidiary of 3PL.

The acquisition will be funded via the issuance of 137m shares in 3PL, which implies a purchase price of $185m assuming a $1.35 issue price (**Consideration Shares**).

As a result of the Merger, the Blake Sellers together with their Associates will have a Relevant Interest in 3PL Shares of 49.63%.[1]

The Merger is conditional on Shareholder approval of the Merger Resolution and a number of other conditions precedent which are detailed in this Explanatory Statement.

If the Merger Resolution is approved, and all other conditions precedent to the Merger are either satisfied or waived, then formal completion of the Merger is expected to occur in late May.

Strategic rationale

The Merger unites two companies with a longstanding history and complementary offerings to create a leading EdTech platform. The Merger provides support for 3PL's future growth plan and expands 3PL's ability to service teachers, parents and children around the world. We expect the Merger to be significantly earnings accretive to Shareholders.

The 3PL Directors believe there is compelling strategic rationale for the Merger, including:

- **Creates a large scale EdTech platform:** Creates a scale EdTech business with the Merged Group CY20 pro forma revenue of over $100.5 million and CY20 pro forma EBIT of $20.8 million
- **Enhances growth trajectory:** 3PL's strength in numeracy is complemented by Blake's strength in literacy (the two key spend categories for K-12 EdTech) which will enable further penetration in existing and new markets
- **Ownership of complementary customer offering with broader geographic, channel and curriculum mix:** 3PL's strong incumbent position in the school market is complemented by Blake's capability in the high growth direct-to-consumer market, allowing the Merged Group to reach all channels. In addition, the Merged Group will control the intellectual property rights in its key products Reading Eggs and Mathseeds, resulting in a comprehensive product offering across subjects and student year groups
- **Generates significant synergies and strategic cost efficiencies:** 3PL and Blake have identified efficiencies ($7.5m - $12.5m annually) across a range of cost categories focused on product rationalisation and simplification of business processes. There is also potential for additional revenue synergies across the combined product suite through cross-sell and new business opportunities. These revenue benefits are yet to be quantified
- **Experienced Board and Management:** Complementary combination of 3PL and Blake senior leadership team, including the appointment of Matthew Sandblom as Non-Executive Chairman of MergeCo (who has considerable experience in EdTech and familiarity with the 3PL and Blake businesses)

The 3PL Board have assessed the merits, advantages, disadvantages and risks of the Merger as well as alternatives available to 3PL and unanimously recommend that you vote in favour of the Merger Resolution in the absence of a Superior Proposal. This Explanatory Statement contains information on the Merger for you to consider ahead of voting.

[1] Based on 3PL's current issued share capital of 139.48 million shares and disregarding the impact of any outstanding convertible securities.

Independent Expert

The 3PL Board commissioned Lonergan Edwards & Associates Limited to provide an Independent Expert's Report on the merits of the Merger to assist Shareholders in determining whether or not to approve the Merger Resolution. The Independent Expert has concluded that the Merger is not fair but reasonable to Shareholders in the absence of a superior proposal. The Merger is not fair when assessed based on the guidelines set out in Regulatory Guide 111 because the Merger does not provide value to 3PL shareholders which is equal to the full controlling interest value of 3PL shares prior to the Merger. However, this is to be expected as the Merger does not involve a takeover offer (or similar proposal) for 100% of 3PL shares. The Merger is reasonable because the Independent Expert has concluded that the advantages of the Merger significantly outweigh the disadvantages. The Independent Expert's Report (which Shareholders should read in full) is set out in Annexure B.

Proposed Board of the Merged Group

Should the Merger be implemented, I will step down as Chairman of 3PL but remain on the 3PL Board as a non-executive director to assist 3PL through the transition. Matthew Sandblom, founder and current Executive Chairman of Blake will become non-executive Chairman.

Further information

This Explanatory Statement sets out further details of the Merger and the Merger Resolution. While the 3PL Directors unanimously recommend that you vote in favour of the Merger Resolution, there are a number of potential disadvantages and risks associated the Merger, which are set out in detail in Sections 3.2 and 7. Please read this Explanatory Statement in full before making your decision and voting on the Merger Resolution at the Meeting.

If you have any questions about the Merger or the Merger Resolution, you should consult your legal, investment or other professional adviser.

On behalf of the 3PL Directors, I would like to thank you for your continued support of 3PL. Your 3PL Directors believe that the Merger is in the best interests of Shareholders, as set out in this Explanatory Statement. I look forward to your participation in the General Meeting.

As Chairman of 3PL, I intend to vote all undirected proxies over which I have control in favour of the Merger Resolution.

Yours sincerely

Sam Weiss

Chairman | 3P Learning

What you should do next

Step 1: Read this document and consider the Merger

This Explanatory Statement has been prepared for the information of Shareholders in relation to the business to be conducted at the General Meeting.

The purpose of this Explanatory Statement is to provide Shareholders with all information known to 3PL which is material to a decision on how to vote on the Merger Resolution set out in the accompanying Notice of Meeting. It explains the Merger Resolution and identifies the 3PL Board's reasons for putting it to Shareholders.

You should read and carefully consider the information included in this Explanatory Statement to help you make an informed decision.

If you have any doubts as to what action you should take, please contact your legal, investment or other professional adviser.

Step 2: Vote on the Merger Resolution at the General Meeting

You may vote on the Merger Resolution to be considered at the General Meeting if you are registered on 3PL's share register at 7:00pm (AEST) on Wednesday 19 May 2021.

All Shareholders are invited and encouraged to attend the General Meeting. If Shareholders are unable to attend in person, they may lodge a direct vote or appoint a proxy by completing a Voting Form.

To be effective for the scheduled Meeting, a direct vote, proxy appointment (and any power of attorney or other authority under which it is signed or otherwise authenticated, or a certified copy of that authority) must be received no later than 2.00pm (AEST) on Wednesday 19 May 2021 (being 48 hours before the commencement of the Meeting). Any direct vote or proxy appointment received after that time will not be valid for the scheduled Meeting.

Completed Voting Forms may be lodged online by following the directions at www.linkmarketservices.com.au or for those Shareholders who are submitting a hardcopy Voting Form rather than using the online voting facility:

(a) **By mail:** sent to 3PL's share registry at 3P Learning Limited C/- Link Market Services Limited, Locked Bag A14, Sydney South NSW 1235

(b) **By fax:** sent to 3PL's share registry at +61 2 9287 0309

(c) **By hand:** delivered during business hours to Link Market Services Limited, 1A Homebush Bay Drive, Rhodes NSW 2138

Shareholders may refer to the enclosed sample Voting Form and the Notice of Meeting contained in Annexure A of this Explanatory Statement for more information on how to complete and lodge the applicable Voting Form.

Enquiries

If you have any questions about the Merger or the content of this Explanatory Statement, please email investors@3plearning.com.

Key dates for Shareholders

Event	Date*
Date of this Explanatory Statement	Monday 19 April 2021
Deadline for lodging Voting Forms for the General Meeting	2.00pm (AEST), Wednesday 19 May 2021
Record date for eligibility to vote at the General Meeting	7.00pm (AEST), Wednesday 19 May 2021
General Meeting to approve the Merger, and a trading halt to be requested from the commencement of trading	2.00pm (AEST), Friday 21 May 2021
If the Merger Resolution is approved by Shareholders and the other conditions precedent to completion are satisfied or waived	
Completion of the Merger	Late May 2021

* Shareholders should note the above timetable is indicative only and may be varied in consultation with ASX. Any changes to the above timetable will be released to the ASX.

01

Directors' Recommendation and Independent Expert's Report

1 Directors' Recommendation and Independent Expert's Report

1.1 3PL Directors' Recommendation

The 3PL Directors consider that the Merger is in the best interests of Shareholders and unanimously recommend that eligible Shareholders vote in favour of the Merger Resolution in the absence of a Superior Proposal.

In making this recommendation, the 3PL Board has, among other things, considered:

(a) the reasons Shareholders should vote in favour of the Merger Resolution as set out in Section 3.1;

(b) the reasons Shareholders may wish to vote against the Merger Resolution as set out in Section 3.2;

(c) alternatives to the Merger;

(d) the risks associated with implementation of the Merger outlined in Section 7; and

(e) the Independent Expert's Report.

The 3PL Directors as at the date of this Explanatory Statement are Sam Weiss, Roger Amos, Claire Hatton and Mark Lamont.

All of the 3PL Directors intend to vote all 3PL Shares held or controlled by them in favour of the Merger Resolution to be considered at the General Meeting, in the absence of a Superior Proposal.

1.2 Independent Expert

Lonergan Edwards & Associates Limited has been appointed as the Independent Expert by the 3PL Board to assess the merits of the Merger.

The Independent Expert has concluded that the Merger is not fair but reasonable to Shareholders in the absence of a superior proposal. The Merger is not fair when assessed based on the guidelines set out in Regulatory Guide 111 because the Merger does not provide value to 3PL shareholders which is equal to the full controlling interest value of 3PL shares prior to the Merger. However, this is to be expected as the Merger does not involve a takeover offer (or similar proposal) for 100% of 3PL shares.

The Merger is reasonable because the Independent Expert has concluded that the advantages of the Merger significantly outweigh the disadvantages.

Shareholders should read the Independent Expert's Report in its entirety before making a decision as to whether or not to vote in favour of the Merger Resolution.

02 Merger Resolution

2 Merger Resolution

The General Meeting is being held to consider and, if thought fit, approve the Merger Resolution, which is an ordinary resolution, for the purpose of item 7 of section 611 of the Corporations Act and for all other purposes, to approve the issue of 137,000,000 3PL Shares to the Blake Sellers.

The Merger will not proceed unless the Merger Resolution is passed.

Further information in relation to the Merger Resolution is set out in the Notice of Meeting which is included as Annexure A.

03

Key considerations relevant to your vote

3 Key considerations relevant to your vote

This section sets out reasons that you should consider in determining whether or not to vote in favour of the Merger Resolution. It is not intended to address all relevant considerations for Shareholders. This section should be read in conjunction with all other parts of this Explanatory Statement.

3.1 Why Shareholders should vote in favour of the Merger Resolution

The Directors consider that there are a number of advantages associated with the Merger. Some of the key advantages and reasons why eligible Shareholders may wish to vote in favour of the Merger Resolution include:

(a) Creates a large scale EdTech business

Shareholders will acquire an interest in a larger scale EdTech business with the Merged Group's CY20 pro forma revenue of over $100.5 million and CY20 pro forma EBIT of $20.8 million.

(b) Enhances growth trajectory

3PL's strength in numeracy is complemented by Blake's strength in literacy (the two key spend categories for K-12 EdTech) which will enable further penetration in existing and new markets.

(c) Ownership of complementary customer offering with broader geographic, channel and curriculum mix

3PL's strong incumbent position in the school market is complemented by Blake's capability in the high growth direct-to-consumer market, allowing the Merged Group to reach all channels. In addition, the Merged Group will control the intellectual property rights in its key products Reading Eggs and Mathseeds (which 3PL currently has rights to distribute) which provides the potential to unify the platform experience to offer a comprehensive product suite across subjects and year groups.

(d) Generates significant synergies and strategic cost efficiencies

The Merger of 3PL and Blake is expected to result in significant synergies and cost efficiencies ($7.5m - $12.5m annually) arising from:

(i) product rationalisation, simplification of business processes and consolidation of support functions; and

(ii) potential for additional revenue synergies across the combined product suite through cross-sell and new business opportunities.

Further details on the anticipated synergies are outlined in Section 6.4(b).

(e) Earnings accretive

The Merger is expected to be significantly earnings accretive, c.279% on a pro forma CY20 basis , for Shareholders.

(f) Experienced Board and Management

The Merged Group will be led by an experienced board and management team which combines the complementary 3PL and Blake senior leadership teams, including the presence of Matthew Sandblom (to be appointed as Non-Executive Chairman of the Merged Group) who has considerable experience in EdTech and familiarity with the 3PL and Blake businesses.

(g) No Superior Proposal

Since 3PL announced that it has entered into the Share Sale Agreement, no Superior Proposal has emerged and the 3PL Directors are not aware of any Superior Proposal, or any alternative proposal, that is likely to emerge.

The 3PL Directors note that Shareholders have previously rejected a proposal from IXL Learning to acquire 3PL for a cash price of $1.35 per share.

3.2 Why you may wish to vote against the Merger Resolution

The Merger has a number of potential disadvantages and risks that Shareholders must consider in deciding whether or not to vote in favour of the Merger Resolution. While the 3PL Directors are of the opinion that these disadvantages are outweighed by the Merger's advantages, Shareholders should consider their individual circumstances and make their own determination.

Factors which may lead Shareholders to consider voting against the Merger Resolution include:

(a) You may disagree with the 3PL Board's recommendation and the opinion of the Independent Expert

Notwithstanding the unanimous recommendation of the 3PL Directors, you may believe the Merger is not in your best interest or in the best interests of Shareholders.

The Independent Expert has also concluded that the Merger is not fair (although reasonable) to Shareholders in the absence of a superior proposal. See the Independent Expert's Report in Annexure B for further information.

(b) The risk profile of 3PL will change, which you may consider to be disadvantageous to you relative to the risk profile of the current 3PL business

Shareholders are currently exposed to certain risks by virtue of having an equity interest in 3PL. If the Merger proceeds, Shareholders will maintain a level of exposure to these risks and will become exposed to additional risks specific to the Merger, the Blake Business and the Merged Group.

These risks are described in more detail in Section 7.

(c) Dilution of shareholding and voting power

The aggregate percentage shareholding of an existing Shareholder will be diluted by the issue of the Consideration Shares to the Blake Sellers.

Following completion of the Merger, the existing Shareholders' (excluding Associates of the Blake Sellers) Relevant Interest in 3PL Shares will be diluted from approximately 99.84% to approximately 50.37%, with a commensurate dilution of Voting Power. However, existing Shareholders will retain all of their existing shares in 3PL.

The impact on 3PL's capital structure arising from the Merger can be found in Section 6.5 of this Explanatory Statement.

(d) Inability to manage potential conflicts between the Merged Group and the Blake Sellers

While the 3PL Board intends to establish appropriate corporate governance and information sharing protocols, Shareholders may believe the future growth opportunities of the Merged Group in certain discrete areas may be limited due to the interests in the Excluded Businesses (including Excel Test Zone and Clickview) held by entities associated with the Blake Sellers and future key executives and directors of the Merged Group, including Jose Palmero (proposed CEO) and Matthew Sandblom (proposed Chairman), as described in Section 7.2(c) and Section 8.1(i) of this Explanatory Statement. This risk will be mitigated by the fiduciary, statutory and contractual obligations that Jose Palmero (proposed CEO) and Matthew Sandblom (proposed Chairman) will owe to the Merged Group.

Similarly, Shareholders may believe that the corporate governance protocols required to manage any conflicts arising from those external interests or the Related Party Arrangements described in Section 5.3 of this Explanatory Statement may be overly burdensome on the 3PL Board and management or otherwise distract the 3PL Board and management from the efficient operation of the Merged Group's business.

(e) Influence of the Blake Sellers

On completion of the Merger, the Blake Sellers will collectively have Voting Power over 49.63% of the 3PL Shares. Consequently, the Blake Sellers will have the ability to exert significant influence over resolutions put to Shareholders (other than those in which they are excluded from voting), including in relation to the election of directors, significant corporate transactions and certain issues of equity securities.

Due to the Blake Sellers' material shareholding post-completion, Matthew Sandblom becoming Chair of the Merged Group Board and the new CEO of the Merged Group being the former CEO of the Blake Sellers' business, there is a risk that decisions made by the Merged Group may benefit the Blake Sellers and their related entities to the detriment of existing Shareholders (including decisions about whether to enforce rights under the Share Sale Agreement against the Sellers). This risk is mitigated by obligations and protections under law (including fiduciary obligations and director's duties) and by the Merged Group having a majority independent director board post completion. The obligation of the Blake Sellers to vote to support a majority independent director board falls away after the first annual general meeting of 3PL.

(f) Future control transactions

At the Merged Group will be larger than 3PL on a standalone basis, it may be less likely to receive a takeover bid or other control transaction proposal in the future. It is also possible that the presence of the Blake Sellers as material shareholders in 3PL may be perceived by the market as reducing the likelihood of a takeover of 3PL. This may potentially cause 3PL Shares to trade at a discount to the value at which they would trade if the Blake Sellers did not hold their stake in 3PL.

Post-completion, the Blake Sellers' interest in 3PL will also be sufficiently large enough to block a takeover or control transaction. As a result, by voting in favour of the Merger, Shareholders may be forgoing an opportunity to sell their shares at a premium to trading via a future takeover or control transaction.

(g) It is possible that a Superior Proposal could materialise in the future

It is possible that a Superior Proposal for 3PL could materialise in the future. However, since the date of the Share Sale Agreement no Superior Proposal has emerged and the 3PL Directors are not aware of any Superior Proposal, or alternative proposal, that is likely to emerge.

The 3PL Directors note that Shareholders have previously rejected a proposal from IXL Learning to acquire 3PL for a cash price of $1.35 per share.

The 3PL Board will keep Shareholders informed of any material developments in relation to any Competing Proposals that may emerge. It should be noted that the Share Sale Agreement contains “no shop” and “no talk” provisions which generally restrict 3PL from soliciting or discussing a Competing Proposal. For a summary of these obligations, see Section 8.1(f) of this Explanatory Statement.

3.3 Risks in relation to the Merger

In addition to the reasons set out above, there are a number of risks associated with the Merger and the Merged Group. Key risks include the following:

(a) risks associated with the proposed integration and the achievement of the anticipated synergies and strategic cost savings;

(b) risks that the future earnings of Blake may not be as expected;

(c) risks associated with the accuracy and completeness of the information provided by the Blake Sellers;

(d) risks associated with uncovered warranty and indemnity breaches under the Share Sale Agreement;

(e) risks associated with managing conflicts arising from interests in the Excluded Businesses (in particular, Excel Test Zone and Clickview) retained by entities associated with the Blake Sellers, Matthew Sandblom and Jose Palmero;

(f) risks associated with managing the ongoing Related Party Arrangements;

(g) transaction costs for which 3PL will be liable if the Merger is approved and completes (in the event that the Merger Resolution is not approved, 3PL will still be liable for certain costs); and

(h) general risks which affect 3PL and the Blake Group as standalone businesses and, and so will affect the Merged Group, including general investment risks, revenue risks, risks relating to competition, technology, data security, personnel and litigation.

Further information on these risks is set out in Section 7 of this Explanatory Statement.

04

Information about 3PL

4 Information about 3PL

4.1 Background

Founded in 2004, 3PL is a global online education company with a portfolio of brands and product offerings for school students in grades K-12 across numeracy and literacy subject areas.

3PL's mission is to create a place where students, families and teachers can love learning. This passion translates to more engaged educators, motivated learners and an overall improvement in student knowledge and achievement.

3PL listed on the Australian Securities Exchange on 9 July 2014.

Today the company serves approximately 4.7 million students in approximately 17,500 schools worldwide.

4.2 Business overview

3PL's core product offerings include, owned products: Mathletics and Readiwriter; and distributed products: Mathseeds, Reading Eggs and Word Flyers.

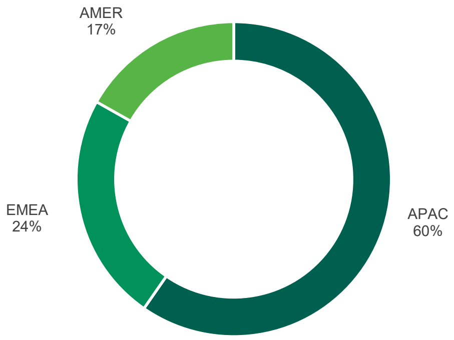
3PL's products are designed to provide an engaging environment for students and tools to maximise efficiency for educators. These include custom course builders, standardised testing and automated reporting. A key strength of the 3PL products is the highly personalised learning environment they provide. The products deliver content dynamically based on students' results in order to cater to students' individual learning needs.

3PL has a presence in Australia, New Zealand, the United Kingdom, the United States, Canada, Hong Kong, South Africa and the Middle East. 3PL is headquartered in Sydney, Australia and employs approximately 265 employees globally.

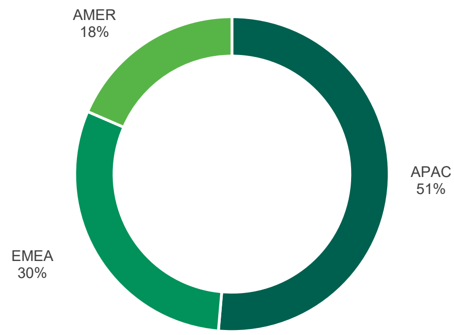
	Numeracy	Literacy
	Owned Products	
Key Products	Mathletics	Readiwriter
Description	• **Mathletics** is a comprehensive online numeracy product for school grades K-12 • Flagship product that has led entry into each market • Includes content for 30 curricula around the world • Available in two languages with more in development • Designed for use on personal computers and mobile devices	• **Readiwriter Spelling** was launched in late 2019 with strong market acceptance in core UK and Australian markets and will be expanded to other regions • 3PL has commenced work on **Readiwriter Writing** which is addressing product portfolio gaps in literacy, the largest category of spend in K-12 education
	Distributed Products	
Key Products	Mathseeds	Reading eggs, Fast Phonics, WordFlyers
Description	• **Mathseeds** is an online mathematics program for children in grades K-4 • Developed by the Blake Group and released to market in 2016 • Distribution rights were acquired in 2014	• **Reading Eggs products**, consisting of Reading Eggs, Reading Eggspress and Fast Phonics, form an online literacy product for school grades K-7 • Developed by the Blake Group • 3PL has exclusive sales agency rights in some territories • **Wordflyers** is an online literacy program for grades 7-10 and was designed for secondary students to learn and practise essential literacy skills • Distribution rights were acquired in 2014

3PL has three main geographical segments, Asia-Pacific (“APAC”), the Americas (“AMER”) and Europe, Middle-East and Africa (“EMEA”).

CY20 Revenue by geographic segment[4]



CY20 Licences by segment



CY20 Revenue by Subject

4.3 3PL Board and Senior Management

As at the date of this Explanatory Statement, the 3PL Board is comprised of the following directors:

Name	Current position
Sam Weiss	Non-executive Chairman
Roger Amos	Non-executive Director
Claire Hatton	Non-executive Director
Mark Lamont	Non-executive Director

Jia Chen Wang holds the position of Company Secretary.

[4] Based on licence revenue per region, excludes other revenue and income. securities.

As at the date of this Explanatory Statement, 3PL's senior management is comprised of the following people:

Name	Current position
Dimitri Aroney	Chief Financial Officer
Tania Black	Chief People Officer
Simon Martin	Chief Information Officer
Jia Chen Wang	General Counsel and Company Secretary

4.4 Director interests in 3PL Shares

The number of 3PL Shares in which each 3PL Director has a Relevant Interest as at the date of this Explanatory Statement is set out in the table below:

Director	Relevant Interest in 3PL Shares	%
Sam Weiss	637,277	0.46
Roger Amos	83,970	0.06
Claire Hatton	41,526	0.03
Mark Lamont	None	None

4.5 Historical Financial Information

This section contains a summary of the historical information for 3PL as a standalone business, excluding the impact of the Merger.

Summary of 3PL historical consolidated income statements				
$m	**FY18**	**FY19**	**FY20**	**CY20**
Revenue	**55.4**	**54.4**	**55.0**	**55.9**
Share of profits of associates accounted for using the equity method	0.6	-	-	-
Other income	0.1	0.2	0.1	0.1
Interest revenue calculated using the effective interest method	0.0	0.3	0.3	0.2

Summary of 3PL historical consolidated income statements

$m	FY18	FY19	FY20	CY20
Expenses				
Employee benefits expense	(24.8)	(26.2)	(29.9)	(30.1)
Depreciation and amortisation expense	(8.3)	(9.1)	(11.4)	(11.7)
Professional fees	(1.0)	(0.9)	(1.1)	(0.9)
Technology costs	(3.5)	(3.5)	(3.7)	(3.7)
Marketing expenses	(2.0)	(1.8)	(2.1)	(1.9)
Occupancy expenses	(2.4)	(2.5)	(1.1)	(0.7)
Administrative expenses and foreign exchange	(2.6)	(2.0)	(2.7)	(3.1)
Operating profit	**11.3**	**8.9**	**3.4**	**3.9**
Finance costs	(0.6)	(0.1)	(0.3)	(0.3)
Loss on disposal of investments	(25.3)	-	-	-
Corporate advisory costs	-	-	(0.2)	(1.2)
Profit before income tax expense	**(14.6)**	**8.7**	**3.0**	**2.5**
Income tax expense[5]	(4.1)	(2.8)	(1.4)	(0.6)
Profit after income tax expense for the year attributable to owners of 3P Learning Limited	**(18.7)**	**5.9**	**1.6**	**1.9**
Other comprehensive income				
Foreign currency translation	2.9	(0.3)	(0.2)	0.7
Total comprehensive income for the year	**(15.8)**	**5.6**	**1.3**	**2.6**
Total comprehensive income for the year is attributable to: Non-controlling interest	(0.0)	-	-	-
Owners of 3P Learning Limited	(15.8)	5.6	1.3	2.6
Total comprehensive income for the year	**(15.8)**	**5.6**	**1.3**	**2.6**

[5] CY20 income tax expense assumes a 25% tax rate.

Summary of 3PL historical consolidated balance sheets

$m	FY18	FY19	FY20	CY20
Assets				
Current assets				
Cash and cash equivalents	23.0	25.8	27.1	15.0
Trade and other receivables	4.6	9.0	9.5	11.4
Lease receivables	-	-	0.6	0.7
Income tax receivable	0.2	-	-	0.3
Other assets	2.0	1.8	1.6	2.2
Total current assets	**29.8**	**36.6**	**38.8**	**29.6**
Non-current assets				
Plant and equipment	0.9	1.0	0.7	0.5
Intangibles	18.4	19.6	20.9	22.2
Right-of-use assets	-	-	2.8	2.0
Lease receivables	-	-	1.2	0.9
Deferred tax asset	6.0	5.0	4.8	5.9
Other assets	0.0	0.0	0.0	0.2
Total non-current assets	**25.3**	**25.6**	**30.4**	**31.5**
Total assets	**55.1**	**62.2**	**69.1**	**61.2**
Liabilities				
Current liabilities				
Trade and other payables	5.7	7.3	8.2	6.3
Contract liabilities	26.0	24.3	23.9	20.4
Borrowings	0.0	0.0	-	-
Lease liabilities	-	-	1.6	1.6
Income tax payable	0.8	0.4	0.2	0.1
Provisions	1.3	1.5	1.8	1.7
Total current liabilities	**33.7**	**33.5**	**35.6**	**30.0**
Non-current liabilities				
Contract liabilities	1.6	3.4	3.3	2.4
Borrowings	0.0	0.0	0.0	0.0
Lease liabilities	0.0	0.0	3.2	2.2
Provisions	0.8	0.8	0.7	0.8
Total non-current liabilities	**2.4**	**4.1**	**7.2**	**5.4**
Total liabilities	**36.1**	**37.6**	**42.8**	**35.4**

Summary of 3PL historical consolidated balance sheets				
$m	**FY18**	**FY19**	**FY20**	**CY20**
Net assets	**19.0**	**24.6**	**26.3**	**25.8**
Equity				
Issued capital	34.2	34.4	34.5	34.5
Reserves	8.5	8.0	8.0	9.0
Accumulated losses	(23.7)	(17.8)	(16.2)	(17.7)
Total equity	**19.0**	**24.6**	**26.3**	**25.8**

05 Information about Blake

5 Information about Blake

5.1 Background

Blake is a privately owned and Australian headquartered publisher of online education products focused on pre-K to year 10 students. Blake is part of the Pascal Press Group, Australia's leading independent educational publishing group which has been publishing and developing books, teacher support material and online content for over 30 years.

Blake was launched in 2009 with its breakthrough reading app Reading Eggs (which currently has users in over 100 countries) and develops, markets and sells branded educational websites and associated digital products.

Blake's products focus on the most essential academic skills, such as literacy (through its product 'Reading Eggs') and numeracy (through its product 'Mathseeds') and use Blake's "better ways to learn" approach to engage students and support teachers.

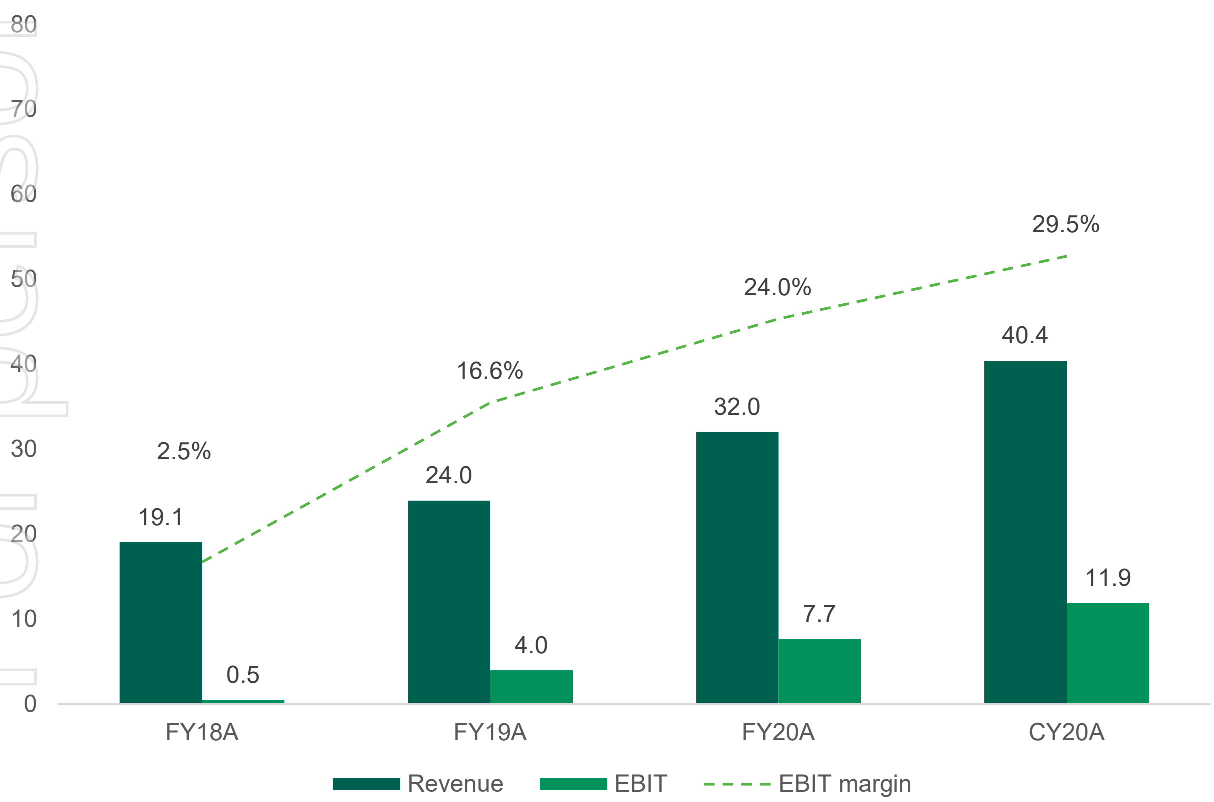
Products are marketed directly to parents in the (B2C) channel and distributed in the schools (B2B) channel through partners such as 3PL (including in Australia, New Zealand and the UK) and Edmentum (in the United States and Canada).

Currently, Blake employs over 100 full time staff across its 4 offices globally (Australia, US, UK and China). Blake also builds and manages relationships with distributors of its products that are located primarily in the US, Canada, UK, India, South Africa and New Zealand.

Blake has developed a strong team across product, marketing and technology and adopts an entrepreneurial approach to managing investment and growth.

Blake has delivered growth in total sales from $19.1m in FY18 to $40.4m in CY20. While revenue has increased at a c.35% CAGR over this period, profitability has increased at a CAGR of 260% as the scale benefits have been realised. As such, EBIT margins have increased from 2.5% in FY18 to 29.5% in CY20.

Revenue, EBIT and EBIT Margin[6]



[6] Based on Blake unaudited management accounts.

5.2 Blake Business

(a) History

Blake was incorporated in Australia in 2009 as the Ed-Tech arm of the Pascal Press Group. The Pascal Press Group is a long-standing Australian business with over 30 years of experience in developing high quality education books, workbooks and resources for the numeracy and literacy education sector.

Development of the Reading Eggs program

In 2009, Blake developed its Reading Eggs program, an online literacy-focused program designed for children. From its launch, Reading Eggs was well received as students loved the high-quality characters, engaging games and rewards, while teachers appreciated the comprehensive, easy-to-use and flexible aspects of the program that helped them deal with their "pain points" in teaching literacy. Blake has since continued to evolve the Reading Eggs program to cover greater year levels and additional literacy areas, as well as adding more content and incorporating customer feedback.

Timeline of product development

Following the launch of Reading Eggs, Blake developed a number of other online literacy and numeracy-based programs, including Mathseeds, which is an online numeracy-focused program designed for children.

The timeline below sets out Blake's history of product releases:

2009 Reading Eggs was launched

2011 Blake launched Reading Eggspress

2011 Reading Eggs Library (containing 2000+ eBook titles) was developed

2013 Mathseeds was launched

2014 WordFlyers was launched

2017 Reading Eggs Junior was added to the Reading Eggs program

2020 Fast Phonics was added to the Reading Eggs program

A description of Blake's products are set out in Section 5.2(d).

Distribution of products across B2B and B2C market segments

From the outset, Blake's products were designed for distribution across both the B2C and B2B market segments.

While Blake was initially managing distribution of its products across both B2B and B2C market segments, over time, Blake engaged distribution partners such as 3PL (including in Australia, New Zealand and the UK) and Edmentum (in the United States and Canada) to focus on distribution across B2B channels, while Blake focused on distributing to B2C channels.

Blake's strong growth in the B2C channel has been driven by:

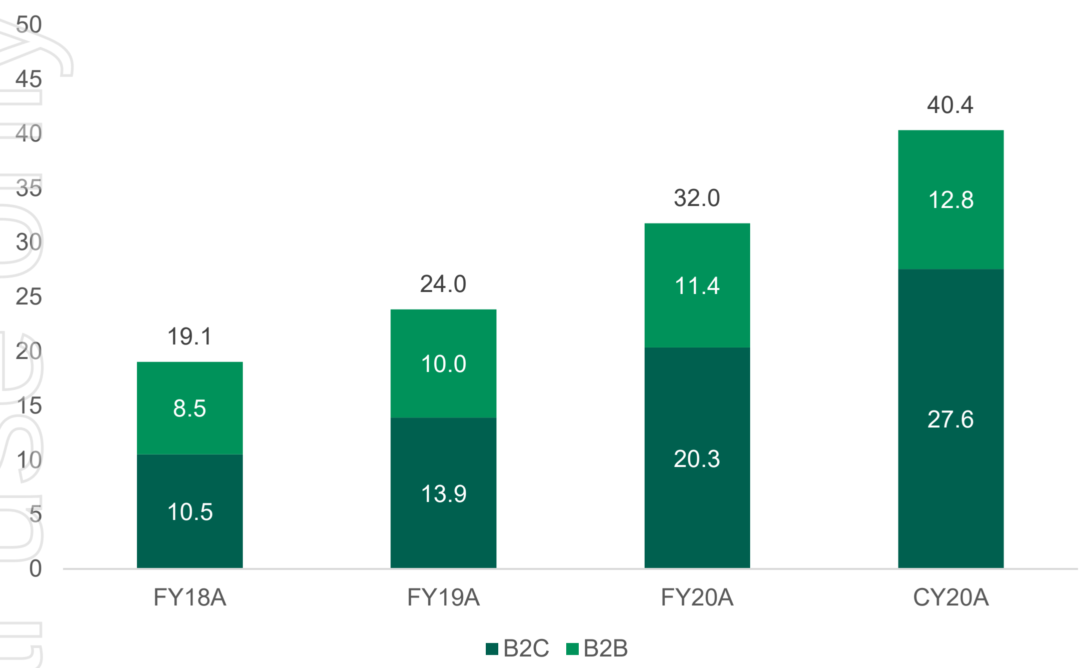
(i) accelerated use of online learning programs;

(ii) greater parent involvement in their child's education from younger years; and

(iii) the demand for high quality English reading and learning programs.

These tailwinds have been demonstrated by the growth Blake experienced in FY20 (particularly during the COVID-19 period), where the B2C segment grew by 46%, while the B2B business grew by 15% versus FY19.

(b) B2C and B2B Revenue[7][8]



As at the end of December 2020, students in over 100 countries were using the Reading Eggs program.

(c) Competitive Landscape

The global Ed-Tech market is characterised by a fragmented competitor landscape, based on geographic locations and curriculum focuses. In the table below, Blake has identified the following as being other key domestic and international brands within the Ed-Tech industry across each of the B2C and B2B market segments:

Segment	Key Competitors
B2C	ABC Mouse Learn with Homer Epic
B2B	LiteracyPlanet (based in Australia) IXL (based in US) Raz Kids (both in the US and globally) Achieve 3000 (based in US) Accelerated Reader (based in UK)

Blake considers Reading Eggs as being one of the strongest Ed-Tech brands across both the B2C and B2B market segments, given its success to date across a number of geographic locations. As a result, Blake considers that it is well positioned to maximise growth as the education market experiences an accelerated transition to digital offerings.

(d) Products

The Blake product family has evolved to include the following brands targeted at children from Pre-K to Year 10. The programs use exploratory play in its broadest sense, as an engine for curiosity and inquiry and to provide children with the joy and wonder of learning something new, learning at their own rate and becoming self-motivated active learners.

[7] Based on Blake unaudited accounts.

[7] Total revenue includes other revenue of c.$0.0m - $0.3m.

Product	Launch Date	Target Year Levels	Description
Literacy			
Reading eggs	2009	K – 3	Children follow structured, one-on-one lessons that build reading skills.
Reading Eggspress	2011	4 – 6	Builds on Reading Eggs lessons for older kids to build skills for success in school.
WordFlyers	2014	7 – 10	Develops critical literacy skills in older students – vocabulary, spelling, punctuation, grammar, writing and reading comprehension.
Reading eggs Junior	2017	Pre – K	Builds alphabet knowledge and ready-to-read skills.
Fast Phonics	2020	K – 5	Uses proven power of systematic synthetic instruction to boost reading skills.
Numeracy			
Mathseeds	2013	K – 3	Structured lessons and activities that build essential maths skills.

(e) Customers

The different customer segments targeted are:

B2C – Parents

(i) Parents aged 25–45 years with children aged 3 to 13 years;

(ii) Middle to high annual household income;

(iii) View education as a key resource to support their child's future development and school success; and

(iv) Use multiple technology devices in the home.

B2B – Schools

(i) School teachers of year grades K – 10;

(ii) Preschools; and

(iii) Districts

The channels for each segment are different:

B2C: promote directly to parents through a combination of digital channels to find parents seeking to improve their child's learning, augment their schooling or help them practice areas they require development; and

B2B: work with partners to distribute to schools across the world. Major partners are 3PL (AU, UK, US and other markets) and Edmentum Inc. (Reading Eggs in US). They work with teachers and administrators in schools to demonstrate Blake programs and address specific learning requirements.

(f) Growth Drivers

Blake's three key growth drivers are:

(i) to increase acquisition and retention through improved marketing effectiveness, customer engagement and product enhancements;

(ii) to use data to improve metrics throughout the customer lifecycle; and

(iii) to expand into new markets to capitalise on the demand for English language learning.

(g) Ownership

The issued capital of Blake is 11,110 fully paid ordinary shares.

Blake is incorporated in Australia. Details of Blake's ownership structure as at the date of this Explanatory Statement is set out below:

Shareholder	Ownership Percentage
Pascal Educational Services Pty Ltd as trustee for Blake Sandblom Trust	60%
Pascal Educational Services Pty Ltd as trustee for BeL Unit Trust	10%
KPIT Pty Ltd as trustee for KP Investment Trust	30%
Total	**100%**

(h) Directors, Management and Key Personnel

(i) Mr Matthew Sandblom – Chairman

Mr Sandblom is an education entrepreneur with over 30 years of experience building successful companies. He started his first company, Pascal Press, in 1989 to publish school workbooks and study guides. Since then he has founded or co-founded many successful companies including Blake Education, Clickview, 3P Learning and Blake eLearning.

Matthew is driven by the idea of producing resources for students that deliver on the promise that they provide better ways to learn than other products.

(ii) Mr Jose Palmero - CEO

Mr Palmero joined the Pascal Press Group of companies in 2006. During this time he has played a key role in growing and scaling the Pascal Press Group, which includes Pascal Press, Blake Education, Blake Publishing, Video Education Australia, ClickView, 3PL (until its IPO in 2014) and Blake. He was a member of the 3PL board from 2009 to 2014 prior to the IPO and has a proven track record in the educational content, intellectual property and EdTech industries. Prior to joining Blake, Mr Palmero spent 10 years at the Copyright Agency Limited as Group General Manager – Business Development and Strategic Planning, Financial Controller.

Mr Palmero holds a Masters of Business Administration and a Bachelor of Business from the University of Technology, Sydney and is a Fellow of the Australian Society of CPAs.

(iii) Ms Katherine Pike – Chief Product Officer

Ms Pike is a co-founder of Blake eLearning and has been a key part of the Pascal Group of Companies since 1990. During these 30+ years, Ms Pike has been the primary publisher of literacy and maths texts before moving onto digital products where she oversaw the development of Reading Eggs, Reading Eggspress, Reading Eggs Jr, Mathseeds and Fast Phonics. Ms Pike has created programs that are highly engaging for students, easy to use for teachers and fit with Blake's "Better ways to learn" vision. She is also the author of more than 120 book titles covering a wide range of literacy and numeracy topics.

(iv) Mr Adam McArthur - Commercial Director

Mr McArthur joined Blake in 2020. Prior to joining Blake, Mr McArthur was the CEO of LiteracyPlanet, a fast growing EdTech business, for 5 years. Prior to joining LiteracyPlanet, he spent 8 years as the CEO of other technology businesses, including a venture-backed start-up and a business within the News Corp group. His early career was in consulting, strategy and business development roles. He holds a Bachelor of Business from the University of Technology, Sydney.

(v) Ms Lynda Pendino - Marketing Director

Ms Pendino joined Blake in 2012. Ms Pendino previously spent 12 years with the Pascal Press Group in a variety of marketing and sales roles, including Direct Marketing Manager – Schools Division and Marketing Manager – B2C and B2B. Ms Pendino has 21 years' marketing experience in educational publishing and eLearning.

(vi) Vivek Prahlad - CTO

Mr Prahlad joined Blake in 2020. Prior to joining Blake, Mr Prahlad spent 20 years in a number of senior technical roles. He was previously the Head of Engineering at Kinesis and a Technical Principal at ThoughtWorks. Mr Prahlad holds a Masters of Business Administration from the Indian Institute of Management, Calcutta, and a Bachelor of Technology from the Indian Institute of Technology, Varanasi.

5.3 Transactions with related parties

Entities associated with the Blake Sellers, Matthew Sandblom (proposed Chairman of the Merged Group) and Jose Palmero (proposed CEO of the Merged Group) are currently parties to commercial arrangements with members of the 3PL Group or will enter into commercial arrangements with members of the Blake Group or the Merged Group prior to completion of the Merger (**Related Party Arrangements**).

Where the arrangements are pre-existing, it is proposed they will continue after completion of the Merger. It is intended that the terms of any Related Party Arrangements entered into in connection with the Restructure and before completion of the Merger will be on arm's length terms.

At present, 3PL has a commercial agreement with Clickview Pty Ltd (an entity associated with Matthew Sandblom). Clickview operates a video technology platform. Under the Clickview agreement, 3PL is granted a licence to use Clickview's video storage, management and delivery technology to deliver 3PL products (Mathletics and World Education Games). This agreement was negotiated on market terms prior to the entry into the Share Sale Agreement. The agreement will expire on 30 June 2021.

The following Related Party Arrangements are expected to be executed prior to completion of the Merger:

(a) Lease of 655 Parramatta Road

A commercial lease between Matthew Sandblom as lessor and Blake as lessee for the office/warehouse space at 655 Parramatta Road previously used for the combined Blakes/Pascal business.

The lease concludes on 1 May 2022 with an option to renew for a further year.

The proposed rent is $350,000 per year (which is supported by an independent valuation).

(b) Transitional Services Agreement

As part of the Restructure, it is intended that Kalaci Pty Limited (an entity associated with Matthew Sandblom and Jose Palmero) and the Merged Group will enter into an agreement for the purpose of sharing common administrative costs for a limited period of time following completion of the Merger. It is intended that reimbursements will be at cost for that party performing the transitional services.

(c) Kalaci Sales, Printing and Distribution Agreement

Kalaci Pty Ltd currently operates a publishing and distribution service. Blake distributes Kalaci products online via the www.readingeggs.com.au website.

At present, Kalaci receives a share of the net receipts received by Blake from online orders placed by Blake customers and Blake receives a share of the net receipts received by Kalaci from its sales of various Blake products to Kalaci customers.

The parties propose to enter into a formal publishing and distribution agreement along these commercial lines as part of the Restructure.

5.4 Historical Financial Information

This section contains a summary of the historical information for the Blake Group as a standalone business, excluding the impact of the Merger.

The financial information contained in this section has been prepared by the Directors of Blake and includes the following financial information in respect of Blake:

(a) Historical income statement for the financial years ending 30 June 2018, 30 June 2019, 30 June 2020 and calendar year ending 31 December 2020

(b) Historical balance sheets as at 30 June 2018, 30 June 2019, 30 June 2020 and 31 December 2020

A number of figures, amounts, percentages, prices, estimates, calculations of value and fractions are subject to the effect of rounding. Accordingly, totals in tables may not add due to rounding.

Basis of Preparation

The consolidated income statements and balance sheets have been compiled based on the unaudited management accounts of Blake and its subsidiaries.

The accounting policies relevant to the historical financial information for Blake are not comparable to those adopted by 3PL.

Summary of Blake historical income statements[9]

$m	FY18	FY19	FY20	CY20
Net Product Sales	**10.5**	**13.9**	**20.3**	**27.6**
Licencing Income	8.5	10.0	11.4	12.8
CAL & Lending Rights Income	0.0	0.0	0.1	0.1
Total Revenue	**19.1**	**23.9**	**31.9**	**40.4**
Cost of Sales	(1.8)	(2.3)	(1.4)	(1.5)
Gross Profit	**17.3**	**21.6**	**30.5**	**39.0**
Other Revenue	(0.0)	0.0	0.2	(0.0)
Total Operating Income	**17.3**	**21.7**	**30.6**	**38.9**
Sales and Marketing	(5.2)	(6.7)	(10.1)	(13.7)
Publishing	(8.2)	(8.0)	(9.7)	(10.0)
Admin, Finance and Technology	(3.4)	(3.0)	(3.1)	(3.4)
Total Operating Expenses	**(16.8)**	**(17.7)**	**(22.9)**	**(27.0)**
EBIT	**0.5**	**4.0**	**7.7**	**11.9**
Total other income/expenses	0.2	0.3	0.1	(0.8)
Operating Profit (Loss) Before Tax	**0.7**	**4.3**	**7.8**	**11.1**
Income tax expense[10]	-	(0.6)	(2.2)	(3.3)
Operating Profit (Loss) After Tax	**0.7**	**3.7**	**5.6**	**7.8**

[9] Based on unaudited Blake management accounts.

[10] CY20 income tax expense assumes a 30% tax rate.

Commentary on Blake historical income statement

Revenue

Annual and Monthly B2C subscription revenue is recognised upfront at time of invoicing on a net of commission paid to Apple App Store and Android App Store.

Licencing Revenue earned from B2B distributors is recognised at the time of invoicing on a net basis, reflecting the amount directly paid to Blake and not the amount received from the school/district end-customer.

Blake's strong revenue growth has been driven by significant increases in home market subscriptions, with marketing strategies targeting both customer acquisition and retention.

Operating Expenses

Operating expenses have increased primarily due to investment in advertising and promotion of the products.

EBIT

EBIT has increased significantly, driven by increased revenue and improved margins. EBIT margin has increased from 2.5% in FY18 to 29.5% in CY20.

Income tax expense

Income tax expense was $2.2m in FY20 (effective tax rate of 28%), compared to $0.6m in FY19 (effective tax rate of 13%). CY20 has been based on the statutory income tax rate of 30%. Carried forward tax losses of $1.7 million were utilised in FY19, resulting in the lower effective rate.

Summary of Blake historical balance sheets

$m	FY18	FY19	FY20	CY20
Assets				
Current assets				
Cash and cash equivalents	7.2	2.6	11.0	13.8
Trade and other receivables	2.6	3.4	3..8	2.8
Other current assets	0.0	0.1	0.1	0.1
Total current assets	**9.8**	**6.1**	**14.9**	**16.7**
Non-current assets				
Plant and equipment	0.0	0.0	0.0	0.1
Intangibles	0.7	0.7	0.7	1.2
Other non-current assets	5.3	5.4	5.6	1.1
Total non-current assets	**6.0**	**6.2**	**6.4**	**2.4**
Total assets	**15.9**	**12.3**	**21.3**	**19.1**
Liabilities				
Current liabilities				
Trade and other payables	0.8	1.2	1.9	1.0
Provisions	(0.2)	1.1	2.4	1.4
Total current liabilities	**0.6**	**2.3**	**4.3**	**2.4**

Non-current liabilities				
Related party loans	11.1	2.2	5.6	5.2
Total non-current liabilities	**11.1**	**2.2**	**5.6**	**5.2**
Total liabilities	**11.7**	**4.5**	**9.9**	**7.5**
Net assets	**4.2**	**7.8**	**11.4**	**11.6**

Assets

Cash and cash equivalents

Cash and cash equivalents primarily pertains to cash at bank, cash in hand, and security deposits.

Trade and other receivables

Trade receivables primarily relate to royalty income and revenue from IOS and Android subscriptions.

Inventories

Inventory consists of physical book products for sale to customers.

Property, plant and equipment

Property, plant and equipment relates to office equipment and furniture items at written down value.

Intangibles

Intangibles represent capitalised intellectual property rights relating to Blake's educational software products and platforms at original cost, less amortisation where applicable.

Other non-current assets

Other non-current assets represent investment in subsidiary entities.

Liabilities

Trade and other payables

Trade payables mainly consists of trade creditors and general expense accruals.

Other current provisions

Other current provisions consist of employee benefits, GST provisions and payroll liabilities.

Borrowings

Borrowings consists of unsecured loans from related parties. Related party loans will be repaid prior to Completion.

Other non-current provisions

Other non-current provisions comprises employee benefit provisions.

06 Merger

6 Merger

6.1 Overview

Under the Merger, 3PL intends to acquire all of the shares in Blake which will result in Blake becoming a wholly-owned subsidiary of 3PL.

The acquisition will be funded via the issue of 137m shares in 3PL, which implies a purchase price of $185m assuming a $1.35 issue price (**Consideration Shares**).

As a result of the Merger, the Blake Sellers together with their Associates will have a Relevant Interest in 3PL Shares of 49.63%.[11]

6.2 Conditions precedent

There are a number of conditions that are required to be satisfied or waived in order for the Merger to proceed, including:

(a) Shareholder approval of the Merger Resolution at the Meeting; and

(b) the Blake Sellers completing the restructure of the Blake Group in accordance with the agreed documents and steps.

The conditions precedent to completion of the Merger are summarised in Section 8.1(c).

For more information regarding the proposed Merger Resolution, Shareholders should refer to the Notice of Meeting in Annexure A.

6.3 Strategic rationale

The Merger will create a leading EdTech platform that has a comprehensive suite of numeracy and literacy products, in which the Merged Group will control intellectual property rights in its key products.

The 3PL Directors believe there is a compelling strategic rationale for the Merger, including:

(a) **The creation of a large scalable EdTech platform:** Creates a scale EdTech business with the Merged Group CY20 pro forma revenue of $100.5m and CY20 pro forma EBIT of $20.8m.

(b) **Enhances growth trajectory:** 3PL's strength in numeracy is complemented by Blake's strength in literacy (the two key spend categories for K-12 EdTech) which will enable further penetration in existing and new markets.

(c) **Ownership of complementary customer offering with broader geographic, channel and curriculum mix:** 3PL's strong incumbent position in the school market is complemented by Blake's capability in the high growth direct-to-consumer market, allowing the Merged Group to reach all channels. In addition, the Merged Group will control the intellectual property rights in its products Reading Eggs and Mathseeds (which 3PL currently has rights to distribute), which will provide the potential to unify the platform experience to offer a comprehensive product suite across subjects and year groups.

(d) **Generates significant synergies and strategic cost efficiencies:** 3PL and Blake have identified $7.5m to $12.5m annually across a range of product, technology and people related costs. There is also potential for revenue synergies across the combined product suite through cross-sell and new business opportunities. These revenue benefits are yet to be quantified.

(e) **Experienced Board and Management:** Complementary combination of 3PL and Blake senior leadership team, including the appointment of Matthew Sandblom as Non-Executive Chairman of the Merged Group (who has considerable experience in EdTech and familiarity with the 3PL and Blake businesses).

[11] Based on 3PL's current issued share capital of 139.48 million shares and disregarding the impact of any outstanding convertible securities.

6.4 Financial impact of the Merger

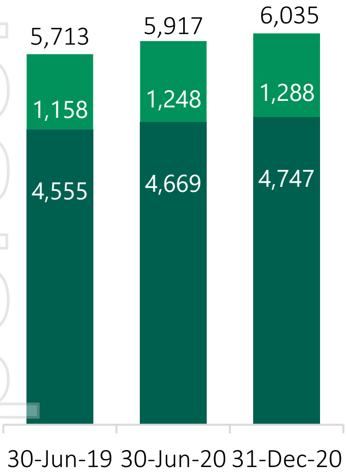
(a) Key Metrics

The below sets out key metrics of the effects of the Merger on 3PL[12]:

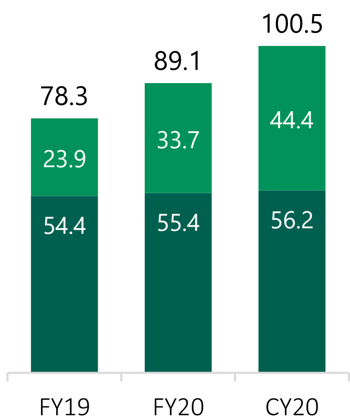
$m	3P Learning	3P Learning + Blake e-Learning	Change
CY20PF Revenue	56.2	100.5	↑ 79%
CY20PF EBITDA including synergies and strategic cost efficiencies[13 14]	15.5	42.9	↑ 177%
CY20PF EBIT including synergies and strategic cost efficiencies[14]	3.9	20.8	↑ 431%
CY20PF NPAT including synergies and strategic cost efficiencies [14 15]	1.9	13.9	↑ 649%

On a pro forma CY20 basis, inclusive of synergies, the Merger is expected to be c.279% accretive[16].

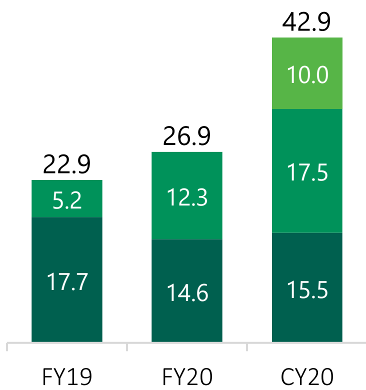
Total customers[17]



Pro Forma Revenue[18]



Pro Forma EBITDA[19 20]



3PL Blake Synergies and strategic cost efficiencies

[12] Based on accounts of 3PL and Blake for the last twelve months to 31 December 2020, which in respect of Blake are not audited and in respect of 3PL are audited to 30 June 2020 and reviewed for the 6 months to 31 December 2020.

[13] Blake does not report EBITDA and expenses the large majority of development costs whilst 3PL typically capitalises eligible product development costs in accordance with Accounting Standards. The Blake pro forma EBITDA figures assume 65% of Blake development costs are capitalised, which is lower than the blended average cost capitalised by 3PL of 76% and results in higher amortisation expense in the Merged Group.

[14] Synergies and strategic cost efficiencies of $10m assumed as the mid-point of the $7.5m – $12.5m range.

[15] Assumes a blended tax rate of 25.0%.

[16] EPS accretion calculated on a pro forma basis and excluding any revenue synergies. The pro forma CY20 calculation includes a full year contribution from both 3PL and Blake as if the Merger had occurred prior to 1 January 2020 and is based on diluted SOI of 140.1m shares, which assumes 0.6m of the 0.9m employee share rights will vest as a result of 100% of the target incentive being awarded under 3PL's FY20 and FY21 LTI plans with the remaining rights to lapse. However, if 3PL's performance levels warrant 150% of the target being awarded, the additional 0.3m employee share rights will also vest. 3PL has an additional 3.6m employee options outstanding exercisable at a price of $1.75 per option which are excluded from the diluted share calculation.

[17] Active licences shown for 3PL and total student subscribers for B2C plus licences for Edmentum shown for Blake.

[18] Revenue and EBITDA figures for FY19 are based on the aggregated P&L for the Merged Group but FY20 and CY20 are based on applying pro forma adjustments to Blake to adopt the accounting policies of 3PL and adjustments for specific transaction perimeter changes. This information was not available for FY19.

[19] Blake does not report EBITDA and expenses the large majority of development costs whilst 3PL typically capitalises eligible product development costs in accordance with Accounting Standards. The Blake pro forma EBITDA figures assume 65% of Blake development costs are capitalised, which is lower than the blended average cost capitalised by 3PL of 76% and results in higher amortisation expense in MergeCo

[20] A full year of synergies and strategic cost efficiencies of $10m assumed as the mid-point of the $7.5m – 12.5m range.

(b) Overview of Synergies

The 3PL Board believes there are strong synergies and strategic cost efficiencies achievable from the Merger. In particular, the management teams of 3PL and Blake have identified the following cost savings.

	Timing (months)[21]	Annualised Savings Estimate ($m)[22]	Details
Consolidate and simplify sales, marketing and business processes	0 – 18	2.5 – 4.5	• Simplify marketing approach and leverage joint experience through B2B and B2C channels • Streamline business functions
Consolidate and streamline office and support functions	0 – 18	1.0 – 2.5	• Consolidation of CEO role, and simplification of back office functions • Initial savings as offices are consolidated ahead of determining optimal go-forward premises
Product & Technology	0 – 12	4.0 – 5.5	• Primarily focused on third party vendor cost savings, through product rationalisation and bringing external content production in-house where possible
Total		**7.5 – 12.5**	

The above estimated savings reflect the annual run-rate cost savings the Merged Group expects to achieve. It is estimated that the cost to realise these synergies will be between $3.5m – $5.0m and excludes the benefits and costs associated with potential revenue synergies, which are yet to be quantified.

6.5 Capital structure

In connection with the Merger, 3PL will issue 137 million new 3PL Shares to the Blake Sellers. The total 3PL Shares on issue will increase from 139.48 million to 276.48 million. The share capital structure of 3PL will otherwise remain unchanged.

The Merger will result in the Relevant Interest of the existing Shareholders (excluding the Blake Sellers and their Associates) being diluted by approximately 49.47%. This will in turn reduce the Voting Power of each of those Shareholders and may therefore reduce their influence on 3PL.

The table below shows the capital structure of 3PL at the date of this Explanatory Statement and upon completion of the Merger.

Security	Existing Number	Percentage	Completion Number	Percentage[23]
3PL Shares in which the Shareholders excluding the Blake Sellers and their Associates have a Relevant Interest	139,264,170	99.84%	139,264,170	50.37%
3PL Shares in which the Blake Sellers and their Associates have a Relevant Interest	220,000	0.16%	137,220,000	49.63%

[21] Expected time to achieve annual run-rate cost savings.

[22] Estimated cost savings reflect the annual run-rate cost savings MergeCo expects to achieve following time to realise.

[23] Based on 3PL's current issued share capital of 139.48 million shares and disregarding the impact of any outstanding convertible securities.

Total Shares	139,484,170	100%	276,484,170	100%
Options	3,559,209		3,559,209	
Performance Rights	935,749		935,749	

6.6 Strategy and operations impact

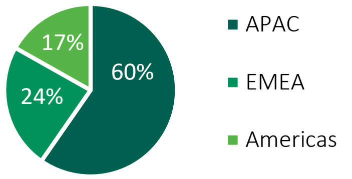
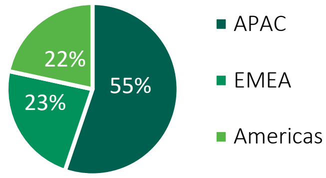
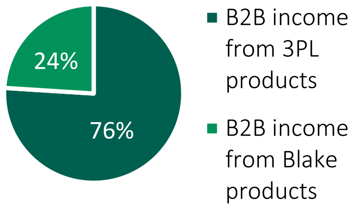
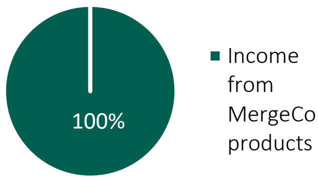
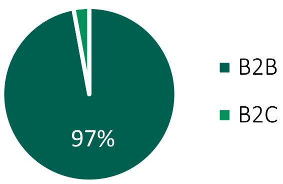
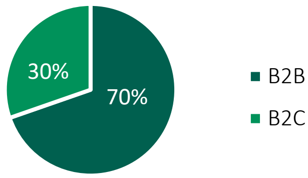
(a) Overview

The Merged Group's business strategy will leverage 3PL's strength in the direct-to-school market and Blake's strength in the direct-to-consumer market. The Merged Group's full control of key brands, including Reading Eggs and Mathseeds (which 3PL currently has rights to distribute) provides the potential to unify the platform experience to offer a comprehensive product suite across subjects, year groups and channels.

The Merged Group aims to simplify the product portfolio to offer 3 'Hero' brands across numeracy and literacy (Mathletics, Mathseeds and Reading Eggs). The Merged Group plans to stop investing in products that do not have consistently high sales and retention rates. In the medium term, MergeCo will evaluate growth options for the North American business in line with MergeCo's strategy to simplify the product portfolio (noting that MergeCo does not have the right to distribute Reading Eggs to the B2B channel in North America). Overview of the Merged Group's product portfolio is summarised below.

Subject	Current Brands	Commentary
Numeracy	Mathletics Mathseeds	• Services the school and home markets • Covers pre-K to year 10 students • Mathletics and Mathseeds provide a Strong complementary offering to all customers – Mathletics provides comprehensive curriculum aligned content and a practice and assessment platform with powerful reporting to demonstrate student improvement – Mathseeds provide lessons that teach each concept, allow students to explore, play and practice in a non-test based environment
Literacy	Reading eggs Reading eggs Junior Reading Eggspress Readiwriter Fast Phonics WordFlyers	• Services the school and home markets • Covers pre-K to year 10 students • A strong complementary literacy offering focused on making learning essential literacy skills easy and fun

The Merged Group will also have a more diverse channel and geographic mix than 3PL standalone and it will own or be the licensee of all intellectual property material to the business. This is summarised below:

	3P Learning	3P Learning + Blake
Geographic Mix[24]		
IP[25]		
Channel Mix[26]		

(b) COVID-19

Whilst the COVID-19 pandemic has contributed to an uncertain economic outlook, it has also accelerated many structural trends within the EdTech industry, including the adoption of digital learning technologies by parents and teachers. In light of its strong direct-to-consumer business Blake has experienced heightened subscriber growth since March 2020. This growth led to an increase in annual subscribers between April 2020 to July 2020 which will be due for renewal in the near-term. The Merged Group intends to focus on improving customer retention by continuing to invest in the customer experience, however the COVID-19 pandemic continues to evolve and may have an impact on the Merged Group's business that is difficult to predict. As such, the Merged Group's strategy intends to capitalise on the structural tailwinds caused by COVID-19 whilst retaining flexibility to respond to broader macroeconomic trends.

(c) Operations

Post the transaction, the Merged Group will undertake a thorough assessment of 3PL and Blake's existing operations to identify any operational initiatives that could enhance the combined businesses. It is intended that Blake's existing business units will be integrated into 3PL's corporate structure. The registered address of the Merged Group will be in North Sydney.

24 Split based on CY20 revenue. Merged Group geographic mix based on Blake CY20 B2C revenue.

25 3PL B2B income from Blake products calculated based on net commission revenue as a percentage of CY20 revenue.

26 Split based on CY20 revenue.

6.7 Board Composition

(a) 3PL Board Composition

Following completion of the Merger, the 3PL Board will comprise of four directors consisting of:

(i) three existing 3PL Directors, being Sam Weiss, Claire Hatton and Mark Lamont; and

(ii) a nominee of the Blake Sellers.

On completion of the Merger, Roger Amos will resign as a director of 3PL.

(b) Blake Sellers' Nominee

On completion of the Merger, Matthew Sandblom will be appointed as:

(i) a 3PL Director as a nominee of the Blake Sellers; and

(ii) the new Chairman of 3PL.

See Section 5.2(h)(i) for Matthew Sandblom's biography.

(c) Viburnum Funds Nominee

While the non-binding term sheet relating to the Merger announced by 3PL to ASX on 21 January 2021 indicated that Craig Coleman (Executive Chairman of the largest shareholder in 3PL, Viburnum Funds) would be joining the 3PL Board following completion of the Merger, Mr Coleman has declined to stand for election at this point in time.

6.8 Senior Management

Upon completion of the Merger, Jose Palmero will be appointed as the new interim Chief Executive Officer of the Merged Group.

See Section 5.2(h) for Jose Palmero's biography.

Following completion of the integration of the businesses, the Board of MergeCo will consider whether to retain Mr Palmero as CEO or undertake a search to appoint a new CEO.

6.9 Corporate governance

(a) Following completion of the Merger until completion of 3PL's first annual general meeting after completion of the Merger 3PL and the Blake Sellers intend that the 3PL Board will be constituted by a majority of Independent Directors.

(b) The Blake Sellers together with this Associates, who on completion of the Merger will have an aggregate Voting Power in respect of 137,220,000 3PL Shares (representing approximately 49.63% of the issued capital of 3PL), have confirmed to the directors of 3PL that from completion of the Merger until the completion of 3PL's first annual general meeting after completion of the Merger they will vote, or procure the vote of, those shares to procure that the 3PL Board will be constituted by a majority of Independent Directors.

6.10 Pro Forma Merged Group Financial Information

This section contains the following pro forma financial information in respect of the Merged Group:

(a) Pro forma historical income statement for the calendar year ending 31 December 2020; and

(b) Pro forma historical balance sheet as at 31 December 2020

A number of figures, amounts, percentages, prices, estimates, calculations of value and fractions are subject to the effect of rounding. Accordingly, totals in tables may not add due to rounding.

Basis of Preparation

The Merged Group pro forma financials have been prepared for illustrative purposes to provide Shareholders with an indication of the financial performance and financial position of the Merged Group as if the Merger had occurred prior to 1 January 2020. The Merged Group pro forma historical information does not reflect the actual financial performance of the Merged Group at the time of implementation.

The pro forma information assumes a transaction on normal acquisition terms based on 3PL acquiring Blake and does not reflect adjustments that would be required under a reverse acquisition.

As at the date of this Explanatory Statement, purchase price accounting adjustments have not been completed as a 12 month period is granted under Accounting Standards to complete this detailed work. As such, no adjustment has been made to include any additional identifiable intangible assets that may be recognised from the purchase price accounting exercise that is likely to increase future D&A expense amounts.

Merged Group Pro Forma Income Statement for the calendar year ending 31 December 2020

$m	Reported 3PL	Reported Blake[27]	Pro Forma Adjustments	CY20
Revenue	56.2	40.4	4.0	100.5
Underlying EBITDA	15.5	12.0	15.5	42.9
Less D&A[28]	(11.7)	(0.0)	(10.6)	(22.3)
EBIT	3.9	11.9	4.9	20.8
Less Other Costs[29]	(1.4)	(0.8)	-	(2.3)
PBT	2.5	11.1	4.9	18.5
Less Tax[30]	(0.6)	(3.3)	(0.7)	(4.6)
NPAT	1.9	7.8	4.3	13.9

Pro forma adjustments have been made for Blake to adopt the accounting policies of 3PL, especially around revenue recognition, adjustments for specific transaction perimeter changes and capitalisation of a proportion of Blake's development costs that historically have been expensed immediately with an associated additional pro forma amortisation charge recognised. These adjustments include:

(a) Synergies and strategic cost efficiencies of $10m assumed as the mid point of the $7.5m 12.5m. For the purposes of this table, 100% of these savings are assumed to be operating expenditure, however the future accounting treatment of these savings may differ;

(b) Elimination of 3PL and Blake trading;

(c) Inclusion of Blake China, not currently included in the reported figures, but part of the transaction perimeter;

(d) To align Blake employee costs with the transaction perimeter;

(e) Removal of lease costs associated with Blake office space that will not be used post transaction;

(f) Align Blake's revenue recognition with 3PL by straight-lining Blake's annual subscription revenue over length of subscription;

(g) Revenue recognition of Blake app store commissions on a gross basis; and

(h) Capitalisation of Blake development costs that could have been capitalised historically if applying the 3PL accounting policy (assumes 65% of development costs would meet the criteria to capitalise (lower than the blended average cost capitalised by 3PL of 76%). These costs have been amortised over three years consistent with the 3PL accounting policy

(i) Adjustment to historical earnings to reflect higher base salaries following recent employee contract updates

[27] Reflects the unaudited 31 December 2020 income statement.

[28] As at the date of this document, purchase price accounting adjustments have not been completed as a 12 month period is granted under Accounting Standards to complete this detailed work. As such, no adjustment has been made to include any additional identifiable intangible assets that may be recognised from the purchase price accounting exercise that is likely to increase future D&A expense amounts

[29] Includes finance costs and other income and expenses, for example corporate advisory costs.

[30] Tax rate of 25% assumed for Reported 3PL figures, 30% assumed for Reported Blake figures and 25% for MergeCo.

Merged Group Pro Forma Balance Sheet as at 31 December 2020[31]

$m	Reported 3PL	Reported Blake[32]	Pro Forma Adjustments	Dec 20
Current assets				
Cash and cash equivalents	15.5	12.0	15.5	42.9
Trade and other receivables	(11.7)	(0.0)	(10.6)	(22.3)
Other	3.9	11.9	4.9	20.8
Total current assets	**29.6**	**16.7**	**1.1**	**47.5**
Non-current assets				
Plant and equipment	0.5	0.1	-	0.5
Intangibles	22.2	1.2	165.7	189.1
Other[33]	8.9	1.1	1.6	11.7
Total non-current assets	**31.5**	**2.4**	**167.3**	**201.3**
Total assets	**61.2**	**19.1**	**168.5**	**248.8**
Current liabilities				
Trade and other payables	6.3	1.0	(1.5)	5.7
Contract liabilities	20.4	-	23.5	43.8
Other	3.4	1.4	0.7	5.4
Total current liabilities	**30.0**	**2.4**	**22.6**	**55.0**
Non-current liabilities				
Related party loans	-	5.2	0.7	5.9
Other	5.4	-	0.5	5.9
Total non-current liabilities	**5.4**	**5.2**	**1.2**	**11.8**
Total liabilities	**35.4**	**7.5**	**23.9**	**66.8**
Net assets	**25.8**	**11.6**	**144.6**	**182.0**

Pro forma adjustments have been made to reflect the transaction proceeding, for Blake to adopt the accounting policies of 3PL especially around revenue recognition and adjustments for specific transaction perimeter changes. These adjustments include:

(a) Inclusion of Blake China, not currently included in the reported figures, but part of the transaction perimeter;

(b) Recognition of annual leave and long service provisions for employees that are currently employed in entities outside of the transaction perimeter who will transfer to the Merged Group;

(c) Recognition of deferred commission and revenue associated with the Edmentum sales;

(d) Recognition of deferred revenue related to the annual subscriptions sold through to Dec-20;

(e) Elimination of 3PL and Blake trading; and

(f) Recognition of goodwill on acquisition of Blake.

[31] No adjustment has been made to include any additional identifiable intangible assets that may be recognised from the purchase price accounting exercise including a potential value for a Blake capitalised development costs asset that may have been accumulated over multiple years. As such, all consideration in excess of the net assets acquired have been included in the balance sheet caption of Intangibles that represents both goodwill and identifiable intangibles

[32] Reflects the unaudited 31 December 2020 balance sheet.

[33] Pro forma adjustment includes removal of shares investment in Repco of $0.7m from Blake Non-Current Assets and Related Party Loans. This investment was an animated version of Reading Eggs, in a joint venture with Flying Bark (Repco) and is being written off in 2HFY21.

07

Key risks associated with the Merger

7 Key risks associated with the Merger

There are a number of risks and uncertainties, which are both specific to the Merger and of a general nature, that may affect the future operating and financial performance of 3PL and the value of 3PL Shares. You should carefully consider the following risk factors, as well as the other information provided by 3PL in connection with the Merger and the Merger Resolution, and consult your financial, legal and professional advisers before deciding whether to vote in favour of or against the Merger Resolution.

7.1 Key risks if the Merger is implemented

Shareholders are currently exposed to various risks as a result of their investment in 3PL. If the Merger proceeds, the Blake Group will be merged with the 3PL Group. As a consequence, Shareholders will be exposed to risks relating to the Blake Business and to certain additional risks arising from the Merger.

This section sets out key risks that may arise if the Merger is implemented. These risks include:

(a) specific risks relating to the Merger; and

(b) risks relating to the Merged Group.

The risks described below:

(c) are those risks that the 3PL Board believe are potentially material and are not, and should not be considered to be or relied on as, an exhaustive list of the risks that may arise if the Merger is implemented; and

(d) are general in nature and regard has not been had to the investment objectives, financial situation, tax position or particular needs of any individual Shareholder.

7.2 Risks specific to the Merger

(a) Performance of the Blake Business

Given the size and growth outlook of the Blake Business, the operating and financial performance of Blake in the future will have a material impact on the performance of 3PL and on the value of 3PL Shares.

(b) Influence of the Blake Sellers

On completion of the Merger, the Blake Sellers will collectively have Voting Power in respect of 49.63% of the 3PL Shares.

Consequently, the Blake Sellers will have the ability to exert significant influence over resolutions put to Shareholders (other than those in which they are excluded from voting), including in relation to the election of directors, significant corporate transactions and certain issues of equity securities.

Due to the Blake Sellers' material shareholding post-completion, Matthew Sandblom becoming Chair of the Merged Group Board and the new CEO of the Merged Group being the former CEO of the Blake Sellers' business, there is a risk that decisions made by the Merged Group may benefit the Blake Sellers and their related entities to the detriment of existing Shareholders (including decisions about whether to enforce rights under the Share Sale Agreement against the Sellers). This risk is mitigated by obligations and protections under law (including fiduciary obligations and director's duties) and by the Merged Group having a majority independent director board post completion. The obligation of the Blake Sellers to vote to support a majority independent director board falls away after the first annual general meeting of 3PL.

Post-completion, the Blake Sellers' interest in 3PL will also be sufficiently large enough to block a takeover or control transaction. Further, it is possible that the presence of the Blake Sellers as material shareholders in 3PL may be perceived by the market as reducing the likelihood of a takeover of 3PL. This may potentially cause 3PL Shares to trade at a discount to the value at which they would trade if the Blake Sellers did not hold their stake in 3PL. As a result, by voting in favour of the Merger, Shareholders may be forgoing an opportunity to sell their shares at a premium to trading via a future takeover or control transaction.

(c) Conflict management risk relating to the Excluded Business

Entities associated with the Blake Sellers and the future key executives and directors of the Merged Group, including Matthew Sandblom (proposed Chairman of the Merged Group) and Jose Palmero (proposed CEO of the Merged Group) are engaged in various online education ventures which will not form part of the Merged Group (**Excluded Business**).

The Excluded Business comprises Excel Test Zone, Clickview and the Publishing Business. See Section 8.1(i) for a description of each of these businesses.

The exclusion of the Excel Test Zone assets from the Merger may present ongoing conflict management considerations between the Merged Group, its proposed CEO (Jose Palmero) and Chairman (Matthew Sandblom) and the Blake Sellers more generally. This conflict primarily arises due to 3PL's existing flagship product, Mathletics, having assessment functionality which overlaps with the business conducted by Excel Test Zone. However, this risk may be limited through 3PL's rights to acquire the Excel Test Zone assets as outlined in Section 8.3.

Similar issues will arise if Clickview expands its operations to compete with the business undertaken by the Merged Group. While 3PL has no right to acquire Clickview or restrict the key persons associated with Blake retaining their interests in, and being engaged in, Clickview, this risk is partially mitigated by the undertaking given by the Covenantors relating to New Ed-Tech Opportunities, as described in Section 8.1(i).

The 3PL Board intends to establish appropriate corporate governance and information sharing protocols to manage any potential conflicts relating to the Excluded Business and particularly Excel Test Zone. However, there is a risk that the corporate governance protocols required to manage those conflicts prove to be overly burdensome on the 3PL Board and management or otherwise distract the 3PL Board and management from the efficient operation of the Merged Group's business.

There is also a risk that the prospects of the Merged Group to expand its assessment functionality offering may be adversely impacted by competition from Excel Test Zone or conflict management protocols adopted by the Merged Group in relation to Excel Test Zone. However, this risk may be limited through 3PL's rights to acquire the Excel Test Zone assets as outlined in Section 8.3.

(d) Related party risk

The Blake Group has, or will at completion have, various Related Party Arrangements which will continue following completion of the Merger as described in Section 5.3 of this Explanatory Statement.

Notwithstanding the implementation of appropriate protocols, a risk remains that should a claim be made in relation to a Related Party Arrangement, it could be made against or involving entities associated with the Blake Sellers or key executives or directors of the Merged Group, including Jose Palmero and Matthew Sandblom, which may result in significant internal disruption.

Further, there is a risk that the financial performance and position of the Merged Group may be adversely affected from the collapse of a related party due to the Blake Group's current dependence on those parties for the provision of services relating to the Blake Business and the delay in sourcing alternative providers.

(e) Integration risks

The integration of a business of the size and nature of the Blake Business carries risk, including potential delays or costs in implementing necessary changes and difficulties in integrating various operations. The success of the Merger, and the ability to realise the expected benefits of the Merger outlined in this Explanatory Statement, is dependent on the effective and timely integration of the Blake Business alongside 3PL's business following completion of the Merger. A failure to fully integrate the operations of the Blake Group, or a delay in the integration process, could impose unexpected costs that may adversely affect the financial performance and position of the Merged Group. To address these risks, management of 3PL and Blake have devised strategies to integrate people, processes, systems and risk management frameworks for the immediate post-completion period.

(f) Information provided by the Blake Sellers

3PL undertook a due diligence process in respect of Blake, which relied in part on the review of financial and other information (including unaudited financial information) concerning the business and corporate structure of Blake, which was provided to 3PL by the Blake Sellers. Despite making reasonable efforts, 3PL has not been able to verify the accuracy, reliability or completeness of all the information which was provided to it against independent data. 3PL has also not assessed the internal controls used to prepare the unaudited financial information of Blake or tested or reviewed the design of the effective controls. Similarly, 3PL has prepared (and made assumptions in the preparation of) the financial information relating to Blake (on a standalone basis and also with 3PL post-acquisition of Blake) included in this Explanatory Statement from financial and other information (including unaudited financial information) provided by the Blake Sellers. 3PL is unable to verify the accuracy, reliability or completeness of all of this information. If any of the data or information provided to and relied upon by 3PL in its due diligence process and its preparation of this Explanatory Statement proves to be incomplete, incorrect, inaccurate or misleading, there is a risk that the actual financial position and performance of Blake and the Merged Group may be materially different to the financial position and performance expected by 3PL and reflected in this Explanatory Statement.

Furthermore, there is a risk that due diligence conducted has not identified issues that would have been material to the decision to enter into the Merger. A material adverse issue that was not identified prior to entry into the Merger could have an adverse impact on the financial performance or operations of 3PL or the Merged Group. As is usual in the conduct of acquisitions, the due diligence process undertaken by 3PL identified a number of risks associated with Blake, which 3PL had to evaluate and manage. The mechanisms used by 3PL to manage these risks included in certain circumstances the acceptance of the risk as tolerable on commercial grounds such as materiality. There is a risk that the approach taken by 3PL may be insufficient to mitigate the risk, or that the materiality of these risks may have been underestimated or unforeseen, and hence they may have a material adverse impact on the Merged Group's operations, earnings and financial position.

(g) Future earnings may not be as expected

3PL has undertaken financial and business analysis of the Blake Group in order to determine its attractiveness to 3PL and whether to pursue the Merger. It is possible that such analysis, and the best estimate assumptions made by 3PL, draw conclusions and forecasts in relation to guidance and synergy statements that are inaccurate or which will not be realised in due course. There is also the risk that unforeseen events may cause the synergies to be delayed, not be obtained, or cost more to achieve than originally expected. It should also be noted that benefits and costs associated with potential revenue synergies have not be quantified, and that the integration of 3PL and Blake products onto the same platform may be a costly and timely endeavour. To the extent that the actual results achieved by the Blake Group are different than those anticipated or any unforeseen difficulties emerge in integrating the operations of the Blake Group, there is a risk that the profitability and future earnings of the Merged Group may differ (including in a materially adverse way) from the performance as described in this Explanatory Statement.

In addition, a significant proportion of the value creation Viburnum Funds identified in assessing the Merger is based on a share price re-rating post the Merger. An assessment of the re-rating is subjective and uncertain as to the quantum and timing of any re-rating. Over time, maintaining the share price re-rating, should it occur, will be completely dependent on the ability of the Merged Group management team to:

(i) manage and grow the direct-to-school business;

(ii) continue to grow the direct-to-consumer business at an accelerated rate in a post COVID-19 vaccine environment. Up until this point, there has been limited visibility on long-term historical trends that could be considered "steady state" or consistent given the unprecedented effects of COVID-19. This makes it extremely difficult to assess forecast financial information; and

(iii) achieve the estimated synergies and cost efficiencies outlined by the Blake Sellers.

(h) Blake historical liabilities

Following completion of the Merger, the Merged Group will be responsible for any outstanding liabilities that the Blake Group has incurred prior to the Merger, including any liabilities that were not identified during 3PL's due diligence or which are greater than expected, or for which warranty and indemnity insurance may not be available, and for which 3PL may not have recourse under the Share Sale Agreement to the Blake Sellers. Such liabilities could include liabilities relating to current or future litigation or other proceedings, failure by the Blake Group to hold required regulatory approvals, authorisations or licences, regulatory actions (including without limitation in relation to any such failure), warranty or performance claims, historical tax liabilities and other liabilities. These risks are mitigated by the warranty and indemnity insurance that 3PL has put in place to support the warranties and indemnities received from the Blake Sellers. However, the warranty and indemnity insurance will not respond on all matters and is subject to a maximum liability cap and retention amount.

(i) Uncovered warranty and indemnity breaches

The ability of 3PL to achieve its stated objectives will depend on the performance by the parties of their obligations under the agreements for, and related to, the Merger. If any party defaults in the performance of their obligations, it may be necessary for 3PL to approach a court to seek a legal remedy, which can be expensive and time consuming.

3PL may suffer a loss as a result of the conduct of the Blake Sellers for which the representations, warranties and indemnities under the Share Sale Agreement turn out to be inadequate in the circumstances. This could include the Merged Group becoming liable for liabilities which are not able to be covered by the warranty and indemnity package negotiated with the insurer. 3PL has put in place warranty and indemnity insurance to support the warranties and indemnities received from the Blake Sellers, however, that policy will not respond on all matters and is subject to a maximum liability cap and retention amount, and therefore, may provide no coverage on a particular liability for 3PL. In particular, the warranty and indemnity insurance will not cover indemnities given by the Blake Sellers in respect of known risks identified during 3PL's due diligence on the Blake Group. In respect of matters not covered by the warranty and indemnity insurance, there is no guarantee that 3PL will be able to recover all actual liabilities incurred from the Blake Sellers either as a result of liability caps agreed with the Blake Sellers or non-compliance with the terms of the Share Sale Agreement. Any inability to recover amounts claimed under the Share Sale Agreement could materially adversely affect the Merged Group's financial position and performance. See Section 8.1(j) for more information on the liability regime under the Share Sale Agreement.

(j) Acquisition accounting

3PL is required to undertake an assessment of the fair value of the tangible and intangible assets acquired as well as the actual and contingent liabilities of Blake at the date of the completion of the Merger. Accounting standards provide twelve months from completion for this assessment to be finalised. The outcome of this assessment could give rise to different values being applied than those used in the pro-forma financial information contained in this Explanatory Statement. Such an outcome will impact the values of assets and liabilities reported in the consolidated balance sheet by 3PL. There will also be differences in the depreciation and amortisation charges recognised in the consolidated profit or loss account which may impact reported profit before tax and net profit after tax.

Further, given the ownership interest the Blake Sellers will have in the Merged Group, significant judgment is required to determine whether the Blake Sellers have the "power to govern" and therefore it is possible the acquisition constitutes a reverse acquisition in that Blake is recognised as the accounting acquirer which would complicate the FY21 reporting for the Merged Group.

(k) Intellectual property

As a producer and publisher of online education products, intellectual property rights are essential to the Blake Business.

Many of the intellectual property rights relevant to the Blake Business are owned by entities associated with the Blake Sellers which are not currently part of the Blake Group. The due diligence process also revealed intellectual property rights in works created by third parties for the Blake Group, which had not been assigned to Blake.

Blake created an intellectual property register for this Merger which they have warranted contains all material intellectual property of the Blake Business.

It is a condition precedent to the completion of the Merger that the Blake Sellers transfer all Blake Business intellectual property rights (including all those listed in the intellectual property register and those rights not yet assigned to Blake) to Blake as part of the Restructure.

Any Blake intellectual property either not catalogued in the intellectual property register or not successfully transferred as part of the Restructure, will be subject to the "wrong pockets" clause in the Share Sale Agreement which is designed to facilitate the transfer of assets relating exclusively to the Blake Business which inadvertently remain vested in the Blake Sellers or their associated entities or third parties after Completion (for example, if they are currently owned by a third party (but not identified as such) and have not yet been assigned to the Blake Sellers or their associated entities).

There is a risk that other intellectual property rights, relevant to the Blake Business, have not been identified by the Blake Sellers and will not be assigned to Blake prior to completion of the Merger in connection with the proposed Restructure. There is a further risk the "wrong pockets" clause in the SSA will not be sufficient to prevent any potential claims against Blake for the infringement of any third party's intellectual property rights.

Any inability to secure the necessary intellectual property rights relevant to the Blake Business could materially adversely affect the Merged Group's financial position and performance.

(l) Transaction costs

If the Merger is approved, transaction costs such as legal and advisory fees will be payable by 3PL. In the event that the Merger is not approved, 3PL will still be liable for certain costs.

7.3 General risk factors that may affect the Merged Group

The following risks are relevant to the 3PL Group and the Blake Group as standalone businesses. Accordingly, they will also be relevant to the Merged Group.

(a) Competition risks

The Merged Group operates in a highly competitive industry with a number of operators competing for market share through similar or substitute products. In particular, the quickly evolving nature of the EdTech market makes it difficult to predict consumer trends and release desired products.

The Merged Group's business faces competition from a large number of online education participants targeting the school K-12 segment, many with significant resources and access to capital, as well as the potential entry of new competitors which may result in client loss and have an adverse impact of the Merged Group's market share. The Merged Group's technology platforms and systems might also be disrupted by new technologies or become obsolete, which could affect the Merged Group's reputation and ability to generate income. As a result of these factors, increased investment may also be required to keep pace with competitors and new entrants to the market.

There is also a risk that the Merged Group is forced to increase investment and reliance on paid marketing channels to keep pace with competitors and maintain the direct-to-consumer base, which has average monthly subscriber lifespans of c.9 months and annual subscriber lifespans of c.1.8 years.

As outlined above, the Merged Group may also face competition from one or more of the Excluded Businesses carried on by entities associated with the Blake Sellers, Matthew Sandblom and Jose Palmero, including Excel Test Zone and Clickview.

(b) Technology risks

As a provider of online products, the Merged Group is reliant on the performance, reliability and availability of its technology platforms, communications systems, servers, the internet, hosting services and the cloud-based environment in which it provides its products (whether provided in-house or sourced from third parties). There is a risk that these systems may be adversely affected by various factors such as damage, faulty or aging equipment, power surges or failures, computer viruses or misuse by staff or contractors. Other factors such as hacking, denial of service attacks or natural disasters may also adversely affect these systems and cause them to become unreliable. This could result in a reduction of the Merged Group's ability to generate income, as well as adversely affecting its reputation and have a material adverse effect on the financial position and performance of the Merged Group.

(c) Privacy and data security risks

As a technology-focused education business, compliance with privacy and data security legislation relating to managing information security and safeguarding customer and student data is a complex and resource-hungry process. The Merged Group provides its services extensively through a range of websites. Hacking or exploitation of any vulnerability in its websites could lead to loss, theft or corruption of data.

This could render the websites unavailable for a period of time while data is restored. It could also lead to unauthorised disclosure of user's data with associated reputational damage, claims by users and regulatory scrutiny and fines.

Although the Merged Group employs strategies and protections to try to minimise security breaches and to protect data, these strategies might not be successful. In that event, disruption to the websites and unauthorised disclosure of user data could negatively impact the Merged Group's revenue and profitability. The loss of customer data could have severe impacts for the business related to marketing, customer services and the ability for customers to use the products.

(d) Dependence on third party vendors

The Merged Group contracts with a number of technology and infrastructure suppliers to conduct its business and maintain its products. There is a risk that if the services of these suppliers were interrupted, or if the Merged Group was unable to continue to contract with these suppliers, the Merged Group may not be able to conduct its business or maintain its products. Finding alternative suppliers may require the Merged Group to invest time and money to establish adequate alternative arrangements.

(e) Dependence on third party distributors

The Merged Group relies on Google and iOS as distributors through the mobile channel, representing greater than 20% of Blake's total revenue. There is a risk that the costs associated with these distributors increases or contracts end, both of which could result in reduced profitability.

Additionally, Blake relies on third party distributors to service the direct-to-school market. There is major concentration as two distributors (3PL and Edmentum) currently represent c.95% of distributor revenue. There is a risk that distributors underperform or MergeCo's relationship with Edmentum ends.

(f) Revenue risk

The global school K-12 market is driven by schools' ability to fund the purchase of education technology for their students. A significant decline in school funding in any market could result in reduced demand for the Merged Group's products.

Similarly, a deterioration in general economic conditions and other socioeconomic and macroeconomics factors, including unemployment rates, lower household income levels and lower birth rates, may impact demand for the Merged Group's products in the consumer market.

More broadly, there is a risk that Blake may be unable to sustain its recent subscriber growth rates post the COVID period and / or experience increased churn rates associated with the cohort of annual subscribers since March 2020 which will impact the financial position and performance of the Merged Group.

Up until this point there's been limited visibility on long-term historical trends that could be considered "steady state" or consistent given the unprecedented effects of COVID-19. This makes it extremely difficult to assess forecast financial information.

(g) Counterparty risk

As part of its ongoing commercial activities, the Merged Group enters into commercial contracts with various third parties. There is a risk that counterparties (including customers and third party distributors of Blake products) with whom the Merged Group has entered into contracts may fail to meet their contractual obligations or otherwise underperform resulting in a financial loss to the Merged Group and impacting on its business relationships and operations. The Merged Group cannot guarantee that its counterparties will fulfil these obligations, perform to expected levels or that the Merged Group will successfully manage counterparty credit risk.

(h) Exchange rate risk

Volatility in exchange rates can impact the Merged Group's ability to maintain or grow margins. However, to a significant extent the Merged Group's business currently enjoys natural hedges: the revenue that the Merged Group obtains in a particular foreign currency closely matches the expenses it incurs in that currency (such as the British pound). The 3PL Board believes that natural hedges presently mitigate any exchange rate volatility risk for the Merged Group to an economically acceptable level.

(i) Government related risks

The Merged Group may be adversely impacted by changes in government policy, regulation or legislation applying to education providers and changes to education expenditure. Governments in different territories may encourage or mandate schools to adopt alternative products from education providers other than those of the Merged Group, which would adversely impact the Merged Group's ability to retain existing customers as well as its ability to attract new customers.

(j) Personnel related risks

The successful operation of the Merged Group's business relies on its ability to attract and retain experienced employees and for those personnel to continue to successfully innovate. A failure in this regard may adversely affect the Merged Group's ability to develop its products or implement its business strategies.

(k) Financing risk

The Merged Group has bank and other debt facilities and there is a risk that the Merged Group may not be able to refinance those facilities when they fall due or that the terms (including in relation to pricing) on refinancing will be less favourable than the existing terms.

(l) COVID-19 risk

In the medium to longer term, the direct effects of COVID-19 and measures introduced by State and Federal governments to limit transmission of the virus (such as the forced closure of businesses to facilitate 'social distancing', travel bans and quarantine requirements) will likely have a material negative impact on Australia's economic growth, including the potential for further significant impact on capital markets and share prices.

Despite the uncertainty surrounding the COVID-19 pandemic and with the exception of the deferral of the contractual obligations under the Ministry of Education agreement in the Middle East as previously announced by 3PL to ASX, there has been no interruption to the Merged Group's operations including sales, marketing and product development. The longer term impact from COVID-19 on the Merged Group, and on the education and ed-tech sectors more broadly, is difficult to assess at this time.

(m) Price of shares

There are general risks associated with any investment in the share market. The price of 3PL shares may increase or decrease due to a number of factors. Those factors include fluctuations in domestic or global financial markets and general economic conditions, including interest rates, inflation rates, exchange rates, commodity and oil prices, changes to government fiscal, monetary or regulatory policies, legislation or regulation, the removal or inclusion of 3PL from market indices, and the nature of markets in which 3PL operates.

The Merger may also result in the Merged Group having a more concentrated share register and more limited liquidity, which may impact the trading performance of 3PL Shares and impact Shareholders' ability to sell at an appropriate price.

(n) Litigation risk

Legal proceedings and claims may arise from time to time in the ordinary course of the Merged Group's business and may result in high legal costs, adverse monetary judgments and/or damage to the Merged Group's reputation which could have an adverse impact on the Merged Group's financial position or performance and the price of its shares.

(o) Inability to pay dividends

There is a potential risk that 3PL may be restricted from paying dividends or making other distributions in the future. The ability of 3PL to offer fully franked dividends is contingent on it making taxable profits and the future cash needs of its business at the relevant time. The Merged Group's taxable profits may be volatile, making the forecasting and payment of dividends difficult and unpredictable.

(p) Insurance risk

The Merged Group seeks to maintain appropriate insurances for its business given its industry and operations. Insurances need to be renewed on an annual basis and those renewals may result in insurance premiums increasing with an adverse effect on the expenses and therefore the profitability of the Merged Group. Alternatively, those insurances may not be available on terms which are economic in light of the risks they protect against, resulting in the Merged Group having to self-insure such risks. If such risks ultimately arise they would have an adverse effect on the financial position and performance of the Merged Group.

7.4 Key implications if the Merger does not proceed

If the Merger does not proceed:

(a) the price of 3PL Shares may fall below the price of 3PL Shares at the time of the announcement of the Merger, in the absence of a Competing Proposal;

(b) substantial transaction costs and expenses will be incurred by 3PL (estimated at $4.5 million excluding GST);

(c) the benefits of the Merger will not be realised;

(d) the existing Shareholders will retain their direct interests in 3PL Shares and continue to collectively control 3PL and no 3PL Shares will be issued to the Blake Sellers;

(e) 3PL will continue to focus on its current business plan and strategy;

(f) there will be no immediate change to the 3PL Board or management, other than the retirement and re-election of 3PL Directors pursuant to 3PL's constitution and applicable laws; and

(g) 3PL does not anticipate any immediate impact on 3PL's existing business relationships with the Blake Group. 3PL's existing distribution arrangements with the Blake Group will continue in accordance with their current terms.

08

Key Transaction Documents

8 Key Transaction Documents

8.1 Share Sale Agreement

3PL, the Blake Sellers and the Covenantors entered into the Share Sale Agreement (SSA) on 9 April 2021. The SSA sets out the obligations of the parties in connection with the Merger, including conditions precedent to completion and certain other contemplated arrangements if the Merger is approved and completed.

(a) Background

Under the terms of the SSA, 3PL has agreed to acquire the shares in Blake from the Blake Sellers in consideration for $185 million on a cash-free, debt-free basis (**Purchase Price**).

The Purchase Price is to be satisfied through the issue of 137,000,000 3PL Shares (with a deemed issue price of $1.35 per 3PL Share) to the Blake Sellers on completion of the Merger and is subject to a customary post-completion working capital and net debt adjustment which will be settled in cash.

(b) Timing for completion

The 3PL Directors anticipate that completion of the Merger will occur in late May. Completion will not occur unless and until the conditions precedent to the acquisition have been satisfied or waived (if possible) in accordance with the terms of the SSA.

(c) Conditions precedent

Completion under the SSA is subject to the following conditions precedent being satisfied or waived:

(i) *Shareholder approval*

3PL obtaining all shareholder and regulatory approvals required in relation to the Merger, including shareholder approval under section 611 (item 7) of the Corporations Act (referred to in this Explanatory Statement as the Merger Resolution).

(ii) *Restructure*

The Blake Sellers completing the restructure of the Blake Group in accordance with the agreed documents and steps.

(iii) *Regulatory intervention*

No government agency having taken any action, or omitting to take any action, which would, or would be reasonably likely to, prevent, hinder, jeopardise, place any restrictions or impose any conditions on the completion of the Merger.

(iv) *Independent Expert*

The Independent Expert does not publicly withdraw, qualify or change its opinion before the completion date.

(v) *Blake China*

The minority shareholder in Blake China (an entity within the Blake Group) consenting to the Merger.

(vi) *Material Adverse Change*

No material adverse change having occurred in relation to the Blake Group or the 3PL Group prior to completion.

(vii) *No Prescribed Event*

No prescribed event having occurred in relation to the 3PL Group prior to completion (being certain share capital transactions, distributions and material corporate or commercial activities undertaken without the consent of the Blake Sellers).

(viii) *Employment Agreement*

Jose Palmero entering into an employment agreement with the 3PL Group in relation to the position of Chief Executive Officer of the Merged Group.

3PL or the Blake Sellers may terminate the SSA if the above conditions have not been satisfied or waived by the End Date (or such later date as the agreed by the parties).

As at the date of this Explanatory Statement, the 3PL Directors are not aware of any reason why any of the conditions precedent will not be satisfied. 3PL will keep Shareholders and the ASX advised in that regard, including as to the outcome of the vote by Shareholders on the Merger Resolution.

(d) Other termination rights

In addition to termination for non-fulfilment of the conditions precedent (as described above), the SSA may be terminated in a number of other circumstances.

(i) A party may terminate the SSA if:

(A) the other party fails to complete when required to do so and cannot complete within a further 5 business days; or

(B) certain insolvency events occur in relation to the other party or, in the case of the Blake Sellers, a member of the Blake Group.

(ii) In addition, 3PL may terminate the SSA if the 3PL Board determines that a Competing Proposal that was not solicited, invited, encouraged or initiated in breach of the no-shop restriction (see summary of exclusivity provisions in Section 8.1(f) below) is a Superior Proposal.

(e) Restructure

The Blake Sellers have undertaken to complete a restructure of the Blake Business and entities in preparation for the acquisition of Blake by 3PL. This includes ensuring that all intellectual property rights and employees required to operate the Blake Business are held by the Blake Group.

The restructure will also include the entry into a transitional services agreement between the Merged Group and Kalaci Pty Limited (an entity associated with Matthew Sandblom and Jose Palmero) for the purpose of sharing common administrative costs for a limited period of time following completion of the Merger. It is intended that reimbursements will be at cost for that party performing the transitional services.

The restructure must be completed prior to completion of the Merger in accordance with agreed restructure steps and is to be undertaken at the Blake Sellers' sole expense.

(f) Exclusivity

The SSA provides that 3PL is subject to certain exclusivity obligations during the Exclusivity Period. These are summarised below:

(i) 'no shop' obligation: 3PL must not solicit, encourage or initiate a Competing Proposal.

(ii) 'no talk' obligation: 3PL must not participate in any discussions or negotiations about, or which may reasonably lead to, a Competing Proposal.

(iii) 'no due diligence' obligation: 3PL must not provide, or make available, non-public information regarding 3PL (including due diligence information) to a third party for the purpose of formulating, developing or finalising a Competing Proposal or otherwise permit a third party to undertake due diligence on 3PL for such purposes.

(iv) Notification obligation: 3PL is required to notify the Blake Sellers within 48 hours of receiving any Competing Proposal with such notification to contain the material terms of the Competing Proposal, including, if known, the identity of the rival acquirer.

(v) Matching right: If the 3PL Board determines that the Competing Proposal is a Superior Proposal, it must not enter into any agreement in relation to the Competing Proposal and must use its best endeavours to procure that no 3PL Directors publicly recommends the Competing Proposal unless it provides the Blake Sellers with a notice setting out the material terms of the Competing Proposal, and gives the Blake Sellers 3 business days to provide a counter-proposal (Matching Right Period).

The 3PL Board must consider any Blake counter-proposal received during the Matching Right Period and, if it determines that the counterproposal would provide an equivalent or superior outcome for the Shareholders as a whole compared with the Competing Proposal all parties must use their best endeavours to agree to any amendments to the SSA that are reasonably necessary to implement the Blake counter-proposal.

If the Matching Right Period passes without the 3PL Board receiving a Blake counter-proposal, or the 3PL Board receives a Blake counter-proposal but does not consider it to provide an equivalent or superior outcome, the 3PL Board may recommend the Competing Proposal to Shareholders.

As at the date of this Explanatory Statement, no such Superior Proposal has been received.

(vi) Fiduciary out: If, after taking financial and legal advice, the 3PL Board determines that a Competing Proposal is, or could reasonably become, a Superior Proposal and complying with the no talk or no due diligence restrictions or the notification obligation would be reasonably likely to constitute a breach of the fiduciary or statutory duties owed by the 3PL Board, it need not do so, and in those circumstances 3PL would be permitted to respond to any Competing Proposal or refrain from notifying the Blake Sellers of any Competing Proposal.

3PL will keep Shareholders informed of any material developments, including by making announcements via the ASX. Shareholders are encouraged to continue to monitor ASX announcements until the Merger has completed.

(g) Standstill

The SSA contains a standstill arrangement under which the Blake Sellers have undertaken to 3PL that they (and their and Associates) will not, for a period of 12 months after completion of the Merger:

(i) acquire any securities of 3PL or any option or other right to acquire securities of 3PL;

(ii) enter into any arrangements in relation to 3PL or any securities of 3PL that result in the Blake Seller acquiring (or increasing) a Relevant Interest in, or becoming an Associate of a person that holds a Relevant Interest in, securities of 3PL;

(iii) enter into any agreement or arrangement that confers rights in relation to securities of 3PL affording the Blake Seller or its Associates an economic exposure to 3PL or to movements in the share price of those securities;

(iv) solicit proxies from shareholders of 3PL;

(v) announce an intention to do any of the things above; or

(vi) advise, assist, induce, or encourage any other person to do any of the things above.

The above restrictions do not prevent a Blake Seller or its Associates from doing any of the things referred above:

(vii) pursuant to the SSA;

(viii) pursuant to offers made under a takeover bid by the Blake Seller or an Associate of the Blake Seller for all of the ordinary shares of 3PL (other than those held by the Blake Seller or an Associate of the Blake Seller) made in accordance with the Corporations Act if the 3PL Board recommends or agrees to recommend that bid;

(ix) pursuant to a scheme of arrangement under the Corporations Act for the acquisition by the Blake Seller or an Associate of the Blake Seller of all the securities in 3PL (other than those held by the Blake Seller or an Associate of the Seller; or

(x) with the prior consent of 3PL.

(h) Period before completion under the Share Sale Agreement

The Blake Business must be conducted in a usual and prudent manner (having regard to past practice) and, in particular, any member of the Blake Group must not do or agree to do certain specified actions, except as expressly permitted by the SSA or as consented to by 3PL.

(i) Restrictive covenants

The key persons associated with the Blake Sellers, being Matthew Sandblom, Jose Palmero and Katherine Pike (collectively, the Covenantors) have undertaken to 3PL that they will not:

(i) within the restraint area, engage in any business or activity which is the same as or substantially similar to and competitive with, the Blake Business;

(ii) solicit any employees to leave the employment of the Blake Group; or

(iii) solicit any client, customer or supplier of the Blake Group with a view to obtaining the customer of that person for a competing business.

The restraint area comprises those regions where Blake generates material revenue.

The above undertakings apply during any period in which the Blake Sellers' aggregate Voting Power in 3PL is 20% or more and for up to 3 years thereafter.

The above undertakings do not restrict a Covenantor from:

(i) doing anything (or omitting to do anything) with the prior written consent of the 3PL Board

(ii) owning or holding up to a maximum of 5% of the issued capital or units of any corporation admitted to the official list of ASX;

(iii) performing any obligations under a contract with a member of the Blake Group or 3PL Group;

(iv) soliciting or engaging the services of a person who was an employee of the Blake Group at completion by general employment advertising or through the use of third party employment agencies provided, in each case, that the person concerned is not specifically targeted; and

(v) having any interest or being engaged in any Excluded Business subject to certain conditions.

The Excluded Business comprises the following businesses undertaken by entities associated with the Blake Sellers and the future key executives and directors of the Merged Group, including Matthew Sandblom (proposed Chairman of the Merged Group) and Jose Palmero (proposed CEO of the Merged Group):

(i) Excel Test Zone being the business of operating test preparation and practice websites accessible from www.exceltestzone.com.au for the sole purpose of preparing students for Naplan, opportunity class, selective school tests and other primary and secondary school tests;

(ii) Clickview being the educational video content creation and publishing business conducted by ClickView Pty Ltd (and its subsidiaries) and accessible from www.clickview.com.au; and

(iii) Publishing Business being the publication and sale of content or books by digital, online or electronic means, including in portable document format (PDF) and hard copy or non-digital means.

The ability for the Covenantors to have an interest in or remain engaged in an Excluded Business is subject to the following additional conditions:

(i) in relation to Excel Test Zone, the exclusion to the restraint only applies to the current assessment testing activities undertaken and excludes the creation, development or publication of other Ed-Tech Products within the Excel Test Zone business;

(ii) in relation to Clickview, the exclusion relates to the current Clickview business but also includes any new business undertaken by Clickview which may otherwise compete with the Blake Business; and

(iii) in relation to the Publishing Business, the exclusion to the restraint only applies to the current publishing business and excludes the creation, development or publication of other Ed-Tech Products within the Publishing Business.

While the Covenantors may remain engaged in Clickview notwithstanding that it may evolve to compete with the Blake Business, the Blake Sellers and Covenantors have undertaken to 3PL that where they propose to actively be involved in the creation or development of any New Ed-Tech Opportunity they must do all things necessary to ensure that the New-Ed Tech Opportunity is developed through the 3PL Group. This undertaking is to apply for such time as the Blake Sellers' aggregate Voting Power in 3PL Shares is 20% or more.

The key risks associated with the restraint package, and in particular, the Covenantors' interests in Excel Test Zone and Clickview are set out in Section 7.2(c).

(j) Warranties and indemnities

Blake Group

The SSA contains customary warranties and indemnities for a transaction of this nature, including warranties in relation to ownership, title and capacity, group structure, solvency, financial information, information disclosed to 3PL, contracts held by the Blake Group, related party transactions, intellectual property, tax, employees, litigation, compliance and investigations.

3PL has obtained buy-side warranty and indemnity insurance (**W&I Insurance**). The W&I Insurance covers 3PL in respect of a breach by the Blake Sellers of certain warranties and certain indemnities provided to 3PL under the SSA. The W&I Insurance is intended to operate on the basis that subject to the terms, conditions and exclusions of the policy, 3PL can claim for its loss in respect of the insured warranties and indemnities against the W&I insurer instead of the Blake Sellers.

The maximum aggregate limit of the W&I Insurance is $46,250,000.

The insurer will not have any liability under the policy unless the amount of the loss:

(i) exceeds $185,000 (other than in respect of title and capacity warranties in which case the minimum claim amount is nil); and

(ii) losses are in aggregate in excess of $3.7 million (other than in respect of title and capacity warranties in which case the retention is nil).

The W&I Insurance expires 3 years following the date of completion of the Merger in respect of the general warranties and indemnities given by the Blake Sellers and 7 years following completion of the Merger in respect of the title and capacity warranties, tax warranties and tax indemnity given by the Blake Sellers.

As is customary with W&I Insurance, the policy is subject to a number of exclusions and does not cover any specific indemnities given by the Blake Sellers under the SSA in relation to risks which were identified during 3PL's due diligence. In these circumstances, 3PL will have recourse to the Blake Sellers up to an aggregate liability cap of $10 million and for 18 months post completion (for general claims) and 5 years post completion (for tax claims). A minimum aggregate claim amount of $3.7 million applies to claims against the Blake Sellers.

3PL Group

On the basis that 3PL is a disclosing entity, it has provided a limited set of warranties to the Blake Sellers, which include warranties in relation to authority, the Consideration Shares, legal compliance (including in relation to continuous disclosure), solvency and information provided to the Blake Sellers.

Broadly reciprocal limitations of liability apply in relation to claims made by the Blake Sellers in relation to the warranties provided by 3PL.

8.2 Voluntary Escrow Deed

(a) Background

Under the terms of the SSA, the Blake Sellers are required to enter into voluntary escrow deeds restricting the disposal of 90% of the Consideration Shares (**Escrowed Shares**) from the date on which those shares are issued until the date that 3PL releases its financial results for the period ended 30 June 2022 (**Escrow Period**).

The purpose of the voluntary escrow arrangements is to create strong alignment of the interests between the senior management of Blake, who will remain with the Merged Group post-acquisition, and Shareholders, and promote an orderly market for 3PL's securities following completion of the Merger.

(b) Material terms of the voluntary escrow deeds

(i) Restriction on disposal of Escrowed Shares

The voluntary escrow deeds provide that a Blake Seller will not do any of the following during the Escrow Period:

(A) dispose of, or agree to dispose of, any of the Escrowed Shares, other than in limited customary circumstances;

(B) do, or omit to do, any act if the act or omission would have the effect of transferring effective ownership or control of the Escrowed Shares; or

(C) participate in a return of capital made by 3PL, other than in limited customary circumstances.

There are also restrictions imposed on those persons who control the Blake Sellers.

The voluntary escrow deeds do not affect the Blake Sellers' power to exercise, or control the exercise of, a right to vote attached to an Escrowed Share.

(ii) Holding lock

The Escrowed Shares will be subject to a holding lock which 3PL may apply in order to prevent a transfer of the Escrowed Shares.

The holding lock will be released at the conclusion of the Escrow Period or earlier to facilitate a permitted disposal of Escrowed Shares under the terms of the voluntary escrow deeds.

If 3PL becomes aware of a breach of the voluntary escrow deed it may also, in addition to any other rights or remedies, refuse to acknowledge, deal with, accept or register any disposal of any of the Escrowed Shares.

(iii) Exceptions to voluntary escrow

The restrictions on disposal of the Escrowed Shares do not apply in the following circumstances:

(A) in connection with a share buy-back under an equal access scheme conducted in compliance with the Corporations Act;

(B) if the proposed transfer occurs as part of a takeover or proportional takeover where the holders of at least 50% of 3PL Shares (excluding the Escrowed Shares) have accepted the takeover offer in accordance with its terms;

(C) if the proposed transfer occurs as part of a scheme of arrangement under Part 5.1 of the Corporations Act which involves the transfer to a third party of all 3PL Shares;

(D) if the proposed transfer is to an affiliate of the Blake Seller provided that the affiliate enters into a voluntary escrow deed with 3PL on substantially the same terms and the controlling interest in the relevant Escrowed Shares otherwise remains unchanged;

(E) in order to comply with a court order; and

(F) in order for the Blake Sellers to fund a claim made against them under the Share Sale Agreement provided the number of Escrowed Shares released are limited to those required to fund the relevant claim.

8.3 Call Option Deed

Under the terms of the SSA, on completion of the Merger, the Blake Sellers are required to deliver to 3PL a Call Option Deed in relation to Excel Test Zone.

The key terms of the Call Option Deed are:

(a) 3PL will have a right (but not an obligation) to purchase the assets required to operate Excel Test Zone for a purchase price equal to the higher of $2 million and 4x the annual subscription revenue generated by Excel Test Zone (**Excel Option**);

(b) if not exercised, the Excel Option will lapse within 5 years from completion of the Merger; and

(c) in addition to the Excel Option, 3PL has a first right of refusal if a third party makes an offer to buy the assets required to operate Excel Test Zone.

09 Additional Information

9 Additional Information

9.1 ASIC relief

3PL has applied to ASIC for relief from certain provisions of the Corporations Act so that the takeover provisions of the Corporations Act will not apply to the Relevant Interest that 3PL would acquire in the Escrowed Shares by reason of the voluntary escrow arrangements and has no reason to believe that such relief will not be granted.

9.2 ASX relief

A listed company has an obligation to notify ASX of a proposed significant change to the nature or scale of its activities under Listing Rule 11.

ASX can exercise its discretion to require the listed company to obtain the approval of its security holders in relation to the change in the nature or scale of its activities (Listing Rule 11.1.2), or to re-comply with ASX's admission requirements (Listing Rule 11.1.3).

ASX has confirmed to 3PL that Listing Rules 11.1.2 and 11.1.3 do not apply to the Merger.

9.3 Terms of Consideration Shares

The Consideration Shares will be issued to the Blake Sellers fully-paid and 3PL will apply for quotation of the Consideration Shares on the ASX following completion of the Merger.

9.4 Taxation

The Merger may give rise to tax implications for Shareholders.

The Shareholders are advised to seek their own taxation advice on the effect of the Merger on their personal position. Neither 3PL, nor any of the 3PL Directors or any advisor to 3PL accepts any responsibility for any individual Shareholders' taxation consequences on any aspect of the Merger.

10 Glossary

10 Glossary

10.1 Definitions

Unless the context otherwise requires, capitalised terms used in the Explanatory Statement have the following meanings:

3PL means 3P Learning Limited ACN 103 827 836;

3PL Board means the board of directors of 3PL;

3PL Group means 3PL and each of its Related Bodies Corporate and Associates (including, following completion of the Merger, the members of the Blake Group);

3PL Director means a director of 3PL from time to time;

3PL Shares means fully paid ordinary shares in the capital of 3PL;

Accounting Standards means:
(a) accounting standards as that term is defined in the Corporations Act; and
(b) to the extent not inconsistent with paragraph (a), generally accepted accounting principles in Australia;

ASIC means the Australian Securities and Investments Commission;

Associate has the meaning given to that term by sections 10 to 17 of the Corporations Act;

ASX means ASX Limited or the market operated by it, as the context requires;

Blake means Blake eLearning Pty Ltd ACN 140 998 821;

Blake Business means the business conducted by the Blake Group;

Blake China means Blake eLearning China Pty Limited ACN 625 292 480;

Blake Group means each of the following entities:
(a) Blake;
(b) Blake China;
(c) Blake eLearning Inc;
(d) Blake Shanghai Co. Ltd;
(e) Shanghai Chuangtian Consulting Co Ltd;
(f) Shanghai Yuanyi Internet Technology Co Ltd; and
(g) Blake eLearning UK Limited;

Blake Sellers means:
(a) Pascal Educational Services Pty Ltd as trustee for the Blake Sandblom Trust;
(b) Pascal Educational Services Pty Ltd as trustee for the BeL Unit Trust; and
(c) KPIT Pty Ltd as trustee for the KP Investment Trust;

Clickview has the meaning given to that term in Section 8.1(i) of this Explanatory Statement;

Competing Proposal means any expression of interest, offer or proposal by any person or its Associates (other than 3PL, Blake, the Blake Sellers or their Associates) to consider or enter into any proposal, transaction or arrangement which is the same or similar in economic terms to the Merger or any other proposed transaction within paragraphs (a) to (d) below, whether existing before, on or after the date of the Share Sale Agreement:

(a) any person acquiring directly or indirectly an interest (including an economic interest by way of an equity swap, contract for difference or similar transaction or arrangement) or Relevant Interest in 20% or more of the shares in the capital of 3PL (other than as custodian, nominee or bare trustee);

(b) any person acquiring directly or indirectly (including by way of joint venture, alliance, dual listed company structure or otherwise) any interest in all or a substantial part of the business conducted by, or assets of, a member of the 3PL Group;

(c) any person acquiring control of, or merging or amalgamating with, 3PL or any of its subsidiaries, including by way of takeover bid, scheme of arrangement, dual listed company structure, or capital reduction; or

(d) 3PL implementing any reorganisation of capital, dissolution or any proposal which affects, prejudices or jeopardises, or might reasonably be expected to affect, prejudice or jeopardise, the completion of the Merger;

Consideration Shares means 137,000,000 3PL Shares;

Corporations Act means the Corporations Act 2001 (Cth);

Covenantors means Matthew Sandblom, Jose Palmero and Katherine Pike;

Ed-Tech Products means any electronic, digital or technology based educational program, application, software or website that is designed for children of all ages;

End Date means the date that is six months following the date of the Share Sale Agreement;

Escrow Period means the period commencing on the issue of the Consideration Shares and ending on the date that 3PL releases its financial results for the period ended 30 June 2022;

Escrowed Shares means 123,300,000 3PL Shares;

Excel Test Zone has the meaning given to that term in Section 8.1(i) of this Explanatory Statement;

Excluded Business means each of:
(a) Excel Test Zone;
(b) Clickview; and
(c) the Publishing Business;

Exclusivity Period means the period from and including the date of the Share Sale Agreement to the earlier of:
(a) completion of the Merger;
(b) the termination of the Share Sale Agreement in accordance with its terms; and
(c) the End Date;

Explanatory Statement means the explanatory statement that accompanies this Notice of Meeting;

General Meeting or **Meeting** means the meeting of 3PL to be held at 124 Walker Street, North Sydney NSW 2060 on Friday 21 May 2021 at 2.00pm (AEST);

Independent Director means a director who is free of any interest, position or relationship that might influence, or reasonably be perceived to influence, in a material respect their capacity to bring an independent judgement to bear on issues before the 3PL Board and to act in the best interests of the 3PL Group as a whole rather than those of an individual security holder or other party;

Independent Expert means Lonergan Edwards & Associates Limited;

Independent Expert's Report means the independent expert report prepared by the Independent Expert accompanying this Explanatory Statement in Annexure B;

Listing Rules means the Listing Rules of the ASX;

Merger means the proposed merger between 3PL and Blake to be undertaken by 3PL acquiring 100% of the shares in the capital of Blake in consideration for the issue of the Consideration Shares and otherwise as described in Section 6;

Merged Group means the 3PL Group and the Blake Group following completion of the Merger;

Merger Resolution means the resolution to be voted on at the General Meeting, the details of which are set out in the Notice of Meeting;

New Ed-Tech Opportunity means the creation or development of any new Ed-Tech Product not existing as at the date of the Share Sale Agreement;

Notice of Meeting means the notice convening the General Meeting;

Publishing Business has the meaning given to that term in Section 8.1(i) of this Explanatory Statement;

Purchase Price has the meaning given to that term in Section 8.1(a) of the Explanatory Statement;

Related Bodies Corporate has the meaning given to that term in the Corporations Act;

Related Party Arrangements has the meaning given to that term in Section 5.3 of the Explanatory Statement;

Relevant Interest has the meaning given to that term in the Corporations Act;

Restructure means the pre-completion restructure of the Blake Business and entities in preparation for the acquisition of Blake by 3PL as described in Section 8.1(e);

Share Sale Agreement or **SSA** means the share sale agreement between 3PL, the Blake Sellers and the Covenantors dated 9 April 2021 in respect of the Merger;

Shareholder means a holder of a 3PL Share.

Superior Proposal means, in relation to 3PL, a publicly announced Competing Proposal which the 3PL Board, acting in good faith, and after taking advice from 3PL's legal and financial advisers, determines is:

(a) reasonably capable of being completed in a timely manner taking into account all aspects of the Competing Proposal;

(b) reasonably likely to be implemented within 6 months, having regard to the proponents and conditionality of the proposal; and

(c) if implemented substantially in accordance with its terms, more favourable to Shareholders than the Merger, taking into account all terms and conditions of the Competing Proposal;

Viburnum Funds means Viburnum Funds Pty Ltd ACN 126 348 990;

Voting Form means the voting form accompanying this Notice of Meeting; and

Voting Power has the meaning given to that term in the Corporations Act.

10.2 Interpretation

In this Explanatory Statement, unless the context otherwise requires:

(a) words and phrases have the same meaning (if any) given to them in the Corporations Act;

(b) the singular includes the plural and vice versa;

(c) words denoting any gender include all genders;

(d) an expression importing a natural person includes any company, partnership, joint venture, association, corporation or other body corporate and vice versa;

(e) a reference to a clause, annexure or schedule is a reference to a clause of and an annexure and schedule to this Explanatory Statement as relevant;

(f) reference to a statute includes all regulations and amendments to that statute and any statute passed in substitution for that statute or incorporating any of its provisions to the extent that they are incorporated;

(g) headings and bold type are for convenience only and do not affect the interpretation of this Explanatory Statement;

(h) a reference to time is a reference to time in Sydney, Australia; and

(i) a reference to a monetary amount is in Australian dollars, unless otherwise specified.

Annexure A

Notice of Meeting

A NOTICE OF MEETING

3P Learning Limited

ACN 103 827 836

This notice of meeting (**Notice of Meeting**) relates to a general meeting (**General Meeting**) of the shareholders of 3PL (**Shareholders**).

The General Meeting will take place at 124 Walker Street, North Sydney NSW 2060 on Friday 21 May 2021 commencing at 2.00pm (AEST).

Important:

- Capitalised terms used in this Notice of Meeting that are not defined have the meanings given to them in the Glossary of the Explanatory Statement (Section 10).
- This Notice of Meeting should be read in conjunction with the Explanatory Statement and Explanatory Notes which set out a detailed explanation of the background and reasons for the Merger Resolution.

Agenda

The business to be transacted at the General Meeting is set out below:

1. Issue of Consideration Shares

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

"That, for the purposes of section 611 (item 7) of the Corporations Act and all other purposes, approval is given for 3PL to issue 137,000,000 fully paid ordinary shares in 3PL to the Blake Sellers as consideration for 3PL's acquisition of all of the issued capital in Blake on the terms described in the Explanatory Statement."

Note: a voting exclusion, as set out in the Explanatory Notes section of this Notice of Meeting, applies to this resolution.

By order of the board:

Jia Chen (Liz) Wang
Company Secretary
19 April 2021

Information for shareholders

Voting Entitlements

The 3PL Directors have determined, in accordance with regulation 7.11.37 of the Corporations Regulations 2001 (Cth), that persons who are registered holders of 3PL Shares as at 7.00pm (AEST) on Wednesday 19 May 2021 will be eligible to vote at the General Meeting as a shareholder. Accordingly, registrable transmission applications or transfers registered after this time will be disregarded in determining entitlements to vote at the General Meeting.

Voting Exclusion Statements

In accordance with the Corporations Act, 3PL will disregard any votes cast on the Merger Resolution by:

(a) a Blake Seller; or

(b) an Associate of a Blake Seller.

Appointing a proxy

If you are entitled to attend and vote at the General Meeting, you can appoint a proxy to attend and vote on your behalf. A proxy need not be a shareholder of 3PL, and may be an individual or a body corporate. A sample Voting Form is included with this Notice of Meeting. If you are entitled to cast two or more votes you may appoint two proxies and may specify the proportion or number of votes each proxy is appointed to exercise. If you do not specify a proportion or number, each proxy may exercise half of the votes.

You may appoint a proxy online at www.linkmarketservices.com.au or, if you received a hardcopy Voting Form, by following the instructions on the Voting Form.

If you do not instruct your proxy on how to vote, your proxy may vote as they see fit at the Meeting.

The online proxy facility may not be suitable for some shareholders who wish to appoint two proxies with different voting directions. If you would like to do so please contact 3PL's share registry, Link Market Services on +61 1300 554 474 or at registrars@linkmarketservices.com.au.

If you appoint the Chairman of the Meeting as your proxy (or the Chairman of the Meeting becomes your proxy by default) and you do not direct your proxy how to vote on the Merger Resolution, you will be authorising the Chairman to vote as he decides on the Merger Resolution. The Chairman of the Meeting intends to vote undirected proxies in favour of the Merger Resolution. If you do not want the Chairman of the meeting to vote, as your proxy, as indicated above, you must direct your proxy how to vote, or to abstain from voting on, the Merger Resolution

Direct voting

You may also vote directly on the Merger Resolution without attending the Meeting. You may do this online at www.linkmarketservices.com.au or, if you received a hardcopy Voting Form, by following the instructions on the Voting Form.

If you lodge a direct vote, you are voting directly and are not appointing a third party, such as a proxy, to act on your behalf. Even if you plan to attend the Meeting, you are still encouraged to lodge a direct vote (or a directed proxy) in advance of the Meeting so that your votes can still be counted if for any reason you cannot attend.

Your direct vote does not preclude you from attending the Meeting. However, your attendance will have the effect of cancelling your direct vote.

Lodging your Voting Form

To be effective for the scheduled Meeting, a direct vote, proxy appointment (and any power of attorney or other authority under which it is signed or otherwise authenticated, or a certified copy of that authority) must be received no later than 2.00pm (AEST) on Wednesday 19 May 2021 (being 48 hours before the commencement of the Meeting). Any direct vote or proxy appointment received after that time will not be valid for the scheduled Meeting.

You may lodge your direct vote or proxy online via the Link website (www.linkmarketservices.com.au) using the holder details. Select "Voting" and follow the prompts to lodge your vote. To use the online lodgement facility, Shareholders will need their Securityholder Reference Number (SRN) or Holder Identification Number (HIN). You will be taken to have signed your Voting Form if you lodge it in accordance with the instructions given on the website.

For those Shareholders who are submitting a hardcopy Voting Form rather than using the online voting facility, the completed Voting Form may be lodged:

(a) **By mail:** sent to 3PL's share registry at 3P Learning Limited C/- Link Market Services Limited, Locked Bag A14, Sydney South NSW 1235

(b) **By fax:** sent to 3PL's share registry at +61 2 9287 0309

(c) **By hand:** delivered during business hours to Link Market Services Limited, 1A Homebush Bay Drive, Rhodes NSW 2138

Please refer to the enclosed sample Voting Form for more information.

Corporate shareholders

Corporate shareholders who wish to appoint a representative to attend the General Meeting on their behalf must provide that person with a properly executed letter or other document confirming that they are authorised to act as its representative. Shareholders can download and fill out an "Appointment of Corporate Representative" form from the Link website: www.linkmarketservices.com.au. The representative should bring to the General Meeting evidence of their appointment, including any authority under which it is signed, unless previously given to 3PL.

Explanatory Notes

These Explanatory Notes, along with the Explanatory Statement, have been prepared to provide Shareholders with material information to enable them to make an informed decision on the business to be conducted at the General Meeting to be held on Friday 21 May 2021. All Shareholders should read these Explanatory Notes and the Explanatory Statement carefully and in their entirety. Shareholders who are in doubt regarding any part of the business of the General Meeting should consult their financial or legal adviser for assistance.

The Merger will not proceed unless the Merger Resolution is passed.

1. Merger Resolution – Issue of Consideration Shares to the Blake Sellers

1.1 Background

The Merger Resolution is an ordinary resolution which seeks the approval for the issue to the Blake Sellers of the Consideration Shares for the purposes of section 611 (item 7) of the Corporations Act.

(a) Takeover prohibition

Section 606 of the Corporations Act prohibits the acquisition by a person of voting shares in a company where, because of the acquisition, that person's (or someone else's) Voting Power in the company:

(i) increases from 20% or below to more than 20%; or

(ii) increases from a starting point that is above 20% and below 90%,

unless a specific exemption applies.

(b) Voting Power

The Voting Power of a person in a body corporate is determined in accordance with section 610 of the Corporations Act. The calculation of a person's Voting Power in a company involves determining the voting shares in the company in which the person and the person's Associates have a Relevant Interest.

(c) Associates

For the purposes of determining Voting Power under the Corporations Act, a person (second person) is an "associate" of the other person (first person) if:

(i) the first person is a body corporate and the second person is:

(A) a body corporate the first person controls;

(B) a body corporate that controls the first person; or

(C) a body corporate that is controlled by an entity that controls the first person;

(ii) the second person has entered or proposes to enter into a relevant agreement with the first person for the purpose of controlling or influencing the composition of the company's board or the conduct of the company's affairs; or

(iii) the second person is a person with whom the first person is acting or proposes to act, in concert in relation to the company's affairs.

Associates are, therefore, determined as a matter of fact. For example where a person controls or influences the board or the conduct of a company's business affairs, or acts in concert with a person in relation to the entity's business affairs.

(d) Relevant Interests

Section 608(1) of the Corporations Act provides that a person has a Relevant Interest in securities if they:

(i) are the holder of the securities;

(ii) have the power to exercise, or control the exercise of, a right to vote attached to the securities; or

(iii) have power to dispose of, or control the exercise of a power to dispose of, the securities.

It does not matter how remote the Relevant Interest is or how it arises. If two or more people can jointly exercise one of these powers, each of them is taken to have that power.

In addition, section 608(3) of the Corporations Act provides that a person has a Relevant Interest in securities that any of the following has:

(iv) a body corporate in which the person's Voting Power is above 20%; or

(v) a body corporate that the person controls.

1.2 Reason Section 611 approval is required

(a) If the Merger proceeds the Blake Sellers will collectively have Voting Power in respect of 49.63% of 3PL's Shares following the issue of the Consideration Shares.

(b) In preparing this Notice of Meeting, 3PL has taken the conservative approach of assuming that the Blake Sellers will be regarded as "associates" for the purposes of 606 of the Corporation Act on the basis that, by undertaking the Merger, the Blake Sellers are acting in concert in relation to the affairs of 3PL.

(c) On the assumption that the Blake Sellers are deemed to be "associates" under the Corporations Act, the aggregate Voting Power of all of the Blake Sellers will be combined in order to determine their increase in Voting Power under section 606 of the Corporation Act.

(d) Section 611 (item 7) of the Corporations Act provides an exception to the general prohibition under section 606 where the acquisition is approved by a resolution of Shareholders provided that:

(i) no votes are cast in favour of the resolution by the person proposing to make the acquisition or their Associates or from whom the acquisition is to be made or their Associates; and

(ii) shareholders are given all information known to the acquirer or the company that is material to the decision on how to vote.

1.3 Prescribed information

The following information is required to be provided to Shareholders under the Corporations Act and *ASIC Regulatory Guide 74: Acquisitions approved by members* for the purpose of obtaining approval under section 611 (item 7) of the Corporations Act. Shareholders are also referred to the Independent Expert's Report prepared by Lonergan Edwards & Associates Limited which is set out in Annexure B.

(a) Identity of the purchasers and their Associates

The Consideration Shares will issued to the Blake Sellers, which comprise:

(i) Pascal Educational Services Pty Ltd as trustee for the Blake Sandblom Trust (**Sandblom Trust**);

(ii) Pascal Educational Services Pty Ltd as trustee for the BeL Unit Trust (**BeL Unit Trust**); and

(iii) KPIT Pty Ltd as trustee for the KP Investment Trust (**KPIT**).

The following table summarises the maximum number of Consideration Shares to be acquired by the Blake Sellers under the Merger:

Blake Seller	Consideration Shares	Percentage[34]
Sandblom Trust	82,200,000	29.73%
BeL Unit Trust	13,700,000	4.96%
KPIT	41,100,000	14.87
Total	**137,000,000**	**49.55%**

Pascal Educational Services Pty Ltd and the Sandblom Trust are controlled by Matthew Sandblom. KPIT Pty Ltd is controlled by Katherine Pike, the sister of Matthew Sandblom. Accordingly, in accordance with section 608(3) of the Corporations Act, Matthew Sandblom and Katherine Pike will obtain a Relevant Interest in the Consideration Shares to be held by Pascal Educational Services Pty Ltd and KPIT Pty Ltd respectively. Matthew Sandblom and Katherine Pike are also considered "associates" of their controlled entities on the basis that it is expected that they will act in concert with those entities in relation to the affairs of 3PL.

For the reasons outlined above, 3PL seeks approval of the Merger Resolution on the basis that the Blake Sellers are "associates" of each other.

(b) Effect on the Voting Power of the Blake Sellers and their Associates

As at the date of this Explanatory Statement, the Blake Sellers and their Associates have aggregate Voting Power in respect of 220,000 3PL Shares representing 0.16% of 3PL's issued share capital. This interest arises due to Matthew Sandblom's Relevant Interest in 3PL Shares held via his spouse, Wendy Beckett, and a controlled entity, S D & M Software Pty Limited as trustee for S D & M Software Pty Limited Superannuation Fund.

The issue of the Consideration Shares will cause the Blake Sellers' and their Associates' aggregate Voting Power in 3PL to increase from 0.16% to a maximum of 49.63%.

The impact of the issue of the Consideration Shares on 3PL's capital structure can be found in Section 6.5 of the Explanatory Statement.

(c) Reasons for the Merger

The strategic rationale for the Merger can be found in Section 6.3 of this Explanatory Statement.

(d) Date for completion of the Merger

Completion of the Merger is anticipated to occur in late May subject to the satisfaction or waiver of the conditions precedent under the SSA.

The indicative timetable for the Merger is set out under the heading 'Key Dates for Shareholders' above.

(e) Terms of the Merger

The terms of the Merger are set out in the Share Sale Agreement.

A summary of the key terms of the Share Sale Agreement is set out in Section 8.1 of the Explanatory Statement and a summary of the Merger more broadly is set out in Section 6 of the Explanatory Statement.

(f) Other relevant agreements

The material terms of the other agreements relevant to the Merger can be found in Section 8 of the Explanatory Statement, including the Voluntary Escrow Deeds and the Call Option Deed.

[34] Based on 3PL's current issued share capital of 139.48 million shares and disregarding the impact of any outstanding convertible securities.

(g) Statement of intentions regarding the future of the 3PL

Other than as disclosed in the Explanatory Statement (including in relation to the synergies and cost savings referred to in Section 6.4, the strategy and operations impact in Section 6.6 and the proposed Restructure), as at the date of this Explanatory Statement, the Blake Sellers:

(i) have no current intention of making any changes to the business of 3PL;

(ii) have no current intention to inject further capital into 3PL;

(iii) have no current intention to change the employment arrangements of 3PL;

(iv) do not propose to transfer any assets between 3PL and the Blake Sellers or their Associates;

(v) have no intention to otherwise redeploy the fixed assets of 3PL; and

(vi) have no current intention to change the financial or dividend distribution policies of 3PL.

These statements are based on the information concerning 3PL and the circumstances affecting the business of 3PL that are known to the Blake Sellers at the date of this Explanatory Statement.

(h) Interests of 3PL Directors

Other than their interest in 3PL Shares, no 3PL Director has any interest in the Merger nor any agreement to be entered into by the parties in relation to the Merger.

The interests of 3PL Directors in 3PL Shares can be found in Section 4.4 of the Explanatory Statement.

(i) Details about the proposed directors of the Merged Group

Details of the persons proposed to be 3PL Directors of the Merged Group upon completion of the Merger can be found in Section 6.7 of the Explanatory Statement.

1.4 Independent Expert's Report

The Merger Resolution, if passed, would permit an acquisition of 3PL Shares in accordance with section 611 (item 7) of the Corporations Act.

If passed, 3PL will be able to issue the Consideration Shares to the Blake Sellers thereby increasing their aggregate Voting Power in 3PL, without contravening section 606 of the Corporations Act.

ASIC policy encourages a company to provide to shareholders who are being asked to consider a proposal to pass a resolution under section 611 (item 7) of the Corporations Act an analysis of whether the proposal is fair and reasonable when considered from the perspective of the shareholders of that company.

The 3PL Board has commissioned the Independent Expert to prepare the Independent Expert's Report to analyse the Merger.

The Independent Expert's Report, prepared by the Independent Expert is attached in full to this Explanatory Statement as Annexure B. Shareholders should read the full text of the Independent Expert's Report to assist them in determining how they wish to vote in respect of the Merger Resolution (including the Independent Expert's analysis of the advantages and disadvantages of the Merger set out in paragraph 260 of the Independent Expert's Report).

In summary, the Independent Expert's Report concludes that the Merger is not fair but reasonable to Shareholders in the absence of a superior proposal. The Merger is not fair when assessed based on the guidelines set out in Regulatory Guide 111 because the Merger does not provide value to 3PL shareholders which is equal to the full controlling interest value of 3PL shares prior to the Merger. However, this is to be expected as the Merger does not involve a takeover offer (or similar proposal) for 100% of 3PL shares.

The Merger is reasonable because the Independent Expert has concluded that the advantages of the Merger significantly outweigh the disadvantages

1.5 Recommendation

The 3PL Directors recommend that Shareholders vote in favour of the Merger Resolution in the absence of a Superior Proposal.

Annexure B

Independent Expert's Report

LONERGAN EDWARDS
& ASSOCIATES LIMITED

ABN 53 095 445 560
AFS Licence No 246532
Level 7, 64 Castlereagh Street
Sydney NSW 2000 Australia
GPO Box 1640, Sydney NSW 2001

Telephone: [61 2] 8235 7500
www.lonerganedwards.com.au

The Directors
3P Learning Limited
Level 18, 124 Walker Street
North Sydney NSW 2060

15 April 2021

Subject: Proposed acquisition of Blake eLearning

Dear Directors

The Merger

1 On 12 April 2021, 3P Learning Limited (3PL or the Company) announced that it had entered into an agreement to acquire 100% of the issued share capital of Blake eLearning Pty Ltd (Blake). The consideration to be paid for Blake comprises 137 million 3PL shares (the Merger).

2 The purchase price for Blake is on a cash and debt free basis and assumes at completion a Blake balance sheet with an appropriate level of working capital (including a minimum cash balance of $1.0 million).

3 The Merger is subject to a number of conditions, including the approval of 3PL shareholders.

3PL

4 3PL is a global online education company with cloud based, software as a service (SaaS) products in numeracy and literacy for school students in grades K-12. The Company's core product offerings include both owned products (Mathletics and Readiwriter) and licensed products (Reading Eggs, Mathseeds and Word Flyers). 3PL is headquartered in Australia and operates through three business segments: Asia Pacific (APAC); Europe, Middle East and Africa (EMEA) and the Americas. As at 31 December 2020, 3PL had 4.7 million licenses[1] for students in over 17,500 schools located in more than 100 countries.

Blake

5 Blake was launched in 2009 with its breakthrough reading app, Reading Eggs, which has users in over 100 countries, and develops, markets and sells branded EdTech websites and associated digital products. Its main products focus on the essential academic skills such as literacy (Reading Eggs and WordFlyers) and numeracy (Mathseeds). Products are marketed

---

1 Excludes the 200,000 licenses relating to the National Ministry of Education (NME) contract in the Middle East announced on 23 June 2020.

Authorised Representatives:
Wayne Lonergan • Craig Edwards* • Hung Chu • Martin Hall • Martin Holt* • Grant Kepler* • Julie Planinic* • Nathan Toscan • Jorge Resende

* Members of Chartered Accountants Australia and New Zealand and holders of Certificate of Public Practice.
Liability limited by a scheme approved under Professional Standards Legislation

directly to parents in the (B2C[2]) channel and distributed through partners such as 3PL and Edmentum in the Schools (B2B[3]) channel. Offices are located in Australia, the United States of America (US), the United Kingdom (UK) and China in addition to distribution partners globally.

6 3PL and Blake have a long standing relationship pre dating the initial public offering of 3PL in 2014 when an associate of Blake was a significant shareholder of 3PL. Since then 3PL has distributed Reading Eggs, Mathseeds and WordFlyers to the school market in key geographies including Australia and the UK.

Scope

7 Section 606 of the *Corporations Act 2001 (Cth)* (Corporations Act) generally prohibits the acquisition of a relevant interest in issued voting securities of an entity if the acquisition results in a person's voting power in a company increasing from below 20% to more than 20%, or from a starting point between 20% and 90%, unless a permissible exception applies[4]. A permissible exception to this general prohibition is set out in s611(7), whereby such an acquisition is allowed where the acquisition is approved by a resolution of securityholders of the entity at a general meeting and no votes are cast in respect of securities held by the acquirer, the vendor (where applicable) or any of their respective associates.

8 If the Merger is approved and all conditions are satisfied, the consideration to be paid for Blake will result in the Blake vendors (who are associates) acquiring voting power in 3PL of more than 20%. Accordingly, there is a regulatory requirement for 3PL to provide shareholders with all material information relevant to a vote on the proposed Merger. The 3PL Directors have elected to commission an IER to discharge these disclosure obligations.

9 In addition, the Merger is subject to a number of conditions precedent, including an independent expert concluding that the Merger is either "fair and reasonable" or "not fair but reasonable" to 3PL shareholders.

10 Accordingly, the Directors of 3PL have requested Lonergan Edwards & Associates Limited (LEA) to prepare an IER stating whether, in our opinion, the Merger is fair and reasonable to 3PL shareholders and the reasons for that opinion.

11 LEA is independent of 3PL and Blake and has no involvement with or interest in the outcome of the Merger other than the preparation of this IER.

Summary of opinion

12 LEA has concluded that the Merger is not fair but is reasonable to 3PL shareholders in the absence of a superior proposal.

13 We have arrived at this conclusion for the reasons set out below.

---

2 Business to consumer.

3 Business to business.

4 Subject to the 3% every six months "creep provisions".

Assessment of fairness

14 RG 111 – *Content of expert reports* (RG 111) requires that the fairness of the Merger be assessed by comparing the controlling interest value of 3PL shares prior to implementation of the Merger with the portfolio interest value of 3PL shares following implementation (being the deemed "consideration" delivered to 3PL shareholders).

15 In order for the Merger to be "fair" under RG 111, the portfolio interest value of 3PL shares following implementation of the Merger must be equal to, or greater than the controlling interest value of 3PL shares before implementation.

16 This comparison is set out below:

"Fairness" value comparison

	Section	Low $ per share	High $ per share	Mid-point $ per share
Portfolio interest value of 3PL shares following implementation of the Merger	X	1.28	1.42	1.35
Controlling interest value of 3PL shares prior to implementation of the Merger	VII	1.35	1.50	1.43
Extent to which portfolio interest value post implementation is less than the controlling interest value of 3PL shares before implementation		(0.07)	(0.08)	(0.08)

Note:
1 Rounding differences exist.

17 Based on the above the Merger is not fair when assessed based on the guidelines set out in RG 111.

Assessment of reasonableness

18 Under RG 111 a transaction is reasonable if it is fair. It may also be reasonable even if it is not fair, if the expert concludes that the advantages of the transaction outweigh the disadvantages.

19 In considering whether the Merger is reasonable, we have considered whether 3PL shareholders are likely to be better off from a value perspective if they approve the Merger by comparing the value of 3PL shares pre and post the Merger on a consistent portfolio basis.

20 Accordingly, we have reduced our controlling interest value prior to the Merger by a minority interest discount[5] in order to estimate the corresponding portfolio interest value of 3PL shares.

21 On this basis, we note that the Merger is value accretive for 3PL shareholders:

5 Consistent with the approach adopted in Section X, we have applied a 20% minority interest discount to our assessed business values, and a 10% minority interest discount to 3PL's net cash holding.

LONERGAN EDWARDS & ASSOCIATES LIMITED

Comparative value of 3PL shares	Low cents per share	High cents per share	Mid-point cents per share
Portfolio interest value of 3PL shares before the Merger(1)	1.10	1.21	1.155
Portfolio interest value of 3PL shares after the Merger	1.28	1.42	1.35
Increase in portfolio interest value of 3PL shares due to the Merger	0.18	0.21	0.195
% increase	*16.4%*	*17.4%*	*16.9%*

Note:
1 Being our controlling interest value pre Merger of $1.35 to $1.50 per share, less a minority interest discount.

22 Based on the above we have concluded that the Merger is reasonable to 3PL shareholders.

Advantages and disadvantages

23 In assessing whether the Merger is reasonable we have also had regard in particular to the advantages and disadvantages of the Merger from the perspective of the existing shareholders of 3PL. These matters are summarised below:

Advantages

(a) we consider that the Merger is value accretive for 3PL shareholders, as the value of 3PL shares when assessed on a consistent (portfolio or minority interest) basis increases as a result of the Merger

(b) the Merger is expected to result in significant cost synergies (and potentially additional revenue synergies)

(c) based on our respective assessed values of 3PL and Blake (on a stand-alone basis), the effective price at which 3PL shares will be issued to the Blake vendors[6] is consistent with our controlling interest value of 3PL shares prior to implementation of the Merger

(d) 3PL will become a substantially larger and more diversified e-learning business as a result of the Merger[7]

Disadvantages

(e) if the Merger is approved, the interests of existing non-associated 3PL shareholders will be diluted as they will collectively hold an economic interest in 50.37% of 3PL shares after the Merger. However, this is offset by the fact that existing non-associated 3PL

6 Based on the mid-point of our Blake valuation range (A$190 million) divided by the 137 million 3PL shares being issued as consideration, the effective issue price is around A$1.39 per 3PL share.

7 LEA has an extensive database of Australian company transactions, including details of prices paid, implied enterprise values and earnings multiples. This evidence indicates that:
(a) small companies generally trade on significantly lower earnings multiples than larger companies (provided other variables such as expected earnings growth are similar); and
(b) investors usually require a higher rate of return to compensate for the additional risks associated with small companies compared to larger companies.

shareholders will hold a collective economic interest of approximately 50.37% in Blake as a result of the Merger, and should be better off from a value perspective

(f) if the Merger is approved the Blake vendors (together with their associates) will have a 49.63% voting interest in 3PL[8], and will therefore have effective control of 3PL

(g) in addition, prima facie, the prospects of a future takeover offer or other control transaction for 3PL are diminished if the Merger is approved as the Blake vendors will be in a position to control the outcome / block any future takeover or other control transaction due to the (percentage) size of their collective shareholding received as consideration

(h) the Merger is not "fair" when assessed based on the guidelines set out in RG 111. This is because the Merger does not provide value to 3PL shareholders which is equal to the full controlling interest value of 3PL shares prior to the Merger. However, this is to be expected as the Merger does not involve a takeover offer (or similar proposal) for 100% of 3PL shares.

24 As indicated above there are a number of advantages and disadvantages associated with the Merger. However, in our view, the advantages of the Merger significantly outweigh the disadvantages.

25 For the reasons set out above, we have therefore concluded that the Merger is not fair, but is reasonable to 3PL shareholders in the absence of a superior proposal.

General

26 In preparing this report we have considered the interests of 3PL shareholders as a whole. Accordingly, this report only contains general financial advice and does not consider the personal objectives, financial situations or requirements of individual shareholders.

27 The ultimate decision whether to approve the Merger should be based on each 3PL shareholder's assessment of their own circumstances. If 3PL shareholders are in doubt about the action they should take in relation to the Merger or matters dealt with in this report, 3PL shareholders should seek independent professional advice. For our full opinion on the Merger and the reasoning behind our opinion, we recommend that 3PL shareholders read the remainder of our report.

Yours faithfully

Craig Edwards
Authorised Representative

Martin Holt
Authorised Representative

8 Interests associated with Mr Matthew Sandblom (the founder and current Executive Chairman of Blake) have an existing small ownership interest in 3PL shares. As a result, the Blake vendors (and their associates) will own approximately 49.63% of 3PL following implementation of the Merger.

LONERGAN EDWARDS & ASSOCIATES LIMITED

Table of contents

LONERGAN EDWARDS & ASSOCIATES LIMITED

Appendices

I Key terms of the Merger

Key terms

28 On 12 April 2021, 3P Learning Limited (3PL or the Company) announced that it had entered into an agreement to acquire 100% of the issued share capital of Blake eLearning Pty Ltd (Blake). The consideration to be paid for Blake comprises 137 million 3PL shares (the Merger).

29 The purchase price for Blake is on a cash and debt free basis and assumes at completion a Blake balance sheet with an appropriate level of working capital (including a minimum cash balance of $1.0 million).

Escrow restrictions

30 The shares to be issued to the Blake vendors are to be subject to voluntary escrow arrangements in respect of 90% of the 3PL shares issued until release of 3PL's FY22 result.

31 In addition, the Blake vendors have agreed to a standstill to not acquire any additional 3PL shares for a period of 12 months from completion.

Conditions

32 The Merger is subject to:

(a) 3PL shareholder approval

(b) Jose Palmero (the current CEO of Blake) entering into an employment agreement with 3PL post completion of the Merger in relation to the position of CEO of 3PL

(c) the independent expert continuing to conclude that the Merger is "fair and reasonable", or "not fair, but reasonable"

(d) the Blake sellers completing a restructure of the Blake group in accordance with the agreed steps

(e) the 15% minority shareholder in Blake China consenting to the Merger

(f) no material adverse change occurring in relation to 3PL or Blake

(g) no prescribed event having occurred in relation to 3PL prior to completion of the Merger.

33 More detail on the above conditions is set out in the Notice of Meeting.

II Scope of our report

Purpose

34 Section 606 of the Corporations Act generally prohibits the acquisition of a relevant interest in issued voting securities of an entity if the acquisition results in a person's voting power in a company increasing from below 20% to more than 20%, or from a starting point between 20% and 90%, unless a permissible exception applies[9]. A permissible exception to this general prohibition is set out in s611(7), whereby such an acquisition is allowed where the acquisition is approved by a resolution of securityholders of the entity at a general meeting and no votes are cast in respect of securities held by the acquirer, the vendor (where applicable) or any of their respective associates.

35 RG 74 sets out the view of ASIC on the operation of s611(7) of the Corporations Act. Section 611(7) of the Corporations Act allows shareholders to waive the prohibition in s606 and requires that shareholders approving a resolution pursuant to this section be provided with all material information in relation to the Merger.

36 As noted above, if the Merger is approved and all conditions are satisfied, the consideration to be paid for Blake will result in the Blake vendors (who are associates) acquiring voting power in 3PL of more than 20%. Accordingly, there is a regulatory requirement for 3PL to provide shareholders with all material information relevant to a vote on the proposed Merger. The 3PL Directors have elected to commission an IER to discharge these disclosure obligations.

37 In addition, the Merger is subject to a number of conditions precedent, including an independent expert concluding that the Merger is either "fair and reasonable" or "not fair but reasonable" to 3PL shareholders

38 Accordingly, the Directors of 3PL have requested LEA to prepare an IER stating whether, in our opinion, the Merger is fair and reasonable to 3PL shareholders and the reasons for that opinion.

39 This report has been prepared to assist the Directors of 3PL in making their recommendation to the shareholders of 3PL, and to assist these shareholders in assessing the merits of the Merger.

40 Our report should not be used for any other purpose or by any other party. The ultimate decision whether to approve the Merger should be based on each shareholder's assessment of their own circumstances, including their risk profile, liquidity preference, tax position and expectations as to value and future market conditions. If in doubt about the Merger or matters dealt with in this report, 3PL shareholders should seek independent professional advice.

Basis of assessment

41 In preparing our report, we have had regard to the Australian Securities Exchange (ASX) Listing Rules and Regulatory Guides issued by ASIC, particularly RG 111. RG 111 sets out (inter alia) the view of ASIC on the content of expert reports prepared for the purpose of seeking approval under s611(7) of the Corporations Act.

---

9 Subject to the 3% every six months "creep provisions".

42 Under RG 111 the Merger is deemed a "change of control" transaction because the Blake vendors will acquire a greater than 20% voting interest in 3PL. As a consequence, RG 111 states that the Merger must be analysed as if it were a takeover bid under Chapter 6 of the Corporations Act. Accordingly, the expert is required to assess the Merger in terms of the convention established for takeovers pursuant to s640 of the Corporations Act, being:

(a) is the offer "fair" – when assessing takeovers, an offer is "fair" if the value of the offer price or consideration is equal to, or greater than the value of the securities the subject of the offer. This comparison should be made assuming 100% ownership of the company and is irrespective of whether the offer is cash or scrip

(b) is it "reasonable" – an offer is "reasonable" if it is fair. An offer may also be reasonable if, despite being "not fair", in the opinion of the expert, there are sufficient reasons for securityholders to accept the offer in the absence of any higher bid before the close of the offer.

43 As the Merger does not involve any takeover offer being made to 3PL shareholders, RG 111 requires that the fairness of the Merger be assessed by comparing the controlling interest value of 3PL shares prior to implementation of the Merger with the portfolio value of 3PL shares following implementation (being the deemed "consideration" delivered to 3PL shareholders). In order for the Merger to be "fair" under RG 111, the portfolio value of 3PL shares following implementation of the Merger must be equal to, or greater than the controlling interest value of 3PL shares before implementation.

44 The Merger will also be "reasonable" if it is "fair". In addition, in our opinion, the Merger will be "reasonable" even if it is "not fair" if the advantages outweigh the disadvantages of the Merger from the perspective of 3PL shareholders.

45 Our report has therefore considered a range of both qualitative and quantitative factors including:

(a) the controlling interest value of 100% of 3PL shares prior to implementing the Merger

(b) the portfolio value of 3PL shares following implementation of the Merger

(c) the difference between (a) and (b) in order to assess whether the Merger is fair to 3PL shareholders pursuant to RG 111

(d) the effective price at which the Blake vendors are being issued shares in 3PL relative to the value in (a)

(e) the impact of the Merger on the ownership and control of 3PL

(f) the relevant position of 3PL shareholders before and after implementation of the Merger assessed on a consistent basis (i.e. by comparing the portfolio value before implementation with the portfolio value afterwards)

(g) the implications for 3PL shareholders if the Merger is not approved and implemented; and

(h) other qualitative and strategic issues associated with the Merger and the extent to which, on balance, they may advantage or disadvantage existing 3PL shareholders if the Merger proceeds or is rejected.

Limitations and reliance on information

46 Our opinions are based on the economic, sharemarket, financial and other conditions and expectations prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time, as has been evident by the significant volatility in equity markets in recent times due to the impact of COVID-19.

47 Our report is also based upon the financial and other information provided by 3PL and Blake and their respective advisers. We have considered and relied upon this information and have assumed that the information provided is reliable, complete and not misleading. We have no reason to believe that material facts have been withheld.

48 The information provided was evaluated through analysis, enquiry and review to the extent considered appropriate for the purpose of forming an opinion on the Merger from the perspective of 3PL shareholders. However, we do not warrant that our enquiries have identified or verified all of the matters which an audit, extensive examination or “due diligence” investigation might disclose. Whilst LEA has made what it considers to be appropriate enquiries for the purpose of forming its opinion, “due diligence” of the type undertaken by companies and their advisers in relation to (for example) prospectuses or profit forecasts is beyond the scope of an IER[10].

49 Accordingly, this report and the opinions expressed therein should be considered more in the nature of an overall review of the anticipated commercial and financial implications of the Merger, rather than a comprehensive audit or investigation of detailed matters. Further, this report and the opinions therein, must be considered as a whole. Selecting specific sections or opinions without context or considering all factors together, could create a misleading or incorrect view or opinion. This report is a result of a complex valuation process that does not lend itself to a partial analysis or summary.

50 An important part of the information base used in forming an opinion of the kind expressed in this report is comprised of the opinions and judgement of management of the relevant companies. This type of information has also been evaluated through analysis, enquiry and review to the extent practical. However, it must be recognised that such information is not always capable of external verification or validation.

51 We in no way guarantee the achievability of budgets or forecasts of future profits. Budgets and forecasts are inherently uncertain. They are predictions by management of future events which cannot be assured and are necessarily based on assumptions of future events, many of which are beyond the control of management. Actual results may vary significantly from forecasts and budgets with consequential valuation impacts.

52 In forming our opinion, we have also assumed that the information set out in the Notice of Meeting is complete, accurate and fairly presented in all material respects.

---

10 3PL management commissioned separate independent due diligence advice from a major international accounting firm in connection with the Merger.

III Profile of 3PL

Overview

53 3PL is a global online education company with cloud based, SaaS products in numeracy and literacy for school students in grades K-12. The Company's core product offerings include both owned products (Mathletics and Readiwriter) and licensed products (Reading Eggs, Mathseeds and Word Flyers). 3PL is headquartered in Australia and operates through three business segments: APAC; EMEA and the Americas. As at 31 December 2020, 3PL had 4.7 million licenses[11] for students in over 17,500 schools located in more than 100 countries.

History

54 A summary of the key historical developments of 3PL is set out below:

3PL – history

Year	Key development
2004	• 3PL commenced producing technology based products for schools, starting with a mathematics CD-ROM for students in grades K-10
2005	• Launched Mathletics with an initial online release of Live Mathletics in Australia followed by 3PL's first online event: the 10 Million Challenge
2006	• Launched Spellodrome • Established operations in New Zealand (NZ), followed by the Trans-Tasman Maths and Spelling Challenge • Established EMEA operations with the launch of Mathletics in the UK
2007	• Launched Mathletics in the US and South Africa under distribution arrangements • Launched World Maths Day
2009	• Established operations in Canada • Launched World Education Games
2010	• Established a presence in Hong Kong focusing on direct sales in Asia
2011	• Commenced distribution of Reading Eggs Products • Commenced building scalable software and hardware platforms for Mathletics, Spellodrome and the World Education Games
2012	• Released the first stage of the Arabic language version of Mathletics • Launched direct sales of Mathletics to government schools in the US
2013	• Completed the transition to the new platforms for Mathletics, Spellodrome and the World Education Games • Commenced IntoScience pilot program • Launched Mathletics application for iPad and Android tablets
2014	• Exceeded 1 million Mathletics application downloads by 30 April 2014 • Expanded IntoScience pilot program into a full launch in Australia for Grades 7 and 8 • Listed on the ASX on 9 July 2014
2015	• Acquired a minority interest in Desmos Inc., a US-based graphic calculator business for US$5 million • Acquired a 23.07% interest in Learnosity Holdings Limited (Learnosity), a provider of SaaS assessment tools based in Dublin, Ireland for US$19.4 million
2016	• Acquired a further 16.93% interest in Learnosity for A$20.2 million, taking the Company's total shareholding to 40%
2017	• Ceased actively selling IntoScience products from February 2017 • Divested its minority interest in Desmos Inc.
2018	• Disposed of its 40% shareholding in Learnosity to Battery Ventures for A$25 million

11 Excludes the 200,000 licenses relating to the NME contract in the Middle East announced on 23 June 2020.

3PL – history	
Year	**Key development**
2019	• Completed the migration of Mathletics from Flash to HTML • Launched Readiwriter Spelling in November 2019
2020	• Launched Mathletics in Spanish in May 2020 • Secured a US$10 million agreement with a National Ministry of Education in the Middle East (NME contract)

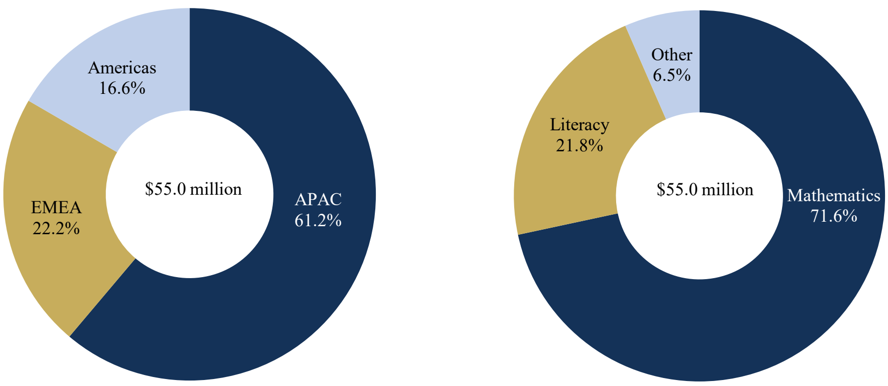
Current operations

55 3PL operates from a North Sydney head office and employs over 250 educators, engineers, product designers and other personnel around the world. The Company provides SaaS products in numeracy and literacy for school students in grades K-12 across APAC, EMEA and the Americas.

56 A breakdown of 3PL's revenue by geography and product type for the year ended 30 June 2020 (FY20) is set out below:

3PL – FY20 revenue by geography and product type ($m)

Revenue by geography | **Revenue by product type[(1)]**



Note:
1 Other revenue includes STEMscopes, copyright fees, workbook sales, IntoScience and sponsorships.

Product overview

57 3PL primarily offers online education products in mathematics and literacy which are available under a number of key brands including Mathletics, Readiwriter, Reading Eggs, Mathseeds and Word Flyers:

3PL – Products	Mathematics	Literacy
Key owned products	Mathletics	Readiwriter
Key licensed products	Mathseeds	Reading Eggs, WordFlyers, Fast Phonics
Description	• Mathletics is 3PL's flagship product and is currently available in English and Spanish • Mathletics is available for school grades K-12 • Mathseeds focuses on early math development for children aged 3 to 9 • Aligned to meet school curriculum	• Readiwriter is an online spelling and vocabulary program designed by 3PL for children aged 5 to 12 • Reading Eggs is an online literacy product for children aged 5 to 7, with its Reading Eggspress brand focusing on ages 7 to 13. 3PL has exclusive sales agency rights to Reading Eggs products in a number of different countries and regions • WordFlyers is a literacy skill building program for school years 7 to 10 • Fast Phonics is a program designed to boost reading skills quickly for children aged 5 to 10
Geographical footprint	• Mathletics is used in over 12,000 schools in over 100 countries • 3PL has exclusive sales agency rights to distribute Mathseeds products in various countries to B2B customers	• Readiwriter has been tailored for 3PL's core markets • 3PL has exclusive sales agency rights to distribute Reading Eggs (which includes Reading Eggspress and Fast Phonics) and WordFlyers products in various countries to B2B customers
Current total licenses[1]	• 3.2 million	• 1.6 million
1HY21 revenue contribution	• $19.6 million	• $4.0 million

Note:
1 As at 31 December 2020.

58 3PL generates revenue from its products from three key sources:

(a) **licence fees** – 3PL sells licenses for its products to schools and parents on a per student basis, typically for one year. The majority of licence revenue is generated directly from school customers

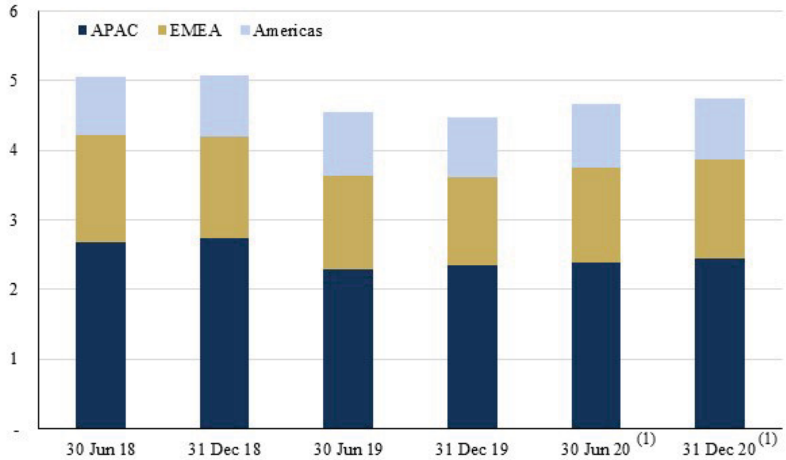
(b) **commission revenue** – 3PL receives commission revenue pursuant to distribution agreements for the sale of third party products (such as Reading Eggs and Mathseeds) to customers

(c) **copyright licence fees** – generated in relation to 3PL's material and resources when they are reproduced by third parties.

Licenses

59 As at 31 December 2020, 3PL had 4.7 million licenses[12] for students in over 17,500 schools located in more than 100 countries. A summary of 3PL's licenses by region over the last six half year periods to 31 December 2020 is set out below:

3PL – licenses
Millions



Note:
1 Excludes the 200,000 licenses relating to the NME contract announced on 23 June 2020.

60 As indicated above, 3PL's total licenses declined during calendar year 2019 (CY19), with modest growth achieved during calendar year 2020 (CY20). 3PL has attributed this decline in CY19 to a number of factors, including sales execution and customer experience issues, as the Company's products were migrated from Flash to HTML (which was completed by the end of FY19) together with the move from a licensing model based on student numbers (rather than by volume bands) which was introduced in FY19. Mathematics licenses (which are primarily delivered under the Mathletics brand) have generally accounted for over 70% of the Company's total licenses.

Financial performance

61 The financial performance of 3PL for the three years ended 30 June 2020 and the half year to 31 December 2020 (1HY21) is set out below. It should be noted that the results for FY20 and 1HY21 have been adjusted to exclude the impact of AASB 16[13]:

12 Excludes the 200,000 licenses relating to the NME contract announced on 23 June 2020.

13 The impact of adopting Australian Accounting Standard AASB 16 – *Leases* (AASB 16) on 3PL's results was an uplift in underlying EBITDA of approximately $1.0 million in FY20 and $0.5 million in 1HY21, as rent expenses were replaced by amortisation charges (of the "right of use" asset) and interest expenses (in respect of the lease liability recognised). We have excluded the uplift in EBITDA resulting from the adoption of AASB 16 as it is driven by an accounting entry that has no impact on the underlying cash flow, profitability or value of 3PL.

3PL – statement of financial performance[1]	FY18 $m	FY19 $m	FY20[2] $m	1HY21[2] $m
Licence fees	43.0	40.2	36.9	18.0
Net commission revenue	8.5	10.9	14.5	5.7
Copyright licence fees and other revenue	3.3	2.7	3.6	0.3
Revenue from contracts with customers[8]	54.8	53.8	55.0	23.9
Operating expenses[3]	(35.8)	(36.1)	(41.4)	(20.1)
Underlying EBITDA[4]	19.0	17.7	13.6	3.8
Depreciation and amortisation	(8.3)	(9.1)	(10.4)	(5.4)
Underlying EBIT[4]	10.7	8.6	3.2	(1.6)
Net interest income / (expense)	(0.6)	0.1	0.1	-
Share of equity accounted profits	0.6	-	-	-
Significant items[5]	(25.3)	-	(0.2)	(1.0)
Profit before tax	(14.6)	8.7	3.1	(2.6)
Income tax expense	(4.1)	(2.8)	(1.4)	1.1
Profit after tax	(18.7)	5.9	1.7	(1.5)
Revenue growth	*Na*	*(1.8%)*	*2.1%*	*3.5%*
EBITDA margin	*34.7%*	*33.0%*	*24.7%*	*15.9%*
Number of licenses at year end (000s)[6]	*5,061*	*4,555*	*4,682*	*4,747*
Exit ARPU[7] ($)	*9.86*	*10.89*	*10.68*	*10.72*

Note:

1 Rounding differences may exist.
2 The results for FY20 and 1HY21 have been adjusted to exclude the impact of AASB 16 which was adopted from 1 July 2019.
3 Net of sublease income and other income.
4 Earnings before interest, tax, depreciation and amortisation (EBITDA), earnings before interest and tax (EBIT).
5 Significant items relate to loss on disposal of investments (FY18) and corporate advisory costs (FY20 and 1HY21).
6 Excludes IntoScience which was no longer actively sold from February 2017.
7 Exit average revenue per user (ARPU) represents the closing annual recurring revenue (ARR) (royalty adjusted) divided by the closing number of licenses.
8 Excludes sub-lease income.
na – not available.

62 In addition to the above, we set out the key operating metrics by segment:

3PL – segment results[1]	FY18 $m	FY19 $m	FY20[2] $m	1HY21[2] $m
Revenue				
APAC	34.4	33.7	33.6	13.4
EMEA	13.0	12.2	12.2	5.6
Americas	7.5	8.0	9.1	4.9
Total	54.8	53.8	55.0	23.9

3PL – segment results[1]	FY18 $m	FY19 $m	FY20[2] $m	1HY21[2] $m
Underlying EBITDA				
APAC	27.0	25.9	25.1	9.4
EMEA	7.5	7.4	6.3	2.3
Americas	1.1	0.4	(0.5)	1.0
EBITDA before corporate and product development costs	35.6	33.7	30.9	12.7
Corporate costs	(13.3)	(12.1)	(13.9)	(6.8)
Product development costs (expensed)	(3.3)	(3.9)	(3.4)	(2.1)
Total underlying EBITDA	19.0	17.7	13.6	3.8
EBITDA margins (before corporate and product development costs)				
APAC	*78.6%*	*76.9%*	*74.7%*	*70.5%*
EMEA	*57.6%*	*60.8%*	*51.6%*	*41.0%*
Americas	*14.7%*	*5.0%*	*(5.5%)*	*21.1%*
Total	*64.9%*	*62.6%*	*56.2%*	*53.5%*
Total licenses[3]				
APAC	*2,678*	*2,287*	*2,384*	*2,439*
EMEA	*1,534*	*1,337*	*1,366*	*1,430*
Americas	*849*	*931*	*932*	*878*
Total	*5,061*	*4,555*	*4,682*	*4,747*

Note:
1 Rounding differences exist.
2 The results for FY20 and 1HY21 have been adjusted to exclude the impact of AASB 16 which was adopted from 1 July 2019.
3 Excludes IntoScience which was no longer actively sold from February 2017.

Historical results

63 As indicated above, 3PL operates across three main segments: APAC, EMEA and the Americas. We set out below commentary in respect of each segment.

APAC

64 The APAC region has exhibited a marginal decline in revenue since FY18, attributable mainly to a decline in the total number of licenses during FY19. This reflected, inter alia:

(a) the decision to no longer market the Spellodrome and IntoScience products (which reduced licenses by around 60,000)

(b) negative sales execution and customer experience issues as the Company's products were migrated from Flash to HTML.

65 Underlying EBITDA (before corporate and product development costs) also declined in the period, due to both the decline in revenue as well as a reduction in EBITDA margins. Expenses for FY20 and 1HY21 were partially impacted by increased variable costs needed to meet the demand due to COVID-19.

66 Revenue in 1HY21 grew 6% to $13.4 million from $12.5 million in1HY20. Revenues for the first half of the financial year are usually lower than the second half as 3PL receives a sizable

portion of its annual revenue at the start of the Australian school year in January and February.

EMEA

67 Revenue and licence numbers declined significantly in the EMEA segment between 30 June 2017 and 30 June 2020, driven in part by Brexit uncertainty. However, licence numbers increased approximately 5% in the six months to 31 December 2020.

68 Underlying EBITDA (before corporate and product development costs) benefited from an improvement in margins in FY19, following a reduction in non-revenue generating staff costs. However, EBITDA margins in FY20 were negatively impacted by $0.4 million variable costs incurred in relation to securing the NME contract, together with adverse foreign exchange movements. EBITDA also reduced slightly in 1HY21.

69 Due to the impact of COVID-19 and periodic government-mandated school lockdowns throughout the first half of FY21, the contractual obligations under the NME agreement in the Middle East were deferred. The Company now expects the delivery and collection of the agreement proceeds to begin in Q4 FY21 and continue through FY22.

Americas

70 Revenue and licence numbers have increased in the Americas segment, despite recent challenging conditions in the US market due to funding uncertainty caused by COVID-19. Notwithstanding the growth in revenue, underlying EBITDA (before corporate and product development costs) declined in FY19 and FY20, primarily reflecting increased investment in sales and marketing staff as the Company continues to pursue growth in the Americas region. However, EBITDA in 1HY21 improved by approximately 9% compared to the prior corresponding period.

FY21 outlook

71 On 22 February 2021, 3PL provided the following guidance as part of its 1HY21 results presentation, and reaffirmed this in its ASX announcement on 12 April 2021:

"• ***APAC:*** *We expect single digit license revenue and EBITDA growth.*

- ***EMEA:*** *We expect low single digit license and EBITDA growth in British Pounds. The timing of the delivery of the* [NME agreement] *is uncertain due to the impacts of COVID-19, however the expected delivery of this agreement will generate significant growth to revenue and EBITDA.*

- ***Americas:*** *We expect continued market uncertainty in the USA and double digit revenue growth driving significant EBITDA growth in US dollars for the full year.*

- *Revenue and EBITDA in EMEA and Americas segments could be significantly enhanced with the closure of one of many enterprise opportunities in the funnel.*

- *Despite the improvements we have made across the group in local currencies, we expect foreign exchange movements since the prior year to dampen revenue and EBITDA performance.*

- *Our cost base is now set, our mix of cost is optimised and we expect to deliver revenue growth with increased operating leverage."*

Cash flow

72 We set out below a summary of the historical free cash flows generated by the 3PL business (before net interest costs and corporate taxes). As shown below, free cash flow has been relatively modest due to, inter-alia, the level of product development costs. Further, the majority of cash flow is generated in the second half of the financial year (due to the start of the school year in late January / early February in Australia and NZ) which is the main reason for negative free cash flow in 1HY21:

3PL – free cash flow

	FY18 $m	FY19 $m	FY20 $m	1HY21 $m
Underlying EBITDA	19.0	17.7	13.6[1]	3.8[1]
Foreign exchange and other non-cash items	(0.4)	(0.9)	(0.5)	(0.2)
Change in working capital	(3.7)	(3.2)	0.3	(8.6)
Capitalised product development costs	(9.8)	(9.0)	(10.6)	(5.8)
Purchase of fixed assets	(0.3)	(0.4)	(0.1)	(0.1)
Free cash flow[2]	4.8	4.2	2.7	(10.9)

Note:
1 Adjusted to exclude the impact of AASB 16.
2 Before net interest and tax.

Financial position

73 The financial position of 3PL as at 30 June 2020 and 31 December 2020 is set out below:

3PL – statement of financial position[1]

	30 Jun 20 $m	31 Dec 20 $m
Debtors and prepayments	11.7	14.6
Current contract liabilities	(23.9)	(20.4)
Creditors, accruals and provisions	(10.1)	(8.0)
Net working capital	(22.3)	(13.8)
Plant and equipment	0.7	0.5
Intangible assets / goodwill	20.9	22.2
Deferred tax assets (net)	4.8	5.9
Other non-current assets	1.2	1.1
Right of use assets (net)	(2.0)	(1.8)
Non-current contract liabilities	(3.3)	(2.4)
Provisions (non-current)	(0.7)	(0.8)
Total funds employed	(0.8)	10.8
Cash and cash equivalents	27.1	15.0
Interest bearing liabilities	-	-
Net cash	27.1	15.0
Net assets attributable to 3PL shareholders	26.3	25.8

Note:
1 Rounding differences may exist.

Net working capital

74 Consistent with annual subscription based companies generally, 3PL operates with a negative working capital position, which primarily reflects the receipt of cash in advance for its products and services which are typically delivered over a one year period.

Intangible assets

75 The carrying value of 3PL's intangible assets is set out below:

3PL – intangible assets	30 Jun 20 $m	31 Dec 20 $m
Product development	14.7	15.4
Goodwill	4.3	4.4
Software	1.5	1.9
Customer contracts	0.2	0.4
Patents and trademarks	0.1	0.1
Total intangible assets	20.9	22.2

76 The majority of 3PL's intangible assets relate to capitalised product development costs and goodwill from historical acquisitions. Goodwill is tested annually for impairment using the value in use method. As at 30 June 2020, post-tax discount rates of 10.9% and 10.8% were used for the APAC and EMEA segments respectively.

77 A significant proportion (around 75%) of total annual product development costs are capitalised, with the balance of around 25% expensed through the profit and loss account. Set out below is a breakdown of product development costs for the three years to FY20 and the half year to 31 December 2020:

3PL – product development costs	FY18 $m	FY19 $m	FY20 $m	1HY21 $m
Expensed	3.3	3.9	3.4	2.1
Capitalised	9.7	8.9	10.6	5.8
Total product development cash costs	13.0	12.8	14.0	7.9
Percentage of total costs expensed	*25.4%*	*30.5%*[1]	*24.3%*	*26.6%*
Breakdown of expenditure by asset				
Mathletics	8.9	8.7	9.2	4.5
Literacy	1.9	2.0	2.3	1.7
Digital Systems	2.2	2.1	2.5	1.7
Total product development cash costs	13.0	12.8	14.0	7.9

Note:

1 In FY19, 3PL expensed a higher proportion of product development costs for early stage research and development investment in Mathletics.

78 3PL has invested heavily in product development in recent periods, having finalised the migration of Mathletics from Flash to HTML in FY19 and completed the launch of its own literacy brand and product, Readiwriter Spelling, in FY20. In addition, 3PL further enhanced its Mathletics product offering in FY20 with the launch of a Spanish version, more than

700 new problem solving and reasoning activities and over 30,000 new understanding, practicing and fluency activities.

Net cash

79 As at 31 December 2021, 3PL had cash of $15.0 million and no borrowings. 3PL also maintains a $10 million bank facility (and $2 million bank guarantee facility) which expires on 30 June 2021.

Share capital and performance

80 As at 12 April 2021, 3PL had 139.5 million fully paid ordinary shares on issue. In addition the Company had approximately 0.936 million performance rights on issue, and 3.6 million options on issue exercisable at $1.75:

3PL – options on issue

Number	Exercise price $	Grant date	Expiry date
691,562	1.75	23 Aug 18	23 Aug 22
2,867,647	1.75	09 Nov 18	23 Aug 22
3,559,209			

Significant shareholders

81 As at 12 April 2021 there were six substantial shareholders in 3PL, detailed as follows:

3PL – substantial shareholders

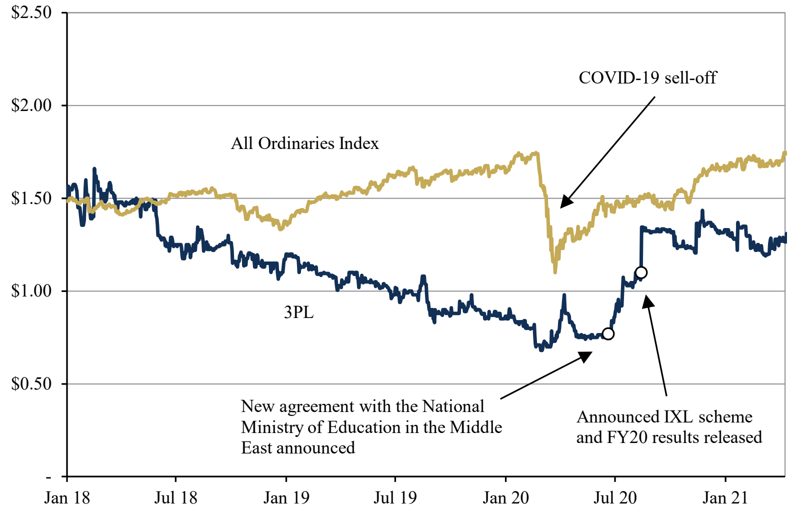
	Shares held (million)	% interest
Viburnum Funds Pty Ltd[(1)]	34.9	25.0
National Nominees Ltd ACF Australian Ethical Investment Ltd	21.2	15.2
Schroder Investment Management Australia Ltd	13.8	9.9
Sterling Equity Pty Ltd	11.1	7.9
FIL Limited	9.7	6.9
Jencay Capital Pty Ltd	7.4	5.3

Note:
1 Viburnum Funds is an active ownership investment manager.

Share price performance

82 The following chart illustrates the movement in the share price of 3PL from 1 January 2018 to 9 April 2021:

3PL – share price history(1)
1 January 2018 to 9 April 2021



Note:
1 Based on closing prices. The All Ordinaries Index has been rebased to 3PL's last traded price on 1 January 2018, being $1.49.
Source: Bloomberg.

83 Since 1 January 2018, 3PL has generally underperformed relative to the All Ordinaries Index. However, more recently the 3PL share price has been influenced by the following material events:

(a) the share price of 3PL increased significantly on 23 June 2020 following the announcement of the NME contract (which is now expected to deliver US$10 million revenue across FY21 and FY22)

(b) on 14 August 2020, 3PL announced that it and IXL Australia Pty Ltd (IXL) (a wholly owned subsidiary of IXL Learning, Inc.) had signed a Scheme Implementation Agreement (the Agreement) under which IXL would acquire 100% of the issued shares in 3PL for an offer consideration of $1.35 in cash per share. The offer consideration under the Scheme represented a 32.3% premium above the one-month volume weighted average market price (VWAP) of 3PL shares up to 13 August 2020

(c) on 20 November 2020 3PL shareholders voted against the Scheme, following the receipt of a non-binding indicative proposal from Think and Learn Pvt Ltd (Think) at a price of $1.50 cash per share. However, no formal offer or proposal from Think has subsequently been received

(d) on 20 November 2020, a merger proposal was also received from Blake

(e) a non-binding term sheet to merge with Blake was announced on 21 January 2021, prior to binding terms being agreed on 9 April 2021.

Liquidity in 3PL shares

84 The liquidity in 3PL shares based on trading on the ASX over the 12 month period prior to 9 April 2021 is set out below:

3PL – liquidity in shares[1]						
			No of shares traded	WANOS[2] outstanding	Implied level of liquidity	
Period	Start date	End date	000	000	Period[3] %	Annual[4] %
1 month	10 Mar 21	9 Apr 21	513	139,484	0.4	4.4
3 months	10 Jan 21	9 Apr 21	6,272	139,484	4.5	18.0
6 months	10 Oct 20	9 Apr 21	24,242	139,484	17.4	34.8
1 year	10 Apr 20	9 Apr 21	77,884	139,484	55.8	55.8

85 As indicated above, despite the significant proportion of shares which are closely held by a number of the Company's substantial shareholders, 3PL shares are relatively liquid over the six month and 12 month periods, although liquidity has been lower in the one and three month periods.

IV Profile of Blake

Overview

86 Blake is a privately owned, Australian-based provider of online education products focused on pre-K to year 10 students. The Company, which was founded in 2009, offers a broad range of literacy and numeracy products including its flagship Reading Eggs literacy product and its Mathseeds numeracy product to customers in over 100 countries. Blake's revenue is derived from two main sources:

(a) the direct-to-consumer market (B2C) – which reflects direct sales to consumers (e.g. parents of school children) who pay annual or monthly subscription fees for use of Blake's software products online

(b) licence income – which is received from third parties (mainly 3PL in Australia and Edmentum Inc. (Edmentum) in the US) who sell directly into the school market (B2B).

87 3PL and Blake have a long standing relationship pre dating the initial public offering of 3PL in 2014 when an associate of Blake was a significant shareholder of 3PL. Since then 3PL has distributed Reading Eggs, Mathseeds and WordFlyers to the school market in key geographies including Australia and the UK.

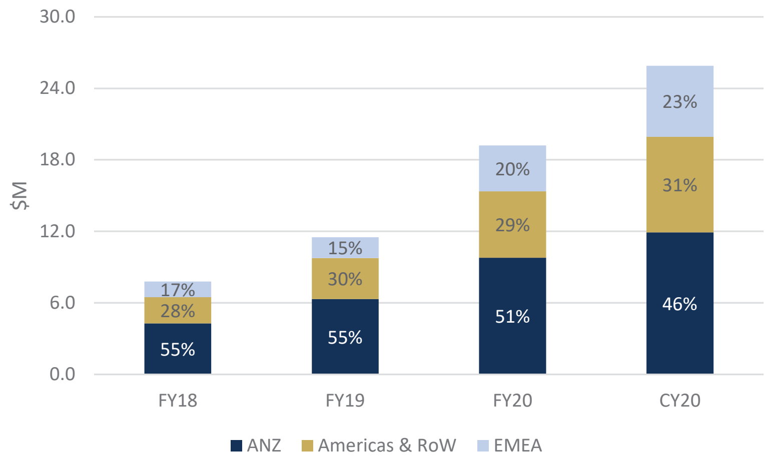
Current operations

88 Blake is part of the Pascal Press Group, one of Australia's leading independent educational publishing groups. Blake operates from a Sydney head office and has additional offices in China, the US and the UK with a focus on its B2C offering. Blake is actively expanding its B2C offerings to other regions, currently focusing on the United Arab Emirates, South Africa, Japan, Singapore and other select markets in southeast Asia.

89 Blake's products are marketed directly to parents in the B2C channel and distributed through partners such as 3PL and Edmentum in the schools B2B channel. Blake has distribution partners in Australia, NZ, the US, the UK, South Africa, Canada and most of Asia.

90 A breakdown of Blake's B2C revenue by geography for the three financial years ended 30 June 2020 (FY20) and calendar year 2020 (CY20) is set out below:

Blake – B2C revenue by geography ($m)[1]



Note:
1 Based on Blake's unaudited management accounts.

Product overview

91 Blake primarily offers online education products in mathematics and literacy which are available under a number of key brands including Reading Eggs, Mathseeds and Word Flyers:

Blake – products

	Mathematics	Literacy
Key products	Mathseeds	Reading eggs; WordFlyers; Fast Phonics
Description	• Mathseeds focuses on early math development with structured lessons and other activities, designed for children aged 3 to 9 • Aligned to meet school curriculum	• Reading Eggs is an online literacy product for children aged 5 to 7, with its Reading Eggspress brand focusing on ages 7 to 13 and Reading Eggs Junior designed for children aged 2 to 4 • WordFlyers is a literacy skill building program for school years 7 to 10 • Fast Phonics is a program designed to boost reading skills quickly for children aged 5 to 10
Current total licenses[1]	1,287,824 (for the B2C business plus student licenses issued under the distribution arrangement with Edmentum)[2].	
CY20 revenue[1]	$40.4 million	

Note:
1 As at 31 December 2020.
2 This excludes student licenses issued under the distribution agreement with 3PL.

Financial performance

92 The financial performance of Blake for the three years ended 30 June 2020 (FY20), and for the 12 months to 31 December 2020 (CY20), is set out below:

Blake – financial performance	FY18 A$000	FY19 A$000	FY20 A$000	CY20 A$000
Sales				
Net product sales	10,537	13,900	20,345	27,575
License income	8,505	9,964	11,422	12,768
Other	16	38	102	104
Revenue	19,058	23,901	31,869	40,447
Cost of sales[(1)]	(1,778)	(2,277)	(1,411)	(1,489)
Gross profit[(1)]	17,280	21,624	30,459	38,958
Other revenue (expenses)	(5)	50	151	(19)
Total operating income	17,275	21,674	30,610	38,940
Expenses				
Sales and marketing	(5,202)	(6,667)	(10,125)	(13,665)
Publishing	(8,212)	(7,981)	(9,719)	(9,973)
Admin / Finance / Technology	(3,378)	(3,047)	(3,081)	(3,357)
Total expenses	(16,792)	(17,695)	(22,925)	(26,995)
EBIT	**483**	**3,979**	**7,685**	**11,945**
Subscriber numbers at end of period (000s)				
B2C subscribers on monthly contracts	34	64	167	168
B2C subscribers on annual contracts	93	93	133	151
Total B2C subscribers	127	157	300	319

Note:

1 Cost of sales and gross margin is as reported by Blake management and may not be consistent with the accounting treatment used by other software businesses.

93 In relation to the above results it should be noted that:

(a) the consolidated income statements (and balance sheets) have been compiled based on the unaudited management accounts of Blake and its subsidiaries. However, the historical results of Blake have been subject to detailed financial due diligence by a major international accounting firm

(b) annual and monthly B2C subscription revenue is recognised upfront at time of invoicing (net of commission paid to the Apple App Store and Android App Store). Licensing revenue earned from B2B distributors is recognised at the time of invoicing on a net basis, reflecting the amount directly paid to Blake and not the amount received from the school / district end-customer

(c) Blake expenses all product development expenditure. In contrast, 3PL capitalises a significant proportion of its product development costs which are then amortised over a three year period

(d) the effect of the above, is that Blake's reported results approximate the level of "cash" profit generated by the business

(e) the surge in subscriber numbers and profitability in recent periods principally occurred from March 2020 and coincided with the COVID-19 pandemic (which accelerated demand for online based education services). However, as noted in Section VIII, a large number of these new subscribers are on annual contracts and are yet to reach their renewal date. In our opinion, it is likely that annual subscriber numbers will fall as these annual contracts come up for renewal.

Financial position

94 The financial position of Blake as at 31 December 2020 is set out below:

Blake – financial position (as at 31 December 2020)	Actual A$m	Adjustments A$m	Adjusted[1] A$m
Current assets			
Cash and cash equivalents	13.8	(12.8)	1.0
Trade and other receivables	2.8		2.8
Other	0.1		0.1
Total current assets	16.7	(12.8)	3.9
Non-current assets			
Plant and equipment	0.1		0.1
Intangibles	1.2		1.2
Other	1.1		1.1
Total non-current assets	2.4	-	2.4
Total assets	19.1	(12.8)	6.3
Current liabilities			
Trade and other payables	1.0		1.0
Other	1.4		1.4
Total current liabilities	2.4		2.4
Non-current liabilities			
Related party loans	5.2	(5.2)	-
Total liabilities	7.5	(5.2)	2.4
Net assets	11.6	(7.6)	3.9

Note:
1 Adjusted for estimated transaction close adjustments.
Source: 3PL investor presentation, 12 April 2021.

95 As noted in Section I, the purchase price for Blake is on a cash and debt free basis and assumes at completion a Blake balance sheet with an appropriate level of working capital (including a minimum cash balance of A$1.0 million). Accordingly, the adjusted balance sheet above reflects a cash balance of A$1.0 million only.

V Industry overview

Overview

96 3PL and Blake operate within the online K-12 segment of the global education industry, providing educational software programs that are designed for school-aged students. Their cloud-based SaaS products specialise in teaching mathematics, spelling and literacy, and are marketed to schools and parents of school-aged students.

Global education industry

97 Whilst education systems are structured differently from country to country, each system is generally divided into four levels of education, being pre-school, primary and secondary school (together referred to as "K-12"[14]), and tertiary education. In most countries around the world, completion of primary school and partial completion of secondary school is compulsory, with most developed nations requiring the enrolment of children in school until the age of 16[15]. The K-12 education segment is therefore a large and well-established part of the global education industry, and comprises both government and independently[16] funded institutions.

K-12 education expenditure

98 K-12 education expenditure represents approximately 69% of all OECD educational expenditure, or 3.4% of the gross domestic product (GDP) for OECD countries[17]. The level of educational expenditure in each country varies based on a number of factors, including the country's school age population, number of enrolments and level of teachers' salaries. The table below shows the latest available data for expenditure per student on primary and secondary education, in addition to K-12 expenditure as a percentage of total GDP for each OECD country:

---

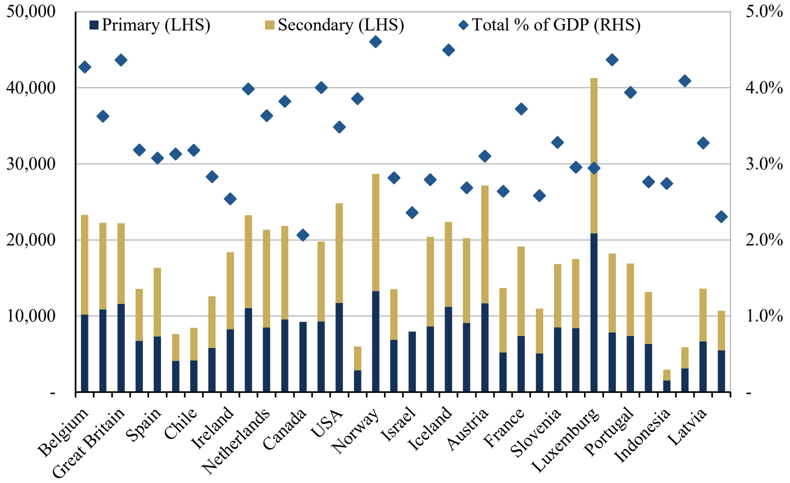
14 Rather than split K-12 into primary (grades K-6 or K-7) and secondary (grades 6-12 or 7-12), some education systems split the segment into primary (grades K-5), middle (grades 6-8), and secondary school (grades 9-12).

15 Source: Organisation for Economic Co-Operation and Development (OECD) (2019): *Education at a Glance 2019: OECD Indicators* report.

16 Independent schools may also receive funding from governments.

17 Source: OECD (2019): *Education at a Glance 2019: OECD Indicators* report.

Annual K-12 expenditure
$US per student and % of GDP (year ended 31 December 2015)



Source: OECD (2020) *Education spending (indicator) data* (https://data.oecd.org/eduresource/education-spending.htm) accessed 19 August 2020.

99 As at 2016, the average cumulative expenditure per student from the age of 6 to 15 years old across OECD countries was approximately US$93,000[18]. From the data collected for OECD countries in 2015, the average annual expenditure per primary and secondary student was US$8,168 and US$9,359 respectively[19]. Annual education expenditure has increased over time across OECD countries, with expenditure per student in non-tertiary educational institutions increasing by 5% on average from 2010 to 2016.

Markets in which 3PL and Blake operate

100 3PL and Blake primarily operate in Australia, NZ, the UK and Europe, the US and Canada[20]. The market for K-12 education in these countries is large, due to the size of the student population (which totals approximately 75 million students), above average expenditure on educational institutions relative to other OECD countries and high enrolment rates. A summary of the size, expenditure and enrolment rates for key markets is provided in the table below:

18 Source: OECD (2019): *Education at a Glance 2019: OECD Indicators* report.

19 We note that the data reported by the OECD for 2016 group secondary school expenditure with post-secondary non-tertiary expenditure, therefore we have referred to 2015 data, which report primary and secondary school expenditure on a standalone basis.

20 The Middle East is expected to become more significant to 3PL's operations following the award of the NME contract on 23 June 2020.

Markets in which 3PL operates	Australia	NZ	UK	US	Canada	OECD average
Macroeconomic factors (2019)[1]						
GDP ($US billion)	1,393	207	2,827	21,428	1,736	n/a
GDP per capita (US$)	54,907	42,084	42,300	65,281	46,195	n/a
Population (m)	25.4	4.9	66.8	328.2	37.6	n/a
K-12 student population (m)[2]	3.9	0.8	8.9	56.6	4.9	n/a
Enrolment (2019)[1]						
Enrolment rate primary	96%	99%	99%	95%	100%	n/a
Enrolment rate secondary	92%	97%	97%	92%	100%	n/a
Expenditure per student (2015)[3]						
K-12 education expenditure (US$)	21,849	18,232	22,199	24,811	9,249[4]	17,007
K-12 education expenditure / GDP	3.8%	4.4%	4.4%	3.5%	2.1%[4]	3.3%

Note:
1 Source: United Nations Educational, Scientific and Cultural Organization (UNESCO) Institute for Statistics, accessed through The World Bank (data.worldbank.org) August 2020.
2 Source: Australian Bureau of Statistics (ABS) 4221.0 Schools report for Australia data, School rolls report for NZ data, School Consensus report for UK data, EducationData.org for US data, Statista for Canada data. K-12 student population as of 2018 for Canada, being the latest available data.
3 Source: OECD (2020) *Education spending (indicator) data* (data.oecd.org/eduresource/education-spending.htm) accessed 19 August 2020.
4 Expenditure per student for Canada is for primary school only.
n/a – not applicable.

Online K-12 education market

101 The online K-12 education market comprises products and services that distribute educational content and related products such as content management and delivery platforms to K-12 students and teachers of K-12 students.

102 The transition from printed to digital K-12 educational resources has increased rapidly in recent years, with traditional classroom instruction being progressively supplemented by online and technology based education. This transition has accelerated more recently with the onset of the COVID-19 pandemic, as many countries around the world have increased efforts to utilise educational technologies to provide remote learning opportunities to students while schools are closed.

103 For developed nations where incomes and internet penetration rates are high, the most common method of delivering remote learning is through online platforms and televised broadcasting. Those countries which typically lack wide-spread connectivity instead rely on alternative remote learning delivery methods such as radio broadcasting.

Industry growth drivers

104 Whilst growth in the broader K-12 education segment primarily relies on public and private funding received as well as movements in K-12 student populations, online K-12 education growth is driven by additional factors, including:

(a) broadband penetration and bandwidth availability for schools and households

(b) the proliferation of computers and mobile devices such as tablets and phones; and

(c) the quality and uptake of online educational resources.

Internet penetration and proliferation of devices

105 High speed internet is increasingly being viewed as an essential utility in most countries around the world, with governments rolling out programs to increase access to broadband services. Across OECD countries, the proportion of broadband connected households has grown substantially over the past decade, with the percentage of OECD households (by country average) with access to broadband increasing from 57.3% to 87.0% over the 10 years to 2019[21].

106 In addition to rising internet penetration rates, the general availability of technologies used to access the internet has also been increasing around the world. The average percentage of households with basic access to a computer in OECD countries increased from 63.9% in 2007 to 78.8% in 2017[21]. Access to mobile devices has increased at a much faster rate, with the global penetration rate of mobile cellular subscriptions increasing from 50.3% in 2007 to over 100% in 2017[22].

Availability and uptake of online resources

107 It has become increasingly important for students around the world to be able to access education from any location and at any time. Access to high quality resources and tools for collaboration helps drive up the rate of adoption of online education, as it makes it easier for teachers and parents of K-12 students to facilitate and deliver content. Widespread access to online education is more prevalent in high income countries, where government education expenditure is above the global average. There also tends to be better quality tools and platforms available in these countries, such as knowledge sharing portals, document and course management systems, and video conferencing capabilities. A summary of the leading government developed learning platforms is shown in the table below:

National learning platforms and tools

Country	Platform	Description
UK	DfE Online Education Resources	• The UK Government has brought together an initial list of online educational resources to help children to learn at home, offering a wide range of support and resources for pupils of all ages
Canada	Curriculum Nova Scotia	• The official platform of Nova Scotia containing resources aligned with the curriculum in English and French for K-12, organised by level and subject area
	LearnAlberta.ca	• More than 4,000 digital resources in English and French aligned with Alberta's K-12 curriculum
	Quebec Open school	• Quebec's official online learning platform for K-12 education levels, including resources in English and French divided by subject area

21 Source: OECD (2020) *ICT Access and Usage by Households and Individuals)* data (stats.oecd.org) accessed 24 August 2020.

22 Source: UNESCO Institute for Statistics (2020), *Mobile cellular subscriptions (per 100 people)* data accessed through The World Bank (data.worldbank.org) August 2020.

National learning platforms and tools		
Country	**Platform**	**Description**
NZ	Learning from home	• Official platform of the NZ Ministry of Education for distance learning, offering resources by subject area in English
	Ki te Ao Mārama	• Learning resources in Māori from pre-primary up to secondary levels
Singapore	Singapore Student Learning Space	• E-learning portal that provides online learning material for students and supports teachers
Japan	Future Classroom	• A collection of platforms pointing users to a variety of useful sites for teaching and learning
	MEXT	• A platform to support e-learning by age, level of education and subject
Korea	Onschool	• A portal providing learning materials for students and teachers for K-12 education levels
United Arab Emirates	Edushare	• An electronic depository of content and videos, easily accessible to teachers
	Learning Mgt System	• Allows students to access content for learning and communicate with teachers
	MOE Library	• A platform allowing teachers and students to view and interact electronically and to download electronic copies of books

Source: UNESCO website (en.unesco.org) accessed August 2020.

108 The level of market maturity for online K-12 education varies across different regions, ranging from countries that are yet to develop online resources for students and teachers, to well-established publicly available platforms such as those outlined in the table above. Private sector online education providers are able to play a role in both markets, by providing online learning systems in regions where there are few or no public resources available, or through partnerships with governments to deliver their material through incumbent platforms.

VI Valuation methodology

Valuation approaches

109 RG 111 outlines the appropriate methodologies that a valuer should consider when valuing assets or securities for the purposes of, amongst other things, share buy-backs, selective capital reductions, schemes of arrangement, takeovers and prospectuses. These include:

(a) the discounted cash flow (DCF) methodology

(b) the application of earnings multiples appropriate to the businesses or industries in which the company or its profit centres are engaged, to the estimated future maintainable earnings or cash flows of the company, added to the estimated realisable value of any surplus assets

(c) the amount that would be available for distribution to shareholders in an orderly realisation of assets

(d) the quoted price of listed securities, when there is a liquid and active market and allowing for the fact that the quoted market price may not reflect their value on a 100% controlling interest basis

(e) any recent genuine offers received by the target for any business units or assets as a basis for valuation of those business units or assets.

110 Under the DCF methodology the value of the business is equal to the net present value (NPV) of the estimated future cash flows including a terminal value. In order to arrive at the NPV the future cash flows are discounted using a discount rate which reflects the risks associated with the cash flow stream.

111 Methodologies using capitalisation multiples of earnings or cash flows are commonly applied when valuing businesses where a future "maintainable" earnings stream can be established with a degree of confidence. Generally, this applies in circumstances where the business is relatively mature, has a proven track record and expectations of future profitability and has relatively steady growth prospects. Such a methodology is generally not applicable where a business is in start-up phase, has a finite life, or is likely to experience a significant change in growth prospects and risks in the future.

112 Capitalisation multiples can be applied to either estimates of future maintainable operating cash flow, EBITDA, earnings before interest, tax and amortisation, EBIT, or net profit after tax. The appropriate multiple to be applied to such earnings is usually derived from stock market trading in shares in comparable companies which provide some guidance as to value and from precedent transactions within the industry. The multiples derived from these sources need to be reviewed in the context of the differing profiles and growth prospects between the company being valued and those considered comparable. When valuing controlling interests in a business an adjustment is also required to incorporate a premium for control. The earnings from any non-trading or surplus assets are excluded from the estimate of the maintainable earnings and the value of such assets is separately added to the value of the business in order to derive the total value of the company.

113 An asset based methodology is applicable in circumstances where neither a capitalisation of earnings nor a DCF methodology is appropriate. It can also be applied where a business is no

longer a going concern or where an orderly realisation of assets and distribution of the proceeds is proposed. Using this methodology, the value of the net assets of the company are adjusted for the time, cost and taxation consequences of realising the company's assets.

Methodologies selected

Value of 3PL shares before Merger

114 We have adopted the DCF approach as our primary valuation methodology to assess the value of the shares in 3PL. In our opinion this methodology is appropriate because:

(a) 3PL has reliable recurring revenue streams in the form of monthly or annual licence fees for continued access to the software

(b) the combination of an "asset light" business model and high gross margins means that software companies such as 3PL have significant operating leverage, as profitability can increase materially as a result of higher sales. This arises due to the high gross margin on additional revenue (as the incremental costs to provide cloud based software to new customers are generally low).

115 We have also cross-checked our valuation by reference to multiples of revenue and the 3PL share price prior to the announcement of the previous proposed scheme with IXL[23] (adjusted for a control premium).

Value of Blake before Merger

116 Consistent with 3PL, we have also valued Blake prior to the Merger based on the DCF and multiple of revenue approaches.

Value of 3PL shares after implementation of the Merger

117 The value of 3PL's shares following implementation of the Merger has been derived by aggregating:

(a) the standalone value of 3PL (i.e. prior to implementation of the Merger)

(b) the standalone value of Blake (i.e. prior to implementation of the Merger)

(c) the value of expected cost synergies arising from the Merger of 3PL and Blake.

118 The value of expected synergy benefits (net of expected implementation costs) has been derived using the DCF method in order to allow for the quantum and timing of realisation.

119 Consistent with the requirements of RG 111, the value of 3PL shares after implementation of the Merger has been assessed on a **minority interest basis**.

23 3PL shareholders rejected the proposed scheme with IXL at a general meeting held on 20 November 2020.

VII Valuation of 3PL shares (prior to Merger)

DCF approach

120 As set out in Section VI, we have adopted the DCF approach as our primary valuation methodology to assess the value of the shares in 3PL.

121 Under the DCF methodology the value of the 3PL business (on a cash and debt free basis) is equal to the NPV of the estimated future cash flows including a terminal value. In order to arrive at the NPV the future cash flows are discounted using a discount rate which reflects the risks associated with the cash flow stream.

122 Our DCF valuation is based on free cash flow projections derived by LEA having regard to, inter-alia, 3PL management budgets and forecasts and related discussions with 3PL management.

123 Whilst LEA believes the assumptions underlying the cash flow projections adopted for valuation purposes are reasonable and appropriate, it should be noted in respect of these projections that:

(a) the major assumptions underlying the projections were formulated in the context of current economic, financial and other conditions, including the potential impact of COVID-19 on the business

(b) the projections and the underlying assumptions have not been reviewed by an investigating accountant for reasonableness or accuracy of compilation and application of assumptions

(c) future profits and cash flows are inherently uncertain

(d) by their nature, the projections do not take into account the operational flexibility available to management to react to changes in the market conditions in which 3PL operates

(e) the achievability of the projections is not warranted or guaranteed by 3PL or LEA, as they are predictions of future events that cannot be assured and are necessarily based on assumptions, many of which are beyond the control of 3PL and its management; and

(f) actual results may be significantly more or less favourable.

124 Free cash flow represents the operating cash flows on an ungeared basis (i.e. before interest) less taxation payments[24], capital expenditure and working capital requirements. The free cash flow on an ungeared basis is adopted to enable the value of the business to be determined irrespective of the level of debt funding employed.

125 We have adopted a valuation date of 31 March 2021. The free cash flow projections cover the period to 30 June 2030 (Forecast Period), together with the estimated capital value of the business at the end of that period.

---

24 Also calculated on an ungeared basis.

126 As the detailed cash flow projections are commercially sensitive, they have not been set out in our report. However, we set out below information on the major assumptions underlying the free cash flow projections.

Key assumptions

127 Cloud based software businesses such as 3PL have a number of positive investment characteristics, including:

(a) the ability to distribute their software to customers easily through the internet (without having to manufacture physical products such as CD-ROMs)

(b) efficiencies associated with offering standardised software to all users (e.g. substantially lower sales lead times and easier updates) compared to software which is required to be tailored to each customer

(c) the ability to provide real time software updates to all users at the same time

(d) high gross margins due to the above

(e) reliable recurring revenue streams in the form of monthly or annual licence fees for continued access to the software.

128 The combination of an "asset light" business model and high gross margins means that software companies such as 3PL have significant operating leverage, as profitability can increase materially as a result of higher sales. This arises due to the high gross margin on additional revenue (as the incremental costs to provide cloud based software to new customers are generally low).

129 It follows therefore that the value of 3PL is particularly sensitive to revenue growth and incremental profit margins (both of which are discussed below).

Sales growth rates

130 As shown below, revenue in the APAC and EMEA segments has declined in recent years, while revenue in the Americas segment has exhibited some (albeit modest) revenue growth:

3PL – revenue by segment

	FY18 Actual A$m	FY19 Actual A$m	FY20 Actual A$m	1HY21 Actual A$m
APAC	34.4	33.7	33.6	13.4
EMEA	13.0	12.2	12.2	5.6
Americas	7.5	8.0	9.1	4.9
Total revenue from contracts with customers	54.8	53.8	55.0	23.9

131 Further, the revenues shown above are stated in Australian dollars. Principally due to the decline in the respective AUD exchange rate over the period, revenue in constant currency terms has either been stable (Americas segment) or declined slightly (EMEA segment):

3PL – revenue from contracts with customers

		FY18	FY19	FY20	1HY21
EMEA	(£m)	7.5	6.7	6.3	3.0
Americas	(US$m)	5.8	5.6	5.9	3.4

APAC segment

132 The revenue performance in the APAC segment in recent years has been adversely impacted by, inter-alia:

(a) sales execution issues and customer experience issues (which have now been rectified) as 3PL migrated from the Flash to HTML platform (which was completed in FY19)

(b) the decision to discontinue the Spellodrome and IntoScience software programs in FY19 (which had around 60,000 licenses).

133 Notwithstanding this recent performance, some future revenue growth is expected to arise from:

(a) increased penetration of the Australasian market (management estimate that the Company's products are used in approximately 30% of Australian secondary schools and 60% of Australian primary schools)

(b) revenue from 3PL's new Readiwriter literacy offering, Readiwriter Spelling (which was launched in November 2019)

(c) sales into the Asian market (which is currently not a significant revenue contributor).

134 In 3PL's 1HY21 results presentation (on 22 February 2021), management advised that they expect low single digit revenue and EBITDA growth in FY21 in the APAC segment.

135 Given recent performance and the size of 3PL's existing market share in Australia, we have assumed that future revenue growth in the APAC segment will be modest. For the purposes of our Base Case forecasts we have therefore adopted revenue growth in the APAC segment of 3% per annum over the Forecast Period (and have considered the sensitivity of value to this assumption).

EMEA segment

136 The large majority of revenue in the EMEA segment is derived from the UK. The UK market is highly competitive and churn rates are higher than in the APAC segment. UK revenue in the period from FY18 to 1HY19 was negatively impacted by the uncertainty created by Brexit and school funding reductions. However, performance improved significantly in 2HY20, with the launch of Readiwriter Spelling contributing to the improved performance.

137 Revenue in FY18 was also adversely impacted by the consolidation of two educational bodies, resulting in the non-renewal of the Abu Dhabi Education Council contract.

138 However, revenue in 2HY21 and FY22 is expected to increase significantly following the commencement of a one-year contract worth approximately US$10 million with a NME in the Middle East[25]. Given the materiality of this NME contract, we have separately considered the value of this contract in paragraphs 164 to 174 below.

25 The NME contract was announced to the ASX on 23 June 2020 and was due to commence during early FY21, but has been delayed due to the ongoing impacts of COVID-19.

139 Excluding the NME contract, revenue growth in the EMEA segment is expected to be in the low single digits in British pounds for FY21, but flat in Australian dollars, reflecting adverse currency movements throughout the year. Growth beyond FY21 is expected to be modest, but higher than in the APAC region. This reflects, inter-alia, the larger size of the target market relative to 3PL's existing revenues in the region.

140 Excluding the NME contract, our Base Case forecasts assume that revenue in Australian dollar terms in the EMEA segment will be flat for FY21 before growing at 5% per annum over the remainder of the Forecast Period[26].

Americas segment

141 At the time of 3PL's initial public offering in 2014, the Americas region was expected to be a source of significant revenue and earnings growth. Whilst some growth has been achieved, the Americas segment has significantly underperformed these expectations.

142 3PL's current management have attributed this underperformance to (in part) the premature entry into the US market. In their view, in 2014 the product offering was not well aligned to the US curriculum, the product used old Flash technology, the sales model was inefficient and the Company's marketing effort was not attuned to digital (SaaS) inbound content marketing.

143 Following restructuring over the 2017 to 2019 period, management believe that these issues have been corrected. For example, following the migration to the HTML platform and the related creation of a curriculum content platform, 3PL is now able to more easily localise its product offering[27].

144 Whilst the number of licenses in the Americas segment as at 30 June 2020 was consistent with the number of licenses as at 30 June 2019 (and revenue in USD was higher in FY20) and slightly higher for 1HY21 than for 1HY20, the impact of the COVID-19 pandemic negatively impacted revenue as budget uncertainties at schools delayed purchasing decisions.

145 On 22 February 2021, management stated (in the 1HY21 results presentation) that they expect continued market uncertainty in the US market due to these funding challenges. However, management also noted that 3PL expected double digit revenue growth and significant EBITDA growth in US dollars for the full year, which will be largely offset in Australian dollars given the adverse currency movements during the year.

146 Based on the above and discussions with management, we have adopted (Base Case) revenue growth of 3% in Australian dollar terms in FY21, increasing to 10% per annum over the subsequent five years, before falling to 7.5% per annum over the remainder of the Forecast Period[28]. This relatively higher growth reflects the pipeline of revenue opportunities and the large target market relative to initial revenue levels. Sensitivity analysis around these Base Case assumptions is set out in paragraphs 160 to 163 below.

---

26 The sensitivity of value to this growth rate assumption has also been considered.

27 For example, 3PL has recently created a Spanish version of Mathletics.

28 We note that US schools often purchase 3PL products at a district level, so new contract wins / losses can have quite material impacts on revenue.

EBITDA margins

147 As noted above, cloud based software companies such as 3PL are able to generate high profit margins on incremental sales due to the low costs of providing the software to new customers. This is evident from the following table which highlights the high EBITDA margin generated by 3PL before corporate costs and product development expenses[29]:

3PL – underlying EBITDA(1)	FY18 $m	FY19 $m	FY20(2) $m	1HY21 $m
APAC(3)	27.0	25.9	25.1	9.4
EMEA(3)	7.5	7.4	6.3	2.3
Americas(3)	1.1	0.4	(0.5)	1.0
EBITDA before corporate and product development costs(3)	35.6	33.7	30.9	12.7
Corporate costs	(13.3)	(12.1)	(13.9)	(6.8)
Product development costs (expensed)	(3.3)	(3.9)	(3.4)	(2.1)
Total EBITDA	19.0	17.7	13.6	3.8
EBITDA margins (before corporate and product development costs)(4)				
APAC	*78.6%*	*76.9%*	*74.7%*	*70.5%*
EMEA	*57.6%*	*60.8%*	*51.6%*	*41.0%*
Americas	*14.7%*	*5.0%*	*(5.5%)*	*21.1%*
Total	*64.9%*	*62.6%*	*56.2%*	*53.5%*

Note:
1 Rounding differences may exist.
2 The results for FY20 and 1HY21 have been adjusted to exclude the impact of AASB 16 which was adopted from 1 July 2019.
3 EBITDA is also shown before inter-segment royalties and charges (which eliminate at group level).
4 EBITDA margin as a percentage of revenue.

148 As shown above:

(a) corporate costs (and product development costs which have been expensed above the EBITDA line) have been relatively consistent over recent years

(b) the EBITDA margin before corporate and product development costs is high (particularly in the APAC and EMEA segments)

(c) the EBITDA margin in the Americas segment was negative in FY20 due to, inter-alia, increased investment in sales and marketing staff, although it increased significantly in 1HY21. EBITDA margins on incremental sales are also expected to be high, albeit lower than those expected (in the short to medium term) in the APAC and EMEA regions.

29 As noted in Section III, approximately 25% of annual product development costs have been expensed in recent years. The remaining product development costs are capitalised and amortised over three years. This amortisation charge is not reflected in EBITDA.

149 For valuation purposes we have adopted incremental EBITDA margins (before corporate and product development costs) of 80% in the APAC segment, 70% in the EMEA segment (excluding the NME contract, which has been assessed separately) and 60% in the Americas segment[30].

150 The impact of our Base Case revenue growth and incremental EBITDA margin assumptions is that the overall EBITDA margin (before corporate and product development costs[31]) increases slightly as shown below:

Overall EBITDA margin(1)(2)			
Year ended 30 June	2020 Actual %	2025 Base Case forecast %	2030 Base Case forecast %
APAC	74.7	75.4	76.0
EMEA(3)	57.3	59.6	61.8
Americas	(5.5)	37.2	44.5
Overall	57.5	64.1	65.3

Note:
1 Before corporate and product development costs (and inter-segment royalties and charges, which eliminate at group level).
2 Calculated as a percentage of revenue.
3 Calculated after adding back NME contract costs expensed in FY20 and foreign exchange losses.

151 As shown above, our Base Case forecasts assume that the EBITDA margins achieved in the Americas segment remain relatively low over the Forecast Period (albeit they represent a substantial improvement on current margins). These margins in the Americas segment are likely to be higher if 3PL can achieve substantially higher revenue growth than assumed. This potential is reflected in our sensitivity analysis, as additional revenue is projected to generate 60% EBITDA margins prior to corporate and product development costs.

Corporate costs

152 Corporate costs (which largely comprise employee costs, information technology and administration expenses) are shown (in aggregate) in paragraph 147 above. As these have been relatively consistent over recent years, we have assumed that these costs increase by 2% per annum (i.e. reflecting no real growth over and above current medium term inflation expectations[32]).

30 The relatively high incremental EBITDA margins adopted as compared to the FY20 and 1HY21 results (particularly for the EMEA and Americas segments) reflect the significant operating leverage of the business and high gross margin on additional revenue (as the incremental costs to service new customers are relatively low).

31 And before inter-segment royalties and charges (which eliminate at group level).

32 Based upon the difference between medium term Commonwealth Government Bond (CGB) yields (which reflect inflationary expectations) and Commonwealth Government indexed bonds yields (which are quoted in real terms excluding inflation).

Product development expenses

153 Total product development cash costs in recent years are shown below:

3PL – product development cash costs	FY18 $m	FY19 $m	FY20 $m	1HY21 $m
Expensed	3.3	3.9	3.4	2.1
Capitalised[1]	9.7	8.9	10.6	5.8
Total product development cash costs	13.0	12.8	14.0	7.9
Breakdown of cash costs by:				
Mathletics	8.9	8.7	9.2	4.5
Literacy	1.9	2.0	2.3	1.7
Digital Systems	2.2	2.1	2.5	1.7
Total product development cash costs	13.0	12.8	14.0	7.9

Note:
1 These costs are subsequently amortised over three years.

154 As stated in Section III, 3PL has invested heavily in product development in recent periods, having finalised the migration of Mathletics from Flash to HTML in FY19 and completing the launch of its own literacy brand and product, Readiwriter Spelling, in FY20. In addition, 3PL further enhanced its Mathletics product offering in FY20 with the launch of a Spanish version, as well as introducing more than 700 new problem solving and reasoning activities and over 30,000 new understanding, practicing and fluency activities.

155 Product development cash costs are on track to increase marginally in FY21 due to, inter-alia, development costs associated with features to open up new markets or expand opportunities within existing markets. However, product development costs are then forecast to decline slightly in FY22, reflecting:

(a) the significant investment in the product offering made in recent years; and

(b) the decision from May 2020 to outsource some product development to a lower cost external provider.

156 For valuation purposes, total product development (cash) costs are assumed to range between approximately $14 million and $15 million per annum during the Forecast Period (consistent with recent history). Due to the projected growth in sales revenue over the Forecast Period (discussed above), product development (cash) costs as a percentage of revenue reduces over the Forecast Period (from a relatively high 27% in FY21).

Other cash flow assumptions

157 Other cash flow assumptions adopted in our Base Case DCF are as follows:

(a) capital expenditure (excluding product development) – $0.25 million per annum (increasing at 2% per annum). This is consistent with the average spend over FY18 to 1HY21 (noting that the investment in software / digital systems is included in product development costs)

(b) working capital – is not expected to be material. Consistent with annual subscription based companies generally, 3PL operates with a negative working capital position, which primarily reflects the receipt of cash in advance for its products and services which are typically delivered over a one year period

(c) tax – an effective tax rate of 25% has been adopted reflecting the benefit of research and development tax credits in Australia and income tax losses in Canada and the US.

Discount rate

158 A post-tax discount rate of 11% per annum has been applied for the reasons set out in Appendix C. This discount rate has been applied to determine the present value of the future cash flows in the Forecast Period and the present value of the terminal value at the end of the Forecast Period.

Terminal value

159 A terminal value growth rate of 3% has been adopted at the end of the Forecast Period (FY30) reflecting the operating leverage arising from revenue growth due to the nature of the business (high gross margins / capital light business model). The application of this terminal value growth rate and the discount rate implies a free cash flow multiple (on a controlling interest basis) of 12.5 times the projected (after tax) free cash flow in FY31 (which we consider reasonable).

DCF valuation and sensitivity analysis

160 The Base Case assumptions set out above reflect the Base Case assumptions adopted in the financial model. There are inherent qualifications that apply to cash flow projections on which DCF valuations are based. In addition, the cost of capital can vary between industry participants based on factors such as differing perceptions / acceptance of risk and willingness to assume debt funding obligations.

161 It is important therefore not to credit the output of DCF models with a precision it does not warrant. It follows that any DCF valuation process should consider a range of scenarios, having regard to the respective key valuation drivers of the business being valued.

162 In assessing our valuation range we have therefore considered the sensitivity of value to changes in the key assumptions, as shown below:

3PL DCF valuation – sensitivity analysis

Variable	Base Case assumption %	Sensitivity %	Value range $m
Revenue growth – APAC segment (p.a.)	3	2.5 – 3.5	142 – 163
Revenue growth – EMEA segment (p.a.)	5	4 – 6[1]	146 – 159
Revenue growth – Americas segment (p.a.)	10[1]	8 – 12[2]	142 – 164
Incremental EBITDA margin[3]:			
– APAC segment	80	70 – 90	145 – 160
– EMEA segment	70	60 – 80	149 – 157
– Americas segment	60	50 – 70	146 – 159
Product development costs (p.a.)	13 – 14	+/- 1%	145 – 160
Discount rate (% p.a.)	11	10.5 – 11.5	143 – 164
Terminal value (% p.a.)	3	2.5 – 3.5	147 – 159

Note:
1 From FY22 onwards for the remainder of the Forecast Period.
2 From FY22 for five years, before reducing by 2.5% for balance of Forecast Period (i.e. to 7.5% in Base Case scenario).
3 On additional revenue above that achieved in FY20.

163 Having regard to the above, we have assessed the DCF value of 3PL's business (on a cash and debt free basis), and prior to attributing a separate value to the NME contract and potential extensions, at between $145 million and $160 million.

Value attributed to NME contract and opportunity

164 As stated above, on 23 June 2020 3PL announced that it had been awarded a one year contract worth approximately US$10 million (in revenue) to provide Mathletics licenses and professional development services to a NME in the Middle East.

165 The revenue under the NME contract of some A$13.0 million[33] (which is expected to be generated in Q4 FY21 and FY22) is therefore very significant when compared with 3PL's FY20 contract revenue of approximately A$55 million (shown in paragraph 130). Accordingly, in our opinion, it is appropriate to separately consider the value implications of the NME contract.

166 Whilst the terms of the NME contract (and 3PL's profit margins on the contract) are commercially sensitive and cannot be disclosed in our report, the expected profit margins on the NME contract are high. This is consistent with our observations above that cloud based software companies such as 3PL are able to generate high profit margins on incremental sales due to the low costs of providing the software to new customers. The NME contract is therefore expected to be a significant profit contributor in Q4 FY21 and FY22.

167 However, due to the short term nature of the initial contract, any future value creation beyond the initial 12 month term is dependent the award of further contracts. In this regard, we note that 3PL's ASX announcement dated 23 June 2020 stated that *"there is potential for the agreement to be renewed and expanded after that time"*.

168 3PL management have confirmed that any future contract with the NME (should that occur) is likely to involve a rollout of Mathletics to a significantly larger number of students than the initial contract[34], and is therefore likely to generate significantly higher revenues for 3PL. However, the award of a further contract is inherently uncertain at this stage, and is dependent on (inter-alia) positive engagement on the platform by schools, teachers and students and government policy.

169 Nonetheless, given the level of investment being made by the NME during the initial 12 month term, in our opinion, it is possible that further contracts with the NME will be awarded. Furthermore, in our opinion, it would be unlikely that organisations such as the NME would seek to tender the provision of educational services on an annual basis.

33 Based on the AUD:USD exchange rate as at 6 April 2021 of A$1.00 = US$0.767.

34 We understand that 3PL is likely to be required to produce an Arabic version of Mathletics as part of any contract extension.

170 However, deriving the current value of this future potential is difficult because, even if a further NME contract is awarded, the future term of such a contract, and the future revenues and profit margins are inherently uncertain. As such, any DCF analysis on this opportunity would be largely speculative.

171 For the purposes of this report therefore, our assessment of the value of the NME contract (including the potential for further contracts and expansion of the services provided therein) has been based on the movement in the listed market price of 3PL shares in the period leading up to and after the ASX announcement on 23 June 2020 of the award of the NME contract[35], which is summarised below:

3PL – share trading

Period	Low $	High $	Close $	VWAP $	Value traded $m
1 month prior to 22 June 2020(1)	0.72	0.77	0.75	0.76	3.0
1 month post 23 June 2020	0.74	1.10	1.03	0.90	9.5
23 June 2020 to 13 August 2020(2)	0.74	1.17	1.10	0.97	26.2

Note
1 Being the last trading day prior to the announcement of the NME contract award.
2 Being the last trading day prior to the announcement of the previous proposed scheme with IXL.

172 Due to the volatility in the 3PL share price over the periods above we have placed most reliance on the VWAPs shown above[36]. These indicate that the announcement of the NME contract award had between a \$0.14 and \$0.21 per share positive impact on the listed market price of 3PL shares[37].

173 After adjusting for a premium for control of 30% to 35%[38] (which recognises that the listed market price reflects a minority or portfolio interest value reference point, rather than a controlling interest value), this share market trading implies a value for the NME contract (including the potential for further contracts and expansion of the services provided therein) of between \$25 million to \$40 million, as shown below:

35 We note that there does not appear to have been any material ASX announcements made by 3PL during these periods other than the announcement of the NME contract award on 23 June 2020.

36 We consider that the level of share trading during the relevant periods is sufficient to be reliable for the purposes of our analysis.

37 Relevant to our analysis, we note that over the period from 23 June 2020 to 13 August 2020, the S&P/ASX 200 Index increased by around 2.3%.

38 LEA has analysed the control premiums paid in successful takeovers and other change in control transactions involving cash consideration in Australia over the period 2000 to 2018. LEA's study covered around 500 transactions in all sectors excluding real estate investment trusts, based on data sourced from Bloomberg, Connect4 and public company transaction documents and ASX announcements. Scrip transactions were excluded from the analysis because the value of the scrip consideration can vary materially depending on the date of measurement.

3PL – implied value of NME contract from share price movements			
		Low	High
Observed increase in VWAP post announcement of NME contract	$/share	0.14	0.21
Control premium	%	30.0	35.0
Controlling interest value per share	$	0.18	0.28
Number of shares on issue	million	139.5	139.5
Implied value of NME contract	A$m	25.4	39.5

174 However, as the NME contract is currently only a one year contract, we consider that the high end of the above implied value range attributes a value to the NME contract that is too high. Accordingly, we have adopted a range of $25 million to $30 million for valuation purposes.

175 This valuation range represents some 1.9 to 2.3 times the expected revenue from the NME contract. In our opinion, this is not unreasonable given that:

(a) the profit margin on the NME contract is expected to be high

(b) in our opinion, there is a reasonable probability of some contract renewal

(c) it is possible that any further contract (should that occur) will involve a rollout of Mathletics to a significantly larger number of students than the initial contract[39], and is therefore likely to generate significantly higher revenues for 3PL than expected in Q4 FY21 and FY22.

Net cash

176 As at 31 December 2020, 3PL had net cash of approximately $15 million. However, the cash balance varies throughout the year and generally increases following the start of the Australian school year (as licence income is received), before declining from mid-year until the school year commences again[40].

177 Due to this seasonality, we have adopted net cash for valuation purposes of $20 million (which is broadly consistent with the average net cash balance during the year).

Other assets / (liabilities)

178 We are not aware of any other assets which are surplus to the business operations of 3PL, nor any other liabilities which should be deducted from our assessed business value.

Share capital

179 As at 31 March 2021, 3PL had 139.5 million fully paid ordinary shares on issue. In addition, the Company had approximately 0.936 million performance rights on issue, and 3.6 million options on issue exercisable at $1.75:

39 We understand that 3PL is likely to be required to produce an Arabic version of Mathletics as part of any contract extension.

40 The APAC segment accounted for approximately 56% of revenue from contracts with customers in 1HY21.

3PL – options on issue			
Number	Exercise price $	Grant date	Expiry date
691,562	1.75	23 Aug 18	23 Aug 22
2,867,647	1.75	09 Nov 18	23 Aug 22
3,559,209			

180 For valuation purposes, we have not adjusted for the impact of the options on issue because their dilutionary effect is not material given their exercise prices relative to our assessed value.

181 However, in the event of a change of control transaction for 100% of 3PL, we have assumed that the Board of 3PL would allow all performance rights to vest. Accordingly we have adopted fully diluted shares on issue of 140.4 million.

Value of 3PL

182 Given the above, we have assessed the value of 100% of the equity in 3PL on a controlling interest basis as follows:

3PL – valuation summary	Paragraph	Low $m	High $m
Value of business (excluding NME contract)	163	145.0	160.0
Value of NME contract and potential for extensions	174	25.0	30.0
Net cash	177	20.0	20.0
Equity value – controlling interest basis		190.0	210.0
Fully diluted shares on issue (million)(1)		140.4	140.4
3PL value per share – controlling interest basis		$1.35	$1.50

Implied revenue multiple

183 Due to the high proportion of revenue generated from recurring income streams (such as monthly or annual licence fees), the value of software companies is also often assessed as a multiple of recurring or total revenue.

184 As most ASX listed software companies did not report their ARR as at 30 June 2020 or 31 December 2020, but generally have a high proportion of recurring income, we have considered the value of 3PL as a multiple of total revenue.

185 Given the materiality and short term nature of the existing NME contract (which we have valued separately above), we have calculated the enterprise value (EV) to revenue multiple for 3PL based on our assessed valuation range for the 3PL business excluding any value attributed to the NME contract and opportunity. This multiple (based on the mid-point of our assessed range) is shown below:

3PL – implied revenue multiple	
	A$m
Mid-point of valuation range[1]	152.5
FY21 revenue[2]	56.2
EV / revenue multiple	2.7

Note:
1 Excluding value attributed to NME contract and opportunity.
2 LEA Base Case forecast used in DCF valuation (excluding revenue from the NME contract).

186 There are many factors which can impact EV / revenue multiples. However, EV / revenue multiple differences between software companies often result from differences in (inter-alia):

(a) the forecast revenue growth rate – as higher revenue growth (all other variables held constant) should result in a higher EV / revenue multiple compared to lower growth companies

(b) profit margins as a percentage of revenue – as companies generating higher profit margins per dollar of revenue should be valued higher than less profitable companies (all other variables held constant).

187 It should also be noted that some software companies trade on high revenue multiples even if they are not currently profitable. This is often because sales and marketing costs are elevated as the company focuses on growing its recurring customer base and revenue. Due to the high gross margins being generated, the market value of such companies reflects an expectation that high sales growth will result in high incremental profits as the business scales.

188 It is therefore important when considering revenue multiples for software companies to consider both the projected revenue growth and current profit margins. One common approach used by investment analysts which recognises the trade-off between current profitability and future revenue growth is referred to as the "Rule of 40". In simple terms, the Rule of 40 states that a company's revenue growth rate plus its profitability margin (as a percentage of revenue) should total more than 40%. It can also be used to rank software companies, as software companies with a higher combined score (i.e. projected revenue growth plus profit margin) should trade on higher revenue multiples.

189 Accordingly, we set out below for 3PL and selected ASX listed software companies with market capitalisations of less than A$1 billion (being Bravura Solutions, Jumbo Interactive, Integrated Research, Infomedia, MNF Group, Class Limited, Praemium and Reckon)[41] [42]:

(a) their respective FY21 revenue multiples (shown on the Y axis). For the purposes of this analysis, the market capitalisation of each ASX listed company has been increased to reflect a 32.5% premium for control (in order to estimate the controlling interest value of each company); and

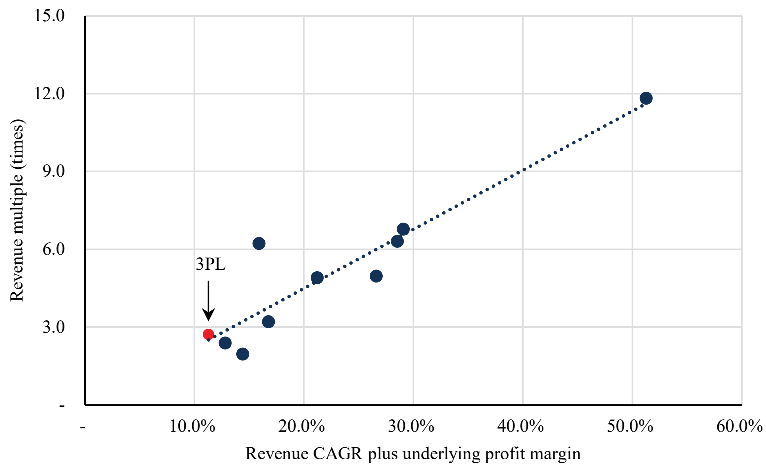
---

41 It should be noted that these companies do not provide educational software, and are therefore not directly comparable to 3PL.

42 LEA also considered the revenue multiples for Whispir, Elmo Software and Livehire (but considered these outliers).

(b) for each company, the sum of the projected compound annual growth rate (CAGR) in revenue (over the FY20 to FY23 period) and underlying profit margin (X axis).

ASX listed software companies – revenue multiples and CAGR



Source: Bloomberg and listed company announcements.

190 As shown above, our valuation implies a relatively low FY21 revenue multiple for 3PL compared to the other ASX listed software companies. However, in our opinion, this is appropriate and reflects its modest expected revenue growth (in the absence of the NME contract) and relatively low combined score (i.e. projected revenue growth and current profit margin).

Comparison with share trading prior to announcement of previous proposed scheme with IXL

191 In order to cross-check our valuation of 3PL shares we have considered the listed market price of 3PL shares up to 13 August 2020 (being the last day of trading prior to the announcement of the previous proposed scheme with IXL), adjusted for a premium for control.

192 The VWAPs for 3PL shares in the one month period up to 13 August 2020, and in the period from 23 June 2020 (when 3PL announced the NME contract) up to 13 August 2020, were $1.02 and $0.97 respectively. Given the significant amount of time that has passed since then, we have considered the performance of the S&P/ASX300 Index from 13 August 2020 to 9 April 2021 (being the last trading day prior to the announcement of the Merger) and adjusted the 3PL VWAPs accordingly.

193 Empirical evidence from research undertaken by LEA indicates that the average premium paid above the listed market price in successful takeovers in Australia ranges between 30% and 35% (assuming the pre-bid market price does not reflect any speculation of the takeover,

and after adjusting the pre-bid market price for the movement in share market indices between the date of the pre-bid market price and the announcement of the takeover)[43].

194 Adding around 15% to recognise the performance of the S&P/ASX300 Index in the intervening period since the previous proposed IXL scheme was announced up to 9 April 2021 and a 30% to 35% premium for control to these share prices would therefore result in a theoretical "control" value of $1.45 to $1.58 per share, which is broadly in line with the top end of our assessed valuation range.

[43] LEA has analysed the control premiums paid in successful takeovers and other change in control transactions involving cash consideration in Australia over the period 2000 to 2018. LEA's study covered around 500 transactions in all sectors excluding real estate investment trusts, based on data sourced from Bloomberg, Connect4 and public company transaction documents and ASX announcements. Scrip transactions were excluded from the analysis because the value of the scrip consideration can vary materially depending on the date of measurement.

VIII Valuation of Blake (prior to Merger)

DCF approach

195 Consistent with the valuation approach adopted for 3PL, we have adopted the DCF approach as our primary valuation methodology to assess the value of the shares in Blake.

196 Under the DCF methodology the value of the Blake business (on a cash and debt free basis[44]) is equal to the NPV of the estimated future cash flows including a terminal value. In order to arrive at the NPV the future cash flows are discounted using a discount rate which reflects the risks associated with the cash flow stream.

197 Our DCF valuation is based on free cash flow projections derived by LEA having regard to, inter-alia, Blake management budgets and forecasts and related discussions with Blake management.

198 Whilst LEA believes the assumptions underlying the cash flow projections adopted for valuation purposes are reasonable and appropriate, it should be noted in respect of these projections that:

(a) the major assumptions underlying the projections were formulated in the context of current economic, financial and other conditions, including the potential impact of COVID-19 on the business

(b) the projections and the underlying assumptions have not been reviewed by an investigating accountant for reasonableness or accuracy of compilation and application of assumptions

(c) future profits and cash flows are inherently uncertain

(d) by their nature, the projections do not take into account the operational flexibility available to management to react to changes in the market conditions in which Blake operates

(e) the achievability of the projections is not warranted or guaranteed by Blake or LEA, as they are predictions of future events that cannot be assured and are necessarily based on assumptions, many of which are beyond the control of Blake and its management; and

(f) actual results may be significantly more or less favourable.

199 Free cash flow represents the operating cash flows on an ungeared basis (i.e. before interest) less taxation payments[45], capital expenditure and working capital requirements. The free cash flow on an ungeared basis is adopted to enable the value of the business to be determined irrespective of the level of debt funding employed.

200 We have adopted a valuation date of 31 March 2021. The free cash flow projections cover the period to 30 June 2030 (Forecast Period), together with the estimated capital value of the business at the end of that period.

---

44 The purchase price for Blake is on a cash and debt free basis and assumes at completion a Blake balance sheet with an appropriate level of working capital (including a minimum cash balance of $1.0 million).

45 Also calculated on an ungeared basis.

201 As the detailed cash flow projections are commercially sensitive, they have not been set out in our report. However, we set out below information on the major assumptions underlying the free cash flow projections.

Key assumptions

Subscriber growth – B2C business

202 Blake generates revenue from two principal sources:

(a) direct sales to consumers (e.g. parents of school children) – who pay annual or monthly subscription fees for use of Blake's software products online (B2C business)

(b) licence income – which is received from third parties (mainly 3PL in Australia and Edmentum in the US) who sell directly into the school market (B2B business).

203 Net product revenue from direct sales to consumers represented approximately 60% of total revenue in FY20. This revenue has increased significantly since the COVID-19 pandemic, as evidenced by the increase in subscriber numbers since 28 February 2020 as shown below:

Historical B2C subscriber numbers[(1)(2)]

	30 Jun 18 Actual	28 Feb 20 Actual	31 Dec 20 Actual
Total monthly subscribers	34,025	77,732	167,920
Total annual subscribers	93,470	94,782	151,413
Total subscribers	127,495	172,514	319,333
Monthly subscribers as a % of total	*26.7%*	*45.1%*	*52.6%*

Note:
1 B2C business only – excluding licenses sourced by Edmentum (the income from which is recognised in licence income).
2 Peak month end subscriber numbers for monthly subscribers by region were: Australia and NZ (ANZ): 89,457 (May 20), UK and Europe (UK and EU): 48,314 (July 20), Americas: 40,893 (Nov 20), Other regions: 9,230 (Sept 20). Peak month end subscriber numbers for annual subscribers by region were: ANZ: 69,004 (Oct 20), UK and EU: 34,996 (Jan 21), Americas: 51,009 (Nov 20), other regions: nil (annual subscriptions are not yet offered in Other regions).
3 Mandatory lockdowns occurred from March 2020 in response to the COVID-19 pandemic.

Monthly subscribers

204 In relation to the growth in monthly subscribers we note that:

(a) the average lifespan of a monthly subscriber (based on the most recent data up to 31 January 2021) is around nine months. Customer churn is therefore very high. As a result Blake has had to incur significant sales and marketing costs[46] to acquire new customers. As shown above, Blake has successfully been able to grow its customer base on a net basis, notwithstanding the high churn rate

46 In FY20 sales and marketing costs were around 50% of subscription revenue (broadly consistent with historical experience).

(b) prior to the surge in subscribers due to the COVID-19 pandemic, ANZ monthly subscribers increased by around 1,250 per month, and UK / European monthly subscribers and American monthly subscribers increased by around 500 per month

(c) ANZ monthly subscribers peaked in May 2020, and have since declined by around 16% as at 31 January 2021 (the most recent subscriber data available to us)

(d) whilst UK and European monthly subscribers have also declined materially since their COVID-19 peak, the Americas region has not seen any significant reduction in monthly subscribers as at 31 January 2021

(e) in the short term, further declines in monthly subscriber numbers are expected as COVID-19 vaccinations are rolled out and economies return to normal.

205 Our Base Case projections assume that monthly subscriber numbers are lower as at 30 June 2021 compared to 31 January 2021 for the reason discussed above. Further monthly subscriber growth is forecast to occur from FY22, which is expected to be primarily driven by subscriber growth in the UK / Europe, Americas and "other" regions (reflecting the size of the respective opportunity relative to the low penetration rate achieved to date). Whilst further monthly subscriber growth is also forecast in the ANZ market, this is a more mature market and accordingly growth in subscribers is forecast to slow.

Annual subscribers

206 In relation to annual subscriptions we note that:

(a) the average lifespan of an annual subscriber (based on the most recent data up to 31 January 2021) is around 1.8 years. This is higher than the average lifespan of a monthly subscriber due to the 12 month term of the contracts, but also reflects a high churn rate

(b) prior to the surge in subscribers due to the COVID-19 pandemic, only modest growth in annual subscriptions was experienced, with declines in annual subscriptions in both the UK / Europe and Americas between 30 June 2018 and 28 February 2020

(c) annual subscribers as at 31 January 2021 remain near their peak, which we largely attribute to the 12 month contract term and the fact that new annual subscriptions from March 2020 (due to COVID-19) are not due for renewal until at least March 2021 (and are therefore unable to unsubscribe until (at least) that date)

(d) in the seven month period from 1 July 2020 to 31 January 2021 total churn as a percentage of new and renewing subscribers in the comparable period some 12 months earlier (i.e. during 1 July 2019 to 31 January 2020) was around 59%. However, total churn in the period 1 July 2020 to 31 January 2021 was also equal to around 95% of new subscribers added in the 1 July 2019 to 31 January 2020 period (implying a high level of churn)

(e) whilst the level of future churn is uncertain, we therefore expect the large majority of annual subscribers acquired due to the COVID-19 pandemic (i.e. since March 2020) to end their subscription (or move to a monthly contract) as their annual contracts come up for renewal

(f) due to the high churn rate, our projections assume that annual subscriber numbers remain well below 31 January 2021 levels over the entire Forecast Period[47]. However, annual subscribers over the Forecast Period remain well above levels prevailing prior to the impact of COVID-19.

Subscriber projections

207 A summary of our Base Case subscriber projections (compared to the actual position as at 28 February 2020 (i.e. before the COVID-19 related surge in subscribers) and 31 December 2020) is shown below:

Base Case assumptions – Subscriber numbers

	28 Feb 20[(1)] Actual	31 Dec 20 Actual	30 Jun 22 LEA projection	30 Jun 26 LEA projection	30 Jun 30 LEA Projection
Total monthly subscribers	77,732	167,920	195,852	327,852	459,852
Total annual subscribers	94,782	151,413	120,302	155,582	190,862
Total subscribers	172,514	319,333	316,154	483,434	650,714

Note:
1 Prior to the surge in subscriptions due to COVID-19.

Average revenue per subscriber

208 Monthly subscribers pay a higher monthly subscription fee than annual subscribers due to the greater flexibility associated with month to month contract terms. As shown above, monthly subscriptions have been growing and increasing as a percentage of total subscriptions (which in part reflects the greater promotion of monthly plans by Blake).

209 Our forecasts assume that average revenue per subscriber increases by 2% per annum over the Forecast Period.

Net product contribution (net of marketing costs)

210 Sales and marketing costs over recent periods have averaged around 50% of revenue from subscriptions. After allowing for cost of sales, the resulting net product contribution[48] (net of marketing costs) is around 46% of subscription revenue. Our Base Case projections assume that these sales and marketing expenses and net product contributions will remain at similar levels as a percentage of subscription revenue. This reflects the need to invest in significant marketing to attract new customers given the high churn rates.

License and other revenue

211 License and other revenue has grown strongly over recent years. Management expect license and other revenue to reach approximately A$13 million in FY21 compared to A$8.2 million in FY18.

47 In part, this also reflects the ongoing shift from annual to monthly subscribers, consistent with the business model currently being adopted by Blake.

48 Prior to licensing and other income.

212 Our Base Case projections assume further growth, albeit at a much slower rate. We have assumed 10% growth in FY22, reducing to 7.5% per annum from FY23 until FY27 when growth is assumed to decline to 5.0% per annum. This forecast growth is considered reasonable given the large size of the school market opportunity.

Product development expenses

213 Total product development cash costs[49] in recent years are shown below:

Blake – product development cash costs	FY18 $m	FY19 $m	FY20 $m
Product development costs (100% expensed)	8.2	8.0	9.7
% of total revenue	43.1%	33.4%	30.5%

214 As shown above, Blake has invested heavily in product development in recent periods. Whilst product development costs are expected to increase by approximately A$1.0 million in FY21, they are expected to reduce to around 26% of total revenue in that year due to the associated forecast higher revenue.

215 For valuation purposes, total product development (cash) costs are assumed to range between approximately $11 million and $16 million per annum during the Forecast Period (representing an increase above recent expenditure). However, due to the projected growth in sales revenue over the Forecast Period (discussed above), product development (cash) costs as a percentage of revenue reduce over the Forecast Period in line with the level of product development costs (as a percentage of revenue) incurred by 3PL.

Administration and other costs

216 Administration and other operating costs are expected to be around A$4 million in FY21. These are assumed to increase by 3% per annum over the Forecast Period.

EBIT margins

217 Due to the operating leverage inherent in the business, the higher revenue projections over the Forecast Period result in EBIT margins (as a percentage of revenue) increasing from around 27% in FY21 to around 36% in FY30.

Other cash flow assumptions

218 Other cash flow assumptions adopted in our Base Case DCF are as follows:

(a) capital expenditure (excluding product development) – whilst modest, is expected to be consistent with depreciation over the Forecast Period

(b) working capital – is not expected to be material. Consistent with annual subscription based companies generally, Blake operates with a negative working capital position, which primarily reflects the receipt of monthly and annual subscription income

(c) tax – an effective tax rate of 30% has been adopted consistent with the Australian company tax rate.

49 We note that Blake has historically expensed all product development costs.

Discount rate

219 A post-tax discount rate of 11% per annum has been applied for the reasons set out in Appendix C. This discount rate has been applied to determine the present value of the future cash flows in the Forecast Period and the present value of the terminal value at the end of the Forecast Period.

Terminal value

220 A terminal value growth rate of 3% has been adopted at the end of the Forecast Period (FY30) reflecting the operating leverage arising from revenue growth due to the nature of the business (high gross margins / capital light business model). The application of this terminal value growth rate and the discount rate implies a free cash flow multiple (on a controlling interest basis) of 12.5 times the projected (after tax) free cash flow in FY31 (which we consider reasonable). The same terminal value growth rate has been adopted in our DCF valuation of 3PL.

DCF valuation and sensitivity analysis

221 The Base Case assumptions set out above reflect the Base Case assumptions adopted in the financial model. There are inherent qualifications that apply to cash flow projections on which DCF valuations are based. In addition, the cost of capital can vary between industry participants based on factors such as differing perceptions / acceptance of risk and willingness to assume debt funding obligations.

222 It is important therefore not to credit the output of DCF models with a precision it does not warrant. It follows that any DCF valuation process should consider a range of scenarios, having regard to the respective key valuation drivers of the business being valued.

223 In assessing our valuation range we have therefore considered the sensitivity of value to changes in the key assumptions, as shown below:

Blake DCF valuation – sensitivity analysis

Variable	Sensitivity %	Value range A$m
Subscriber numbers	+ / - 5%	180 – 199
Net product contribution (% of subscription revenue)	43 – 49	177 – 202
License and other income growth	+ / - 2%	173 – 208
Product development costs (A$ p.a.)	+/- 1%	182 – 196
Discount rate (% p.a.)	10.5 – 11.5	177 – 204
Terminal value (% p.a.)	2.5 – 3.5	182 – 198

224 Having regard to the above, we have assessed the DCF value of Blake's business (on a cash and debt free basis) at between A$180 million and A$200 million.

Net cash

225 The purchase price for Blake is on a cash and debt free basis and assumes at completion a Blake balance sheet with an appropriate level of working capital (including a minimum cash balance of $1.0 million). As this minimum cash balance is immaterial in the context of our business value (and is required for working capital purposes), we have not assumed any surplus cash or other assets in our valuation of Blake.

Value of Blake

226 Given the above, we have assessed the value of 100% of the equity in Blake on a controlling interest basis at between A$180 million and A$200 million.

Implied revenue multiple

227 Due to the high proportion of revenue generated from recurring income streams (such as monthly or annual subscription fees), the value of software companies is also often assessed as a multiple of recurring or total revenue.

228 As most ASX listed software companies did not report their ARR as at 30 June 2020 or 31 December 2020, but generally have a high proportion of recurring income, we have considered the value of Blake as a multiple of total revenue.

229 This multiple (based on the mid-point of our assessed range) is shown below:

Blake – implied revenue multiple	
	A$m
Mid-point of valuation range	190.0
CY20 revenue[1]	44.4
EV / revenue multiple	4.3

Note:
1 This reflects Blake's pro-forma revenue for the 12 months to 31 December 2020, which has been adjusted to reflect the revenue recognition accounting policies of 3PL.

230 As noted in Section VII, there are many factors which can impact EV / revenue multiples. However, EV / revenue multiple differences between software companies often result from differences in (inter-alia):

(a) the forecast revenue growth rate – as higher revenue growth (all other variables held constant) should result in a higher EV / revenue multiple compared to lower growth companies

(b) profit margins as a percentage of revenue – as companies generating higher profit margins per dollar of revenue should be valued higher than less profitable companies (all other variables held constant).

231 Whilst the implied revenue multiple for Blake is materially higher than the revenue multiple implied by our valuation of 3PL, in our opinion this is appropriate because:

(a) Blake has exhibited significantly higher revenue growth than 3PL, as shown below:

Revenue growth	FY19 A$m	FY20 A$m	CY20 A$m	Growth from FY19 to CY20
Blake[1]	23.9	33.7	44.4	85.8%
3PL	54.4	55.4	56.2	3.3%

Note:
1 Pro-forma revenue adjusted to reflect the revenue recognition policies of 3PL.

(b) Blake is more profitable than 3PL. On a pro-forma basis (once consistent accounting policies are adopted) Blake generated EBITDA in CY20 of A$17.5 million (39.4% margin) compared to 3PL's EBITDA in CY20 of A$15.5 million (27.6% margin).

IX Valuation of expected synergy benefits

Overview

232 3PL has provided us with a detailed breakdown of identified cost savings expected to arise from the merger of 3PL and Blake. The composition of these estimated cost savings (which have been estimated by 3PL in conjunction with Blake management) is summarised below:

Estimated cost savings

	Time to realise (months)(1)	Cost to realise(2) $m	Annualised savings estimate(3) $m	Description
Consolidate and simplify sales, marketing and business processes	0 – 18		2.5 – 4.5	• Simplify marketing approach and leverage joint experience through B2B and B2C channels • Streamline business functions
Consolidate and streamline office and support functions	0 – 18		1.0 – 2.5	• Consolidation of CEO role and simplification of back office functions • Initial savings as offices are consolidated ahead of determining optimal go-forward premises
Product and technology	0 – 12		4.0 – 5.5	• Primarily focused on third party vendor cost savings through product rationalisation and bringing external content production in-house where possible
Total		(3.5) – (5.0)(2)	7.5 – 12.5	

Note:
1 Expected time to achieve annual run rate cost savings.
2 Estimated cost to realise reflects the aggregate estimated cost across all initiatives. The benefits and associated costs of potential revenue synergies are yet to be quantified.
3 Estimated cost savings reflect the annual run rate cost savings 3PL (post the Merger) expects to achieve following the time to realise.
Source: 3PL investor presentation on the Merger dated 12 April 2021.

233 As indicated above, the majority of cost synergies are expected to arise from rationalisation of the combined product portfolio. Both companies incur significant product development costs (3PL A$14.0 million and Blake A$9.7 million in FY20), and have competing maths and literacy products in the market. We therefore consider the estimated savings (which represent around 20% of the combined product development expenditure) to be reasonable.

234 The remaining cost synergies arise from a consolidation of the respective operating business structures and are typical (in nature) of the cost synergies that generally arise on a combination of two businesses.

235 Based on our review of the information provided, for the purposes of this report, we have adopted annual cost savings of A$10 million. This range is consistent with the mid-point of the range of synergies estimated by 3PL management.

236 As indicated above, 3PL management have estimated that these cost savings will be gradually realised (i.e. phased in) over an 18 month time frame.

Valuation

237 We have valued the cost synergy benefits using the DCF methodology. In doing so we have had regard to:

(a) our review of the detailed calculations that support the anticipated range of cost synergy benefits

(b) our discussions with the management of both 3PL and Blake

(c) the market's perception of (and unwillingness generally to pay for) anticipated revenue synergies[50].

238 Our DCF valuation assumes that the synergy benefits (net of tax) will begin to be realised from 1 September 2021 and will be fully realised from 31 March 2023. Allowance has been made in our valuation for implementation costs of between A$3.5 million to A$5.0 million (before tax), consistent with management's estimates.

239 We have discounted the synergy benefits (net of implementation costs and tax) to reflect their present value using a cost of equity (discount rate) of 11% per annum[51]. A terminal value multiple of 11.0 to 12.0 times the ongoing annual synergy benefits (after tax) has also been adopted for valuation purposes using the growth in perpetuity formula (based on growth of 2% per annum and our 11% discount rate).

240 Based on the above, for the purposes of this report, we have valued the synergy benefits (net of implementation costs and tax) on a 100% controlling interest basis at between A$70 million and A$80 million.

---

50 Our valuation of the synergy benefits does not include any revenue synergies. 3PL management have indicated that the benefits and associated costs of potential revenue synergies have yet to be quantified.

51 We have adopted a discount rate for the synergy benefits which is consistent with the discount rate applied to the 3PL and Blake businesses on the basis that (in our view) the risks associated with the achievement of the cost synergies are broadly comparable with the risks associated with the achievement of the revenue growth in the businesses reflected in our respective business valuations.

X Valuation of 3PL shares (post implementation of Merger)

Methodology

241 The value of 3PL's shares following implementation of the Merger has been derived by aggregating:

(a) the standalone value of 3PL (i.e. prior to implementation of the Merger)

(b) the standalone value of Blake (i.e. prior to implementation of the Merger)

(c) the value of expected cost synergies arising from the merger of 3PL and Blake.

242 Consistent with the requirements of RG 111, the value of 3PL shares after implementation of the Merger must be assessed on a **minority interest basis**. Accordingly, we have applied a 20% minority interest discount to our assessed business values[52], and a 10% discount to 3PL's net cash holding.

Minority interest value

243 Based on the above and the analysis in the preceding sections, we have therefore assessed the minority interest value of 3PL shares following implementation of the Merger as follows:

3PL –minority interest value per share after Merger

	Low A$m	High A$m
Value of 3PL before Merger(1)	190.0	210.0
Value of Blake before Merger	180.0	200.0
Value of net cost synergies	70.0	80.0
Controlling interest value of 3PL shares post Merger	440.0	490.0
Minority interest discount(2)	(86.0)	(96.0)
Minority interest value of 3PL shares post Merger	354.0	394.0
Number of shares on issue(3)	277.4	277.4
Minority interest value per 3PL share post Merger	$1.28	$1.42

Note:
1 Includes A$20 million in cash.
2 20% on assessed business values and 10% on net cash balances.
3 Shares on issue comprise:

	(m)
Existing 3PL shares and performance rights on issue	140.4
Share issue to Blake vendors	137.0
Total	277.4

Comparison with post announcement trading

244 Whilst the relevant trading period has been very limited, following the announcement of the Merger on 12 April 2021 up to 14 April 2021, 3PL shares have traded in the range of $1.26 to $1.37 per share. This is broadly consistent with the valuation range shown above.

52 3PL had net cash at 31 December 2020, and Blake is being acquired on a cash and debt free basis (subject to the requirement to hold a minimum of $1.0 million in cash for working capital purposes).

XI Evaluation of the Merger

Assessment of fairness

245 RG 111 requires that the fairness of the Merger be assessed by comparing:

(a) the controlling interest value of 3PL shares prior to implementation of the Merger; with

(b) the portfolio interest value of 3PL shares following implementation of the Merger (being the deemed "consideration" delivered to 3PL shareholders).

246 In order for the Merger to be "fair" under RG 111, the portfolio interest value of 3PL shares following implementation of the Merger must be equal to, or greater than the controlling interest value of 3PL shares before implementation.

247 This comparison is set out below:

'Fairness' value comparison	Low $ per share	High $ per share	Mid-point $ per share
Portfolio interest value of 3PL shares following implementation of the Merger	1.28	1.42	1.35
Controlling interest value of 3PL shares prior to implementation of the Merger	1.35	1.50	1.43
Extent to which portfolio interest value post implementation is less than the controlling interest value of 3PL shares before implementation	(0.07)	(0.08)	(0.08)

248 Based on the above we have concluded that the Merger is not fair to 3PL shareholders when assessed under the requirements of RG 111.

Assessment of reasonableness

249 Under RG 111, the Merger is "reasonable" if, despite not being fair but after considering other significant factors, the expert is of the opinion that the advantages of the Merger outweigh the disadvantages from the perspective of existing 3PL shareholders.

250 Consequently, we set out below the advantages and disadvantages of the Merger from the perspective of existing 3PL shareholders.

Position of 3PL shareholders

251 In considering whether the Merger is reasonable, we have also considered whether 3PL shareholders are likely to be better off from a value perspective if they approve the Merger, by comparing the value of 3PL shares pre and post the Merger on a **consistent portfolio basis**.

For personal use only

252 Accordingly, we have reduced our controlling interest value prior to the Merger by a minority interest discount[53] in order to estimate the corresponding portfolio interest value of 3PL shares.

253 On this basis, we note that the Merger is value accretive for 3PL shareholders:

Comparative value of 3PL shares	Low cents per share	High cents per share	Mid-point cents per share
Portfolio interest value of 3PL shares before the Merger[(1)]	1.10	1.21	1.155
Portfolio interest value of 3PL shares after the Merger	1.28	1.42	1.35
Increase in portfolio interest value of 3PL shares due to the Merger	0.18	0.21	0.195
% increase	*16.4%*	*17.4%*	*16.9%*

Note:
1 Being our controlling interest value pre Merger of $1.35 to $1.50 per share (refer Section VII), less a minority interest discount.

Impact on control

254 If the Merger is approved there will be an impact on the voting power and ownership of 3PL. The impact of the Merger on shareholder's voting and ownership interests in 3PL[54] is shown below:

Impact of Merger on shareholdings (million shares) Shareholder	Existing position	Share Issue	Post transaction
Viburnum Funds Pty Ltd	34.9	-	34.9
Other existing 3PL shareholders	104.4	-	104.4
Blake vendors (and associates)	0.2	137.0	137.2
Total	139.5	158.4	276.5
% interest held by:			
Viburnum	*25.0%*		*12.6%*
Other existing 3PL shareholders	*74.8%*		*37.8%*
Blake vendors (and associates)	*0.2%*		*49.6%*

Note:
1 Ignoring performance rights on issue.

255 Pursuant to the Merger, the Blake vendors (and associates) will acquire a relevant interest in 3PL of 49.63%. Therefore if the Merger is approved the Blake vendors will have effective control of 3PL, and should therefore be able to control 3PL's strategic direction and future dividend policy.

53 Consistent with the approach adopted in Section X, we have applied a 20% minority interest discount to our assessed business values, and a 10% minority interest discount to 3PL's net cash holding.

54 Ignoring performance rights.

256 In this regard we note:

(a) post the Merger it is proposed that Blake will provide both the Chair and CEO roles

(b) pursuant to the Share Sale Agreement the parties have agreed that initially the 3PL Board post the Merger will comprise a majority of independent directors. However, this agreement expires at the conclusion of 3PL's first Annual General Meeting after completion of the Merger

(c) similarly, an agreement by the Blake vendors to a standstill to not acquire any additional 3PL shares expires 12 months from completion of the Merger.

Dilution of existing shareholder interests

257 If the Merger is approved the interests of existing non-associated 3PL shareholders will be diluted as they will collectively hold only 50.37% of 3PL shares after the share issue to the Blake vendors. However, as noted above, in our opinion, the underlying value of 3PL shares will increase when compared on a consistent portfolio basis.

Likelihood of receiving a future takeover offer or other control transaction

258 As stated above, if the Merger is approved the Blake vendors will hold a 49.63% interest in 3PL, and will therefore be in a position to block and/or control the outcome of any future takeover (or comparable change of control transaction) due to the size of their aggregate shareholdings.

259 Prima facie therefore, if the Merger is approved, the prospects of a future takeover offer or other control transaction are diminished.

Conclusion

260 Based on the above we summarise below the advantages and disadvantages of the Merger from the perspective of existing 3PL shareholders:

Advantages

(a) we consider that the Merger is value accretive for 3PL shareholders, as the value of 3PL shares when assessed on a consistent (portfolio or minority interest) basis increases as a result of the Merger

(b) the Merger is expected to result in significant cost synergies (and potentially additional revenue synergies)

(c) based on our respective assessed values of 3PL and Blake (on a standalone basis), the effective price at which 3PL shares will be issued to the Blake vendors[55] is consistent with our controlling interest value of 3PL shares prior to implementation of the Merger

(d) 3PL will become a substantially larger and more diversified e-learning business as a result of the Merger[56]

---

55 Based on the mid-point of our Blake valuation range (A$190 million) divided by the 137 million 3PL shares being issued as consideration, the effective issue price is around A$1.39 per 3PL share.

56 LEA has an extensive database of Australian company transactions, including details of prices paid, implied enterprise values and earnings multiples. This evidence indicates that:

Disadvantages

(e) if the Merger is approved, the interests of existing non-associated 3PL shareholders will be diluted as they will collectively hold an economic interest in 50.37% of 3PL shares after the Merger. However, this is offset by the fact that existing non-associated 3PL shareholders will hold a collective economic interest of approximately 50.37% in Blake as a result of the Merger, and should be better off from a value perspective

(f) if the Merger is approved the Blake vendors (together with their associates) will have a 49.63% voting interest in 3PL[57], and will therefore have effective control of 3PL

(g) in addition, prima facie, the prospects of a future takeover offer or other control transaction for 3PL are diminished if the Merger is approved as the Blake vendors will be in a position to control the outcome / block any future takeover or other control transaction due to the (percentage) size of their collective shareholding received as consideration

(h) the Merger is not "fair" when assessed based on the guidelines set out in RG 111. This is because the Merger does not provide value to 3PL shareholders which is equal to the full controlling interest value of 3PL shares prior to the Merger. However, this is to be expected as the Merger does not involve a takeover offer (or similar proposal) for 100% of 3PL shares.

261 As indicated above there are a number of advantages and disadvantages associated with the Merger. However, in our view, the advantages of the Merger significantly outweigh the disadvantages.

262 For the reasons set out above, in our opinion, the Merger is therefore not fair but is reasonable to 3PL shareholders in the absence of a superior proposal.

(a) small companies generally trade on significantly lower earnings multiples than larger companies (provided other variables such as expected earnings growth are similar); and

(b) investors usually require a higher rate of return to compensate for the additional risks associated with small companies compared to larger companies.

[57] Interests associated with Mr Matthew Sandblom (the founder and current Executive Chairman of Blake) have an existing small ownership interest in 3PL shares. As a result, the Blake vendors (and their associates) will own approximately 49.63% of 3PL following implementation of the Merger.

Appendix A

Financial Services Guide

Lonergan Edwards & Associates Limited

1 Lonergan Edwards & Associates Limited (ABN 53 095 445 560) (LEA) is a specialist valuation firm which provides valuation advice, valuation reports and independent expert's reports (IER) in relation to takeovers and mergers, commercial litigation, tax and stamp duty matters, assessments of economic loss, commercial and regulatory disputes.

2 LEA holds Australian Financial Services Licence No. 246532.

Financial Services Guide

3 The *Corporations Act 2001 (Cth)* (Corporations Act) authorises LEA to provide this Financial Services Guide (FSG) in connection with its preparation of an IER to accompany the Notice of Meeting to be sent to 3PL shareholders in connection with the Merger.

4 This FSG is designed to assist retail clients in their use of any general financial product advice contained in the IER. This FSG contains information about LEA generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the IER, and if complaints against us ever arise how they will be dealt with.

Financial services we are licensed to provide

5 Our Australian Financial Services Licence allows us to provide a broad range of services to retail and wholesale clients, including providing financial product advice in relation to various financial products such as securities, derivatives, interests in managed investment schemes, superannuation products, debentures, stocks and bonds.

General financial product advice

6 The IER contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs.

7 You should consider your own objectives, financial situation and needs when assessing the suitability of the IER to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

Fees, commissions and other benefits we may receive

8 LEA charges fees to produce reports, including this IER. These fees are negotiated and agreed with the entity who engages LEA to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the entity who engages us. In the preparation of this IER, LEA is entitled to receive a fee estimated at $120,000 plus GST.

9 Neither LEA nor its directors and officers receives any commissions or other benefits, except for the fees for services referred to above.

10 All of our employees receive a salary. Our employees are eligible for bonuses based on overall performance and the firm's profitability, and do not receive any commissions or other benefits arising directly from services provided to our clients. The remuneration paid to our directors reflects their individual contribution to the company and covers all aspects of performance. Our directors do not receive any commissions or other benefits arising directly from services provided to our clients.

11 We do not pay commissions or provide other benefits to other parties for referring prospective clients to us.

Complaints

12 If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavour to satisfactorily resolve your complaint in a timely manner.

13 If we are not able to resolve your complaint to your satisfaction within 45 days of your written notification, you are entitled to have your matter referred to the Australian Financial Complaints Authority (AFCA), an external complaints resolution service. You will not be charged for using the AFCA service.

Contact details

14 LEA can be contacted by sending a letter to the following address:

Level 7
64 Castlereagh Street
Sydney NSW 2000
(or GPO Box 1640, Sydney NSW 2001)

Appendix B

Qualifications, declarations and consents

Qualifications

1 LEA is a licensed investment adviser under the Corporations Act. LEA's authorised representatives have extensive experience in the field of corporate finance, particularly in relation to the valuation of shares and businesses and have prepared hundreds of IERs.

2 This report was prepared by Mr Craig Edwards and Mr Martin Holt, who are each authorised representatives of LEA. Mr Edwards and Mr Holt have over 27 years and 35 years experience respectively in the provision of valuation advice (and related advisory services).

Declarations

3 This report has been prepared at the request of the Directors of 3PL to accompany the Notice of Meeting to be sent to 3PL shareholders. It is not intended that this report should serve any purpose other than as an expression of our opinion as to whether or not the Merger is fair and reasonable to 3PL shareholders.

Interests

4 At the date of this report, neither LEA, Mr Edwards nor Mr Holt have any interest in the outcome of the Merger. With the exception of the fee shown in Appendix A, LEA will not receive any other benefits, either directly or indirectly, for or in connection with the preparation of this report.

5 We have considered the matters described in ASIC RG 112 – *Independence of experts*, and consider that there are no circumstances that, in our view, would constitute a conflict of interest or would impair our ability to provide objective independent assistance in this engagement.

Indemnification

6 As a condition of LEA's agreement to prepare this report, 3PL agrees to indemnify LEA in relation to any claim arising from or in connection with its reliance on information or documentation provided by or on behalf of 3PL which is false or misleading or omits material particulars or arising from any failure to supply relevant documents or information.

Consents

7 LEA consents to the inclusion of this report in the form and context in which it is included in 3PL's Notice of Meeting.

Appendix C

Assessment of appropriate discount rate

Principles

1 The determination of the discount rate or cost of capital for an asset requires identification and consideration of the factors that affect the returns and risks of that asset, together with the application of widely accepted methodologies for determining the returns demanded by the debt and equity providers of the capital employed in the asset.

2 The discount rate applied to the projected cash flows from an asset or business represents the financial return that will be demanded before an investor would be prepared to acquire (or invest in) the asset or business. Discount rates for assets or businesses are frequently evaluated using the weighted average cost of capital (WACC) which is a function of the cost of equity and the cost of debt (and related debt to equity levels).

WACC

3 The generally accepted WACC formula is the post-tax WACC (without adjustment for dividend imputation), as shown below:

WACC formula

$$WACC = R_e \frac{E}{V} + R_d(1-t)\frac{D}{V}$$

where:
R_e = expected equity investment return or cost of equity in nominal terms
R_d = interest rate on debt (pre-tax)
t = corporate tax rate
E = market value of equity
D = market value of debt
V = market value of debt plus equity

4 We have used the capital asset pricing model (CAPM) to derive the cost of equity for 3PL. The formula for deriving the cost of equity using the CAPM is as follows:

Cost of equity calculation

$$R_e = R_f + \beta_e\left[E(R_m) - R_f\right]$$

where:
R_e = expected equity investment return or cost of equity in nominal terms
R_f = risk-free rate of return
$E(R_m)$ = expected market return
$E(R_m) - R_f$ = market risk premium (MRP)
β_e = equity beta

5 The elements adopted in the calculation of the discount rate for 3PL are set out below.

Appendix C

Discount rate for 3PL

Risk-free rate

6 For the purpose of our valuation of 3PL we have adopted a long-term risk-free rate of 3% per annum, having regard to the yields on 31-year CGBs over recent months (which we note reached 2.9% per annum in late February 2021).

Market risk premium

7 The market risk premium represents the additional return above the risk-free rate that investors require in order to invest in a well-diversified portfolio of equity securities (i.e. the equity market as a whole). Having regard to academic studies and empirical evidence, as well as the average market risk premium calculated over the longer term, we have adopted a long-term market risk premium of 6.5%.

Equity beta

8 In determining the appropriate equity beta for 3PL, we have considered (inter-alia):

(a) the risks associated with the business of 3PL

(b) the beta estimates for a number of software and services companies operating in Australia

(c) the beta estimates for 3PL and relevant industry sectors.

Risk factors of 3PL

9 We have considered the key business risks associated with 3PL which are summarised below:

(a) market risks – the continual focus on product innovation and change required to keep pace with competitors and new entrants to the market. Consequently, continual investment in product development and software is required[58]

(b) competition risks – it is a highly competitive industry, with a large number of online education participants targeting the school K-12 segment, many with significant resources and access to capital

(c) product risks – the Company has distribution rights to products owned by Blake (Reading Eggs, Reading Eggspress, Wordflyers and Mathseeds), but does not own the intellectual property rights to them. However, the contractual distribution rights enjoyed by the Company do not expire

(d) technology risks – the Company's technology platforms and systems might be disrupted by new technologies or potential obsolescence which may impact its reputation, ability to generate income and financial performance

58 The Company spent some $7.9 million in product development and software in the half year ended 31 December 2020 (representing some 33.1% of revenue), and a similar level of investment is expected to continue in order to ensure 3PL's products remain in demand. Source: 3PL Investor & Analyst Briefing for the half year ended 31 December 2020, page 18.

Appendix C

(e) privacy and data security risks – as a technology-focused education business, compliance with privacy and data security legislation in relation to managing information security and safeguarding customer and student data remains a paramount key consideration and impacts the approach and decisions made by the Company. Data storage in this regard is taken very seriously by the Company and it places the highest priority on ensuring its security

(f) revenue risk – the global school K-12 market is driven by schools' ability to fund the purchase of education technology for their students. Therefore, a significant decline in school funding in any market could result in reduced demand for the Company's products

(g) commercial contractual risk – in June 2020, the Company entered into an agreement with a NME customer in the Middle East region. As this is a material contract with a foreign owned government body, there are increased liability risks due to potential breach of contract, claims, disputes or litigation and increased business risk such as failure to build strong relationships or failure to meet contractual objectives

(h) exchange rate risk – volatility in exchange rates can impact the Company's ability to maintain or grow margins. However, to a significant extent the Company's business currently enjoys natural hedges. Consequently, the 3PL Board is of the view that the exchange rate risk is mitigated by the Company's natural hedges to an economically acceptable level.

Betas of comparable companies

10 In order to assess the appropriate equity beta for 3PL for the purposes of our calculations, we have also had regard to the equity betas of Australian software companies listed on the ASX compared with 3PL as shown below:

Listed company betas – software and services industry

Company	Company type	Market cap[(1)] A$m	Rozetta Technology beta[(2)]	Rozetta Technology r-squared[(3)]
3PL	Online educational programs	185	0.55	0.04
Xero	Online accounting and business services platform	21,536	1.50	0.34
Wisetech Global	Cloud based software solutions	9,956	2.67	0.24
Altium	Software development for design of electronic products	4,452	1.69	0.23
Appen	Language technology data and services	3,021	2.08	0.18
Technology One	Software provider	2,634	0.66	0.06
Iress	Software for financial services industry	2,051	1.45	0.39
Pushpay Holdings	Donor management system	1,959	1.08	0.07
Nearmap	Geospatial map technology	1,093	1.70	0.1
Jumbo Interactive	Internet lottery business	878	1.66	0.13
Bravura Solution	Specialised administration and management software	796	1.15	0.12

LONERGAN EDWARDS & ASSOCIATES LIMITED

Appendix C

Listed company betas – software and services industry				
Company	**Company type**	**Market cap[1] A$m**	**Rozetta Technology beta[2]**	**Rozetta Technology r-squared[3]**
Hansen Technologies	Billing systems software	742	0.62	0.03
Infomedia	Technology services developer	724	0.94	0.12
Serko	Travel and expense technology solutions	579	1.69	0.29
Elmo Software	Cloud-based HR, Payroll, Rostering/Time & Attendance Software	575	1.29	0.13
Integrated Research	Systems and applications management computer software	458	0.95	0.08
MNF Group	Voice, data, and cloud based communication	371	0.67	0.05
Vista Group Int'l	Film industry software solutions	361	1.31	0.15
Praemium	Scalable managed accounts technology	331	2.70	0.26
Class	Cloud-based administration software solutions	243	1.59	0.14
Livetiles	Global workplace software	216	2.34	0.17
Reckon	Software solutions for accounting and bookkeeping professionals	88	0.82	0.06
Livehire	Cloud-based online human resources productivity platform	87	2.28	0.11

Note:

1 Market capitalisation as at 31 December 2020.

2 The OLS beta as at 31 December 2020, being the most current data available from Rozetta as at the date of our analysis, based on 48 monthly returns unless noted otherwise. The share trading in March 2020 has been excluded from the analysis as it reflects the additional volatility caused by the COVID-19 pandemic.

3 The r-squared value measures (in simple terms) the reliability of the beta estimate, and ranges between zero (low reliability) and one (high reliability). A low r-squared value indicates that company specific factors (rather than the market return) is a key driver of the volatility of returns. As a result, more reliance is usually placed on sector or industry betas which tend to have a higher correlation with market returns (and are therefore a better measure of relative risk than company betas).

---

11 The above betas vary widely which reflects differences in size, leverage and operational risks. None of the other listed companies are directly comparable to 3PL and all are much larger in size. Individual stock betas are also generally less reliable than industry betas. As a result, it is important to also consider the related r-squared values shown above.

12 It should be noted that as the equity beta is a function of both business risk and financial risk (being the level of financial leverage or gearing), the above equity betas are levered betas and theoretically would need to be adjusted to reflect the different levels of gearing. However, this adjustment is subject to considerable estimation error. For example, gearing ratios are normally calculated at a point in time and therefore may not reflect the target or optimal capital structures of comparable companies in the long run. In addition, gearing ratios typically change over time. Further, the practice of adjusting equity betas for the difference in

financial leverage also gives a misleading impression that the process provides precise comparable beta estimates.

13 Nevertheless, we have considered the following in determining the appropriate equity betas for 3PL:

(a) the difference in gearing levels of comparable companies where these levels differ significantly

(b) the current gearing level of 3PL (which is nil) and the long-term gearing levels that we consider appropriate.

Historical betas of 3PL relative to sector beta

14 The table below shows the historical beta estimates of 3PL, and the betas for the Australian consumer goods industry:

3PL / Sector betas

Data period	3PL		Software and services sector	
Ended	beta[1]	r-squared[1]	beta[1]	r-squared[1]
31 December 2020[2]	0.55	0.04	1.65	0.64
31 December 2019	0.95	0.06	1.29	0.52
31 December 2018	1.58	0.17	1.21	0.54
31 December 2017	1.76	0.19	0.99	0.48

Note:
1 Beta based on 48 monthly returns.
2 Being the most current data available. The share trading in March 2020 has been excluded from the analysis by Rozetta Technology given the additional volatility caused by the COVID-19 pandemic.
Source: Rozetta Technology.

15 As evidenced by the low r-squared values of individual companies, the betas of individual stocks (including 3PL), are significantly less reliable than the betas for industry sectors. Accordingly, we believe most reliance should be placed on the industry or sector betas.

16 However, as noted above, the beta for the Australian software and services industry has also been highly volatile over recent years. Accordingly, we have also considered the following sector betas derived from the US market:

US sector betas – software

	No. of companies in sector	Geared beta	Ungeared beta
Software (Entertainment)	101	0.96	0.94
Software (Internet)	36	0.77	0.73
Software (System & Application)	388	0.91	0.87

Source: pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/Betas.html.

"For personal use only"

LONERGAN EDWARDS & ASSOCIATES LIMITED

Appendix C

17 In our opinion, the US sector betas are likely to be more reliable measures of relative risk than the Australian industry betas due to (inter-alia) the greater size and liquidity of the US capital markets. As noted above the US sector betas for software (system and application) are derived from the market returns on 388 listed software companies, which reduces the impact of any one company's share price performance on the beta estimate.

Conclusion

18 Having regard to the above, and in particular the reliability of the beta estimates, the long-term beta estimates of relevant industry sectors and the relative volatility of 3PL, we have adopted an equity beta of 1.15 to 1.25 for 3PL.

Gearing

19 The gearing level adopted should represent the level of debt that the asset can reasonably sustain and is not necessarily equivalent to the gearing level of the entity owning the asset. The factors that affect the "optimum" level of gearing will differ between assets. Generally, the major issues to address in determining this optimum level will include:

(a) the variability in earnings stream

(b) working capital requirements

(c) the level of investment in tangible assets

(d) the nature and risk profile of the tangible assets.

20 In general, the lower the expected volatility of cash flows (i.e. risk), the higher the debt levels which can be supported (and vice versa). Furthermore, as the equity beta is a function of both business risk and financial risk (being the level of financial leverage or gearing), it is important to adopt in the WACC calculation a level of gearing which is consistent with the gearing ratios of the listed companies for which equity betas were used to assess the appropriate beta. If this is not done then, in theory, the equity beta would need to be adjusted to reflect the different level of gearing adopted. However, this adjustment is subject to considerable estimation error and is therefore not preferred. Consequently, when assessing the appropriate gearing level it is appropriate to consider the gearing levels of "comparable" listed companies over the period over which the beta estimates were calculated.

21 However, 3PL has operated with no net debt for some time, and as at 31 December 2020 had net cash of $15 million[59].

22 Accordingly, we have assumed that 3PL is fully funded by equity for the purposes of our weighted average cost of capital calculation.

---

[59] 3PL has a $10 million bank loan facility available of which nil was utilised as at 31 December 2020.

3PL discount rate

23 Based on the above, the discount rate range for 3PL is as follows:

3PL discount rate		
Parameters	Low %	High %
Beta	1.15	1.25
MRP	6.5	6.5
Risk-free rate	3.0	3.0
Cost of equity	10.5	11.1
WACC / discount rate (after tax)(1)	10.5	11.1

Note:
1 As 3PL has operated with no net debt for some time, the WACC is equivalent to the cost of equity.

24 We have therefore adopted a discount rate for 3PL of 11% per annum.

Blake discount rate

25 We have considered whether the discount rate for Blake should be materially different than 3PL and have concluded that a similar discount rate is appropriate. Whilst Blake controls all its intellectual property and has a more diversified customer base than 3PL due to its B2C subscription business, Blake's subscription churn rate is high. As a result Blake is particularly reliant on marketing to attract new customers. However, over recent years Blake has been able to successfully grow its customer base, notwithstanding the high churn rate. Further, the risk of declines in annual subscriptions in the near term (as COVID-19 induced subscriptions reach the end of their contract term) is allowed for in our cash flow projections.

26 We have therefore also adopted a discount rate for Blake of 11% per annum.

Appendix D

Glossary

Term	Meaning
£	British pound
1HY	First half of financial year to 31 December
2HY	Second half of financial year to 30 June
3PL / Company	3P Learning Limited
AASB 16	Australian Accounting Standard AASB 16 – *Leases*
ABS	Australian Bureau of Statistics
AFCA	Australian Financial Complaints Authority
Agreement	Scheme Implementation Agreement between 3PL and IXL
APAC	Asia Pacific
ARPU	Average revenue per user
ARR	Annual recurring revenue
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange
AUD / A$	Australian dollar
B2B	Business to business
B2C	Business to consumer
Blake	Blake eLearning Pty Ltd
CAGR	Compound annual growth rate
CAPM	Capital asset pricing model
CGB	Commonwealth Government Bonds
Corporations Act	*Corporations Act 2001 (Cth)*
CY	Calendar year
DCF	Discounted cash flow
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax depreciation and amortisation
Edmentum	Edmentum Inc.
EMEA	Europe, Middle East and Africa
EV	Enterprise value
Forecast Period	The period to 30 June 2030
FSG	Financial Services Guide
FY	Financial year
GDP	Gross domestic product
IER	Independent expert's report
IXL	IXL Australia Pty Ltd
LEA	Lonergan Edwards & Associates Limited
Learnosity	Learnosity Holdings LImited
Merger	The proposed acquisition of Blake by 3PL
MRP	Market risk premium
NME	National Ministry of Education in the Middle East
NME contract	Contract for 200,000 licenses announced on 23 June 2020
NPV	Net present value
NZ	New Zealand
OECD	Organisation for Economic Co-Operation and Development
Q1 / Q2 / Q3 / Q4	Financial quarter (three month period)
RG 74	ASIC Regulatory Guide 74 – *Acquisitions approved by members*
RG 111	Regulatory Guide 111 – *Content of expert reports*
SaaS	Software as a service
Think	Think and Learn Pvt Ltd

Appendix D

Term	Meaning
UK	United Kingdom
UNESCO	United Nations Educational, Scientific and Cultural Organization
US	United States of America
USD / US$	US dollar
VWAP	Volume weighted average trading price
WACC	Weighted average cost of capital

Annexure C

Voting Form

C Voting Form

For personal use only

3P Learning

3P Learning Limited
ABN 50 103 827 836

LODGE YOUR VOTE

ONLINE
www.linkmarketservices.com.au

BY MAIL
3P Learning Limited
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235 Australia

BY FAX
+61 2 9287 0309

BY HAND
Link Market Services Limited
1A Homebush Bay Drive, Rhodes NSW 2138

ALL ENQUIRIES TO
Telephone: 1300 554 474 Overseas: +61 1300 554 474

X99999999999

SAMPLE

VOTING FORM

I/We being a member(s) of 3P Learning Limited and entitled to attend and vote hereby appoint:

STEP 1 Please mark either A or B

A VOTE DIRECTLY

elect to lodge my/our vote(s) directly (mark box)

in relation to the General Meeting of the Company to be held at **2:00pm (AEST) on Friday, 21 May 2021,** and at any adjournment or postponement of the Meeting.

You should mark either "for" or "against" for each item. Do not mark the "abstain" box.

OR

B APPOINT A PROXY

the Chairman of the Meeting (mark box)

OR if you are **NOT** appointing the Chairman of the Meeting as your proxy, please write the name of the person or body corporate you are appointing as your proxy

or failing the person or body corporate named, or if no person or body corporate is named, the Chairman of the Meeting, as my/our proxy to act on my/our behalf (including to vote in accordance with the following directions or, if no directions have been given and to the extent permitted by the law, as the proxy sees fit) at the General Meeting of the Company to be held at **2:00pm (AEST) on Friday, 21 May 2021 at 124 Walker Street North Sydney NSW 2060** (the **Meeting**) and at any postponement or adjournment of the Meeting.

The Chairman of the Meeting intends to vote undirected proxies in favour of the resolution.

STEP 2

VOTING DIRECTIONS

Proxies will only be valid and accepted by the Company if they are signed and received no later than 48 hours before the Meeting.
Please read the voting instructions overleaf before marking any boxes with an ☒

Resolution	**For**	**Against**	**Abstain***
1 Issue of Consideration Shares to the Blake Sellers			

* If you mark the Abstain box for a particular Item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

STEP 3

SIGNATURE OF SHAREHOLDERS – THIS MUST BE COMPLETED

Shareholder 1 (Individual)	Joint Shareholder 2 (Individual)	Joint Shareholder 3 (Individual)
Sole Director and Sole Company Secretary	Director/Company Secretary (Delete one)	Director

This form should be signed by the shareholder. If a joint holding, either shareholder may sign. If signed by the shareholder's attorney, the power of attorney must have been previously noted by the registry or a certified copy attached to this form. If executed by a company, the form must be executed in accordance with the company's constitution and the *Corporations Act 2001* (Cth).

3PL PRX2102G

HOW TO COMPLETE THIS SHAREHOLDER VOTING FORM

YOUR NAME AND ADDRESS

This is your name and address as it appears on the Company's share register. If this information is incorrect, please make the correction on the form. Shareholders sponsored by a broker should advise their broker of any changes. **Please note: you cannot change ownership of your shares using this form.**

VOTING UNDER BOX A

If you ticked the box under Box A you are indicating that you wish to vote directly. Please only mark either **"for"** or **"against"** for each item. Do not mark the **"abstain"** box. If you mark the **"abstain"** box for an item, your vote for that item will be invalid.

If no direction is given on all of the items, or if you complete both Box A and Box B, your vote may be passed to the Chairman of the Meeting as your proxy.

Custodians and nominees may, with the Share Registrar's consent, identify on the Voting Form the total number of votes in each of the categories **"for"** and **"against"** and their votes will be valid.

If you have lodged a direct vote, and then you attend the Meeting, your attendance will cancel your direct vote.

The Chairman's decision as to whether a direct vote is valid is conclusive.

VOTING UNDER BOX B – APPOINTMENT OF PROXY

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box in Step 1. If you wish to appoint someone other than the Chairman of the Meeting as your proxy, please write the name of that individual or body corporate in Step 1. A proxy need not be a shareholder of the Company.

DEFAULT TO CHAIRMAN OF THE MEETING

Any directed proxies that are not voted on a poll at the Meeting will default to the Chairman of the Meeting, who is required to vote those proxies as directed. Any undirected proxies that default to the Chairman of the Meeting will be voted in favour of the Resolution.

VOTES ON ITEMS OF BUSINESS – PROXY APPOINTMENT

You may direct your proxy how to vote by placing a mark in one of the boxes opposite each item of business. All your shares will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of shares you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on the items of business, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

APPOINTMENT OF A SECOND PROXY

You are entitled to appoint up to two persons as proxies to attend the Meeting and vote on a poll. If you wish to appoint a second proxy, an additional Voting Form may be obtained by telephoning the Company's share registry or you may copy this form and return them both together.

To appoint a second proxy you must:

(a) on each of the first Voting Form and the second Voting Form state the percentage of your voting rights or number of shares applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded; and

(b) return both forms together.

SIGNING INSTRUCTIONS

You must sign this form as follows in the spaces provided:

Individual: where the holding is in one name, the holder must sign.

Joint Holding: where the holding is in more than one name, either shareholder may sign.

Power of Attorney: to sign under Power of Attorney, you must lodge the Power of Attorney with the registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the *Corporations Act 2001*) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please indicate the office held by signing in the appropriate place.

CORPORATE REPRESENTATIVES

If a representative of the corporation is to attend the Meeting the appropriate "Certificate of Appointment of Corporate Representative" must be produced prior to admission in accordance with the Notice of Meeting. A form of the certificate may be obtained from the Company's share registry or online at www.linkmarketservices.com.au.

LODGEMENT OF A VOTING FORM

This Voting Form (and any Power of Attorney under which it is signed) must be received at an address given below by **2:00pm (AEST) on Wednesday, 19 May 2021,** being not later than 48 hours before the commencement of the Meeting. Any Voting Form received after that time will not be valid for the scheduled Meeting.

Voting Forms may be lodged using the reply paid envelope or:

ONLINE
www.linkmarketservices.com.au
Login to the Link website using the holding details as shown on the voting form. Select 'Voting' and follow the prompts to lodge your vote. To use the online lodgement facility, shareholders will need their "Holder Identifier" - Securityholder Reference Number (SRN) or Holder Identification Number (HIN).

BY MAIL
3P Learning Limited
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235
Australia

BY FAX
+61 2 9287 0309

BY HAND
delivering it to Link Market Services Limited*
1A Homebush Bay Drive
Rhodes NSW 2138

* During business hours (Monday to Friday, 9:00am–5:00pm)

IF YOU WOULD LIKE TO ATTEND AND VOTE AT THE GENERAL MEETING, PLEASE BRING THIS FORM WITH YOU. THIS WILL ASSIST IN REGISTERING YOUR ATTENDANCE.

3P Learning

www.3plearning.com