

ASX Announcement | 31 October 2022
Quarterly Activities Report & Appendix 4C

OpenLearning grows SaaS revenue in Sept 2022 quarter; secures strategic investment from Education Centre of Australia

Highlights:

- Platform Software-as-a-Service (SaaS) annual recurring revenue (ARR)¹ increased 19% year-on-year (YoY) to \$1.69 million, as a result of the Company's move to usage-based pricing
- Platform SaaS customer numbers remained steady at 244 as customer mix shifted to higher valued SaaS plans, resulting in average ARR per customer increasing by 5% to \$6,914
- Total enrolments grew by 0.141 million to 5.567 million, while total unique users grew by 0.052 million to 3.319 million
- Cash receipts from customers totalled \$0.807 million in Q3 FY22, a decline of 40% YoY as a result of fewer enrolments in the Company's program delivery segment
- Post quarter-end, the Company secured a strategic investment of circa \$1.1 million from Education Centre of Australia (ECA), a diverse Australian international education group
- Eligible OpenLearning shareholders will be able to invest alongside ECA through a non-renounceable rights issue to raise up to \$2.065 million in new capital that will be underwritten by ECA to the extent that their shareholding does not exceed 19.9%
- OpenLearning intends to work with ECA on a number of strategic initiatives to improve the performance of its operations and expand the OpenLearning platform into new markets

Sydney, Australia, 31 October 2022: Global lifelong learning platform **OpenLearning Limited** ('OpenLearning' or 'the Company') (ASX: OLL) is pleased to provide its Appendix 4C cash flow statement for the quarter ended 30 September 2022 (Q3 FY22), along with the following financial and operational update.

ECA invests in OpenLearning and underwrites rights issue

Post quarter-end, the Company announced that it secured a strategic investment of circa \$1.1 million from Education Centre of Australia ('ECA'), a diverse international educational group with offices in seven countries, partnerships with Australian, U.K. and Indian universities, and wholly owned Australian education providers that enrol over 7,000 students per year.

ECA now holds a 10.7% stake in OpenLearning and ECA Group CEO Rupesh K. Singh has been appointed to the Company's Board of Directors as part of the strategic investment. Additionally, ECA has agreed to underwrite the Company's recently announced non-renounceable rights issue to the Company's eligible shareholders to the extent that ECA's shareholding does not exceed 19.9%. The rights issue will entitle eligible shareholders to subscribe for 1 ordinary share for every 5 held on the Record Date at a price of \$0.043 per share with the aim of raising up to \$2.065 million, in addition to the \$1.1 placement to ECA.

¹ Annualised recurring SaaS revenue, calculated by utilising the generally accepted industry standard, which involves multiplying the monthly accrued SaaS revenue in the month at the end of the quarter by 12 (months). The ARR calculation does not take into account the future expiry of the term of any contract under which SaaS revenue is generated or any customer lost during the relevant month.

Strategic review wrapping up with ECA to play a key role

The Company commenced a strategic review of its business in May 2022, which generated interest from multiple parties and a number of opportunities for the Company. With ECA's strategic investment and its representative joining the Company's Board of Directors, ECA will play a key role in the final stages of the strategic review process.

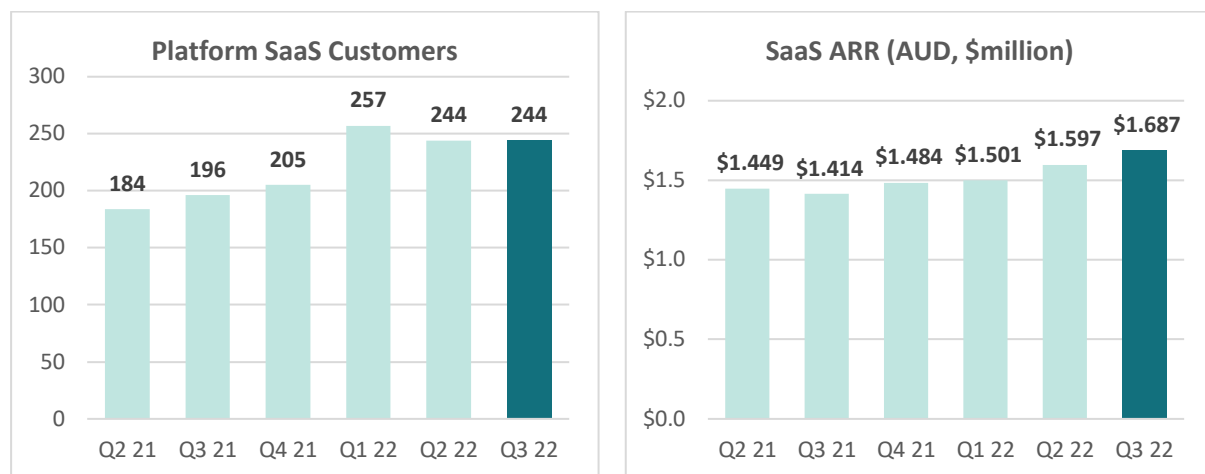
Thus far, the Board has determined that there is more value in retaining its core Platform SaaS business, implementing a capital-light expansion model to grow revenue while reducing costs than divesting it in the current market. At the same time, the Company has implemented its previously announced cost optimisation exercise and is now embarking on a restructure of the Transition Program Online (TPO) with the aim of increasing enrolments and improving operating efficiency.

The Company is also reviewing opportunities to expand its total addressable market beyond the higher education sector by leveraging its data and user base. The Company's Board of Directors will continue to actively assess corporate transactions that have the potential to deliver a benefit to shareholders and keep shareholders informed in accordance with its continuous disclosure obligations.

Platform SaaS ARR continues to grow

The OpenLearning platform has continued to gain traction as education providers have increased their usage of its end-to-end solution for delivering short courses and micro-credentials, resulting in Platform SaaS ARR increasing 6% quarter on quarter (QoQ) and 19% YoY to \$1.69 million.

The Company has finished simplifying its Platform SaaS pricing in Q3 FY22 with the removal of Platform SaaS plans below ARR \$1,000 and the move towards usage-based SaaS plans across its client-base. In the quarter, Platform SaaS customer numbers remained steady at 244 as some smaller customers left while higher value customers signed up to the OpenLearning platform. This shift in the customer mix resulted in 5% QoQ increase in ARR per customer to \$6,914. Additionally, total enrolments grew 0.141 million to 5.567 million, while total unique users increased by 0.052 million to 3.319 million.

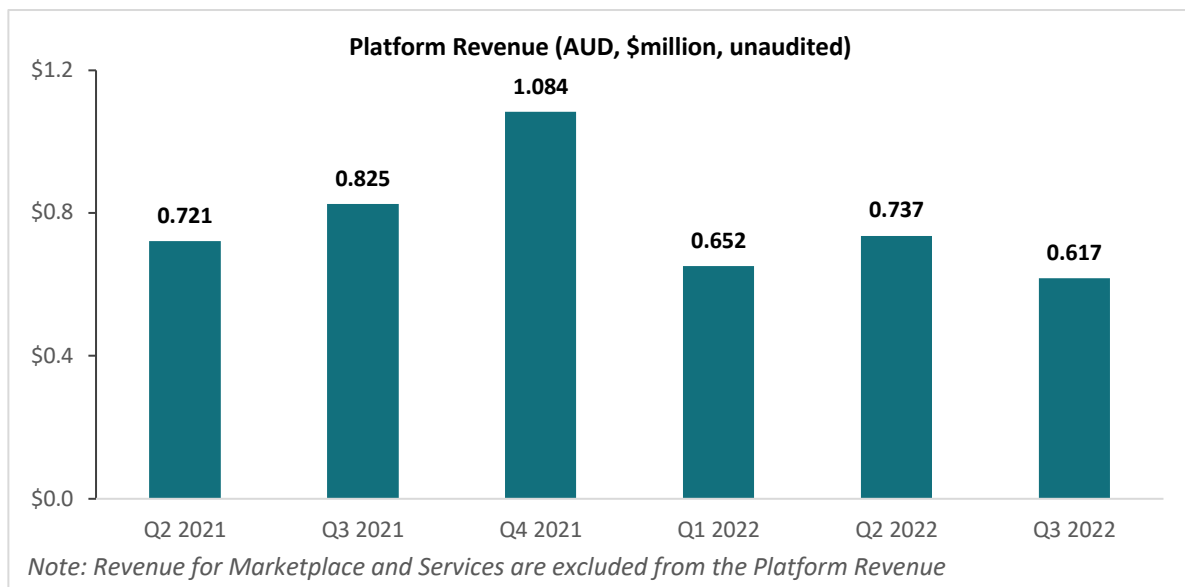


The Company previously operated separate sales and marketing teams across different geographies. While such a structure had some advantages, it resulted in duplicated effort and higher costs. The Company has now consolidated these efforts globally into a smaller team that is predominantly based in Malaysia with senior account managers located in key markets such as Australia to cover enterprise clients. These changes have been implemented as part of the previously announced cost optimisation exercise and are expected to increase sales and marketing efficiency.

Platform Revenues decline while SaaS revenue remains strong

OpenLearning's Platform Revenue includes two segments: 1) Platform Subscription and 2) Program Delivery. Platform Revenue decreased 25% YoY to \$0.617 million in Q3 FY22 as a result of a fewer enrolments in the TPO compared to the prior year. However, Platform Subscription revenue continued to grow, increasing by 24% YoY to \$0.429 million in the quarter.

As the Company previously indicated to the market, intakes and the recognition of revenue over the duration of the TPO will result in some volatility in the Company's quarterly Platform Revenue.



Restructuring the TPO

The TPO is a four-month direct entry program for prospective international students delivered in partnership with UNSW Global, which is now recognised ten universities across Australia, New Zealand and the United Kingdom, an increase of two universities in the past quarter.

Since the TPO was launched in March 2021 it has attracted over 155 students with over 85% of students gaining entry into their preferred university. Despite these results and high levels of student satisfaction, the number of enrolments in 2022 are lower than the Company expected, resulting in lower revenue in the Company's program delivery segment and higher losses. The Company is not currently responsible for marketing the program.

The Company is working closely with UNSW Global to implement two previously announced initiatives to expand the TPO into more universities and increase enrolments, which include the launch of a generic brand and website to attract more university partners, and changes to the way the program is marketed to increase enrolments. The Company has also reviewed the structure of the program and all elements of the delivery model and has identified a number of changes to increase operational efficiency.

In order to focus on implementing the aforementioned changes, the Company is considering no longer offering the November intake of the program if the number of students enrolled is below the break-even point, in which case, the next intake would be in March 2023. The Company expects that these changes will improve its gross margins on the program and results in higher enrolments in 2023.

Cash outflows decline; cost reductions underway

The Company reported cash receipts from customers of \$0.807 million in Q3 FY22 (down 40% YoY), as a result of lower enrolments in the TPO than the prior year and the timing of payments in the Marketplace and Services segments. Cash receipts were driven by the Platform SaaS business, which saw more customers subscribe to annual plans. More specifically, cash receipts by segment over the quarter were:

- Platform SaaS - \$0.326 million (up 37% YoY)
- Program Delivery - \$0.339 million (down 60% YoY)
- Marketplace - \$0.085 million (down 28% YoY)
- Services - \$0.059 million (down 56% YoY)

Net operating cash outflows were \$1.348 million in Q2 FY22, versus \$1.584 million in the previous quarter, mainly due to one-off expenses related to the cost reduction exercise, staff reductions and strategic review. At the same time, operating expenses and cost of goods sold were lower than Q2 FY22. The Company's cash on hand as at 30 September 2022 was \$1.214 million, excluding the circa \$1.1 million the Company raised post quarter end and the upcoming non-renounceable rights issue that aims to raise up to \$2.065 million.

As previously announced on 27th May 2022, the Company has embarked on a cost optimisation exercise that will reduce costs by an estimated \$2.47 million on an annualised basis² by reducing cloud hosting costs, corporate overheads, sales and marketing costs, and restructuring its operations. The results of this exercise started to flow through in Q3 and will be apparent Q4 FY22 as staff serve out their notice periods and operational efficiencies come into effect.

OpenLearning Group CEO & Managing Director Adam Brimo said: "We are pleased with the continued growth in Platform SaaS revenue as a result of our move to usage-based pricing, greater support for our clients and new platform functionality. Unfortunately, this was a challenging quarter for our Program Delivery business with the TPO attracting fewer enrolments than last year. We are working closely with UNSW Global to refine the program to ensure it is more sustainable and that it is marketed effectively.

We are seeing continued interest in the OpenLearning platform from education providers to deliver short courses and micro-credentials across our key markets, which has resulted in a solid sales pipeline for the SaaS business. The consolidation of our sales, marketing and operations team across Australia and Malaysia will enable the Company to improve efficiency and cost effectively enter new markets.

We're excited to welcome ECA to the register as a strategic investor and we look forward to working with them as we finalise our strategic review and explore a range of growth opportunities. ECA's university partnerships, geographic footprint and wholly owned colleges are a strong compliment to OpenLearning's education technology business and could provide opportunities for OpenLearning to increase its efficiency and expand into new markets."

Ends.

² Based on the annualised difference between Q4 2021 actual and Q4 2022 estimated operating expenses and cost of sales associated with platform subscription.

Authorised by:

Adam Brimo

Group CEO & Managing Director

Stay up to date with OpenLearning news as it happens:

Visit the Investor section of the OpenLearning website at: <https://solutions.openlearning.com/investor-home/> and follow the latest news here: <https://investors.openlearning.com/> There you can download the Company's Prospectus and see recent ASX Announcements and press coverage.

In addition to signing up for OpenLearning news directly from the Company, we also encourage shareholders to register to receive electronic communications from our share registry, Automic. To sign up for e-communications from Automic, please visit <https://www.automicgroup.com.au/>.

Thanks for your ongoing support. We look forward to sharing OpenLearning news with you.

For further information, please contact:**Company****Nova Taylor**

Joint Company Secretary

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About OpenLearning

OpenLearning Limited is a higher education technology company that provides a scalable online learning platform to education providers and a global marketplace of world-class courses for learners of all levels.

OpenLearning's platform enables the delivery of project-based, social learning to encourage interaction among users and foster a community of collaborative learners. The Company's unique service provides a complete learning environment for all types of online education - from short courses through to micro-credentials and online degrees.

With more than 3 million learners worldwide across thousands of courses provided by hundreds of education providers, OpenLearning is at the forefront of a new wave of online education delivery.

To learn more, please visit: <https://solutions.openlearning.com/>

Annexure

During Q3 FY22 the following payments were made to related parties and their associates as disclosed in Item 6 of the Appendix 4C.

Salaries and fees paid to Directors	Amount
Fees to Spiro Pappas as Non-Executive Director and Chairman	\$10,795
Fee to Benjamin Shields as Non-Executive Director	\$7,970
Fees to John Merakovsky as Non-Executive Director	\$5,833
Salary to Adam Brimo as Executive Director, Managing Director and Group CEO	\$46,893
Total	\$71,491

Appendix 4C

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

Name of entity

OPENLEARNING LIMITED

ABN

18 635 890 390

Quarter ended ("current quarter")

30 September 2022

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	807	3,118
1.2 Payments for		
(a) research and development	(50)	(194)
(b) product manufacturing and operating costs	(550)	(2,224)
(c) advertising and marketing	(32)	(133)
(d) leased assets	(2)	(10)
(e) staff costs	(1,056)	(3,295)
(f) administration and corporate costs	(371)	(1,273)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	1	2
1.5 Interest and other costs of finance paid	(4)	(4)
1.6 Income taxes paid	24	24
1.7 Government grants and tax incentives	-	50
1.8 Other (see note 6)	(115)	(441)
1.9 Net cash from / (used in) operating activities	(1,348)	(4,380)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	-	(4)
(d) investments	-	-
(e) intellectual property	(22)	(22)
(f) other non-current assets (see note 7)	(172)	(554)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	(194)	(580)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	1,583
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	-
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	-	1,583

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	2,752	4,588
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,348)	(4,380)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(194)	(580)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-	1,583
4.5	Effect of movement in exchange rates on cash held	4	3
4.6	Cash and cash equivalents at end of period	1,214	1,214

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	1,196	2,598
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (balances with online payment providers)	18	154
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	1,214	2,752

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

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

Current quarter \$A'000
71
-

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

Item 6.1: This sum of \$71,000 consists of salaries paid to an executive director and fees paid to non-executive directors plus related super contributions.

7. Financing facilities

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

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

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

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

7.5 Unused financing facilities available at quarter end

-

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

Not Applicable.

8. Estimated cash available for future operating activities

\$A'000

8.1	Net cash from / (used in) operating activities (Item 1.9)	(1,384)
8.2	Cash and cash equivalents at quarter end (Item 4.6)	1,214
8.3	Unused finance facilities available at quarter end (Item 7.5)	-
8.4	Total available funding (Item 8.2 + Item 8.3)	1,214
8.5	Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	0.90

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

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

Answer:

The Company does not expect to have the same level of net operating cash flows because it has already embarked on a cost reduction exercise as detailed in its Q3 FY22 quarterly activities report that is expected to result in lower net operating cash outflows from Q4 FY22 onwards.

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

Answer:

Post quarter end, the Company raised circa \$1.1 million from a share placement [ASX Announcement 11th Oct 2022] and announced a partially underwritten non-renounceable rights issue that will raise a minimum of circa \$1.18 million (as a result of the partial underwrite) and up \$2.065 million in Q4 FY22. [ASX Announcement 21th Oct 2022]

The Company has already received the funds for the share placement and has signed an underwriting agreement with Education Centre of Australia (ECA) to underwrite the rights issue to the extent that their shareholding doesn't exceed 19.9%. [ASX Announcement 25th Oct 2022]

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

Answer:

Yes. The Company is in the process of restructuring its operations as part of its strategic review and has already put in place measures to reduce operating costs while ensuring that its core business continues to meet its objectives.

Compliance statement

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

Date: 31 October 2022

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

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.
6. Included in item 1.8 'Other' are mainly payments to education providers of \$82,000 for the current quarter and \$414,000 for the year-to-day period.
7. Included in item 2.1(f) 'Payments to acquire other non-current assets' are payroll costs to build the OpenCreds Investment Fund courses, CS101 courses, UNSW TP courses, and for platform development. These payments are capitalised in the balance sheet pending completion of the intangible assets and amounted to \$172,000 for the current quarter and \$554,000 for the year-to-day period.