



Keypath Education International, Inc.
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ASX Announcement

February 27, 2023

Keypath delivers growth in H1 FY23, signs Melbourne Business School as new partner

[Keypath Education International, Inc.](#) (Keypath or the Company) (ASX: KED) today released its results and Appendix 4D for the half-year ended December 31, 2022 (H1 FY23). The Appendix 4D is prepared in US dollars under US GAAP.

Highlights of H1 FY23

- **Revenue growth aligned with FY23 full-year guidance:**
 - H1 FY23 revenue of US\$58.7 million, 3.1% higher than H1 FY22 (8.0% higher on a constant currency basis)
 - H1 FY23 revenue within our Healthcare¹ verticals of US\$31.3 million was 22.3% higher than H1 FY22
- **Significant partner and program additions:**
 - Melbourne Business School, the home of Australia's #1 ranked² MBA, signed as a new partner to launch their part-time MBA online, as well as to support other executive education courses across the MBS Online education platform (the "MBS Partnership")
 - Four new partners and 19 new programs added in H1 FY23, of which 15 were in the Healthcare verticals and four continuing our expansion with our Australian enterprise partners
 - Southeast Asia continues to perform in line with internal expectations with a strong pipeline underpinning future growth
- **Contribution margin and adjusted EBITDA reflect investment in large vintages:**
 - Q2 (and therefore H1) is typically the lowest period in terms of revenue, contribution margin and adjusted EBITDA due to shortened terms and lower program commencements because of period-end holidays
 - Year-over-year comparisons impacted primarily by a tough comparison in H1 FY22 due to the COVID bump in FY22, with timing of launches, and continued pressure in more mature vintages, also contributing
- **Strong cash position:**
 - US\$51.5 million (no debt) as of December 31, 2022
 - Confident organic growth fully funded to cash flow breakeven

Keypath's Founder and CEO, Steve Fireng, said "We believe our investment in healthcare and continued growth in partners and programs will drive long-term sustainable growth and great outcomes for students. The expansion of four new university partnerships including our Melbourne Business School partnership this half-year, proves the value universities see in our

¹ Healthcare includes Nursing, Health and Social Services verticals.

² #1 MBA degree in Australia; Financial Times, 2022

offering and provides an exciting new partner for Keypath to grow alongside in our characteristic true “win-win” relationship we have with all our partners.

We have already signed 30 programs from our future vintages (27 of which are from the FY24 vintage). Of the 30 programs, 27 are in Healthcare.

Keypath is well positioned across the globe to expand its technology and services to continue to help universities provide quality access to education in a digital environment including by continuing to grow our programs across partners and regions.”

Key Financial Metrics

US\$M	H1 FY23	H1 FY22	Change	Change (%)
Revenue	58.7	56.9	1.8	3.1%
Contribution margin ³	9.3	12.2	(2.9)	(23.7%)
Contribution margin %	15.9%	21.5%	(5.6%)	(558 bps)
Adjusted EBITDA ⁴	(6.7)	(3.7)	(2.9)	78.8%

Key Operating Metrics

	H1 FY23	H1 FY22	Change	Change %
Partners	43	37	6	16.2%
Active programs ⁵	197	166	31	18.7%
Course enrolments - YTD ⁶	45,707	44,690	1,017	2.3%

Revenue growth continues

Keypath has continued to deliver revenue growth in line with our FY23 guidance with H1 FY23 revenue growing 3.1% to US\$58.7 million (8.0% growth on a constant currency basis when adjusted for unfavorable foreign exchange impacts of US\$2.8 million⁷). The revenue comparability has been impacted in Australia by the COVID-related increase in enrollments due to lockdowns in H1 FY22 and by the expected softening of enrollments in some programs from mature vintages, weighted to the business vertical, in H1 FY23.

³ Contribution margin is revenue less direct costs, which consists of salaries and wages, direct marketing and general & administrative expenses attributable to direct departments. Contribution margin is not a US GAAP based measure.

⁴ Adjusted EBITDA is earnings before interest, tax, depreciation, amortization and excluding stock-based compensation. Adjusted EBITDA is not a US GAAP based measure. Note that reported EBITDA for H1 FY23 was US(\$6.6) million as compared to US(\$10.5) million in H1 FY22. H1 FY23 adjustments to reported EBITDA include US\$1.0 million of one-time stock based compensation, US\$0.9 million of ongoing stock based compensation, offset by a \$2.0 million favorable adjustment from the final settlement of the long-term incentive plan cash awards. H1 FY22 adjustments to reported EBITDA include US\$5.7 million of one-time stock based compensation and long term incentive plan cash awards and US\$1.0 million of ongoing stock based compensation.

⁵ Keypath defines a program as a bachelor’s, master’s, or doctoral degree program, a post master’s degree certificate (in the United States) or a graduate diploma program (in APAC) that we are actively supporting on behalf of one of our university partners or for which we have executed contracts for a future program launch.

⁶ H1 FY23 include estimates for enrollments pending invoicing. Note that course enrollments are counted in the quarter in which the applicable term began.

⁷ The comparisons at constant currency rates (foreign exchange) reflect comparative local currency foreign exchange rates at the prior period’s average foreign exchange rates. This measure provides information on the change in revenue assuming that foreign currency exchange rates have not changed between the prior period and the current period. Management believes the use of this measure aids in the understanding of changes in revenue without the impact of foreign currency.

As of December 31, 2022, our current program count is 197, which represents an increase of 19 programs from the June 30, 2022 (FY22) period. The 19 programs added in the half-year came from the North American and APAC regions, with 15 coming from the Healthcare verticals.

Contribution margin and EBITDA performance reflect investment in large vintages and the COVID boost in Q2 FY22

Contribution margin for H1 FY23 decreased by 23.7% to US\$9.3 million which reflects the large number of programs we have signed recently that are in their deepest investment phase and the FY21-FY23 vintages⁸ being very large vintages, in terms of size and investment and expected steady-state revenue.

Adjusted EBITDA of US(\$6.7) million for H1 FY23 reflects investments in the new vintages noted above, system and people investments and continued investment in our Southeast Asia operation.

The contribution margin and adjusted EBITDA performance also reflects the COVID boost seen in H1 FY22 creating a challenging comparison figure, and the softening enrollments in mature vintages flowing through to revenue and therefore contribution margin and adjusted EBITDA.

Cash Flows and Position

As of December 31, 2022, the Company had total cash on hand of US\$51.5 million reflecting US(\$7.7) million of net cash outflow in H1 FY23. The Company remains debt-free and confident we are fully funded to cash flow breakeven for the Company's growth objectives.

Net cash used in operations in H1 FY23 was US\$2.9 million, primarily driven by the seasonality of our cash flows and strong working capital management.

Net cash used in investing activities in H1 FY23 year was US\$2.6 million, primarily representing the capitalized value of employee and contractor costs directly involved in the development of programs and eligible for capitalization under US GAAP.

Net cash used in financing activities in H1 FY23 was US\$2.1 million, representing the amount of cash outflow to satisfy employees' income tax withholding obligations as part of a net-share settlement of stock-based awards and employee stock repurchases.

Current trading and outlook

Keypath is driving positive business momentum into FY23 with our growth in partners, programs and enrollments proving the value of our OPM offering. Our continued expansion in Healthcare and Southeast Asia is providing the foundation for our future growth.

We are pleased with the progress we are making in the FY23 transition year of positioning the company for long-term growth through proactively and analytically transitioning our focus and investment into newer vintages comprising programs with improved growth, unit economics and returns profiles.

The MBS Partnership is a prime example of the value universities see in our offering and we are excited to drive this opportunity to its fullest extent.

⁸ Vintage year or vintage cohort refers to the fiscal year in which the first student intake occurred for any given program. For example, if a program commences on July 1, 2022, it will be classified as an FY23 vintage. Fiscal year is from July 1 to June 30.

We are reconfirming our guidance for FY23 of:

- Revenue: US\$125 million – US\$130 million on a constant currency basis⁹
- Adjusted EBITDA: US\$(7) million – US\$(9) million on a constant currency basis

As of December 31, 2022, we had US\$51.5 million cash (no debt) on our balance sheet; we continue to remain confident we are well funded to cash flow positivity on our organic growth plans and continue to target adjusted EBITDA profitability from H2 FY24.

Keypath is well positioned with growing acceptance among universities and a clear trajectory of accelerating global growth in online learning.

Investor Day

We are aiming on holding an Investor Day in April to provide further information about the Company, including progress on our strategy, growth and profitability. Further information about this will be provided to the market in due course.

H1 FY23 Results Investor Briefing

An H1 FY23 Results Investor Briefing webcast will be held at 10.30am (AEDT) on February 27, 2023. Participants can register for the Investor Briefing webcast through the following link: [Register for Investor Briefing webcast](#)

Further Information

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About Keypath

Founded in 2014, Keypath is a global, market-leading edtech company in the online program management (OPM) market. In collaboration with its university partners, Keypath delivers career-relevant, technology-enabled online higher education programs with the goal of preparing students for the future of work. The suite of services Keypath provides to its university partners includes designing, developing, launching, marketing, and managing online programs. Keypath also undertakes market research and provides student recruitment, support and placement services. The services Keypath provides are underpinned by KeypathEDGE, its integrated technology and data platform. Keypath has approximately 800 employees with operations in Australia, the United States, Canada, the UK, Malaysia and Singapore.

⁹ FY23 guidance is on constant currency basis assuming USD:AUD rate of 0.695.

Forward Looking Statements

This announcement contains forward-looking statements. Forward-looking statements may include statements regarding Keypath's intentions, objectives, plans, expectations, assumptions and beliefs about future events, including Keypath's expectations with respect to the financial and operating position or performance of its business, its capital position and future growth. Forward-looking statements are based on assumptions and contingencies that are subject to change without notice and are not guarantees of future performance. They involve known and unknown risks, uncertainties and other important factors, many of which are beyond the control of Keypath, its directors and management and which may cause actual outcomes to differ materially from those expressed or implied in this announcement. Forward-looking statements should be read in conjunction with, and are qualified by reference to, information in this announcement or previously released by Keypath to ASX. Readers are cautioned not to place undue reliance on forward-looking statements, which are provided for illustrative purposes only and are not necessarily a guide to future performance. No representation or warranty is made by any person as to the likelihood of achievement or reasonableness of any forward-looking statements, and to the maximum extent permitted by law, responsibility for the accuracy or completeness of any forward-looking statements is disclaimed, and except as required by law or regulation (including the ASX Listing Rules), Keypath undertakes no obligation to update any forward-looking statements. Keypath also notes that past performance may not be a reliable indicator of future performance.

Restriction on Purchases of CDIs by US Persons

Keypath is incorporated in the US State of Delaware and none of its securities have been registered under the US Securities Act of 1933 or the laws of any state or other jurisdiction in the United States. Trading of Keypath's CHESSE Depositary Interests (CDIs) on the Australian Securities Exchange (ASX) is not subject to the registration requirements of the US Securities Act in reliance on Regulation S under the US Securities Act and a related 'no action' letter issued by the US Securities and Exchange Commission to the ASX in 2000. As a result, the CDIs are "restricted securities" (as defined in Rule 144 under the U.S. Securities Act) and may not be sold or otherwise transferred except in transactions exempt from, or not subject to, the registration requirements of the US Securities Act. For instance, US persons who are qualified institutional buyers (QIBs, as defined in Rule 144A under the US Securities Act) may purchase CDIs in reliance on the exemption from registration provided by Rule 144A. To enforce the transfer restrictions, the CDIs bear a FOR Financial Product designation on the ASX. This designation restricts any CDIs from being sold on ASX to US persons excluding QIBs. In addition, hedging transactions with regard to the CDIs may only be conducted in compliance with the US Securities Act.