ReadCloud Ltd

ReadCloud Ltd

Initiation Report

Information Technology – Software & Services

25 July 2024

Paving the digital path for education

ReadCloud Limited (ASX:RCL) services the education and training sectors through the provision of digital learning content, proprietary interactive technology and support for students and educators. The business was founded more than a decade ago with the goal of digitising school textbooks to be delivered across an eLearning platform rather than students carrying schoolbags full of books. The company's origin as a technology-led business with an eLearning platform for secondary school students is still at the core of the group, but RCL has now evolved to also include the vocational education and training (VET) industry through the VET-in-school and VET-in-industry sectors. All its divisions are firmly established, generate strong margins and are driven by a clear focus on the needs of the end-user. It delivers both proprietary and third-party content to more than 400 schools domestically and internationally. The company has grown both organically and through acquisition and we think is now rightsized with renewed management and well positioned to execute its recently refined growth strategy in all its three key divisions. We believe RCL can capitalise on a significant and growing opportunity resulting in our forecast organic CAGR revenue and EBITDA growth of 14.8% and 143% respectively over the forecast period from FY24f to FY27f. We initiate coverage with a DCF-based valuation of $0.35/share, representing capital upside potential of 257% on the current share price.

Business model

The business derives revenue from both its software platform and the content that it distributes to students and educators across the platform. RCL's eBook division represents 45% of group revenue, VET-in-school 37% and VET-in-industry 18%. Management says it is now looking to scale and believes all businesses are forecast to grow revenues at a compound rate of 15%+ p.a. organically. ReadCloud also has optionality to accelerate growth in any or all of the three divisions by investing further in the sales effort or through acquisitions.

The pieces of the puzzle are now in place

The business has reached an inflection point under new management having integrated and consolidated previous acquisitions, reduced costs, focussed on profitability and cash generation, and positioned for growth and operating leverage. ReadCloud is a diversified business with three different verticals entrenched in the education sector with the tailwind of accelerating digitisation. The company has a proven platform and product suite with growth domestically and internationally. It is now a cash generative and operating profitable business with a debt-free balance sheet providing optionality for growth.

DCF valuation of $0.35/share

We have undertaken a discounted cash-flow valuation and derived a value of $0.35/share. We forecast ReadCloud to be profitable, cash-flow generative and debt free. In our view, it offers significant fundamental value with a growth overlay. Our valuation represents 257% upside potential from the current share price.

Historical earnings and RaaS estimates (in $A unless otherwise stated)

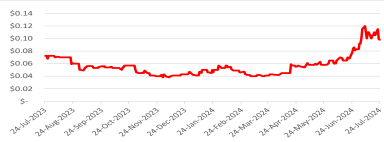
Year end	Revenue (A$m)	EBITDA adj. (A$m)	NPAT adj. (A$m)	EPS (c)	P/E (x)	EV/EBITDA (x)
09/23a	10.7	(0.8)	(2.3)	n.a.	n.a.	n.a.
09/24f	11.9	0.1	(0.9)	n.a.	n.a.	128.0
09/25f	13.8	0.8	(0.2)	n.a.	n.a.	16.0
09/26f	15.8	1.8	0.7	0.5	19.6	7.1
09/27f	18.0	2.9	1.9	1.3	7.5	4.4

Source: Company data, RaaS estimates for FY24f to FY27f

Share Details

ASX code	RCL
Share price (24-Jul)	$0.098
Market capitalisation	$13.9M
Shares on issue	146.2M
Net cash (Sep 30, 2024f)	$1.1M
Free float	~84%

Share Performance (12-months)



Upside Case

- Material traction in eBooks internationally
- The securing of new schools in eBooks and VET-in-school ahead of our forecasts
- Acquiring growth (all current forecasts are organic)

Downside Case

- Failure or delays in conversion of new sales
- Strong competitive response from incumbents
- Lack of traction in the eBooks model

Catalysts

- Proof of traction internationally
- Delivery of positive underlying EBITDA and operating cash-flow positivity at FY24f result and commentary around forward growth
- Potential for further M&A activity

Board and Management

Cris Nicolli	Chair
Paul Collins	Non-Executive Director
Jonathan Isaacs	Non-Executive Director
Lars Lindstrom	Executive Director
Darren Hunter	Executive Director
Andrew Skelton	CEO
Luke Murphy	CFO

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***The analyst is also a principal of Cyan IM which owns shares in RCL.**

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Since listing in 2018, RCL has grown organically and through acquisition, resulting in solid revenue growth but without the scale and operating disciplines to drive bottom-line profitability in what has been a challenging macro environment. New management has introduced a clear strategy, complemented by sales, operational and cultural disciplines, which should result in underlying EBITDA profitability and operating cash-flow positivity in FY24f on our estimates. The business is then well positioned to enter a profitable growth phase for its three divisions, resulting in strong operating leverage at group level. The company is debt-free, cash-flow generative, has numerous growth levers and we believe offers fundamental value.

Investment Case

In our view, ReadCloud Limited can achieve success for the following reasons:

- A new CEO has been in place for just over 12 months and, along with the senior management team, has driven change through clarification of strategy, rightsizing the team and evolution of the culture with a clear focus on relationships and the end-user.
- The previously stated short-term goal of underlying EBITDA profitability and operating cash-flow positivity is being delivered, as clearly evidenced by the H124a result and re-iterance of FY24f guidance (30 September year-end).
- All three operating divisions in eBooks, VET-in-school and VET-in-industry are now delivering strong gross profit margins and are positioned with clear upside potential, over the short and long term. We view eBooks and VET-in-school as the likely key growth drivers.
- eBooks has materially improved its customer retention from 69% in FY23 to 91% in FY24. This is the first clear validation of the change in culture and strategy within the division. From here we forecast growth in domestic school numbers and further expansion of the international business, resulting in revenue CAGR of 14.2% over the forecast period FY24f to FY27f.
- Having consolidated three acquisitions, we believe the high-margin VET-in-school business is positioned to enter a strong growth phase, driven by new schools on-boarded, an increase in the number of overall qualifications delivered and price increases in FY25, resulting in our forecast revenue CAGR of 17.2% from FY24f to FY27f.
- The business is debt-free, EBITDA(und) profitable and operating cash-flow positive. This gives it optionality for new growth drivers, be it the investment of capital to accelerate growth in the existing business or through acquisition.
- RCL offers clear fundamental value, in our view. With an enterprise value of $12.8m, it has a net cash position, is profitable, cash generative and growing. Our DCF valuation of $0.35 represents material potential upside from the current share price. Return on equity and relative peer analysis methodologies are also considered in this report and support our fundamental value thesis.

DCF Valuation

Exhibit 1: Base-case DCF valuation

DCF parameters and valuation	Outcome
Discount rate / WACC	13.0%
Beta (observed beta is 1.5)*	1.5
Terminal growth rate assumption	2.5%
Sum of present value (PV) (A$M)	20.3
PV of terminal value (A$M)	29.5
PV of enterprise (A$M)	49.8
Net cash at 30 Sep 2024f (A$M)	1.1
Net value – shareholder (A$M)	51.0
No. of shares on issue (M)	146.2
NPV per share	**$0.35**

Source: RaaS estimates; *LSEG five-year observed beta

Company Overview

ReadCloud is an education services business providing solutions to secondary schools domestically and internationally, and the vocational education and training (VET) sector in Australia. It does so predominantly through the delivery of digital educational content across its eLearning platform and software.

The company derives its revenue by providing services and solutions in the three following divisions:

- **eBooks:** ReadCloud delivers a leading eBook solution for secondary schools that replaces physical textbooks. It sources over 200,000 eBooks from textbook publishers globally and delivers the content through its proprietary eLearning platform. It currently has a well-established presence in the Australian market with ~70 schools as customers. Revenue is derived through the sale of eBooks at a margin and a Software-as-a-service (SaaS)-style license fee. The company is now pushing into the international schools' market and is seeing increased traction with five schools including its flagship inaugural client in King's InterHigh, complemented by new customers in Singapore, Ukraine and the Democratic Republic of Congo.

  The end users of the eBook solution through the eLearning platform are secondary school students and their teachers. The division represents 45% of group revenue (FY24f) and we believe can be viewed as one of the growth drivers of the business, both domestically and offshore.

- **VET-in-school:** ReadCloud entered the vocational education and training-in-schools segment in 2018 through the acquisition of the Australian Institute of Education and Training (AIET) in 2018, an Australia-based Registered Training Organisation (RTO). It has since acquired two further Australian RTOs in The College of Sound and Music Production (COSAMP) in 2020 and the Ripponlea Institute in 2021. The three VET-in-schools RTOs have now been migrated onto RCL's proprietary platform, which enables delivery of digital content to students and teachers, and have been rebranded under one name, ReadCloudVET. On a combined basis the VET-in-school division services 339 Australian schools offering 647 qualifications across ~14,000 students annually. Revenue is generated on a per-qualification basis plus a fee per student.

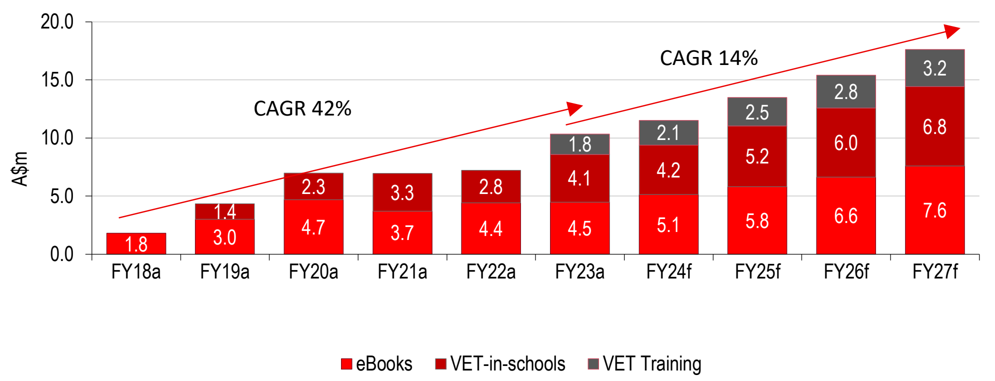
  The end users of the VET-in-school services are currently largely year 11 and 12 students still at school, undertaking vocational education and training as part of their senior secondary certificate of education (SSCE). For example, this is the HSC in NSW, VCE in Victoria and so on. ReadCloud is now expanding its offering to include year nine and 10 students going forward (this provides potential upside to our current forecasts if the FY25 initiative proves successful). The division currently represents 37% of revenue (FY24f) and we forecast it to deliver strong growth in the coming periods through securing new schools and increasing the number of qualifications offered on a per-school basis.

- **VET-in-industry (or "Training"):** RCL entered the broader industry VET training sector through the acquisition of Australian-based Southern Solutions in November 2022. The business was established in 2014 and is an RTO delivering nationally accredited post-secondary school training for qualifications in early childhood education and care, business, aged care, hospitality, logistics and real estate. In FY23 Southern Solutions offered a total of 14 qualifications with total enrolment numbers of ~600 students. The courses are generally government funded in areas of skills shortages and ReadCloud revenue is generated on a per-student basis.

The end users of the VET-in-industry services are post-secondary school students looking for an industry-specific qualification. We forecast the division to contribute 19% of FY24 group revenue and grow at a CAGR of 15.1% from FY24f to FY27f.

Exhibit 2 illustrates ReadCloud's revenue composition historically and on a forecast basis. Through a combination of organic and acquisitive growth, the historical revenue CAGR from FY18a to FY23a has been 41.8%. We believe the business now has a solid position in each of its three targeted markets, all acquisitions have been integrated and the overall business appears well positioned to grow organically, and potentially through further acquisition. Our forecast revenue CAGR of 14% from FY23a to FY27f is purely on an organic basis and we believe likely to prove conservative.

Exhibit 2: ReadCloud revenue composition



Source: Company data and RaaS forecasts (FY24-27)

ReadCloud has ~40 employees, predominantly based in its head office in Melbourne, Australia. The workforce composes around seven staff employed in engineering or technical support roles, 13 in sales, marketing and customer relationships, with the balance in operations, compliance, finance and executive roles.

We discuss the business models, key considerations and forecasts of each division in further detail in the 'Divisional Overview' section of this report.

Company Background

With its origins dating back to 2009, ReadCloud has grown from a single iPad-based solution for two pilot schools in 2013, to currently having more than 100,000 users on its platform across multiple operating systems in schools and other educational institutions, domestically and internationally.

The company listed on the ASX in February 2018, raising $6m at $0.20 per share, with a total post-money market capitalisation of $16m. At that time the business had grown its user base from 924 in 2015 to 21,820 in 2017 and with expectation to more than double that to 45,000 in 2018 [which was achieved]. Funds were predominantly used for growth purposes including sales and marketing, software development and working capital. The business was purely a seller of eBooks delivered through its proprietary eLearning platform to be used by teachers and students. The sales approach was largely one of reseller channel partnerships with publishers and distributors. While resellers remain part of the go to market strategy, the current model has seen the company evolve into more of a direct selling model where ReadCloud has the relationship with the end-user (schools), resulting in much stronger margins and control of the relationship.

Since the IPO the company has continued to focus on the growth of its eBook business into schools where it delivers secondary school curriculum digitally, but it has also acquired its way into two new verticals in VET-in-schools and VET-in-industry.

VET-in-schools

The dynamics and opportunities in the VET-in-schools sector is discussed in the 'Divisional Overview' section of this report. ReadCloud says it originally saw this part of the industry as an opportunity to complement its existing eBook strategy and has built its presence in the sector through three acquisitions of Registered Training Organisations (RTOs):

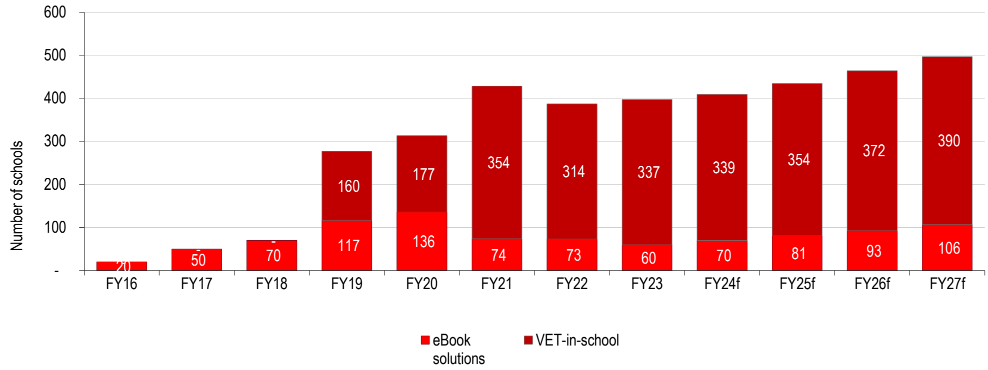
- **Australian Institute of Education & Training (AIET)** – Acquired November 2018. An RTO with 34 VET-in-school courses. $2.7m total consideration consisting of $0.8m cash and $1.9m scrip (a proportion of which was earn-out based) on an EBIT multiple of ~4.5x. The business provided its programs to more than 90 schools and 4,000 students at the time of acquisition, with no overlap with the existing business so viewed as a cross-sell opportunity.
- **College of Sound and Music Production (COSAMP)** – Acquired October 2020. An RTO delivering VET courses to 184 secondary schools throughout Australia and the market leader in music industry VET-in-school qualifications. The total consideration was $1.38m with the business generating $0.84m revenue and $0.22m EBITDA.
- **Ripplonlea Institute (Ripponlea)** – Acquired June 2021. An RTO as the market leader in VET-in-school courses for applied languages. Ripponlea delivers nationally accredited programmes predominantly in languages, but also fashion, music and small business to 70 secondary schools. RCL paid $1.5m, comprising $1.2m cash and $0.3m scrip (again, partly on earn out). At acquisition the business generated $0.85m in revenue and $0.4m EBITDA.

VET-in-industry

In October 2022 RCL broadened its reach outside of the school market with the acquisition of **Southern Solutions**, an RTO offering various industry training certificates but specialising in early childhood education and care. This expanded RCL's target audience to the broader VET market in specific industries with skill shortages and high national government funding and focus. At the time of acquisition Southern Solutions generated revenue of $2.0m and delivered EBIT of $0.63m. The acquisition price of $3.15m comprised both cash and scrip components, including $1.8m in deferred consideration based on delivery of FY23 and FY24 performance hurdles (at the H124a result it was confirmed the earn out would not be paid mostly due to a challenging period in FY23). The business was acquired on a forward FY24f EBIT multiple of ~four times.

The group strategy has resulted in strong growth in the number of schools across its platform. Exhibit 3 illustrates the growth in schools using the eBooks solution since 2016 and then eBooks plus VET in school from FY19a to FY24a. We also illustrate our assumed growth in schools from FY25f to FY27f across the group.

Exhibit 3: Schools using RCL's eBooks or VET-in-school solution

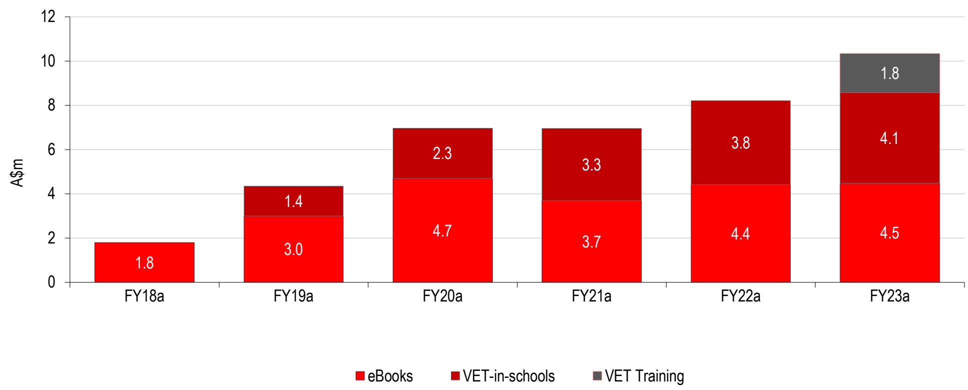


Source: Company data and RaaS research

The strong growth in the number of eBooks schools from FY16 to FY20 was predominantly under the "reseller" model, whereby the ReadCloud eLearning platform was adopted by other traditional third-party resellers as an "add-on" to deliver a digital solution to support their existing physical school textbook business. This resulted in strong growth in schools and potential student numbers, but traction was challenging and margins were low. The reduction in eBooks school numbers from its peak in FY20 was partly due to significant school customer losses suffered by one of the company's reseller partners due to servicing issues unrelated to the ReadCloud platform, low customer retention rates and a strategic decision by ReadCloud management to refocus the business on direct relationships with schools. Reseller relationships now represent ~15 schools in the portfolio. The portfolio of eBooks schools has re-based with the vast majority as "direct" relationship schools. School retention rates increased to 91% in FY24, up from 69% the previous year, and the business is now winning new direct school relationships, both domestically and now internationally. This is discussed in more detail later in this report.

As illustrated in Exhibit 4, the change in strategy in eBooks hasn't materially affected revenue for the division, seemingly validating the strategic direction the company has taken, particularly as retention rates have strengthened and more schools are beginning to be added under the new sales strategy.

Exhibit 4: Sales contribution by division



Source: Company data and RaaS research

We discuss the impact and outlook of the change in strategy for eBooks, VET in school and VET in industry in the 'Recent strategic and operational developments' and 'Divisional Overview' sections of the report.

Recent Strategic And Operational Developments

As ReadCloud emerged from the challenging COVID-19 period the Board undertook a review to develop a strategic plan to best position the business for profitability and then drive growth. This has culminated in several initiatives, including:

- **Reshaping parts of the senior management team:** Since listing, RCL had been a founder-led business, but the Board appointed a new and experienced CEO Andrew Skelton in May 2023 (Bio available in the "Board & Management" section of this report). The founders, however, remain invested in the business with some still in operating and strategic roles.
- **Focus on cost controls and cash-flow generation:** With a focus on operational discipline and cost controls, the management team and Board have reduced the operating costs of the business over the past 12 months. In the recently released H124 result, RCL delivered an 11% reduction in salaries (excluding Southern Solutions which was still under earn-out provisions), delivered positive EBITDA and strong cash generation. It also retained FY24 guidance of positive underlying EBITDA and positive operating cash flow.
- **Simplification and optimisation of the structure:** The operating structure of the business has been simplified, resulting in staff numbers reducing from 48 to 38, with the team now working with clearly defined outcomes and accountability for individual roles, particularly in sales and relationship management.
- **Consolidating and optimising the VET-in-schools acquisitions**: The RTOs acquired over the three years to 2021 have now been rebranded to one consolidated group with clearly-stated targets and operating disciplines.
- **Genuine customer focus and relationship management priorities**: Management appears to have worked hard to impose a culture whereby the focus of the business has been placed firmly on the customer and the management of those relationships.
- **Changing the sales approach, particularly in eBooks**: Clarification of the strategy around the eBooks division has been a focus. Direct sales and a relationship focus with schools, both domestically and internationally, and strong emphasis on relationship management and customer retention are the cornerstones of the strategy.

These changes over the past 12 months have now largely been implemented and the recent H124 result (released 29 May 2024) clearly illustrated improved performance:

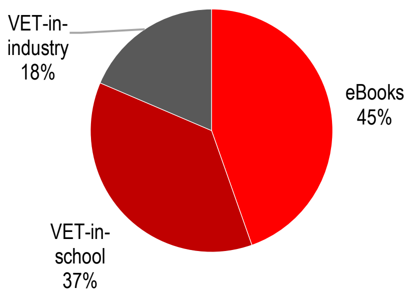
- **Sales revenue growth of 13%** at group level to $8.1m. All growth was organic and across all three business units.
- **Underlying EBITDA growth of 120%** at group level to $1.0m.
- **Operating cash-flow improvement of 53%** to $1.7m.
- **Reduction in salaries and wages of 11%** (excl. Southern Solutions) and overall expenses by 4% (through a period of revenue and earnings growth).
- **The onboarding of 51 new schools** across the eBooks and VET-in-schools businesses. Again, all organic.
- **eBook customer retention improved** from 69% in H123a to 91% in H124a.
- **Reiteration of FY24 guidance** of positive underlying EBITDA and positive operating cash flow.

We believe the business now looks to be right-sized and has a clear strategy for growth with the people, procedures, processes and product suite to execute.

Divisional Overview

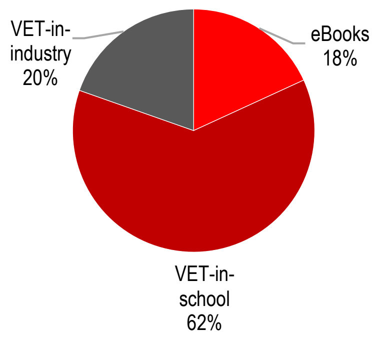
In this section of the report, we examine each division, the sector of the industry in which it operates, the key drivers and considerations, the sales model and our assumptions and forecasts. Exhibits 5 and 6 illustrate our forecast FY24 revenue and gross profit contributions by division.

Exhibit 5: Revenue contribution by division in FY24f



Source: RaaS forecasts

Exhibit 6: Gross profit contribution by division in FY24f



Source: RaaS forecasts

Even though each of the divisions focuses on providing an educational service, the individual drivers and key considerations of the business units are quite different. For that reason, we look at each division separately and model it to the gross-profit line, we consider the specific industry dynamics in which it operates and our assumptions and drivers for our forecasts. We then bring it all together at group level in our 'Financials and Forecasts' section.

eBooks

Key statistics:

- 45% of revenue in FY24f.
- 19% of gross profit in FY24f.
- Compound revenue growth of 14.2% and gross profit (GP) growth of 14.1% over the forecast period from FY24f to FY27f.
- GP margin forecast at ~22% over the forecast period (in line with the current margin).

The eBooks business is where ReadCloud was born and experienced significant early traction. Momentum slowed in the period from 2019 to 2023 but the impact of recently-initiated strategies provides us with confidence about the future of the business. We view eBooks as one of the clear growth drivers going forward.

The business generates revenue through margins on book sales (estimated between 10%-30% depending on publisher and volume) and software platform sales. It's best to look at both revenue sources on a combined basis as a blended sales offering is increasingly used by the company when negotiating with schools. The gross profit margin at divisional level averages ~22% in the current year and over the forecast period in our estimates.

Currently, RCL provides its eBook service to ~70 schools, which comprises 50 direct schools, 15 through resellers and five international schools.

Average revenue per school is ~$75k per annum, although the actual range of revenue per school in the existing customer base varies by relationship, location and type of service being delivered. It's our belief that the international schools segment offers the highest gross profit margins followed by direct school relationships and finally reseller schools (note: specific details are not released by the company).

We forecast the average revenue per school figure to marginally increase over time as ReadCloud grows its number of direct school relationships and, even more so, its traction internationally. The schools typically test and learn the platform and service, initially with younger students (e.g. year seven and eight) on one-year contracts before committing more widely, so as RCL becomes entrenched in each school we forecast average revenue per school to grow (note we view our assumed revenue per school growth as conservative at 3% p.a.).

The industry and competitive environment

In 2023 there were 2,875 secondary schools in Australia (source: ABS data) with more than 1.6m secondary school students annually. The composition by school type is 1,573 government (55% of total), 480 Catholic (17% of total) and 822 independent (28% of total). ReadCloud is currently servicing 65 schools domestically, of which ~70% are government schools. Geographically, ~70% of RCL's school clients in eBooks are in Queensland. This is a function of the previous sales model (and team) which had a clear focus on Queensland, which culminated in the eBook platform being added to the Queensland Department of Education preferred supplier panel for Queensland Government schools in FY22. Interestingly, RCL is currently pursuing acceptance to the NSW Department of Education preferred supplier panel for Educational Resources (multimodal text) via tender, potentially opening the door to supply NSW Government schools with eBooks from FY25 (note: we do not assume success and therefore exclude any impact from this in our forecasts). Even if that proves unsuccessful we expect geographical diversification to improve over time.

Almost all schools now have some sort of digital textbook programme in place, but fewer have developed to the point where they have a truly interactive teaching aid plus a platform that is also publisher or reseller agnostic. That said, the more traditional model of book sales still holds the strongest market position (no specific market-share data is available). We do expect this to transform over time, and it is certainly showing signs, but the incumbents remain in a strong position, in our view.

The leading publishers include Jacaranda (Wiley), Cambridge University Press, Oxford University Press, Cengage, Matilda Education and Pearson. Some publishers have their own distribution network and some sell through resellers such as Campion, Winc (includes the previously US-owned OfficeMax), Zookal, Five Senses Education, Lighthouse Books, Lillydale Books, Adelaide Direct Stationers and Impact. It is worth noting that some of these resellers are direct competitors to ReadCloud and some are alliance partners as they use the RCL eLearning platform for distribution and hosting of digital textbooks.

As previously stated, most schools will offer students a mix of physical and digital books and the resellers or publishers will generally provide procurement and distribution of the books (and often stationery). This is generally where the relationship historically has begun and ended.

The emerging digital platform providers not only provide the procurement solutions by partnering with all major publishers, but also a platform to house the material complemented by an eLearning platform for teachers and students to interact and collaborate. The platforms can house digital textbooks, video content, various other media and third-party content, and accommodate annotations and private and group messaging. Given the technical literacy of current secondary school students and how content is generally consumed and distributed in modern day-to-day life, this seems like a natural progression to us.

This is where ReadCloud and its apparent only genuine like-for-like competitor Box of Books are changing the market (there was a third competitor in LearningField but it withdrew from the industry in 2020). Box of Books has larger market share, apparently serving around 250 schools domestically, according to the company website.

The ReadCloud eBook sales approach

The opportunity is obviously large, with RCL currently sitting around 2.0% market share of all Australian secondary schools. Its main "like" competitor Box of Books is sitting at ~8.5%, but no public data is available in regard to revenue or earnings. To us it appears almost inevitable that the school sector will continue to develop along the path to digitisation, but it is a relatively slow-moving industry to embrace change, particularly as the incumbents try to protect their highly cash-generative market in traditional textbooks.

RCL appears to have acknowledged that the sales approach, and in fact the previous sales team, wasn't gaining traction at the rate it had hoped, and customer retention rates were low at around 69%. When we asked CEO Andrew Skelton about the history of the eBooks business he stated:

> *"The digital first textbook offering provides identifiable benefits to schools. Whilst the technology is sound, the business was previously less focussed on service and retention. Operationally, we lacked sophistication in how we serviced schools and had not prioritised the school experience, resulting in customer churn. School (and travel) lockdowns related to the pandemic reportedly had a significant impact on our sales and sales pipeline.*
>
> *Looking ahead, ReadCloud is now more structured in applying specialised knowledge to marketing and servicing the different school segments. Processes have been streamlined and friction has been removed from service interactions. Customer support is now a strength which we are seeing flow through to higher retention rates."*

The sales and relationship management approach has materially improved, with the evidence including an improvement in retention rate from 69% to 91% from 2023 to 2024. New schools are also being added with ~10 in 2024. We expect this to accelerate, both domestically and internationally, with the new sales strategy and culture now entrenched in the business.

Key drivers and assumptions

Having developed the new strategy with an appropriate team in place and the structure and culture to execute, we believe the eBooks business now looks positioned to re-enter a growth phase. To reiterate, the eBooks division currently services 70 schools, of which 50 are direct relationships, 15 are reseller and five are international. We expect the numbers of schools and average revenue per school to grow solidly over the forecast period. Our drivers and assumptions include:

- **Materially improved retention rates of existing customer base** – In its recent H124 result, RCL stated that the retention rate of existing schools had increased from 69% in 2023 to 91% in 2024. This appears to be largely driven by the company's focus on relationship management and strong delivery of service that had been lacking for two to three years prior, coupled with the change in strategy to a "direct" rather than "reseller' approach. This gives us confidence that as new schools are added the growth is not diluted by churn of the existing customer base, resulting in strong net growth.
- **New schools added** – We forecast RCL to add new schools at a CAGR of 14.8% over the forecast period from the current base of 70 schools to 106 in FY27. We note there is potential to materially exceed these numbers if some of the management initiatives prove successful but we remain

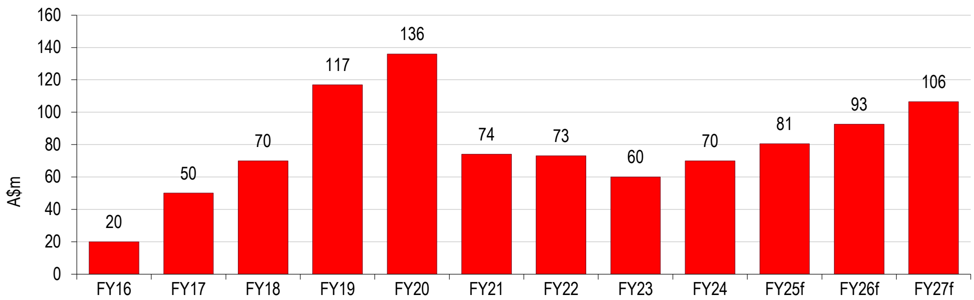
conservative until the strategy is proven. For example, the previously-mentioned NSW Department of Education tender. The success of the Queensland experience gives us confidence that the NSW initiative could accelerate growth materially, although this is not assumed in our forecasts.

- **Average revenue per school increasing** – We assume only marginal growth on a "revenue per school" basis at a rate of 3% p.a. (in line with long-term inflation) but concede that this may prove conservative as existing and new schools broaden their scope and more international schools are onboarded (which can be much larger in magnitude).
- **Forecast accelerating growth internationally** – In the past 12 months RCL has sold its eLearning solution into five schools internationally. Its first international school was King's InterHigh (a global online school originating out of the UK) which was originally signed in 2022. The following statement was contained in the company's recent result material:

> *"We have worked closely with our first international school customer, King's InterHigh, to develop a comprehensive communications and marketing plan aimed at fostering greater teacher and student engagement in the use of eLearning tools embedded in the ReadCloud platform. Sales to King's InterHigh were $22,792 in FY22, increased to $204,254 in FY23, and are expected to increase significantly in FY24. In December 2023, ReadCloud became the preferred eBook supplier to an online school in South Africa and signed a three-year Partnership Agreement with an international school in Singapore".*

We view the international segment as a material opportunity given the size of the market (12,000 schools versus 2,875 domestically) and proof of early traction. At this stage it is not reported separately but is likely to be over the medium term as it scales. We note that King's InterHigh should deliver revenue "significantly" higher than $204,254 in 2024, materially above the average revenue per new school domestically at ~$65,000 to ~$75,000. We encapsulate our assumed international growth in our overall eBooks forecast, but do not assume material traction in our forecasts.

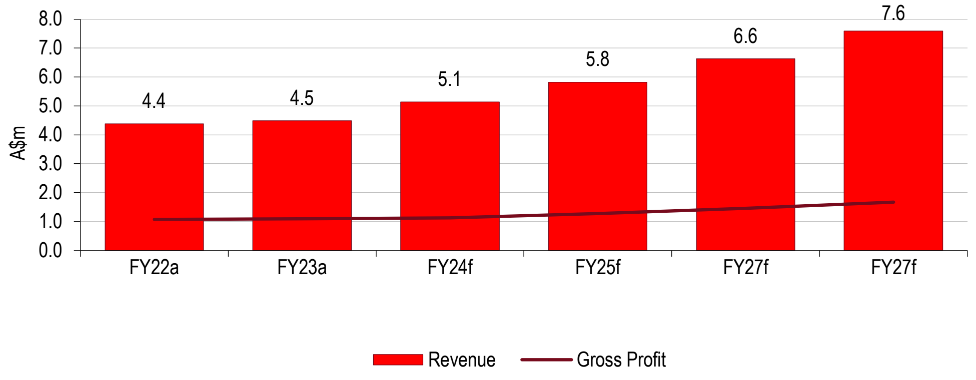
Exhibit 7: ReadCloud eBook schools



Source: Company data and RaaS forecasts

The above assumptions drive our revenue and gross profit outcome for the eBooks business as outlined in Exhibit 7.

Exhibit 8: eBooks revenue and GP forecasts



Source: Company data and RaaS forecasts

The above forecasts represent:

- **Compound annual revenue growth of 14.0%** over the forecast period from FY23a to FY27f. We believe this could prove light if either the domestic direct sales or the international push accelerates ahead of what we regard as our reasonably conservative assumptions.
- **Gross profit to grow at a compound rate of 11.1% p.a**. from $1.1m in FY23a to $1.7m in FY27e. Again, this could prove conservative as we haven't assumed any margin expansion from the FY24f base. We expect GP margins to contract from ~24% to ~22% in the current year due to the product mix in domestic schools. If the international segment grows at a faster rate than domestic we believe margins would expand beyond our forecasts, but at this stage we will remain conservative until numbers are proven up.
- **The operating leverage doesn't flow through at the gross profit line in our assumptions** but will be evident at group level as revenue and gross profit grow over a relatively fixed cost base. This is discussed in the "Financials and Forecasts" section of this report.

VET in school

Key statistics:

- 37% of group revenue in FY24f.
- 64% of group gross profit (GP) in FY24f.
- Forecast revenue CAGR of 17.2% and GP CAGR of 18.6% over the forecast period from FY24f to FY27f.
- GP margin forecast at a range of 91%-94% over the forecast period (broadly in line with the current margin).

The high-margin VET-in-school division is RCL's largest contributor to group gross profit at 64% in FY24e. We also see it as one of the key growth drivers within the business, predominantly due to top-line growth. As previously discussed, ReadCloud has acquired its way into this vertical through the purchase of three separate RTOs over the period 2018 to 2021. It has since integrated the acquisitions and consolidated them under one brand ReadCloudVET.

Through its RTOs, the division currently services ~339 schools and ~ 647 qualifications in total. That is, each school averages just under two qualifications. The business generates revenue through two sources:

1. Course fees per qualification offered (usually ~$2,500 per qualification).
2. Fees on a per-student basis (on average around $200 per student).

The exact breakdown is not released but can be roughly reverse engineered. This results in total average revenue on a per qualification basis of ~$6,700 (across the current 647 qualifications).

As stated, the businesses are now under one brand, but for information purposes we outline each of the three acquired RTOs and their offerings in Exhibit 9.

Exhibit 9: ReadCloud schools

	AIET	COSAMP	Ripponlea Institute
Description	Specialising in trades, outdoors and service industries	Specialising in creative industries	Specialising in community, work and business and languages
Course Offered	Automotive Industry Construction Industry Engineering Hair & Beauty Horticulture Hospitality, Tourism & Events Laboratory Operations Sport & Outdoor Industries	Music (Performance & Sound Production) Screen & Media Dance Creative Industries Visual Arts	Applied Language Business Community Services Fashion Foundation Skills Information Technology

Source: Company data and RaaS research

We put the RCL offering in context by looking at the VET-in-school industry and competitive environment.

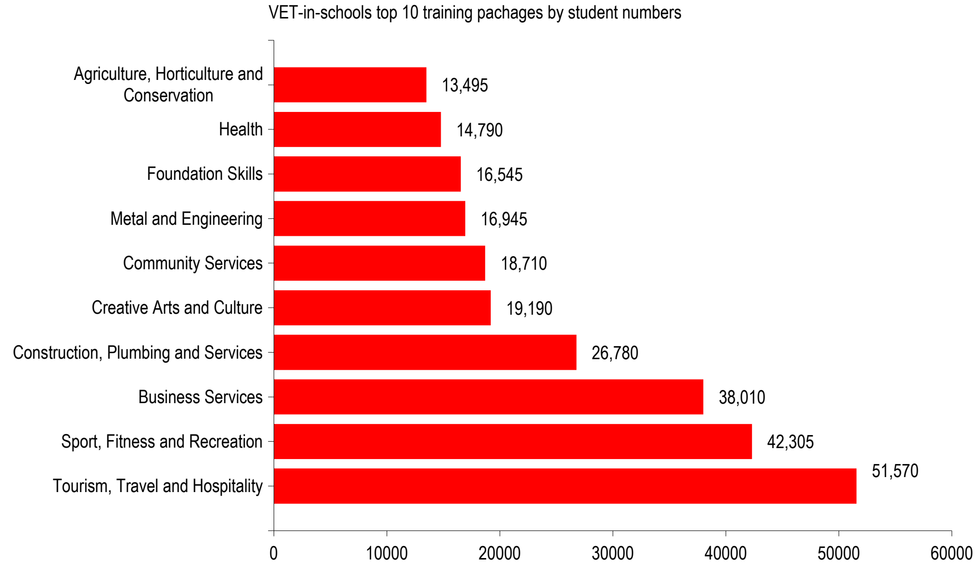
The VET-in-school industry and competitive environment

The National Centre for Vocational Education Research (NCVER) is the national professional body responsible for collecting, managing, analysing and communicating research and statistics on the Australian vocational education and training (VET) sector. In 2023 it presented a publication on VET-in -schools, defined as *"the vocational education and training (VET) undertaken by school students as part of their senior secondary certificate of education (SSCE)"*. Students can undertake VET through a school-based apprenticeship or traineeship pathway, or other pathway (the latter is referred to as 'other VET-in-schools students'). Some of the key data released in the publication includes:

- In 2022 there were 242,945 VET-in-schools students.
- 8.5% of these were school-based apprentices and trainees.
- 91.5% were students undertaking other VET-in-schools programmes.
- An estimated 26.8% of the Australian population who were at school and aged 15 to 19 years participated in VET-in-schools in 2022.

Some other metrics released in the report contain relevant information for the ReadCloud VET business:

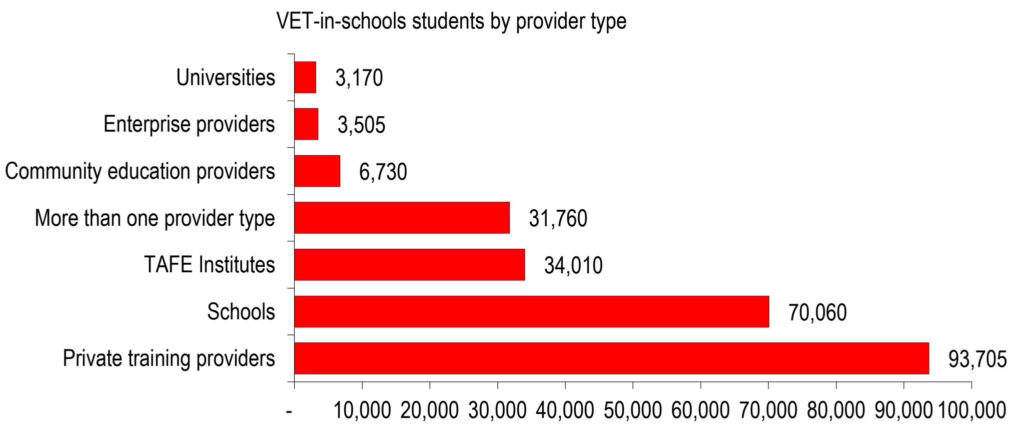
Exhibit 10: VET-in-school top 10 training packages



urce: NCVER "VET in Schools" publication, 2023

The top-10 training packages by student numbers are illustrated in Exhibit 10 The ReadCloud VET courses offered, as discussed in Exhibit 8 previously, cover nine of the top 10. The only category not offered is "Health", which sits at number nine on the top 10. We believe this is a deliberate decision by ReadCloud as the layer of complexity involved with health qualifications deem it an area of speciality.

Exhibit 11: VET-in-schools students by provider type



Source: NCVER "VET in Schools" publication 2023 and RaaS research

Exhibit 11 shows the type of institution or organisation providing the training. The students are still in secondary school, but in some cases, undertake training provided by third parties including private RTOs, TAFE institutes and universities. The school decides which solution it wants to provide for the VET-in-schools students. The options open to schools wanting to deliver a VET-in-school solution are:

- **TAFE institutes** - The students leave the school campus and study at the TAFE premises.
- **Schools** - The school itself becomes a licensed RTO and accepts all responsibility with regard to licensing, content, teaching and compliance. Anecdotally, we have been told that schools are trending away from becoming their own licensed RTO's and towards appointing third-party RTOs to deliver their VET programmes.
- **Private training providers** – This is where ReadCloudVET sits. This can be in the form of a few different structures, but in the case of ReadCloudVET, it provides the school with the education content, learning materials, compliance and training and assessment criteria to ensure the school's teachers are qualified (such as the Cert IV qualifications) and have other pre-requisite experience. So basically, the students generally stay on campus and have existing school teachers educate them with the third-party material provided by ReadCloudVET.

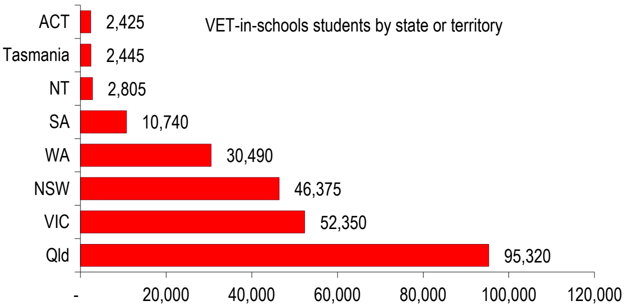
It can be seen the two largest segments are private training organisations (39% of the 243,000 VET-in-school students in 2022) and schools (29% of the VET-in-school students in 2022). ReadCloudVET services the in-schools segment but is categorised as a private training provider, giving it access to 39% of the market.

RCL currently has ~14,000 VET-in-schools students, or 5.8% of the total addressable market and 14.8% of the private training providers addressable market, on 2022 statistics. ReadCloudVET appears to be in the top two in its segment in Australia by market share. It's worth noting that 90% of the content delivered in the VET courses is generated and owned by ReadCloud and sits as an asset on its balance sheet (discussed further in the 'Financials and Forecasts' section of this report). In our view, this provides improved margins, a barrier to entry and a competitive advantage regarding customer acquisition and retention.

The competitive environment and market-share data is difficult to accurately quantify. Many smaller providers appear to specialise by category or geography. The largest "like" competitor is iVet, which supports a wide range of VET programmes across the country. One of its subsidiaries, the iVet Institute, appears to be similar to ReadCloudVET where it trains ~15,000 students across multiple qualifications but with specialty in sport and recreation education. It was established in 2011 by teachers and appears to run a similar model to ReadCloud whereby it delivers its own content across a digital portal and provides supporting services such as compliance and other ancillary services.

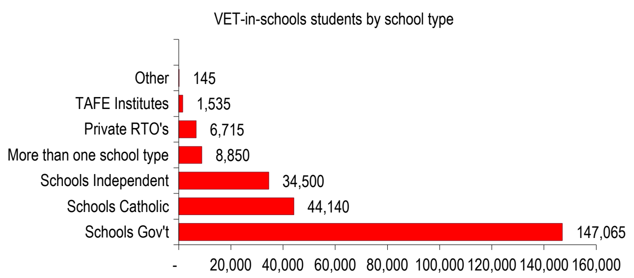
Exhibits 12 and 13 show the students by school type (again, not necessarily meaning that the students complete the VET qualifications at the school) and students by state and territory. Interestingly, government schools and Queensland are the two biggest in each category. These are also the two strongest categories in RCL's eBooks division, and although we assume it must help from a brand recognition perspective, management has stated that it doesn't necessarily represent an obvious cross-sell opportunity as the sales process and key decision makers are generally quite different.

Exhibit 12: VET-in-schools by geographical location



Source: NCVER "VET in Schools" publication, 2023 and RaaS research

Exhibit 13: VET-in-schools students by school type



Source: NCVER "VET in Schools" publication, 2023 and RaaS research

The sales approach

The ReadCloudVET business now looks to us to be positioned to grow:

- **Consolidation complete** – The three RTOs have been consolidated under one brand. It appears to us this has been more difficult, both practically and culturally, than was initially expected, but has been completed successfully within the past 12 months.
- **Strengthening brand –** The sales team can now leverage a more recognised and highly regarded brand, in ReadCloudVET, across many verticals and geographies of the whole VET-in-school industry. The business is currently strong in Victoria and WA, but management has stated geographical expansion is a priority.
- **Strong pipeline developed –** The new brand appears to be getting traction and the business is winning market share. Management speaks of a strong pipeline of schools and appears confident that new schools will be added consistently over the forecast period to FY27.
- **Cross-selling and upselling opportunity –** Now that the three business are consolidated, the sales team is incentivised to retain and grow the whole VET-in-school business. We expect this to drive an increase in the number of qualifications delivered to each school as new categories and qualifications are offered.

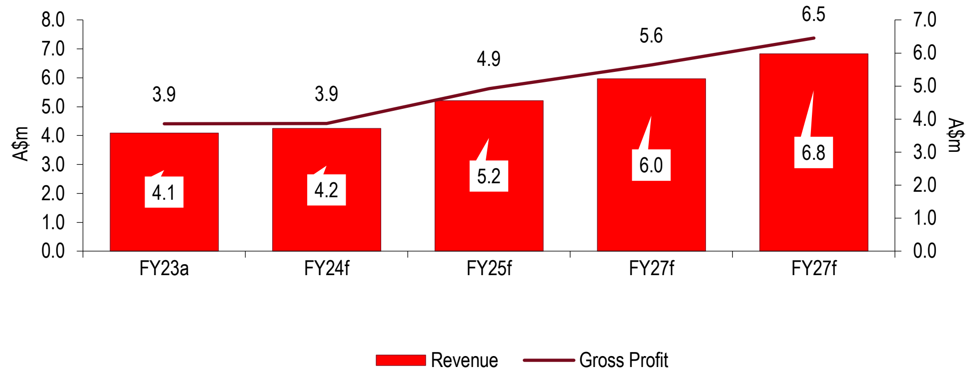
Key drivers and assumptions

We forecast ReadCloudVET to deliver CAGR in revenue of 17.2% from the current year out to FY27f, whilst maintaining current gross profit margins of ~90%-94%. The key drivers being:

- **New schools added** – Based on meetings with management and the current environment we estimate RCL to increase its school customers by ~5% p.a. over the forecast period. This results in growing the number of schools from 339 in FY24a to 390 in FY27f.
- **Growing the number of qualifications per school** – The average qualification per school currently sits at 1.8. We forecast this to grow by 8%-10% p.a. over the forecast period, to be sitting at 2.2 qualifications per school by FY27f. The key drivers are expected to be an upsell and cross-sell programme by RCL, plus an increase in the number of qualified teachers available to VET-in-school students (discussed below) and by expanding the market by offering VET-in-school programs to year nine and year 10 students as well as years 11 and 12.
- **Average revenue per school increasing** – There are two elements to this. The first is number of qualifications per school discussed above. The second is pricing. RCL has inherited a degree of legacy pricing through acquisition. Having worked through the integration process over the past couple of years, coupled with previously agreed price freezes rolling off, the business is now positioned for some price increases in 2025. Beyond 2025 we only assume price increases in line with long-term inflation of 3% p.a.
- **Training for teachers (Cert 4) to move into VET-in-schools** – RCL now offers Cert 4 training to teachers in schools so that they can expand their qualification to become a VET-in-school teacher. We believe this will help grow the market but also provides a further revenue generator for ReadCloud. Note, this is not specifically in our forecasts.
- **Centres of excellence** – There are signs that schools are beginning to work together as "clusters" to deliver areas of specialisation for students. For example, rather than each of four schools in a region

having to develop courses in each of eight qualifications, they can do two per school and the students share the collective resources. This develops the industry and grows the market with less expense and infrastructure on a per-school basis. ReadCloud says it is actively working on this model.

Exhibit 14: VET-in-school revenue and GP forecasts



Source: Company data for historicals, RaaS forecasts

Exhibit 14 above shows RaaS estimates for revenue and gross profit in the VET-in-schools division. Key points of interest are:

- **We forecast revenue to grow 22.7% in FY25** driven by one-off pricing increases for part of the portfolio of existing qualifications, plus 48 new qualifications (growth of 8%) through a combination of 17 new schools and marginally wider reach within the existing school network. From FY25f to FY27f we forecasts growth of 14%-15% p.a. on new schools (~5% CAGR) and an increase in qualifications (~10% CAGR).
- **The VET-in-schools business is high gross profit margin at ~91%-94%** historically and over the forecast period. We can't see many areas for margin expansion, so most of the growth is expected to be at the top line. That said, at group level the company should enjoy operating leverage as revenue continues to grow.

VET-in-industry

Key statistics:

- 18.6% of group revenue in FY24f.
- 19.6% of group gross profit in FY24f.
- Forecast revenue CAGR of 14.5% and gross profit CAGR of 17.5% over the forecast period from FY24f to FY27f.
- We estimate GP margin at a range of 57%-62% over the forecast period (incrementally improving from the FY24 base of 57%).

The VET-in-industry division is the most recent expansion arm of the group through the acquisition of Southern Solutions in November 2022. RCL acquired the business for $3.15m comprising both cash and scrip components, including $1.8m in deferred consideration based on delivery of FY23 and FY24 performance hurdles. At the time of acquisition, the business was generating annualised revenue of $2.0m and EBIT of $0.63m. It was acquired on a forward FY24f EBIT multiple of ~four times, however at the recent H124a result it was confirmed the earn-out would not be paid, mostly due to a challenging period in FY23.

The business is now growing well and in FY25f we forecast it to generate revenue of $2.5m and gross profit of $1.4m, which on a total acquisition price of ~$1.35m appears like a good buy.

The business remains branded as Southern Solutions Training and has 17 qualifications on scope and currently has annual enrolment numbers between 600 and 700 students. Unlike RCL's other divisions, the VET-in-Industry business doesn't service the school sector. It provides targeted training solutions for post-secondary school students in high-priority industries with skills needs. Although its qualifications include aged care, supply chain, food processing and business, its real strength appears to be in early childhood education, where it offers a Certificate III in Early Childhood Education and Care, and a Diploma of Early Childhood Education and Care. We estimate early childhood represents upwards of 70% of the total divisional revenue.

Southern Solutions generates revenue over the duration of the qualification being completed, first when students and trainees commence, then progress through the course, and finally on completion of their training. Unlike RCL's other divisions, most of the qualification fees are paid by the various state governments to the RTO, in this case, Southern Solutions. For example, in the case of the early childhood qualifications, the average fee per student across both courses is ~$9,300 (although this can be across two financial years in some cases). RCL has been successful in securing government funding in NSW, Victoria and South Australia, although all under different state-by-state models.

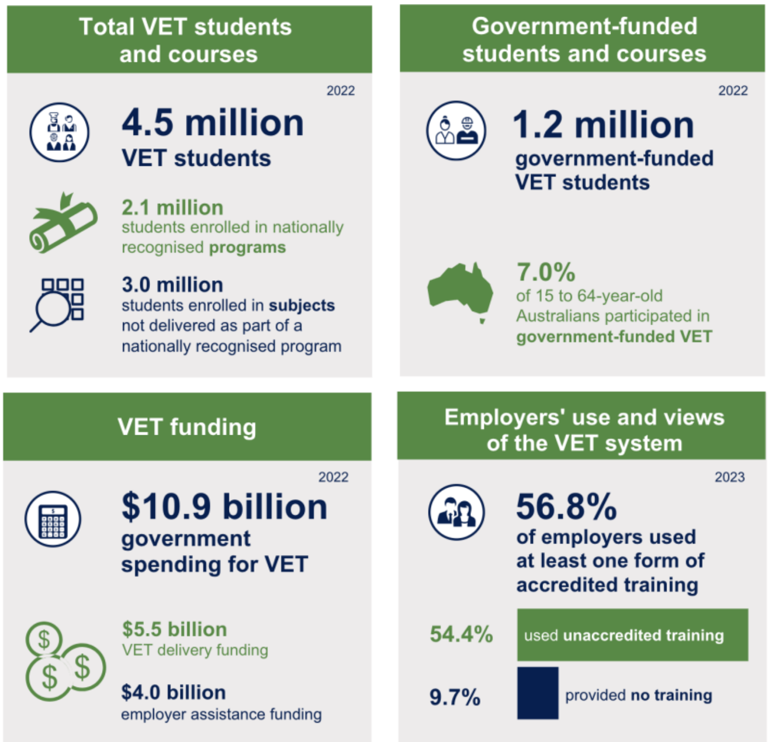
Again, unlike RCL's other businesses, ReadCloud provides the trainers and carries the cost. The current annualised cost of trainers across the group sits at ~$900,000 p.a. It is the highest single cost of the division, but we view gross profit margins approaching 60% under the current model as solid, with potential for upside as class numbers increase and accelerate ahead of the incremental cost for trainers.

The VET-in-industry landscape and competitive environment

As with VET-in-school, the National Centre for Vocational Education Research (NCVER) is the professional body responsible for collecting, managing, analysing and communicating research on the Australian vocational education and training (VET) sector.

We will not go into great detail about the VET-in-industry sector as it is extremely large, complex and varies markedly from state to state. Exhibit 15 provides a snapshot to some key industry metrics, as provided by NCVER.

Exhibit 15: VET industry statistics



Source: NCVER VET statistics

The ReadCloud business is largely exposed to the area of the industry that relies on government-subsidised funding and to an extent industry partnerships. We understand that state governments often have different models, for example NSW will have funding capped at a specific dollar amount, Victoria will fund a certain number of commencements, and South Australia will fund on a demand-pull basis.

We do not assume RCL continues to grow this division through further acquisition or makes material moves into new parts of the industry, so given the current size of Southern Solution and its very small market share we will just focus on its specific growth drivers rather than the industry as a whole.

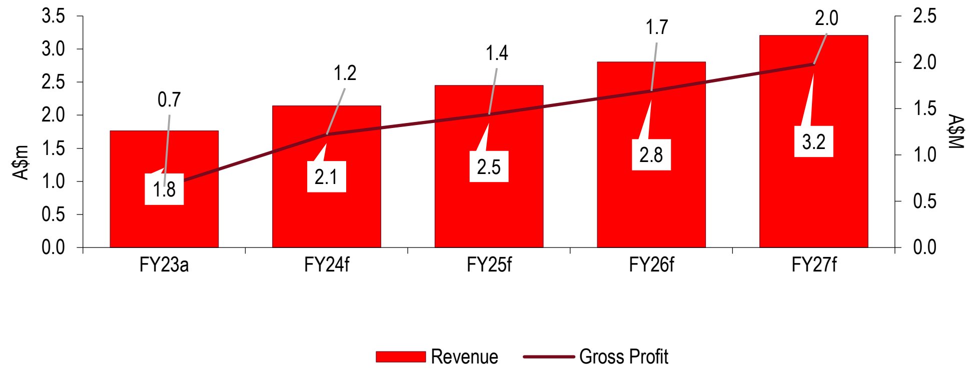
Key drivers and assumptions

We forecast VET-in-industry to deliver CAGR in revenue of 14.0% over the forecast period to FY27f, whilst incrementally expanding current gross profit margins from 57% to 62% over the period. The key drivers being:

- **Increasing student numbers** – Based on meetings with management and the current environment we estimate RCL to increase its student numbers by ~10% p.a. over the forecast period. This results in growing the number of annual students from 612 in FY24a to 815 in FY27f.
- **Improved margins as class sizes increase** – With student numbers forecast to grow at a rate of roughly 70 to 80 per annum, the division should experience a level of operating leverage as the incremental increase in cost of training will be lower than the additional revenue, basically due to larger class sizes.

- **Industry partnerships and government initiatives** – We don't assume any material change in government funding or the securing of any material industry partnerships, but management has alluded to such initiatives in meetings and presentations, so this may create upside to our forecasts.

Exhibit 16: VET-in-industry revenue and GP forecasts



Source: Company data for historicals, RaaS forecasts

Exhibit 14 above shows RaaS estimates for revenue and gross profit in the VET-in-industry division. Key points of interest are:

- **We forecast revenue to grow 21.4% in FY24,** largely since the business was acquired in November 2022, so didn't contribute for a full period in FY23a. Our forecasts then translate to a CAGR of 14% out to FY27f.
- **Gross profit margin improves from 57% to 62% out to FY27f,** resulting in gross profit growing as a compound rate of 15.1% p.a.

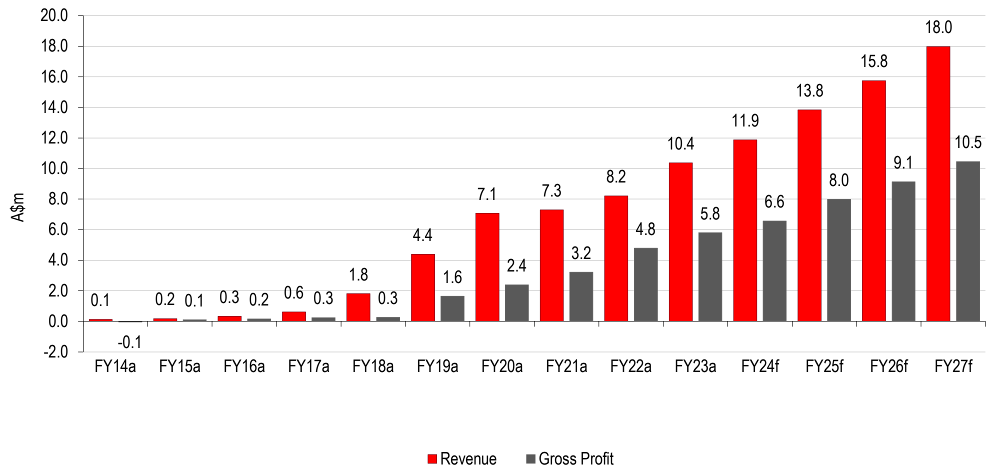
Financials And Forecasts

Historical performance

Traditionally, the business has delivered solid revenue performance, completely organically until 2018, then a mix of organic and acquisitive since that time. Early growth from 2014 to 2018 can be solely attributed to the eBooks division, thereafter, complemented by four RTO's acquired through 2018 to 2023.

Exhibit 17 illustrates historical and forecast revenue and gross profit performance.

Exhibit 17: RCL revenue and gross profit performance



Source: Company reports, LSEG data, RaaS estimates

Since listing in FY19, RCL revenue and gross profit CAGR is 24% and 34% respectively to FY23a.

During COVID-19 in 2020 and 2021, organic growth slowed as the sales process was materially interrupted given travel wasn't available and schools focussed on other priorities. The eBooks business stalled but the acquisition programme into other verticals continued. During that time, as the overall group was scaling, the decision was made to continue to invest in the cost base to accommodate growth. The combination of all this resulted in ongoing losses at the EBITDA line and below. That said, revenue and gross margins were largely maintained.

Post-COVID-19, the decision was made by the Board to appoint new management, focus on right-sizing the group, stabilise the eBooks business (and identify the best model for the division going forward), and integrate and consolidate the VET acquisitions. We see these challenges as having all been addressed appropriately and in our view, largely rectified. We believe this was clear in the H124 result and the reiteration of FY24 guidance for underlying EBITDA profitability and cash-flow positivity.

Forecasts

All our forecasts are organic and we believe we have been relatively conservative. That said, as with most companies, the risk is in the execution and appropriate use of capital to drive the best results.

P&L forecasts

RaaS earnings and P&L forecasts are shown in Exhibit 18.

RaaS earnings and P&L forecasts are shown in Exhibit 18.

Exhibit 18: RaaS expanded RCL P&L (in A$m unless otherwise stated)

Year ending Sept 30	FY22a	FY23a	FY24f	FY25f	FY26f	FY27f	CAGR
Revenue	**8.5**	**10.7**	**11.9**	**13.8**	**15.8**	**18.0**	**16.0**
Gross Profit	**4.8**	**5.8**	**6.6**	**8.0**	**9.1**	**10.5**	**16.9**
GP %	*56.1*	*54.2*	*55.3*	*57.8*	*58.0*	*58.1*	
Advertising, Travel & Marketing Expenses	(0.5)	(0.3)	(0.1)	(0.2)	(0.2)	(0.2)	
General & Admin Expenses	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	
Software expense	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	
Professional fees	(0.5)	(0.6)	(0.4)	(0.3)	(0.3)	(0.3)	
Employee benefits expense	(4.5)	(6.1)	(5.3)	(6.1)	(6.3)	(6.5)	
Other operating expenses	(0.1)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	
EBITDA (underlying)	**(0.8)**	**(0.8)**	**0.1**	**0.8**	**1.8**	**2.9**	
Employees share based remuneration	(0.0)	(0.1)	(0.1)	(0.2)	(0.2)	(0.2)	
EBITDA (reported)	(0.9)	(0.9)	0.0	0.7	1.6	2.7	
D&A	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)	
EBIT (underlying)	**(2.0)**	**(1.9)**	**(0.9)**	**(0.2)**	**0.7**	**1.8**	
Interest	(0.0)	0.0	0.0	0.0	0.0	0.1	
NPAT (underlying)	**(1.6)**	**(2.3)**	**(0.9)**	**(0.2)**	**0.7**	**1.8**	
EPS	(1.4)	(1.8)	(0.6)	(0.1)	0.5	1.3	

Source: Company reports for actuals, RaaS forecasts

RaaS forecasts sit in-line with FY24 company guidance with underlying EBITDA profitability (the only item we add back in our forecasts to obtain our "underlying" EBITDA number is share based expenses). We view FY24 as the base year and creating a solid platform for organic growth over the balance of the forecast period. We have not included any contribution from acquisitions or materially large agreements or partnerships offshore.

As previously mentioned, over the course of the past 12 months or so the new management team has refocussed the business, bedded down a clear strategy, and streamlined and clarified the structure of its business. This has resulted in a reduction in headcount from 48 to 38, reducing the cost base by ~$1,000,000 p.a. annualised. We believe the business is now right-sized for its current operating base and well positioned to execute its growth strategy.

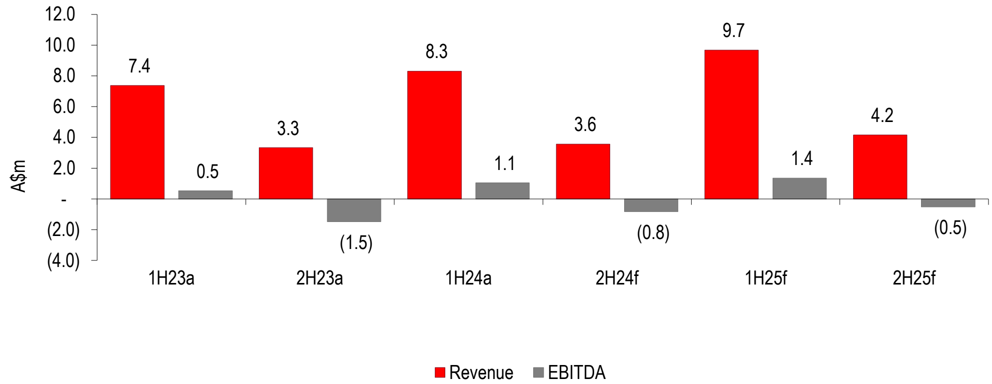
The noteworthy takeaways from our P&L forecasts are:

- **Revenue growth**: CAGR of 16% over the forecast period from the FY22a base to FY27f.
- **GP margin expansion**: Marginal expansion at the gross profit line from 52.4% in FY24f to 58.1% in FY27f, driven by both the VET-in-schools and VET-in-industry divisions.
- **EBITDA growth:** Due to the recent right-sizing of the business, and its relatively fixed cost base, we forecast operating leverage to begin in FY25 and accelerate over the balance of the forecast period. We forecast RCL's largest single cost below the GP line, employee costs, to grow at ~5-7% p.a. in the baseline business, well below the forecast revenue growth of ~16%. This results in EBITDA margin expansion from 1.9% to 16.2% over the forecast period.
- **EPS growth:** We assume no new capital is raised over the period so therefore all organic growth is self-funded with no dilution at the EPS line.

The business is subject to seasonality due to the school-year cycle. For this reason, ReadCloud changed its fiscal year end date to 30 September a couple of years ago. The first half of each year is materially stronger than the second half, particularly in the eBooks division, but also to a lesser extent in the VET-in-schools business.

It's worth noting that from this point forward, all forecast periods are EBITDA profitable on a full-year basis, but seasonality still plays a role and will result in second half EBITDA losses in FY24 and FY25 on our estimates (profitable in all halves from FY26f onwards). This is illustrated in Exhibit 19. The seasonality should smooth if the international business accelerates ahead of our forecasts, obviously depending on the region and the timing of spending through school years.

Exhibit 19: RCL revenue and gross profit performance



Source: Company reports, LSEG data, RaaS forecasts

Balance sheet

Exhibit 20: RaaS RCL balance sheet (in A$m unless otherwise stated)

Year ending Sept 30	FY22a	FY23a	FY24f	FY25f	FY26f	FY27f
Cash	2.5	1.7	1.4	1.7	2.8	5.0
Accounts receivable	0.9	1.2	1.4	1.6	1.8	2.1
Other current assets	0.1	0.1	0.1	0.1	0.1	0.1
Total current assets	3.5	3.0	2.9	3.4	4.7	7.2
PPE	0.2	0.1	0.1	0.1	0.1	0.1
Goodwill	5.4	8.4	6.7	6.7	6.7	6.7
Other Intangibles	2.6	2.4	2.2	2.1	2.1	2.0
Other non current assets	0.3	0.2	0.1	0.4	0.2	0.1
Total non current assets	8.6	11.1	9.0	9.2	9.1	8.9
Total Assets	**12.1**	**14.1**	**11.9**	**12.6**	**13.8**	**16.1**
Accounts payable	0.8	1.0	1.1	1.3	1.5	1.7
Short term debt	0.0	0.0	0.0	0.0	0.0	0.0
Other current liabilities (incl lease & contract)	0.6	2.3	0.9	1.6	1.9	2.1
Total current liabilities	1.7	4.1	3.0	4.0	4.4	4.8
Long term debt	0.0	0.0	0.0	0.0	0.0	0.0
Other non current liabs	0.3	0.3	0.1	0.1	0.1	0.1
Total long term liabilities	0.3	0.3	0.1	0.1	0.1	0.1
Total Liabilities	**2.1**	**4.4**	**3.1**	**4.1**	**4.5**	**5.0**
Net Assets	**10.0**	**9.7**	**8.8**	**8.6**	**9.3**	**11.1**
Share capital	18.0	19.8	19.8	19.8	19.8	19.8
Accumulated profits/losses	(8.2)	(10.4)	(11.3)	(11.5)	(10.8)	(9.0)
Reserves	0.2	0.3	0.3	0.3	0.3	0.3
Total Shareholder funds	**10.0**	**9.7**	**8.8**	**8.6**	**9.3**	**11.1**

Source: Company reports, LSEG data, RaaS estimates

Key balance sheet considerations include:

- **Cash position**: We expect the cash position to find its low point in 2H24 (the half-year period to RCL's financial year end in September 2024). This is due to the seasonality in the business caused by the structure and timing associated with the Australian school year. The business remains funded to deliver the RaaS earnings estimates so we assume no capital is required to execute the current growth plans. The cash balance grows to $4.8m by FY27f on RaaS forecasts. We assume the business remains debt-free over the period. We note the Board and management may choose to raise capital to fund acquisitions and accelerate growth, but we view it unlikely at the current share price.
- **Key balance sheet items**: The balance sheet is clean and transparent. Clearly the largest items going forward are intangible assets by way of goodwill on acquisitions and "other intangibles" which includes capitalised software (~$2m in FY23a), intellectual property relating to course materials for VET and the RTO licences.
- **Light capital touch business**: RCL has very little working capital requirement in the business. No inventory is carried and receivables and payables aren't material. Very little by way of property, plant and equipment (PP&E) is required in what is purely a services business.
- **Debt optionality**: Provided the business scales and delivers more material EBITDA over the forecast period, RCL will have optionality over debt usage for growth. That said, we forecast the business remains debt-free.
- **Accrued losses:** We believe the bottom-line losses accrued over the recent period puts the business in what is likely to be a relatively tax-free environment over the forecast period.

Cash flow

Exhibit 21: RaaS RCL cash-flow estimates (in A$m unless otherwise stated)

Year ending Sept 30	FY22a	FY23a	FY24f	FY25f	FY26f	FY27f
Receipts from customers	7.9	10.7	11.5	13.8	15.8	18.0
Payments to Suppliers & Employees	(9.2)	(11.6)	(11.8)	(13.2)	(14.2)	(15.3)
Working capital changes	-	-	0.1	0.0	0.0	0.0
Gross Operating cashflow	(1.3)	(0.9)	(0.2)	0.7	1.6	2.7
Net Interest (Paid) / Received	0.0	0.0	0.0	0.0	0.0	0.0
Tax (Paid)	(0.2)	0.0	-	-	-	-
Other (incl R&D Tax credit)	0.4	0.4	0.4	0.4	0.4	0.4
Operating cash flow	**(1.0)**	**(0.4)**	**0.3**	**1.1**	**2.1**	**3.2**
Capital expenditure	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
R&D not expensed	(0.5)	(0.5)	(0.6)	(0.6)	(0.6)	(0.6)
Business Acquisitions	-	(0.7)	-	-	-	-
Business Divestments	-	-	-	-	-	-
Other investing cashflows (incl IP built on course material)	(0.2)	(0.0)	(0.2)	(0.2)	(0.2)	(0.2)
Investing cash flow	**(0.8)**	**(1.3)**	**(0.7)**	**(0.8)**	**(0.9)**	**(0.9)**
Issue of Shares, Options etc/(share buyback)	-	1.5	-	-	-	-
- Repayment of Borrowings	-	(0.2)	-	-	-	-
- Proceeds from Borrowings	-	-	-	-	-	-
Ordinary Dividends paid	-	-	-	-	-	-
Other (incl lease and interest)	(0.2)	(0.3)	(0.1)	(0.1)	(0.1)	(0.1)
Financing cashflow	**(0.2)**	**0.9**	**(0.1)**	**(0.1)**	**(0.1)**	**(0.1)**
Net cash flow for year	**(2.0)**	**(0.8)**	**(0.6)**	**0.3**	**1.1**	**2.2**

Source: Company reports, LSEG data, RaaS forecasts

Key cash-flow considerations include:

- **Cash conversion:** Cash conversion is likely to remain strong, as evidenced in our forecasts where it sits at or close to 100%.
- **Clean cash flow without complexity:** Again, the fact that RCL is such a capital-light business makes the cash flow clear and simple. We forecast operating cash-flow positivity in FY24f (as per company guidance), and see it accelerate over the forecast period.
- **A portion of the R&D is expensed:** We assume a portion of the software spend continues to be capitalised going forward (~$0.5m-$0.6m p.a.), roughly in line with historical outcomes.
- **Small capital raising in FY23:** The company raised $1.5m in FY23 to fund the business to the point where it finds itself today as operating cash-flow positive.
- **September FY24 is our forecast low point in cash:** The existing seasonality in the business results in solid positive operating cash flow in the first half of the year (the six months to March), which offsets the seasonally weaker second half to September. As the business continues to scale into FY25 and beyond, it should become comfortably cash generative on a full-year basis. Therefore, we assume no further capital is raised over the forecast period. If the international business gains traction it should reduce the H1/H2 seasonality in earnings and cash flow due the timing of the school years being spread across various geographies.
- **We assume no dividend payments over the forecast period**: RCL will carry no franking credits and, in our view, given the lifecycle stage of the business, can generate better return for shareholders by reinvesting earnings into the business rather than paying them out as dividends. This is evidenced by the improving return-on-equity metrics, which we forecast to strengthen from 5.8% in FY26f to 21.6% in FY28f. This is discussed further in the "Valuation" section of this report.

SWOT Analysis

Exhibit 22 contains our SWOT analysis.

Exhibit 22: Strengths, Weaknesses, Opportunities, Threats

Strengths	Opportunities
Commercially proven suite of products and solutions	Material international opportunity in eBooks
Now has a strong management team with a clear strategy	Taking further market share in the VET-in-school industry
The business is capital light and funded to achieve our forecasts	M&A activity, in both directions
Clear operating leverage to play out	Leverage the eBooks position domestically under new strategy
Weaknesses	**Threats**
Requires further scaling to be bottom-line profitable	Competitive response as the industry further embraces digitisation
Incumbents remain in a strong position in eBooks	Well-funded incumbents consolidate market through a 'land-grab'
Schools can be slow to embrace change	

Source: RaaS analysis

Key Risks and Sensitivities

The key risks as we see them are:

- **Execution risk**: We believe the changes implemented over the past 12 months have been well executed and the business is positioned to grow without material risk. The customer retention improvement gives us confidence but growth from here relies on capturing new schools in both the eBooks and VET-in-school segments, the rate of which is yet to be completely proven.
- **Strength of incumbents:** The large publishers and resellers continue to dominate the Australia secondary school industry regarding the part of the market that the eBooks division is trying to penetrate.
- **Competition**: A relatively strong competing digital book solution and learning platform is already in the market in both the eBooks and VET-in-school segments. Further, new competition could emerge as digitisation continues to develop.
- **Key personnel**: A key driver of the growth story is the reinvigoration of the management team and the knowledge, experience and discipline that it brings. This obviously creates an element of key-personnel risk.
- **Economic conditions:** A general deterioration in economic conditions could delay or cancel proposed projects or impact funding options for future growth initiatives.
- **Schools can be slow-moving to adopt change:** Schools can be a challenging client. The decision-maker can vary greatly from school to school. For example, they can be completely different when eBooks are compared to VET-in-schools – even with the same school. Digitisation feels inevitable, but the rate of change and adoption is difficult to gauge and may therefore be more problematic than we forecast.
- **Foreign exchange rate:** Minimal at this stage but provided the international business expands this will increase FX risk – albeit mostly in translation rather than operating exposure.

Board And Management

Directors

Exhibit 23: Board of Directors

Name	Position	Background
Cris Nicolli	Chairman	Cris Nicolli has extensive corporate and ASX-listed company experience and is a sought-after non-executive director. He was the Group Managing Director and CEO of UXC Limited from 2003 to 2016. During that time Mr Nicolli was instrumental in leading the growth and development of UXC to delivering revenue of $750m, employing 3,000 staff and being widely recognised as the largest and one of the most respected ASX-listed IT companies in Australia.
Paul Collins	Non-Executive Director	Over the past 25 years, Paul Collins has been extensively involved in the start-up and subsequent ASX listing of two successful FinTech companies. A co-founder of IWL in 1997, Paul was an Executive Director of the company from its inception, through its listing in 1999 before leaving in 2004. Later in 2004 Paul became co-founder and Executive Director of Managed Accounts Ltd which listed on the ASX in 2014 (ASX:MGP). Paul chaired the Audit and the Risk and Compliance Committees of MGP from 2009 to 2016. MGP was ultimately sold to ASX:HUB in 2020. Paul has been a Non-Executive Director of WRKK Ltd (ASX:WRK) and ReadCloud since 2018.
Jonathan Isaacs	Non-Executive Director	Jonathan Isaacs has over 20 years' executive experience as a manager and Board member in the corporate sector. Throughout his executive career he has held directorships at The Mirabel Foundation; The Advertising Council of Australia; The One Box Foundation; and as the CFO/COO of Clemenger Group, Australia's largest marketing communications company. Jonathan was a founding funder of ReadCloud and remains a top-10 shareholder.
Lars Lindstrom	Executive Director Co-Founder	Lars Lindstrom co-founded ReadCloud in 2009 and has extensive tech start-up experience. Previously a Partner in LundXY Global Ventures (the first investor in Skype) and the CFO/Co–Founder of Nyhedsavisen which within one year became the most-read newspaper in Denmark publishing over 500,000 copies daily. Lars spent his first 10 years in investment banking/M&A working for Deutsche Bank and Rothschild in Melbourne.
Darren Hunter	Executive Director Chief Information Officer	Darren commenced his career in IT in 1984. Following several varied and senior roles he cofounded IWL, a financial planning and online stockbroking software provider in 1997. IWL was listed on the ASX in 1999 and provided Westpac and National Australia Bank with their online broking capabilities. Darren's role was that of CIO and group strategy. IWL grew into an ASX 300 company with over 500 employees and was eventually acquired by CBA for $373 million. He commenced with ReadCloud in 2015 in the role of Chief Information Officer.

Source: Company annual report and website

Management

Exhibit 24: Key management personnel

Name	Position	Background
Andrew Skelton	CEO	Andrew Skelton is a business and technology executive with more than 20 years of leadership experience, including eight years as Chief Executive Officer of A2B Australia Ltd (ASX A2B). Andrew's previous roles include General Counsel of ASX200 Cabcharge Australia Ltd and Chief Operating Officer of Black Cabs Combined Ltd where he led the establishment and growth of the 13cabs brand and associated technologies. Andrew has a track record of growing business by delivering significant transformation programmes, executing growth strategies in highly competitive industries, and navigating market, technological and regulatory changes. Andrew began his career at K&L Gates as a lawyer specialising in mergers and acquisitions. Andrew holds an MBA, degrees in Law and Commerce, and a Graduate Diploma in Applied Corporate Governance.
Luke Murphy	Chief Financial Officer	Luke Murphy is a Chartered Accountant (previously with KPMG and Deloitte) and Chartered Company Secretary with over 20 years' equity capital markets experience with leading stockbroking firms advising companies on capital raising, mergers and acquisitions and investor relations, complemented by experience as Chief Financial Officer of rapidly growing technology companies.

Source: Company presentations

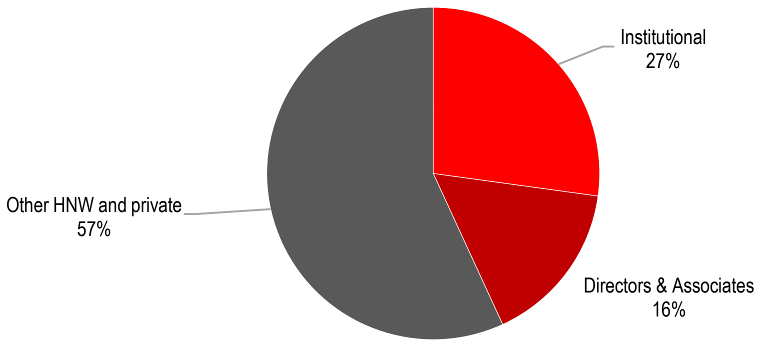
Shareholders

Exhibit 25: Top 20 shareholders

Shareholder	# Of shares	% Shareholding
UBS NOMINEES PTY LTD (Thorney entities)	15,909,393	10.9%
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED (Microequities)	13,040,079	8.9%
MR LARS PEDER LINDSTROM (Founder)	8,454,128	5.8%
BRINDLE HOLDINGS PTY LTD <O'CONNOR S/F A/C>	6,912,000	4.7%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED (Largely NED Directors)	6,320,791	4.3%
SANDHURST TRUSTEES LTD <CYAN C3G FUND A/C> (Institutional)	6,177,397	4.2%
CITICORP NOMINEES PTY LIMITED (Blend institutional and others)	4,601,121	3.1%
HUNMAR HOLDINGS PTY LTD (Director)	3,817,786	2.6%
SPRINT CAPITAL PARTNERS PTY LTD	3,304,100	2.3%
NICHOLAS MARDLING <NIC MARDLING SUPER FUND A/C>	2,800,001	1.9%
MR DARREN HUNTER (Director)	2,750,000	1.9%
MS KIMBERLEY JUANITA THERESE MARSHALL	2,510,920	1.7%
MR ALISTAIR DAVID STRONG	2,100,000	1.4%
MR EDMUND FURREY ROSE	2,071,621	1.4%
MS NATANYA PESHA FISHER	2,026,955	1.4%
NICOLLI FAMILY PTY LTD <NICOLLI FAMILY S/F A/C> (Chairperson)	2,014,898	1.4%
DR SCOTT MAURICE DONNELLAN	2,000,000	1.4%
MR JOSHUA LUKE FISHER & MRS NATANYA PESHA FISHER <N & J FISHER SUPER FUND A/C>	1,955,468	1.3%
AUSTRALASIAN LEARNING ACADEMY PTY LTD	1,875,000	1.3%
WESTFERRY OPERATIONS PTY LTD <THE WESTFERRY FUND A/C>	1,700,000	1.2%
Total		**63.2%**

Source: Company reports, LSEG data, RaaS analysis

Exhibit 26: Shareholder composition (estimated)



Source: Company reports, LSEG data, RaaS estimate

The register is as expected and in our view, sound, given the size of the ReadCloud business. Directors and associates are well represented there’s solid institutional representation which may be important if growth capital is desired, and the relatively large retail shareholder base is as expected in a micro-cap listed company.

RaaS
Research as a Service

Peer Comparison

There are numerous broadly comparable companies to RCL in the ASX-listed space. The 10 peers we see as most-relevant range in market cap from ~$4m to $380m. The universe is a mix of Ed-tech and pure services businesses. Exhibit 27 contains the peer comparison list, a brief description and trading multiples where available. It's worth noting that only five of the 10 companies are forecast to be EBITDA profitable in FY24f and six of the companies in FY25e. This isn't particularly surprising given the size and lifecycle phase of some of the peer group, and that a number are tech-related businesses in the process of building scale. For that reason, we have looked at EV/Revenue multiples across the universe of companies.

Exhibit 27: Peer comparison

Company	Code	Business model	Mkt Cap ($m)	EV/Revenue (x)
Readytech	RDY	Tech-based solutions for Education & Government	391.2	3.6
3P Learning	3PL	Tech-based online education and adaptive learnings	302.1	2.5
Keypath Education	KED	Ed-tech in the online program management market	190.4	1.1
Janison Education	JAN	Ed-tech online assessment software and products	69.7	1.3
NexttEd	NXD	Provider of educational services including VET	39.9	0.5
Kip McGrath	KME	Provider of tutoring services	19.6	0.5
Schrole*	SCL	Software solutions and training services for education	16.5	2.2
EDU Holdings	EDU	VET and tertiary education services	14.2	1.4
Cluey	CLU	Online tutoring and learning support	7.1	0.1
Open Learning	OLL	Learning platform for educators and institutions	4.6	3.2
Mean			**105.5**	**1.6**
ReadCloud	**RCL**		**13.9**	**1.1**
Premium/(Discount)				**(42%)**

*Under takeover

Source: LSEG, RaaS analysis (prices at 24 July 2024)

ReadCloud is currently priced at a ~42% discount to its peer group on a relative EV/Revenue multiple on an FY24f basis if we assume RCL's forecast FY24 year ending cash balance of $1.1m. Note this is only used as a relative peer comparison rather than a true valuation methodology by RaaS Research.

In our view, one of the most relevant peer group companies is Schrole Limited (SCL). It is currently under takeover offer, but prior to that was of similar size by market cap, similar levels of EBITDA profitability and slightly less revenue generative. It operates as a mix of software and services to the education sector, including both the school system and industry. The underlying product differs in functionality and end-use, but the dynamics are similar, in our opinion.

On 17 June 2024 Schrole received a cash takeover offer at a price of $0.485 per share, a 203% premium to the previous trading price of $0.16. The proposed acquirer is TES Global, a private equity-owned education technology platform. We see this is a relevant indicator that there is potential value at the smaller end of the Ed-tech and education services sector in Australia and that these companies can generate M&A interest at a significant premium to current pricing.

Return on Equity Valuation Methodology

Given that ReadCloud carries all of the following attributes, we thought it relevant to examine a return on equity-based valuation methodology:

- The business is scaling and profitability is accelerating.

- The balance sheet is debt-free.
- No dividends have been paid.
- The profits generated can be invested back into the business at materially improving rates of return.
- We forecast return on equity to grow from 5% to 18% from FY26f to FY28f, purely on an organic basis.

Provided the business scales over the next two to three years and once bottom-line profitability is maintained, we estimate that on an organic basis the inherent value of the business accelerates materially to $0.42 per share as illustrated in Exhibit 29.

Exhibit 29: ROE-based valuation methodology

RCL share price $0.098/share			FY26f	FY27f	FY27f
ROE			5%	15%	18%
Equity per Share			0.1	0.1	0.1
Dividend Payout Ratio			0%	0%	0%
Valuation					
Paid-out earnings valuation			$ -	$ -	$ -
Reinvested earnings valuation			$0.02	$0.19	$0.42
Total Valuation			**$0.02**	**$0.19**	**$0.42**

Source: RaaS estimates

DCF Valuation

We derive our DCF-based valuation of $0.35 on the following metrics.

Exhibit 30: Base-case DCF valuation

Parameters	Outcome
Discount rate / WACC	13.0%
Beta (observed beta is 1.5)*	1.5
Terminal growth rate assumption	2.5%
Sum of present value (PV) (A$M)	20.3
PV of terminal value (A$M)	29.5
PV of enterprise (A$M)	49.8
Net cash at 30 Sept. 2024 (A$M)	1.1
Net value – shareholder (A$M)	51.0
No. of shares on issue (M)	146.2
NPV per share (A$)	**$0.35**

Source: RaaS estimates

Our model incorporates both an upside and downside case to reflect higher/lower growth forecasts. The three scenarios are:

Base case: As per the forecasts in this report.

Downside case: Growth rate 50% below our base-case scenario.

Upside case: Growth 50% higher than our base case.

Exhibit 31: DCF scenario valuations

Scenario	Base	Downside	Upside
DCF valuation/share	**$0.35**	**$0.14**	**$0.56**
Premium to current share price	257%	43%	471%

Source: RaaS estimates

RaaS
Research as a Service

Exhibit 32: Financial Summary

Readcloud (RCL)					
Profit and Loss (A$m)					
Y/E 30 June	FY22a	FY23a	FY24f	FY25f	FY26f
Revenue	8.5	10.7	11.9	13.8	15.8
Gross Profit	4.8	5.8	6.6	8.0	9.1
EBITDA reported	(0.5)	(1.1)	0.0	0.7	1.6
EBITDA underlying	(0.8)	(0.8)	0.1	0.8	1.8
Depn	(0.3)	(0.2)	(0.1)	(0.1)	(0.1)
Amort	(0.8)	(1.0)	(1.0)	(1.0)	(1.0)
EBIT underlying	(2.0)	(1.9)	(0.9)	(0.2)	0.7
Interest	(0.0)	0.0	0.0	0.0	0.0
Tax	(0.0)	0.0	0.0	0.0	0.0
NPAT (Rep)	(1.6)	(2.3)	(0.9)	(0.2)	0.7
Significant & non-cash items	0.0	0.0	0.0	0.0	0.0
NPAT (adj)	**(1.6)**	**(2.3)**	**(0.9)**	**(0.2)**	**0.7**
Cash flow (A$m)					
Y/E 30 June	FY22a	FY23a	FY24f	FY25f	FY26f
EBITDA	(0.8)	(0.8)	0.1	0.8	1.8
Interest	0.0	0.0	0.0	0.0	0.0
Tax	(0.2)	0.0	0.0	0.0	0.0
Working capital changes	(0.1)	0.3	0.4	0.3	0.3
Operating cash flow	(1.0)	(0.4)	0.5	1.1	2.1
Mtce capex	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Free cash flow	(1.1)	(0.4)	0.5	1.1	2.1
Capitalised Dev. Costs	(0.5)	(0.5)	(0.6)	(0.6)	(0.6)
Acquisitions/Disposals	0.0	(0.7)	0.0	0.0	0.0
Other	(0.2)	(0.0)	(0.2)	(0.2)	(0.2)
Cash flow pre financing	(1.8)	(1.7)	(0.2)	0.4	1.2
Equity	0.0	1.5	0.0	0.0	0.0
Debt	0.0	(0.2)	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0
Net cash flow for year	(1.8)	(0.5)	(0.2)	0.4	1.2
Balance sheet (A$m)					
Y/E 30 June	FY22a	FY23a	FY24f	FY25f	FY26f
Cash	2.5	1.7	1.4	1.7	2.8
Accounts receivable	0.9	1.2	1.4	1.6	1.8
Inventory	0.0	0.0	0.0	0.0	0.0
Other current assets	0.1	0.1	0.1	0.1	0.1
Total current assets	*3.0*	*2.9*	*3.4*	*4.7*	*7.2*
PPE	0.2	0.1	0.1	0.1	0.1
Intangibles and Goodwill	8.0	10.8	8.9	8.8	8.7
Investments	0.0	0.0	0.0	0.0	0.0
Deferred tax asset	0.0	0.0	0.0	0.0	0.0
Other non current assets	0.3	0.2	0.1	0.4	0.2
Total non current assets	*8.6*	*11.1*	*9.0*	*9.2*	*9.1*
Total Assets	12.1	14.1	11.9	12.6	13.8
Accounts payable	0.8	1.0	1.1	1.3	1.5
Short term debt	0.0	0.0	0.0	0.0	0.0
Tax payable	0.0	0.0	0.0	0.0	0.0
Other current liabilities	0.6	2.3	0.9	1.6	1.9
Total current liabilities	*1.7*	*4.1*	*3.0*	*4.0*	*4.4*
Long term debt	0.0	0.0	0.0	0.0	0.0
Other non current liabs	0.2	0.1	0.0	0.0	0.0
Total non-current liabilities	*0.3*	*0.3*	*0.1*	*0.1*	*0.1*
Total Liabilities	2.1	4.4	3.1	4.1	4.5
Net Assets	**10.0**	**9.7**	**8.8**	**8.6**	**9.3**
Share capital	18.0	19.8	19.8	19.8	19.8
Accumulated profits/losses	(8.2)	(10.4)	(11.3)	(11.5)	(10.8)
Reserves	0.2	0.3	0.3	0.3	0.3
Minorities	0.0	0.0	0.0	0.0	0.0
Total Shareholder funds	**10.0**	**9.7**	**8.8**	**8.6**	**9.3**

Share price (24 July 2024)					A$	0.098
Interim (A$m)	1H23a	2H23a	1H24a	2H24f	1H25f	2H25f
Revenue	7.4	3.3	8.3	3.6	9.7	4.2
EBITDA (und)	0.5	(1.5)	1.1	(0.9)	1.4	(0.5)
EBIT (und)	0.5	(1.5)	1.1	(1.0)	1.4	(0.5)
NPAT (adj)	(0.1)	(1.5)	0.4	(1.3)	0.8	(1.0)
EPS (normalised)	(0.1)	(1.20)	0.29	(0.90)	0.56	(0.71)
Dividend (cps)	-	-	-	-	-	-

Divisions/Categories	FY22a	FY23a	FY24f	FY25f	FY26f
eBooks (Direct Domestic International)	4.4	4.5	5.1	5.8	6.6
VET in Schools (Auspicing)	3.8	4.1	4.2	5.2	6.0
Training (VET)	0.0	1.8	2.1	2.5	2.8
Sales revenue	**8.2**	**10.5**	**11.9**	**13.8**	**15.8**
COGS	3.4	4.7	5.3	5.8	6.6
Gross Profit	4.8	5.8	6.6	8.0	9.1
GP Margin (%)	58%	55%	55%	58%	58%
EBITDA (normalised)	(0.8)	(0.8)	0.1	0.8	1.8

Margins, Leverage, Returns	FY22a	FY23a	FY24f	FY25f	FY26f
EBITDA	(9.7%)	(7.3%)	1.2%	6.0%	11.2%
EBIT	(22.9%)	(18.0%)	(7.8%)	(1.8%)	4.4%
NPAT pre significant items	(19.2%)	(21.1%)	(7.6%)	(1.6%)	4.6%
Net (Debt)/ Cash	2.5	1.7	1.4	1.7	2.8
ROA	(16.2%)	(13.7%)	(7.8%)	(1.9%)	5.0%
ROE	(16.4%)	(23.3%)	(10.2%)	(2.5%)	7.8%
ROIC	(15.7%)	(33.8%)	(18.3%)	(4.7%)	11.4%
Working capital	0.1	0.2	0.3	0.3	0.3
WC/Sales (%)	1.7%	1.4%	2.1%	2.1%	2.1%
Revenue growth	12.6%	25.2%	11.0%	16.4%	13.9%

Pricing		FY22a	FY23a	FY24f	FY25f	FY26f
No of shares (y/e)	(m)	120	146	146	146	146
Weighted Av Dil Sha	(m)	120	124	146	146	146
EPS Reported	cps	(1.37)	(1.54)	(0.61)	(0.15)	0.49
EPS Normalised/Dil	cps	(1.37)	(1.83)	(0.61)	(0.15)	0.49
EPS growth (norm/dil)		n/a	n/a	n/a	nm	-435%
DPS	cps	-	-	-	-	-
DPS Growth		n/a	n/a	n/a	n/a	n/a
Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%
PE (x)		-	-	-	-	19.8
PE market		18.0	18.0	18.0	18.0	18.0
Premium/(discount)		n/a	n/a	n/a	(100.0%)	10.1%
EV/Revenue		1.1	1.2	1.1	0.9	0.7
EV/EBITDA	-	11.2 -	16.1	92.5	15.2	6.5
FCF/Share	cps	-0.9	-0.3	0.4	0.8	1.4
Price/FCF share	-	10.8 -	35.3	27.6	12.7	7.0
Free Cash flow Yield		(9.3%)	(2.8%)	3.6%	7.9%	14.3%

Source: RaaS Research Group estimates, company data for actuals

RaaS
Research as a Service

FINANCIAL SERVICES GUIDE

RaaS Research Group Pty Ltd

ABN 99 614 783 363

Corporate Authorised Representative, number 1248415, of

BR SECURITIES AUSTRALIA PTY LTD; ABN 92 168 734 530; AFSL 456663

Effective Date: 26th March 2024

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