

ReadCloud Ltd

Q4FY24 Update

Hitting the numbers and growing

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 company released its 4C quarterly activities report for the September quarter (Q4F24 – September year-end) and some unaudited data points as a forward release ahead of next month's full-year result. The cashflow statement contained no surprises for the seasonally-weak September quarter. Importantly, the company has now delivered to guidance of positive underlying EBITDA and positive statutory operating cashflow for FY24 (ex R&D and lease costs). This solid progress after the FY23 loss-making and cash-outflow position was driven by organic revenue growth of 15% to \$12.3m (3.4% ahead of Raas forecasts) complemented by a cost management program. Management stated that all 3 divisions in eBooks, VET-in-School and Training delivered organic growth for the year and further added "a positive start to the 2025 selling season for eBook Solutions with 5 new schools already won....strong sales momentum in VET-in-schools and on track for 10% expansion in the customer base, and ... enrolments in industry training courses consistently ahead of monthly targets". This in conjunction with high customer retention rates led management to provide forward looking guidance of "continued double-digit revenue growth and positive cashflow in FY25". We therefore see the investment case as completely intact. 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 FY24 to FY27. Our forecasts remain unchanged as does our DCF-based valuation of \$0.35/share, representing 272% potential upside 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 in its 3 verticals of eBook solutions (~45% of revenue), VET-in-schools (~37% of revenue) and Industry Training (~18% of revenue).

Well positioned to execute growth initiatives

FY24 represents an inflection point for the business where it continues to grow organically at the top-line and is now EBITDA profitable and cash generative. The business is debt free and can fund the RaaS growth forecasts through ongoing cash generation, which should accelerate through FY25. We believe each of the 3 divisions can grow revenue at ~15% p.a. organically in a 'business as usual' scenario, with optionality to grow more aggressively through further investment in marketing or acquisitions.

DCF valuation retained at \$0.35/share

Our forecasts remain unchanged as we await the FY24 result in November, but early release data points give us confidence, not only for FY24, but for setting up the FY25 year. We believe this early guidance builds confidence as the company is currently in its peak selling season to schools. Our DCF valuation remains at \$0.35/share, representing potential upside of 272% from the current share price.

Earnings history and RaaS' estimates (in A\$m unless otherwise stated)

Year end	Revenue	EBITDA adj.*	NPAT adj.*	EPS adj.* (c)	EV/EBITDA (x)	PER (x)
09/23a	10.7	(0.8)	(2.3)	(1.8)	n/a	n/a
09/24f	11.9	0.1	(0.9)	(0.6)	88.3	n/a
09/25f	13.8	0.8	(0.2)	(0.1)	14.5	n/a
09/26f	15.8	1.8	0.7	0.5	6.2	19.0

Source: RaaS estimates for FY24f-FY26f; Company data for historical earnings; *Adjusted for one-time and non-cash items

Information Technology – Software & Services

31 October 2024

Share Details

ASX code	RCL
Share price (30 October)	\$0.094
Market capitalisation	\$13.7M
Shares on issue	146.2M
Net cash 30-Sep-2024	\$1.4M

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 strong domestic selling season
- Proof of further international traction
- Delivery of revenue growth and cashflow

RaaS Initiation Report

[ReadCloud RaaS Initiation Report 25 July 2024](#)

Board of Directors

Cris Nicolli	Chair
Paul Collins	Non-Executive Director
Jonathan Isaacs	Non-Executive Director
Lars Lindstrom	Executive Director
Darren Hunter	Executive Director
Andrew Skelton	Chief Executive Officer
Luke Murphy	Chief Financial Officer/CoSec

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

Exhibit 1: Financial Summary

ReadCloud (RCL)						Share price (30 Oct 2024)						A\$	0.094				
Profit and Loss (A\$m)						Interim (A\$m)						1H23a	2H23a	1H24a	2H24f	1H25f	2H25f
Y/E 30 September	FY22a	FY23a	FY24f	FY25f	FY26f												
Revenue	8.5	10.7	11.9	13.8	15.8	Revenue	7.4	3.3	8.3	3.6	9.7	4.2					
Gross Profit	4.8	5.8	6.6	8.0	9.1	EBITDA (und)	0.5	(1.5)	1.1	(0.9)	1.4	(0.5)					
EBITDA reported	(0.5)	(1.1)	0.0	0.7	1.6	EBIT (und)	0.5	(1.5)	1.1	(1.0)	1.4	(0.5)					
EBITDA underlying	(0.8)	(0.8)	0.1	0.8	1.8	NPAT (adj)	(0.1)	(1.5)	0.4	(1.3)	0.8	(1.0)					
Depn	(0.3)	(0.2)	(0.1)	(0.1)	(0.1)												
Amort	(0.8)	(1.0)	(1.0)	(1.0)	(1.0)	EPS (normalised)	(0.1)	(1.20)	0.29	(0.90)	0.56	(0.71)					
EBIT underlying	(2.0)	(1.9)	(0.9)	(0.2)	0.7	Dividend (cps)	-	-	-	-	-	-					
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	Divisions/Categories						FY22a	FY23a	FY24f	FY25f	FY26f	
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	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	
Cash flow (A\$m)																	
Y/E 30 September	FY22a	FY23a	FY24f	FY25f	FY26f	Sales revenue						8.2	10.5	11.9	13.8	15.8	
EBITDA	(0.8)	(0.8)	0.1	0.8	1.8	COGS						3.4	4.7	5.3	5.8	6.6	
Interest	0.0	0.0	0.0	0.0	0.0	Gross Profit						4.8	5.8	6.6	8.0	9.1	
Tax	(0.2)	0.0	0.0	0.0	0.0	GP Margin (%)						58%	55%	55%	58%	58%	
Working capital changes	(0.1)	0.3	0.4	0.3	0.3	EBITDA (normalised)						(0.8)	(0.8)	0.1	0.8	1.8	
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)	Margins, Leverage, Returns						FY22a	FY23a	FY24f	FY25f	FY26f	
Acquisitions/Disposals	0.0	(0.7)	0.0	0.0	0.0	EBITDA						(9.7%)	(7.3%)	1.2%	6.0%	11.2%	
Other	(0.2)	(0.0)	(0.2)	(0.2)	(0.2)	EBIT						(22.9%)	(18.0%)	(7.8%)	(1.8%)	4.4%	
Cash flow pre financing	(1.8)	(1.7)	(0.2)	0.4	1.2	NPAT pre significant items						(19.2%)	(21.1%)	(7.6%)	(1.6%)	4.6%	
Equity	0.0	1.5	0.0	0.0	0.0	Net (Debt)/ Cash						2.5	1.7	1.4	1.7	2.8	
Debt	0.0	(0.2)	0.0	0.0	0.0	ROA						(16.2%)	(13.7%)	(7.8%)	(1.9%)	5.0%	
Dividends paid	0.0	0.0	0.0	0.0	0.0	ROE						(16.4%)	(23.3%)	(10.2%)	(2.5%)	7.8%	
Net cash flow for year	(1.8)	(0.5)	(0.2)	0.4	1.2	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%	
Balance sheet (A\$m)																	
Y/E 30 September	FY22a	FY23a	FY24f	FY25f	FY26f	Revenue growth						12.6%	25.2%	11.0%	16.4%	13.9%	
Cash	2.5	1.7	1.4	1.7	2.8												
Accounts receivable	0.9	1.2	1.4	1.6	1.8	Pricing						FY22a	FY23a	FY24f	FY25f	FY26f	
Inventory	0.0	0.0	0.0	0.0	0.0												
Other current assets	0.1	0.1	0.1	0.1	0.1	No of shares (y/e) (m)						120	146	146	146	146	
Total current assets	3.0	2.9	3.4	4.7	7.2	Weighted Av Dil Share (m)						120	124	146	146	146	
PPE	0.2	0.1	0.1	0.1	0.1												
Intangibles and Goodwill	8.0	10.8	8.9	8.8	8.7	EPS Reported cps						(1.37)	(1.54)	(0.61)	(0.15)	0.49	
Investments	0.0	0.0	0.0	0.0	0.0	EPS Normalised/Dilut cps						(1.37)	(1.83)	(0.61)	(0.15)	0.49	
Deferred tax asset	0.0	0.0	0.0	0.0	0.0	EPS growth (norm/dil)						n/a	n/a	n/a	nm	-435%	
Other non current assets	0.3	0.2	0.1	0.4	0.2	DPS cps						-	-	-	-	-	
Total non current assets	8.6	11.1	9.0	9.2	9.1	DPS Growth						n/a	n/a	n/a	n/a	n/a	
Total Assets	12.1	14.1	11.9	12.6	13.8	Dividend yield						0.0%	0.0%	0.0%	0.0%	0.0%	
Accounts payable	0.8	1.0	1.1	1.3	1.5	PE (x)						-	-	-	-	19.0	
Short term debt	0.0	0.0	0.0	0.0	0.0	PE market						18.0	18.0	18.0	18.0	18.0	
Tax payable	0.0	0.0	0.0	0.0	0.0	Premium/(discount)						n/a	n/a	n/a	(100.0%)	5.6%	
Other current liabilities	0.6	2.3	0.9	1.6	1.9	EV/Revenue						1.0	1.1	1.0	0.9	0.7	
Total current liabilities	1.7	4.1	3.0	4.0	4.4	EV/EBITDA						-	10.6 -	15.4	88.3	14.5	
Long term debt	0.0	0.0	0.0	0.0	0.0	FCF/Share cps						-0.9	-0.3	0.4	0.8	1.4	
Other non current liabs	0.2	0.1	0.0	0.0	0.0	Price/FCF share						-	10.3 -	33.9	26.5	12.2	
Total non-current liabilities	0.3	0.3	0.1	0.1	0.1	Free Cash flow Yield						(9.7%)	(2.9%)	3.8%	8.2%	14.9%	
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												

Source: RaaS estimates; Company data for actuals

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

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In writing to: Australian Financial Complaints Authority, GPO Box 3, Melbourne, VIC, 3001.

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