ReadCloud Ltd

Q1 FY25 Update

A strong start to the year

Information Technology – Software & Services

30 January 2025

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 has released its 4C quarterly activities report for the December quarter (Q1 FY25 – September year-end). The update contained numerous positive developments indicating a strong start to FY25 and leaves the company well positioned for the balance of the year, in our view. Cash receipts increased 26% over the previous corresponding period (pcp) to $2.4m. Impressively, costs remain contained with total operating expenses held to a 1% increase over the pcp. The December quarter was a record for RCL, which is a seasonal low point in regard to cash receipts and revenue, but an important period in relation to the selling season which sets up the balance of the year. RCL has reported a "strong selling season with 59 new schools signed for 2025" across the VET-in-Schools and eBooks divisions. This success has been complemented by strong retention rates of 93% for existing eBooks schools and, in the VET-in-Schools business, a 55% uplift over last year in the number of qualifications being delivered by new school customers to 79.. This has driven management to guide for VET-in-Schools revenue growth to exceed 25% in 2025, materially ahead of previously communicated growth targets of 15% p.a. The eBooks business is also likely to grow having signed new schools for 2025 and the company's third division, its industry training business Southern Solutions, "continues to trade strongly, consolidating its materially improved performance in 2024". In summary, the December quarter result represents a good start to the year and gives us strong confidence that the business is well positioned to deliver our FY25 forecasts of 17% revenue growth to $13.9m, operating cash-flow positivity and strengthened EBITDA profitability. We retain our existing forecasts and DCF valuation of $0.35, representing potential upside of 280% over 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 three verticals of eBook solutions (~40% of sales and fee revenue), VET-in-Schools (~38% of sales and fee revenue) and Industry Training (~22% of sales and fee revenue).

A strong start suggests another year of growth

The strong selling season and management commentary provides us with confidence for the year ahead, most particularly with the upgraded outlook for the VET-in-Schools business with 25%+ revenue growth guidance versus RaaS' current forecast of 17.7%. We retain our existing forecasts rather than upgrade at this stage. That said, after a strong performance in FY24 whereby RCL delivered its maiden underlying operating profit, it appears positive momentum is continuing and management even spoke to "accelerating growth" in FY26 in the VET-in-Schools business. The business appears fully funded to deliver our completely organic growth forecasts, which may be further enhanced by acquisitions going forward now that the existing business appears in good shape.

DCF valuation retained at $0.35/share

We retain our existing forecasts and our DCF valuation remains at $0.35/share, representing potential upside of 280% from the current share price.

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

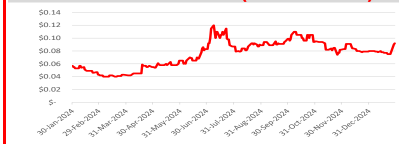
Year end	Revenue	EBITDA adj.*	NPAT adj.*	EPS adj.* (c)	EV/EBITDA (x)	PER (x)
09/23a	10.7	(0.8)	(2.3)	(2.1)	n.a.	n.a.
09/24a	11.9	0.4	(0.7)	(0.4)	33.1	n.a.
09/25f	13.9	0.8	(0.2)	(0.1)	15.8	n.a.
09/26f	15.8	1.8	0.9	0.6	6.2	15.2
09/27f	17.6	2.7	1.8	1.2	3.5	7.5

Source: RaaS estimates for FY25f, FY26f and FY27f; Company data for historical earnings; *Adjusted for one-time and non-cash items

Share Details

ASX code	RCL
Share price (29-Jan)	$0.092
Market capitalisation	$13.6M
Shares on issue	147.6M
Net cash 31-Dec-2024	$1.1M

Share Performance (12 months)



Upside Case

- Material revenue growth >15% p.a
- The securing of new schools in eBooks and VET-in-Schools 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 positive cashflow

RaaS Initiation Report

ReadCloud (ASX:RCL) RaaS Initiation Report

Board of Directors & Management

Cris Nicolli	Non-Executive 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/Co Sec

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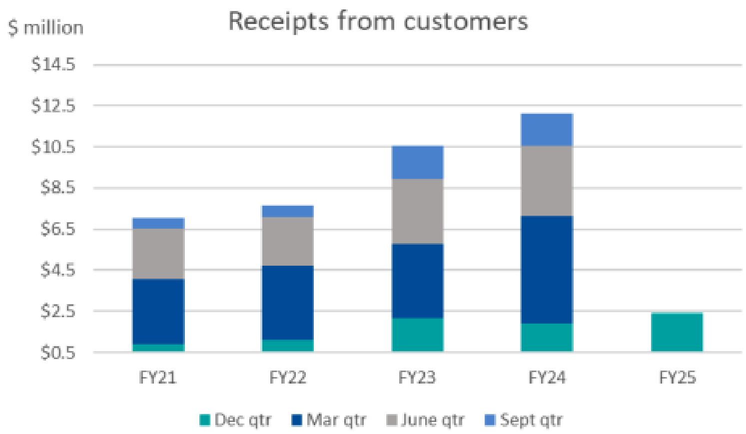
***The analyst is also a principal of Cyan IM which owns shares in RCL.**

Research as a Service

Q1 FY25 Discussion

The Q1 FY25 cash-flow statement was in-line with our expectation from a financial perspective. The December quarter is always seasonally low on a relative basis regarding cash receipts, as illustrated in Exhibit 1.

Exhibit 1: Receipts from customers



Source: Company presentation

The key discussion points regarding the Appendix 4C cashflow statement and associated commentary are:

- **Group receipts from customers grew 26% over the pcp to a record $2.41m**.
- **Operating expenses** increased 1% over the pcp. Composition of the cost base has not changed materially with the largest contributor being staff costs of $1.70m and broadly in-line with the figures delivered post previous cost-out initiatives in FY24. We view this as a strong result, particularly considering the revenue growth being displayed by the business.
- **Operating cash outflow of $0.35m in-line with RaaS forecasts**. This seasonal low-point is likely to reverse materially in the upcoming March and June quarters which we forecast to collectively represent 75%-80% of annual group cash receipts.
- **Closing cash balance of $1.07m in-line with RaaS forecasts**. Again, this is forecast to represent the cash low point of the business as it enters the March and June quarters. We forecast RCL to be operating cash-flow positive to the tune of $1.1m for FY25 with the company remaining fully funded to deliver our existing forecasts.

There were several key positives in the release which provide us with confidence on the outlook for the business for the remainder of FY25 and into FY26:

- **Strong selling season:** The December quarter represents the key selling season for Australian schools for the year ahead, which directly impacts the outcome for two of the company's three divisions (VET-in-Schools and eBooks). RCL signed 59 new schools across the two divisions, materially higher than the last couple of years and stronger than our expectation.
- **Retention rates continue to strengthen**: In FY24 management undertook an initiative to drive customer retention in its eBooks business by focussing on customer-facing activities through service and relationship management which resulted in an improvement in retention rates from 69% to 91%. This has been further improved to 93% for the FY25 year.

- **Strong outlook statement, particularly for the VET-in-Schools division:** In FY24, RCL consolidated the three previously acquired VET-in-schools Registered Training Organisations (RTOs) under the banner of ReadCloudVET. The benefit of these and other initiatives are now materialising. In its release the company stated:

  "ReadCloud's sustained focus on customer-facing activities is driving positive outcomes. Customers are identifying value in how the ReadCloudVET integrates ReadCloud's proprietary eBooks technology with proprietary learning and assessment materials customised for the secondary school setting. Momentum continues to accelerate in the high-margin VET-in-Schools (ReadCloudVET) business. 52 new schools have joined ReadCloudVET for 2025 with plans to deliver 79 qualifications, a 55% increase over 2024. ReadCloud is now forecasting FY25 VET-in-Schools revenue growth to exceed 25% and gross margins to remain above 90%. This is expected to be delivered by growth in revenue of 10%-15% for its existing customer base, complemented by revenue from newly onboarded schools. VET-in-Schools pre-sales for 2026 suggest growth of new customers will continue to accelerate."

  To put these statements in perspective, RaaS existing forecasts for VET-in-Schools revenue growth in FY25 and FY26 are 17.7% and 11.3% respectively. These new data points suggest the business is growing strongly organically within its existing customer base, being further enhanced by the addition of new customers at an "accelerating rate". This is a material positive.

  The company also stated it expects revenue growth in the eBooks division as a result of incremental growth from existing customers and the addition of new schools in 2025, albeit by an unquantified amount. Similarly, the company's third business in Southern Solutions, which focuses on industry training rather than the secondary school segment, continues to trade strongly, "consolidating its materially improved performance in FY24."

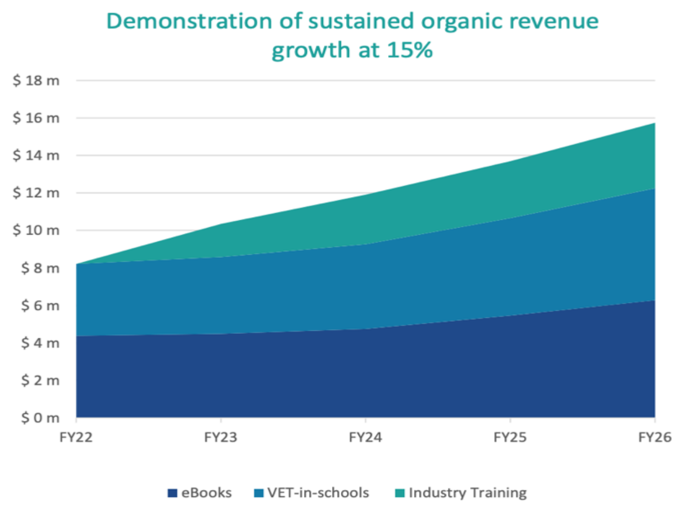
Guidance And Outlook

Management has not provided specific numerical guidance but at its FY24 full-year results release in November 2024 stated:

- Management remains focussed on disciplined execution that unlocks operating leverage;
- Continuing organic revenue growth baseline target of 15%; and
- Cost growth % targeted to be meaningfully lower than revenue growth %.

At that time the company also released its outlook for organic revenue growth to FY26 for the first time, as illustrated in Exhibit 2.

Exhibit 2: Organic growth horizon



Source: Company presentation

The Q1 FY25 update gives us confidence that the company is on track to deliver these initiatives and growth outcomes. Given it remains early in the year we await further proof of data points in the key quarters ahead but the December quarter data points provide us with significant confidence.

We retain our existing forecasts out to FY27, which represent strong organic performance in the business.

DCF Valuation is $0.35/share

We also retain our DCF valuation of $0.35/share. Key metrics include a discount rate of 12.9% (beta 1.5, terminal growth rate of 2.5%), as illustrated in Exhibit 3.

Exhibit 3: Base-case DCF valuation

	Parameters
Discount rate / WACC	12.9%
Beta (observed beta is 1.5)*	1.5
Risk-free rate	4.0%
Terminal growth rate assumption	2.5%
Sum of present value (PV) (A$m)	21.9
PV of terminal value (A$m)	26.3
PV of enterprise (A$m)	48.3
Net cash at 30 Sept. 2025 (A$m)	1.5
Net value – shareholder (A$m)	49.8
No. of shares on issue (m)	147.6
NPV per share A$	**$0.35**

Source: RaaS estimates

RAAS
Research as a Service

Exhibit 4: Financial Summary

Readcloud (RCL)						Share price (29 January 2025)					A$	0.092

Profit and Loss (A$m)					
Y/E 30 September	**FY23A**	**FY24A**	**FY25F**	**FY26F**	**FY27F**
Sales and Fee Revenue	10.7	11.9	13.9	15.8	17.6
Gross Profit	5.8	6.7	7.9	9.1	10.2
EBITDA reported	(1.1)	(0.0)	0.6	1.6	2.5
EBITDA underlying	(0.8)	0.4	0.8	1.8	2.7
Depn	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)
Amort	(1.0)	(0.9)	(1.0)	(1.0)	(1.0)
EBIT underlying	(1.9)	(0.7)	(0.3)	0.7	1.6
Interest	0.0	0.0	(0.0)	0.0	0.0
Tax	0.0	0.0	0.0	0.0	0.0
NPAT (Rep)	(2.6)	(1.0)	(0.3)	0.7	1.6
Significant & non-cash items	0.4	0.4	0.2	0.2	0.2
NPAT (adj)	**(2.3)**	**(0.6)**	**(0.2)**	**0.9**	**1.8**

Cash flow (A$m)					
Y/E 30 September	**FY23A**	**FY24A**	**FY25F**	**FY26F**	**FY27F**
EBITDA	(0.8)	0.4	0.8	1.8	2.7
Interest	0.0	0.0	(0.0)	0.0	0.0
Tax	0.0	0.0	0.0	0.0	0.0
Working capital changes	0.3	0.0	0.2	0.2	0.2
Operating cash flow	(0.4)	0.4	1.0	2.0	2.9
Mtce capex	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Free cash flow	(0.4)	0.4	1.0	2.0	2.9
Capitalised Dev. Costs	(0.5)	(0.5)	(0.6)	(0.6)	(0.6)
Acquisitions/Disposals	(0.7)	0.0	0.0	0.0	0.0
Other	(0.0)	(0.0)	(0.2)	(0.2)	(0.2)
Cash flow pre financing	(1.7)	(0.1)	0.2	1.2	2.0
Equity	1.5	0.0	0.0	0.0	0.0
Debt	(0.2)	0.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0
Net cash flow for year	(0.5)	(0.1)	0.2	1.2	2.0

Balance sheet (A$m)					
Y/E 30 September	**FY23A**	**FY24A**	**FY25F**	**FY26F**	**FY27F**
Cash	1.7	1.4	1.5	2.5	4.4
Accounts receivable	1.2	1.0	1.6	1.8	2.0
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	2.5	3.2	4.4	6.5
PPE	0.1	0.0	0.1	0.1	0.1
Intangibles and Goodwill	10.8	8.7	8.8	8.7	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	0.2	0.0	0.4	0.2	0.1
Total non current assets	11.1	8.8	9.2	9.1	8.9
Total Assets	14.1	11.3	12.5	13.5	15.4
Accounts payable	1.0	1.1	1.3	1.5	1.6
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	2.3	0.4	1.7	1.9	2.0
Total current liabilities	4.1	2.3	3.9	4.2	4.5
Long term debt	0.0	0.0	0.0	0.0	0.0
Other non current liabs	0.1	0.0	0.0	0.0	0.0
Total non-current liabilities	0.3	0.2	0.1	0.1	0.1
Total Liabilities	4.4	2.6	4.0	4.3	4.6
Net Assets	**9.7**	**8.8**	**8.5**	**9.2**	**10.8**
Share capital	19.8	19.8	19.8	19.8	19.8
Accumulated profits/losses	(10.4)	(11.4)	(11.7)	(11.0)	(9.3)
Reserves	0.3	0.4	0.4	0.4	0.4
Minorities	0.0	0.0	0.0	0.0	0.0
Total Shareholder funds	**9.7**	**8.8**	**8.5**	**9.2**	**10.8**

Interim (A$m)	**1H23a**	**2H23a**	**1H24a**	**2H24a**	**1H25f**	**2H25f**
Revenue	7.4	3.3	8.3	3.6	9.7	4.2
EBITDA (und)	0.5	(1.5)	1.1	(0.7)	1.4	(0.6)
EBIT (und)	0.5	(1.5)	1.1	(0.8)	1.4	(0.6)
NPAT (adj)	(0.1)	(1.5)	0.4	(1.1)	0.8	(1.0)
EPS (normalised)	(0.1)	(1.20)	0.29	(0.72)	0.56	(0.66)
Dividend (cps)	-	-	-	-	-	-

Divisions/Categories	**FY23A**	**FY24A**	**FY25F**	**FY26F**	**FY27F**
eBooks (Direct Domestic International)	4.5	4.8	5.4	6.0	6.6
VET in Schools (Auspicing)	4.0	4.5	5.3	5.9	6.5
Training (VET)	1.8	2.6	2.8	3.5	4.1
Sales revenue	**10.4**	**12.0**	**13.9**	**15.8**	**17.6**
EBITDA (normalised)	(0.8)	0.4	0.8	1.8	2.7

Margins, Leverage, Returns	**FY23A**	**FY24A**	**FY25F**	**FY26F**	**FY27F**
EBITDA	(7.3%)	3.1%	5.5%	11.2%	15.1%
EBIT	(18.0%)	(5.6%)	(2.2%)	4.4%	9.0%
NPAT pre significant items	(24.5%)	(8.7%)	(2.2%)	4.6%	9.3%
Net (Debt)/ Cash	1.7	1.4	1.5	2.5	4.4
ROA	(13.7%)	(5.8%)	(2.5%)	5.2%	10.3%
ROE	(23.3%)	(7.4%)	(1.9%)	9.7%	16.8%
ROIC	(33.8%)	(12.9%)	(6.2%)	11.9%	20.8%
Working capital	0.2	(0.1)	0.3	0.3	0.4
WC/Sales (%)	1.4%	(1.2%)	2.1%	2.1%	2.1%
Revenue growth	26.8%	11.3%	16.7%	13.7%	11.6%

Pricing		**FY23A**	**FY24A**	**FY25F**	**FY26F**	**FY27F**
No of shares (y/e)	(m)	146	146	148	148	148
Weighted Av Dil Shares	(m)	124	146	148	148	148
EPS Reported	cps	(1.54)	(0.71)	(0.21)	0.49	1.11
EPS Normalised/Diluted	cps	(2.12)	(0.44)	(0.11)	0.61	1.23
EPS growth (norm/dil)		n/a	n/a	n/a	n/a	103%
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)		-	-	-	15.2	7.5
PE market		18.0	18.0	18.0	18.0	18.0
Premium/(discount)		n/a	n/a	n/a	(15.6%)	(58.5%)
EV/Revenue		1.1	1.0	0.9	0.7	0.5
EV/EBITDA		n/a	33.1	15.8	6.2	3.5
FCF/Share	cps	n/a	0.3	0.7	1.3	1.9
Price/FCF share		n/a	34.1	14.0	6.8	4.7
Free Cash flow Yield		n/a	2.9%	7.1%	14.7%	21.2%

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

Effective Date: 26th March 2024

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

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