RaaS
Research as a Service

ReadCloud Ltd

Q2 FY25 Update

VET-in-schools flourishing

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 a trading update and its 4C quarterly activities report for the March quarter (Q2 FY25 – September year-end). The update contained numerous positive developments indicating continued momentum in FY25 and de-risks the financial performance for the balance of the year. The March quarter is seasonally strong for RCL, delivering operating cash flow of $2.0m, contributing to the period-end cash balance increasing from $1.1m to $3.5m. Given the end of the March quarter represents the half-year point for RCL, the company released a number of unaudited H1 FY25 revenue data points. Sales and fee revenue grew 13%, largely driven by an exceptionally-strong performance from the VET-in-Schools business which grew revenue 29% over the pcp. This was on the back of a strong selling season in the December quarter whereby the company added 55 new school customers whilst driving retention rates to 94%. Management also commented that momentum in this high-margin business is expected to continue having already received strong pre-sales for 2026. Its other two divisions have performed solidly with domestic direct eBooks growing revenue ~10% and Industry Training experiencing a period of consolidation following material growth in FY24. As per previous guidance, costs remain contained with total operating expenses held to a 1% increase over the pcp. In summary, the March quarter result rounds out a strong first half of the year and gives us confidence that the business is well positioned to deliver our FY25 forecasts of 16% 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 159% 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 (~40% of sales and fee revenue) and Industry Training (~20% of sales and fee revenue).

A solid H1 FY25 sets up another year of growth

Solid revenue growth of 13% was delivered with a slight variance in business mix versus RaaS forecasts as a result of the strong outperformance in the VET-in-Schools business. Due to the timing of revenue collection, this marginally smooths the seasonality, resulting in the forecast H1/H2 split changing from 70/30 to 68/32, but FY25 full-year forecasts remain unchanged. No formal FY25 earnings guidance was provided by the company, but management stated, 'the performance positions the Company well to deliver its previously stated FY25 ambitions of baseline organic growth of 15%, whilst managing cost growth to unlock operating leverage'. The business remains debt free and fully funded to deliver our completely organic growth forecasts, which we believe may be further enhanced by acquisitions going forward now that the existing business is in such good shape.

DCF valuation retained at $0.35/share

Our forecasts remain unchanged for the FY25 year but we view the strong performance to date and management outlook statements as de-risking the current year. Our DCF valuation remains at $0.35/share, representing potential upside of 159% 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	(0.6)	(0.4)	38.3	n.a.
09/25f	13.9	0.8	(0.2)	(0.1)	19.0	n.a.
09/26f	15.8	1.8	0.9	0.6	7.6	17.9

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

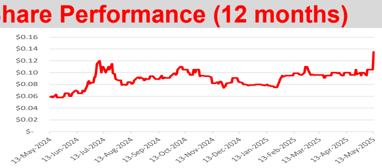
Information Technology – Software & Services

14 May 2025

Share Details

ASX code	RCL
Share price (13-May)	$0.135
Market capitalisation	$20.6M
Shares on issue	152.6M
Net cash 30-Mar-2025	$3.5M

Share Performance (12 months)



Upside Case

- Ongoing growth in VET-in-schools
- Execution of growth strategy in eBooks
- 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

- Ongoing proven momentum materialising
- Clarity around the eBooks strategy
- Potential M&A

Board and Senior Management

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

Company Contact

Andrew Skelton (CEO) +61 407 107 801
andrew.skelton@readcloud.com

RaaS Contact

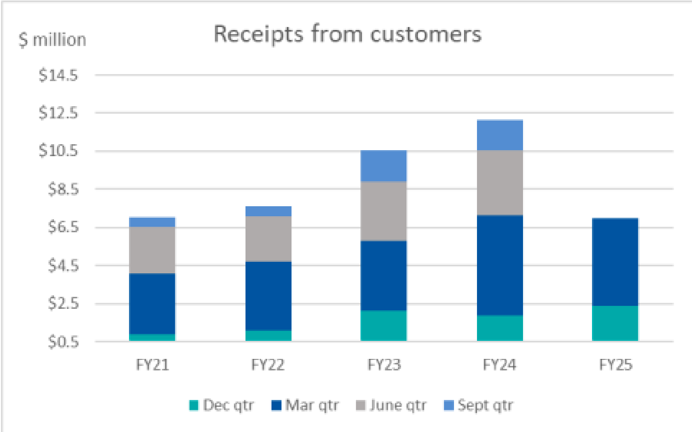
Graeme Carson +61 417 666 802
graeme.carson@raasgroup.com

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

Q2 FY25 Discussion

The Q2 FY25 cash-flow statement was broadly in-line with our expectation from a financial perspective. The March quarter is generally seasonally strong in regard to revenue and cash receipts, but as outlined in Exhibit 1, some payments were delayed into the June quarter which is purely a timing issue and masks the underlying growth at the headline for the quarter.

Exhibit 1: Receipts from customers (A$m)



Source: Company quarterly activities report

The key discussion points regarding the Appendix 4C cash-flow statement and associated commentary are:

- **Group cash receipts from customers for the quarter of $4.6m takes receipts for H1 FY25 to $7.0m**. This was slightly lighter than RaaS forecasts, predominantly due to the timing of the Australian school semester. Management explained 'some receipts were delayed into April, resulting in a further $2.3m received in the current month to date [April]'. However, strong working capital management contributed to a solid result of +$2.0m operating cash flow.
- **Operating costs** increased 1% for the half against the pcp (previous corresponding period). Composition of the cost base has not changed materially with the largest contributor being staff costs. Management stated 'H125 employment costs are 3% lower than pcp', validating the cost-out initiatives as previously outlined by management. This will continue to contribute to improved operating leverage for the company.
- **Closing cash balance of $3.5m in-line with RaaS forecasts**. A combination of seasonally-strong operating cash flow of $2.0m, complemented by proceeds from the exercise of options totalling $0.5m, delivered a $2.4m improvement over the 31 December cash balance of $1.1m. RCL remains debt free and is fully funded to deliver our existing estimates over the forecast period.

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 performance from VET-in-Schools:** The VET-in-Schools business delivered 29% organic revenue growth over the pcp, driven by 11% growth in school customers, an increase of 14% in qualifications delivered and a 94% customer retention rate. In a recent presentation at a microcap conference, management spoke to the opportunity that exists in the Australian VET-in-Schools industry, stating '2026 pre-sales and government recognition of skills shortages create favourable conditions for extended growth'. We believe RCL is well placed to materially increase its current student base of ~14,500 and gain share in a market size of ~250,000 students annually.

- **Other divisions solid**: The eBooks division has delivered a revenue CAGR of 9.5% over the past five years, including 10% growth in domestic direct eBook sales in H1 FY25 over the pcp. The Southern Solutions business, which operates in Industry Training rather than the school environment, looks to have consolidated a strong growth year in FY24 which saw revenue increase materially.

- **Capital and management time being allocated to growth initiatives:** The business is now in a stronger financial position than in past periods and management cited its ambition to direct capital towards growth initiatives. The VET-in-Schools business already appears to be on a strong trajectory, so the company says it is investigating its growth strategy around the eBooks division and comparing the potential impact of:

    - An additional distribution channel;
    - Increased sales efforts in the international market;
    - Introducing sales efforts in the primary school sector; and
    - Expanding sales efforts in states beyond the traditionally strong Queensland market.

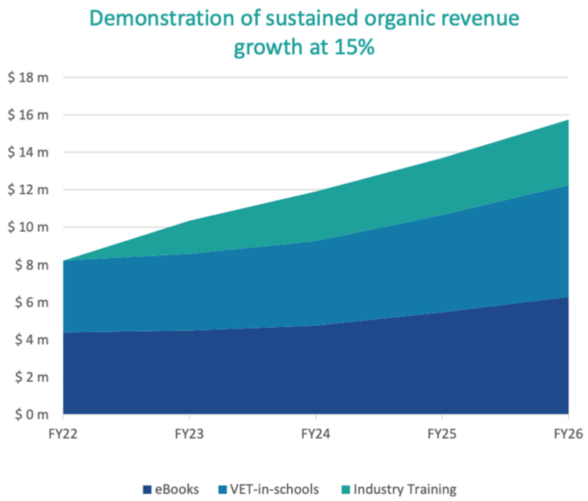
  RaaS forecasts remain relatively conservative for eBooks, and management appears to be taking a measured approach to its strategy, but the market is significant, both domestically and offshore, so we see any increased spend and effort as a driver of material potential upside.

Guidance And Outlook

Management has not provided specific numerical guidance but has reiterated organic baseline revenue growth and cost management commentary. This confirms previous communications as outlined below:

- 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 %.

Exhibit 2: Organic growth horizon (A$m)



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.

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$m)	48.3
Net cash at 31 Mar 2025 (A$m)	3.5
Net value – shareholder (A$m)	51.8
No. of shares on issue (m)	147.6
NPV per share A$	**$0.35**

Source: RaaS estimates *LSEG observed 5-year beta

Exhibit 4: Financial Summary

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

Share price (13 May 2025)						A$	0.135
Interim (A$m)		**1H23a**	**2H23a**	**1H24a**	**2H24a**	**1H25f**	**2H25f**
Revenue		7.4	3.3	8.3	3.6	9.4	4.4
EBITDA (und)		0.5	(1.5)	1.1	(0.7)	1.3	(0.6)
EBIT (und)		0.5	(1.5)	1.1	(0.8)	1.3	(0.6)
NPAT (adj)		(0.1)	(1.5)	0.4	(1.1)	0.8	(0.9)
EPS (normalised)		(0.1)	(1.20)	0.29	(0.72)	0.52	(0.62)
Dividend (cps)		-	-	-	-	-	-
Divisions/Categories			**FY23A**	**FY24A**	**FY25F**	**FY26F**	**FY27F**
eBooks (Direct Domestic International)			4.5	4.8	5.3	6.0	6.6
VET in Schools (Auspicing)			4.0	4.5	5.8	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	153	153	153
Weighted Av Dil Shares	(m)		124	146	149	153	153
EPS Reported	cps		(1.54)	(0.71)	(0.21)	0.48	1.07
EPS Normalised/Diluted	cps		(2.12)	(0.44)	(0.11)	0.59	1.19
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)			-	-	-	17.9	8.8
PE market			18.0	18.0	18.0	18.0	18.0
Premium/(discount)			n/a	n/a	n/a	(0.5%)	(51.0%)
EV/Revenue			1.3	1.2	1.0	0.9	0.7
EV/EBITDA			n/a	38.3	19.0	7.6	4.4
FCF/Share	cps		n/a	0.3	0.6	1.3	1.9
Price/FCF share			n/a	38.9	16.6	8.1	5.6
Free Cash flow Yield			n/a	2.6%	6.0%	12.4%	18.0%

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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Contact Details, BR and RaaS

BR Head Office: Level 1, 160 Edward Street, Brisbane, QLD, 4000 www.brsecuritiesaustralia.com.au

RaaS:. c/- Rhodes Docherty & Co Pty Ltd, Suite 1, Level 1, 828 Pacific Highway, Gordon, NSW, 2072.

P: +61 414 354712

E: finola.burke@raasgroup.com

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

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