

Investing in its strengths

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. In recent communication to the market, including commentary in the 4C December quarter activities report and at the AGM, it has become increasingly clear that ReadCloud is transitioning towards a pure-play on the schools industry through a measured exit from industry training and a focus on its two core businesses in VET-in-Schools and eBooks. The industry training business has become less attractive due to what management describes as the “unpredictability of state funding revenue”. After multiple periods of lumpiness and uncertainty in funding and policy, it has become clear that RCL management is no longer willing to invest in the business going forward and will transition out through the balance of FY26 (September year-end). In contrast, the schools-facing businesses are performing strongly and both offer ongoing growth prospects with high customer retention in customers whilst not at the mercy of government funding or policy. In this report we consider what RCL looks like through the transition in FY26 and then on a continuing operations basis from FY27 onwards. We view this decision positively, allowing time and capital to be directed towards the core operations, ultimately resulting in a business with a simplified structure, clearer strategic direction and stronger growth with lower volatility. Forecast metrics now include an EBITDA CAGR of 96% from \$0.7m in FY26 to \$2.7m in FY28. We also forecast Return on Equity to increase from -0.2% to +16.5% over the same period. Our DCF valuation is derived from forecast organic earnings growth and increases marginally from \$0.35/share to \$0.36/share, but we believe forecasts are now more stable and predictable post the exit from the industry training business. Our valuation represents potential upside of 339% over the current share price.

Business Model

Going forward on a continuing operations basis, the business will derive revenue from both its software platform and the content that it distributes to students and educators across the platform in its two core businesses of eBook solutions (~45% of sales and fee revenue) and VET-in-Schools (~55% of sales and fee revenue).

A cleaner and stronger business going forward

The VET-in-Schools business is the largest contributor and continues to perform strongly. Management guided FY26 revenue growth to exceed 15% at high gross margins of 90%+ (RaaS forecasts FY26 revenue growth of 14%). Similarly, domestic direct eBooks, also servicing Australian secondary schools, is well positioned to continue to grow, driven by both an increased number of schools and continued growth in average revenue per school. Retention rates in both divisions are forecast by management to continue to sit above 90% in the cohort of almost 500 schools. International eBooks offers growth optionality not reflected in our current forecasts.

DCF valuation \$0.36/share (previously \$0.35/share)

RCL offers growing revenue and operating earnings with a clear strategy in proven businesses. It is debt free and funded to deliver our organic growth forecasts. We believe the issues around the training business have masked strong underlying performance in the core business which will become evident in the near term, offering significant upside potential. Our DCF valuation of \$0.36/share represents potential upside of 339% over 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)
09/24a	12.3	0.4	(0.6)	(0.4)	33.8	n/a
09/25a	12.9	0.8	(0.1)	(0.1)	13.7	n.a.
09/26f	13.1	0.7	(0.1)	(0.1)	15.4	n.a.
09/27f	13.8	1.8	1.0	0.6	5.6	12.8
09/28f	15.7	2.7	1.9	1.2	3.2	6.7

Source: RaaS estimates for FY26f, FY27f and FY28f; Company data for historical earnings; *Adjusted for one-time and non-cash items

Information Technology – Software & Services

17 March 2026

Share Details

ASX code	RCL
Share price (16-Mar)	\$0.082
Market capitalisation	\$12.6M
Shares on issue	153.6M
Net cash 30-Sep-2025	\$1.9M
Free float (LSEG)	~62.4%
Avg. daily volume (12-mths)	0.12M

Share Performance (12 months)



Upside Case

- Execution of growth strategy in eBooks
- Stronger acceleration in VET-in-schools
- 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
- International eBooks success
- Potential M&A

Board and Senior Management

Cris Nicolli	Non-Executive Chair
Paul Collins	Non-Executive Director
Jonathan Isaacs	Non-Executive Director
Lars Lindstrom	Non-Executive Director
Andrew Skelton	Chief Executive Officer
Luke Murphy	CFO / Co Sec
Darren Hunter	CTO

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

Exit From Industry Training

The RCL industry training business, trading under the name Southern Solutions Training Services (Southern), offers vocational education and training as a Registered Training Organisation (RTO). It offers a broad range of qualifications but its most regarded area of specialty and most material revenue contributor is in the early childhood education and care space. As such it was heavily reliant on government funding and was exposed to the vagaries of government policy.

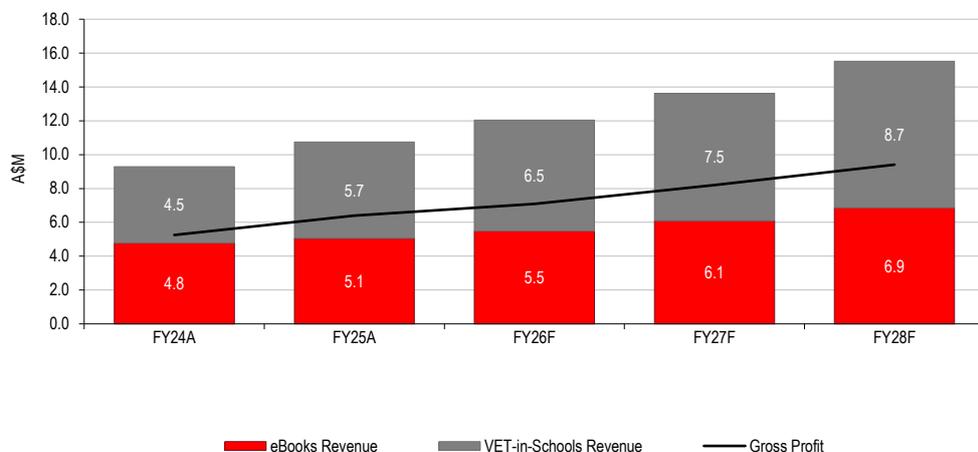
The business was originally acquired in October 2022 in a consolidation plan under previous management. Its performance was improved over time, culminating in FY24 when it delivered \$2.6m revenue at ~50% gross profit margins. Subsequently, in late 2025, government funding was largely withdrawn due to policy change in Victoria and NSW (note, not relating to poor performance or quality of service in the Southern business), which was the catalyst for RCL management to decide that its focus, and the company's capital, were better directed towards its core schools business and the decision to close Southern was made. In FY25 Southern reported revenue of \$1.9m and as it is exited in FY26 it is forecast to report \$0.9m of revenue at a materially lower GP margin, resulting in an EBITDA loss of ~\$0.6m for the division (FY26). Note, at its peak, Southern contributed 21.8% of group sales revenue, but in FY26 is forecast to contribute only 7.0%.

It is expected that the impact of the Southern exit will be felt in FY26 (included in our forecasts – both reported and underlying) and will not impact periods from FY27 onwards. The business was increasingly viewed as non-core, particularly given the strength and stability in the core schools business, so although the recent government funding withdrawal causes some short-term negative financial pain, in our view, it has provided the catalyst to make a strategic decision that will be of clear long-term benefit to ReadCloud and its shareholders.

Continuing Operations – The Schools Businesses

On a continuing operations basis, RCL comprises its two school-facing businesses in VET-in-Schools (55.1% of FY27 revenue) and eBooks (44.9% of FY27 revenue). The historical and forecast revenue for the divisions and combined gross profit are illustrated in Exhibit 1.

Exhibit 1: VET-in-Schools and eBooks (A\$m)



Source: Company data and RaaS estimates for FY26f- FY28f

The schools businesses have performed solidly over the past few years, led by strong growth in VET-in-Schools revenue and direct eBook sales in Australia. On a combined basis, revenue from FY24 actuals to our FY28 forecasts result in a CAGR of 13.7% and gross profit at a CAGR of 15.6%.

We see these assumptions at both the revenue and GP line as conservative, particularly considering recent performance in the schools businesses. Our optimism is supported by data points and commentary in recent releases including the December quarter update and the AGM in February:

- **Strong selling season.** The RCL business is correlated to the Australia school curriculum (except for the relatively small but growing international eBooks vertical). The December quarter is therefore the strongest selling season for the year ahead. RCL stated it has “experienced a strong school selling season, with more than 50 new schools signed for the 2026 year across the VET-in-Schools and eBook divisions”. This increases the total school numbers by almost 10%, approaching 500 schools in total.
- **Positive retention rates.** The company also stated, “school customer retention also remains robust, with retention rates expected to remain above 90%”.
- **Increasing average spend per school.** Average qualifications taken per school, relating to the VET-in-Schools business, also continues to trend up. Over the past three years, the number of courses per school, on average, has risen from 1.6 to 2.0 and the average partnering revenue per school has increased from \$9,421 to \$14,408. Similarly, in the eBooks division the average revenue per direct school has risen from \$70,384 to \$82,257 over the same period.

Guidance And Outlook

At its AGM, RCL released some forward-looking statements regarding its core school-facing businesses, which it expects to:

- Grow revenue at 10-20% p.a;
- Control operating cost increases to less than 7%;
- Add 60+ new school customer each year; and
- Retain 90% of school customers.

The stated targets for VET-in-Schools and eBooks broadly align with our existing divisional forecasts discussed above.

Earnings Forecasts

Exhibit 2 shows historical and forecast P&L items on a combined group basis.

Exhibit 2: Historical and forecast earnings profile (in A\$m unless otherwise stated)					
	FY24a	FY25a	FY26f	FY27f*	FY28f*
VET-in-School	4.5	5.7	6.5	7.5	8.7
eBooks	4.8	5.1	5.5	6.1	6.9
Industry training	2.6	1.9	0.9	-	-
Group sales revenue	11.9	12.6	12.9	13.6	15.5
Other revenue	0.4	0.3	0.2	0.2	0.2
EBITDA(und.)	0.4	0.8	0.7	1.8	2.7
NPAT (adj.)	(0.6)	(0.1)	(0.1)	1.0	1.9

Source: Company data, RaaS estimates for FY26f to FY28f;
*Continuing Operations – only the schools businesses

FY26 can be viewed as a transition year at group level where the industry training business is exited. FY27 onwards is expected to be continuing operations.

At the revenue line, the declining contribution from the industry training business is obvious, but it has not impacted the performance of the schools business. We forecast VET-in-Schools to deliver CAGR for revenue of 15% from the FY25 base over the forecast period to FY28. This is in-line with stated management targets of “at least 15%” in that business. In eBooks we are slightly more conservative and assume a revenue CAGR of 10.8% over the same period. We see this as conservative with potential upside coming from a strengthened sales approach both domestically and offshore.

The P&L forecasts rely only on organic growth and management has stated that it will consider complementing this with acquisitions. The balance sheet is debt free and the business is set to be net cash-flow positive once the industry training business is exited.

DCF Valuation increases from \$0.35/share to \$0.36/share

Our DCF valuation increases marginally from \$0.35/share to \$0.36/share based the exit from the industry training business and, importantly, we view the forecasts as lower risk with less potential volatility due to the exited business. The increase in valuation would have been slightly larger if not for a more defensive stance on DCF input metrics, most notably an increase in the risk-free rate from 4.0% to 4.5% across all the RaaS covered portfolio of companies. This has increased the discount rate from 12.9% to 13.4%. Other metrics include beta of 1.5 and terminal growth rate of 2.5%, as illustrated in Exhibit 3.

Exhibit 5: Base-case DCF valuation

	Parameters
Discount rate / WACC (%)	13.4
Beta (observed beta is 1.5)*	1.5
Risk-free rate (%)	4.5
Terminal growth rate assumption (%)	2.5
Sum of present value (PV) (A\$m)	20.2
PV of terminal value (A\$m)	32.7
PV of enterprise (A\$m)	52.9
Net cash at 30 Sep 2025 (A\$m)	1.9
Net value – shareholder (A\$m)	54.8
No. of shares on issue (m)	153.6
NPV per share A\$	0.36
Source: RaaS estimates *LSEG	

Exhibit 6: Financial Summary

Readcloud (RCL)						Share price (16 March 2026)						A\$	0.082					
Profit and Loss (A\$m)						Interim (A\$m)						1H24a	2H24a	1H25a	2H25a	1H26f	2H26f	
Y/E 30 September	FY24A	FY25A	FY26F	FY27F	FY28F													
Revenue	12.3	12.9	13.1	13.8	15.7	Revenue	8.3	4.0	9.3	3.6	9.4	3.7						
Gross Profit	6.6	7.3	7.5	8.2	9.4	EBITDA (und)	1.1	(0.6)	1.8	(1.0)	1.9	(1.3)						
EBITDA reported	0.0	0.4	0.6	1.7	2.6	NPAT (adj)	0.4	(1.0)	1.3	(1.4)	1.4	(1.5)						
EBITDA underlying	0.4	0.8	0.7	1.8	2.7	EPS (normalised)	0.3	(0.7)	0.9	(0.9)	0.9	(1.0)						
Depn	(0.1)	(0.2)	(0.2)	(0.2)	(0.2)	Dividend (cps)	-	-	-	-	-	-						
Amort	(0.9)	(0.7)	(0.7)	(0.7)	(0.7)	Divisions/Categories						FY24A	FY25A	FY26F	FY27F	FY28F		
EBIT underlying	(0.6)	(0.1)	(0.2)	0.9	1.8	eBooks		4.8	5.1	5.5	6.1	6.9						
Interest	0.0	(0.0)	0.0	0.0	0.0	VET-in-Schools		4.5	5.7	6.5	7.5	8.7						
Tax	0.0	0.0	0.0	0.0	0.0	Industry Training		2.6	1.9	0.9	0.0	0.0						
NPAT (Rep)	(1.0)	(0.4)	(0.3)	0.8	1.8	Sales & fee revenue		11.9	12.6	12.9	13.6	15.5						
Significant & non-cash items	0.4	0.3	0.1	0.1	0.1	Other income		0.4	0.3	0.2	0.2	0.2						
NPAT (adj)	(0.6)	(0.1)	(0.1)	1.0	1.9	Total Revenue		12.3	12.9	13.1	13.8	15.7						
Cash flow (A\$m)						EBITDA (normalised)		0.4	0.8	0.7	1.8	2.7						
Y/E 30 September	FY24A	FY25A	FY26F	FY27F	FY28F	Margins, Leverage, Returns						FY24A	FY25A	FY26F	FY27F	FY28F		
EBITDA	0.4	0.8	0.7	1.8	2.7	Gross Profit		55.5%	57.7%	57.6%	60.2%	60.6%						
Interest	0.0	0.0	0.0	0.0	0.0	EBITDA		3.4%	6.0%	5.5%	13.2%	17.4%						
Tax	0.0	0.0	0.0	0.0	0.0	EBIT		(5.0%)	(0.8%)	(1.3%)	6.8%	11.8%						
Other	(0.0)	(0.3)	(0.1)	(0.1)	(0.1)	NPAT pre significant items		(8.0%)	(3.2%)	(2.0%)	6.1%	11.2%						
Operating cash flow	0.4	0.5	0.7	1.8	2.7	Net (Debt)/ Cash		1.4	1.9	1.6	2.3	3.9						
Mtce capex	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	ROA		(5.4%)	(0.9%)	(1.4%)	7.4%	12.6%						
Free cash flow	0.4	0.5	0.6	1.8	2.7	ROE		(6.8%)	(0.9%)	(1.5%)	10.2%	16.5%						
Capitalised Dev. Costs	(0.5)	(0.4)	(0.6)	(0.6)	(0.6)	ROIC		(12.0%)	(1.9%)	(3.2%)	15.8%	24.0%						
Acquisitions/Disposals	0.0	0.0	0.0	0.0	0.0	Working capital		(0.1)	(0.3)	0.3	0.3	0.3						
Other	(0.0)	(0.0)	(0.2)	(0.2)	(0.2)	WC/Sales (%)		(1.2%)	(2.0%)	2.1%	2.1%	2.1%						
Cash flow pre financing	(0.1)	0.0	(0.2)	0.9	1.8	Revenue growth		14.7%	5.3%	1.3%	5.2%	13.7%						
Equity	0.0	0.6	0.0	0.0	0.0	Pricing						FY24A	FY25A	FY26F	FY27F	FY28F		
Debt	0.0	0.0	0.0	0.0	0.0	No of shares (y/e)	(m)	146	154	154	154	154						
Dividends paid	0.0	0.0	0.0	0.0	0.0	Weighted Av Dil Shares	(m)	146	151	154	154	154						
Net cash flow for year	(0.1)	0.6	(0.2)	0.9	1.8	EPS Reported	cps	(0.7)	(0.3)	(0.2)	0.5	1.1						
Balance sheet (A\$m)						EPS Normalised/Diluted	cps	(0.4)	(0.1)	(0.1)	0.6	1.2						
Y/E 30 September	FY24A	FY25A	FY26F	FY27F	FY28F	EPS growth (norm/dil)		n/a	n/a	n/a	-866%	92%						
Cash	1.4	1.9	1.6	2.3	3.9	DPS	cps	-	-	-	-	-						
Accounts receivable	1.0	0.8	1.5	1.6	1.8	DPS Growth		n/a	n/a	n/a	n/a	n/a						
Inventory	0.0	0.0	0.0	0.0	0.0	Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%						
Other current assets	0.1	0.1	0.1	0.1	0.1	PE (x)		-	-	-	12.8	6.7						
Total current assets	2.5	2.9	3.2	4.0	5.9	PE market		18.0	18.0	18.0	18.0	18.0						
PPE	0.0	0.0	0.1	0.1	0.1	Premium/(discount)		n/a	n/a	n/a	(28.7%)	(62.8%)						
Intangibles and Goodwill	8.7	8.4	8.5	8.5	8.5	EV/Revenue		0.9	0.8	0.8	0.7	0.6						
Investments	0.0	0.0	0.0	0.0	0.0	EV/EBITDA		25.7	13.7	15.4	5.6	3.2						
Deferred tax asset	0.0	0.0	0.0	0.0	0.0	FCF/Share	cps	0.3	0.3	0.4	1.1	1.7						
Other non current assets	0.0	0.2	0.1	0.1	0.1	Price/FCF share		30.4	25.4	19.6	7.2	4.7						
Total non current assets	8.8	8.7	8.8	8.7	8.7	Free Cash flow Yield		3.3%	3.9%	5.1%	14.0%	21.3%						
Total Assets	11.3	11.6	11.9	12.7	14.6													
Accounts payable	1.1	1.1	1.2	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	0.4	0.5	1.0	0.8	0.8													
Total current liabilities	2.3	2.3	2.9	2.8	2.9													
Long term debt	0.0	0.0	0.0	0.0	0.0													
Other non current liabs	0.0	0.1	0.1	0.1	0.1													
Total non-current liabilities	0.2	0.2	0.3	0.3	0.3													
Total Liabilities	2.6	2.5	3.1	3.1	3.2													
Net Assets	8.8	9.1	8.8	9.7	11.4													
Share capital	19.8	20.5	20.5	20.5	20.5													
Accumulated profits/losses	(11.4)	(11.8)	(12.0)	(11.2)	(9.4)													
Reserves	0.4	0.4	0.4	0.4	0.4													
Minorities	0.0	0.0	0.0	0.0	0.0													
Total Shareholder funds	8.8	9.1	8.8	9.7	11.4													

Source: RaaS estimates; Company data for actuals

FINANCIAL SERVICES GUIDE

RaaS Research Group Pty Ltd

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Corporate Authorised Representative, number 1248415, of

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