



# Investor & Analyst Briefing

Half year results to 31 December 2021

24 February 2022



# Agenda

- Chairman's Update
- CEO Update
- HY22 Financial Results
- Q&A
- Appendices



# 1H FY22 Highlights



## UNDERLYING EBITDA

**\$3.7m**

**+106%**  
vs pc<sup>2</sup>



## REVENUE

**\$44.3m**

**+85%**  
vs pc<sup>2</sup>



## B2C BILLINGS<sup>3</sup>

**\$18.2m**

**+12%**  
vs pc<sup>2</sup>



## B2B ARR<sup>1</sup>

**\$65.0m**

**+3%**  
vs pc<sup>2</sup>



## OPERATING CASH IMPROVEMENT

**\$8.0m**

**+\$20.2m** Cash Balance

**+\$9.5m** annualised synergies realised to date



## CUSTOMERS

**6.0m**

**+5.7m** (+21%) B2B Licences<sup>4</sup> vs pc<sup>2</sup>

**+315k** (11% growth) B2C Licences<sup>5</sup> vs pc<sup>2</sup>



## PRODUCT

**\$14.4m**

**+\$10.9m** internal product development expense

**+\$2.5m** Writing Legends investment

Reading Eggs rights to Canada  
re-acquired in January for US\$0.6m



- (1) B2B ARR shown is from Hero Products (Mathletics, Mathseeds and Reading Eggs).
- (2) pc<sup>2</sup>: prior comparison period which was prior to the merger with Blake eLearning Pty Ltd (Blake) and is compared to 1H FY21.
- (3) B2C billings does not include Mathletics consumer sales which are currently less than \$1m. Billings are reported on a 'gross' basis before any commissions are deducted by Apple or Google. Results prior to H1-22 are based on Blake unaudited management accounts.
- (4) B2B licences as at 31<sup>st</sup> December 2021 include 1.0m Edmentum licences acquired as part of the merger with Blake
- (5) B2C Licences include Mathletics.



# Chairman's update



# Chairman's Update

- Integration of operations with Blake completed - Good progress in all key areas of the business.
- B2C billings<sup>1</sup> has grown 12% against prior comparative period  
On track to achieve double-digit billings growth for B2C in FY22. Medium term goal is for B2C to contribute equal revenue to B2B.
- B2B Annual Recurring Revenue has grown 3% against prior comparative period.  
On track to achieve single-digit revenue growth for B2B in FY22, with smaller sales team.
- Acquired Reading Eggs Schools distribution rights back from Edmentum for Canada in January 2022. Edmentum to continue distributing Reading Eggs to schools in US.
- Made progress with several CSR deals with major brand names at contract stage. These are not material but not insignificant.

(1) B2C billings does not include Mathletics consumer sales which are currently less than \$1m. Billings are reported on a 'gross' basis before any commissions are deducted by Apple or Google. Results prior to H1-22 are based on Blake unaudited management accounts.



# Chairman's Update

- Acquired writing skills program, Writing Legends, to complement our product suite for Fundamentals of Learning (3Rs: Reading, wRiting, aRithmetic). We have developed a Product Roadmap for Writing Legends to include more comprehensive content coverage. First major release expected 2H FY23.
- Developed Product Roadmap for Mathletics with emphasis on learning and extending skills for New Courses in Mathletics to complement the current skill and drill approach in Mathletics. First major release expected 2H FY23.
- New mobile app Master Math Island launch expected 1H FY23.
- Overall, very happy with progress so far. Reaffirm revenue guidance range of \$92.3m to \$97.2m and underlying EBITDA guidance range of \$12.1m to \$15.4m for FY22.



# CEO Update





# CEO Update – Revenue and Operations

- Operational integration with Blake now completed; achieved annual synergy savings of \$9.5m, headcount reduction aligned with product simplification and US Sales strategies. ReadWriter sunset effective July 2022 for Northern Hemisphere.
- B2C revenue 1H FY22 was \$18.8m, with billings<sup>1</sup> up 12% on 1H FY21. Billings highlights were 17% growth in Australia/New Zealand, Google Play 31% growth and direct Website 20% growth. Website sales accounted for 49% of 1H FY22 billings.
- B2B revenue growing at 3% for total ARR from hero products of \$65m. Mathseeds grew 13%, Readings Eggs 6% in 1H FY22 vs 2H FY21. Mathletics is still the largest contributor to B2B revenues at \$32m, with <1% decline vs 2H FY21.
- B2B – Acquired back the Schools distribution rights for Reading Eggs Canada from Edmentum for USD600k, including current book of business. Existing 3PL Canada sales team started selling Reading Eggs to schools in January 2022. Enterprise sales and MoE deals progressing, with several CSR deals at contract stage.

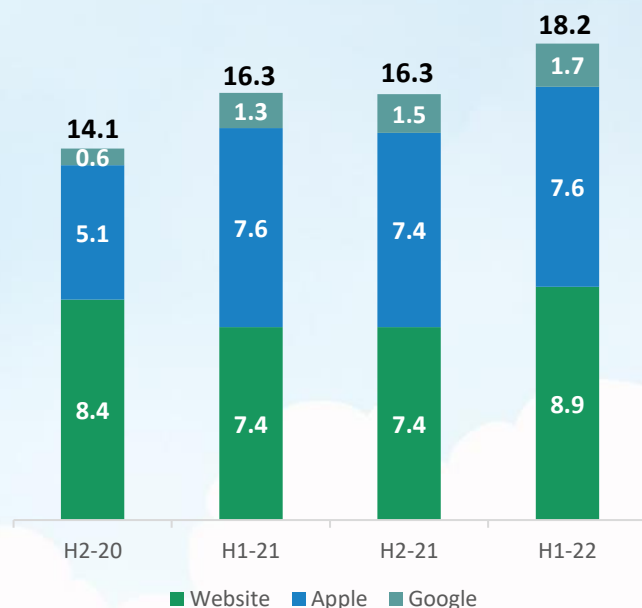
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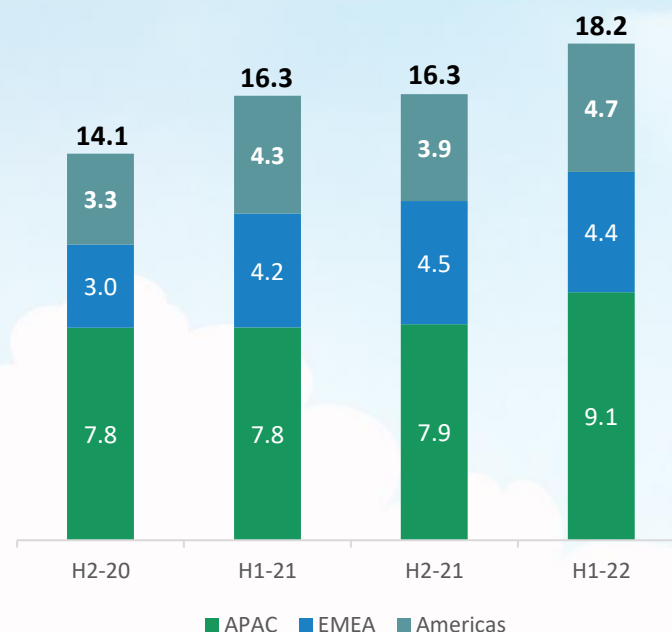
# Sales Performance in the Consumer Market

- Below is the consumer billings performance for Reading Eggs and Mathseeds half-on-half for the last 2 years.

Billings by Platform (\$m)



Billings by Geography (\$m)



- (1) This does not include Mathletics consumer sales which are currently less than \$1m.
- (2) Billings are reported on a 'gross' basis before any commissions are deducted by Apple or Google.
- (3) Results prior to H1-22 are based on Blake unaudited management accounts.

# B2C Performance Metrics

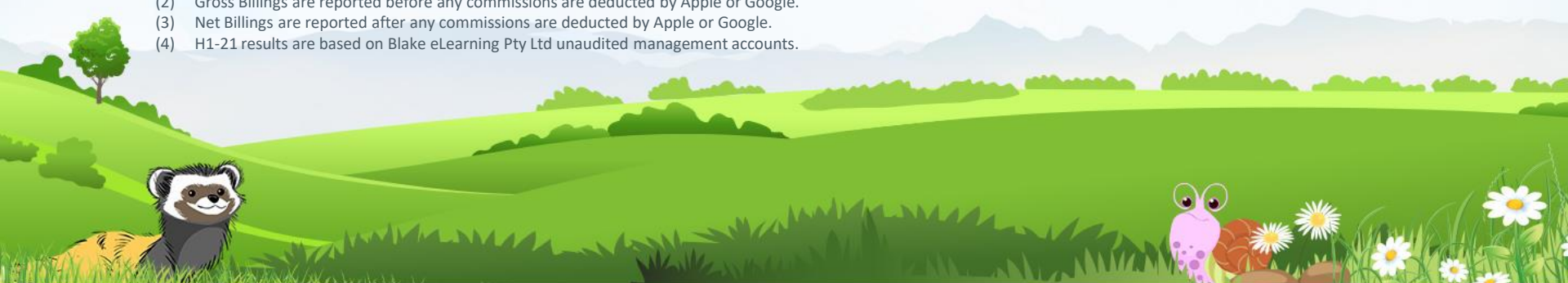


	Dec-21 H1-22	Jun-21 H2-21	+/-	% +/-
Gross Billings (\$m)	18.2	16.3	1.9	12%
Licences (k)	294.1	263.7	30.4	12%
ARPU (\$)	123.76	123.62	0.14	0%

	Dec-21 H1-22	Dec-20 H1-21	+/-	% +/-
Gross Billings (\$m)	18.2	16.3	1.9	12%
Commissions Deducted (\$m)	(2.2)	(2.4)	0.2	(8%)
Net Billings (\$m)	16.0	13.9	2.1	15%
Sales & Marketing Costs (excl. commissions) (\$m)	(9.1)	(7.5)	(1.6)	21%
Billings Contribution (\$m)	6.9	6.4	0.5	8%
Net Billings Contribution Margin (%)	43%	46%	(3%)	(6%)

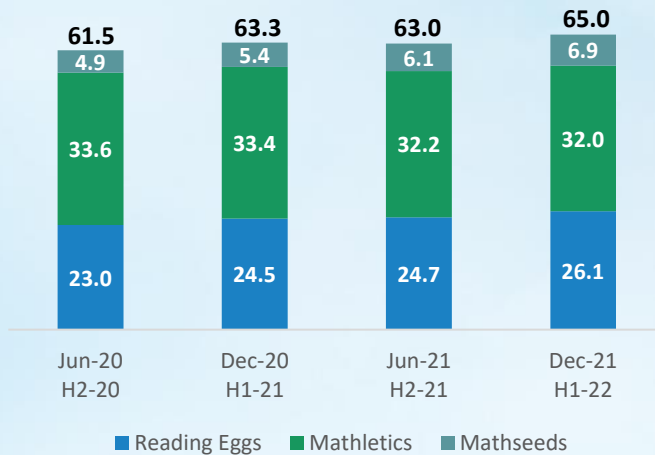
- Gross billings has grown 12% in the last 6 months (to 31 December 2021).
- Billings growth driven by strong parent subscriber licence growth whilst maintaining strong ARPU.
- Net billings has grown by 15%, determined after commissions deducted by Google and Apple.
- Net billings contribution margin remains strong at 43%. This is lower than the pcg of 46%, as we have increased testing and activity in the US and UK markets.

- (1) This does not include Mathletics licences and consumer sales which are currently less than \$1m.
- (2) Gross Billings are reported before any commissions are deducted by Apple or Google.
- (3) Net Billings are reported after any commissions are deducted by Apple or Google.
- (4) H1-21 results are based on Blake eLearning Pty Ltd unaudited management accounts.



# Schools B2B Market

- The graphs below show the trajectories of school ARR for the 3 main 3PL products half-on-half for the last 2 years.



- (1) The chart includes annualised recurring revenue for Reading Eggs, Mathseeds and Mathletics products only.
- (2) For comparability, the values presented for June 20 and December 20 include Blake's B2B ARR and 3PL's ARR is gross of royalties.



# B2B Performance Metrics

Core school market delivering single digit growth with smaller more efficient sales team.

	Dec-21	Dec-20		
	H1-22	H1-21	+/-	% +/-
Closing ARR (\$m)*^	59.2	57.9	1.3	2%
Sales & Marketing Costs - 6 months (\$m)	(9.5)	(10.3)	0.8	(8%)
ARR to Annualised S&M Ratio	3.1	2.8	0.3	11%
Licences (m)*^	4.7	4.7	-	0%
Exit ARPU (\$)*)^	12.60	12.32	0.28	2%

- Closing ARR from core school market has grown 2%.
- ARR growth delivered whilst reducing sales & marketing costs by 8%.
- Exit ARPU growth of 2% supported by targeted price increases on renewal and some FX benefit.

\* H1-22 excludes \$7.1m of closing ARR and 1.0m of licences relating to Edmentum, a third party distributor of Blake products to North American schools that was acquired as part of merger.

^ H1-22 and H1-21 excludes any ARR or licences that would arise on the agreement with the Ministry of Education in a Middle Eastern country referred to on 30 June 2021.





# CEO Update – Product and People

- Product ideation and research completed for Writing Legends, including integration plan and content plan to cover Primary School grades (1-6) for planned release in 2H FY23.
- Product strategy and research completed for Mathletics, including integration plan and prototype for Mathletics New Courses, with focus on learning and extending skills. Prototypes completed February 2022 and Product build stage starting March 2022. First major release for Primary School grades (3-6) planned for 2H FY23.
- Minor releases for Mathletics in January and February 2022: Skill Quests Reporting (Understanding, Practice, Fluency) and Meritopia 2.0 (Rewards) aimed at improving engagement and retention.
- Mobile app Master Math Island to be released in 1H FY23.
- Started People & Culture program in January 2022 to update Purpose Statement and company values, ESG initiatives focused on education, and implemented new Long Term Incentive structure, using Share Appreciation Rights as the instrument.



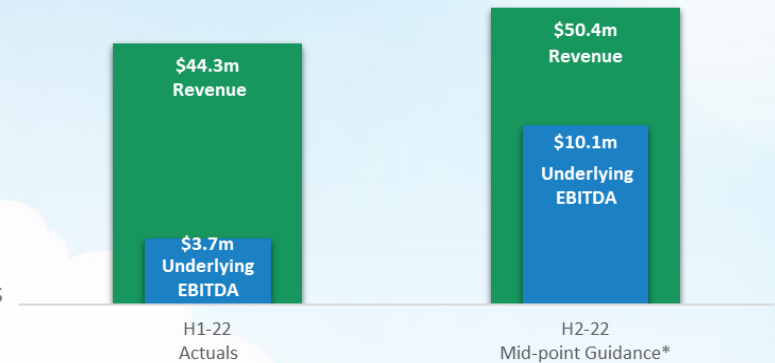
# 1H FY22 Financial Results



# FY22 Half-on-half profile

The profile of half-on-half revenue and EBITDA in FY22 now reflects the transition in revenue recognition approach on sale of Blake products to the School (B2B) market.

- Since the merger completed on 28 May 2021, school sales of Blake Products have been recognised to contract liabilities on the balance sheet before being released to revenue in the profit & loss over the duration of the subscription period. In contrast, prior to the merger, 3P Learning recognised net commission revenue on these sales upfront.
- Outside of this transition, you would expect revenue in 1st half to reflect approximately one half of the ARR (\$32.2m<sup>^</sup>) plus first half B2C revenue (\$18.8m for H1-22). However, H1-22 revenue was impacted by the transition in the revenue recognition approach on sale of Blake products to the B2B market by \$6.6m.
- The impact of this transition reduces in H2-22 and revenue and EBITDA guidance\* will be achieved by continuing the B2C billings and B2B ARR growth trajectory that we are currently on.



\* Guidance provided in line with the assumptions detailed in the Full Year 2021 Investor & Analyst Briefing released on 25 August 2021.

<sup>^</sup> Calculated based on 1/2 of \$64.4m ARR as at 30 June 2021 (the opening day of H1-22). ARR will have varied over the course of H1-22 and therefore this calculation only serves as an illustration of the potential impact rather than the actual revenue recorded.

# 1H FY22 Results Summary

- B2B revenues increased by 11% to \$25.5m due to a \$6.6m contribution made from Blake B2B operations despite the transition in revenue recognition approach on sale of Blake products.
- B2C revenue at \$18.8m in H1-22, is now 20x the prior comparative period performance, following contribution of Blake which was not included in the H1-21 result which is pre-merger.
- Gross profit has increased 82% to \$42.0m.
- S&M costs increased by \$10.3m due to digital marketing to drive B2C growth offset by \$0.7m of synergies.
- P&T of \$10.9m now includes acquired development teams behind Reading Eggs & Mathseeds plus Mathletics team. Expense also increased due to lower capitalisation rate offset by synergies realised.
- G&A is steady as we have more economies of scale and realised synergies.
- Total FTE at 31 December 2021 is 346 (31 December 2020: 272).
- Adjustments made for significant items relating to Blake acquisition:
  - D&A of acquired products
  - One-off retention bonuses
  - One-off restructure costs for realising synergies & incorporating Blake into the group.

AU\$m	H1-22	H1-21 <sup>1</sup>	\$ +/-	% +/-
<b>Licence revenue</b>				
B2B	25.5	23.0	2.5	11%
B2C	18.8	0.9	17.9	1,989%
<b>Total Licence revenue</b>	<b>44.3</b>	<b>23.9</b>	<b>20.4</b>	<b>85%</b>
Other revenue and other income	-	0.1	(0.1)	(100%)
<b>Total revenue and other income<sup>2</sup></b>	<b>44.3</b>	<b>24.0</b>	<b>20.3</b>	<b>85%</b>
Cost of revenue <sup>3</sup>	(2.3)	(0.9)	(1.4)	156%
<b>Gross Profit</b>	<b>42.0</b>	<b>23.1</b>	<b>18.9</b>	<b>82%</b>
Gross margin (%)	95%	96%		
<b>Expenses</b>				
Sales & Marketing	(20.8)	(10.5)	(10.3)	98%
Product & Technology	(10.9)	(4.8)	(6.1)	127%
General & Admin	(6.6)	(6.0)	(0.6)	10%
<b>Total Expenses</b>	<b>(38.3)</b>	<b>(21.3)</b>	<b>(17.0)</b>	<b>80%</b>
<b>Underlying EBITDA</b>	<b>3.7</b>	<b>1.8</b>	<b>1.9</b>	<b>106%</b>
EBITDA margin (%)	8%	8%		
Depreciation & Amortisation	(2.6)	(4.1)	-	-
Amortisation of deferred contract costs	(1.5)	-	(1.5)	100%
<b>Underlying EBIT</b>	<b>(0.4)</b>	<b>(2.3)</b>	<b>1.9</b>	<b>(83%)</b>
EBIT margin (%)	(1%)	(10%)		
Interest income	-	0.1	(0.1)	(100%)
Interest expense	(0.1)	(0.1)	-	-
<b>Underlying Net Profit Before Tax</b>	<b>(0.5)</b>	<b>(2.3)</b>	<b>1.8</b>	<b>(78%)</b>
Income tax benefit	1.1	0.9	0.2	22%
<b>Underlying Net Profit After Tax</b>	<b>0.6</b>	<b>(1.4)</b>	<b>2.0</b>	<b>(143%)</b>
Underlying NPAT margin (%)	1%	(6%)		
Pro-forma expense - Purchase Price Accounting:				
Depreciation & Amortisation	(4.0)	-	(4.0)	100%
Pro-forma expense - Retention & Restructure costs (after tax)	(1.2)	-	(1.2)	100%
Corporate advisory and integration costs (after tax)	-	(0.7)	(0.7)	(100%)
<b>Net Profit After Tax</b>	<b>(4.6)</b>	<b>(2.1)</b>	<b>(2.5)</b>	<b>119%</b>

<sup>1</sup>Results restated for change in accounting policy following the clarification guidance on cloud computing arrangements released by IFRIC in April 2021.

<sup>2</sup>Interest revenue of \$0.1m for H1-21 is not shown in revenue and other income as per the statutory half-year report.

<sup>3</sup>Cost of revenue includes hosting & infrastructure costs. In H1-22 \$2.9m (H1-21 \$3.1m) cost of employees engaged in renewal and expansion activities are included in Sales and Marketing.



# 1H FY22 Cash flow

- Net cash inflow from operating activities has improved \$8.0m due to the positive contribution made by the Blake business, the realisation of cash synergies on the merger and a small favourable timing benefit on working capital.
- Receipt from customers were up 95% to \$44.0m.
- Payments to suppliers increased by only \$9.6m compared to receipts from customers increasing by \$21.4m.
- Income tax paid increased due to tax paid by the acquired Blake entity.
- H1-22 investment in Writing Legends includes an upfront payment of \$2.25m. \$0.25m is deferred consideration expected to be paid out in H2-22.

AU\$m	H1-22	H1-21	\$+/-
<b>Cash flows from operating activities</b>			
Receipts from customers <sup>1</sup>	44.0	22.6	21.4
Payments to trade suppliers and employees <sup>2</sup>	(39.1)	(29.5)	(9.6)
Payments for restructure, retention and integration costs <sup>2</sup>	(3.0)	-	(3.0)
Payments for corporate advisory costs <sup>2</sup>	-	(0.8)	0.8
Income tax paid	(2.4)	(0.8)	(1.6)
<b>Net cash inflow/(outflow) from operating activities</b>	<b>(0.5)</b>	<b>(8.5)</b>	<b>8.0</b>
<b>Cash flows from investing activities</b>			
Receipts from sub-leases	0.3	0.3	-
Payments for property, plant and equipment	(0.2)	(0.1)	(0.1)
Payments for intangibles <sup>3</sup>	(1.0)	(3.2)	2.2
Payments for Writing Legends <sup>3</sup>	(2.3)	-	(2.3)
Payment for prior year business combination	(0.2)	-	(0.2)
<b>Net cash (outflow)/inflow from investing activities</b>	<b>(3.4)</b>	<b>(3.0)</b>	<b>(0.4)</b>
<b>Cash flows from financing activities</b>			
Repayment of lease liabilities	(0.9)	(0.8)	(0.1)
Interest received	-	0.1	(0.1)
Interest and other finance costs paid	(0.1)	(0.1)	-
<b>Net cash (outflow)/inflow from financing activities</b>	<b>(1.0)</b>	<b>(0.8)</b>	<b>(0.2)</b>
<b>Net (decrease)/increase in cash held</b>	<b>(4.9)</b>	<b>(12.3)</b>	<b>7.4</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>24.9</b>	<b>27.1</b>	<b>(2.2)</b>
Effects of exchange rate changes on cash	0.2	0.3	(0.1)
<b>Cash and cash equivalents at the end of the period</b>	<b>20.2</b>	<b>15.1</b>	<b>5.1</b>

<sup>1</sup> Receipts from customers are net of commissions paid to agents including Apple, Google, Edmentum and other B2B distributors.

<sup>2</sup> Payments to trade suppliers, and employees as per the statutory half-year report has been split into payments to trade suppliers and employees, payments for restructure, retention and integration costs and payments for corporate advisory costs.

<sup>3</sup> Payments for intangibles as per the statutory half-year report has been split into payments for intangibles and payments for Writing Legends.

# Q & A



# Appendices



# Schools & Enterprise Sales (B2B)



- B2B revenue was up 11% due to a \$6.6m contribution made from Blake B2B distributors.
- B2B revenue and EBITDA would have been \$6.6m higher had 3P Learning been treating sale of Blake products made prior to the merger on a straight-line basis consistent with a principal.
- Licences were up 21% to 5.7m due to contribution of 1.0m from Blake B2B distributors.

## Focus & Outlook

- Continue to refine high-performing sales and marketing capabilities to improve sales performance & CAC efficiency.
- Maintain measured approach to enterprise sales. Closure of one or more opportunities could occur in H2-22.

AU\$m	H1-22	H1-21	\$ +/-	% +/-
<b>Revenue</b>	<b>25.5</b>	<b>23.0</b>	<b>2.5</b>	<b>11%</b>
Cost of revenue <sup>1</sup>	(1.5)	(0.9)	(0.6)	67%
<b>Gross Profit</b>	<b>24.0</b>	<b>22.1</b>	<b>1.9</b>	<b>9%</b>
Gross margin (%)	94%	96%		
<b>Expenses</b>				
Sales & Marketing	(9.5)	(10.3)	0.8	(8%)
<b>Contribution Margin</b>	<b>14.5</b>	<b>11.8</b>	<b>2.7</b>	<b>23%</b>
Contribution margin (%)	57%	51%		
<b>Licences (m)</b>	<b>5.7</b>	<b>4.7</b>	<b>1.0</b>	<b>21%</b>
<b>Annual Recurring Revenue (\$m)<sup>2</sup></b>	<b>66.3</b>	<b>57.9</b>	<b>8.4</b>	<b>15%</b>
<b>Exit ARPU (\$)</b>	<b>11.63</b>	<b>12.32</b>	<b>(0.69)</b>	<b>(6%)</b>

<sup>1</sup> Cost of revenue includes hosting & infrastructure costs. In H1-22 \$2.4m (H1-21 \$3.1m) of cost of employees engaged in renewal and expansion activities are included in Sales and Marketing.

<sup>2</sup> As a result of the change in revenue recognition policy, annual recurring revenue (ARR) on Blake products is now shown at the gross value as this is the value that will be recognised in the profit and loss going forward. The comparative has been restated on such basis for comparability.





# Consumer (B2C)

- Blake contributed \$18.0m of revenue to performance, generating gross margins percentage of 96% and contribution margin of 36%.
- Contribution margin is calculated after Sales & Marketing costs which includes commission fees paid to Apple and Google.
- B2C licences grew 11% in the last six months to 315,400.

## Focus & Outlook

- Keep growing the business beyond the COVID-19 sales 'bump' with continued focus on growing market share across key geographies and key channels.
- Continued investment across the entire customer journey to optimise conversion rates, drive new business sales and renewals.
- New mobile app Master Math Island launch expected in H1 FY23.

AU\$m	H1-22	H1-21	\$ +/-	\$ +/-
<b>Revenue</b>	<b>18.8</b>	<b>0.9</b>	<b>17.9</b>	<b>1,989%</b>
Cost of revenue <sup>1</sup>	(0.8)	-	(0.8)	(100%)
<b>Gross Profit</b>	<b>18.0</b>	<b>0.9</b>	<b>17.1</b>	<b>1,900%</b>
Gross margin (%)	96%	100%		
<b>Expenses</b>				
Sales & Marketing	(11.3)	(0.2)	(11.1)	5,550%
<b>Contribution Margin</b>	<b>6.7</b>	<b>0.7</b>	<b>6.0</b>	<b>857%</b>
Contribution margin (%)	36%	78%		
<b>Licences (k<sup>2</sup>)</b>	<b>315.4</b>	<b>21.8</b>	<b>293.6</b>	<b>1347%</b>

<sup>1</sup> Cost of revenue includes hosting & infrastructure costs. In H1-22 \$0.5m (H1-21: \$0.0m). Cost of employees engaged in renewal and expansion activities are included in Sales and Marketing.

<sup>2</sup> The number of B2C Licences reported reflects the number of parent subscribers using 3P Learning products.

# H1-22 Balance sheet

- Cash of \$20.2m with no bank debt.
- Current and non-current contract liabilities have increased by \$19.8m to \$42.6m since 31 December 2020. Contract liabilities are released to licence fee revenue over the duration of the agreement.
- Deferred contract assets are capitalised commission costs from distributors which is amortised over the licence period.
- Inventories represent workbook inventory from the Blake acquisition.
- Deferred tax assets have decreased from 31 December 2021 due to a decrease in intangibles excluding goodwill, and have increased from 30 June 2021 due to an increase in contract liabilities, an increase in R&D credits and recognised tax losses from the Australian tax group.
- Increase in intangibles is due to the Blake acquisition including goodwill of \$167.0m.
- Income tax payable has decreased from 30 June 2021 due to tax payments to the Australian Tax Office for Blake.
- Provisions increased from 31 December 2021 due to the acquisition of annual leave and long service leave for Blake employees and have decreased from 30 June 2021 due to retention payments and leave taken in H1-22.
- 137m shares were issued for the Blake acquisition resulting in contributed equity increasing.
- No dividend declared or payable in any period.

AU\$m	31-Dec-21	30-Jun-21	31-Dec-20
Cash and cash equivalents	20.2	24.9	15.0
Trade and other receivables	13.9	13.9	13.7
Deferred contract costs	2.8	-	-
Inventories	0.3	0.3	-
Income tax receivable	0.2	-	0.3
Lease receivable	0.7	0.7	0.6
<b>Total current assets</b>	<b>38.1</b>	<b>39.8</b>	<b>29.6</b>
Lease receivable	0.3	0.5	0.9
Property, plant and equipment	0.6	0.7	0.4
Right-of-use assets	2.0	1.6	2.0
Deferred tax assets	7.8	6.2	8.1
Intangibles and goodwill	204.7	207.1	14.7
Deferred contract costs	0.4	-	-
Other assets	0.3	0.3	0.2
<b>Total non-current assets</b>	<b>216.1</b>	<b>216.4</b>	<b>26.3</b>
<b>Total assets</b>	<b>254.2</b>	<b>256.2</b>	<b>55.9</b>
Trade and other payables	13.9	11.8	6.2
Income tax payable	0.4	2.0	0.1
Contract liabilities	38.8	36.1	20.4
Lease liabilities	1.8	1.6	1.6
Provisions	3.4	4.3	1.7
<b>Total current liabilities</b>	<b>58.3</b>	<b>55.8</b>	<b>30.0</b>
Provisions	0.9	0.9	0.8
Lease liabilities	1.3	1.5	2.2
Contract liabilities	3.8	3.2	2.4
<b>Total non-current liabilities</b>	<b>6.0</b>	<b>5.6</b>	<b>5.4</b>
<b>Total liabilities</b>	<b>64.3</b>	<b>61.4</b>	<b>35.4</b>
<b>Net assets</b>	<b>189.9</b>	<b>194.8</b>	<b>20.5</b>
Contributed equity	216.6	216.6	34.5
Retained earnings	(34.8)	(30.2)	(23.0)
Reserves	8.1	8.4	9.0
<b>Total equity</b>	<b>189.9</b>	<b>194.8</b>	<b>20.5</b>

# H1-22 EBITDA to Cash Flow Bridge

AU\$m	H1-22	H1-21	\$+/-
<b>Underlying EBITDA</b>	<b>3.7</b>	<b>1.8</b>	<b>1.9</b>
FX and other non-cash	-	0.2	(0.2)
Non-cash customer contract	(1.5)	(0.5)	(1.0)
Change in working capital	2.6	(8.3)	10.9
<b>Operating free cash flow before intangibles<sup>3</sup></b>	<b>4.8</b>	<b>(6.8)</b>	<b>11.6</b>
Investment in product development & other intangibles	(1.0)	(3.2)	2.2
Investment in Writing Legends	(2.3)	-	(2.3)
<b>Operating free cash flow after intangibles</b>	<b>1.5</b>	<b>(10.0)</b>	<b>11.5</b>
Net interest paid/received	-	-	-
Repayment of lease liabilities	(0.9)	(0.8)	(0.1)
Receipts from sub-leases	0.3	0.2	0.1
Income tax (paid)/refunded	(2.4)	(0.8)	(1.6)
<b>Net cash flows before investments</b>	<b>(1.5)</b>	<b>(11.4)</b>	<b>9.9</b>
Purchase of PP&E	(0.2)	(0.1)	(0.1)
<b>Net cash flows after investments</b>	<b>(1.7)</b>	<b>(11.5)</b>	<b>9.8</b>
Payment for prior year business combination	(0.2)	-	(0.2)
Payments for restructure, retention and integration costs	(3.0)	-	(3.0)
Payments for corporate advisory costs	-	(0.8)	0.8
<b>Net cash flows after pro-forma expenses</b>	<b>(4.9)</b>	<b>(12.3)</b>	<b>7.4</b>
<b>Cash flow conversion<sup>1</sup> (before capital expenditure)</b>	<b>130%</b>	<b>(378%)</b>	<b>508%</b>
<b>Cash flow conversion<sup>2</sup> (after capital expenditure)</b>	<b>41%</b>	<b>(556%)</b>	<b>597%</b>

<sup>1</sup> Cash flow conversion calculated as operating free cash flow before capital expenditure as a percentage of EBITDA.

<sup>2</sup> Cash flow conversion calculated as operating free cash flow after capital expenditure as a percentage of EBITDA.

<sup>3</sup> H1-21 results were restated for a change in accounting policy which resulted in \$2.6m of previously capitalised product development costs being expensed in the period.

# Profit & Loss Reconciliation

H1-22				
AU\$m	B2C	B2B	Corporate	Total
<b>Licence revenue</b>	18.8	25.5	-	44.3
Other revenue and other income	-	-	-	-
<b>Total revenue and other income</b>	<b>18.8</b>	<b>25.5</b>	<b>-</b>	<b>44.3</b>
Cost of revenue	(0.8)	(1.5)	-	(2.3)
<b>Gross Profit</b>	<b>18.0</b>	<b>24.0</b>	<b>-</b>	<b>42.0</b>
Gross margin (%)	96%	94%	0%	95%
<b>Expenses</b>				
Sales & Marketing	(11.3)	(9.5)	-	(20.8)
Product & Technology	-	-	(10.9)	(10.9)
General & Admin	-	-	(6.6)	(6.6)
<b>Total Expenses</b>	<b>(11.3)</b>	<b>(9.5)</b>	<b>(17.5)</b>	<b>(38.3)</b>
<b>Underlying EBITDA</b>	<b>6.7</b>	<b>14.5</b>	<b>(17.5)</b>	<b>3.7</b>
EBITDA margin (%)	36%	57%	(100%)	8%
Depreciation & Amortisation				(2.6)
Amortisation of deferred contract costs				(1.5)
<b>Underlying EBIT</b>				<b>(0.4)</b>
EBIT margin (%)				(1%)
Interest income				-
Interest expense				(0.1)
<b>Underlying Net Profit Before Tax</b>				<b>(0.5)</b>
Income tax benefit				1.1
<b>Underlying Net Profit After Tax</b>				<b>0.6</b>
Underlying NPAT margin (%)				1%
Pro-forma expense - Purchase Price				
Accounting: Depreciation & Amortisation				(4.0)
Pro-forma expense - Retention & Restructure costs (after tax)				(1.2)
Corporate advisory and integration costs (after tax)				-
<b>Net Profit After Tax</b>				<b>(4.6)</b>

H1-21				
AU\$m	B2C	B2B	Corporate	Total
<b>Total Licence revenue</b>	0.9	23.0	-	23.9
Other revenue and other income	-	-	0.1	0.1
<b>Total revenue and other income</b>	<b>0.9</b>	<b>23.0</b>	<b>0.1</b>	<b>24.0</b>
Cost of revenue	-	(0.9)	-	(0.9)
<b>Gross Profit</b>	<b>0.9</b>	<b>22.1</b>	<b>0.1</b>	<b>23.1</b>
Gross margin (%)	100%	96%	100%	96%
<b>Expenses</b>				
Sales & Marketing	(0.2)	(10.3)	-	(10.5)
Product & Technology	-	-	(4.8)	(4.8)
General & Admin	-	-	(6.0)	(6.0)
<b>Total Expenses</b>	<b>(0.2)</b>	<b>(10.3)</b>	<b>(10.8)</b>	<b>(21.3)</b>
<b>Underlying EBITDA</b>	<b>0.7</b>	<b>11.8</b>	<b>(10.7)</b>	<b>1.8</b>
EBITDA margin (%)	78%	51%	(10700%)	8%
Depreciation & Amortisation				(4.1)
Amortisation of deferred contract costs				-
<b>Underlying EBIT</b>				<b>(2.3)</b>
EBIT margin (%)				(10%)
Interest income				0.1
Interest expense				(0.1)
<b>Underlying Net Profit Before Tax</b>				<b>(2.3)</b>
Income tax benefit				0.9
<b>Underlying Net Profit After Tax</b>				<b>(1.4)</b>
Underlying NPAT margin (%)				(6%)
Pro-forma expense - Purchase Price				
Accounting: Depreciation & Amortisation				-
Pro-forma expense - Retention & Restructure costs (after tax)				-
Corporate advisory and integration costs (after tax)				(0.7)
<b>Net Profit After Tax</b>				<b>(2.1)</b>



# School (B2B) ARR Analysis

AU\$m	H1-19	H2-19	FY19	H1-20	H2-20	FY20	H1-21	H2-21	FY21	H1-22
<b>Opening ARR</b>	<b>53.4</b>	<b>56.6</b>	<b>53.4</b>	<b>55.3</b>	<b>55.0</b>	<b>55.3</b>	<b>56.1</b>	<b>57.9</b>	<b>56.1</b>	<b>64.4</b>
Acquired business*	3.0	0.3	3.3	-	-	-	-	6.7	6.7	0.4
New business	2.5	3.2	5.7	3.0	5.5	8.5	4.1	3.3	7.4	3.4
Net upsell/downsell	0.8	(0.9)	(0.1)	0.4	(0.6)	(0.2)	0.6	0.9	1.5	1.7
Net churn	(3.6)	(4.3)	(7.9)	(4.2)	(3.0)	(7.2)	(2.0)	(5.4)	(7.4)	(3.9)
FX impact	0.5	0.4	0.9	0.5	(0.8)	(0.3)	(0.9)	1.0	0.1	0.3
<b>Closing ARR</b>	<b>56.6</b>	<b>55.3</b>	<b>55.3</b>	<b>55.0</b>	<b>56.1</b>	<b>56.1</b>	<b>57.9</b>	<b>64.4</b>	<b>64.4</b>	<b>66.3</b>
Churn %	(17%)	(15%)	(15%)	(15%)	(13%)	(13%)	(9%)	(13%)	(13%)	(16%)
Exit ARPU	11.48	12.20	12.20	12.27	12.04	12.04	12.32	11.68	11.68	11.63

\* The Group acquired:

- Mathseeds distribution rights in FY19 (\$3.3m).
- Blake Education Pty Ltd in FY21 which included \$7.1m of school sales earned by third party distributor. Of this, \$6.7m was for contracts that were active at 30 June 2021, and \$0.4m were licences that were presold to become active in H1-22.

# Purchase Price Accounting

A summary of the fair value of identifiable intangible determined on assets acquired under the Blake eLearning Pty Ltd transaction is in the table below.

Asset	Fair Value	Adjustment	Fair Value
	30 Jun 21 A\$m		31 Dec 21 A\$m
Net working capital	(0.3)	0.2	(0.1)
Tangible fixed assets	0.1	-	0.1
Products	26.5	-	26.5
Customer relationships - monthly subscriptions	1.5	-	1.5
Customer relationships - annual subscriptions	1.2	-	1.2
Edmentum agreement	2.7	-	2.7
Other intangible	0.5	-	0.5
Deferred tax liability	(5.2)	0.8	(4.4)
Contract liability	(12.3)	(0.5)	(12.8)
<b>Net assets acquired</b>	<b>14.7</b>	<b>0.5</b>	<b>15.2</b>
Goodwill	167.5	(0.5)	167.0
<b>Acquisition date fair value of the total consideration transferred</b>	<b>182.2</b>	<b>-</b>	<b>182.2</b>

<sup>1</sup>Under the share sale agreement an adjustment amount of \$0.2m was payable to the Sellers as the cash, net debt and target work capital on completion date was higher than target. This amount has been adjusted through net working capital assets acquired along with other net working capital adjustments

# Definitions

Term	Definition
School Annual Recurring Revenue (ARR)	School ARR is the annualised customer contract value of all active licence contracts in effect at a particular date with any B2B school customer.
Licences	<p>B2B Licences reported reflect the number of individual students using 3P Learning products. It excludes any teacher or administrator users.</p> <p>B2C Licences reported reflect the number of parent subscribers using 3P Learning products.</p>
Net Churn	Net churn represents the School ARR which were not renewed by a customer at the end of a subscription period, offset by the value of recovered subscriptions previously churned.
Churn Percentage	Churn percentage is calculated as a proportion of the opening School ARR in a rolling 12-month period.
Licence Revenue	Licence revenue includes all statutory revenue recorded on the sale of online education products. Specifically it includes first party products recognised as "Licence fees" and 3rd party products recognised as "Net commission revenue" in the statutory financial statements.
Exit Average Revenue per User (Exit ARPU)	Exit ARPU represents the closing ARR divided by the closing number of licences.
Prior comparison period (pcp)	Prior comparison period is 1H FY21 which was prior to the merger with Blake eLearning Pty Ltd (Blake).

For further information, analysts, investors and other interested parties should contact:

### 3PL Investor Relations

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The release of this announcement has been authorised by the Board of 3P Learning Limited.





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