



31 July 2017: ASX/Media Release (ASX: KNM)

## KNeoMedia Quarterly Update & Appendix 4C

Online education publisher **KNeoMedia Limited** (“KNeoMedia” or the “Company”) (ASX: KNM) is pleased to provide shareholders with this update and Appendix 4C for the quarter ended 30 June 2017.

The quarter has proven to be an active and transformational period for the Company, underpinned by a significant funding commitment by way of budget allocation from the New York City Department of Education, and the subsequent take up of the KNeoEd and KNeoESP educational and Special Needs intervention products into the New York City Public School education market.

### Quarterly receipts from customers and an ongoing focus on managing KNeoMedia’s cost base

As has been repeatedly emphasised during the quarter, cash receipts from sales of Seat Licences in the June quarter would not materialise until the current quarter, from 1 July onwards, when new budget is actually allocated to the schools. Consequently, and as expected, cash receipts from customers as reflected in the attached Appendix 4C were minimal.

KNeoMedia anticipates that most of the budget allocated in the first quarter of FY2018 will be received from September onwards when the New Scholastic Year begins and activity in New York returns to normal levels after the August vacation period.

Operating costs during the quarter remained stable at A\$300,000 (or A\$100,000 per month). The Company continues to manage its cost base very tightly and will continue to do so. The ongoing growth in sales will not add materially to KNeoMedia’s cost base and the cost of additional sales support will have a minimal impact on the cost base.

Additional financing costs relate to conversion of convertible notes, exercise of additional entitlements under the note conversion and payment of accrued interest on conversion.

As KNeoMedia has progressively streamlined its operations to focus on the New York City Public Schools sector, the Company is pleased to confirm that net cash used in operating activities for FY2017 is (\$.705 million) versus (\$1.441 million) in FY2016.

### Direct Funding Approval granted

In early May, the Company advised shareholders that it had received direct Education Department funding approval from District 75 for the immediate purchases of its education products by schools in New York City. Of significant benefit is that schools in District 75 and the Boroughs can now overcome funding allocation delays which will in turn enhance sales of KNeo products.

District 75 provides citywide educational, vocational, and behavior support programs for Special Needs students throughout the New York City Boroughs.

This was a pivotal development for KNeoMedia during the quarter and has been the key catalyst for subsequent sales.



### **Record sign ups of KNeo Products by New York Public Schools**

As a result of this funding support, KNeoMedia's team commenced an active direct-to-school sales program to promote its content to educators and carers in the New York Public School system with pleasing results.

During the quarter, sales and commitments for a total of 4,700 Seat Licences were received from a large number of New York Public Schools. A Seat Licence is an annual, per student, subscription that schools and other facilities purchase for US\$50.00 per licence.

The June quarter represented the most active sales period in the Company's history, and KNeoMedia is pleased to confirm that this momentum has continued in the current quarter. The Company recently reported that Seat Licence sales and commitments have now topped 10,000 with the KNeoEd and KNeoESP content now being deployed across 39 New York Public Schools.

### **Well-funded to meet immediate growth objectives**

On 15 June, the Company confirmed that holders of convertible notes with a total face value of \$700,000 converted their notes (and accrued interest) into fully paid ordinary shares in KNeoMedia, substantially reducing the Company's debt to \$175,000 along with future interest expenses. The convertible note holders also held entitlements to subscribe for new fully paid ordinary shares in KNeoMedia equal to the value of the notes converted. Note holders elected to exercise their subscription entitlements, resulting in the Company raising \$700,000 in new funds.

This has given KNeoMedia additional financial flexibility to execute on its growth strategy and continue generating sales of Seat Licences in the New York Public School System. As shareholders are aware, the New York City Public School system is a large addressable market and comprises of ~2,300 elementary schools teaching more than 1.25 million students, including 220,000 Special Needs students across the five Boroughs of New York City.

While KNeoMedia's New York-based sales team is focused on achieving greater scale in the five New York Boroughs, the broader US market of ~23 million elementary students, of which 8% are classified as Special Needs (excluding Pre-K, AIS and ESL students), is also a growing priority with inquiries building.

### **A new focus on building KNeoMedia's Business-to-School SaaS model**

Following the receipt of funding support from District 75 and the subsequent sales directly into the New York Public School system, KNeoMedia took the decision to refine and focus its sales efforts on a direct-to-school sales model with the Company temporarily suspending product development, promotional spend and activity of its consumer content and mobile Apps.

The Software as a Service (SaaS) Business-to-School sales model underpins a much more robust and predictable revenue model for the Company compared to what can be achieved through direct-to-consumer marketing and promotion. The Company has found this to be a crowded space and believes the real value from its mobile app content and platform can be achieved through the provision of after school care educational content available to students and parents in a home environment, and to enhance the classroom learning experience. The Company is assessing the best way to generate returns from this channel and capitalising on the investment it has made in establishing these mobile apps and platforms.



## **Outlook**

The first quarter of FY2018 has begun well for the KNeoMedia. The Company will continue to focus primarily on driving sales of New Seat Licences from the New York Public School system with an emphasis on securing sales from the 28 remaining schools in District 75 by the end of October. Sales outside of District 75 are also materialising and a key focus, as are other US states where the Company will look to build scalable sales channels as it is doing in New York.

KNeoMedia is well funded with a growing revenue pipeline, a low cost base, and cash at bank at 30 June 2017 of \$403,000 and increasing receivables. As such, the Company has the necessary financial flexibility to execute on its current growth plans.

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## **About KNeoMedia Limited:**

KNeoMedia Limited is an online education publishing company that delivers world-class education assessment products and games-based learning to global educational markets.

KNeoMedia publishes and markets from its US-based subsidiary, KNeoWORLD Inc., and sells on a seat licence and micro-subscription basis through the KNeoWORLD.com games portal and via education departments and distribution agreements.

Games Based Learning is an integral part of childhood education. Growth in educational markets, combined with advances in mobile devices and connectivity, will continue to accelerate innovation, adoption, and affordability of our products around the world.

KNeoWORLD is an education games portal where young and also special needs students play their way through a futuristic and epic world. They do this by playing compelling games that are subtly infused with validated educational content including numeracy, literacy, science, arts, reasoning and memory. KNeoWORLD products provide extensive analytical performance data to educators and comply with child online privacy protection. Our SaaS model provides KNeoWORLD with a global education market opportunity addressing both regular and special needs students.

## **For further information, please contact:**

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## Appendix 4C

### Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

**Name of entity**

**KNeoMedia Limited**

**ABN**

**41 009 221 783**

**Quarter ended ("current quarter")**

**30 June 2017**

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$A'000</b>	<b>Year to date (12 months) \$A'000</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	12	149
1.2 Payments for		
(a) research and development	(14)	(134)
(b) product manufacturing and operating costs	-	-
(c) advertising and marketing	(44)	(204)
(d) leased assets	-	-
(e) staff costs	(63)	(209)
(f) administration and corporate costs	(168)	(515)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(69)	(81)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	292
1.8 Other (provide details if material)	-	-
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(346)</b>	<b>(702)</b>
<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire:		
(a) property, plant and equipment	-	(6)
(b) businesses (see item 10)	-	-
(c) investments	-	-

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
(d) intellectual property	(3)	(193)
(e) other non-current assets	-	-
2.2 Proceeds from disposal of:		
(a) property, plant and equipment	-	-
(b) businesses (see item 10)	-	-
(c) investments	-	-
(d) intellectual property	-	-
(e) other non-current assets	-	-
2.3 Cash flows from loans to other entities	-	-
2.4 Dividends received (see note 3)	-	-
2.5 Other (provide details if material)	-	-
<b>2.6 Net cash from / (used in) investing activities</b>	<b>(3)</b>	<b>(199)</b>

<b>3. Cash flows from financing activities</b>		
3.1 Proceeds from issues of shares	750	1,295
3.2 Proceeds from issue of convertible notes	-	-
3.3 Proceeds from exercise of share options	-	-
3.4 Transaction costs related to issues of shares, convertible notes or options	(59)	(83)
3.5 Proceeds from borrowings	-	-
3.6 Repayment of borrowings	-	-
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other (provide details if material)	-	-
<b>3.10 Net cash from / (used in) financing activities</b>	<b>691</b>	<b>1,212</b>

<b>4. Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1 Cash and cash equivalents at beginning of quarter/year to date	68	100
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(346)	(702)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(3)	(199)
4.4 Net cash from / (used in) financing activities (item 3.10 above)	691	1,212

<b>Consolidated statement of cash flows</b>		<b>Current quarter \$A'000</b>	<b>Year to date (12 months) \$A'000</b>
4.5	Effect of movement in exchange rates on cash held	(7)	(8)
<b>4.6</b>	<b>Cash and cash equivalents at end of quarter</b>	<b>403</b>	<b>403</b>

<b>5.</b>	<b>Reconciliation of cash and cash equivalents</b> at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	<b>Current quarter \$A'000</b>	<b>Previous quarter \$A'000</b>
5.1	Bank balances	403	68
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>403</b>	<b>68</b>

**6. Payments to directors of the entity and their associates**

6.1 Aggregate amount of payments to these parties included in item 1.2

6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3

6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

<b>Current quarter \$A'000</b>
53
-

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**7. Payments to related entities of the entity and their associates**

7.1 Aggregate amount of payments to these parties included in item 1.2

7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3

7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

<b>Current quarter \$A'000</b>
-
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<b>8. Financing facilities available</b> <i>Add notes as necessary for an understanding of the position</i>	<b>Total facility amount at quarter end \$A'000</b>	<b>Amount drawn at quarter end \$A'000</b>
8.1 Loan facilities	-	-
8.2 Credit standby arrangements	-	-
8.3 Other (Exercise of Options)	70	-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

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<b>9. Estimated cash outflows for next quarter</b>	<b>\$A'000</b>
9.1 Research and development	20
9.2 Product manufacturing and operating costs	-
9.3 Advertising and marketing	50
9.4 Leased assets	-
9.5 Staff costs	75
9.6 Administration and corporate costs	150
9.7 Other (provide details if material)	-
<b>9.8 Total estimated cash outflows</b>	<b>295</b>

<b>10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)</b>	<b>Acquisitions</b>	<b>Disposals</b>
10.1 Name of entity	-	-
10.2 Place of incorporation or registration	-	-
10.3 Consideration for acquisition or disposal	-	-
10.4 Total net assets	-	-
10.5 Nature of business	-	-

**Compliance statement**

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Sign here:  ..... Date: 31 July 2017  
(Chief Executive Officer)

Print name: **James Kellett**

**Notes**

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.