



31 October 2018: ASX/Media Release (ASX: KNM)

QUARTERLY UPDATE AND APPENDIX 4C PERIOD ENDED 30 SEPTEMBER 2018

Online education publisher **KNeoMedia Limited** (“KNeoMedia” or the “Company”) (ASX: KNM) provides this update for shareholders and Appendix 4C for the quarter ended 30 September 2018.

Summary

The Company has greatly strengthened its operations and sales pipeline in four key markets, the United States, the United Kingdom, the Philippines and Australia, investing more heavily in:

- Recruiting experienced and qualified Edtech sales, business development and teaching & learning personnel, predominantly in the US and the UK;
- Product and content localisation specific to geographies and curriculums;
- Funding independent research on product validation to aid the sales process;
- More sales & business development initiatives to broaden awareness of the KneoWorld content, most notably in the United States.

As a result, cash outflows increased by ~\$290,000 for the quarter and are consistent with KNeoMedia building and enhancing its four pillars of:

- **Partnerships** that facilitate access to multiple funding channels from both government and private enterprise;
- **Leading technology** to ensure we maintain a commanding position in Special Needs education;
- **Validated content** by globally recognised and credible health and education bodies;
- **Top talent** in Special Needs learning and development to deliver scale in the markets where we deploy content.

Sales and Receivables

In conjunction with the appointment of new US senior Sales Executives a new District, State or County-wide sales methodology, as opposed to the Company’s previous School-to-School sales approach, no sales have materialised this quarter. While the new sales methodology has a more detailed and lengthy sales cycle, it targets larger volume sales. The Company is very confident that the increased investment made in the quarter will lead to sustainable sales in the very near term. A good sales pipeline has been established across all regions, mainly in the United States where most investment has been made.

As well, KNeoMedia has strengthened its efforts to secure the \$500,000 of receivables payable from New York City Department of Education from previous sales with cash collections now being pursued by KNeoMedia’s well-connected partners and advisors in New York.

US Market Progress

In the very short time since bolstering the US sales team with the appointments of Louis Diggs, Senior Sales Director US EDU (1 September) and Dikran Husseindjian, Senior Strategy Director US EDU (1 October) the Company has greatly stepped up sales initiatives across the US in Arizona, California, Pennsylvania and New York State separately from the New York City Dept. of Education.

These sales initiatives have taken the form of well received presentations to County and District Superintendents and decision makers, rather than single schools. This has led to four (4) Districts with approximately 10 schools each (40 schools in total) requesting immediate trial licences and further pedagogical (teacher-led) demonstrations from our educational team (see www.kneoworld.com) to ensure a full understanding and best use of the platform prior to committing to a paid District-wide deployment.

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The Company showcased KneoWorld at the PSBA-PASA Pa Leadership Conference 2018 Hershey, Pennsylvania from October 16–19. This is the largest Pennsylvania State conference for superintendents, directors of curriculum, assistant superintendents, and school board directors and was attended by 650 key decision-makers. As in other States, Kneoworld was very well received and actively approached with decision makers individually responsible for K-8 enrolments ranging from 6,200 to 300 students. 20 immediate follow up actions have been identified.

While New York City has the substantial and Special Needs-specific District 75 comprising 26,000 students, the other Departments of Education across the US each have Special Needs inclusive with general education.

Each of the above sales initiatives coincided with the Company's recent aligning of KneoWorld to the general education assessments standards as well the Special Needs assessment standard, alignments carried out by our pedagogical advisors. The result of the 'dual alignment' increased the potential student market and accessibility from the original 2 million Special Needs students to include 4 million Academic Intervention Services students and generally, the majority of the K-8 student population of 20 million.

Many of these Districts and States are well funded with adequate laptops/iPads, thus facilitating the deployment of KneoWorld without the additional hardware expense burden that can impede SaaS sales.

Overall, the new dual standards alignment will greatly reduce the Company's reliance on New York City sales, however we will continue to work with the independent New York City DOE and with District 75 both in terms of new and renewing licences.

Due to the new platform alignment, we have also been invited into more general education districts and are working with most senior subordinates of the NYC Chancellor and the NAACP to deploy those new opportunities.

In terms of assisting with the Nationwide US rollout of the KNeoWorld platform, the NAACP partnership is now taking effect as the Company's sales team connects with various NAACP Chapters. The partnership is assisting in delivering a 'national message' on the value of KneoWorld and philanthropic contributions for those schools and districts that cannot fund their KneoWorld purchases.

The NAACP commitment was further enhanced when in October, a Harlem school won the prestigious 1018 America's Best Urban School Symposium award citing KneoWorld and its introduction of Verizon foundation funding two years ago to technology as the differentiator to delivering better educational outcomes.

United Kingdom Update

After an extensive executive search, the Company is pleased to announce Mr Mike McKenzie MBA, has been appointed CEO of KneoWorld UK and Ireland. Mike has extensive business experience in business development, technology and education, also serving as a Governor and Chair of Governors at 3 State Schools.

With the powerful combination and experience of both Mike McKenzie and KneoWorld UK Chairman Lord Anthony St. John, together with the previously announced private foundation pledge to fund initially up to 10 schools, the Company anticipates its UK subsidiary will surpass break-even trading virtually from start-up.

KneoWorld UK uses the existing KneoWorld platform and the inbuilt content management system and global standards alignment regime recently implemented, which will be readily available at minimal cost in English with localised Special Needs and general education dual standards alignment.

Philippines

As announced, following successful trials in six Special Needs schools, the Superintendent of the regional Department of Education in the Philippines has approved deployment of the content into Vizcaya Province and an application has been made to the Governor for Seat Licence funding. We have been verbally advised the Governor has agreed to funding the first school and we await a formal invitation to attend the public signing.

The Company has established a strong business joint venture business in the Philippines and a workable sales model has been implemented that will ensure no delays in sales receipts as all payments are in advance.



At a recent meeting with senior education officials, a request was made if alignment to the latest ASEAN (10 Asian country members) education standards could be achieved as that would position KneoWorld as the first such product in the Philippines.

As with the UK, using the existing KneoWorld platform, the inbuilt content management system and global standards alignment regime, the Philippines/ASEAN standards alignment in existing American English will be readily available at minimal cost. The alignment will be further amplified by the company's long association with Education Advisory Board member Prof. Wee Hoe Tan and Sultan Idris University in Kuala Lumpur, which is a preeminent teaching university in the ASEAN countries community.

Australia

The Company has successfully deployed test licences in Australia and continues to conduct research validation before formally submitting proposals to education departments and institutions

Global Markets Deployment

KNeoMedia has been working for some time to ensure each market will be accessed by an individual country's web domain, geo-fenced from other country versions and hosted at the nearest Amazon Web Hosting point.

This has been made possible by the versatility of the content management system incorporated in the recently updated version of the KneoWorld platform. Additional language versions will also be readily adaptable under this configuration as will further new regions.

Comment

Chief Executive Officer James Kellett commented: "Considerable operational progress has been made in the quarter, with the highlight being the appointment of some very experienced Edtech sales and business development executives, most notably in the United States, that are now driving sales in a very systematic manner.

"We recognise the need to invest in our talent pool if we are to deliver sustainable and recurring Seat Licences sales which we are the ultimate benchmark of our success.

"KNeoMedia has the healthiest sales pipeline in its history, across all markets, and we are now entering period of converting this pipeline into actual sales. We will also provide more regular updates on operational initiatives that are underpinning these sales which are also critical to building large and sustainable sales channels."

About KNeoMedia Limited:

KNeoMedia Limited (ASX: KNM) is an education publishing company that delivers world-class education assessment products and games-based learning to global educational markets, particularly to Special Needs education facilities. The Company sells on an annual Seat Licence basis through its KneoWorld.com portal via education departments and distribution agreements. KneoWorld is an education games portal where students play their way through a futuristic and epic world with the games mapped to validated educational content including numeracy, literacy, science, arts, reasoning and memory. The content delivers extensive analytical performance data to educators and complies with child online privacy protection including US COPPA and European GDPR. Our SaaS model provides KneoWorld with a global education market opportunity selling on a business to business strategy.

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 September 2018

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	1	1
1.2 Payments for		
(a) research and development	(147)	(147)
(b) product manufacturing and operating costs	-	-
(c) advertising and marketing	(66)	(66)
(d) leased assets	-	-
(e) staff costs	(218)	(218)
(f) administration and corporate costs	(412)	(412)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	7	7
1.5 Interest and other costs of finance paid	(1)	(1)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(836)	(836)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(5)	(5)
(b) businesses (see item 10)	-	-
(c) investments	-	-

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
(d) intellectual property	(52)	(52)
(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	(22)	(22)
2.4 Dividends received (see note 3)	-	-
2.5 Other (provide details if material)	-	-
2.6 Net cash from / (used in) investing activities	(79)	(79)

3. Cash flows from financing activities		
3.1 Proceeds from issues of shares	-	-
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	-	-
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)	-	-
3.10 Net cash from / (used in) financing activities	-	-

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of quarter/year to date	2,714	2,714
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(836)	(836)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(79)	(79)
4.4 Net cash from / (used in) financing activities (item 3.10 above)	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	(36)	(36)
4.6	Cash and cash equivalents at end of quarter	1,763	1,763

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	1,763	2,714
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	1,763	2,714

6.	Payments to directors of the entity and their associates	Current quarter \$A'000
6.1	Aggregate amount of payments to these parties included in item 1.2	115
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	

7.	Payments to related entities of the entity and their associates	Current quarter \$A'000
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	

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Placement	-	-
8.2 Credit standby arrangements	-	-
8.3 Other (Exercise of Options)	-	-
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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9. Estimated cash outflows for next quarter	\$A'000
9.1 Research and development	100
9.2 Product manufacturing and operating costs	-
9.3 Advertising and marketing	80
9.4 Leased assets	-
9.5 Staff costs	220
9.6 Administration and corporate costs	200
9.7 Other (provide details if material)	-
9.8 Total estimated cash outflows	600

10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
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:



Chief Executive Officer

Date: 31 October 2018

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.