iCOLLEGE LTD (ICT)

Set to Become a Leading Education Provider

SPECULATIVE

20 May 2015

Share Trading Info

ASX Code	ICT
Sector	Online Education
Current Share Price (cps)	19.0
Trading Low/High (Rolling Year) (cps)	1.5 - 20
Ordinary Shares on Issue* (m)	**66.7**
Listed Options (ASX:ICTO) (m)	23.8
Unlisted Options (m)	14.7
Performance Rights (m)	10.0
Mkt Capitalisation (undiluted) ($m)	**12.7**
Cash as at 31 March 2015 ($m)	1.6

** Including ~10.4m Restricted Ordinary Shares*

Board of Directors

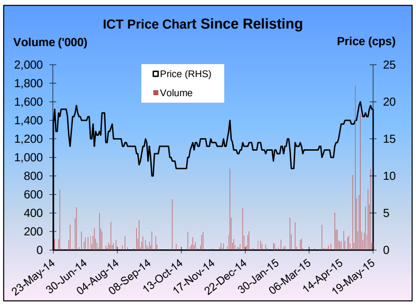
Hans de Back	Non Executive Chairman
Victor Hawkins	Managing Director
Philip Re	Non Executive Director
Ross Cotton	Executive Director

Major Shareholders

Performa Capital P/L	11.3%
Walker Investments (Aust) P/L	10.1%
Copulos Group	7.5%
Frontier Capital Pte Ltd	6.2%
Traditional Securities Group P/L	4.4%

Important Disclosure

Investors should be aware that iCollege Ltd is a corporate client of Alpha and that Alpha will receive a consultancy fee from iCollege Ltd for compiling this research report



EXECUTIVE SUMMARY

iCollege Ltd (ICT) is an ASX-listed company which aims to become Australia's leading provider of online vocational training. ICT's opportunity is to consolidate the highly fragmented vocational training sector, add value through corporatisation and online course migration and capture competitive advantage through offering a nationally-diversified course content portfolio.

ICT currently owns three businesses which generated pro-forma FY14 consolidated total revenue of A$9.5m and EBIT of A$2.8m.

The Company's focus is on delivering measurable outcomes for its students, stakeholders and shareholders whilst promoting increased career opportunities and high value learning.

De-Risked Acquisition Strategy

The Company's strategy of paying relatively low EBIT multiples for acquisitions (1-2x annual EBIT) on an upfront basis, and then completing acquisitions on a deferred settlement basis de-risks acquisitions, in the sense that the acquired businesses have to meet the agreed EBIT targets prior to ICT committing further funds under the deferred settlement agreements.

Further, the necessity to raise equity capital in order to finance deferred considerations diminishes as the acquired businesses become more cashflow generative.

Online Integration Underpins the Business Model

ICT's model focuses on the ability to integrate and transition acquisitions currently offering 'face-to-face' course delivery into an online or blended learning environment. The move to a "blended delivery" will provide further business savings whilst not diluting the learning opportunities.

Development is fuelled by the use of a learning management platform – an innovative technology designed to make the e-learning experience more flexible, dynamic and mobile.

In addition to pursuing acquisition opportunities, the online platform provides ICT with the capability to develop its own content across a wide range of industries for both accredited and non-accredited courses.

Alpha Securities Pty Ltd
ACN 124 327 064 AFSL 330757

Management Institute of Australia Acquisition Has Tremendous Scope

The Company has recently acquired three businesses, all of which are Registered Training Organisations (or 'RTOs') with an individual set of courses and training programs.

The largest of the three acquisitions, Management Institute of Australia (MIA) provides the Company with a platform for national and international expansion.

MIA, along with Mathisi (the next major business acquired), both already generate high EBIT margins (MIA: 28%; Mathisi: 46% as at FY14), with potential for further margin improvement to be gained from cost savings from operational consolidation, reduction in duplication data and compliance and leveraging synergies between the databases of the acquired businesses.

In the event that the Company business units are successful in their applications for Vet Fee Help and Higher Education Provider (HEP) MIA has the greatest potential in terms of increased revenue and earnings growth expectations – given they currently offer a number of eligible courses and have the necessary systems to fast-track students into Higher Education via recognised prior learning credits.

As part of the performance hurdles required under the acquisition terms, ICT has set aggressive EBIT growth targets for MIA for FY16 and FY17, which do not factor in potential contribution from Federal Government-driven revenue.

Awaiting the Outcome of License Applications to Secure Federal Funding – A Game Changer

ICT business units are awaiting the outcome of applications to become approved VET FEE-HELP Providers with a decision expected in the first quarter of the 2016 financial year. Should the various RTO's applications be approved, the Company will enhance and expand the number of diploma courses it currently offers. This benefits its main acquisition (Management Institute of Australia), and all other business units.

ICT are aiming to expand their presence in professional development, apprenticeships and university segments, in particular postgraduate education. An application to become a licensed HEP, is underway with a decision on this application due around the third quarter of the 2016 financial year.

There is significant upside potential ICT's revenue base should these licenses be granted, as it removes the obstacle of access to funding for the student and provides a clear pathway for those transitioning from VET-based courses to Higher Education.

The company will be shortly releasing an Ethical Marketing Policy that will align the Company with Industry Best Standards. ICT approaches its obligations under relevant Government Authorities with ardency and diligence at all times.

***Table 1:* Consolidated Financials as at FY14**

Total - All Acquisitions ($m)	FY14
Sales	9.53
COGS	5.63
Gross Profit (GP)	3.90
GP Margin	*41%*
EBIT	2.85
EBIT Margin	*30%*

Source: ICT Presentation

INVESTMENT SUMMARY

A. Growing Trend Toward Online Education

Higher Education online and Corporate online (the two segments of the online education market that ICT is targeting) are estimated to grow at 25% and 8% (CAGR) respectively over the period from 2012 to 2017.

B. Growing number of students in vocational training

VET sector enrolments through private providers have expanded rapidly from approximately 230,000 in the mid-1990s to approximately 687,000 in 2013.

C. Highly Fragmented Sector

The education sector is a fragmented, competitive market with no provider establishing a dominant global leadership position. According to the national regulator of the VET sector, Australian Skills Quality Authority (ASQA), there are approximately 5,000 RTOs in Australia. It is estimated that around 5% of these are classified as either licensed VET-Fee HELP Providers or Higher Education Providers (HEPs).

D. Strong Growth Platform through existing businesses

MIA, along with other major acquisition Mathisi, both already generate high EBIT margins (MIA: 28%; Mathisi: 46% as at FY14), with potential for further margin improvement to be gained from cost savings from operational consolidation, reduction in duplication data and compliance and leveraging synergies between the databases of the acquired businesses.

The largest of the three acquisitions, Management Institute of Australia (MIA) provides the Company with a platform for national and international expansion.

E. Value-accretive acquisition funding model

ICT has recently acquired three Registered Training Organisations (RTOs), all of which have an individual set of courses and training programs.

As part of the performance hurdles required under the acquisition terms, ICT has set aggressive EBIT growth targets, which do not factor in potential contribution from Federal Government-driven revenue and if achieved can mostly self-fund ICT's earn-out commitments.

F. Access to government funding is an upside risk

There is significant upside potential in the Company's revenue base should ICT's applications for government funding of students be granted, as it removes the obstacle of access to funding for the student and provides a clear pathway for those transitioning from VET-based courses to Higher Education.

ICT has applied for two government funding programs:

- An application to become a licensed HEP, is underway with a decision on this application due around the third quarter of the 2016 financial year.
- An application to become an approved VET FEE-HELP Provider with a decision expected in the first quarter of the 2016 financial year.

1. COMPANY OVERVIEW

1.1 Background and Recent Initiatives

In December 2013, the Company (previously known as DGI Holdings Ltd[1]) exercised an option to fully acquire 100% of iCollege Holdings P/L, a business developed by the current Managing Director and major shareholder, Mr Victor Hawkins.

Figure 1:* Screenshot of iCollege Portal *(Source: ICT)

Following the completion of a capital raising that raised ~$2.7 million, the Company was re-instated onto the ASX in May 2014 as iCollege Ltd and initially consisted of three directors: Mr Hans de Back as Non Executive Director, Mr Victor Hawkins as Managing Director and Mr Philip Re as Non Executive Director; all of whom remain on the current Board in the same capacity, respectively.

Mr Ross Cotton was subsequently appointed to the Board as Executive Director with a view to taking responsibility for acquisitions, financing and marketing & promotion for ICT; and allowing Mr Hawkins to focus on operational matters and implementation of the Company's new acquisitions.

After completing a rights issue in July 2014 that raised ~$0.2 million, ICT launched its online platform (www.icollege.net) and initial course portfolio, consisting of 25 online educational courses, that later became available to students via ICT's 100%-owned online proprietary educational platform.

The Company's first acquisition was announced in early September 2014, when ICT entered into an agreement to fully acquire Bookkeeping School P/L.

Following on from the acquisition of Bookkeeping School, ICT completed two financially and strategically important acquisitions in March 2015: Management Institute of Australia (MIA) and Mathisi. The Company has also entered into a binding term sheet to fully acquire Vital Training Solutions P/L, a RTO that provides accredited certificate-level courses in the finance sector.

Once the acquired businesses are fully integrated into ICT's corporate structure and educational technology platform, the Company will offer a range of accredited and non-accredited courses and training programs across a wide spectrum of industries, in particular the business, community, hospitality, finance and health industries.

[1] DGI Holdings listed on the ASX in August 2009 and prior to the acquisition of iCollege Holdings P/L, was focussed was on the research, development and marketing of innovative miniature projection technologies and products.

1.2 Capital Structure

The Company has a total of 66.7 million ordinary shares on issue, of which 10.4 million ordinary shares are restricted until 1 April 2017. In addition, there are 23.8 million listed options on issue (ASX: ICTO), trading at 4.5c as at the time of writing; as well as 14.7 million unlisted options under issue. As at the time of writing, both the listed and unlisted options are currently out-of-the-money.

The share registry is tightly held, with the top 20 shareholders accounting for ~60% of the total shares on issue (~40% excluding directors). This underpins a strong alignment of interests between the Board and shareholders, with the Board of directors (including associated entities) collectively holding around ~18% of the total shares on issue. In particular, the major shareholder is Mr Victor Hawkins, ICT's Managing Director, with an 11.4% shareholding.

The Company has endeavoured to improve liquidity in its listed shares by recently completing a sale of small shareholdings to Copulos Group (a professional investor and substantial shareholder in ICT). In total, 504 shareholders with an unmarketable parcel (total shareholding worth less than $500) totalling 542,595 shares were placed to the professional investor at 15 cents per share.

Table 2: **Current ICT Capital Structure**

Shares/Options on Issue	Million	Exp. Date
Issued Ordinary Shares	56.3	
Restricted Ordinary Shares	10.4	01-Apr-17
Diluted Ordinary Shares	**66.7**	
Listed Options (exercisable @ 20c)	**23.8**	**24-Jul-17**
Unlisted Options (exercisable @ 20c)	3.0	31-Dec-15
Unlisted Options (exercisable @ 30c)	11.7	31-Mar-19
Total Unlisted Options*	**14.7**	
Performance Rights	**10.0**	

** There are a further 3,334 unlisted options on issue (@30c; exp 1 May 2017)*

Source: Alpha Securities, Company Reports

2. ACQUISITIVE STRATEGY

Table 3: **Summary of Recent ICT Acquisitions**[2]

	Management Institute of Australia (MIA)	Mathisi	Bookkeeping School
Acquisition Completion Date	March 2015	March 2014	December 2014
Courses/Training Programs	70 Accredited courses and non-accredited courses across 22 industries	Wide range of courses specialising in retail and business qualifications	Certificate-level Accredited bookkeeping & accounting courses
Acquisition Terms	$1m cash +$1m ICT shares @ 15c + $8m deferred settlement: - $0.5m if **EBIT for FY15 is $2m** + $1.5m cash on 23 Dec 2015 - $1.25m cash + $1.25m in ICT shares if **EBIT for FY16 is $4m** - $1.75m cash + $1.75m in ICT shares if **EBIT for FY17 is $6m**	**$0.55m** cash on settlement; + **$0.2m** deferred cash settlement subject to Mathisi achieving EBIT of $850K in FY15 and reduced proportionally if not achieved.	$115,000 cash
FY14 Sales/EBIT	$8.1m Sales; $2.2m EBIT	$1.28m Sales; $0.58m EBIT (unaudited)	$170,000 Sales; $24,491 EBIT
Implied EBIT Multiple	<1x FY14 EBIT (upfront payment) >4x FY14 EBIT (total consideration)	<1x FY14 EBIT (upfront payment) ~1.3x FY14 EBIT (total consideration)	4.7x FY14 EBIT
EPS Accretive	✓	✓	✓
Vendor Involvement/ Performance Hurdles	MIA CEO to remain until 2017; Performance Hurdles as above in deferred settlement terms	✓	✗
Funding Method	Convertible Loan ($0.5m @ 15c) + Existing Cash	Equity Placement + Existing Cash	Existing Cash

Source: Alpha Securities, ICT

[2] Further to these acquisitions, ICT announced on 13 May 2015 that it has entered into a binding term sheet to acquire 100% of the shares in Vital Training Solutions P/L, a RTO. The potential acquisition, while small in size, has the potential to allow ICT to cement a foothold a leading provider of training to the finance sector. The acquisition is subject to further due diligence and the completion of formal contractual agreements. Upon execution of a formal share sale agreement, the consideration for the acquisition is a cash payment of $40,000 and $75,000 in ICT scrip.

2.1 Recent Strategic Acquisitions

2.1.1 Management Institute of Australia (MIA) (ICT: 100%)

ICT completed the acquisition of Management Institute of Australia (MIA) in March 2015. MIA has been a Registered Training Organisation since 2005 and is recognised, both in Australia and globally, as a provider of high-quality post-secondary education. MIA has since enhanced and developed its RTO model into a unique 'systems-driven' offering, which is predicated on having flexible training delivery utilising online platforms and strong compliance systems.

MIA offer 70 accredited and nationally-recognised courses, as well as non-accredited courses across 22 industries, including Business, Logistics, Beauty and Massage, Fitness, Automotive, Rural, Childcare, Aged Care, Hospitality, Disability Services and Workplace Health and Safety. Courses range from entry level (Certificate II) through to senior management training (Advanced Diploma).

MIA has a 4-pronged strategy:

i. Steady and continuous growth in the number and geographic spread of franchisees.
ii. Maintain a focus on nurturing learner engagement through the education process of franchisees.
iii. Develop a suitable model to take the RTO franchisee model to selected international markets.
iv. Establish articulated pathways for MIA's VET students into Higher Education.

ICT has set aggressive EBIT growth targets for MIA, from $2.24 million in FY14 to $4 million for FY16 and $6 million for FY17 (according to the performance hurdles set as part of the deferred consideration for the acquisition of MIA).

Under ICT's direction, a key focus of the business over the short term will increase growth in senior management training programs across the industry sectors, as well as the development of Higher Education programs (such as Bachelor Degrees) - discussed in further detail below. Both of these programs are typically higher margin than the entry-level courses offered by MIA.

2.1.2 Mathisi (ICT: 100%)

In March 2015, ICT also finalised the acquisition of Mathisi, a Vocational Education and Training (VET) accredited Registered Training Organisation that provides training across a wide range of sectors under a Government-funded model. The rationale behind the acquisition was to expand ICT's online course offering.

Mathisi, which has been in operation for five years, offers a wide range of courses, specialising in business and retail qualifications. This underpins a diverse source of revenue for Mathisi, which also has a low-cost operating model (gross profit margins are in excess of 50%).

A significant portion of Mathisi's revenue are derived from the corporate sector, with all training courses provided by Mathisi tailored for the specific needs of the employer and focus on measurable outcomes for the employer[3].

2.1.3 Bookkeeping School (ICT: 100%)

Bookkeeping School (BKS) was established May 2010 and is an online Registered Training Organisation offering certificate-level bookkeeping and accounting courses to over 100 students. Courses include:

- FNS40211 - Cert IV in Bookkeeping
- FNSBKG404A - Carry out Business Activity and Instalment Activity Statement tasks
- FNSBKG405A - Establish and Maintain a Payroll System
- MYOB Training - Online & 2-Day Classroom Courses
- Manual Bookkeeping

The acquisition is consistent with the Company's strategy to was completed on an EBIT multiple of 4.7x FY14 EBIT and is earnings per share (EPS) accretive.

ICT plan to aggressively grow sales over the next 12 months by expanding into other regional areas and states (BKS is Queensland-based), a new website and a marketing drive focussing on accountants.

Longer term revenue growth is highly leveraged to increasing student numbers, with the Company aiming to achieve this by utilising the significant funding available to students, which has been an area that has not been fully utilised to date.

2.2 Revenue and Earnings Growth Expectations for the Enlarged iCollege Business

2.2.1 Access to Federal Government Funding

In much the same way as Federal Government funding underpins the revenue model for childcare providers, being able to provide access for students to Federal Government funding is an important avenue of revenue growth for educational providers.

One of the key aspects of Federal Government policy measures that have influenced the direction and funding of VET sector in recent years has been the extension of the VET FEE-HELP scheme to subsidised as well as non-subsidised Diploma and Advanced Diploma students in VET education with eligible private providers.

At present, ICT derive revenue from funded domestic students, who receive funding from State Governments. In order to allow domestic students to secure Federal Government funding, an application to become a VET FEE-HELP Provider has been lodged by MIA and an application is in progress to become a HEP. The acquisition strategy also includes further purchases of businesses that have existing Vet Fee Help licences.

[3] Employers can partner with a training provider pre-approved by Education and Training government departments, known as a Pre-Qualified Supplier (PQS), to enrol eligible employees in the subsidised training available under the program.

Overview of FEE-HELP and VET FEE-HELP Loan Schemes

FEE-HELP and VET FEE-HELP are loan schemes that can assist eligible students to pay their tuition fees. The loans are provided to students by an approved education provider and funded by the Federal Government. The Higher Education or VET provider must be approved for the loan scheme(s) before its students can receive assistance.

Approved HEPs offer the FEE-HELP scheme and approved vocational education and training providers (VET) offer the VET FEE-HELP scheme.

When an eligible student requests a loan for the tuition fees for their course, the Federal Government pays the student's tuition fees directly to their provider on their behalf. The student is not required to start repaying the loan until their income is above the minimum income threshold, which is indexed annually in line with the Consumer Price Index.

For each student there is a FEE-HELP limit, which is the total amount available over their lifetime for the FEE-HELP and VET FEE-HELP schemes. The FEE-HELP limit is indexed each year and the amount borrowed by an eligible student under either scheme will reduce the student's FEE-HELP balance until the student's FEE-HELP limit is reached and the student's FEE-HELP balance is zero.

Not all VET students are eligible to access VET FEE-HELP. Full fee paying students are eligible and students subsidised by State Governments may also be eligible.

At present, of the ~5,000 Registered Training Organisations in Australia, it is estimated that only ~5% are classified as either licensed VET FEE-HELP Providers or HEPs.

An education provider that obtains the above two licenses has a significant competitive advantage, given that access to Federal Government funding removes a significant financial barrier to the student and is a major consideration for the student when choosing an education provider, along with other factors such as accessibility and scope of the course.

These factors, along with potential access to Federal Government funding in an ethical manner, provides ICT with a significant point of differentiation, which is particularly relevant given that the majority of students are completing courses according to a government-set curriculum.

Anecdotal evidence indicates that education providers who obtain a VET FEE-HELP Provider license alone experience a significant uplift in revenue (in the order of 3-5x) over the course of one year.

Subject to the approval to become a licensed VET FEE-HELP Provider, ICT's Higher Education strategy involves targeting students who have completed study (say a diploma) as a result of obtaining funding under a VET-FEE loan scheme, who then wants to undertake a university course (say a Bachelor degree or an MBA).

On approval as a licensed HEP, the Company will be able to offer funding, via the FEE-HELP loan scheme, to students wishing to undertake/continue studies at university. The advantage for a student who has completed an earlier course with ICT and who then wants to complete a university course with ICT, is that the student can obtain credits for earlier courses completed, which allows the student to complete the university course earlier. In this regard, ICT see tremendous scope within the MIA business.

In the coming months, ICT will be forming an Academic Counsel to monitor and report to the Board on all academic matters. The Academic Counsel will be totally autonomous of the Board and will work with the various business units to ensure compliance to Standards is being met at all times. The Counsel will be made up of independent and objective members who have proven their expertise in the training industry over a number of years.

2.2.2 Internal Drivers of Growth

Aside from Federal Government funding-driven revenue growth, the avenues to grow future revenue include:

- Expanding the course offering of acquired business into different markets. For example, MIA, whose head office is Sydney-based, mainly offered courses along the eastern seaboard of Australia as a stand-alone business. Under ICT's ownership, the courses (where applicable) can be offered globally on an online platform.

- Offering additional courses online, as some of the acquired business did not make offer all its courses online.

EBIT growth and EBIT margin growth is highly leveraged to improved revenue, as there are significant opportunities for cost savings from operational consolidation, reduction in duplication data and compliance and leveraging synergies between the databases of the acquired businesses.

Further, the integration costs of these acquisitions are expected to be minimal, given the scale and functionality of ICT's proprietary technology.

2.3 Opportunities for Further Acquisitions

The education sector is a fragmented, competitive market with no provider yet having established a dominant global leadership position. According to the national regulator of the VET sector, Australian Skills Quality Authority (ASQA), there are approximately 5,000 RTOs in Australia, and it is estimated that around 5% of these are classified as either licensed VET-Fee HELP Providers or Higher Education Providers (HEPs).

Ideal acquisition targets include well established educational business that can be easily and fully integrated into ICT's technology platform, existing corporate structure, accounting, compliance and management systems.

Potential acquisition targets do not necessarily need to have an online presence; they can include:

i) More traditional education providers that ICT can target with a view of applying its platform in order to create an online offering that can be marketed globally.

ii) Small businesses (i.e. generating EBIT <$1 million per annum) where ICT is buying content that can be leveraged onto an online platform.

iii) Niche businesses that require management and marketing expertise for growth.

Company management typically prefer to pay around 1-2x EBIT for acquisitions on an upfront basis, and around 4-5x EBIT on a total consideration basis. The strategy of completing acquisitions on a deferred settlement basis also de-risks the acquisitions, in the sense that the acquired businesses have to meet the agreed EBIT targets prior to ICT committing further funds under the deferred settlement agreements.

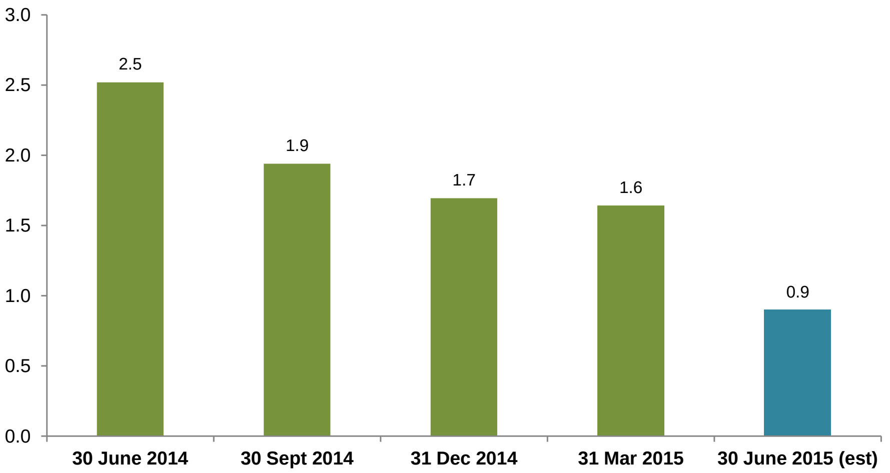
2.4 Preferred Method of Funding Acquisitions

As evidenced in the three acquisitions completed to date, ICT is prepared to fund future acquisitions via a combination of cash and scrip (on an initial basis), in order to acquire medium-sized businesses, such as MIA (i.e. ones that generate EBIT of between $3 million and $10 million per annum), or larger-sized business (generating EBIT over $10 million per annum).

Further, there is also the capacity to make deferred payments from existing cash, as the acquisitions, once bedded down, contribute to ICT becoming more cashflow generative. To this end, ICT is expected to become cashflow positive in the current quarter.

Since relisting as iCollege Ltd, the Company has successfully raised funds when required, via a variety of methods, with each of the capital raisings undertaken well supported by both existing shareholders and new investors.

***Figure 2* Quarterly Cash Balance ($m)**



(Source: ICT Quarterly Reports, Alpha Securities)

Table 4 **Capital Raisings Undertaken Since Relisting** ***(Source: ICT Quarterly Reports, Alpha Securities)***

Date	Amount Raised	Funding Method
April 2014	$2.54 million (net)	Prospectus
July 2014	$0.17 million (net)	3:1 non renounceable options rights issue
December 2014	$0.5 million	Share Placement @ 15 cents per share with 1:2 free listed option
March/April 2015	$1.3 million	1-year Convertible loan - Interest payable @ 12% quarterly. Exercisable into ICT shares at 15 cents per share. Funds raised in two tranches: i) $0.5m in March, followed by ii) $0.8m in April from a consortium of strategic investors.
TOTAL RAISED	**$4.51 million**	

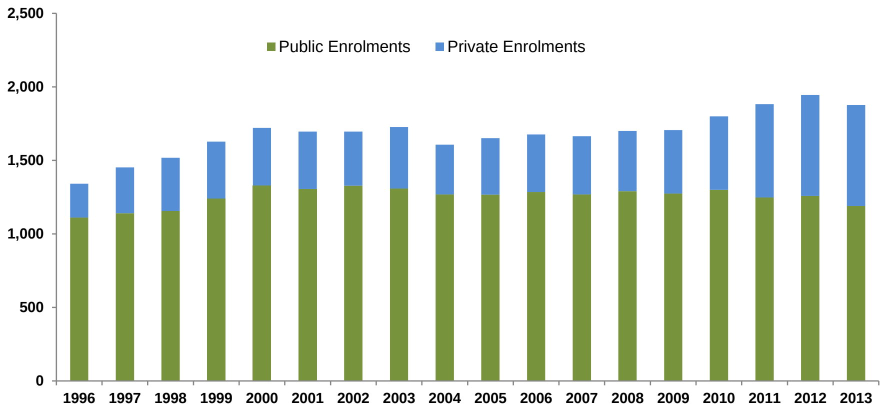
3. FAVOURABLE INDUSTRY DYNAMICS

3.1 VET Sector Well Supported by Federal and State Government Funding

The Vocational Education and Training (VET) sector enrols approximately 1.9 million students across a broad range of courses. VET sector enrolments through private providers have expanded rapidly from approximately 230,000 in the mid-1990s to approximately 687,000 in 2013.

It is estimated that 65% of student enrolments are in Certificate III qualifications or higher. (Certificate III is the core entry level vocational qualification in many growing industry and occupational fields).

***Figure 3* National VET Enrolments by Public and Private Providers ('000)**



(Source: National Centre for Vocational Education and Research (NCVER))

Overall, the trend in State and Federal Government policy with regards to the VET sector has been one of deregulation over the last five years. The measures to date have helped create a more open and competitive VET market, driving a significant increase in student enrolments, course completion rates and diversity of training choice for students.

Key funding initiatives at the State Government level include:

- The Queensland Government implemented demand driven funding from 1 July 2014 under the 'Great skills. Real opportunities' program. The Queensland Government took an alternative approach to that of Victoria, SA and WA with regard to its funded qualifications list, electing to leave certificate IV and above qualifications largely unsubsidised.

  This has the effect of transferring the cost of funding to the Commonwealth Government in instances where students are able to access VET FEE-HELP loans for diplomas, advanced diplomas and certain certificate IV courses.

  The Queensland Government has committed to spending at least $615 million under the 'Great skills. Real opportunities' program in FY15 through a variety of programs including general training, indigenous training and industry partnerships, amongst others.

- The NSW Government implemented demand-driven funding under its 'Smart and Skilled' program from 1 January 2015, which will enable an additional 46,000 students to train in 2015. Under the new model, students pay a set fee per course as opposed to per year of training, and will be expected to contribute 20% towards

Figure 4* VET Student Enrolments by Field of Qualification (2013) *(Source: NCVER)

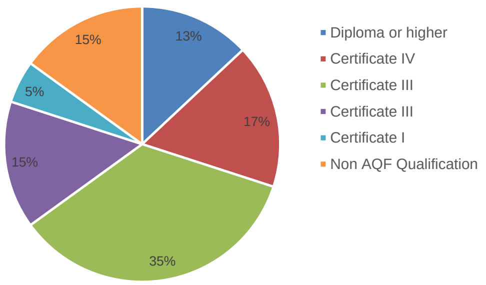
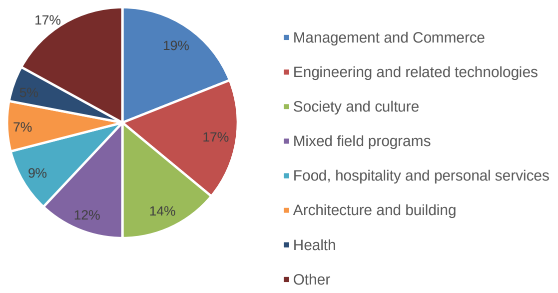


***Figure 5* VET Student Enrolments by Field of Education (2013) (Source: NCVER)**



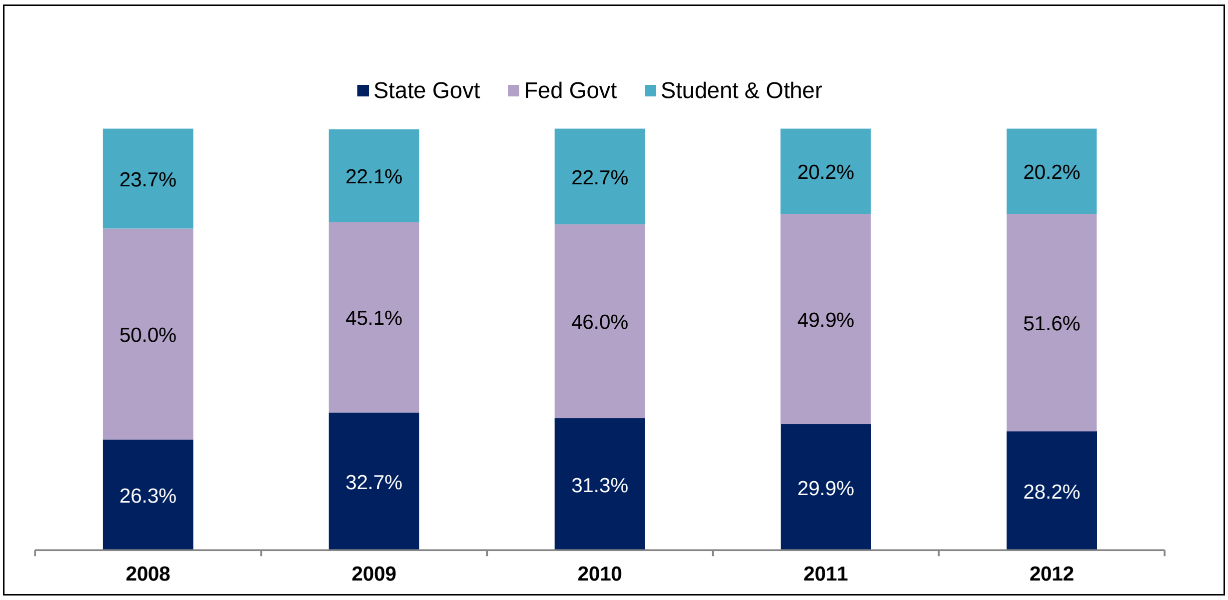
Historically, State and Federal Government VET funding contributions accounted for approximately 75% of VET sector revenues prior to the commencement of sector funding reform in 2009. The Federal Government's contribution substantially increased from $1.7 billion in 2008 to $2.4 billion in 2009, but its commitment has subsequently stayed relatively steady at this increased level through to 2012.

Conversely, State Governments are increasingly bearing the burden of a rapidly-growing funding requirement in VET, with total contributions growing from $3.2 billion in 2008 to $4.5 billion in 2012.

The VET sector in Australia is highly regulated. The national regulator is ASQA, with some states such a Victoria and WA, electing to retain their existing regulatory bodies.

RTOs pay an annual fee to ASQA, capped at $10,370 until FY15, and is based on the number of qualifications and units of competency offered. The registration of an RTO is subject to audit and review for re-registration every five years.

Figure 6* Historical Funding Split of VET in Australia *(Source: NCVER)



3.2 The Growing Trend Toward Online Education

***Figure 7* Benefits of Online Education in Educational and Workplace Settings**

(Source: SHIFT eLearning, '15 Facts and Stats That Reveal The Power Of eLearning')

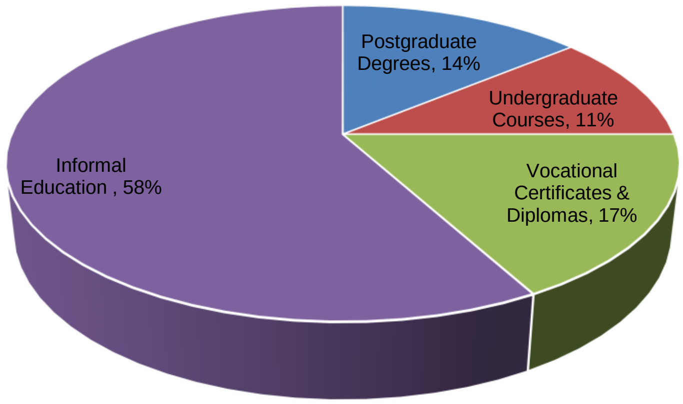
The migration from traditional printed textbooks and workbooks to online technology-based education resources is an ongoing trend in the education industry. Higher education institutions, administrators are incorporating online offerings into their curriculum as a means of delivering efficient, cost-effective tailored content to students. Obviously, some courses do not lend themselves to an online delivery methodology and ICT are very aware of the need to provide flexibility of learning and a blended delivery mode.

Further, governments at both Federal and State levels are supporting these initiatives with funding and the introduction of curricula frameworks that encourage the integration of information and communication technology.

Higher Education online and Corporate online (the two segments of the online education market that ICT is targeting) are estimated to grow at 25% and 8% (CAGR), respectively, over the period from 2012 to 2017.

Rising rates of internet connectivity, proliferation of affordable mobile devices and the growth in cloud-based services are reshaping how students access educational content and services. Accordingly, the challenge for online education providers is to develop innovative technology that offers students flexibility and mobility.

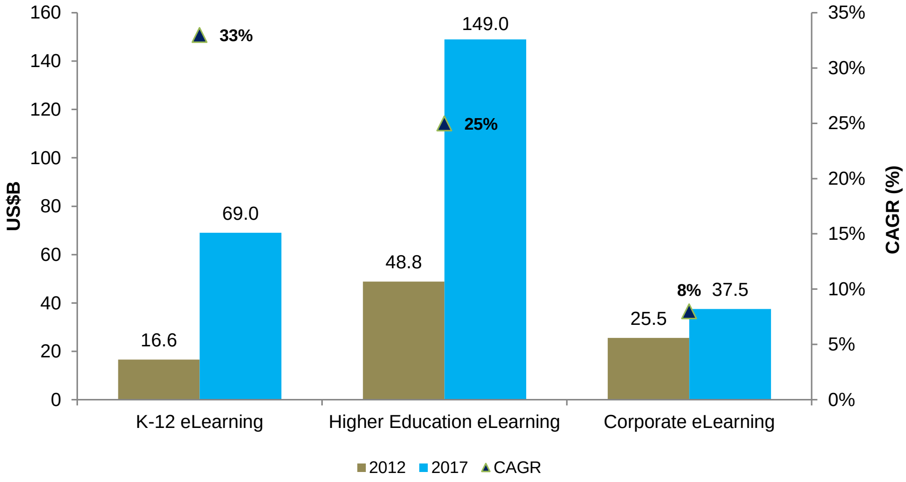
Figure 8 Composition of Online Education Market (Source: IBIS World)



Online education is estimated to be worth $91 billion globally, with the strong growth trend underpinned by the rising cost of education as well as the growing popularity of online education due to its convenience and flexibility, as lower cost compared to the traditional way of undertaking courses (i.e. attending university/campus). In Australia, the market is estimated to be worth $5 billion, generating annual growth of 14.4% between 2009 and 2014[4].

Online education is also becoming more prominent in postgraduate education, including Masters degrees. It is expected that postgraduate education (currently estimated to account for 14% of the overall education market) will be one category exhibiting amongst the highest rates of growth, in light of the growing trend towards formal online courses since, which allows professionals to gain new skills (and sometimes certifications) at their own convenience while still pursuing a career.

Figure 9 IBIS Capital Estimates of Online Growth by Segment



(Source: IBIS Capital, August 2014)

[4] According to IBIS Word's Global e-learning Investment Review for 2013

4. BOARD OF DIRECTORS

DIRECTOR	BACKGROUND
Johannes (Hans) de Back *Non Executive Chairman* **Interest in ICT:** ~0.65m ordinary shares	Johannes (Hans) is the managing partner an early stage technology investment firm based in Singapore, called IncubAsia Ventures; which invests in the financial technology sector, both in enterprise solutions and educational technology. Hans is also the CEO and co-founder of the Triscreen Media Group, managing a number of companies providing interactive media solutions. In 1999, he co-founded Telitas Benelux, one of the first and most successful mobile content providers in Europe. In 2002 Telitas was sold to Index for €50 million, and Hans went on to develop the Triscreen Media Group, which has grown to six offices worldwide with activity in over 35 countries and revenues of more than €100 million. Mr de Back, who began his career as a lawyer specialising in mergers and acquisitions with a focus on telecom, media and entertainment, in London and New York, is also non-executive director and substantial shareholder of ASX-listed company Moko Social Media Ltd (ASX: MKB).
Victor Hawkins *Managing Director* **Interest in ICT:** 7.53m ordinary shares ***Listed options:*** 2.5m @ 20c; exp 24/7/2017 ***Unlisted options:*** 3.75m @ 30c; exp 31/3/2019 ***Performance Rights:*** 4.5m; convertible to ordinary shares on achievement of two performance hurdles	Mr Hawkins has extensive experience as a management consultant and business owner in the online learning market; and is the driving force behind the development of the iCollege business. For over 10 years, he was a management consultant who worked with close to 500 companies within 25 different industries and over the last five years, has owned and operated a successful cloud-based software platform selling online education courses.
Philip Re *Non Executive Director* **Interest in ICT:** ~2.92m ordinary shares ***Listed options:*** 0.97m @ 20c; exp 24/7/2017 ***Unlisted options:*** ~1.46m @ 30c; exp 31/3/2019 ***Performance Rights:*** 1.75m; convertible to ordinary shares on achievement of two performance hurdles	Mr Re is a chartered accountant and has his own successful corporate advisory business, Regency Corporate, based in WA. He has significant depth of experience in the capital markets, having held positions such as managing director and non-executive director of various ASX-listed companies. He has successfully raised capital, restructured businesses and undertaken initial public offerings during his career.
Ross Cotton *Executive Director* **Interest in ICT:** ~0.64m ord shares ***Listed options:*** ~0.31m @ 20c; exp 24/7/2017	Mr Cotton is a corporate adviser and works with both public and private companies on strategy, financing, acquisitions and corporate re-structuring across the technology, industrial and resource sectors for over five years. He has raised significant capital for a wide range of companies in the small to mid-cap market and has a strong network of contacts in the investment industry throughout Australia, Asia and the US.

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