Research as a Service

Schrole Group Ltd

Q3CY21 Results Analysis

Building core profitability while investing for growth

Software & Services

29th October 2021

Schrole Group Limited (ASX: SCL) is an Australian software company focused on providing technology solutions to the international education and training sector. Schrole HR has a suite of five established and emerging human resources Software-as-a-Service (SaaS) offerings including its core product, Schrole Connect, a SaaS-based staff recruitment platform. Schrole Group has reported Q3 cash receipts of $1.18m, up 28% on the June quarter and down 19.4% on the same quarter in CY20. Cash costs demonstrated the benefit of the wind-down of the International School Services (ISS) partnership, with product manufacturing and operating costs almost halving on the same period a year ago and declining 38% on the June quarter. Schrole Group noted that encouraging October sales had established a positive base for the December quarter with a significant sales pipeline and upside from global COVID-19 recovery to come. This accords with our forecasts for the seasonally strongest quarter for Schrole. With the recent launch of Schrole Connect 3.0 and Schrole Events 1.0, we anticipate that the company will both gain new customers and upsell to its existing clients. This was demonstrated in Q3 with the company ending the quarter with 419 clients, up from 386 at the end of Q2. We have maintained our forecasts for Q4 and CY22 and our DCF-derived base case valuation remains unchanged at $0.035/share.

Business model

Schrole generates revenue from the sale of subscription licenses to its proprietary software modules, which are designed to provide a sophisticated recruitment and training platform for highly skilled staff within the international school segment. SCL develops its software in-house, which enables more efficient development of the platform and new features while allowing for third-party integrations. In combination with SCL's strategy of active client engagement, and the conservative nature of decision-making processes inherent within the international schools segment (SCL's core customer base), the business has a clear competitive edge and highly defensible market position. We believe SCL has a considerable revenue growth opportunity within and across existing clients, driven by management's targeted expansion in contract value per customer from ~$10kpa at present to ~$30kpa as more modules are added over the next two years. At the same time, earnings quality is expected to improve as the termination of the ISS relationship results in expanded operating margins and recurring SaaS licence revenues with its share of total revenues trending higher.

Strong runway to the end of the year

Schrole Group has noted that a strong October performance augurs well for the December quarter and full-year result. Historically, Schrole's fourth quarter generates between ~30-50% of the total cash receipts for the year. We are forecasting $1.97m for Q4 cash receipts which equates to 39% of the total year's receipts. Schrole, which ended Q3 with 419 international school customers, noted that the sales pipeline was growing with several schools and school groups, not previously customers, undergoing free trials or were in contract negotiations.

Valuation of $49.3m or $0.035/share

We use the DCF methodology to value SCL (WACC 15.0%, terminal growth rate 2.2%) which derives an equity valuation of $0.035/share. We believe the growth strategy in place is sensible and deliverable, and the business has a clear runway to optimise and stabilise key sales and earnings drivers over the next 12-24 months. As we highlighted in our 5th October initiation report Putting smarts into Education HR, at its current share price, Schrole Group is trading at a significant discount to two groups of observed SaaS peers.

Historical earnings and RaaS estimates

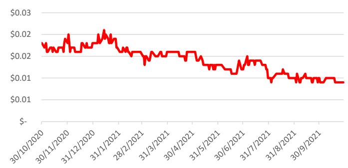
Year end	Sales Rev. (A$m)	Gross Profit (A$m)	EBITDA Adj* (A$m)	NPAT Adj* (A$m)	EPS *	EV/Sales	EV/EBITDA	PER (x)
12/20a	5.7	3.3	(0.8)	(2.0)	(0.2)	1.70	n.a	n.a
12/21e	5.9	4.8	(0.2)	(0.5)	(0.0)	1.87	n.a	n.a
12/22e	7.1	7.0	1.2	0.4	0.0	1.61	9.6	33.8
12/23e	8.9	8.9	2.5	1.2	0.1	1.26	4.6	11.9

Source: Company data, RaaS Advisory Estimates for FY21e, FY22e, FY23e *Adjusted for one-time, significant and non-cash items, including share-based payments

Share details

ASX code	SCL
Share price (28 Oct)	$0.009
Market capitalisation	$12.4M
Shares on issue	1,424M
Net cash 30 Sept 2021	$2.35M
Free float	~51.7%

Share performance (12 months)



Upside Case

- Significant lift in revenue per customer (additional product modules)
- Expanded margins as ISS contract ceases and scale benefits kick in
- Strategic shareholder provides uplift in market share as schools adopt Schrole Connect

Downside Case

- Transition to Connect 3.0 encounters challenges and leads to lower renewal rates
- New product modules fail to gain traction
- Retention rate reverse to COVID levels

Catalysts

- Evidence of upselling new products
- Growth in annual spend per school
- Ongoing evidence of operational momentum

Board of Directors

Stuart Carmichael	Non-Executive Chairman
Robert Graham	Managing Director
James King	Non-Executive Director
Colm O'Brien	Non-Executive Director
Guy Perkins	Non-Executive Director

Company Contacts

Rob Graham (MD/CEO) +61 3 8686 9144

George Gabriel (IR)

Investors@rschrole.edu.au

RaaS Advisory Contact

Finola Burke* +61 414 354 712
finola.burke@raasgroup.com

*RaaS Advisory holds shares

Q3CY21 Results Analysis

Cash receipts for the quarter were $1.18m, an increase of 28% over the June quarter. Cash receipts were lower than Q3CY20 due to the changes to the ISS relationship which comes to an end in June 2022. In Q3CY20, SCL was still invoicing for 100% of renewals and new clients and paying 50% back to ISS. In Q3CY21, the company invoiced 50% for renewals and 100% for new clients. This changing relationship is also reflected in the revenue-sharing payments to ISS (in product manufacturing and operating costs), which reduced markedly in the September quarter. As this relationship comes to an end, so too will these payments, thereby improving the group's margins. Schrole also reported software margins had increased to 34% in Q3 from 26% in Q2 largely as a result of the end of the ISS relationship and its leverage to its fixed-cost base. These margins should expand as sales increase. Employee costs rose in the quarter, not unexpectedly, as the company both added to its software development team to expand the Schrole HR product range and grew the sales and account management team to retain existing clients and pursue new ones as well as target new geographies and strategic target markets. This paid off in Q3 with Schrole Group ending the quarter with 419 international school clients, the group's highest ever, up from 386 at the end of June and surpassing its previous record of 397 clients in Q1CY20. The company also reported contract renewals were now at 91%.

Exhibit 1: Q3CY21 versus Q3CY20 and Q2CY21 (in A$m unless otherwise stated)

	Q3CY20	Q2CY21	Q3CY21
Cash receipts	1.47	0.92	1.18
Product manufacturing and operating costs	(0.70)	(0.61)	(0.38)
Employee costs	(0.58)	(0.89)	(1.13)
Admin, corporate and other costs	(0.16)	(0.13)	(0.40)
Net interest	0.00	0.00	(0.00)
Taxes	0.00	0.00	0.00
Other	0.21	0.00	0.00
Operating cashflow	**0.24**	**(0.71)**	**(0.73)**
Net cash at the end of the period	5.24	3.28	2.35

Source: Company data

During the September quarter, Schrole released Schrole Connect 3.0, its flagship recruitment SaaS module, and Schrole Events 1.0, its new online recruitment events solution for international schools. These modules, together with additional modules and features to be rolled out in the first half of CY22, should provide the company with cross-sell and upsell revenue growth opportunities.

Outlook

Schrole highlighted that it had experienced a strong October and that this had set the scene for a positive Q4 result. Historically, the December quarter generates from 30% to 50% of total year cash receipts. We are forecasting Q4 cash receipts of $1.97m, which equates to 39% of total year receipts. Schrole noted that new product releases had grown the sales pipeline, with several schools and school groups, not previously customers, undergoing free product trials or in contract negotiations. SCL expects upside from the global COVID-19 recovery as international travel and commerce resumes.

Peer Comparison

We highlighted in our recent initiation report that Schrole is trading at a significant discount to two defined peer groups – edtech and SaaS/HR.

We have updated these peer comparison tables for the latest prices and this underscores that the gap has widened between SCL and both peer groups. As Exhibit 2 following shows, the median EV/Sales multiple of the group of defined edtech peers is now 8.0x (versus 6.9x at our 5 October initiation). If we were to apply this multiple to our CY21 revenue forecast of $5.86m, the edtech peer valuation is $0.033/share, which is a 366% premium to the current share price.

Exhibit 2: EdTech peer comparison

Company	Code	Market cap (A$M)	Enterprise value (A$m)	EV/Sales (x)	EV/EBITDA (x)	Gross profit margin (%)
8VI Holdings	8VI	223.8	202.3	7.8	21.5	77.3
Cluey	CLU	140.2	112.1	11.0	nm	55.3
Janison Education Group	JAN	268.7	248.9	8.2	350.9	55.2
Kip McGrath Education Centres	KME	52.2	49.4	2.6	10.5	93.3
Kneomedia	KNM	17.5	17.5	74.9	nm	n.a
Openlearning	OLL	14.1	5.8	3.1	nm	68.7
ReadCloud	RCL	27.5	22.0	3.0	nm	56.9
Readytech Holdings	RDY:	401.4	423.0	8.5	22.4	93.1
Median		**96.2**	**80.8**	**8.0**	**22.0**	**68.7**
Schrole Group Ltd	SCL	12.9	8.2	1.4	na	61.9

Source: Refinitiv Eikon, RaaS analysis *Prices at 28 October 2021

Similarly, the median SaaS/HR peer multiple has increased to 5.6x (versus 5.4x at initiation) and this translates into a SaaS/HR peer valuation of $0.023/share, which is a 255% premium to the current share price of $0.009/share.

Exhibit 3: SaaS/HR peer comparison

Company	Code	Market cap (A$M)	Enterprise value (A$m)	EV/Sales	EV/EBITDA	Gross profit margin (%)
8Common Ltd	8CO	45.4	42.2	12.0	na	79.2
Connexion Telematics Ltd	CXZ	13.2	10.9	2.4	14.0	39.8
Gratifii Ltd	GTI	22.2	24.6	4.5	30.6	81.3
Intellihr Ltd	IHR	73.8	71.9	26.9	na	n.a
Knosys Ltd	KNO	35.3	29.0	6.3	197.8	n.a
Livetiles Ltd	LVT	109.5	95.8	2.1	na	n.a
Skyfii Ltd	SKF	34.2	25.6	1.6	na	n.a
Urbanise com Ltd	UBN	73.3	66.4	5.6	na	97.7
Xref Ltd	XF1	126.7	123.3	9.8	na	n.a
Median		**45.4**	**42.2**	**5.6**	**30.6**	**80.2**
Schrole Group Ltd	SCL	12.9	8.2	1.4	na	61.9

Source: Refinitiv Eikon, RaaS analysis *Prices at 28 October 2021

DCF Valuation

We use the discounted cashflow (DCF) methodology as our primary method of valuing Schrole Group. We believe this is the most appropriate method for valuing SCL given its early stage nature. We use a WACC of 15.0% based on a beta of 2.0 (versus the observed beta of 1.01 from Refinitiv Eikon), and a terminal growth rate of 2.2%. In our view a 50% risk premium to the broader market is appropriate at this point in Schrole Group's timeline, given it is still loss-making. Although, the end of the ISS partnership will significantly improve margins and put the company on the path to profitability. This derives a base case valuation of $0.035/share or $49.3m, with $0.02/share in the terminal value. Our valuation implies an EV/Sales multiple of 8.2x SCL's CY20 revenues and 7.9x our CY21 revenue forecast which would put it at a premium to the peer group multiples discussed earlier. However, we note that more than 60% of these peers are still loss-making while our expectation is for Schrole Group to move into profitability in H1CY22.

Exhibit 4: DCF valuation

Parameters	Outcome
WACC	15.0%
Beta	2.0
Terminal growth rate	2.2%
CAGR in FCF FY23-FY30	50.6%
Sum of PV (A$M)	19.4
PV of terminal value (A$m)	27.6
PV of enterprise	47.0
Net debt (at 30 Sept 2021)	-2.3
Net value - shareholder	49.3
No. of shares on issue	1424.3
NPV in A$	**$0.035**

Source: RaaS estimates

RaaS
Research as a Service

Exhibit 5: Financial Summary

Schrole Group Ltd (ASX:SCL)					
Profit and Loss (A$m)					
Y/E 31 December	**FY19A**	**FY20A**	**FY21F**	**FY22F**	**FY23F**
Sales Revenue	5.6	5.7	5.9	7.1	8.9
Gross Profit	2.9	3.3	4.8	7.0	8.9
EBITDA underlying	(1.1)	(0.8)	(0.2)	1.2	2.5
Depn	(0.2)	(0.2)	(0.1)	(0.1)	(0.1)
Amort	(0.6)	(1.0)	(0.3)	(0.5)	(0.7)
EBIT underlying	(1.9)	(1.9)	(0.6)	0.5	1.6
Interest	(0.0)	(0.0)	0.1	0.0	0.0
Tax	0.0	0.0	0.0	(0.2)	(0.5)
Minorities	0.0	0.0	0.0	0.0	0.0
Equity accounted assoc	0.0	0.0	0.0	0.0	0.0
NPAT pre significant items	(2.0)	(2.0)	(0.5)	0.4	1.2
Significant items	0.0	(0.2)	(0.8)	0.0	0.0
NPAT (reported)	**(2.0)**	**(2.2)**	**(1.3)**	**0.4**	**1.2**
Cash flow (A$m)					
Y/E 31 December	**FY19A**	**FY20A**	**FY21F**	**FY22F**	**FY23F**
EBITDA	(1.1)	(0.8)	(0.2)	1.2	2.5
Interest	0.0	0.0	0.0	0.0	0.0
Tax	0.0	0.0	0.0	(0.2)	(0.5)
Working capital changes	0.3	(0.2)	(1.1)	(0.3)	(0.2)
Operating cash flow	(0.9)	(1.0)	(1.3)	0.8	1.8
Mtce capex	(0.2)	(0.0)	(0.1)	(0.1)	(0.2)
Free cash flow	(1.0)	(1.0)	(1.4)	0.7	1.6
Growth capex	(0.6)	(0.4)	(1.0)	(1.0)	(1.0)
Acquisitions/Disposals	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Cash flow pre financing	(1.7)	(1.4)	(2.4)	(0.3)	0.6
Equity	2.0	5.0	0.0	0.0	0.0
Debt	0.0	(0.0)	(0.0)	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0
Net cash flow for year	0.3	3.6	(2.4)	(0.3)	0.6
Balance sheet (A$m)					
Y/E 31 December	**FY19A**	**FY20A**	**FY21F**	**FY22F**	**FY23F**
Cash	2.0	5.1	2.7	2.4	3.0
Accounts receivable	0.5	0.6	1.0	1.3	1.6
Inventory	0.0	0.0	0.0	0.0	0.0
Other current assets	0.2	0.2	0.2	0.2	0.2
Total current assets	*2.7*	*5.9*	*3.9*	*3.8*	*4.7*
PPE	0.1	0.1	0.1	0.2	0.2
Intangibles and Goodwill	1.1	0.5	1.2	1.7	2.0
Investments	0.0	0.0	0.0	0.0	0.0
Deferred tax asset	0.0	0.0	0.0	0.0	0.0
Other non current assets	0.1	0.3	0.3	0.3	0.3
Total non current assets	*1.3*	*0.9*	*1.6*	*2.1*	*2.5*
Total Assets	4.0	6.7	5.5	5.9	7.2
Accounts payable	1.2	1.2	1.1	1.1	1.2
Short term debt	0.0	0.0	0.0	0.0	0.0
Tax payable	0.0	0.0	0.0	0.0	0.0
Other current liabilities	3.4	3.1	2.5	2.5	2.5
Total current liabilities	*4.6*	*4.3*	*3.6*	*3.6*	*3.7*
Long term debt	0.0	0.0	0.0	0.0	0.0
Other non current liabs	0.0	0.2	0.2	0.2	0.2
Total long term liabilities	*0.0*	*0.2*	*0.2*	*0.2*	*0.2*
Total Liabilities	4.7	4.6	3.9	3.8	3.9
Net Assets	**(0.7)**	**2.2**	**1.7**	**2.1**	**3.3**
Share capital	14.8	19.8	20.3	20.3	20.3
Accumulated profits/losses	(16.5)	(16.5)	(17.7)	(17.2)	(16.1)
Reserves	1.0	(1.1)	(1.0)	(1.0)	(1.0)
Minorities	0.0	0.0	0.0	0.0	0.0
Total Shareholder funds	**(0.7)**	**2.2**	**1.7**	**2.1**	**3.3**

Share price (28 October 2021)					A$	0.009
Interim (A$m)	**H120A**	**H220A**	**H121A**	**H221F**	**H122F**	**H222F**
Revenue	2.8	2.9	3.1	2.7	3.1	3.4
EBITDA	(0.3)	(0.5)	(0.2)	0.0	0.5	0.7
EBIT	(0.8)	(1.2)	(0.4)	(0.2)	0.2	0.3
NPAT (normalised)	(0.8)	(1.2)	(0.3)	(0.2)	0.2	0.3
Minorities	-	-	-	-	-	-
NPAT (reported)	(0.9)	(1.3)	(0.7)	(0.6)	0.2	0.3
EPS (normalised)	(0.09)	(0.10)	(0.02)	(0.01)	0.01	0.02
EPS (reported)	(0.10)	(0.11)	(0.05)	(0.04)	0.01	0.02
Operating cash flow	(1.4)	0.4	(1.3)	(0.0)	0.3	0.5
Free Cash flow	(1.2)	0.6	(0.8)	0.5	0.9	1.1
Divisions	**H120A**	**H220A**	**H121A**	**H221F**	**H122F**	**H222F**
Software revenue	2.2	2.5	2.2	2.1	2.4	2.5
Training revenue	0.7	0.5	0.5	0.6	0.8	0.9
Corporate revenue	0.1	0.1	0.4	0.0	0.0	0.0
Sales revenue	**2.9**	**3.0**	**3.1**	**2.7**	**3.1**	**3.4**
COGS	(2.2)	(1.0)	(1.4)	(0.6)	(0.5)	(0.0)
Employment	(1.1)	(1.5)	(1.3)	(1.6)	(1.8)	(2.0)
Operating costs	(1.1)	(0.8)	(0.9)	(0.7)	(0.8)	(0.9)
Software EBITDA	0.7	(0.2)	0.9	1.1	1.6	1.9
Training EBITDA	0.1	0.0	0.1	0.2	0.3	0.2
Corporate EBITDA	(1.0)	(0.3)	(1.2)	(1.3)	(1.4)	(1.5)
EBITDA	**(0.3)**	**(0.5)**	**(0.2)**	**0.0**	**0.5**	**0.7**
Margins, Leverage, Returns		FY19A	FY20A	FY21F	FY22F	FY23F
EBITDA		(20.3%)	(13.5%)	(3.8%)	16.7%	27.5%
EBIT		(34.3%)	(33.6%)	(10.1%)	7.6%	18.1%
NPAT pre significant items		(35.1%)	(34.5%)	(9.0%)	5.9%	13.4%
Net Debt (Cash)		2.0	5.1	2.7	2.4	3.0
Net debt/EBITDA (x)	(x)	n/a	n/a	n/a	2.0	1.2
ND/ND+Equity (%)	(%)	73.6%	175.0%	262.4%	846.9%	(1039.8%)
EBIT interest cover (x)	(x)	n/a	n/a	n/a	- 0.1	- 0.0
ROA		(52.5%)	(35.7%)	(9.7%)	9.5%	24.6%
ROE		284.1%	(294.4%)	(67.3%)	22.3%	44.6%
ROIC		114.3%	83.7%	46.4%	(20.1%)	(134.4%)
NTA (per share)		n/a	0.00	0.00	0.00	0.00
Working capital		(0.8)	(0.6)	(0.1)	0.2	0.4
WC/Sales (%)		(13.7%)	(11.4%)	(0.9%)	2.8%	4.7%
Revenue growth		113.8%	1.3%	3.3%	20.9%	25.9%
EBIT growth pa		n/a	n/a	n/a	-191%	198%
Pricing		**FY19A**	**FY20A**	**FY21F**	**FY22F**	**FY23F**
No of shares (y/e)	(m)	890	1,473	1,424	1,424	1,424
Weighted Av Dil Shares	(m)	761	1,136	1,403	1,424	1,424
EPS Reported	cps	(0.3)	(0.2)	(0.1)	0.0	0.1
EPS Normalised/Diluted	cps	(0.3)	(0.2)	(0.0)	0.0	0.1
EPS growth (norm/dil)		n/a	n/a	n/a	-179%	186%
DPS	cps	-	-	-	-	-
DPS Growth		na	n/a	n/a	n/a	n/a
Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%
Dividend imputation		0	0	0	0	0
PE (x)		-	-	-	30.7	10.7
PE market		18.6	18.6	18.6	18.6	18.6
Premium/(discount)		(100.0%)	(100.0%)	(100.0%)	64.8%	(42.3%)
EV/EBITDA		(5.3)	(10.7)	(43.1)	8.7	0.0
FCF/Share	cps	(0.1)	(0.1)	(0.1)	0.1	0.1
Price/FCF share		(11.4)	(13.6)	(10.2)	13.5	6.4
Free Cash flow Yield		(8.8%)	(7.3%)	(9.8%)	7.4%	15.5%

Source: Company data, RaaS estimates

FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

ABN 99 614 783 363

Corporate Authorised Representative, number 1248415

of

BR SECURITIES AUSTRALIA PTY LTD

ABN 92 168 734 530

AFSL 456663

Effective Date: 6th May 2021

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Contact Details, BR and RaaS

BR Head Office: Suite 5GB, Level 5, 33 Queen Street, Brisbane, QLD, 4000

RaaS. 20 Halls Road Arcadia, NSW 2159

P: +61 414 354712

E: finola.burke@raasgroup.com

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Complaints

If you have a complaint about our service you should contact your representative and tell them about your complaint. The representative will follow BR’s internal dispute resolution policy, which includes sending you a copy of the policy when required to. If you aren’t satisfied with an outcome, you may contact AFCA, see below.
BR is a member of the Australian Financial Complaints Authority (AFCA). AFCA provide fair and independent financial services complaint resolution that is free to consumers.

Website: www.afca.org.au; Email: info@afca.org.au; Telephone: 1800931678 (free call)

In writing to: Australian Financial Complaints Authority, GPO Box 3, Melbourne, VIC, 3001.

Professional Indemnity Insurance

BR has in place Professional Indemnity Insurance which satisfies the requirements for compensation under s912B of the Corporations Act and that covers our authorized representatives.

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