

Benefitting from recruitment tailwinds, capital raised

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. The company has announced it has received firm commitments for a \$2.5m share placement at \$0.01/share to institutional and sophisticated investors and will additionally raise up to \$1.5m via a Share Purchase Plan (SPP). Schrole Group also noted, in a presentation to the [Coffee Microcaps forum](#), that the integration of Schrole Connect on the Faria platform was largely complete and that a joint marketing effort to Faria's 1,200+ international schools could commence as soon as December. The company also highlighted that it was benefitting from significantly increased employment activity with record numbers of unique visitors tapping into Schrole Events looking for new positions. Managing Director Rob Graham highlighted that more than 50,000 unique visitors had visited the platform in one week recently, which was 300% higher than the best-ever week previously. This level of interest has the potential to convert into both subscriptions by candidate teachers and SaaS sales with schools. We have incorporated the recently completed, oversubscribed \$2.5m share placement into our forecasts with the effect that our base-case valuation has increased to \$51.8m or \$0.031/share (previously \$49.3m or \$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 schools 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.

Capital raised

Schrole Group has raised \$2.5m in an oversubscribed placement at \$0.01/share, which was an 11.1% premium to the 15-day volume weighted average price (VWAP) to 18-Nov of \$0.009/share. The company will raise up to \$1.5m additionally through a SPP. We have included the share placement in our forecasts, with the effect of reducing our per-share valuation by 11%.

Valuation of \$51.8m or \$0.031/share

We use the DCF methodology to value SCL (WACC 15.0%, terminal growth rate 2.2%) which derives an equity valuation of \$51.8m or \$0.031/share following the share placement (previously \$49.3m or \$0.35/share). As we highlighted in our 5-Oct 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 (x)	EV/ EBITDA (x)	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)	2.30	n.a	n.a
12/22e	7.1	7.0	1.2	0.4	0.0	1.68	10.04	37.9
12/23e	8.9	8.9	2.5	1.2	0.1	1.32	4.80	13.8

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

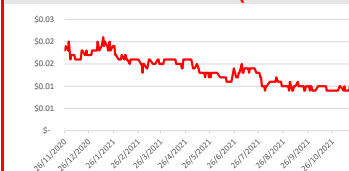
Software & Services

26th November 2021

Share Details

ASX code	SCL
Share price (25-Nov)	\$0.01
Market capitalisation	\$14.5M
Shares on issue post-placement	1,674M
Net cash post-placement	~\$4.8M
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 reverses 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

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*RaaS Advisory holds shares

Exhibit 1: Financial Summary (Calendar Year End)

Schrole Group Ltd (ASX:SCL)						Share price (25 November 2021)						A\$	0.01						
Profit and Loss (A\$m)						Interim (A\$m)						H120A	H220A	H121A	H221F	H122F	H222F		
Y/E 31 December	FY19A	FY20A	FY21F	FY22F	FY23F	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
Sales Revenue	5.6	5.7	5.9	7.1	8.9	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
Gross Profit	2.9	3.3	4.8	7.0	8.9	Minorities	-	-	-	-	-	-	NPAT (reported)	(0.9)	(1.3)	(0.7)	(0.6)	0.2	0.3
EBITDA underlying	(1.1)	(0.8)	(0.2)	1.2	2.5	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
Depn	(0.2)	(0.2)	(0.1)	(0.1)	(0.1)	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
Amort	(0.6)	(1.0)	(0.3)	(0.5)	(0.7)	Minorities	0.0	0.0	0.0	0.0	0.0	0.0	Equity accounted assoc	0.0	0.0	0.0	0.0	0.0	0.0
EBIT underlying	(1.9)	(1.9)	(0.6)	0.5	1.6	NPAT pre significant items	(2.0)	(2.0)	(0.5)	0.4	1.2	1.2	NPAT (reported)	(2.0)	(2.2)	(1.3)	0.4	1.2	1.2
Interest	(0.0)	(0.0)	0.1	0.1	0.1	Significant items	0.0	(0.2)	(0.8)	0.0	0.0	0.0	Cash flow (A\$m)						
Tax	0.0	0.0	0.0	(0.2)	(0.5)	Divisions							Y/E 31 December	FY19A	FY20A	FY21F	FY22F	FY23F	
Minorities	0.0	0.0	0.0	0.0	0.0	Software revenue	2.2	2.5	2.2	2.1	2.4	2.5	EBITDA	(1.1)	(0.8)	(0.2)	1.2	2.5	
Equity accounted assoc	0.0	0.0	0.0	0.0	0.0	Training revenue	0.7	0.5	0.5	0.6	0.8	0.9	Interest	0.0	0.0	0.0	0.1	0.1	
NPAT pre significant items	(2.0)	(2.0)	(0.5)	0.4	1.2	Corporate revenue	0.1	0.1	0.4	0.0	0.0	0.0	Tax	0.0	0.0	0.0	(0.2)	(0.5)	
Significant items	0.0	(0.2)	(0.8)	0.0	0.0	Sales revenue	2.9	3.0	3.1	2.7	3.1	3.4	Working capital changes	0.3	(0.2)	(1.1)	(0.3)	(0.2)	
NPAT (reported)	(2.0)	(2.2)	(1.3)	0.4	1.2	COGS	(2.2)	(1.0)	(1.4)	(0.6)	(0.5)	(0.0)	Operating cash flow	(0.9)	(1.0)	(1.3)	0.8	1.8	
Y/E 31 December	FY19A	FY20A	FY21F	FY22F	FY23F	Employment	(1.1)	(1.5)	(1.3)	(1.6)	(1.8)	(2.0)	Mtce capex	(0.2)	(0.0)	(0.1)	(0.1)	(0.2)	
EBITDA	(1.1)	(0.8)	(0.2)	1.2	2.5	Operating costs	(1.1)	(0.8)	(0.9)	(0.7)	(0.8)	(0.9)	Free cash flow	(1.0)	(1.0)	(1.4)	0.7	1.7	
Interest	0.0	0.0	0.0	0.1	0.1	Software EBITDA	0.7	(0.2)	0.9	1.1	1.6	1.9	Growth capex	(0.6)	(0.4)	(1.0)	(1.0)	(1.0)	
Tax	0.0	0.0	0.0	(0.2)	(0.5)	Training EBITDA	0.1	0.0	0.1	0.2	0.3	0.2	Acquisitions/Disposals	0.0	0.0	0.0	0.0	0.0	
Working capital changes	0.3	(0.2)	(1.1)	(0.3)	(0.2)	Corporate EBITDA	(1.0)	(0.3)	(1.2)	(1.3)	(1.4)	(1.5)	Other	0.0	0.0	0.0	0.0	0.0	
Operating cash flow	(0.9)	(1.0)	(1.3)	0.8	1.8	EBITDA	(0.3)	(0.5)	(0.2)	0.0	0.5	0.7	Cash flow pre financing	(1.7)	(1.4)	(2.4)	(0.3)	0.7	
Mtce capex	(0.2)	(0.0)	(0.1)	(0.1)	(0.2)	Margins, Leverage, Returns		FY19A	FY20A	FY21F	FY22F	FY23F	Equity	2.0	5.0	2.5	0.0	0.0	
Free cash flow	(1.0)	(1.0)	(1.4)	0.7	1.7	EBITDA		(20.3%)	(13.5%)	(3.8%)	16.7%	27.5%	Debt	0.0	(0.0)	(0.0)	0.0	0.0	
Growth capex	(0.6)	(0.4)	(1.0)	(1.0)	(1.0)	EBIT		(34.3%)	(33.6%)	(10.1%)	7.6%	18.1%	Dividends paid	0.0	0.0	0.0	0.0	0.0	
Acquisitions/Disposals	0.0	0.0	0.0	0.0	0.0	NPAT pre significant items		(35.1%)	(34.5%)	(9.0%)	6.2%	13.7%	Net cash flow for year	0.3	3.6	0.1	(0.3)	0.7	
Other	0.0	0.0	0.0	0.0	0.0	Net Debt (Cash)		2.0	5.1	5.1	4.8	5.4	Balance sheet (A\$m)						
Cash flow pre financing	(1.7)	(1.4)	(2.4)	(0.3)	0.7	Net debt/EBITDA (x)	(x)	n/a	n/a	n/a	4.0	2.2	Y/E 31 December	FY19A	FY20A	FY21F	FY22F	FY23F	
Equity	2.0	5.0	2.5	0.0	0.0	ND/ND+Equity (%)	(%)	73.6%	175.0%	494.4%	1707.7%	(1883.0%)	Cash	2.0	5.1	5.1	4.8	5.4	
Debt	0.0	(0.0)	(0.0)	0.0	0.0	EBIT interest cover (x)	(x)	n/a	n/a	n/a	0.1	0.0	Accounts receivable	0.5	0.6	1.0	1.3	1.6	
Dividends paid	0.0	0.0	0.0	0.0	0.0	ROA		(52.5%)	(35.7%)	(8.1%)	6.7%	18.0%	Inventory	0.0	0.0	0.0	0.0	0.0	
Net cash flow for year	0.3	3.6	0.1	(0.3)	0.7	ROE		284.1%	(294.4%)	(41.6%)	10.4%	23.9%	Other current assets	0.2	0.2	0.2	0.2	0.2	
Balance sheet (A\$m)						ROIC		114.3%	83.7%	46.4%	(20.6%)	(67.6%)	Total current assets	2.7	5.9	6.3	6.2	7.2	
Y/E 31 December	FY19A	FY20A	FY21F	FY22F	FY23F	NTA (per share)	n/a	0.0	0.0	0.0	0.0	0.0	PPE	0.1	0.1	0.1	0.2	0.2	
Cash	2.0	5.1	5.1	4.8	5.4	Working capital		(0.8)	(0.6)	(0.1)	0.2	0.4	Intangibles and Goodwill	1.1	0.5	1.2	1.7	2.0	
Accounts receivable	0.5	0.6	1.0	1.3	1.6	WC/Sales (%)		(13.7%)	(11.4%)	(0.9%)	2.8%	4.7%	Investments	0.0	0.0	0.0	0.0	0.0	
Inventory	0.0	0.0	0.0	0.0	0.0	Revenue growth		113.8%	1.3%	3.3%	20.9%	25.9%	Deferred tax asset	0.0	0.0	0.0	0.0	0.0	
Other current assets	0.2	0.2	0.2	0.2	0.2	EBIT growth pa		n/a	n/a	n/a	-191%	198%	Other non current assets	0.1	0.3	0.3	0.3	0.3	
Total current assets	2.7	5.9	6.3	6.2	7.2	Pricing		FY19A	FY20A	FY21F	FY22F	FY23F	Total non current assets	1.3	0.9	1.6	2.1	2.5	
PPE	0.1	0.1	0.1	0.2	0.2	No of shares (y/e)	(m)	890	1,473	1,674	1,674	1,674	T Total Assets	4.0	6.7	7.9	8.3	9.6	
Intangibles and Goodwill	1.1	0.5	1.2	1.7	2.0	Weighted Av Dil Shares	(m)	761	1,136	1,403	1,674	1,674	Accounts payable	1.2	1.2	1.1	1.1	1.2	
Investments	0.0	0.0	0.0	0.0	0.0	EPS Reported	cps	(0.3)	(0.2)	(0.1)	0.0	0.1	Short term debt	0.0	0.0	0.0	0.0	0.0	
Deferred tax asset	0.0	0.0	0.0	0.0	0.0	EPS Normalised/Diluted	cps	(0.3)	(0.2)	(0.0)	0.0	0.1	Tax payable	0.0	0.0	0.0	0.0	0.0	
Other non current assets	0.1	0.3	0.3	0.3	0.3	EPS growth (norm/dil)		n/a	n/a	n/a	-172%	176%	Other current liabilities	3.4	3.1	2.5	2.5	2.5	
Total non current assets	1.3	0.9	1.6	2.1	2.5	DPS	cps	-	-	-	-	-	Total current liabilities	4.6	4.3	3.6	3.6	3.7	
T Total Assets	4.0	6.7	7.9	8.3	9.6	DPS Growth		na	na	na	na	na	Long term debt	0.0	0.0	0.0	0.0	0.0	
Accounts payable	1.2	1.2	1.1	1.1	1.2	Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%	Other non current liabs	0.0	0.2	0.2	0.2	0.2	
Short term debt	0.0	0.0	0.0	0.0	0.0	Dividend imputation		0	0	0	0	0	Total long term liabilities	0.0	0.2	0.2	0.2	0.2	
Tax payable	0.0	0.0	0.0	0.0	0.0	PE (x)		-	-	-	37.9	13.8	T Total Liabilities	4.7	4.6	3.9	3.8	3.9	
Other current liabilities	3.4	3.1	2.5	2.5	2.5	PE market		18.6	18.6	18.6	18.6	18.6	Net Assets	(0.7)	2.2	4.0	4.5	5.7	
Total current liabilities	4.6	4.3	3.6	3.6	3.7	Premium/(discount)		(100.0%)	(100.0%)	(100.0%)	103.8%	(26.1%)	Share capital	14.8	19.8	22.7	22.7	22.7	
Long term debt	0.0	0.0	0.0	0.0	0.0	EV/EBITDA		(6.1)	(12.6)	(60.8)	10.0	0.0	Accumulated profits/losses	(16.5)	(16.5)	(17.7)	(17.2)	(16.0)	
Other non current liabs	0.0	0.2	0.2	0.2	0.2	FCF/Share	cps	(0.1)	(0.1)	(0.1)	0.1	0.1	Reserves	1.0	(1.1)	(1.0)	(1.0)	(1.0)	
Total long term liabilities	0.0	0.2	0.2	0.2	0.2	Price/FCF share		(12.7)	(15.1)	(13.3)	17.2	8.3	Minorities	0.0	0.0	0.0	0.0	0.0	
T Total Liabilities	4.7	4.6	3.9	3.8	3.9	Free Cash flow Yield		(7.9%)	(6.6%)	(7.5%)	5.8%	12.0%	Total Shareholder funds	(0.7)	2.2	4.0	4.5	5.7	
Net Assets	(0.7)	2.2	4.0	4.5	5.7														

Source: RaaS estimates

FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

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Corporate Authorised Representative, number 1248415

of

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- our services
- how we transact with you
- how we are paid, and
- complaint processes

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