

Schrole Group Ltd

Company Update

Secures first revenues from Schrole Engage

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 human resources Software-as-a-Service (SaaS) offerings including its core product, Schrole Connect, a SaaS-based staff recruitment platform. Schrole Group has announced it has secured the first revenues for its recently-released module Schrole Engage, with two leading international schools adding the module to their Schrole suite of HR products. Existing Schrole client, Shekou International School in Shenzhen, China, has added Schrole Engage to its Schrole HR suite, while Frankfurt International School has renewed its existing Schrole Connect contract and upgraded to Schrole Engage and Schrole Cover for the first time. As a result, Frankfurt International School's annual SaaS spend with Schrole Group has increased 45% to \$16,000. While these initial revenues are small, they demonstrate the cross-sell and upsell potential of the expanded Schrole HR product suite and are an important step towards attaining management's stated goal of increasing spend per school to \$30,000 a year. This announcement follows a recently released presentation by the company in which it highlighted that it saw its expanded market opportunity being HR spend by international schools, not just the traditional recruitment expenditure. Our base-case valuation remains unchanged at \$0.031/share.

Business model

Schrole generates revenue from the sale of subscription licences 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. The company has progressively added to its product suite over the past 12 months with the launch of Schrole Connect 3.0 and Schrole Events 1.0 during CY2021, and the launch of Schrole Engage 1.0 in February 2022. All Schrole HR modules are now in market, expanding up-sell and cross-sell opportunities. Over the next 12 months, additional functionality in Schrole Engage will be released, including contract management, "welcome to school" and enhanced integration of existing background checking module Schrole Verify. Schrole Engage will also be enhanced to support teacher appraisal and offboarding.

Upselling and cross-selling opportunities emerging

Schrole Group has secured two sales of its new module, Schrole Engage, within a month of releasing 1.0 of the module. The sales demonstrate the upsell and cross-sell potential of the expanded Schrole HR SaaS suite and helps shift the sales cycle away from the historically stronger second half of the calendar year when northern hemisphere international schools and many in Asia start their school year. Schrole Engage, which provides onboarding software for schools, is the fifth module in the Schrole HR SaaS suite and it follows the recent release of Schrole Events 1.0 and Schrole Connect 3.0.

Valuation of \$53.5m 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 \$0.031/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.

Historical earnings and RaaS estimates (in A\$m unless otherwise stated)

Year end	Sales revenue	Gross profit	EBITDA adj.*	NPAT adj.*	EPS* (c)	EV/ Sales (x)	EV/ EBITDA (x)	PER (x)
12/20a	5.7	3.3	(0.8)	(2.0)	(0.17)	1.4	n.a	n.a
12/21a	5.3	4.7	(0.6)	(1.0)	(0.07)	2.4	n.a	n.a
12/22e	7.1	7.1	0.7	0.2	(0.00)	1.6	16.7	n.a
12/23e	8.9	8.9	1.7	0.7	0.04	1.3	7.2	23.7

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

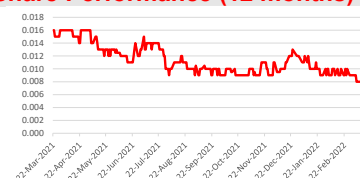
Software & Services

23rd March 2022

Share Details

ASX code	SCL
Share price (22-Mar)	\$0.009
Market capitalisation	\$15.65M
Shares on issue	1,739M
Net cash 31-Dec-2021	\$4.96M
Free float	~51.7%

Share Performance (12 months)



Upside Case

- Significant lift in revenues 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 reverts 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

Schrode Group Ltd (ASX:SCL)						Share price (22 March 2022)				A\$		0.009	
Profit and Loss (A\$m)						Interim (A\$m)		H120A	H220A	H121A	H221A	H122F	H222F
Y/E 31 December	FY19A	FY20A	FY21A	FY22F	FY23F	Revenue		2.8	2.9	3.1	2.7	2.8	3.4
						EBITDA		(0.3)	(0.5)	(0.2)	(0.4)	0.2	0.3
Sales Revenue	5.6	5.7	5.3	7.1	8.9	EBIT		(0.8)	(1.2)	(0.4)	(0.6)	(0.1)	0.0
Gross Profit	2.9	3.3	4.7	7.1	8.9	NPAT (normalised)		(0.8)	(1.2)	(0.3)	(0.7)	(0.0)	0.0
EBITDA underlying	(1.1)	(0.8)	(0.6)	0.7	1.7	Minorities		-	-	-	-	-	-
Depn	(0.2)	(0.2)	(0.1)	(0.1)	(0.1)	NPAT (reported)		(0.9)	(1.3)	(0.7)	(1.7)	(0.0)	0.0
Amort	(0.6)	(1.0)	(0.3)	(0.5)	(0.7)	EPS (normalised)		(0.09)	(0.10)	(0.02)	(0.05)	(0.00)	0.00
EBIT underlying	(1.9)	(1.9)	(1.0)	0.1	0.9	EPS (reported)		(0.10)	(0.11)	(0.05)	(0.10)	(0.00)	0.00
Interest	(0.0)	(0.0)	(0.1)	0.1	0.1								
Tax	0.0	0.0	0.0	0.0	(0.3)	Operating cash flow		(1.4)	0.4	(1.3)	(0.4)	(0.3)	0.2
Minorities	0.0	0.0	0.0	0.0	0.0	Free Cash flow		(1.2)	0.6	(0.8)	(0.1)	0.3	0.8
Equity accounted assoc	0.0	0.0	0.0	0.0	0.0								
NPAT pre significant items	(2.0)	(2.0)	(1.0)	0.2	0.7	Divisions		H120A	H220A	H121A	H221A	H122F	H222F
Significant items	0.0	(0.2)	(1.4)	0.0	0.0	Software revenue		2.2	2.5	2.2	2.1	2.0	2.5
NPAT (reported)	(2.0)	(2.2)	(2.4)	0.2	0.7	Training revenue		0.7	0.5	0.5	0.6	0.7	0.9
Cash flow (A\$m)						Corporate revenue		0.1	0.1	0.4	0.0	0.0	0.0
Y/E 31 December	FY19A	FY20A	FY21A	FY22F	FY23F	Sales revenue		2.9	3.0	3.1	2.7	2.8	3.4
EBITDA	(1.1)	(0.8)	(0.6)	0.7	1.7								
Interest	0.0	0.0	0.0	0.1	0.1	COGS		(2.2)	(1.0)	(1.4)	(0.6)	(0.0)	(0.0)
Tax	0.0	0.0	0.0	(0.0)	(0.3)	Employment		(1.1)	(1.5)	(1.3)	(1.6)	(1.9)	(2.0)
Working capital changes	0.3	(0.2)	(1.2)	(0.8)	(0.2)	Operating costs		(1.1)	(0.8)	(0.9)	(0.7)	(1.2)	(1.2)
Operating cash flow	(0.9)	(1.0)	(1.8)	(0.1)	1.3								
Mtce capex	(0.2)	(0.0)	(0.0)	(0.1)	(0.2)								
Free cash flow	(1.0)	(1.0)	(1.8)	(0.2)	1.1	Software EBITDA		0.7	(0.2)	0.9	0.7	1.1	1.4
Growth capex	(0.6)	(0.4)	(0.9)	(1.0)	(1.0)	Training EBITDA		0.1	0.0	0.1	0.3	0.5	0.5
Acquisitions/Disposals	0.0	0.0	0.0	0.0	0.0	Corporate EBITDA		(1.0)	(0.3)	(1.2)	(1.4)	(1.4)	(1.5)
Other	0.0	0.0	0.0	0.0	0.0	EBITDA		(0.3)	(0.5)	(0.2)	(0.4)	0.2	0.3
Cash flow pre financing	(1.7)	(1.4)	(2.7)	(1.2)	0.1								
Equity	2.0	5.0	2.8	0.0	0.0	Margins, Leverage, Returns		FY19A	FY20A	FY21A	FY22F	FY23F	
Debt	0.0	(0.0)	0.0	0.0	0.0	EBITDA		(20.3%)	(13.5%)	(11.0%)	9.7%	18.6%	
Dividends paid	0.0	0.0	0.0	0.0	0.0	EBIT		(34.3%)	(33.6%)	(18.4%)	1.5%	9.7%	
Net cash flow for year	0.3	3.6	0.1	(1.2)	0.1	NPAT pre significant items		(35.1%)	(34.5%)	(19.4%)	2.5%	7.4%	
Balance sheet (A\$m)						Net Debt (Cash)		2.0	5.1	5.0	3.7	3.8	
Y/E 31 December	FY19A	FY20A	FY21A	FY22F	FY23F	Net debt/EBITDA (x)		(x)	n/a	n/a	n/a	5.4	2.3
Cash	2.0	5.1	5.0	3.7	3.8	ND/ND+Equity (%)		(%)	73.6%	175.0%	391.2%	5270.2%	(748.1%)
Accounts receivable	0.5	0.6	0.3	1.3	1.6	EBIT interest cover (x)		(x)	n/a	n/a	n/a	0.6	0.1
Inventory	0.0	0.0	0.0	0.0	0.0	ROA			(52.5%)	(35.7%)	(14.0%)	1.5%	11.1%
Other current assets	0.2	0.2	0.4	0.4	0.4	ROE			284.1%	(294.4%)	(82.9%)	4.8%	16.5%
Total current assets	2.7	5.9	5.7	5.5	5.9	ROIC			114.3%	83.7%	69.4%	(4.3%)	(38.7%)
PPE	0.1	0.1	0.1	0.2	0.2	NTA (per share)		n/a		0.00	0.00	0.00	0.00
Intangibles and Goodwill	1.1	0.5	1.1	1.6	1.9	Working capital			(0.8)	(0.6)	(0.6)	0.1	0.3
Investments	0.0	0.0	0.0	0.0	0.0	WC/Sales (%)			(13.7%)	(11.4%)	(10.8%)	1.0%	3.1%
Deferred tax asset	0.0	0.0	0.0	0.0	0.0	Revenue growth			113.8%	1.3%	(7.3%)	35.5%	25.1%
Other non current assets	0.1	0.3	0.2	0.2	0.2	EBIT growth pa		n/a		n/a	n/a	-111%	708%
Total non current assets	1.3	0.9	1.4	2.0	2.3	Pricing		FY19A	FY20A	FY21A	FY22F	FY23F	
Total Assets	4.0	6.7	7.1	7.4	8.2	No of shares (y/e)		(m)	890	1,473	1,739	1,739	1,739
Accounts payable	1.2	1.2	0.9	1.2	1.3	Weighted Av Dil Shares		(m)	761	1,136	1,446	1,739	1,739
Short term debt	0.0	0.0	0.0	0.0	0.0	EPS Reported		cps	(0.3)	(0.2)	(0.2)	(0.0)	0.0
Tax payable	0.0	0.0	0.0	0.0	0.0	EPS Normalised/Diluted		cps	(0.3)	(0.2)	(0.1)	(0.0)	0.0
Other current liabilities	3.4	3.1	2.4	2.4	2.4	EPS growth (norm/dil)			n/a	n/a	n/a	n/a	-2878%
Total current liabilities	4.6	4.3	3.3	3.6	3.7	DPS		cps	-	-	-	-	-
Long term debt	0.0	0.0	0.0	0.0	0.0	DPS Growth			na	n/a	n/a	n/a	n/a
Other non current liabs	0.0	0.2	0.1	0.1	0.1	Dividend yield			0.0%	0.0%	0.0%	0.0%	0.0%
Total long term liabilities	0.0	0.2	0.1	0.1	0.1	Dividend imputation			0	0	0	0	0
Total Liabilities	4.7	4.6	3.4	3.7	3.8	PE (x)			-	-	-	-	23.7
Net Assets	(0.7)	2.2	3.7	3.7	4.3	PE market			18.6	18.6	18.6	18.6	18.6
Share capital	14.8	19.8	23.2	23.2	23.2	Premium/(discount)			(100.0%)	(100.0%)	(100.0%)	(100.0%)	27.3%
Accumulated profits/losses	(16.5)	(16.5)	(18.7)	(18.7)	(18.1)	EV/EBITDA			(5.3)	(10.7)	(21.5)	16.7	0.0
Reserves	1.0	(1.1)	(0.8)	(0.8)	(0.8)	FCF/Share		cps	(0.1)	(0.1)	(0.1)	0.0	0.1
Minorities	0.0	0.0	0.0	0.0	0.0	Price/FCF share			(11.4)	(13.6)	(9.0)	493.9	11.0
Total Shareholder funds	(0.7)	2.2	3.7	3.7	4.3	Free Cash flow Yield			(8.8%)	(7.3%)	(11.1%)	0.2%	9.1%

Source: Company data, RaaS estimates

FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

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

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