Research as a Service

Schrole Group Ltd

Initiation Report

Putting smarts into education HR

Software & services

5th 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. Connect has grown from an initial six international school clients when the business was founded in 2013 by the company's Managing Director Robert Graham (who has an 11% stake in SCL shares) to more than 385 at June 30. Schrole Group has an established market presence and strong reputation in the global market for recruitment in the highly skilled international school segment. We believe the business is at a major earnings inflection point following the recent launch of Connect 3.0 which incorporates an upgraded and expanded suite of capability, as well as a number of new bolt-on product modules, including Schrole Events 1.0, which in combination are expected to significantly expand the revenue opportunity per customer. With normalisation of global travel in 2022 likely to further support the international school sector, and capable and aligned management driving the business we see a significant opportunity to grow earnings and market share. Our base case DCF valuation of $0.035/share (15.0% WACC, 2.2% terminal growth rate), predicated on compound sales growth of 19.1% over the next five years.

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.

Achieving Scale and Profitability = Leverage

After building the business up to >$6m in sales and close to A$5m (US$3.3m) in annualised recurring revenue (ARR), the company is approaching an initial milestone of scale where small emerging technology companies typically attract the attention of a broader audience (~$5m ARR). We see potential for the company to drive scale towards a point of near-term profitability with the benefit of the expanding product suite, the termination of the ISS relationship, and additional sales capability added in FY21.

Valuation of $49.7m 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. At the current share price, Schrole Group is trading at a significant discount to two groups of observed SaaS peers.

Historical earnings and RaaS Advisory estimates

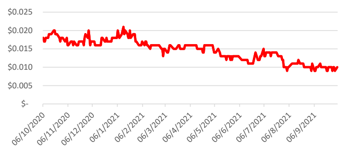
Year end	Sales Rev. (A$m)	Gross Profit (A$m)	EBITDA Adj* (A$m)	NPAT Adj* (A$m)	EPS* (c)	EV/Sales (x)	EV/EBITDA (x)	PER (x)
12/20a	5.7	3.3	(0.8)	(2.0)	(0.2)	1.70	n.a	n.a
12/21e	5.9	4.8	(0.2)	(0.5)	(0.0)	1.87	n.a	n.a
12/22e	7.1	7.0	1.2	0.4	0.0	1.61	9.6	33.8
12/23e	8.9	8.9	2.5	1.2	0.1	1.26	4.6	11.9

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	$0.01
Market Capitalisation	$14.2M
Shares on issue	1,424M
Net cash at 30 June 2021	$3.3M
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 its 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

Board of Directors

Stuart Carmichael	Non-Executive Chairman
Robert Graham	Managing Director
James King	Non-Executive Director
Guy Perkins	Non-Executive Director

Key Management

Rob Graham	MD/CEO
Peter Liddell	COO
Stephanie Syme	CFO

RaaS Advisory contacts

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***RaaS Advisory holds shares**

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Research as a Service

Schrole Group Limited

Schrole Group Limited (ASX: SCL) is an Australian software company focused on providing technology solutions to the international education and training sector. Schrole has a suite of established and emerging products, including its core product Schrole Connect, a SaaS-based educational staff recruitment platform. Connect accounted for an estimated 60% of Schrole's sales revenues in FY20, and is differentiated by its market positioning and platform structure as a "Trip Advisor/LinkedIn for the education sector equivalent" for the recruitment of highly skilled professional staff for elite international private schools. Connect has grown from an initial 6 clients when the business was founded in 2013 to 385 at June 30. We believe the business is at an inflection point following the recent release of Connect 3.0 which incorporates an upgraded and expanded suite of capability, as well as a number of new bolt-on product modules, including Schrole Events, which, in combination, are expected to significantly expand the revenue opportunity per customer. Simultaneously, the business has a significant margin expansion opportunity as a result of the staged phasing out of the three-year revenue sharing agreement with International Schools Service Inc (ISS) which will be completed by June 30, 2022. In readiness, SCL has expanded its sales and account management team to drive new account wins and further optimise client engagement and retention. We believe the company is favourably positioned to realise strong sales growth and margin expansion by leveraging the existing platform and data set which accounts for a vast portion of the overall target market. We also see potential for corporate appeal as a consolidation target given the emergence of US international school systems and services provider Faria as a 19.9% shareholder in Schrole, secured in September 2020.

Investment case

In our view, Schrole Group Ltd has the opportunity to achieve success for the following reasons:

- The company has a market-leading brand and substantial customer database with material opportunity to execute a disciplined and focused marketing strategy to improve sales conversion, increase customer retention and optimise costs;
- The termination of the ISS agreement on 8 July 2020 and staged phase-out of the revenue sharing arrangements for the ISS-Schrole Advantage Platform will significantly enhance operating margins and allow SCL to focus on the development of its SaaS business;
- Training revenues, which are generated predominantly from large mining corporates, should grow strongly on Australian economy "reopening" as national vaccination rates drive a transition to normal business patterns after subdued activity through COVID;
- There is a substantial cross-sell opportunity in partnership with Faria which services >10,000 schools across 155 countries, including 3,000 international schools;
- Tailwinds from the ongoing structural shift to online/digital services which facilitate streamlined and enhanced engagement in business critical areas;
- Normalisation of existing customer renewal rates following softening through COVID-impacted period;
- Grow SaaS revenues in absolute terms and also as a relative share of group sales (currently ~75% of software revenues and 60% of total revenues), our forecasts see this increase to 90% of software revenues and 80% of total revenues;
- Enhanced marketing strategy will gain traction over time bolstered by an expanded sales and customer engagement team, targeting new markets, including markets previously off-limits due to the ISS agreement;
- The balance sheet is in a strong position with no debt, providing ample capacity for management to reinvest in sensible bolt-on acquisitions or advanced systems upgrades and other internal capability to reduce costs and improve profit margins;

- The shift towards continuous professional development in the education sector represents a significant opportunity for Schrole to expand its training business beyond the current enterprise focus.

Valuation methods considered in this report

We are of the view that the discounted cashflow methodology is the most appropriate for valuing SCL at this point in its business lifecycle. However, we have also, in this report, considered the trading multiples of a small group of listed Australian SaaS and Australian edtech companies as a cross-reference to Schrole's current trading multiple.

Our base case valuation is $0.035/share, based on a WACC of 15.0% (beta 2.0, terminal growth rate of 2.2%) and free cashflow CAGR over 10 years of 45.9%. The terminal value within our valuation is $0.02/share. We also have applied an upside case and downside case of +/-10% of the revenue/cost parameters used in our base case valuation and this derives an upside valuation of $0.075/share and downside valuation of $0.008/share (12% below the current share price). An EdTech peer comparison derives a median EV/Sales multiple of 6.9x which when applied to our FY21 revenue forecasts implies an EdTech peer valuation of $0.028/share, a 283% premium to the current price. A SaaS HR peer comparison derives a median EV/Sales multiple of 5.4x which implies a SaaS HR valuation of $0.022/share, which is at 224% premium to the current price.

Exhibit 1: Valuation methodologies addressed in this report

Valuation method	Discount rate	EV/Rev (x) (FY21)	CAGR in FCF	Value in A$m	Value per share
Base case DCF valuation	15.0%	7.9	45.9%	49.7	$0.035
An upside case DCF	15.0%	17.9	41.9%	107.0	$0.075
A downside case DCF	15.0%	2.0	29.1%	11.3	$0.008
EdTech Peer Group EV/Sales multiple		6.9		40.2	$0.028
SaaS HR Peer Group EV/Sales multiple		5.4		32.0	$0.022

Source: RaaS analysis

Industry Overview

Schrole Group develops human resources and recruitment software for the education sector, in particular, the internationals schools sector, and it produces and executes training programmes for enterprises. International schools are typically high-performing K-12, English language schools in non-native English-speaking countries (notably in Asia, the Middle East and Europe) catering to expats, as well as wealthy local families who aspire to facilitate a pathway for their children to the best English-speaking universities globally.

International schools tend to be distinguished by a few key characteristics:

- Teaching typically conducted in English
- Internationally recognised curriculum (e.g. International Baccalaureate)
- Very expensive fee structure
- Performance-oriented academic programs targeting entry into elite global universities
- Highly engaged and driven students on average
- Teachers are expected to be exceptional at what they do and best in breed
- Industry-leading salary and benefits available
- Career path for teachers with unrivalled global mobility
- Average school tenure of 3-5 years as staff within the sector actively pursue the wide variety of international experiences available to them.

According to industry research group, ISC Research, the sector has grown rapidly over the past 10 years, with more than 60% growth in the number of schools, students and teachers from 2011 to 2021 and more than 100% growth in annual fee income in that time. ISC has noted that the sector demonstrated defensive resilience throughout COVID-19, with very few forced to close since July 2020, and more than 41,200 additional students attending over the past 12 months.[1]

Exhibit 2: International Schools Market 2011-2021

	Jul-11	Jul-17	Jul-21	10 year % growth	10-year CAGR (%)
Number of international schools	7,655	8,932	12,373	61.6%	4.9%
Number of students	3.5M	4.9M	5.7M	60.5%	4.8%
Number of teachers	328,661	400,000	550,846	67.6%	5.3%
Annual Fee Income (US$b)	26.0	39.0	53.0	103.5%	7.4%

Source: ISC Research

According to ISC Research, around 62% of students attend international schools in Asia, with demand high particularly in East and South-East Asia.

Some typical international schools

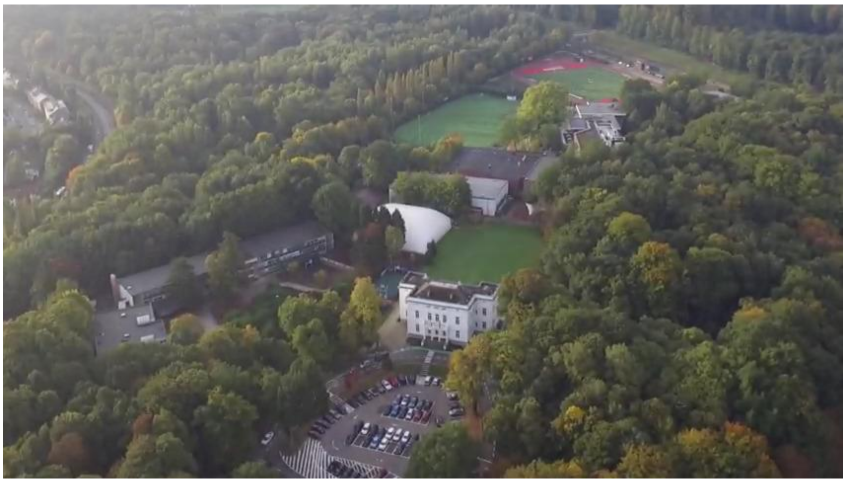
The prevalence of highly-paid foreign expat workers and a substantial pool of wealthy local families with international aspirations for their children has given rise to strong growth in the local international school sector throughout Asia. International School Bangkok, one of Schrole Group's first customers, is typical of the international schools that have been established in the region. It was the first international school to open in Thailand and was originally founded and located within the US Embassy in 1951. The school was created to cater for the education of US embassy staff children and children of other expat workers in Bangkok. Today, it is one of the leading international schools in Bangkok which now has more than 88 international schools. Its results are impressive. The class of 2021 delivered an average International Baccalaureate Diploma score of 36.5 against the world average of 33.05, a 100% pass rate, 30 students (18% of the cohort) with scores of more than 40 and three achieving the perfect score of 45. The school's website highlights that its 2021 graduates are now commencing higher education at 83 universities in 12 different countries worldwide, pursuing degree courses like Artificial Intelligence, Law, Cognitive Sciences, Clinical Psychology, and Film. Annual fees at

1 https://iscresearch.com/new-school-year-trends/

International School Bangkok range from 558k Thai Baht (A$30k) for Kindergarten to 1,014k Thai Baht (A$42k) for senior years.

The prevalence of and demand for international schools is not confined to Asia. There are more than 800 international schools throughout Europe with many offering the American curriculum which delivers acceptance for entry to all US universities and is increasingly accepted by universities around the world. The International School of Brussels is considered one of Europe's top international schools offering the American curriculum. Like International School Bangkok, the International School of Brussels was also founded in 1951. It was initially called the American School of Brussels and began with 27 students, mostly children of US Defense personnel posted to Brussels. The school now has 1,350 students from pre-school to year 12 from more than 70 countries. Annual fees range from €19k for pre-school and €31.5k to €40.6k (A$50.8-A$65.5k).

Exhibit 3: The International School of Brussels



Source: www.isb.be

According to its website, the International School of Brussels class of 2020 secured places at an impressive array of universities across the UK, Europe, North America and elsewhere.

Exhibit 4: The International School of Brussels Class of 2020 University Places

United Kingdom	Europe	North America	Rest of the world
Abertay University	College of Art & Design	Berklee College of Music	American University Sharjah
Arts University Bournemouth	Delft University of Technology	College of Charleston	Aoyama University
Cardiff University	École de Recherche Graphique	College of William and Mary	Aichi Gakuin University
City, University of London	École des Hautes Etudes Commerciales du Nord	Concordia University	Aichi Shukutoku University
Goldsmiths, University of London	Ecole hôtelière de Lausanne	Grinnell College	Bunka Fashion College
King's College London, University of London	Erasmus University College Rotterdam	Hartwick College	Hokkaido University
Liverpool Institute for Performing Arts	ESADE Business School	Loyola University New Orlean	Kwansei Gakuin University
London School of Economics and Political Science, University of London	ESCP Business School	McGill University	Meiji University
London South Bank University	Eindhoven University of Technology	McMaster University	Nagoya University
New College of the Humanities	Humanitas University	New York University	Okayama University
Plymouth University	Iceland University of the Arts	Pace University	Osaka Prefecture University
Queen Mary University of London	IE University	Purdue University	Shinsyu University
Royal Holloway, University of London	John Cabot University	Queen's University	Sophia University
SOAS, University of London	Leiden University	Radboud University	Tokyo University
London School of Economics and Political Science, University of London	LUISS Guido Carli University	Ryerson University	University of Auckland
University of Bath	Maastricht University	Saint Louis University	Waseda University
University of Bristol	The Arctic University of Norway	Salt Lake Community College	
University of Chichester	The Hague University of Applied Sciences	Savannah College of Art and Design	
University of Edinburgh	The Polytechnic University of Milan	Simon Fraser University	
University of Exeter	The Polytechnic University of Turin	Smith College	
University of Kent	Tilburg University	The New School Trinity College - Hartford, Connecticut	
University of Leeds	Université libre de Bruxelles	University of Connecticut	
University of Liverpool	United International Business Schools	University of Toronto	
University of Manchester	University College Utrecht	University of Maryland-Baltimore County	
University of Reading	University College Roosevelt	University of Maryland-College Park	
University of St Andrews	University of Amsterdam	University of North Carolina Wilmington	
University of Sussex	University of Groningen	University of Vermont	
University of Warwick	University of Oslo	Virginia Commonwealth University	
University of York	Willem de Kooning Academie	Wake Forest University	
The University of Law (including De Broc School of Business)		Western University	
York St John University			

Source: www.isb.be Black denotes the universities where ISB students matriculated to in the Fall of 2020.

Competitive landscape

Historically the sector has tended to be made up of not-for-profit organisations, however over recent years there has been an increasing emergence of commercially motivated alternatives adding to the extreme competitive tension for the very best staff.

Given the elite nature of the schools and staff within the sector, the industry ecosystem represents a very high-value segment of the education sector where optimal outcomes and efficient systems and processes are required as critical business infrastructure. As a result of the dynamic and highly remunerated career path which the international school sector provides, positions available tend to be in very high demand and roles advertised typically receive exceptionally high numbers of suitable applicants. The difficulty in properly screening applications for available roles as well as the importance of securing the best possible candidate is the core problem on which Schrole's core business purpose and competitive advantage is built upon.

In the past, recruitment tended to be via international job fairs where recruiters, school executives and teacher candidates would attend and meet in person. It was an expensive process requiring international travel/hotel costs, recruiter fees, time away from school duties and often leaving schools US$20,000-US$30,000 out of pocket per recruitment.

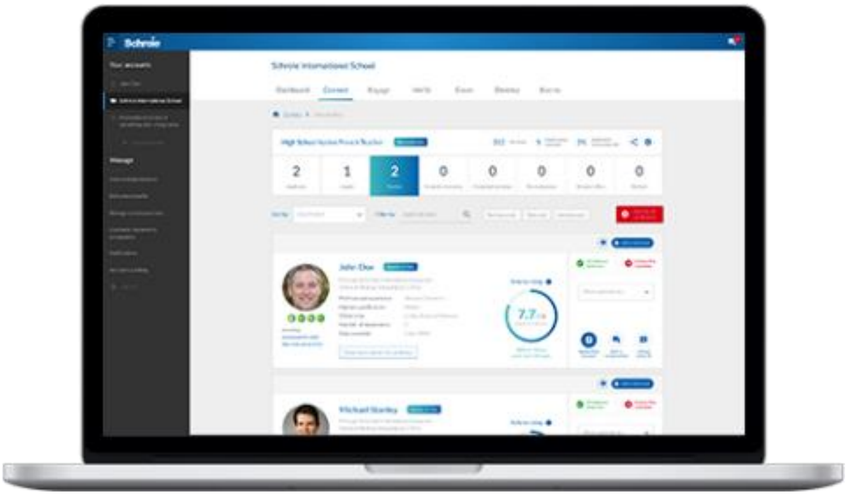
In addition to not-for-profit group International School Services (ISS) which focuses on recruitment fairs and professional development, there are a number of online recruitment platforms including worldteachers.net, TIC recruitment, PureTeach International, Searchability, Teacher Recruitment International Australia. COVID has hastened a switch to online job fairs and has also presented an opportunity for Schrole to expand its product suite to events, which we will discuss in the next section. However, it should be noted that there is no online platform other than Schrole HR which delivers the full suite of HR solutions for the whole teacher lifecycle within international schools. Most of these platforms are either recruitment focused, offer online fairs or professional development focused.

Company overview

In 2013 after a 20-year career across 6 countries in international schools as a teacher and principal, SCL's founder and MD Rob Graham set out to develop software-based tools to address the specific challenges he had experienced first-hand. Up until that point industry search fairs tended to be the default platform for engagement between elite schools and potential teachers/principals, however the physical limitations of these events as well as substantial costs associated with attendance meant that obtaining strong and consistent recruitment outcomes was inherently constrained and immensely challenging.

As a result, Rob Graham established the product which would form the genesis of SCL's broader HR platform as it stands today: Schrole Connect ("Connect"). Connect set out to establish itself as the "Trip Advisor" of the industry. The solution is built upon a software portal which can be fully integrated into the school's website and facilitates the advertising of positions and collection of applications. It is a two-sided system which also has more than 6,000 educational professionals subscribing for access to available positions from a database of teachers and referees of more than 200,000. Connect utilises a detailed referee-based data collection process which numerically ranks applicants and effectively filters the best teachers from within the substantial original data set. Connect has automated what was a previously extremely laborious and highly subjective position advertising and candidate screening process, often requiring one or more school executives to attend job fairs to find candidates for the next school year. The business has grown from a handful of schools at the outset to 385 at the end of June 2021.

Exhibit 5: Schrole Connect desktop portal



Source: Company Reports

Connect lies at the heart of the broader Schrole HR platform which is rapidly evolving to form a diversified HR SaaS based solution servicing both teachers and schools in the sector. Connect aims to solve the particular challenges outlined above in recruitment processes in international schools. Also in the current product suite is Schrole Verify which provides background screening of candidates for international schools, Schrole Cover which is used by international schools and domestic schools to source relief teachers and is licenced to a number of West Australian hospitals for relief patient support staff; and Schrole Develop which provides professional development solutions based on the clients' needs.

Exhibit 6: Schrole HR Resources Product Suite

Source: Company Reports

The company is in the process of repositioning its SaaS product suite, rebadging it Schrole HR, and over the course of the next 12 months will progressively release new and upgraded SaaS modules. In July, Schrole released **Connect 3.0** with new functionality including interview scheduling, calendar integration, Docusign integration and customisable email management and enhanced existing features such as more candidate details, customs search and notifications for schools.

In September, the company launched **Schrole Events 1.0**, online recruitment events management software with its first event scheduled for October 27 and 10 events scheduled this recruitment season and targeting different regions globally. The software solution will provide interactive and regionalised recruitment events for the company's more than 385 international schools and 140,000 international teacher customers.

The company is planning to launch **Schrole Engage 1.0** before 31 March 2022. Engage will provide contract management and onboarding software for schools. We estimate that Engage will increase average annual revenue per school by at least US$3,000 from H2 FY22.

Company History

Schrole Group was founded by Rob Graham in 2013 and listed on the ASX in 2017 via a reverse takeover of Aquaint Capital Holdings and after raising $6m at $0.02/share. We set out the company's timeline in the following exhibit.

Exhibit 7: Schrole Group timeline

Year	Event
2013	Founded by Rob Graham to target the growing international schools market by developing technical platforms and expert service solutions to help international schools manage their human capital requirements.
2013	October 2013, Schrole Connect launched in 6 trial schools
2014	August 2014, First Commercial sales of Schrole Connect with 12 school licences sold
2016	May 2016, Schrole Cover launched in 9 trial schools
2017	June 2017, Schrole Connect now in 103 schools, Schrole Cover used by 71 schools
	July 2017, Schrole Connect reports more than 43,000 registered candidates on its database
	October 2017, Schrole Group Ltd listed in the ASX following an RTO by Aquaint Capital Holdings. Schrole Group raised $6m at $0.02/share.
	November 2017, Schrole Verify launched, partnership with First Advantage for screening checks
2018	April 2018, Establishes strategic alliance with International School Services under the ISS-Schrole Advantage banner
	May 2018, Schrole makes its first Schrole Verify sale
	September 2018, ISS-Schrole Advantage launched taking Schrole Connect from 150 schools to more than 380 international schools and 72,000 teachers.
2019	May 2019, completes a $1.25m share placement at $0.008/share.
	August 2019, completes $0.8m private placement at $0.008/share to wholesale & sophisticated investors
	November 2019, James King joins the board as an independent non-executive director
2020	March 2020, CFO Jani Surjan resigns
	May 2020, Schrole announces a partnership with Faria with the latter investing $2.9m in Schrole via a convertible note.
	July, completes a $2.12m placement to sophisticated and professional investors
	July 2020 Schrole shareholders approved the issue of 2.9m convertible notes as equity securities to Faria Education Ltd
	July 2020, Schrole and International Schools Service agreed to terminate their agreement for sales of ISS-Schrole Advantage Platform in June 2022, with a transitional phaseout from July 2020.
	September, Faria converts the note to shares, holding 19.9% of Schrole
	October, Guy Perkins appointed a non-executive director
	October, Stephanie Syme appointed permanently to CFO position, after initially commencing on a contract basis in Q2 FY20, Ben Donovan appointed CoSec
2021	March 2021, SCL wins a new contract valued at US$76,800 (A$100,000) to deliver Schrole Develop's Diploma of Leadership & management to the International School of Ho Chi Minh City
	May, NED Shaun Hardcastle resigns from the board.
	July, Connect 3.0 upgrade launched
	July signs a group contract (US$63,000) with Aldar Education Group, increasing existing contract from 2 schools to entire Aldar network of 19 schools plus a head office agreement for executive recruitment
	September, SCL releases Schrole Events 1.0, an online recruitment events management platform with the first event scheduled for 27 October 2021.

Source: Company announcements, RaaS analysis

Historical Financial Performance

Schrole Group operates on a December year end and for the past three financial years demonstrated overall growth in revenues, gross profits and a reduction in operating and net losses. Divisionally, the company reports revenues and costs generated by software, training and unallocated/corporate.

The software division comprises licence fees and other revenues generated by Schrole Connect/ISS-Schrole Advantage, Schrole Cover, and Schrole Verify. Each module in the platform generates subscription revenues: Schrole Connect generates annual fees from US$5,300 to US$15,000 per international school; Schrole Verify averages US$2,500 per annum per school; Schrole Cover secures an average A$1,200 per annum per school.

The ISS relationship saw a step change in revenues and gross profits in FY19 within the software division which generated positive EBITDA that financial year and helped reduce the group EBITDA loss to $1.14m from $3.32m in the previous corresponding period. The ISS alliance took Schrole Group from ~150 international schools to around 380 schools and more than 100,000 candidates. The alliance operated as a wholly owned subsidiary of Schrole and the revenue share back to ISS was treated as a cost of goods sold under the software division. So while it enhanced the market penetration of Schrole Connect, it placed a cap on the gross profit margin of the software business and never delivered the expected 50% revenue share (Schrole noted in its ASX release on 8 July 2020 that over calendar year 2019, its revenue share was 37%).

The training division is predominantly Schrole Develop, which previously was called Schrole ETAS, and is a registered training organisation with a 20-year history in "train-the-trainer" education. This division is very people intensive, hence the lower operating margins, but it delivers significant exposure to the West Australian enterprise resources companies (BHP, Rio Tinto, Fortescue Metal Group) and government sectors. Schrole Develop has now secured two inaugural education clients in China and Vietnam.

Exhibit 8: Historical operating performance

Year ending December 31	FY18	FY19	FY20
Software revenue	1.89	4.35	4.80
Training revenue	0.78	1.33	1.18
Other revenue	0.02	0.00	0.16
Total revenue	**2.69**	**5.68**	**6.14**
Gross Profit	0.82	2.96	3.80
GP margin %	30%	52%	62%
Software EBITDA	(1.31)	0.58	0.54
Training EBITDA	0.01	0.21	0.37
Corporate EBITDA	(2.02)	(1.93)	(1.67)
Total EBITDA adjusted*	**(3.32)**	**(1.14)**	**(0.76)**
NPAT adjusted*	(3.61)	(1.97)	(1.96)
NPAT reported	(3.77)	(1.97)	(2.18)

Source: Company data *Adjusted to exclude significant, one-time items and non-cash share based payments

Schrole Group reported a reduced operating loss of $0.21m in H1 FY21 and an adjusted net loss of $0.32m excluding non-cash, share-based payments, which was a 61% improvement on H1 FY20. While the number of subscribing international schools did not increase in H1 FY21, the H1 FY21 retention rates were vastly improved at 81%, compared with the COVID-impacted 63% retention rate reported in CY20. We suspect the imminent end of the ISS Alliance also kept a rein on growth in H1 FY21. The agreement rolls off from 1 July 2022 when customers of ISS-Schrole Advantage will need to choose whether to continue their relationship with Schrole or ISS or both. From 1 July 2021, 100% of new sales will be retained by Schrole with renewals 50/50 until 30 June 2022.

Exhibit 9: H1 FY21 result versus H1 FY20 (in A$m unless otherwise stated)

Six months ending June 30	H1 FY20	H1 FY21	% chg
Number of international schools at period end (number)	388	386	(0.5%)
Software Revenues	2.46	2.13	(13.5%)
Training Revenues	0.48	0.59	21.0%
Other Revenues	0.06	0.01	(88.7%)
Total Revenues	**3.01**	**2.72**	**(9.5%)**
Gross Profit	2.05	2.15	5.2%
Software EBITDA	0.66	0.86	31.3%
Training EBITDA	0.12	0.08	(31.7%)
Corporate EBITDA	(1.05)	(1.16)	10.2%
Total EBITDA Adjusted*	**(0.28)**	**(0.21)**	**(22.5%)**
EBIT Adjusted*	(0.76)	(0.36)	(51.9%)
NPAT Adjusted*	(0.82)	(0.32)	(60.9%)
NPAT Reported	(0.93)	(0.71)	(24.5%)
EPS Adjusted* (cents per share)	(0.09)	(0.02)	(74.3%)
EPS Reported (cents per share)	(0.10)	(0.05)	(50.4%)

Source: Company reports, RaaS analysis *Note that RaaS adjusts for one-time and non-cash items such as share based payments

RaaS's Earnings Forecasts

Our estimates assume that FY22 marks an inflection point in the earnings trajectory of the business. With the ISS Alliance ending, Schrole Group has more than doubled its direct sales team from two to five and will now be able to target regions such as Europe, Africa and South America which were previously off-limits due to the ISS agreement. From July 2022, 100% of SCL's revenues will remain within the company and the Alliance fees, which essentially were treated as cost of goods sold (COGS) will be minimal and this should lead to margin expansion. The addition of new modules, Schrole Events and Schrole Engage are expected to help drive average annual revenue per school and the integration and cross sell of Schrole HR into Faria's extensive school networks (3,000+ international schools, 7,000 US domestic schools) should increase Schrole's penetration of the international schools market. We note that the company has a stated aim of increasing average annual revenue per school from $10,000 to $30,000. Our forecasts contemplate Schrole getting to A$30,000 annual revenue per school in H1 FY30. This may prove conservative.

Exhibit 10: Key parameters applied

Year ending December 31	FY21	FY22	FY23	FY24	FY25
No of international schools at period end	403	438	481	533	571
Penetration rate	3.3%	3.5%	3.9%	4.3%	4.6%
Average annual revenue per school (A$)	9,141	10,027	12,170	14,535	17,102
SaaS revenue as a % of software revenues	79%	88%	88%	89%	89%
SaaS revenues as a % of total revenues	59%	67%	68%	72%	74%
GP Margin %	81%	99%	99%	99%	99%
EBITDA Margin %	(4%)	17%	28%	38%	47%

Source: RaaS estimates

We've highlighted in Exhibit 10 above, the key parameters we apply to reach the revenue forecasts set out in Exhibit 11 below. We are anticipating a 5-year CAGR of 18% in software revenue and 17% in training revenue to FY25. Exhibit 12 on the following page sets out our P&L forecasts for the next five years. Note that EBITDA excludes share based payments.

Exhibit 11: Revenue forecasts FY21-FY25

Year ending December 31	2021	2022	2023	2024	2025	CAGR FY21f-FY25f
Software revenue	4.4	4.9	6.0	7.9	10.1	18%
Training revenue	1.1	1.7	1.9	2.2	2.4	17%
Other revenue	0.4	0.0	0.0	0.0	0.0	nm
Total Revenue	5.9	6.5	7.9	10.1	12.6	17%

Source: RaaS estimates

Exhibit 12: Earnings forecasts FY21-FY25

Year ending December 31	2021	2022	2023	2024	2025
Revenue	5.9	7.1	8.9	11.3	14.0
Gross Profit	4.8	7.0	8.9	11.2	14.0
GP margin	81%	99%	99%	99%	99%
EBITDA	(0.21)	1.19	2.45	4.27	6.61
EBIT	(0.59)	0.54	1.61	3.29	5.54
NPAT	(0.53)	0.42	1.20	2.34	3.93
EPS	(0.04)	0.03	0.08	0.16	0.28

Source: RaaS estimates

RaaS
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SWOT analysis

In our view the strengths and opportunities for Schrole Group outweigh the weaknesses and threats.

Exhibit 13: Strengths, Weaknesses, Opportunities, Threats

Strengths	Opportunities
Established, highly recognised brand within the international schools sector	Opportunity to upsell and cross-sell Schrole Engage, Schrole Verify, Schrole Cover and Schrole Develop with Schrole Connect customers
Board and management bring both expertise in the international schools market and in developing early stage growth companies	Geographic expansion opportunity opens up with the end of the ISS partnership – Europe, Africa and South America now available to SCL
Scalable HR SaaS solution specifically designed for schools	Opportunity to rollout Connect to Faria clients
Long term relationships with international schools	Training business has the potential to expand into other sectors ie government, large enterprise and to deliver professional development programmes to the education sector
Supportive major shareholder targeting the international schools sector in adjacent SaaS offerings	Penetration of domestic schools in Australia and other jurisdictions is still low and represents an expansion opportunity for Schrole Verify, Schrole Cover
Delivers exposure to a very fast growing, wealthy segment in the education industry	Connect 3.0 delivers an opportunity for Schrole to engage with existing and former clients and upscale
Schrole Connect platform replaces a very labour intensive, time consuming recruitment process	Ambitions to grow annual revenue per school to $30,000
Dominant in the high-growth South-East Asian international schools market	Opportunity to monetise the broader Schrole Community (database of more than 200,000 individuals and schools)
Weaknesses	**Threats**
Small player with less than 5% of the target market	Larger competitors with deeper pockets could stymie ambitions to grow market share and share of wallet
ISS deal diverted management's attention away from growing gross margins during the period	Opportunistic takeover bid by strategic shareholder
Has not grown at the same pace as its target market	Technological change and the inability to keep up with competitors, or poor technology investments
Currently American and international curriculum focused, not offering as much exposure to the British curriculum	Maintaining data security, reliant on third parties for Verify checks

Source: RaaS analysis

Sensitivities

Our forecasts are sensitive to the following risks:

- **Renewal rate risk**: Schrole's customers renewed at a rate of 87% in H1 FY21 with a 94% renewal rate in July. However, renewals fell to 63% in FY20 to COVID. We are forecasting that the company can maintain and grow its renewal rate to 85% in H2 FY21 to 95% by H2 FY26. This is a key plank in our earnings forecasts and valuation.
- **Annual revenue growth risk**: Schrole has a stated ambition to grow annual contract value per school to $30,000 a year through new product launches. We are forecasting annual revenue per school rising from $8,811 in H1 FY21 to $30,000 by H2 FY29.
- **Key person risk**: In our view, the success of the business is reliant on the continued engagement of founder and managing director Rob Graham who brings unparalleled relevant experience and knowledge of the international schools sector's human resources requirements. The board & senior management team bring extensive experience in building early stage growth businesses into more mature companies. Without them, SCL's ability to execute its strategy is likely to be impacted.
- **Competitor risk**: Schrole Group competes with education-specific and general HR solutions firms, some of which are global in scale. There is potential risk that competitors will start pricing wars to gain market share which could impact Schrole Group's ambitions to grow annual revenue per school to A$30,000.
- **Takeover risk**: Schrole Group has attracted strategic investor Faria to its register. Faria has a track record of acquiring companies, particularly in its field of co-curricular edtech.

Board and management

Directors

Stuart Carmichael, Non-Executive Chairman, was appointed Chairman in October 2017, and brings more than 20 years' experience in corporate advisory services in Australia. He is the principal and director of Ventnor Capital Pty Ltd and Ventnor Securities Pty Ltd which specialises in the provision of corporate and financial advice to ASX-listed small cap companies, including capital raisings, IPOs, corporate restructures and mergers & acquisitions. He is also a non-executive director of De.mem Ltd (ASX:DEM). Stuart holds 0.5m shares and 18m options with exercise prices ranging from $0.03-$0.06/share and exercisable until 31 December 2023.

Rob Graham, Managing Director and founder, has a unique understanding of the education market, in particular international schools, having been an international school principal and teacher for more than two decades. He gained significant experience in international teacher recruitment, first as a senior recruiter and then as the managing director of ETAS Group whilst concurrently engaging in an international education recruitment business as a senior associate. In 2013, Rob formed Schrole. He holds 156.87m shares and 123.8m performance rights.

James King, Independent Non-Executive Director, was appointed in November 2019. James has more than 30 years' experience in financial and commercial management roles both in Australia and internationally. He is a non-executive director of Lovisa Holdings (ASX:LOV) and non-executive chairman of privately-held, fragile and sensitive freight company Dutt Industries. He previously was the non-executive chairman of JB HiFI (ASX:JBH), a non-executive director of ASX-listed global education group Navitas which was acquired by private equity for $2.1b in early 2019, and a non-executive director of Pacific Brands, a former ASX-listed clothing group acquired by US clothing brand, Hanes Brands for $1.1b in 2016. James holds 5.25m shares and 18m options with strike prices ranging from $0.03-$0.06/share and exercisable until 31 December 2023.

Guy Perkins, Independent Non-Executive Director, was appointed in October 2020 and brings extensive experience in developing and building SaaS businesses. In 2015, Guy founded and led the business development of Spookfish Ltd, a geospatial and 3D imagery company which was acquired by US-based EagleView Technologies in 2018 for $122m, a 50% premium to the last traded price. Prior to Spookfish, Guy held the role of Chief Operating Officer at geospatial and 3D imagery company, NearMap (ASX:NEA). He is a director of private geospatial group SOAR. Guy holds 2.296m shares and 18m options at strike prices ranging from $0.03/share-$0.06/share and exercisable until 31 December 2023.

Management

Stephanie Syme, Chief Financial Officer, was appointed permanently as CFO in October 2020, having initially commenced on contract in Q2 FY20. Stephanie brings more than 25 years' experience in finance and corporate services with particular expertise in organisations experiencing growth or significant change. She is a Chartered Accountant, a member of the Australian Institute of Company Directors and a member of the Governance Institute of Australia. Stephanie currently holds 3.2m shares in Schrole Group.

Peter Liddell, Chief Operating Officer, joined Schrole Group as Group Marketing Manager in September 2017 and was appointed to his current role in March 2020. Peter has more than 20 years' experience in marketing and digital development. He has overseen the implementation of the company's new CRM platform along with process improvement and the expansion of the sales and marketing teams. In previous roles, Peter has led brand identity and repositioning projects; pitched and produced free-to-air television programmes, corporate videos and commercials; project managed the development of large scale web sites and intranets; driven the selection, and implementation of new CRMs; and planned and implemented award winning traditional, digital and social media campaigns. His brand experience spans education, retail, insurance and banking industries as well as behaviour change campaigns for public health and road safety. Peter currently holds 5.89m shares in Schrole Group.

Strategic Interest

Global leader in international education systems and services Faria Group made a strategic investment in Schrole Group in May 2020 via a $2.9m convertible note. Following approval in July 2020 of the convertible note by SCL shareholders, Faria converted the note into a direct 19.9% stake in September 2020. The shareholding currently stands at 19.18%. Faria is co-marketing Schrole's HR suite to its customer base of 10,000 schools, including 3,000 international schools across 130 countries. At the time of the investment, Faria's CEO Theodore King noted that Faria "looked forward to working with Schrole to deliver rapid product innovation in order to fully integrate the HR lifecycle from recruitment to onboarding and professional development" (1 September 2020). [2]

Shareholders

Schrole Group's top five shareholders hold 54.7% of the company and the top 15 shareholders own 66.1% of shares on issue. Institutional investors Capital H Management and Cyan Investments have been on the register since 2019. Capital H Management recently sold down its holding from 126.3m shares or 8.9% to its current holding of 7.4% (ASX release 31 August 2021). Toronga Pty Ltd, a private investor, has recently increased its holding to 11.41%.

Exhibit 14: Top 15 shareholders

Holder	Number of shares	% share
Faria UK Holdco III Ltd	273.11	19.2%
Toronga Pty Ltd	162.50	11.4%
Rob Graham	156.87	11.0%
Capital H Management	105.52	7.4%
Cyan Investments	83.27	5.9%
BNP Paribas Nominees	66.26	4.7%
Morven Ann Smith	17.00	1.2%
Citicorp Nominees	15.82	1.1%
Joel Harrison	10.00	0.7%
Perry Rosenzweig	10.00	0.7%
Dong Chang	9.00	0.6%
Simon Robert Miller	8.99	0.6%
Monticone Investments	8.00	0.6%
Ian Sylvester	7.05	0.5%
Luca Rotter & Jane Abbott	7.00	0.5%

Source: Refinitiv Eikon, Company data, ASX filings

Remuneration considerations

It is always difficult balancing the needs of shareholders and remunerating founder CEOs, who often times have bootstrapped a business for a number of years before it comes to market. We thought it useful to consider the executive remuneration packages in place for SaaS companies of a similar market capitalisation and/or similar annual revenues to Schrole Group. These companies are employee performance SaaS company 8Common (ASX:8C)), automotive SaaS group Connexion Telematics (ASX:CXZ), digital customer engagement SaaS company Gratifii (ASX:GTI), SaaS HR group IntelliHR (ASX:IHR), omni-channel knowledge management SaaS group Knosys (ASX:KNO) and education SaaS group KneoMedia (ASX:KNM). We set out in the following exhibit the CEO base salary and total payments for FY21 (excluding Schrole where we use CY20 data),and not the percentage of remuneration related to the company's performance that year.

2 https://www.faria.org/news/press-releases/faria-completes-note-conversion-into-schrole-shareholding

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Exhibit 15: Remuneration of CEOs of comparable SaaS companies

Company	CEO/MD/ Exec Chair	Market Cap (A$m)	FY21 Rev (A$m)	FY21 NPAT (A$M)	CEO Base Salary	Total Payments	% Remuneration related to performance
8Common	Nic Lim	36.9	3.51	(1.03)	A$189,584	A$194,631	2.6%
8Common	Andrew Bond	36.9	3.51	(1.03)	A$191,806	A$250,241	16.1%
Connexion Telematics	Aaryn Nania	14.1	4.42	0.51	US$115,685	US$174,009	19.2%
Gratifii	Ian Dunstan	17.1	3.08	0.52	A$234,290	A$592,756*	56.7%
IntelliHR	Rob Bromage	76.0	2.46	(7.63)	A$300,000	A$1,032,035	67.4%
KneoMedia	James Kellett	15.5	0.23	(3.15)	A$290,323	A$335,681	0.0%
Knosys	John Thompson	31.3	4.59	(0.58)	A$298,801	A$402,186	14.0%
Schrole Group	Rob Graham	14.1	5.68	(1.96)	A$265,419^	A$380,069^	23.6%
Median		**17.1**	**3.30**	**(1.03)**	**A$249,855**	**A$357,875**	**17.1%**

Source: Company data, RaaS analysis ^As per CY20 annual report *A$336,149 in share payments included payments carried over from FY20

From a base salary and total cash/share payments perspective, Schrole Group's CEO remuneration is neither the highest nor the lowest and the proportion of remuneration relating to performance is above the median of 17.1%. Of the companies we have considered, four are founder-led – 8Common, IntelliHR, KneoMedia and Schrole Group and within 8Common, IntelliHR and Schrole, the founders remain substantial shareholders.

Exhibit 26: Options and Performance Rights held by CEOs of comparable SaaS companies

Company	CEO/MD/ Exec Chair	Options	Performance rights	Options/ Performance rights as % of Shares on issue	% shareholding held in the company
8Common	Nic Lim	125,000	nil	0.1%	13.3%
8Common	Andrew Bond	3,480,000	Nil	1.7%	0.05%
Connexion Telematics	Aaryn Nania	nil	24,000,000	2.7%	1.1%
Gratifii	Ian Dunstan	24,811,299	Nil	4.1%	0.9%
IntelliHR	Rob Bromage	4,312,209*	2,727,273	2.1%	8.3%
KneoMedia	James Kellett	nil	5,256,000	0.5%	1.8%
Knosys	John Thompson	nil	nil	nil	1.8%
Schrole Group	Rob Graham	nil	123,800,000	8.7%	11.0%

Source: ASX filings, Company data, RaaS analysis *Options vested on 30 June 2021

Some further comments

8Common's founder & executive chairman Nic Lim is the company's largest shareholder with a 13.3% stake. CEO Andrew Bond holds 23% of the options on issue to executives of the company. These have a weighted average exercise price of $0.16/option versus the current share price of $0.165/share.

Connexion Telematics' CEO remuneration was only for part of the year, but translated into A$, the total payments for FY21 equate to about A$232k. CXZ has noted in its accounts that the CEO's base salary is A$200k + super. The CXZ performance rights vest in 3 parts in September CY21, CY22 and CY23 and rest on several conditions: 25% is apportioned to Net Profit Before Tax meeting the budget for that year, 25% each is apportioned to the renewal of the GM OnTRAC contract on equal or better terms than the original plus a signed commercial contract with a non-GM OEM client, and 25% apportioned to the 30-day VWAP trading above the performance price six months prior to vesting ($0.025/share for 30 September 2021, $0.035/share for vesting on 30 September 2022, and $0.045/share for vesting on 30 September 2023). The current share price is $0.016/share.

Gratifii's CEO options include equity settled options from the prior year. These options have various expiry up to February 2024 and exercise prices ranging from $0.0-$0.05/options. The current share price is $0.029.

IntelliHR CEO and founder holds 36% of the share options on issue, 33.98% of the performance rights on issue and is the third largest shareholder in the company with an 8.3% stake after the recent $11m share placement. More than two-thirds of the CEO's FY21 remuneration related to performance.. The performance rights are convertible into one ordinary share of IHR and vest on mutually agreed KPI's that related to FY21.

KneoMedia's performance rights are based on KNM achieving $5m in gross sales revenue in any 12 month period. The expiry is 31 December 2022. Note that the company achieved gross sales revenue of $0.23m in FY21.

Schrole Group's performance rights outstanding have several hurdles to meet, with 33.4% of the rights requiring the share price to rise more than three-fold from the current price in order to vest and more than 20% resting on a revenue performance in FY23 well ahead of our base case forecasts. In our view, meeting those hurdle rates would benefit all shareholders. We set out the performance rights and hurdle rates below:

- The Class A rights of which 20m remain are conditional on Schrole Events V1.0 being released before the end of this financial year (10m vesting) and Schrole Engage V1.0 being released by 31 March 2022 (10m vesting).
- The Class B rights (36m) are conditional upon Schrole Group reaching $7-8m in any 12 month period prior to 31 December 2022 with the shares only 100% vesting on achieving $8m in revenue.
- The Class C rights (26.4m) are conditional on revenues reaching from $10m-$12m in FY23 with 100% vesting on achieving $12m in revenues in that financial year.
- The Class D rights (13.2m) will vest on a 30-day VWAP of more than $0.03/share and expire in 31 December 2023.
- The Class E rights (13.2m) will vest on a 30-day VWAP of more than $0.045/share, expiring 31 December 2023.
- The Class F rights (15m) will vest on a 30-day VWAP of more than $0.06/share, expiring on 31 December 2024.

It should be noted that our forecasts are for Schrole Group to reach $7.1m in revenues for FY22 so if achieved, it could reasonably be expected that at least a portion of the Class B rights would convert to shares. We also have factored in that Schrole Engage will be launched before the end of Q1 FY22, so one could reasonably anticipate that the second tranche of Class A rights (10m) would also convert to shares.

Our base case forecasts estimate that Schrole Group will generate $8.9m in revenue in FY23, and if this transpires, the Class C Rights (26.4m) will not vest. However, if the company meets our upside case revenue forecast of $10.5m for FY23, at least some of these performance rights will vest. Our upside case valuation is $0.075/share.

Peer comparison

We have considered two peer groups in our analysis of Schrole Group. Schrole Group operates in the education sector and there are a number of listed edtech peers. The company is also a SaaS-based HR software company and there are a number of relevant listed SaaS peers to consider. We have included in our analysis the companies that were discussed in the remuneration section. KneoMedia is of a similar market capitalisation to Schrole Group and is an edtech peer while Connexion Telematics and Gratifii are also of a similar market capitalisation and SaaS peers. 8Common, IntelliHR and Knosys are all SaaS HR peers and so are relevant for our discussion later in this section.

Edtech Peers

We have identified several education companies which present as SaaS education peers. We set these out below. There are other ASX listed edtech companies, IDP Education (ASX:IEL) and Keypath (ASX:KED), but these are substantially larger (respective market capitalisations of $9.6b and $670m) and more mature enterprises and in our view not relevant to this discussion.

8VI Holdings (ASX:8VI) is a Singapore-based financial education provider and Fintech company operating under the brand name VI. The company is a leading financial education provider for value investing in

Singapore and Malaysia and provides smart stock analysis and screening tools, infused with a social networking element through its 8BIT Global subsidiary.

Cluey (ASX:CLU) is an education technology company that provides personalised online tutoring and educational support to students from K-12. The company enrols students into learning programmes that align to their individual academic level, needs and school curriculum and these programmes form the basis of ongoing engagement with Cluey's live, fully interactive one-to-one or small group tutoring online sessions. In FY21, the company expanded into New Zealand and is in the process of acquiring Code Camp Holdings, which delivers K-12 coding and digital skills in in-person, school holiday camps and after-school programmes and online.

Janison Education Group (ASX:JAN) is an education technology company that provides online student assessments and e-learning software for schools, higher education and corporations. It has two platforms, Janison Insights and Janison Academy. Janison Insights operates a digital assessment platform for digital exam authoring, testing and marking, servicing national education department, tertiary institutions and educational bodies. Janison Academy operates a learning management platform that manages the content and learning programs for corporate and government. It also offers professional exam management services with the delivery and supervision of in-person exams for the higher education sector and professional certification associations across Australia and New Zealand. The company owns and licenses school assessment products including ICAS, JET, SCOUT and REACH. Janison Solutions Pty Ltd is a subsidiary of the Company.

Kip McGrath Education Centres (ASX:KME) deliver online tutoring through assessments and individual learning programmes for K-12 students. Online tuition accounts for 40% of overall lessons ad remains a large part of the business. The company operates on a franchisor basis and has franchisees throughout Australia, New Zealand and the United Kingdom. Globally the group has 537 centres.

KneoMedia (ASX:KNM) is a SaaS education publishing company focused on delivering digital learning programmes and assessment tools to educational markets via a story-based learning portal, KneoWorld. 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 company has been seeking to build a presence in the US market and has some recent sales success in New York state and city jurisdictions.

Openlearning (ASX:OLL) offers an online learning platform focused on short courses, micro-credentials and qualifications for the tertiary undergraduate, post-graduate and VET markets. Just under 50% of its revenues are generated from SaaS fees with the remainder from programme delivery, marketplace sales by course creators and services sales.

ReadyTech Holdings (ASX:RDY) is a SaaS company focused on providing next generation, cloud-based software to customers in the education, employment, government and justice sectors. The company seeks to bring together the best in people management systems from students and apprentices to payroll, employment services and community engagement.

ReadCloud (ASX:RCL) is a leading provider of digital eLearning software solutions to secondary schools and the Vocational Education and Training (VET) sector in Australia. The company's proprietary eBook platform delivers digital content to students and teachers with various functionality, including the ability to make a commentary in, and import third party content into eBooks. Students and teachers can share notes, questions, videos and weblinks directly inside the eBooks turning the eBook into a place for discussion, collaboration and social learning. ReadCloud sources content for its solutions from multiple publishers, delivering the full Australian school curriculum in digital form in all States, on one platform. In the VET sector, ReadCloud provides over 55 digital VET courses and services to schools across Australia.

The median EV/Sales multiple of this group is 6.9x, which is at a 420% premium to the current multiple that Schrole Group trades on. If we were to apply this multiple to our FY21 revenue forecast of $5.86m**, the edtech peer valuation is $0.028/share.**

Exhibit 17: 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.AX	200.5	179.0	6.9	19.0	77.3%
Cluey	CLU.AX	137.4	109.3	10.8	n.a	55.3%
Janison Education Group	JAN.AX	226.4	206.6	6.8	291.0	55.2%
Kip McGrath Education Centres	KME.AX	53.7	50.9	2.6	10.8	93.3%
Kneomedia	KNM.AX	15.5	15.5	54.5	n.a	n.a
Openlearning	OLL.AX	15.6	7.4	3.9	n.a	68.7%
ReadCloud	RCL.AX	28.0	22.5	3.1	n.a	56.9%
Readytech Holdings	RDY.AX	377.5	399.1	8.0	21.1	93.1%
Median		**95.5**	**80.1**	**6.9**	**20.1**	**68.7%**
Schrole Group Ltd	SCL.AX	14.4	9.6	1.6	na	61.9%

Source: Refinitiv Eikon, RaaS analysis Prices at 30 September 2021

SaaS HR Peers

Several of the companies we discussed in the remuneration section align as SaaS peers for Schrole. Connexion Telematics and Gratifii are both of similar market capitalisation while 8Common, IntelliHR and Knosys are close SaaS HR peers. For completeness we have included additional SaaS HR companies, Livetiles, Skyfii, Urbanise and Xref. This gives us a good round-up of microcap and small cap SaaS peers.

8Common (ASX:8CO) operates financial transaction management and employee performance technology platforms, targeting the enterprise and government segments. Its Financial Transaction Management products include Expense8, PayHero and CardHero. Expense8 provides end-to-end travel and expense management and incorporates company organizational policies and expense auditing to reduce fraud and compliance. PayHero provides merchant facilities and a payment gateway while CardHero combines EML Payments-issued, pre-paid mastercards with 8common's Expense8 spend reconciliation solution.

Connexion Telematics (ASX:CXZ) delivers SaaS solutions for the automotive industry. It has two lead platforms, OnTRAC, and CXZTRAC. Its OnTRAC platform is used by General Motors (GM) to manage the Courtesy Transportation Program (CTP) in the United States. The OnTRAC platform provides features, including contactless E-signature, text SMS customer notification for vehicle pickup, reservation, and others. The Company's CXZTRAC platform is a fleet management system, which manages courtesy vehicles for short-term rentals, long-term rentals, test drives and more, in one simple-to-use system. Its CXZTRAC platform is designed with original equipment manufacturer (OEM)-agnostic functionality.

Gratifii (ASX:GTI), formerly Mobecom Limited, helps businesses create customer engagement. Its SaaS platform Mosaic is an enterprise cloud platform that allows businesses to customers, operate and manage their enterprise loyalty and reward programs. Gratifii is focused on the retail, hospitality, telecom, banking, insurance, and financial services sectors for its platform.

IntelliHR (ASX:IHR) has developed a SaaS-based, people management platform designed to support human resource (HR) professionals and leadership teams within an organization, using technology that automates manual HR processes and captures critical people data. The platform provides a real-time understanding of an organization's human resources and provides tools to create a performance-based culture aligned with the employer's business strategy and contribute to strategic decision-making with data-driven insights.

Knosys (ASX:KNO) is a global SaaS IT company providing omni-channel knowledge management to improve employee productivity and customer experiences. The company's platform aims to help organisations make sense of information and use it to connect, collaborate and drive strong business outcomes for their stakeholders and employees.

LiveTiles (ASX:LVT) is engaged in the development and sale of employee experience software for employee collaboration and communications. The company has operations in North America, Europe, Asia ,and Australia, and services more than 1,000 corporate customers. Its SaaS platform is designed to drive digital transformation, productivity and employee engagement in the modern workplace.

Skyfii (ASX:SKF) is a SaaS solution, the IO platform, helps venues visualise, measure, predict and influence customer behaviour, creating better experiences for their visitors and customers. The IO platform provides location and behaviour-based communications software and tools to manage guest Wi-Fi, 2D and 3D cameras, people counting technology, weather and social media data across multiple locations. The company also provides data science services to help clients gain more value from their data.

Urbanise.com (ASX:UBN) is a provider of cloud-based SaaS platforms to strata and facilities managers in Australasia, the Middle East, Europe and Africa. designed and developed for the Strata and Facilities Management industries. The strata platform manages the communications and accounting functions for apartment buildings, strata commercial towers and large housing communities. The facilities management platform manages the repair and maintenance for infrastructure, buildings, residential and commercial properties.

Xref (ASX:XF1) is a reference checking and identity verification platform. Its fully automated online reference checking platform allows employers to request one or multiple references in minutes and receive fast, honest feedback within 24 hours. It also enables employers to know who a candidate really is with RapidID, Xref's biometric identity verification solution.

We are more inclined to use the EV/Sales multiple than EV/EBITDA given that many of these companies are still loss making or just at the early stages of profitability. As the following exhibit shows, the media EV/Sales of this peer group is 5.4x, based on FY21 reported sales. This is at a significant (~230%) premium to the 1.6x FY21 sales implied in Schrole Group's share price. If we were to apply the peer multiple to our forecast for SCL's FY21 sales, the **implied valuation would be $0.022/share**.

Exhibit 18: SaaS/HR Peer comparison

Company	Code	Market Cap (A$M)	Enterprise value (A$m)	EV/Sales	EV/EBITDA	Gross profit margin (%)
8Common Ltd	8CO.AX	36.9	33.6	9.6	n.a	79.2%
Connexion Telematics Ltd	CXZ.AX	14.2	11.9	2.7	15.3	39.8%
Gratifii Ltd	GTI.AX	15.5	17.9	3.3	22.3	81.3%
Intellihr Ltd	IHR.AX	71.1	69.2	25.9	n.a	n.a
Knosys Ltd	KNO.AX	31.3	25.0	5.4	170.4	n.a
Livetiles Ltd	LVT.AX	119.6	105.9	2.4	n.a	n.a
Skyfii Ltd	SKF.AX	40.5	31.9	2.0	n.a	n.a
Urbanise com Ltd	UBN.AX	77.9	71.0	6.0	n.a	97.7%
Xref Ltd	XF1.AX	90.1	86.6	6.9	n.a	n.a
Median		**40.5**	**33.6**	**5.4**	**22.3**	**80.2%**
Schrole Group Ltd	SCL.AX	14.4	9.6	1.6	na	61.9%

Source: Refinitiv Eikon, RaaS analysis Prices at 30 September 2021

Note that of these SaaS peers that report gross profit, the margins are much higher than edtech peer group and in line with where you would expect SaaS peers to trade.

Valuation Summary

We use the discounted cashflow methodology as our primary method of valuing Schrole Group. We believe this is the most appropriate method for valuing Schrole Group 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 of $49.7m, with $0.02/share in the terminal value. Our valuation implies an EV/Sales multiple of 8.2x SCL's FY20 revenues and 7.9x our FY21 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 H1 FY22.

Exhibit 19: Base case DCF valuation

Parameters	Outcome
Discount Rate / WACC	15.0%
Beta	2.0
Terminal growth rate assumption	2.20%
CAGR in free cashflows in valuation	45.9%
Sum of PV ($M)	19.7
PV of terminal Value ($M)	26.8
PV of Enterprise ($M)	**46.4**
Debt (Cash) at 30 June ($M)	(3.3)
Net Value – Shareholder ($M)	**49.7**
No of shares on issue (M)	1424.3
NPV per share	**$0.035**

Source: RaaS estimates

Valuation Scenario Analysis

SCL's earnings and valuation are highly leveraged to a few key assumptions which reflect the underlying operational performance of the business. These include the number of new schools added, renewal rates per school, Average revenue per school, percentage of schools taking Engage, and growth rate in training revenues. In considering an upside/downside case, we have applied a 10% premium/10% discount to our base case parameters. This derives a downside case of $0.008/share, which is 12% below the current share price and assumes by year 10 that SCL's share of international schools is lower than it is today. On the upside, we have applied a 10% premium to our base case revenue and cost parameters, except in the case of renewal rates, which we modelled at 5% above our base case, and this generates an upside valuation of $0.075/share.

Exhibit 20: Valuation by scenario (base, downside, upside)

	Base	Downside	Upside
DCF valuation	$0.035	$0.008	$0.075
DCF A$M	49.7	11.3	107.0
Revenue FY21 (A$M)	5.9	5.7	6.0
EBITDA FY21 (A$M)	(0.2)	(0.3)	(0.2)
Revenue FY31 (A$M)	28.7	14.9	50.1
EBITDA FY31 (A$M)	18.7	5.6	39.2
CAGR in Revenue %	17.2%	10.0%	23.7%
CAGR in EBITDA %	38.0%	35.4%	43.9%
Share of international schools at year 10	6.2%	2.7%	11.3%
Implied EV/Revenue on FY21 sales (x)	7.9	1.1	11.6

Source: RaaS analysis

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Exhibit 21: 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)	(0.8)	(0.2)	(0.1)
Operating cash flow	(0.9)	(1.0)	(1.0)	0.9	1.9
Mtce capex	(0.2)	(0.0)	(0.1)	(0.1)	(0.2)
Free cash flow	(1.0)	(1.0)	(1.1)	0.7	1.7
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)	(2.1)	(0.3)	0.7
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	(2.1)	(0.3)	0.7
Balance sheet (A$m)					
Y/E 31 December	**FY19A**	**FY20A**	**FY21F**	**FY22F**	**FY23F**
Cash	2.0	5.1	3.0	2.8	3.5
Accounts receivable	0.5	0.6	0.7	0.9	1.1
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*	*4.8*
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	5.6	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	2.6	2.6	2.6
Total current liabilities	*4.6*	*4.3*	*3.7*	*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	3.9	4.0
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)	(16.0)
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 (4 October 2021)					A$	0.01
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)	0.3	0.4	0.5
Free Cash flow	(1.2)	0.6	(0.8)	0.9	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%)	6.0%	13.4%
Net Debt (Cash)		2.0	5.1	3.0	2.8	3.5
Net debt/EBITDA (x)	(x)	n/a	n/a	n/a	2.4	1.4
ND/ND+Equity (%)	(%)	73.6%	175.0%	220.0%	394.4%	1448.9%
EBIT interest cover (x)	(x)	n/a	n/a	n/a	- 0.1	- 0.0
ROA		(52.5%)	(35.7%)	(9.6%)	9.4%	24.5%
ROE		284.1%	(294.4%)	(67.3%)	22.5%	44.6%
ROIC		114.3%	83.7%	40.7%	(18.6%)	(98.0%)
NTA (per share)		n/a	0.00	0.00	0.00	0.00
Working capital		(0.8)	(0.6)	(0.4)	(0.2)	(0.1)
WC/Sales (%)		(13.7%)	(11.4%)	(6.4%)	(2.7%)	(0.8%)
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	-180%	184%
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)		-	-	-	33.8	11.9
PE market		18.6	18.6	18.6	18.6	18.6
Premium/(discount)		(100.0%)	(100.0%)	(100.0%)	81.5%	(36.1%)
EV/EBITDA		(6.1)	(12.6)	(49.5)	9.6	0.0
FCF/Share	cps	(0.1)	(0.1)	(0.1)	0.1	0.1
Price/FCF share		(12.7)	(15.1)	(15.2)	13.9	6.8
Free Cash flow Yield		(7.9%)	(6.6%)	(6.6%)	7.2%	14.7%

Source: RaaS Advisory

FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

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of

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