

Schrole Group Ltd

Q4 CY21 Results Analysis

Strong end to CY21, momentum building for CY22

Schrole Group Limited (ASX: SCL) is an Australian software company focused on providing technology solutions to the international education and training sector. Schrole HR has a suite of five established and emerging human resources Software-as-a-Service (SaaS) offerings including its core product, Schrole Connect, a SaaS-based staff recruitment platform. Schrole Group has reported Q4 CY21 cash receipts of \$1.7m, up 44% on the September quarter and 5.1% ahead of the same quarter in CY20. Significantly, the cash receipts reported for the December 2021 quarter only include 50% of the cash receipts from customer renewals (as opposed to 100% in 2020) due to the wind-down of the International Schools Services (ISS) partnership agreement. Cash costs demonstrated the benefit of the wind-down of the ISS arrangement, with product manufacturing and operating costs, excluding employees, more than halving on that reported in the same period a year ago. The company reported positive operating cashflow of \$0.276m for Q4 CY21, its best cash profit since Q3 CY19, signalling the company's recovery from the impact of COVID and the wind-down of the ISS relationship. From January 1, the shared invoicing with ISS ceased on all renewal customers, allowing Schrole to retain 100% of all renewing customers. We have maintained our forecasts for CY21 ahead of the company reporting its full-year results later this month and our DCF-derived base case valuation remains unchanged at \$0.03/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 school segment. SCL develops its software in-house, which enables more efficient development of the platform and new features while allowing for third-party integrations. In combination with SCL's strategy of active client engagement, and the conservative nature of decision-making processes inherent within the international schools segment (SCL's core customer base), the business has a clear competitive edge and highly defensible market position. We believe SCL has a considerable revenue growth opportunity within and across existing clients, driven by management's targeted expansion in contract value per customer from ~\$10kpa at present to ~\$30kpa as more modules are added over the next two years. At the same time, earnings quality is expected to improve as the termination of the ISS relationship results in expanded operating margins and recurring SaaS licence revenues with its share of total revenues trending higher.

Strong growth in Q4 cash receipts, up 44% quarter-on-quarter

Schrole Group delivered a 44% increase in Q4 CY21 cash receipts quarter-on-quarter and positive operating cashflow of \$0.276m, its first positive operating cashflow in CY21 and best result since Q3 CY19. The result demonstrates the benefit of ending the ISS relationship with product manufacturing and operating costs declining significantly. SCL invested in its sales team in the quarter with employee costs of \$1.03m, up 77% y-o-y and 17% q-o-q, although below our estimates, and this drove sales with customer numbers for Schrole Connect increasing 4% to 451 in the December quarter, new sales generated in Europe and the Americas and 51 schools secured to beta-test Schrole Engage ahead of its Q1 CY22 release.

Valuation of \$52.0m or \$0.03/share

We use the DCF methodology to value SCL (WACC 15.0%, terminal growth rate 2.2%) which derives an equity valuation of \$0.03/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)	(0.2)	1.7	n.a	n.a
12/21e	5.9	4.8	(0.2)	(0.5)	(0.0)	2.4	n.a	n.a
12/22e	7.1	7.0	1.2	0.5	0.0	1.8	10.7	37.9
12/23e	8.9	8.9	2.5	1.2	0.1	1.4	5.1	14.2

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

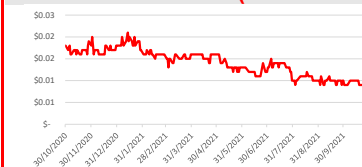
Software & Services

1st February 2022

Share Details

ASX code	SCL
Share price (31-Jan)	\$0.01
Market capitalisation	\$17.36M
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 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 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

Company Contacts

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*RaaS Advisory holds shares

Q4 CY21 Results Analysis

Cash receipts for the quarter were \$1.7m, an increase of 44% over the September quarter and up 5.1% on the same quarter in 2020, despite the fact that from July 1, Schrole reports only 50% of the cash receipts from renewal customers, as opposed to 100% in 2020, due to the wind-down of the ISS agreement. From Q3 CY21, the company invoiced 50% for renewals and 100% for new clients. This changing relationship is also reflected in the revenue-sharing payments to ISS (in product manufacturing and operating costs), which more than halved in the December quarter. As this relationship comes to an end, so too will these payments, thereby improving the group's margins. Schrole also reported software margins had increased to 37% in Q4, from 34% in Q3 and 26% in Q2 largely as a result of the end of the ISS relationship and its leverage to its fixed-cost base. These margins should expand as sales increase. Employee costs rose in the quarter, not unexpectedly, as the company grew the sales and account management team to retain existing clients and pursue new ones as well as target new geographies and strategic target markets. This paid off in Q4 with Schrole Group ending the quarter with 451 international school clients, the group's highest ever, up from 432 at the end of September. Schrole Group also achieved traction in the new geographic markets of Europe and the Americas, with invoiced sales of \$0.35m in the December quarter and a growing sales pipeline in these territories.

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

	Q4FY20	Q3FY21	Q4FY21
Cash receipts	1.62	1.18	1.70
Product manufacturing and operating costs	(0.98)	(0.37)	(0.22)
Employee costs	(0.49)	(1.13)	(1.03)
Admin, corporate and other costs	(0.08)	(0.40)	(0.18)
Net interest	0.00	0.00	0.00
Taxes	0.00	0.00	0.00
Other	0.06	0.00	0.02
Operating cashflow	0.13	(0.73)	0.28
Net cash at the end of the period	5.11	2.35	4.96
Source: Company data			

Costs came in lower than our forecasts, \$1.44m for the quarter versus our forecast for \$1.58m, although we had forecast slightly higher cash receipts at \$1.97m.

During the December quarter, Schrole completed an institutional placement raising \$2.5m and raised a further \$0.279m through a Share Purchase Plan. These together with the operating cash profit added to the company's quarter-end cash position of \$4.96m.

Outlook

Schrole noted that the new product releases in CY21, Schrole Events and Schrole Connect, together with the soon to be launched beta-testing on Schrole Engage had grown the company's sales pipeline, with several high-profile schools and school groups, not previously customers, undergoing free product trials or in contract negotiations.

Peer Comparison

We highlighted in our October 5 Initiation Report that Schrole is trading at a significant discount to two defined peer groups – edtech and SaaS/HR.

We have updated these peer comparison tables for the latest prices and this underscores that the gap between SCL and both peer groups remains. As Exhibit 2 following shows, the median EV/Sales multiple of the group of defined edtech peers is 6.6x (versus 6.9x at our 5 October initiation). If we were to apply this multiple to our CY21 revenue forecast of \$5.86m, the edtech peer valuation is \$0.027/share, which is a 270% premium to the current share price.

Exhibit 2: Edtech peer comparison

Company	Code	Market Cap. (A\$m)	Enterprise Value (A\$m)	EV/Sales (x)	EV/EBITDA (x)	Gross Profit Margin (%)
8VI Holdings	8VI	123.3	101.9	3.9	10.8	77.3
Cluey	CLU	104.1	76.0	7.5	nm	55.3
Janison Education Group	JAN	295.7	275.9	9.1	389.0	55.2
Kip McGrath Education Centres	KME	57.8	55.0	2.9	11.7	93.3
Kneomedia	KNM	16.7	16.7	71.4	nm	n.a
Openlearning	OLL	19.1	10.8	5.7	nm	68.7
ReadCloud	RCL	28.1	22.6	3.1	nm	56.9
Readytech Holdings	RDY:	354.1	375.7	7.5	19.9	93.1
Median		80.9	65.5	6.6	15.8	68.7
Schrole Group	SCL	17.4	12.4	2.1	na	61.9

Source: Refinitiv Eikon, RaaS analysis; *Prices at 31 January 2022

Similarly, the median SaaS/HR peer multiple has increased to 3.9x (versus 5.4x at initiation) and this translates into a SaaS/HR peer valuation of \$0.016/share, which is a 160% premium to the current share price of \$0.01/share.

Exhibit 3: SaaS/HR peer comparison

Company	Code	Market Cap. (A\$m)	Enterprise Value (A\$m)	EV/Sales	EV/EBITDA	Gross Profit Margin (%)
8Common Ltd	8CO	36.6	33.3	9.5	na	79.2
Connexion Telematics Ltd	CXZ	10.6	8.2	1.8	10.6	39.8
Gratifi Ltd	GTI	18.9	21.2	3.9	26.4	81.3
Intellihr Ltd	IHR	57.6	55.8	20.8	na	n.a
Knosys Ltd	KNO	29.2	22.9	5.0	155.9	n.a
Livetiles Ltd	LVT	68.9	55.2	1.2	na	n.a
Skyfii Ltd	SKF	34.2	25.6	1.6	na	n.a
Urbanise com Ltd	UBN	41.3	34.4	2.9	na	97.7
Xref Ltd	XF1	127.9	124.4	9.9	na	n.a
Median		36.6	33.3	3.9	26.4	80.20
Schrole Group Ltd	SCL	17.4	12.4	2.1	na	61.9

Source: Refinitiv Eikon, RaaS analysis; *Prices at 31 January 2022

DCF Valuation

We use the discounted cashflow (DCF) methodology as our primary method of valuing Schrole Group. We believe this is the most appropriate method for valuing SCL given its early-stage nature. We use a WACC of 15.0% based on a beta of 2.0 (versus the observed beta of 1.01 from Refinitiv Eikon), and a terminal growth rate of 2.2%. In our view a 50% risk premium to the broader market is appropriate at this point in Schrole Group's timeline, given on a full-year-basis for CY21 it will still be loss-making. Although, the end of the ISS partnership will significantly improve margins and put the company on the path to profitability as we have seen with the Q4 result. This derives a base case valuation of \$0.03/share or \$52.0m, with \$0.017/share in the terminal value. Our valuation implies an EV/Sales multiple of 8.3x SCL's CY20 revenues and 8.0x our CY21 revenue forecast which would put it at a premium to the peer group multiples discussed earlier. However, we note that more than 60% of these peers are still loss-making while our expectation is for Schrole Group to move into profitability in H1 CY22.

Exhibit 4: DCF valuation

Parameters	Outcome
WACC	15.0%
Beta	2.0
Terminal growth rate	2.2%
CAGR in FCF FY23-FY30	50.6%
Sum of PV (A\$m)	19.6
PV of terminal value (A\$m)	27.6
PV of enterprise	47.2
Net debt (at 31 December 2021)	-4.8
Net value - shareholder	52.0
No. of shares on issue	1739.4
NPV in A\$	\$0.030

Source: RaaS estimates

Exhibit 5: Financial Summary

Schrode Group Ltd (ASX:SCL)						Share price (31st January 2022)						A\$	0.01
Profit and Loss (A\$m)						Interim (A\$m)							
Y/E 31 December	FY19A	FY20A	FY21F	FY22F	FY23F		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	
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	
Gross Profit	2.9	3.3	4.8	7.0	8.9	NPAT (normalised)	(0.8)	(1.2)	(0.3)	(0.2)	0.2	0.3	
EBITDA underlying	(1.1)	(0.8)	(0.2)	1.2	2.5	Minorities	-	-	-	-	-	-	
Depn	(0.2)	(0.2)	(0.1)	(0.1)	(0.1)	NPAT (reported)	(0.9)	(1.3)	(0.7)	(0.6)	0.2	0.3	
Amort	(0.6)	(1.0)	(0.3)	(0.5)	(0.7)	EPS (normalised)	(0.09)	(0.10)	(0.02)	(0.01)	0.01	0.02	
EBIT underlying	(1.9)	(1.9)	(0.6)	0.6	1.6	EPS (reported)	(0.10)	(0.11)	(0.05)	(0.04)	0.01	0.02	
Interest	(0.0)	(0.0)	0.1	0.1	0.1								
Tax	0.0	0.0	0.0	(0.2)	(0.5)	Operating cash flow	(1.4)	0.4	(1.3)	(0.5)	0.3	0.5	
Minorities	0.0	0.0	0.0	0.0	0.0	Free Cash flow	(1.2)	0.6	(0.8)	(0.1)	0.9	1.1	
Equity accounted assoc	0.0	0.0	0.0	0.0	0.0								
NPAT pre significant items	(2.0)	(2.0)	(0.5)	0.5	1.2	Divisions	H120A	H220A	H121A	H221F	H122F	H222F	
Significant items	0.0	(0.2)	(0.8)	0.0	0.0	Software revenue	2.2	2.5	2.2	2.1	2.4	2.5	
NPAT (reported)	(2.0)	(2.2)	(1.3)	0.5	1.2	Training revenue	0.7	0.5	0.5	0.6	0.8	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	FY21F	FY22F	FY23F	Sales revenue	2.9	3.0	3.1	2.7	3.1	3.4	
EBITDA	(1.1)	(0.8)	(0.2)	1.2	2.5	COGS	(2.2)	(1.0)	(1.4)	(0.6)	(0.5)	(0.0)	
Interest	0.0	0.0	(0.0)	0.1	0.1	Employment	(1.1)	(1.5)	(1.3)	(1.6)	(1.8)	(2.0)	
Tax	0.0	0.0	0.0	(0.2)	(0.5)	Operating costs	(1.1)	(0.8)	(0.9)	(0.7)	(0.8)	(0.9)	
Working capital changes	0.3	(0.2)	(1.5)	(0.3)	(0.2)								
Operating cash flow	(0.9)	(1.0)	(1.8)	0.8	1.8	Software EBITDA	0.7	(0.2)	0.9	1.1	1.6	1.9	
Mtce capex	(0.2)	(0.0)	(0.0)	(0.1)	(0.2)	Training EBITDA	0.1	0.0	0.1	0.2	0.3	0.2	
Free cash flow	(1.0)	(1.0)	(1.8)	0.7	1.6	Corporate EBITDA	(1.0)	(0.3)	(1.2)	(1.3)	(1.4)	(1.5)	
Growth capex	(0.6)	(0.4)	(0.9)	(1.0)	(1.0)	EBITDA	(0.3)	(0.5)	(0.2)	0.0	0.5	0.7	
Acquisitions/Disposals	0.0	0.0	0.0	0.0	0.0								
Other	0.0	0.0	0.0	0.0	0.0	Margins, Leverage, Returns		FY19A	FY20A	FY21F	FY22F	FY23F	
Cash flow pre financing	(1.7)	(1.4)	(2.7)	(0.3)	0.6	EBITDA		(20.3%)	(13.5%)	(3.8%)	16.7%	27.5%	
Equity	2.0	5.0	2.8	0.0	0.0	EBIT		(34.3%)	(33.6%)	(10.1%)	8.0%	18.2%	
Debt	0.0	(0.0)	(0.1)	0.0	0.0	NPAT pre significant items		(35.1%)	(34.5%)	(9.0%)	6.5%	13.7%	
Dividends paid	0.0	0.0	0.0	0.0	0.0	Net Debt (Cash)		2.0	5.1	5.0	4.7	5.3	
Net cash flow for year	0.3	3.6	0.0	(0.3)	0.6	Net debt/EBITDA (x)	(x)	n/a	n/a	n/a	3.9	2.2	
Balance sheet (A\$m)						ND/ND+Equity (%)	(%)	73.6%	175.0%	486.0%	1813.5%	(1665.4%)	
Y/E 31 December	FY19A	FY20A	FY21F	FY22F	FY23F	EBIT interest cover (x)	(x)	n/a	n/a	n/a	-	0.1	
Cash	2.0	5.1	5.0	4.7	5.3	ROA		(52.5%)	(35.7%)	(8.2%)	7.1%	18.4%	
Accounts receivable	0.5	0.6	1.0	1.3	1.6	ROE		284.1%	(294.4%)	(42.3%)	11.0%	24.4%	
Inventory	0.0	0.0	0.0	0.0	0.0	ROIC		114.3%	83.7%	46.5%	(21.8%)	(70.0%)	
Other current assets	0.2	0.2	0.2	0.2	0.2	NTA (per share)		n/a	0.00	0.00	0.00	0.00	
Total current assets	2.7	5.9	6.2	6.1	7.1	Working capital		(0.8)	(0.6)	(0.1)	0.2	0.4	
PPE	0.1	0.1	0.1	0.1	0.2	WC/Sales (%)		(13.7%)	(11.4%)	(0.9%)	2.8%	4.7%	
Intangibles and Goodwill	1.1	0.5	1.2	1.7	2.0	Revenue growth		113.8%	1.3%	3.3%	20.9%	25.9%	
Investments	0.0	0.0	0.0	0.0	0.0	EBIT growth pa		n/a	n/a	n/a	-196%	187%	
Deferred tax asset	0.0	0.0	0.0	0.0	0.0	Pricing		FY19A	FY20A	FY21F	FY22F	FY23F	
Other non current assets	0.1	0.3	0.3	0.3	0.3	No of shares (y/e)	(m)	890	1,473	1,674	1,674	1,674	
Total non current assets	1.3	0.9	1.6	2.1	2.4	Weighted Av Dil Shares	(m)	761	1,136	1,403	1,674	1,674	
Total Assets	4.0	6.7	7.8	8.2	9.5	EPS Reported	cps	(0.3)	(0.2)	(0.1)	0.0	0.1	
Accounts payable	1.2	1.2	1.1	1.1	1.2	EPS Normalised/Diluted	cps	(0.3)	(0.2)	(0.0)	0.0	0.1	
Short term debt	0.0	0.0	0.0	0.0	0.0	EPS growth (norm/dil)		n/a	n/a	n/a	-175%	167%	
Tax payable	0.0	0.0	0.0	0.0	0.0	DPS	cps	-	-	-	-	-	
Other current liabilities	3.4	3.1	2.5	2.5	2.5	DPS Growth		na	n/a	n/a	n/a	n/a	
Total current liabilities	4.6	4.3	3.6	3.6	3.7	Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%	
Long term debt	0.0	0.0	0.0	0.0	0.0	Dividend imputation		0	0	0	0	0	
Other non current liabs	0.0	0.2	0.2	0.2	0.2	PE (x)		-	-	-	36.5	13.7	
Total long term liabilities	0.0	0.2	0.2	0.2	0.2	PE market		18.6	18.6	18.6	18.6	18.6	
Total Liabilities	4.7	4.6	3.8	3.8	3.9	Premium/(discount)		(100.0%)	(100.0%)	(100.0%)	96.3%	(26.5%)	
Net Assets	(0.7)	2.2	3.9	4.4	5.6	EV/EBITDA		(6.1)	(12.6)	(60.8)	10.1	0.0	
Share capital	14.8	19.8	22.9	22.9	22.9	FCF/Share	cps	(0.1)	(0.1)	(0.1)	0.1	0.1	
Accumulated profits/losses	(16.5)	(16.5)	(18.0)	(17.5)	(16.3)	Price/FCF share		(12.7)	(15.1)	(9.6)	17.4	8.3	
Reserves	1.0	(1.1)	(1.0)	(1.0)	(1.0)	Free Cash flow Yield		(7.9%)	(6.6%)	(10.4%)	5.7%	12.0%	
Minorities	0.0	0.0	0.0	0.0	0.0								
Total Shareholder funds	(0.7)	2.2	3.9	4.4	5.6								

Source: Company data, RaaS estimates

FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

ABN 99 614 783 363

Corporate Authorised Representative, number 1248415

of

BR SECURITIES AUSTRALIA PTY LTD

ABN 92 168 734 530

AFSL 456663

Effective Date: 6th May 2021

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