

Schrole Group Ltd

CY21 Results Analysis

Investing for growth

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 delivered a 40.3% improvement in CY21 gross profit to \$4.7m, which translated into a gross profit margin of 89%. The gross profit margin was ahead of our forecast for 82% and reflects the benefit of the wind-down of the revenue-sharing agreement with International School Services. From January 1, the shared invoicing with ISS ceased on all renewal customers, allowing Schrole to retain 100% of all renewing customers. Underlying EBITDA improved to a loss of \$0.6m, a 25.8% reduction on FY20, while the underlying NPAT loss was \$1.0m, a 47.7% improvement on FY20, although below our forecast for a net loss of \$0.5m. Schrole Group invested additional resources in people and sales and marketing in CY2021 in anticipation of the end of the ISS agreement and in advance of the February 2022 launch of Schrole Engage 1.0 and its strategy to expand its presence in Europe and North America. We have adjusted our CY2022 and CY2023 cost base to reflect further human capital and marketing investment. We have also rolled our model for the new financial year and this has resulted in our DCF-derived base-case valuation increasing to \$0.031/share (previously \$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 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.

Strong growth in gross profit margin, now at 93%

Schrole Group delivered a 51.2% increase in gross profit margin to 89% in CY2021, driven by the wind-down of the ISS agreement which ceases from 1 July 2022. The GP margin was ahead of our forecast for 82%. Sales revenues for the year were \$5.26m, down 7% on the pcp due to software revenues (down 15%) being impacted by the amended ISS agreement, offset somewhat by a 31% improvement in training revenues, continuing a post-pandemic recovery. SCL invested in its sales team in CY2021 as it rolled out the remaining modules of the Schrole HR suite, lifting employment costs 27% year-on-year. Schrole's investment in sales and marketing increased 267% to \$0.22m and IT expenses rose 28% to \$0.43m as the company readied the business to go it alone. We have captured additional sales and marketing and employee costs in our forward estimates and anticipate that this will translate into increased revenues in CY2022 and CY2023.

Valuation of \$53.5m or \$0.031/share (previously \$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 \$0.031/share (previously \$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)	(0.17)	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

7th March 2022

Share Details

ASX code	SCL
Share price (4-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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CY2021 Results Analysis

Schrole Group reported its best-ever gross profit margin in CY2021 with a 38.6% lift in margin to 93%, from 67% a year before and above our forecast for 82%. The improved margin was in spite of a 7.3% decline in revenues, driven by a 15% decline in software revenues due to the wind-down of the ISS agreement. Going forward, SCL's gross profit margin should be maintained at 90%+. The company demonstrated improvement in its underlying EBITDA loss and NPAT loss, largely as a result of the growth in gross profit, while also investing in both additional employees (predominantly sales staff), sales and marketing, and IT expenditure as part of its product suite expansion (Schrole Connect 3.0, Schrole Events 1.0 and Schrole Engage 1.0) and push into the new regions of Europe and the Americas.

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

Year ending December 31	FY20	FY21	% chg	RaaS fct
Sales revenue	5.7	5.3	(7.3%)	5.9
Total revenue	6.1	5.5	(10.9%)	5.9
Gross profit	3.3	4.7	40.3%	4.8
GP margin %	59%	89%	51.2%	82%
EBITDA underlying	(0.8)	(0.6)	(25.8%)	(0.2)
NPAT underlying	(2.0)	(1.0)	(47.7%)	(0.5)
NPAT reported	(2.2)	(2.4)	12.0%	(1.3)
EPS underlying	(0.2)	(0.1)	(58.9%)	(0.0)

Source: Company data

Earnings Adjustments

We have kept our revenues forecasts largely unchanged for CY2022 and CY2023 but have adjusted our cost forecasts to reflect our expectation that the company will maintain its sales and marketing efforts and increase its investment in people as it moves into new regions.

Exhibit 2: Earnings adjustments for CY2022 and CY2023 (in A\$m unless otherwise stated)

Year ending December 31	FY22 old	FY22 new	FY23 old	FY23 new
Sales revenues	7.09	7.13	8.92	8.92
EBITDA	1.19	0.69	2.45	1.66
NPAT	0.44	0.18	1.22	0.66
EPS	0.03	(0.00)	0.07	0.04

Source: RaaS estimates

DCF Valuation

We use the discounted cashflow (DCF) methodology to value Schrole Group and believe it is the most appropriate method for valuing the company given its early-stage nature. We use a WACC of 15.0% based on a beta of 2.0 (versus the observed beta of 1.14 from Refinitiv Eikon), and a terminal growth rate of 2.2%. In our view a significant risk premium to the broader market is appropriate at this point in Schrole Group's timeline. This derives a base-case valuation of \$0.031/share or \$53.5m, with \$0.018/share in the terminal value. Our valuation implies an EV/Sales multiple of 9.2x SCL's CY21 revenues and 6.8x our CY22 revenues forecast.

Exhibit 3: DCF valuation

Parameters	Outcome
WACC	15.0%
Beta	2.0
Terminal growth rate	2.2%
CAGR in FCF FY23-FY30	39.4%
Sum of PV (A\$m)	19.5
PV of terminal value (A\$m)	29.1
PV of enterprise	48.6
Net debt (at 31 December 2021)	-4.8
Net value - shareholder	53.5
No. of shares on issue	1739.4
NPV in A\$	\$0.031

Source: RaaS estimates

Exhibit 5: Financial Summary

Schrode Group Ltd (ASX:SCL)						Share price (3 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								
Tax payable	0.0	0.0	0.0	0.0	0.0	EPS Reported		cps	(0.3)	(0.2)	(0.2)	(0.0)	0.0
Other current liabilities	3.4	3.1	2.4	2.4	2.4	EPS Normalised/Diluted		cps	(0.3)	(0.2)	(0.1)	(0.0)	0.0
Total current liabilities	4.6	4.3	3.3	3.6	3.7	EPS growth (norm/dil)			n/a	n/a	n/a	n/a	-2878%
Long term debt	0.0	0.0	0.0	0.0	0.0	DPS		cps	-	-	-	-	-
Other non current liabs	0.0	0.2	0.1	0.1	0.1	DPS Growth			na	n/a	n/a	n/a	n/a
Total long term liabilities	0.0	0.2	0.1	0.1	0.1	Dividend yield			0.0%	0.0%	0.0%	0.0%	0.0%
Total Liabilities	4.7	4.6	3.4	3.7	3.8	Dividend imputation			0	0	0	0	0
Net Assets	(0.7)	2.2	3.7	3.7	4.3	PE (x)			-	-	-	-	23.7
						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

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

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 - Securities
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