

Schrole Group Ltd

Q1 CY22 Results Analysis

Demonstrating the benefit of being masters of own destiny

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 Q1 CY22 cash receipts of \$1.05m, up 14.5% on the same quarter in CY21. Significantly, the cash receipts reported for the March 2022 quarter only include 50% of the cash receipts from customer renewals (as opposed to 100% in 2021) due to the wind-down of the International Schools Services (ISS) partnership agreement. Cash costs continued to demonstrate the benefit of exiting the ISS agreement, with product manufacturing and operating costs, excluding employees, declining 67.5% on that reported in the same period a year ago. Employee costs increased 46% year-on-year but were down 6% on Q4 CY21. The company reported a 25% reduction in operating cash outflows in Q1 CY22 compared with that reported in Q1 CY21, the result of increased cash receipts and \$0.39m less paid to ISS. We have maintained our forecasts for CY22 and our DCF-derived base case valuation remains unchanged at \$0.03/share.

Business model

Schrole generates revenues 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. 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.

Good growth in Q1 cash receipts, up 14.5% quarter-on-quarter

Schrole Group delivered a 14.5% increase in Q1 CY22 cash receipts quarter-on-quarter and a 24.8% reduction in operating cash outflows of \$0.47m compared with \$0.62m in Q1 CY21, demonstrating the benefit of ending the ISS relationship with product manufacturing costs declining significantly. SCL ended Q1 CY22 with \$4.06m in net cash. SCL continued to invest in human capital in the quarter with employee costs of \$0.97m, up 46% y-o-y but down 6.2% on Q4 CY21, and in-line with our estimates. The investment in sales staff is driving revenues with a 10% increase in invoiced sales for all Schrole HR products and product take-up. At the end of the March quarter, the company had 542 invoiced customers taking 1.43 products each on average.

Valuation of \$52.7m 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 revenues	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)	1.18	n.a	n.a
12/21a	5.3	4.7	(0.6)	(1.0)	(0.1)	2.02	n.a	n.a
12/22e	7.1	7.1	0.7	0.2	(0.0)	1.37	14.14	n.a
12/23e	8.9	8.9	1.7	0.7	0.04	1.15	6.17	21.0

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

Software & Services

2nd May 2022

Share Details

ASX code	SCL
Share price (29-Apr)	\$0.008
Market capitalisation	\$13.9M
Shares on issue*	1,739M
Net cash 31-Mar-22	\$4.06M
Free float	~51.7%

*pre-proposed 1-for-50 consolidation

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

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*RaaS Advisory holds shares

Q1 CY22 Results Analysis

Cash receipts for the quarter were \$1.05m, an increase of 14.5% over the same quarter a year ago but down 38% on the December 2021 quarter, the company's seasonally strongest quarter. The year-on-year increase reflects the wind-down of the ISS agreement. From Q3 CY21, the company invoiced 50% for renewals and 100% for new clients. From July 1, 2022, 100% of renewals will be retained by Schrole. This changing relationship is also reflected in the revenue-sharing payments to ISS (in product manufacturing and operating costs), which declined 67.5% in Q1 CY22 over Q1 CY21. As this relationship comes to an end, so too will these payments, thereby improving the group's margins. Employee costs rose year-on-year, 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 Q1 with Schrole Group ending the quarter with the Schrole community increasing to an all-time high of 334,803, up 4% on Q4 CY21 and 5% y-o-y. The company also noted that it now had 542 invoiced customers using 1.43 products on average.

Exhibit 1: Q1CY21 versus Q1CY22 and Q4CY21 (in A\$m unless otherwise stated)

	Q1CY21	Q4CY21	Q1CY22	% change on Q1 CY21
Cash receipts	0.92	1.70	1.05	14.5
Product manufacturing and operating costs	(0.59)	(0.22)	(0.19)	(67.5)
Employee costs	(0.66)	(1.03)	(0.97)	46.1
Admin, corporate and other costs	(0.30)	(0.18)	(0.36)	21.4
Net interest	0.00	0.00	0.00	(33.3)
Taxes	0.00	0.00	0.00	Nm
Other	0.01	0.02	0.00	(85.7)
Operating cashflow	(0.62)	0.28	(0.47)	(24.8)
Net cash at the end of the period	4.28	4.96	4.06	(5.2)

Source: Company data

Outlook

Schrole highlighted that unfettered by the ISS deal, it is now able to sell directly worldwide and in March 2022, launched a new sales strategy to put people on the ground in target regions. The company anticipates it will have sales teams in place in the United Arab Emirates and Thailand in Q3 CY22. It is also developing a sales strategy to renew its focus on Australia, with sales launches slated for Q3 CY22 in Victoria and NSW.

Peer Comparison

We highlighted in our 5 October 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 4.6x (versus 6.9x at our 5 October initiation and 6.6x in our January 2022 report). If we were to apply this multiple to our CY22 revenues forecast of \$7.1m, the edtech peer valuation is \$0.021/share, which is a 165% premium to the current share price.

Similarly, the median SaaS/HR peer multiple has reduced to 3.3x (versus 5.4x at initiation) and this translates into a SaaS/HR peer valuation of \$0.0165/share, which is a 107% premium to the current share price of \$0.008/share, which we set out in Exhibit 3 on the following page.

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	95.3	73.8	2.8	7.9	77.3
Cluey	CLU	110.2	82.2	8.1	nm	55.3
Janison Education Group	JAN	197.8	178.0	5.9	251.0	55.2
Kip McGrath Education Centres	KME	65.5	62.7	3.3	13.4	93.3
Kneomedia	KNM	35.0	35.0	149.3	nm	n.a
Openlearning	OLL	11.1	6.7	1.9	nm	68.7
ReadCloud	RCL	29.9	24.4	3.3	nm	56.9
Readytech Holdings	RDY:	351.7	373.3	7.5	19.8	93.1
Median		80.4	68.3	4.6	16.6	68.7
Schrole Group	SCL	13.9	9.9	1.4	na	61.9

Source: Refinitiv Eikon, RaaS analysis; *Prices at 28 April 2022

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	27.7	24.5	7.0	na	79.2
Connexion Telematics Ltd	CXZ	8.8	6.5	1.4	8.3	39.8
Gratifi Ltd	GTI	17.2	19.6	3.6	24.3	81.3
Intellihr Ltd	IHR	50.8	49.0	18.3	na	n.a
Knosys Ltd	KNO	21.6	15.3	3.3	104.2	n.a
Livetiles Ltd	LVT	78.4	64.7	1.4	na	n.a
Skyfii Ltd	SKF	36.8	28.2	1.8	na	n.a
Urbanise com Ltd	UBN	25.4	18.5	1.6	na	97.7
Xref Ltd	XF1	98.1	94.7	7.5	na	n.a
Median		27.7	24.5	3.3	24.3	80.2
Schrole Group Ltd	SCL	13.9	9.9	1.4	na	61.9

Source: Refinitiv Eikon, RaaS analysis; *Prices at 28 April 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 the company is still loss-making on an operating cashflow basis, although we are forecasting Schrole will be cashflow positive in CY22. This derives a base-case valuation of \$0.03/share or \$52.7m, with \$0.018/share in the terminal value. Our valuation implies an EV/Sales multiple of 9.4x SCL's CY21 revenues and 6.8x our CY21 revenues 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	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 March 2022)	(4.1)
Net value - shareholder	52.7
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 (29 April 2022)						A\$	0.008
Profit and Loss (A\$m)						Interim (A\$m)							
Y/E 31 December	FY19A	FY20A	FY21A	FY22F	FY23F	Revenue	H120A	H220A	H121A	H221A	H122F	H222F	
						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							
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)	Software EBITDA	0.7	(0.2)	0.9	0.7	1.1	1.4	
Free cash flow	(1.0)	(1.0)	(1.8)	(0.2)	1.1	Training EBITDA	0.1	0.0	0.1	0.3	0.5	0.5	
Growth capex	(0.6)	(0.4)	(0.9)	(1.0)	(1.0)	Corporate EBITDA	(1.0)	(0.3)	(1.2)	(1.4)	(1.4)	(1.5)	
Acquisitions/Disposals	0.0	0.0	0.0	0.0	0.0	EBITDA	(0.3)	(0.5)	(0.2)	(0.4)	0.2	0.3	
Other	0.0	0.0	0.0	0.0	0.0								
Cash flow pre financing	(1.7)	(1.4)	(2.7)	(1.2)	0.1	Margins, Leverage, Returns							
Equity	2.0	5.0	2.8	0.0	0.0			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							
Total Assets	4.0	6.7	7.1	7.4	8.2	No of shares (y/e)	(m)	890	1,473	1,739	1,739	1,739	
Accounts payable	1.2	1.2	0.9	1.2	1.3	Weighted Av Dil Shares	(m)	761	1,136	1,446	1,739	1,739	
Short term debt	0.0	0.0	0.0	0.0	0.0	EPS Reported	cps	(0.3)	(0.2)	(0.2)	(0.0)	0.0	
Tax payable	0.0	0.0	0.0	0.0	0.0	EPS Normalised/Diluted	cps	(0.3)	(0.2)	(0.1)	(0.0)	0.0	
Other current liabilities	3.4	3.1	2.4	2.4	2.4	EPS growth (norm/dil)		n/a	n/a	n/a	n/a	-2878%	
Total current liabilities	4.6	4.3	3.3	3.6	3.7	DPS	cps	-	-	-	-	-	
Long term debt	0.0	0.0	0.0	0.0	0.0	DPS Growth		na	n/a	n/a	n/a	n/a	
Other non current liabs	0.0	0.2	0.1	0.1	0.1	Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%	
Total long term liabilities	0.0	0.2	0.1	0.1	0.1	Dividend imputation		0	0	0	0	0	
Total Liabilities	4.7	4.6	3.4	3.7	3.8	PE (x)		-	-	-	-	21.0	
Net Assets	(0.7)	2.2	3.7	3.7	4.3	PE market		18.6	18.6	18.6	18.6	18.6	
Share capital	14.8	19.8	23.2	23.2	23.2	Premium/(discount)		(100.0%)	(100.0%)	(100.0%)	(100.0%)	13.1%	
Accumulated profits/losses	(16.5)	(16.5)	(18.7)	(18.7)	(18.1)	EV/EBITDA		(4.5)	(8.7)	(18.4)	14.1	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		(10.1)	(12.1)	(8.0)	439.0	9.8	
Total Shareholder funds	(0.7)	2.2	3.7	3.7	4.3	Free Cash flow Yield		(9.9%)	(8.3%)	(12.5%)	0.2%	10.2%	

Source: Company data, RaaS estimates

FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

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Corporate Authorised Representative, number 1248415

of

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Effective Date: 6th May 2021

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