

Schrole Group Ltd

Company Update

Rio Tinto purchase order underpins H1 CY23 outlook

Schrole Group Ltd (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 announced it has received purchase orders of \$0.3m from Rio Tinto (ASX:RIO) for on-the-job training across the company's Western Australian facilities for Q1 CY23. This represents a 27% increase in invoiced sales for the quarter against the previous corresponding period in CY22 and is well ahead of our forecast for 15% growth in revenue from training for H1 CY23. We have made no changes to our forecasts following this announcement but pleased it underpins our forecasts for CY23. Our DCF-derived base-case valuation remains unchanged at \$1.15/share.

Business model

Schrole generates revenue from both transactional services and the sale of subscription licences to its proprietary software modules, which are designed to provide a sophisticated recruitment, onboarding 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 schools take up more Schrole modules.

Training purchase order sets up Q1 CY23 growth

Schrole Group has announced that existing customer Rio Tinto (ASX:RIO) has made a purchase order of \$300,000 for on-the-job training across Rio facilities in WA in Q1 CY23. Schrole Develop will provide 25 courses for approximately 200 staff across Rio's WA facilities, which equates to a 27% increase in course delivery compared to the equivalent training provided in the prior corresponding period. The courses will be invoiced in Q1 CY23. We are forecasting \$1m in revenue from Schrole's training division in H1 CY23 so this contract puts the company well on the way to meeting and potentially exceeding our forecasts, which also factor in 15% year-on-year growth. The contract is in addition to work Schrole is currently doing in Guinea on behalf of Rio Tinto, where it has been engaged to assess capabilities and governance of selected universities and vocational education schools in Guinea and provide recommendations to support the training of the proposed workforce for Rio Tinto's Simandou iron ore project in that country. Schrole has previously worked with Rio Tinto in Mongolia to upskill more than 2,000 vocational teachers to Australian standards. We have made no changes to our forecasts following the announcement but pleased to note that it well underpins our forecasts from training for H1 CY23.

Valuation of \$40m or \$1.15/share

We use the DCF methodology to value SCL (WACC 15.1%, terminal growth rate 2.2%) which derives an equity valuation of \$1.15/share. Our valuation incorporates our expectation that SCL will move to positive EBITDA in H2 CY23 and that the company generates a 10-year CAGR in revenue of 17.8%.

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)
12/20a	5.7	3.3	(0.8)	(2.0)	(8.6)	1.23
12/21a	5.3	4.7	(0.6)	(1.0)	(3.5)	2.09
12/22f	5.6	5.6	(0.6)	(1.1)	(3.7)	1.95
12/23f	7.0	7.0	0.1	(0.5)	(1.3)	1.74

Source: Company data, RaaS estimates for FY22f, FY23f; *Adjusted for one-time, significant and non-cash items, including share-based payments; *Adjusted for share consolidation

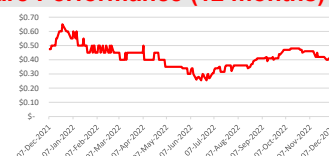
Software & Services

8th December 2022

Share Details

ASX code	SCL
Share price (7-Dec)	\$0.41
Market capitalisation	\$14.3M
Shares on issue	34.8M
Net cash 30-Sep-22	\$2.64M
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
- Investment in sales, marketing and accounts management resources result in lift in global sales and expanded markets

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

James King	Non-Executive Chairman
Robert Graham	Managing Director
Colm O'Brien	Non-Executive Director
Guy Perkins	Non-Executive Director

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*RaaS Advisory holds shares

Exhibit 1: Financial Summary

Schrole Group Ltd (ASX:SCL)						Share price (7 December 2022)						A\$	0.41
Profit and Loss (A\$m)						Interim (A\$m)							
Y/E 31 December	CY19A	CY20A	CY21A	CY22F	CY23F	ARR (US\$m)	H121A	H221A	H122A	H222F	H123F	H223F	
ARR (US\$m)	3.2	3.6	3.2	3.3	4.0	Revenue	2.7	2.8	2.5	3.2	3.2	3.8	
Sales Revenue (A\$m)	5.6	5.7	5.3	5.6	7.0	EBITDA	(0.2)	(0.4)	(0.7)	(0.2)	(0.2)	0.3	
Gross Profit	2.9	3.3	4.7	5.6	7.0	EBIT	(0.4)	(0.6)	(1.0)	(0.5)	(0.6)	(0.1)	
EBITDA underlying	(1.1)	(0.8)	(0.6)	(0.6)	0.1	NPAT (normalised)	(0.3)	(0.7)	(0.9)	(0.4)	(0.4)	(0.1)	
Depn	(0.2)	(0.2)	(0.1)	(0.1)	(0.1)	Minorities	-	-	-	-	-	-	
Amort	(0.6)	(1.0)	(0.3)	(0.5)	(0.7)	NPAT (reported)	(0.7)	(1.7)	(1.2)	(0.4)	(0.4)	(0.1)	
EBIT underlying	(1.9)	(1.9)	(1.0)	(1.3)	(0.7)	EPS (normalised)	(1.14)	(2.38)	(2.65)	(1.04)	(1.13)	(0.21)	
Interest	(0.0)	(0.0)	(0.1)	0.1	0.0	EPS (reported)	(2.54)	(4.98)	(3.38)	(1.04)	(1.13)	(0.21)	
Tax	0.0	0.0	0.0	0.1	0.2	Operating cash flow	(1.3)	(0.4)	(0.8)	(0.1)	(0.2)	0.2	
Minorities	0.0	0.0	0.0	0.0	0.0	Free Cash flow	(0.8)	(0.1)	(0.0)	0.4	0.3	0.7	
Equity accounted assoc	0.0	0.0	0.0	0.0	0.0	Divisions	H121A	H221A	H122A	H222F	H123F	H223F	
NPAT pre significant items	(2.0)	(2.0)	(1.0)	(1.1)	(0.5)	Software revenue	2.1	1.9	1.6	2.0	2.2	2.5	
Significant items	0.0	(0.2)	(1.4)	0.0	0.0	Training revenue	0.6	0.7	0.9	1.1	1.0	1.3	
NPAT (reported)	(2.0)	(2.2)	(2.4)	(1.1)	(0.5)	Corporate revenue	0.0	0.2	0.0	0.0	0.0	0.0	
Cash flow (A\$m)						Sales revenue	2.7	2.8	2.5	3.2	3.2	3.8	
Y/E 31 December	CY19A	CY20A	CY21A	CY22F	CY23F	COGS	(0.6)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	
EBITDA	(1.1)	(0.8)	(0.6)	(0.6)	0.1	Employment	(1.6)	(1.9)	(2.0)	(2.1)	(2.2)	(2.2)	
Interest	0.0	0.0	0.0	0.0	0.0	Operating costs	(0.7)	(1.2)	(1.1)	(1.2)	(1.2)	(1.3)	
Tax	0.0	0.0	0.0	0.0	0.0	Software EBITDA	0.9	0.5	0.4	0.8	0.9	1.2	
Working capital changes	0.3	(0.2)	(1.2)	(0.2)	(0.1)	Training EBITDA	0.1	0.3	0.5	0.7	0.6	0.9	
Operating cash flow	(0.9)	(1.0)	(1.8)	(0.9)	0.0	Corporate EBITDA	(1.2)	(1.2)	(1.6)	(1.7)	(1.7)	(1.8)	
Mtce capex	(0.2)	(0.0)	(0.0)	(0.2)	(0.2)	EBITDA	(0.2)	(0.4)	(0.7)	(0.2)	(0.2)	0.3	
Free cash flow	(1.0)	(1.0)	(1.8)	(1.1)	(0.2)	Margins, Leverage, Returns		CY19A	CY20A	CY21A	CY22F	CY23F	
Growth capex	(0.6)	(0.4)	(0.9)	(1.0)	(0.8)	EBITDA		(20.3%)	(13.5%)	(11.0%)	(11.5%)	1.5%	
Acquisitions/Disposals	0.0	0.0	0.0	0.0	0.0	EBIT		(34.3%)	(33.6%)	(18.4%)	(22.8%)	(9.6%)	
Other	0.0	0.0	0.0	0.0	0.0	NPAT pre significant items		(35.1%)	(34.5%)	(19.4%)	(19.3%)	(6.6%)	
Cash flow pre financing	(1.7)	(1.4)	(2.7)	(2.1)	(1.0)	Net Debt (Cash)		2.0	5.1	5.0	2.7	1.8	
Equity	2.0	5.0	2.8	0.0	0.0	Net Debt/EBITDA (x)	(x)	n/a	n/a	n/a	n/a	16.9	
Debt	0.0	(0.0)	0.0	(0.1)	0.0	ND/ND+Equity (%)	(%)	73.6%	175.0%	391.2%	3055.1%	(435.2%)	
Dividends paid	0.0	0.0	0.0	0.0	0.0	EBIT interest cover (x)	(x)	n/a	n/a	n/a	n/a	n/a	
Net cash flow for year	0.3	3.6	0.1	(2.2)	(1.0)	ROA		(52.5%)	(35.7%)	(14.0%)	(18.9%)	(10.7%)	
Balance sheet (A\$m)						ROE		284.1%	(294.4%)	(82.9%)	(34.2%)	(19.2%)	
Y/E 31 December	CY19A	CY20A	CY21A	CY22F	CY23F	ROIC		114.3%	83.7%	69.4%	52.0%	29.8%	
Cash	2.0	5.1	5.0	2.7	1.8	NTA (per share)		n/a	0.00	0.00	0.03	0.01	
Accounts receivable	0.5	0.6	0.3	0.8	1.1	Working capital		(0.8)	(0.6)	(0.6)	(0.3)	(0.2)	
Inventory	0.0	0.0	0.0	0.0	0.0	WC/Sales (%)		(13.7%)	(11.4%)	(10.8%)	(5.7%)	(2.7%)	
Other current assets	0.2	0.2	0.4	0.5	0.5	Revenue growth		113.8%	1.3%	(7.3%)	7.0%	24.7%	
Total current assets	2.7	5.9	5.7	4.1	3.4	EBIT growth pa		n/a	n/a	n/a	n/a	n/a	
PPE	0.1	0.1	0.1	0.2	0.2	Pricing		CY19A	CY20A	CY21A	CY22F	CY23F	
Intangibles and Goodwill	1.1	0.5	1.1	1.6	1.7	No of shares (y/e)	(m)	890	1,473	1,739	35	35	
Investments	0.0	0.0	0.0	0.0	0.0	Weighted Av Dil Shares	(m)	761	1,136	1,446	35	35	
Deferred tax asset	0.0	0.0	0.0	0.1	0.3	EPS Reported	cps	(12.9)	(9.6)	(8.4)	(4.4)	(1.3)	
Other non current assets	0.1	0.3	0.2	0.4	0.4	EPS Normalised/Diluted	cps	(12.9)	(8.6)	(3.5)	(3.7)	(1.3)	
Total non current assets	1.3	0.9	1.4	2.3	2.7	EPS growth (norm/dil)		n/a	n/a	n/a	n/a	n/a	
Total Assets	4.0	6.7	7.1	6.5	6.1	DPS	cps	-	-	-	-	-	
Accounts payable	1.2	1.2	0.9	1.2	1.2	DPS Growth		na	n/a	n/a	n/a	n/a	
Short term debt	0.0	0.0	0.0	0.0	0.0	Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%	
Tax payable	0.0	0.0	0.0	0.0	0.0	Dividend imputation		0	0	0	0	0	
Other current liabilities	3.4	3.1	2.4	2.4	2.4	PE (x)		-	-	-	-	-	
Total current liabilities	4.6	4.3	3.3	3.5	3.6	PE market		15.0	15.0	15.0	15.0	15.0	
Long term debt	0.0	0.0	0.0	0.0	0.0	Premium/(discount)		(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	
Other non current liab	0.0	0.2	0.1	0.3	0.3	EV/EBITDA		(4.7)	(9.1)	(19.0)	(17.0)	0.0	
Total long term liabilities	0.0	0.2	0.1	0.3	0.3	FCF/Share	cps	(0.1)	(0.1)	(0.1)	(1.8)	0.5	
Total Liabilities	4.7	4.6	3.4	3.8	3.9	Price/FCF share		(520.1)	(620.5)	(409.1)	(22.2)	81.4	
Net Assets	(0.7)	2.2	3.7	2.6	2.2	Free Cash flow Yield		(0.2%)	(0.2%)	(0.2%)	(4.5%)	1.2%	
Share capital	14.8	19.8	23.2	23.3	23.3								
Accumulated profits/losses	(16.5)	(16.5)	(18.7)	(20.3)	(20.7)								
Reserves	1.0	(1.1)	(0.8)	(0.4)	(0.4)								
Minorities	0.0	0.0	0.0	0.0	0.0								
Total Shareholder funds	(0.7)	2.2	3.7	2.6	2.2								

Source: Company data, RaaS estimates

FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

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Corporate Authorised Representative, number 1248415

of

BR SECURITIES AUSTRALIA PTY LTD

ABN 92 168 734 530

AFSL 456663

Effective Date: 6th May 2021

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

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