

Schrole Group Ltd

Q2 CY23 Results Analysis

Another record quarter, closing in on break even

Schrole Group Ltd (ASX:SCL) is an Australian software company focused on providing human resource technology solutions to the international education and training sector. Schrole has developed a suite of five HR Software-as-a-Service (SaaS) offerings including the core product, Schrole Connect, a SaaS-based staff recruitment platform. Schrole Group has reported a 24% increase in quarter-on-quarter cash receipts to \$1.31m and a narrowed operating cash loss of \$0.20m a 39% reduction when compared with the same quarter a year ago. Schrole Group ended the quarter with cash of \$1.36m and no debt. The company that sales and cash receipts accelerated across the business despite the fact that the June quarter software sales are traditionally softer as schools in the norther hemisphere finish their academic year. We have made no changes to our forecasts following the quarterly result and will wait to update our model at the interim result. Our DCF-derived base-case valuation is currently \$1.07/share (previously \$1.11/share) after adjusting for net cash at the end of the quarter.

Business model

Schrole generates revenues 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 ~\$12kpa at present to ~\$30kpa as schools take up more Schrole modules.

Q2 CY23 delivers further sales momentum

Schrole Group has reported its best-ever Q2 cash receipts of \$1.32m, up 24% on the corresponding quarter in CY22, driven by both its direct sales model within the international schools segment and continued strong sales of on-the-job training with Rio Tinto. Training receipts for the quarter were \$0.441m, while software receipts were at \$0.875m. The net operating cash loss for the quarter was \$0.203m, an improvement on the operating cash loss of \$0.332m reported in the same period a year ago and on the Q1 operating cash loss of \$0.371m. Schrole Group noted that the average contract value per customer was now \$11,989, versus \$9,475 in June 2022, with average products per customer at 1.46 versus 1.41 in the pc. Schrole Group has identified \$1m in annual cost savings which it expects to implement through the current quarter and ongoing, driving the company toward cashflow break even. We will adjust our forecasts after the release of the interim results in August.

Valuation of \$37.3m or \$1.07/share

We use the DCF methodology to value SCL (WACC 15.1%, terminal growth rate 2.2%) which derives an equity valuation of \$1.07/share (previously \$1.11/share) after adjusting for net cash. In our view, continued demonstration of strong revenue and cashflow growth should underpin the share price in the near term. On an EV/sales basis, the company is trading at a substantial discount (~44%) to its edtech peer median of 2.4x. We would expect this discount to unwind as Schrole continues to deliver on its profitability drive and growth profile.

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)
12/21a	5.3	4.7	(0.6)	(1.0)	(3.5)	1.36
12/22a	5.7	5.6	(0.7)	(1.8)	(4.4)	1.33
12/23f	7.6	7.6	0.2	(0.4)	(1.5)	1.07
12/24f	9.5	9.4	1.5	0.4	1.2	0.90

Source: Company data, RaaS estimates for FY23f, FY24f; *Adjusted for one-time, significant and non-cash items, including share-based payments; *Adjusted for share consolidation

Software & Services

26 July 2023

Share Details

ASX code	SCL
Share price (25-Jul)	\$0.30
Market capitalisation	\$11.59M
Shares on issue	34.8M
Net cash 30-Jun-23	\$1.36M
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

- ISS and other potential competitors gain momentum
- New product modules fail to gain traction
- Retention rate reverts to COVID levels

Catalysts

- Evidence of upselling new products
- Growth in annual spend per contracted customer
- Ongoing evidence of operational momentum

Latest Company Interview (link)

[Schrole Group RaaS 2023 Interview 3 May 2023](#)

Board of Directors

Matt Adams	Non-Executive Chairman
Robert Graham	Managing Director
Dr Caroline Brokvam	Non-Executive Director
Colm O'Brien	Non-Executive Director
Guy Perkins	Non-Executive Director

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*RaaS Advisory holds shares

Q2 CY23 Results Analysis

Schrole Group reported a 24% quarter-on-quarter increase in cash receipts to \$1.32m, its second record quarter for cash receipts this financial year. The operating cash loss for the quarter narrowed 39% to \$0.203m with the company pointing to it being on a clear path to cash break-even. Employee costs increased 4% for the quarter to \$1.03m, with the recent increased investment in sales and marketing staff to drive the direct sales model now bedded in. Admin, corporate, marketing and other costs declined 12% demonstrating the focus on cost containment and eye to break even. The company ended the quarter with \$1.36m in cash and no debt.

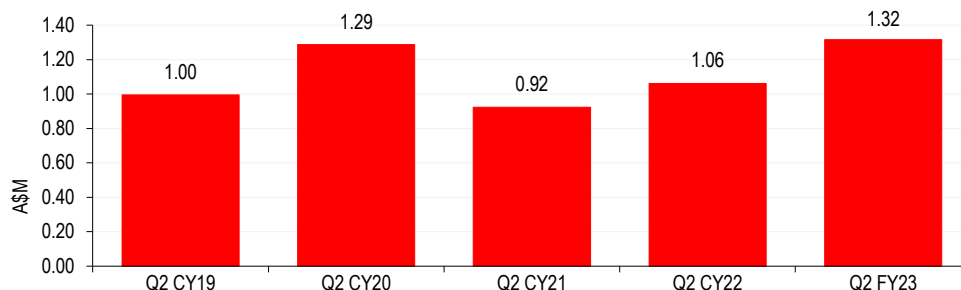
Exhibit 1: Q1 CY23 versus Q1 CY22 (in A\$m unless otherwise stated)

Quarter Ending March 31	Q2 CY22	Q1CY23	Q2CY23	% chg Q2CY23 on Q2CY22
Cash receipts	1.06	1.29	1.32	24
Product manufacturing and operating costs	(0.18)	(0.31)	(0.30)	66
Employee costs	(1.00)	(1.16)	(1.03)	4
Admin, corporate, marketing and other costs	(0.24)	(0.40)	(0.21)	(12)
Net interest	(0.00)	-	(0.00)	(50)
Taxes	0.02	-	-	nm
Other	-	0.21	0.02	nm
Operating cashflow	(0.33)	(0.37)	(0.20)	(39)
Net cash at the end of the period	3.26	2.08	1.36	(58)

Source: Company data

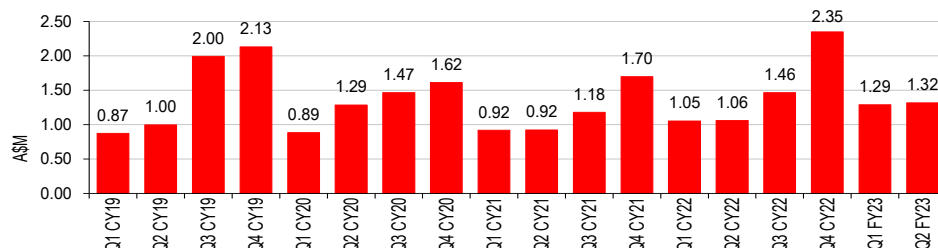
Q2 CY23 cash receipts were the best-ever reported by the group and well ahead of that reported for the previous four years, despite it being a seasonally quieter quarter due to the northern hemisphere academic year winding down. The company has demonstrated sales momentum since ending its ISS relationship with cash receipts growing quarter on quarter for the last seven quarters.

Exhibit 2: Schrole Group Q2 cash receipts CY19 to CY23



Source: Company Reports

Exhibit 3: Schrole Group quarterly cash receipts CY19 to CY23



Source: Company Reports

Schrole Group also highlighted that its focused cost management in Q2 helped reduce the net cash outflow by \$0.129m to \$0.203m. A recent strategic review of operations, spearheaded by the new CFO, Diana Shepherd and the executive team, has identified \$1m in annual cost savings which will be implemented from Q3 ongoing.

The company's performance across its key business metrics in Q2 CY23 demonstrated the strong growth momentum in Average Contract Value, which increased 27% on the same quarter in CY22 and 2.4% on the March 2023 quarter. The average product per customer was 1.46, up from 1.41 a year before. Customers declined 1.3% to 521 from a year ago and but were up from 517 in March. The company noted its customer numbers have stabilised since the exit from the ISS alliance.

Exhibit 4: Key performance indicators (Rolling six quarters)

	March 31 2022	June 30 2022	Sept 30 2022	Dec 31 2022	Mar 31 2023	June 30 2023
Contracted customers	542	528	519	520	517	521
Avg products per customer	1.42	1.41	1.42	1.42	1.45	1.46
Average contract value	\$9,494	\$9,475	\$9,582	\$11,035	\$11,708	\$11,989

Source: Company data

We have not made any changes to our forecasts following the Q2 result and will wait for the interim accounts to incorporate the actuals.

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 15.1% based on a beta of 1.7 (versus the observed beta of 0.91 from Refinitiv), and a terminal growth rate of 2.2%. This derives a base-case valuation of \$1.07/share or \$37.3m, with \$0.65/share in the terminal value. Our valuation implies an EV/Sales multiple of 4.7x our CY23 revenue forecast.

Exhibit 5: DCF valuation

Parameters	Outcome
WACC	15.1%
Beta	1.7
Terminal growth rate	2.2%
Sum of PV (A\$m)	14.2
PV of terminal value (A\$m)	21.7
PV of enterprise	36.0
Net debt (at 31 Dec 2022)	(1.4)
Net value - shareholder	37.3
No. of shares on issue	34.8
NPV in A\$	\$1.07

Source: RaaS estimates

Exhibit 6: Financial Summary

Schrode Group Ltd (ASX:SCL)						Share Price (25 July 2023)						A\$	0.30
Profit and Loss (A\$m)						Interim (A\$m)							
Y/E 31 December	CY20A	CY21A	CY22A	CY23F	CY24F	ARR (US\$m)	H122A	H222A	H123F	H223F	H124F	H224F	
						Revenue	2.5	2.9	3.1	3.3	3.8	4.3	
Sales Revenue (A\$m)	5.7	5.3	5.7	7.6	9.5	EBITDA	(0.7)	(0.1)	(0.2)	0.3	0.4	1.1	
Gross Profit	3.3	4.7	5.6	7.6	9.4	EBIT	(1.0)	(0.4)	(0.6)	(0.2)	(0.1)	0.7	
EBITDA underlying	(0.8)	(0.6)	(0.7)	0.2	1.5	NPAT (normalised)	(0.9)	(0.5)	(0.4)	(0.1)	(0.1)	0.5	
Depn	(0.2)	(0.1)	(0.2)	(0.1)	(0.2)	Minorities	-	-	-	-	-	-	
Amort	(1.0)	(0.3)	(0.5)	(0.8)	(0.8)	NPAT (reported)	(1.2)	(0.6)	(0.4)	(0.1)	(0.1)	0.5	
EBIT underlying	(1.9)	(1.0)	(1.4)	(0.7)	0.6	EPS (normalised)	(2.65)	(1.70)	(1.19)	(0.33)	(0.16)	1.35	
Interest	(0.0)	(0.1)	(0.0)	0.0	0.0	EPS (reported)	(3.38)	(2.06)	(1.19)	(0.33)	(0.16)	1.35	
Tax	0.0	0.0	0.0	0.2	(0.2)								
Minorities	0.0	0.0	0.0	0.0	0.0	Operating cash flow	(0.8)	0.4	0.0	0.2	0.3	0.8	
Equity accounted assoc	0.0	0.0	0.0	0.0	0.0	Free Cash flow	(0.0)	1.0	0.5	0.7	0.8	1.3	
NPAT pre significant items	(2.0)	(1.0)	(1.4)	(0.4)	0.4	Divisions							
Significant items	(0.2)	(1.4)	(0.4)	0.0	0.0	Software revenue	1.6	1.8	1.9	2.0	2.3	2.6	
NPAT (reported)	(2.2)	(2.4)	(1.8)	(0.4)	0.4	Training revenue	0.9	1.4	1.5	2.0	1.9	2.4	
Cash flow (A\$m)						Corporate revenue	0.0	0.1	0.1	0.1	0.1	0.1	
Y/E 31 December	CY20A	CY21A	CY22A	CY23F	CY24F	Sales revenue	H122A	H222A	H123F	H223F	H124F	H224F	
EBITDA	(0.8)	(0.6)	(0.7)	0.2	1.5		2.5	3.4	3.4	4.1	4.3	5.2	
Interest	0.0	0.0	0.0	0.0	0.0	COGS	(0.0)	(0.1)	(0.0)	(0.0)	(0.0)	(0.0)	
Tax	0.0	0.0	0.0	0.0	(0.2)	Employment	(2.0)	(1.9)	(2.1)	(2.2)	(2.2)	(2.3)	
Working capital changes	(0.2)	(1.2)	0.3	0.0	(0.2)	Operating costs	(1.1)	(1.4)	(1.5)	(1.7)	(1.7)	(1.7)	
Operating cash flow	(1.0)	(1.8)	(0.4)	0.3	1.1								
Mtce capex	(0.0)	(0.0)	(0.2)	(0.2)	(0.2)	Software EBITDA	0.4	0.6	0.7	0.7	1.0	1.3	
Free cash flow	(1.0)	(1.8)	(0.6)	0.1	0.9	Training EBITDA	0.5	0.7	0.7	1.2	1.1	1.6	
Growth capex	(0.4)	(0.9)	(1.3)	(0.8)	(0.8)	Corporate EBITDA	(1.6)	(1.4)	(1.5)	(1.7)	(1.7)	(1.7)	
Acquisitions/Disposals	0.0	0.0	0.0	0.0	0.0	EBITDA	(0.7)	(0.1)	(0.2)	0.3	0.4	1.1	
Other	0.0	0.0	0.0	0.0	0.0								
Cash flow pre financing	(1.4)	(2.7)	(1.9)	(0.7)	0.1	Margins, Leverage, Returns							
Equity	5.0	2.8	0.0	0.0	0.0			CY20A	CY21A	CY22A	CY23F	CY24F	
Debt	(0.0)	0.0	(0.2)	0.0	0.0	EBITDA		(13.5%)	(11.0%)	(12.6%)	2.6%	15.8%	
Dividends paid	0.0	0.0	0.0	0.0	0.0	EBIT		(33.6%)	(18.4%)	(24.5%)	(8.8%)	6.0%	
Net cash flow for year	3.6	0.1	(2.1)	(0.7)	0.1	NPAT pre significant items		(34.5%)	(19.4%)	(25.2%)	(5.7%)	4.4%	
Balance sheet (A\$m)						Net Debt (Cash)		5.1	5.0	2.8	2.1	2.2	
Y/E 31 December	CY20A	CY21A	CY22A	CY23F	CY24F	Net debt/EBITDA (x)	(x)	n/a	n/a	n/a	10.5	1.5	
Cash	5.1	5.0	2.8	2.1	2.2	ND/ND+Equity (%)	(%)	175.0%	391.2%	613.2%	804.9%	(7981.0%)	
Accounts receivable	0.6	0.3	0.5	1.1	1.4	EBIT interest cover (x)	(x)	n/a	n/a	n/a	n/a	-	0.0
Inventory	0.0	0.0	0.0	0.0	0.0	ROA		(35.7%)	(14.0%)	(20.9%)	(10.5%)	8.4%	
Other current assets	0.2	0.4	0.5	0.5	0.5	ROE		(294.4%)	(82.9%)	(59.6%)	(20.6%)	20.3%	
Total current assets	5.9	5.7	3.9	3.8	4.2	ROIC		230.7%	69.4%	52.8%	26.0%	(40.4%)	
PPE	0.1	0.1	0.1	0.2	0.2	NTA (per share)		0.00	0.00	0.01	n/a	0.01	
Intangibles and Goodwill	0.5	1.1	1.9	1.9	1.9	Working capital		(0.6)	(0.6)	(0.1)	(0.2)	(0.0)	
Investments	0.0	0.0	0.0	0.0	0.0	WC/Sales (%)		(11.4%)	(10.8%)	(1.5%)	(2.7%)	(0.1%)	
Deferred tax asset	0.0	0.0	0.0	0.2	0.2	Revenue growth		1.3%	(7.3%)	9.0%	32.2%	25.0%	
Other non current assets	0.3	0.2	0.4	0.4	0.4	EBIT growth pa		n/a	n/a	n/a	n/a	-184%	
Total non current assets	0.9	1.4	2.4	2.7	2.8	Pricing							
Total Assets	6.7	7.1	6.3	6.5	7.0			CY20A	CY21A	CY22A	CY23F	CY24F	
Accounts payable	1.2	0.9	0.6	1.3	1.4	No of shares (y/e)	(m)	1,473	1,739	35	35	35	
Short term debt	0.0	0.0	0.0	0.0	0.0	Weighted Av Dil Shares	(m)	1,136	1,446	33	35	35	
Tax payable	0.0	0.0	0.0	0.0	0.0	EPS Reported	cps	(9.6)	(8.4)	(5.4)	(1.5)	1.2	
Other current liabilities	3.1	2.4	3.1	3.1	3.1	EPS Normalised/Diluted	cps	(8.6)	(3.5)	(4.4)	(1.5)	1.2	
Total current liabilities	4.3	3.3	3.7	4.5	4.5	EPS growth (norm/dil)		n/a	n/a	n/a	n/a	(177.9%)	
Long term debt	0.0	0.0	0.0	0.0	0.0	DPS	cps	-	-	-	-	-	
Other non current liabs	0.2	0.1	0.2	0.2	0.2	DPS Growth		n/a	n/a	n/a	n/a	n/a	
Total long term liabilities	0.2	0.1	0.2	0.2	0.2	Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%	
Total Liabilities	4.6	3.4	3.9	4.6	4.7	Dividend imputation		0	0	0	0	0	
Net Assets	2.2	3.7	2.4	1.8	2.2	PE (x)		-	-	-	-	25.2	
						PE market		15.0	15.0	15.0	15.0	15.0	
Share capital	19.8	23.2	23.6	23.6	23.6	Premium/(discount)		(100.0%)	(100.0%)	(100.0%)	(100.0%)	68.0%	
Accumulated profits/losses	(16.5)	(18.7)	(20.5)	(21.0)	(20.6)	EV/EBITDA		(4.9)	(12.4)	(10.5)	0.0	0.0	
Reserves	(1.1)	(0.8)	(0.8)	(0.8)	(0.8)	FCF/Share	cps	(0.1)	(0.1)	(0.8)	1.3	3.8	
Minorities	0.0	0.0	0.0	0.0	0.0	Price/FCF share		(454.0)	(299.3)	(36.2)	23.5	7.8	
Total Shareholder funds	2.2	3.7	2.4	1.8	2.2	Free Cash flow Yield		(0.2%)	(0.3%)	(2.8%)	4.3%	12.7%	

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

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