

Schrole Group Ltd

Trading Update

Record new Connect sales driving a strong finish to 2021

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. The company has provided a trading update ahead of the close of its Share Purchase Plan on December 17. SCL noted that it had experienced strong year-on-year growth of sales to international schools with invoiced new sales of US\$0.734m from January to November, an increase of 9% on CY20 and 13% over CY19. New Connect sales invoiced in November increased 32% over the same month in 2020 to US\$0.104m. Our forecast for new international school sales for CY21 is US\$0.799m so the company is well on track to meet our expectations. Schrole Connect has delivered record new licence sales in the year to November 30, with almost 110 new licences sold in the 11 months to November 30, well ahead of the ~85 new licences sold in the 12 months to December 31, 2020. The company also noted that licence renewals for the first 11 months of 2021 were at 90%, a record level. This is above our forecasted renewal rate of 83% for CY21. SCL also noted that Schrole Events was driving new customer sales with the four events held since its October 2021 launch contributing 18 new customers to Schrole Connect. Schrole has scheduled an additional five recruitment events through to April 2022. We maintain our base-case valuation of \$0.031/share or \$51.8m.

Business model

Schrole generates revenue from the sale of subscription licenses 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.

Tracking to our CY21 forecasts

Schrole Group has provided a trading update for the 11 months to November 30 with new sales growth looking to be in line with our forecast for the full year and licence renewals ahead of our expectations. The company noted that its strategy of cross-selling was bearing fruit with 18 new Connect customers coming out of the four Schrole Events' online recruitment events held in October and November. SCL also noted that its Schrole Engage product was on track for release in Q1 2022, completing the full Schrole HR SaaS suite.

Valuation of \$51.8m or \$0.031/share

We use the DCF methodology to value SCL (WACC 15.0%, terminal growth rate 2.2%) which derives an equity valuation of \$51.8m or \$0.031/share. As we highlighted in our 5-Oct Initiation Report, [Putting Smarts into Education HR](#), at its current share price, Schrole Group is trading at a significant discount to two groups of observed SaaS peers.

Historical earnings and RaaS estimates

Year end	Sales Rev. (A\$m)	Gross Profit (A\$m)	EBITDA Adj.* (A\$m)	NPAT Adj.* (A\$m)	EPS *	EV/ Sales (x)	EV/ EBITDA (x)	PER (x)
12/20a	5.7	3.3	(0.8)	(2.0)	(0.2)	1.70	n.a	n.a
12/21e	5.9	4.8	(0.2)	(0.5)	(0.0)	2.30	n.a	n.a
12/22e	7.1	7.0	1.2	0.4	0.0	1.68	10.04	37.9
12/23e	8.9	8.9	2.5	1.2	0.1	1.32	4.80	13.8

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

Software & Services

17th December 2021

Share Details

ASX code	SCL
Share price (16-Dec)	\$0.01
Market capitalisation	\$17.0M
Shares on issue	1,701.4M
Net cash est.	~\$4.8M
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 reverses 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

Exhibit 1: Financial Summary (Calendar Year End)

Schrode Group Ltd (ASX:SCL)						Share price (16 December 2021)						A\$	0.01
Profit and Loss (A\$m)						Interim (A\$m)							
Y/E 31 December	FY19A	FY20A	FY21F	FY22F	FY23F	Revenue	H120A	H220A	H121A	H221F	H122F	H222F	
						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)	0.5	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)	(0.0)	0.3	0.5	
Minorities	0.0	0.0	0.0	0.0	0.0	Free Cash flow	(1.2)	0.6	(0.8)	0.5	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)	0.4	1.2	Divisions							
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)	0.4	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)	(1.1)	(0.3)	(0.2)								
Operating cash flow	(0.9)	(1.0)	(1.3)	0.8	1.8	Software EBITDA	0.7	(0.2)	0.9	1.1	1.6	1.9	
Mtce capex	(0.2)	(0.0)	(0.1)	(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)	(1.4)	0.7	1.7	Corporate EBITDA	(1.0)	(0.3)	(1.2)	(1.3)	(1.4)	(1.5)	
Growth capex	(0.6)	(0.4)	(1.0)	(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	Margins, Leverage, Returns							
Other	0.0	0.0	0.0	0.0	0.0	EBITDA		(20.3%)	(13.5%)	(3.8%)	16.7%	27.5%	
Cash flow pre financing	(1.7)	(1.4)	(2.4)	(0.3)	0.7	EBIT		(34.3%)	(33.6%)	(10.1%)	7.6%	18.1%	
Equity	2.0	5.0	2.5	0.0	0.0	NPAT pre significant items		(35.1%)	(34.5%)	(9.0%)	6.2%	13.7%	
Debt	0.0	(0.0)	(0.0)	0.0	0.0	Net Debt (Cash)		2.0	5.1	5.1	4.8	5.4	
Dividends paid	0.0	0.0	0.0	0.0	0.0	Net debt/EBITDA (x)	(x)	n/a	n/a	n/a	4.0	2.2	
Net cash flow for year	0.3	3.6	0.1	(0.3)	0.7	ND/ND+Equity (%)	(%)	73.6%	175.0%	494.4%	1707.7%	(1883.0%)	
Balance sheet (A\$m)						EBIT interest cover (x)	(x)	n/a	n/a	n/a	-	0.1	-
Y/E 31 December	FY19A	FY20A	FY21F	FY22F	FY23F								
Cash	2.0	5.1	5.1	4.8	5.4	ROA		(52.5%)	(35.7%)	(8.1%)	6.7%	18.0%	
Accounts receivable	0.5	0.6	1.0	1.3	1.6	ROE		284.1%	(294.4%)	(41.6%)	10.4%	23.9%	
Inventory	0.0	0.0	0.0	0.0	0.0	ROIC		114.3%	83.7%	46.4%	(20.6%)	(67.6%)	
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	6.3	6.2	7.2	Working capital		(0.8)	(0.6)	(0.1)	0.2	0.4	
PPE	0.1	0.1	0.1	0.2	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	-191%	198%	
Deferred tax asset	0.0	0.0	0.0	0.0	0.0	Pricing							
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	2.5	Weighted Av Dil Shares	(m)	761	1,136	1,403	1,674	1,674	
Total Assets	4.0	6.7	7.9	8.3	9.6								
Accounts payable	1.2	1.2	1.1	1.1	1.2	EPS Reported	cps	(0.3)	(0.2)	(0.1)	0.0	0.1	
Short term debt	0.0	0.0	0.0	0.0	0.0	EPS Normalised/Diluted	cps	(0.3)	(0.2)	(0.0)	0.0	0.1	
Tax payable	0.0	0.0	0.0	0.0	0.0	EPS growth (norm/dil)		n/a	n/a	n/a	-172%	176%	
Other current liabilities	3.4	3.1	2.5	2.5	2.5	DPS	cps	-	-	-	-	-	
Total current liabilities	4.6	4.3	3.6	3.6	3.7	DPS Growth		na	n/a	n/a	n/a	n/a	
Long term debt	0.0	0.0	0.0	0.0	0.0	Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%	
Other non current liab	0.0	0.2	0.2	0.2	0.2	Dividend imputation		0	0	0	0	0	
Total long term liabilities	0.0	0.2	0.2	0.2	0.2	PE (x)		-	-	-	37.9	13.8	
Total Liabilities	4.7	4.6	3.9	3.8	3.9	PE market		18.6	18.6	18.6	18.6	18.6	
Net Assets	(0.7)	2.2	4.0	4.5	5.7	Premium/(discount)		(100.0%)	(100.0%)	(100.0%)	103.8%	(26.1%)	
Share capital	14.8	19.8	22.7	22.7	22.7	EV/EBITDA		(6.1)	(12.6)	(60.8)	10.0	0.0	
Accumulated profits/losses	(16.5)	(16.5)	(17.7)	(17.2)	(16.0)	FCF/Share	cps	(0.1)	(0.1)	(0.1)	0.1	0.1	
Reserves	1.0	(1.1)	(1.0)	(1.0)	(1.0)	Price/FCF share		(12.7)	(15.1)	(13.3)	17.2	8.3	
Minorities	0.0	0.0	0.0	0.0	0.0	Free Cash flow Yield		(7.9%)	(6.6%)	(7.5%)	5.8%	12.0%	
Total Shareholder funds	(0.7)	2.2	4.0	4.5	5.7								

Source: 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

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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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