

Investment Analysis Report

1. ****Business Model****

Based on the provided information, we can evaluate the scalability, cash generation, and capital-light nature of 3P Learning's business model as follows:

1. **Scalability:** 3P Learning's business model appears to have scalability potential. They generate approximately 91% of their revenue from selling licenses to schools, indicating a large market and customer base. By focusing on increasing penetration within existing schools and cross-selling products, they aim to grow their market share. Additionally, the conversion rate of trials historically being around 60-70% suggests that there is room for growth within schools as they transition to full rollouts.
 2. **Cash Generation:** The business model seems to have a strong cash generation aspect. Revenue is recognized on a straight-line basis over the life of the contract, allowing for predictable cash flows over time. With upfront cash payments received for contracts, 3P Learning may benefit from negative working capital requirements, contributing to cash flow generation.
 3. **Capital-Light Nature:** The business model of 3P Learning appears to be relatively capital-light. They generate revenue through subscription-based streams and royalties, which may require less capital investment compared to other business models. This, combined with upfront cash payments and the subscription-based revenue model, can contribute to the capital-light nature of the business.
- Overall, based on the information provided, 3P Learning's business model shows promise in terms of scalability, cash generation, and a capital-light approach.

2. ****Market Position****

3P Learning has a strong market position in local and global markets, particularly in Australia, New Zealand, the UK, the US, and Canada. The company focuses on providing online education products in numeracy, literacy, and science disciplines for primary and secondary school students. With over 4.7 million product licenses sold and a presence in multiple countries, 3P Learning has established itself as a significant player in the online education sector. They are strategically

targeting growth by expanding into new territories, increasing their number of school customers, and entering the secondary school market where they are currently underrepresented. Additionally, efforts to translate products into other languages and host events like the World Education Games indicate a strong global presence and a commitment to growth.

3. **Growth Strategy**

The growth strategy of 3P Learning includes several key factors:

1. Growing the number of school customers by entering new territories, focusing on pricing penetration strategies, and targeting influential schools to facilitate sales to other schools within the territory.
2. Increasing penetration within existing schools by increasing the percentage of students using their products, especially in senior school grades.
3. Implementing cross-selling strategies once sufficient penetration within a territory is achieved, leveraging common features across their product offerings.
4. Utilizing pricing levers to increase average revenue per license once an established position within a territory is reached, relying on continued product development.

These factors collectively contribute to 3P Learning's growth strategy.

4. **Pricing Power**

3P Learning's pricing power is influenced by several factors. First, the customer base fragmentation can affect pricing power. If the customer base is fragmented, it may be challenging to implement consistent pricing strategies across different segments, potentially impacting pricing power. Second, product quality plays a significant role in pricing power. Higher product quality can justify premium pricing, increasing the ability to maintain or raise prices. Lastly, barriers to entry can also impact pricing power. Higher barriers to entry can protect against new competitors entering the market and potentially undercutting prices. Overall, a combination of these factors, along with market conditions, will determine 3P Learning's pricing power.

5. ****Financial Performance****

Based on the provided information from Deutsche Bank, 3P Learning's financial performance and valuation details include the following:

1. Valuation: The stock was rated as a Buy with a 16% discount to the \$2.70 DCF-based valuation.
2. Business Model: 3P Learning has a highly scalable, cash generative, and capital-light business model.
3. Growth Potential: The company is well-positioned to capitalize on the structural migration towards online education products.
4. Growth Channels: 3P Learning has multiple growth channels across different geographies and languages.
5. Pricing Power: The company has potential pricing power due to factors like a fragmented customer base and high product quality.
6. EPS Growth: A 22% 3-year EPS CAGR was forecasted to support the relatively high PER of 28.7x.
7. Concerns: The sector was earning material excess returns, which could pressure returns in the long term.
8. DCF Valuation: The DCF valuation for 3P Learning was \$2.70 per share based on key inputs like beta 1.2 and WACC 10.8%.

These details provide insights into 3P Learning's financial performance and valuation as analyzed by Deutsche Bank.

6. ****Industry Trends****

Based on the provided information, the current industry trend in 3P Learning's line of business is the structural migration from printed resources to online content in the education sector. This shift presents a favorable backdrop for the online learning industry. 3P Learning is well-positioned to capitalize on this trend by focusing on pricing penetration strategies in new territories with

Mathletics as its flagship product. As the product becomes more established, 3P Learning aims to expand into secondary markets and other territories, offering tailored products to meet different requirements. Additionally, translating products into various languages and hosting events like the World Education Games are strategies employed by 3P Learning to drive growth and increase market share within the online education marketplace.

7. **Competitive Landscape**

The analyst considered several factors to justify the target price for 3P Learning, including the Discounted Cash Flow (DCF) valuation methodology, key inputs like beta, Weighted Average Cost of Capital (WACC), and Terminal Growth Rate (TGR), the company's high cash flow generation, and growth potential. The analyst also highlighted the attractive business model, the company's position in the market, the potential for pricing power, and strong earnings per share growth. Additionally, the analyst mentioned the company's growth strategy across different geographies and languages as well as the multiple growth channels available.

8. **Transaction Comparables**

3P Learning's metrics compared with its competitors show that it is trading at a premium relative to both domestic and international education peers. Specifically, for FY16, 3P Learning is at a 45% and 64% premium compared to domestic and international peers, respectively. This premium valuation is reflected in metrics such as EV/EBIT, PER, EPS growth, and ND/EBITDA when compared to its competitors. Additionally, 3P Learning's trailing EV/Sales multiple is at a premium compared to the average transaction multiple in the online education space.