Deutsche Bank
Markets Research

Rating
Buy

Australasia
Australia

Emerging Companies

Company
3P Learning

Reuters	Bloomberg	Exchange	Ticker
3PL.AX	3PL AU	ASX	3PL

Date
14 January 2015

Initiation of Coverage

Price at 13 Jan 2015	2.28
Price target - 12mth	2.70
52 week range (AUD)	2.54 - 2.04
ALL ORDINARIES	5,365

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Initiating with a Buy

Attractive business model, well positioned within a high growth sector - Buy

We initiate coverage on 3PL with a Buy rating with the stock trading at a 16% discount to our $2.70 DCF-based PT. Our Buy thesis is predicated on 3PL's highly scalable and cash generative business model, strong positioning within the high growth online education sector, robust EPS growth profile and valuation. We forecast a 22% 3-yr EPS CAGR which we believe supports the relatively high FY15 PER of 28.7x (falls to 19.6x by FY17). We have taken a conservative stance towards our earnings forecasts to reflect competitive risks. Our bull-case scenario implies ~70% upside to our base valuation.

Leading online provider of education software in the K-12 segment

3PL is a leading global provider of cloud-based education software in the K-12 segment. 3PL products cover the core curriculum of numeracy ('Mathletics'), literacy ('Reading Eggs') and science ('Intoscience'). The company has grown its subscriber base to >4.7m and has established strong market positions in Australia and the UK with a growing presence in the US and the Middle East.

Capitalizing on the structural online migration of educational content

We view 3PL as well positioned to capitalize on the ongoing structural migration towards online education, underpinned by the company's leading product suite, significant existing subscriber base, strong internal product development and sales capabilities and robust balance sheet.

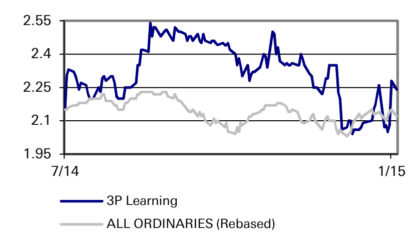
Attractive business model with multiple growth channels

We are attracted to 3PL's highly scalable business model, the company's strong positioning within a high growth and defensive sector, and the multiple growth channels. 3PL's stated growth strategy involves: (1) expanding the school client base; (2) increasing student penetration; (3) cross selling products; and (4) utilizing the pricing lever. Additional growth options include foreign language translation, premium products and entering new territories.

Valuation and risks

PT set equal to $2.70 DCF valuation. Key inputs: beta 1.2; WACC 10.8%; & TGR 3.5% (page 31) Key downside risks: competition; technology risk; risk of losing the Reading Eggs distribution; and currency risk (details page 38).

Price/price relative



Performance (%)	1m	3m	12m
Absolute	10.7	-5.0	–
ALL ORDINARIES	3.2	3.8	2.3

Source: Deutsche Bank

Forecasts And Ratios

Year End Jun 30	2013A	2014A	2015E	2016E	2017E
Sales (AUDm)	32	36	45	52	60
EBITDA (AUDm)	4	13	17	22	26
Net Profit (AUDm)	3	9	11	14	16
EPS (AUD)	–	0.06	0.08	0.10	0.12
EPS Growth (%)	–	–	25.4	26.9	15.2
PER (x)	–	–	28.7	22.6	19.6
EV/EBITDA (x)	–	–	16.9	12.7	10.2

Source: Deutsche Bank estimates, company data

[1] Pre-exceptionals/extraordinaries
[2] Multiples and yields calculations use average historical prices for past years and spot prices for current and future years, except P/B which uses the year end close

Deutsche Bank AG/Sydney

Model updated:14 January 2015

Running the numbers

Australasia

Australia

Emerging Companies

3P Learning

Reuters: 3PL.AX | Bloomberg: 3PL AU

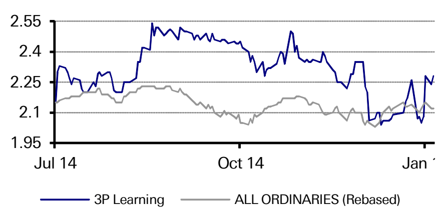
Buy

Price (13 Jan 15)	AUD 2.28
Target Price	AUD 2.70
52 Week range	AUD 2.04 - 2.54
Market Cap (m)	AUDm 307
	USDm 251

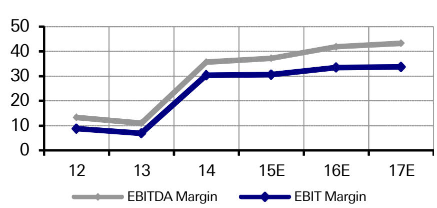
Company Profile

3P Learning is a global online education company which offers personalised and interactive cloud based education programs for students in Primary and Secondary schools. 3PL has a strong presence in Australia, the UK and a growing presence in the United States.

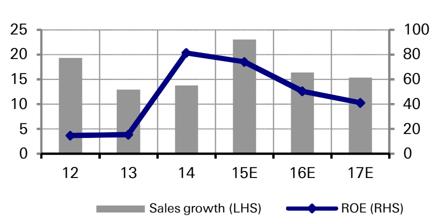
Price Performance



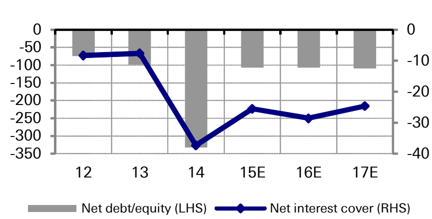
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 30-Jun	2012	2013	2014	2015E	2016E	2017E
Financial Summary						
DB EPS (AUD)	na	na	0.06	0.08	0.10	0.12
Reported EPS (AUD)	0.00	0.00	0.06	0.08	0.10	0.12
DPS (AUD)	0.00	0.00	0.20	0.02	0.03	0.03
BVPS (AUD)	na	na	0.05	0.16	0.24	0.33
Valuation Metrics						
Price/Sales (x)	nm	nm	nm	6.8	5.9	5.1
P/E (DB) (x)	na	na	na	28.7	22.6	19.6
P/E (Reported) (x)	nm	nm	na	28.7	22.6	19.6
P/BV (x)	na	na	na	14.1	9.5	7.0
FCF yield (%)	na	na	na	6.1	7.0	8.3
Dividend yield (%)	na	na	na	1.0	1.3	1.5
EV/Sales	na	na	na	6.3	5.3	4.4
EV/EBITDA	na	na	na	16.9	12.7	10.2
EV/EBIT	na	na	na	20.6	15.9	13.1
Income Statement (AUDm)						
Sales	28	32	37	45	52	60
EBITDA	4	4	13	17	22	26
EBIT	3	2	11	14	18	20
Pre-tax profit	3	3	11	14	18	21
Net income	3	3	9	11	14	16
Cash Flow (AUDm)						
Cash flow from operations	5	2	18	19	22	26
Net Capex	0	-1	0	-1	-1	-1
Free cash flow	5	1	18	19	22	25
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	0	-2	0	-13	-3	-4
Net inc/(dec) in borrowings	0	0	0	0	0	0
Other investing/financing cash flows	-1	-2	-8	-7	-7	-8
Net cash flow	4	-3	10	-1	11	14
Change in working capital	*0*	*12*	*8*	*6*	*4*	*5*
Balance Sheet (AUDm)						
Cash and cash equivalents	18	15	24	24	35	49
Property, plant & equipment	2	2	1	1	1	1
Goodwill	3	3	3	3	3	3
Other assets	7	16	22	32	37	42
Total assets	29	36	51	60	77	95
Debt	1	1	0	0	0	0
Other liabilities	6	21	43	38	44	50
Total liabilities	6	21	43	39	44	50
Total shareholders' equity	23	14	7	22	32	44
Net debt	*-17*	*-14*	*-24*	*-23*	*-35*	*-48*
Key Company Metrics						
Sales growth (%)	19.3	13.0	13.8	23.1	16.4	15.3
DB EPS growth (%)	na	na	na	25.4	26.9	15.2
Payout ratio (%)	nm	nm	307.8	28.2	28.4	28.8
EBITDA Margin (%)	13.4	11.1	35.7	37.3	41.9	43.3
EBIT Margin (%)	8.8	6.9	30.4	30.6	33.5	33.7
ROE (%)	14.6	15.3	81.3	74.0	50.3	41.0
Net debt/equity (%)	-74.0	-98.1	-332.4	-107.0	-106.6	-109.2
Net interest cover (x)	-8.3	-7.6	-37.3	-25.6	-28.6	-24.6
DuPont Analysis						
EBIT margin (%)	8.8	6.9	30.4	30.6	33.5	33.7
x Asset turnover (x)	1.1	1.0	0.8	0.8	0.8	0.7
x Financial cost ratio (x)	1.1	1.1	1.0	1.0	1.0	1.0
x Tax and other effects (x)	0.9	1.1	0.8	0.8	0.7	0.7
= ROA (post tax) (%)	9.6	8.3	19.8	19.3	19.8	18.3
x Financial leverage (x)	1.5	1.8	4.1	3.8	2.5	2.2
= ROE (%)	14.6	15.3	81.3	74.0	50.3	41.0
annual growth (%)	*na*	*4.8*	*430.6*	*-8.9*	*-32.1*	*-18.5*
x NTA/share (avg) (x)	–	–	0.1	0.1	0.2	0.3
= Reported EPS	–	–	0.06	0.08	0.10	0.12
annual growth (%)	*na*	*nm*	*-100.0*	*25.4*	*26.9*	*15.2*

Source: Company data, Deutsche Bank estimates

Investment Thesis

Outlook

We initiate coverage on 3P Learning Ltd (3PL) with a Buy rating with the stock trading at a 16% discount to our $2.70 DCF-based valuation. 3PL is a leading global provider of cloud-based education software in the numeracy, literacy and science disciplines. 3PL has a strong market position in Australia and the UK with a growing presence in the US and the Middle East.

Our positive investment thesis is predicated upon the following factors:

- **Attractive business model**: We are attracted to 3PL's highly scalable, strongly cash generative, capital-light business model. Spot returns are robust and we expect incremental returns to remain attractive.
- **Positioned to capitalize on structural sector growth:** We view 3PL as well positioned to capitalize on the ongoing structural migration towards online education products, underpinned by the company's leading product suite, significant existing subscriber base and strong internal product development and sales capabilities.
- **Multiple growth channels across geographies and languages**: 3PL's global growth strategy involves: (1) expanding the school client base; (2) increasing student penetration within existing schools; (3) cross selling products; and (4) utilizing the pricing lever. Additional growth options include foreign language translation and premium products.
- **Potential pricing power:** Although our price inflation forecasts remain conservative, we acknowledge 3PL's potential pricing power. Reasons for optimism include a fragmented customer base, high product quality, online product spend comprising a small percentage of total education outlay, and barriers to entry in schools given 3PL's entrenched product nature and the presence of switching costs.
- **Strong EPS growth supports relatively high PER**: We forecast a 22% 3-yr EPS CAGR which in our view supports 3PL's FY15 PER of 28.7x (which is broadly in line with domestic peers - see page 36).
- **Key concern:** The sector is earning material excess returns. This is likely to continue to attract capital, pressuring returns over the longer term. To reflect this changing industry dynamic, our forecasts have assumed low price inflation and conservative incremental margins.

Valuation

We set our PT equal to our $2.70 DCF. Key inputs: beta 1.2; WACC 10.8%; & TGR 3.5%. 3PL is trading on a FY15 PER of 28.7x; strong forecast EPS growth sees this fall to 22.6x a year further out.

Risks

Key downside risks: (1) competition; (2) technology risk; (3) risk of losing the Reading Eggs distribution; and (4) government/regulatory risk (details pg 38).

Business Overview

Company description

International online education provider of numeracy, literacy and science product

3P Learning (3PL) is a global online education company with products in numeracy, literacy and science disciplines. The products are targeted towards primary and secondary school students with 3PL's major operational areas in Australia, New Zealand, the UK, the US and Canada.

The cloud based product offerings are designed with the view of maximizing student engagement, providing highly personalized and dynamic content and facilitating efficiency for teachers via automated reporting and standardized testing.

4.7m product licenses sold

3PL is headquartered in Sydney and has sales and marketing operations in New Zealand, Hong Kong, the United Arab Emirates, the UK, Canada and the US and R&D labs in India. The company has ~250 employees and as at FY14 had 4.7m total licenses across its product portfolio.

Figure 1: 3PL's Global presence

Source: Company data

Company history

3P Learning was founded in 2004 and listed on the Australian Stock Exchange (ASX) in July 2014. A brief company history is provided below.

Figure 2: Company history

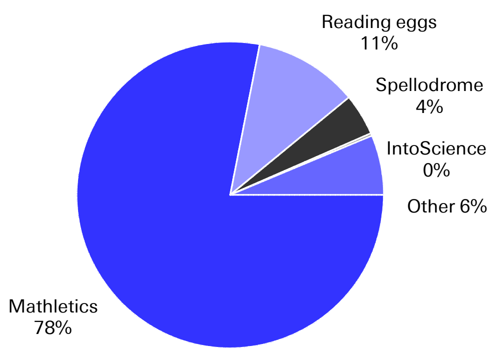
2004	Founded by Shane Hill and Matthew Sandblom
	Mathematics CD-ROM produced for students in grades K-10
2005	Launched Mathletics online and 3PL's first online event: The 10 Million Challenge
2006	Launched Spellodrome and commenced operations in NZ and EMEA
	Conducted Trans Tasman Maths and Spelling Challenge
2007	Mathletics launched in the US and South Africa under distribution arrangements
	Launched World Maths Day
2009	Established operations in Canada
	World Education Games launched
2010	Hong Kong presence established with a focus on direct sales in Asia
2011	Commenced distributing Reading Eggs Products
	Offshore development lab in India established
	Commenced building scalable software and hardware platforms for product offerings
2012	Arabic language version released
	Commenced selling Mathletics to government schools in the US
2013	Platform transition completed for product offerings
	IntoScience pilot program commenced
	Mathletics app for iPad and Android tablets launched
2014	Commenced developing Chinese language version of Mathletics
	Exceeded 1m Mathletic app downloads
	Expanded IntoScience pilot program into a full launch for Grades 7-8 in Australia
	Listed on the ASX on 8th July 2014

Source: Deutsche Bank, Company data

Products

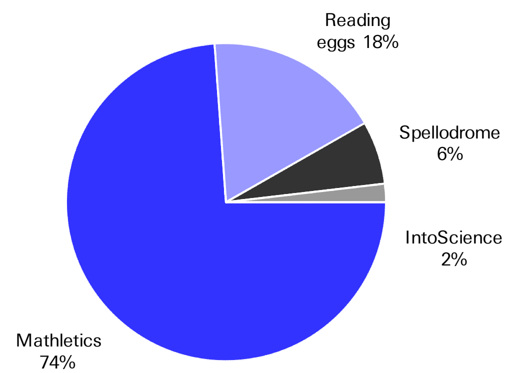
3PL's suite of products include Mathletics, Spellodrome and the recently developed, IntoScience. 3PL also generates a material amount of revenue from re-selling Reading Eggs products.

Figure 3: FY14 Revenue split by Product



Source: Deutsche Bank, Company data

Figure 4: FY14 License split by Product



Source: Deutsche Bank, Company data

Mathletics (78% of FY14 revenue):

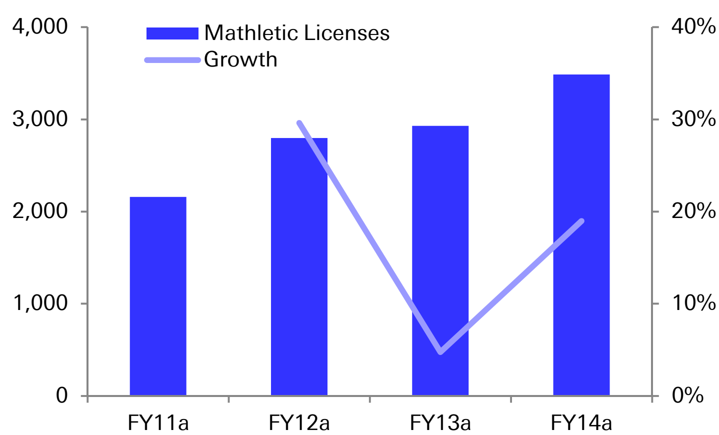
~48% of Australian schools use Mathletics

Mathletics is 3PL's flagship cloud based product which is an interactive online numeracy program available for grades K-12. The Mathletics program has achieved significant market share with ~48% of Australian schools using the product for at least one class.

~3.5m Mathletics subscribers

Mathletics has experienced significant growth (and material product validation) and as at FY14 had ~3.5m subscribers. Due to its proven product status, Mathletics is typically the initial 3PL program marketed when establishing a presence in a new jurisdiction.

Figure 5: Mathletics License growth



Source: Deutsche Bank, Company data

In our view, the key attributes of the Mathletics program for students include:

- A high level of student engagement, which is an important attribute in the Math discipline. The program employs a visually stimulating experience for the students, rewards participation and achievement and enables competitions amongst students if desired.
- The question difficulty adjusts according to demonstrated aptitude levels. This creates an adaptive personalized program which can hone in on a particular student's weakness in an attempt to remedy this.
- Aligned to syllabus outcomes.
- Course work or extra learning can be completed during and after school times.

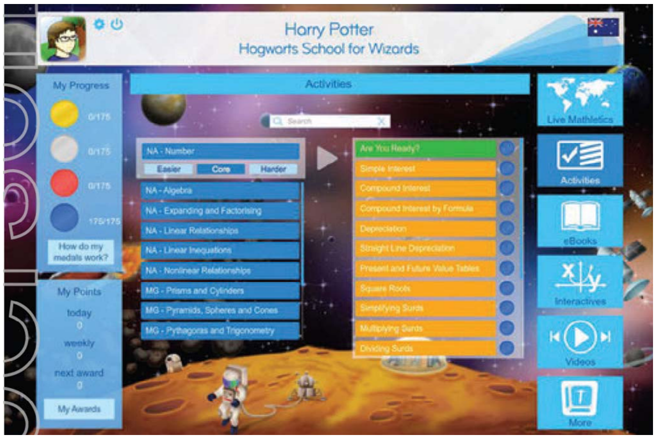
Engaging for students

From an educator's perspective it retains a number of advantages including:

- Automatic marking of course work.
- Ability to customize training courses for small groups or individuals. This increases the retention of products as teachers can recycle/modify the course content year after year.
- Automated reporting of results and up to date records of a student's progress.
- Record retention of student progress.

Efficient for educators

Figure 6: Mathletics Screenshot



Source: Company prospectus

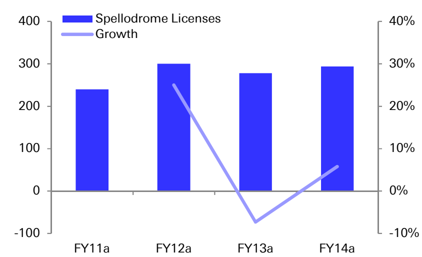
Figure 7: Mathletics Screenshot

Source: Company prospectus

Spellodrome (4% of FY14 revenue):

The Spellodrome program is a literacy program which facilitates standardized testing and can be customized to match a class spelling program. The product is geared towards increasing student engagement via live competitions amongst students and word games (such as cross words). Our expectation is that the Spellodrome product is phased out as focus increasingly turns solely towards selling Reading Eggs products. We note that management has indicated minimal recent investment in the Spellodrome product.

Figure 8: Spellodrome



Source: Deutsche Bank, Company data

Spellodrome is not a strategic priority

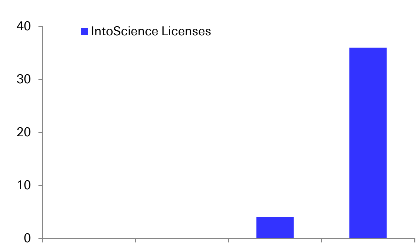
Figure 9: Spellodrome Screenshot

Source: Company prospectus

IntoScience (0% of FY14 revenue):

IntoScience is the latest product offering which is tailored towards secondary school students. The product utilizes simulations, activities and experiments to communicate science concepts. As an example, the IntoScience program utilizes a crash test facility to visually and interactively communicate the concepts of how friction affects the stopping distance of a car. The program also provides real time multi-player science competition quizzes and enables the teacher to control the curriculum content. IntoScience is expected to be launched into all of 3PL's main territories by 2016.

Figure 10: IntoScience



Source: Deutsche Bank, Company data

In our view, IntoScience has the potential to achieve first mover advantage since there are few comparable Science programs and the product should benefit from an established sales/distribution network in addition to the ability to leverage off 3PL's other products.

Figure 11: IntoScience Screenshot

Source: Company prospectus

Reading Eggs & Reading Eggspress (~11% of FY14 revenue):

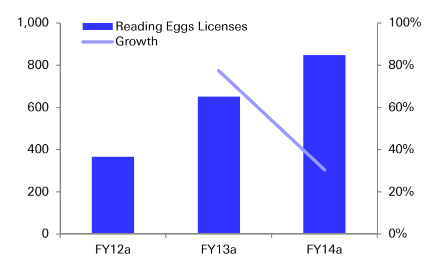
3PL has a re-seller agreement with the Blake Group to distribute Reading Eggs and Reading Eggspress products.

Reading Eggs is targeted for students in grades K-2 with the product a combination of interactive games, songs and animations geared towards improved literacy outcomes.

Reading Eggspress is suitable for grades K-6 and provides access to >1,700 eBooks with associated activities. The product utilizes online activities and motivational games to improve reading comprehension and other literacy skills.

3PL has the exclusive rights to distribute these products for grades K–6 in Australia, NZ, UK et al. but not in the US. The current perpetual distribution agreement involves 3PL paying a royalty of 40% of sales to the Blake Group with 3PL's commission revenue share reported on an upfront net basis. The Blake group is responsible for hosting the online Reading Eggs platforms. Revenue growth from reselling Reading Eggs products has been very strong in recent years (FY14 +43%).

Figure 12: Reading Eggs Licenses

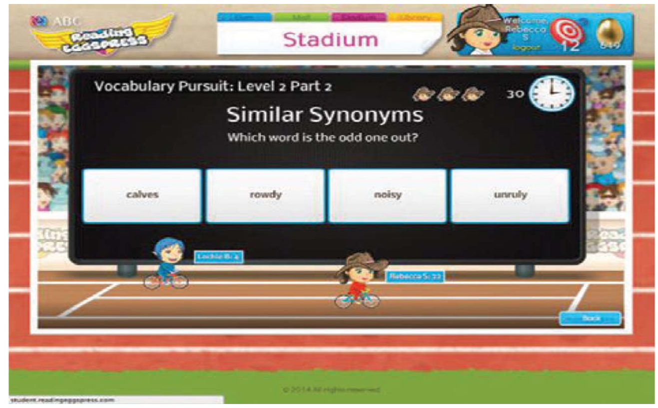


Source: Deutsche Bank, Company data

Figure 13: Reading Eggs Screenshot

Source: Company prospectus

Figure 14: Reading Eggs Screenshot



Source: Company prospectus,

Mathseeds and Wordflyers

3PL has entered into re-seller agreements for Mathseeds and Wordflyers products with the Blake Group on similar terms to the Reading Eggs products detailed above. This agreement will take effect from July 2015.

Mathseeds is an online interactive education product targeted at children aged 3-6 years old. The program has a number of similar characteristics to 3PL's products in that it employs a rewards based system, records the child's progress and is a structured yet entertaining education product.

Wordflyers is a literacy program targeted at Year 7–10 students. Wordflyers is designed to create an interactive and engaging product via competition amongst students and it employs a rewards based international travel theme to engage students.

Business model

3PL generates revenue from 3 main avenues:

Attractive business model

- **Schools:** Schools purchase licenses for their students. Approximately 91% of 3PL's revenue is generated via direct selling to schools. The product cost in some schools is passed through to parents (i.e. part of the school's "study pack").
- **Individuals:** Licenses purchased directly by students/parents. Whilst individual purchases are not a major revenue contributor they have facilitated referrals and leads into schools. Individual purchases are also generally on a higher price point per user, compared with school purchases.

~91% of revenue is sourced from schools

- **Other revenue:** Royalty payments from distributors, sponsorship and copyright fees.

Contract terms are generally on a per student basis with 12 month duration. There is also a degree of price discrimination dependent upon the school type, level of product adoption within the school and the contract duration.

Subscription based revenue streams

Whilst the cash payment is received upfront (contributing to negative working capital requirements), the revenue stream is recognized on a straight line basis over the life of the contract.

The business strategy undertaken varies according to the maturity of the particular territory. For instance, in new territories, 3PL focuses on achieving pricing penetration with Mathletics as the flagship product to establish a beachhead. As the product becomes more established, the focus turns towards cross selling opportunities (IntoScience & literacy products) and then finally utilizing the pricing lever for entrenched products.

Cash received upfront

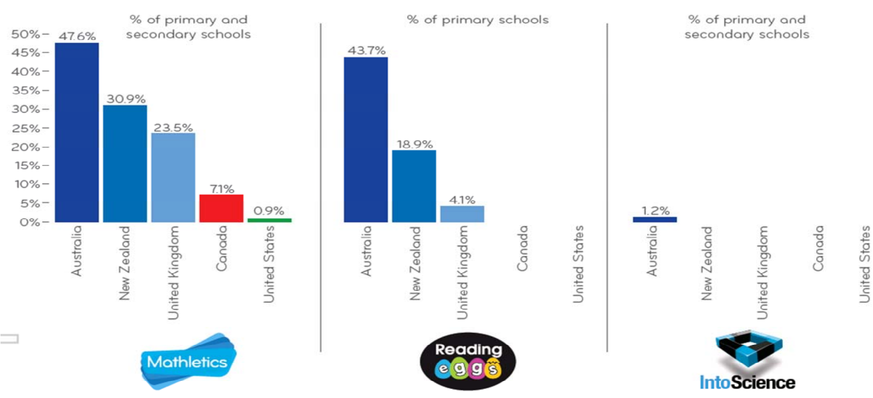
Growth Strategy:

3PL's growth strategy is captured by the 4 key tenets detailed below:

- **1. Grow number of school customers:** The strategy aims to take advantage of the structural online migration by growing market share in existing markets and by entering new territories. When entering a new market, 3PL initially focuses on pricing penetration strategies and acquiring business from schools which are deemed to be influential. The expectation is that this will help facilitate sales to other schools within the territory.

As can be seen in Figure 15, 3PL has achieved varying levels of school penetration by product and by geography.

Figure 15: School penetration in 3PL's operating territories



Source: Company prospectus

- 3PL is also targeting expansion into the secondary school market where the company is currently under-represented. 3PL products have been tailored and adjusted to meet secondary school requirements, including modified interfaces, content and aesthetics.

Currently underrepresented in the secondary market

- Further growth also exists from translating products into other languages. This has been a source of upside in Saudi Arabia, where products have been converted into Arabic.
- In addition, 3PL's hosting of the World Education Games has been a valuable license growth and brand driver. In 2013 this involved 5.1m students taking part in the Games from 231 countries.
- Increasing retention rates is also another factor which can drive higher license growth. In the short term, 3PL expects a lower retention rate largely due to price increases in Australia, which highlights the challenge of increasing retention whilst simultaneously increasing pricing.

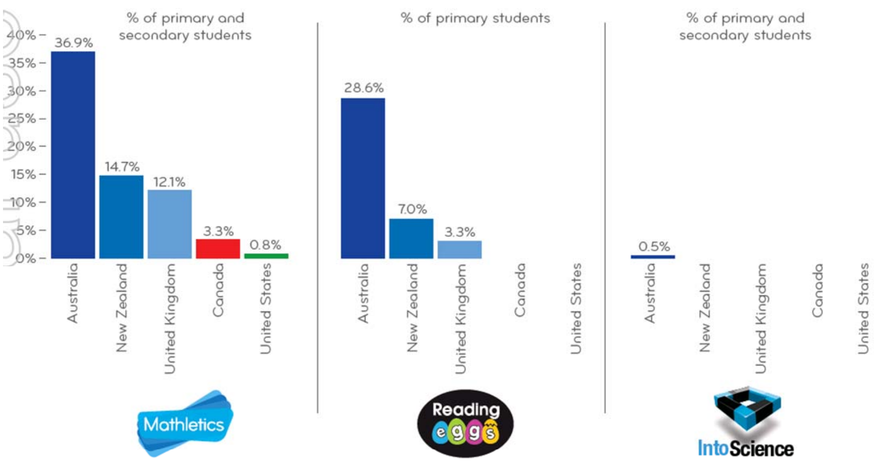
The second tenet of 3PL's growth strategy is to:

- **2. Increase penetration within existing schools:** A growth opportunity exists if 3PL is able to increase the percentage of students using 3PL products within schools that already partially use some of 3PL's products. For instance, in the UK market where 3PL has achieved ~24% penetration of schools with Mathletics, the proportion of the student population is lower than this at ~12% suggesting some upside if 3PL can increase this. Achieving increased penetration within existing schools is likely to be at a higher incremental margin compared with attracting new schools given the existing relationship. This focus is likely geared towards senior school grades given student licenses have greater concentration in grades prior to Year 8. The IntoScience product, which is targeted at secondary school students, is expected to help facilitate increased penetration within existing schools.

  Penetration is likely to increase as schools move from trialing the product in only a few classes to full school rollout. The conversion rate of trials has historically been ~60-70%. The flow of students through school years also creates some natural product dissemination within schools.

Conversion rate of trials has historically been ~60-70%

Figure 16: Student penetration in 3P's operating territories



Source: Company prospectus

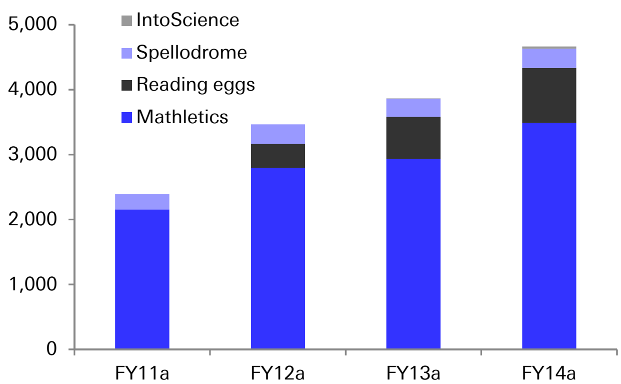
- **3. Increase cross selling:** Upon achieving sufficient penetration within a territory, the focus changes to the cross selling of products. This strategy of cross selling has been aided by the retention of some common features across 3PL's product offering. The IntoScience product also increases the attractiveness of 3PL bundled packages, particularly for the under-exposed secondary market.

- **4. Increase average revenue per license (ARPU):** Upon achieving an established position within a territory, the intention is to utilize the pricing lever. The capacity to achieve this is likely reliant upon continued product development, tempering margin expansion. Assumptions surrounding 3PL's ability to push through price increases is a key determinant of company valuation. 3PL's pricing power is discussed in greater detail on page 16.

At this stage, 3PL's growth strategy has been largely focused on growing its license base. This has primarily been driven by growth in Mathletics and more recently, Reading Eggs.

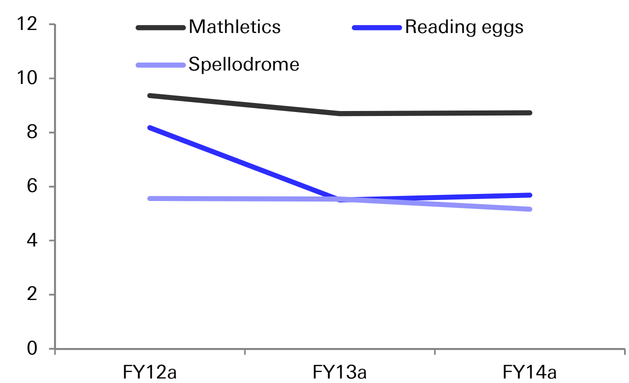
It is worth noting that each product operates at a different pricing point and that historically pricing has been flat to trending down. We believe IntoScience will operate on a higher pricing point and expect Mathletics pricing to gradually trend upwards as price inflation (particularly in ANZ) dominates stronger growth in lower priced regions (mix shift).

Figure 17: License Growth ('000s)



Source: Deutsche Bank, Company data

Figure 18: Est. ARPU by product type



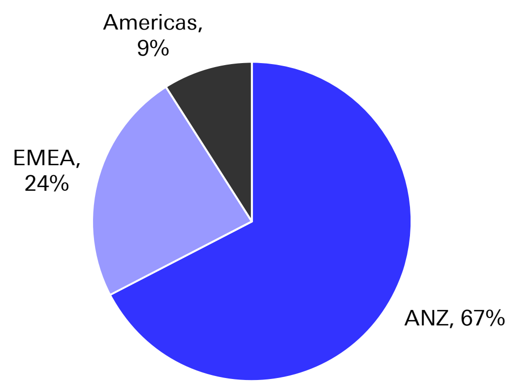
Source: Deutsche Bank est., Company data

Divisional Reporting

3PL reports segments on a geographic basis: Australia/NZ; EMEA (Europe, Middle East and Africa); and The Americas.

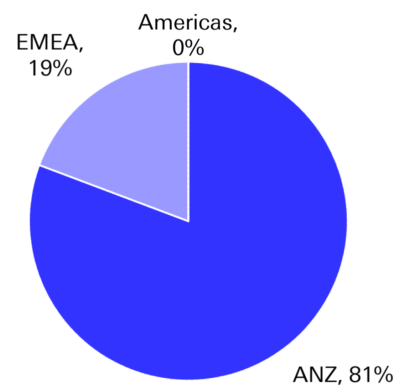
Whilst the ANZ division continues to generate the majority of revenue and earnings, EMEA and the Americas have been growing strongly in recent years. We expect this to continue and forecast that the EMEA and Americas division will contribute 32% and 11% of segment EBIT respectively, by FY21.

Figure 19: FY14 Revenue splits by Geography



Source: Deutsche Bank, Company data

Figure 20: FY14 EBIT split by Geography

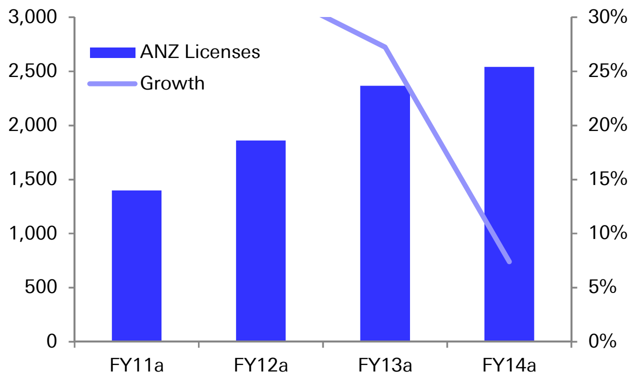


Source: Deutsche Bank, Company data. Based on Prospectus EBIT figures

Australia/NZ (67% of FY14 revenue)

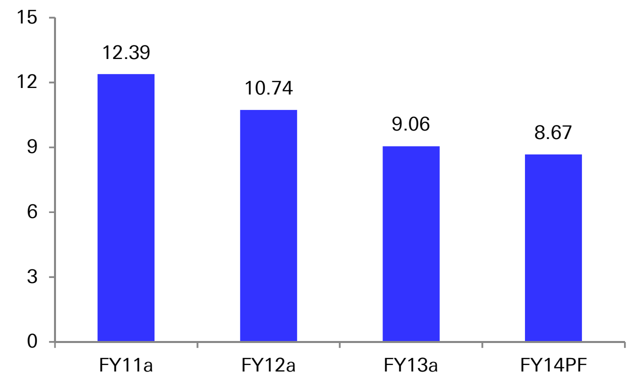
The Australian/New Zealand region is reaching a relatively mature stage having achieved significant market share in Australia as highlighted in Figures 23 & 24 below. The focus has now turned to improving the ARPU outcomes.

Figure 21: Australian/NZ License Numbers



Source: Deutsche Bank, Company data

Figure 22: Australian/NZ ARPU (A$)



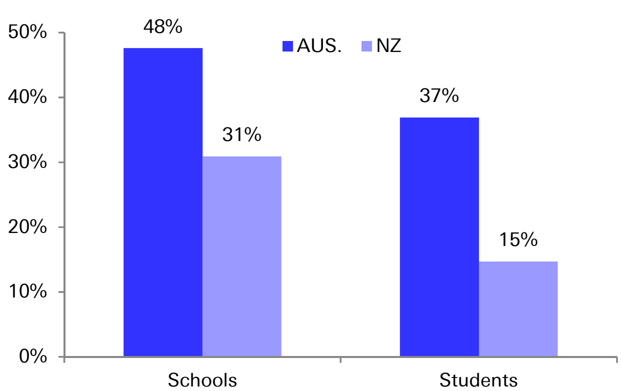
Source: Deutsche Bank, Company data. Note 2014 numbers are prospectus forecast figures

Given 3PL's entrenched market position and focus on lifting ARPU, the company's ability to push through price increases in ANZ will have implications for how the market prices 3PL's other segments' revenue/pricing power.

Despite 3PL's large market share, we believe there still remains considerable license growth potential, particularly via cross selling opportunities. The IntoScience product is likely to benefit from the ability to leverage existing school relationships and the potential to create bundled packages.

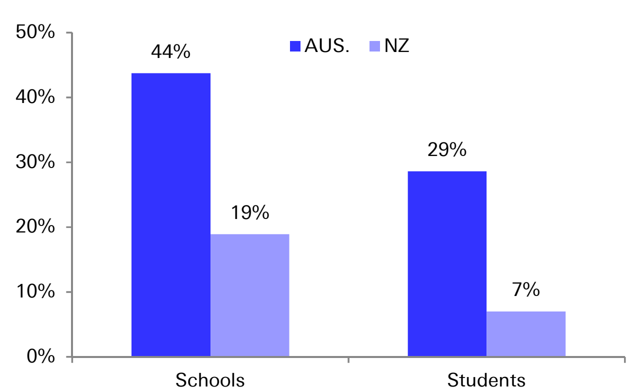
Our forecasts assume license growth of 4.5% and price inflation of 4.8% from 2015-2021 for the ANZ division.

Figure 23: Mathletics penetration: School vs. Students



Source: Deutsche Bank, Company data, FY14 data

Figure 24: Reading Eggs penetration: School vs. Student

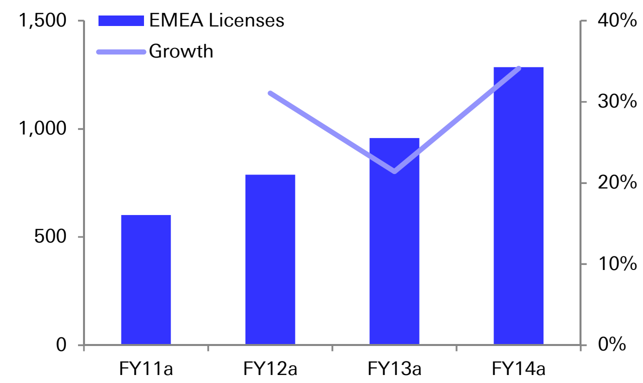


Source: Deutsche Bank, Company data, FY14 data

EMEA (24% of FY14 Revenue)

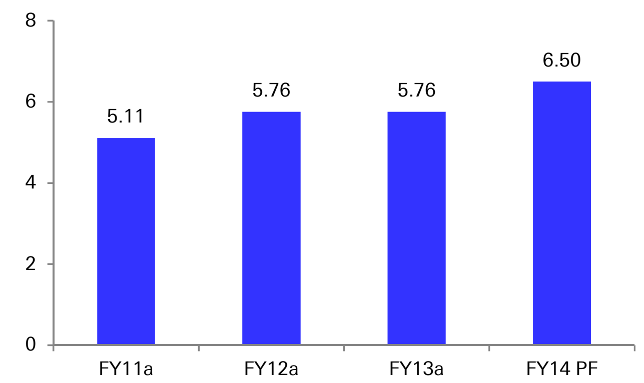
3PL entered the EMEA region in 2006 when Mathletics was first introduced into the UK. The EMEA region now employs ~45 personnel and has achieved very strong growth in recent years. Encouragingly, this has been achieved whilst lifting the ARPU.

Figure 25: EMEA license growth



Source: Deutsche Bank, Company data

Figure 26: Average Revenue per License: EMEA (A$)



Source: Deutsche Bank, Company data. Note 2014 numbers are prospectus forecast figures

UK (within EMEA)

Capacity to improve market share

Despite achieving strong growth in the UK market, 3PL's penetration remains modest. School penetration for Mathletics and Reading Eggs is ~24% and ~4% respectively, and student penetration within schools using 3PL products is ~12% and 3%, respectively.

Lower pricing point than other regions

Whilst significant volume potential exists in the UK, it is worth noting that 3PL products are priced at a low pricing point relative to other regions. This is largely a function of low initial industry pricing in which a step change in pricing has not occurred due to industry dynamics. This competitive pricing environment has moderated our pricing assumptions for the EMEA region. We believe the UK contribution to the EMEA division is ~85-90%.

Middle East

In our opinion, the Middle East is a large volume opportunity which also exists at a materially higher price point. Contract negotiations in the Middle East region are typically conducted with large ministries/districts rather than on a school by school basis. Whilst this results in more powerful customers and lumpier contract wins, it still occurs at a higher relative pricing point. This explains part of the uplift in our forecast ARPU for the EMEA region in the later years as the Middle East is expected to increase its contribution to EMEA earnings.

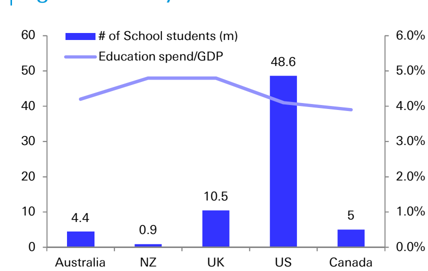
Americas (US, Canada and South America)

3PL first entered into the US market in 2007 via a local distributor, however since 2012, the company has been selling directly into the US. There are currently ~20 employees in the Americas region.

The market opportunity is very large in the US (as shown in Figure 27), with Mathletics only present in around 0.9% of US Schools.

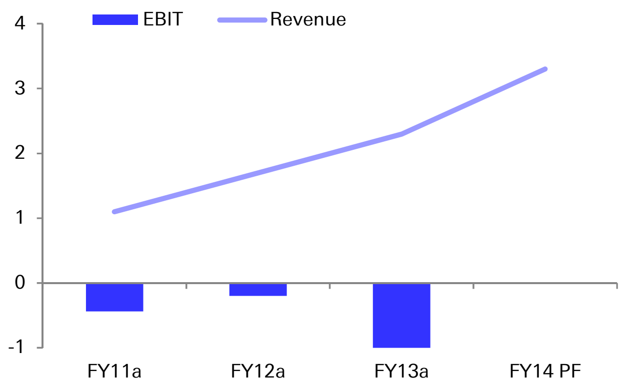
The region has achieved strong sales growth since 2011, however as yet, this has not translated into earnings growth. Prospectus figures (and DBf) forecast a positive earnings contribution in FY15.

Figure 27: Key Markets



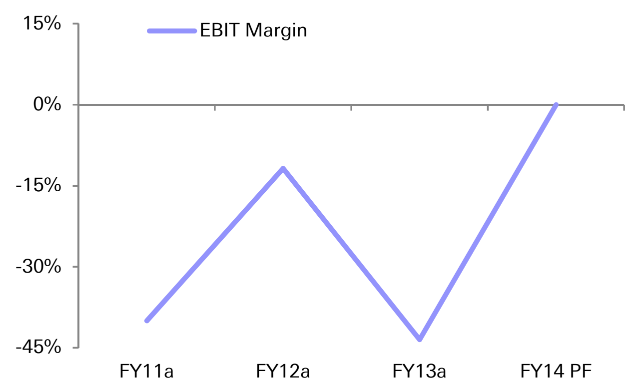
Source: Education at a glance 2013, OECD Indicators, Deutsche

Figure 28: Americas Earnings (A$m)



Source: Deutsche Bank, Company data

Figure 29: Americas Margin profile

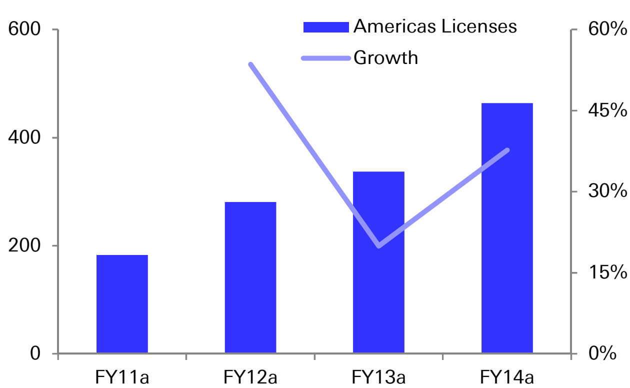


Source: Deutsche Bank, Company data. Note 2014 numbers are prospectus forecast figures

Focused on gaining scale in the Americas

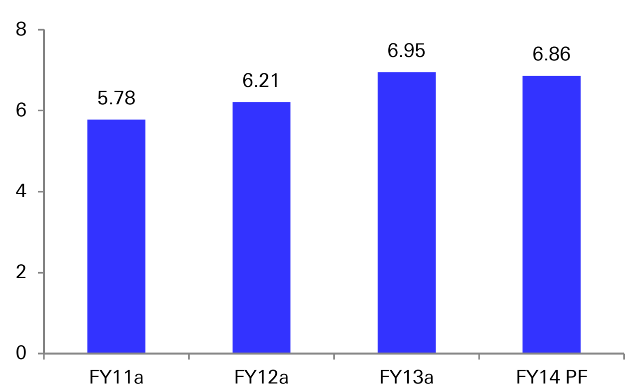
Given 3PL is still focused on building scale in the Americas, our forecasts capture this dynamic via minimal ARPU price inflation until 2021. We would also note that customers retain greater power as negotiations are typically conducted on a district by district basis in the US. Given this dynamic, 3PL has recently upgraded its products to permit entire district reporting capabilities, which should assist entry into the US market. We view this region as possessing the greatest competition but also the most upside given the size of the market.

Figure 30: Americas Licenses



Source: Deutsche Bank, Company data

Figure 31: Americas ARPU (A$)



Source: Deutsche Bank, Company data. Note 2014 numbers are prospectus forecast figures

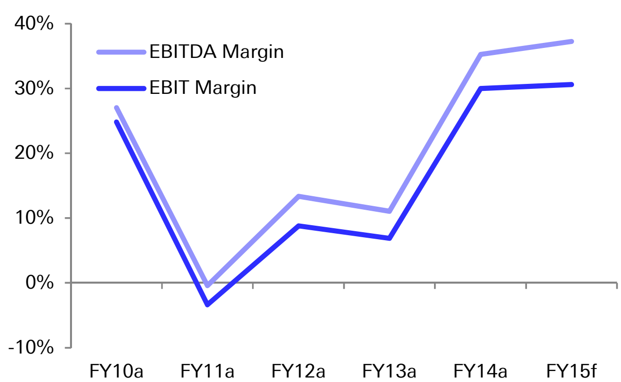
Returns Profile

3PL operates a highly scalable, capital light business model and as a result, strong top line growth has translated into a robust returns profile.

Capital light business model with a strong margin profile

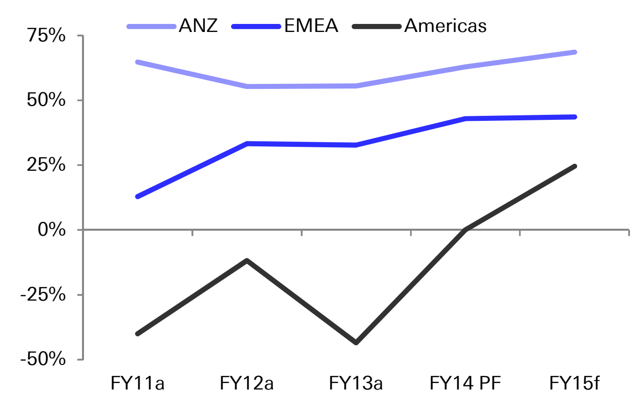
Given the capital light nature of 3PL, margins will be the major driver of returns. Importantly, 3PL's margins have improved significantly in recent years (as shown in Figure 32) and we expect incremental margins (Figure 48) to remain robust given 3PL's financial characteristics. Despite this, we have forecast that the business will still require material investment in marketing and sales. This is likely to be most pronounced in the EMEA and Americas regions, as the ANZ division is more effectively able to leverage existing resources and relationships.

Figure 32: 3PL's margin profile



Source: Deutsche Bank, Company data

Figure 33: 3PL's Divisional margins

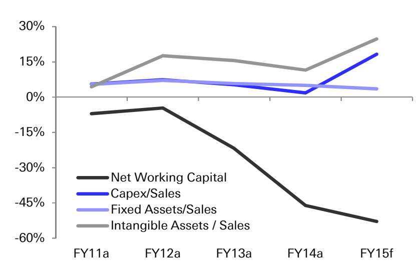


Source: Deutsche Bank, Company data

As shown in Figure 34, the investment required in the business is minimal considering 3PL's negative working capital requirements. This is a function of the upfront subscription revenue 3PL receives for its products and is reflected in a strong and growing deferred revenue balance (Figure 53). This results in a self funding business model when accompanied by top line growth. However, it is worth noting that, should top line growth slow, the cash flow generation of the business will deteriorate more quickly.

The major investment in the business so far has been in intangibles, with the asset intensity of the business forecast to increase post the decision to begin capitalizing development expenses.

Figure 34: 3PL's capital intensity



Source: Deutsche Bank, Company data

Given the negative investment required in the business (large deferred revenue) this precludes the use of ROCE/ROFE return measures and ROA/ROE measures are too punitive due to the large cash balance. Therefore, we believe margins are the best measure of returns.

Despite this, it is worth highlighting that ROE has been very strong in recent years. The implications for valuation for such a high returning business model is that DCF valuations may be too punitive in the assumption that FCF's are reinvested at WACC.

Pricing Power

The key issue for 3PL and for assessing 3PL's prospective returns is the degree of margin expansion the business can sustainably achieve. Clearly, a large part of this is reliant on pricing power. Whilst it is difficult to assess, we have gained some confidence from 3PL's average revenue per license (ARPU) performance in FY14 which exceeded prospectus forecasts at the group level by ~7.5%.

3PL attributed this strong ARPU performance to reduced volume discounting and sales mix within the EMEA region. Factors which have historically influenced ARPU include price changes, mix shift (EMEA and Americas lower price point, and Reading Eggs products are recorded net of royalty), currency and the level of promotional activity undertaken.

Strong potential pricing power

In our opinion, 3PL retains a degree of pricing power given it possesses a high quality product (as validated by its strong license growth), services a fragmented customer base and some barriers to entry exist. In addition, 3PL has a solid balance sheet and has more resources and capital at its disposal than other competitors which should assist 3PL to push through price increases and somewhat mitigates competitive threats. We are also of the opinion that online education products are no longer seen as a marginal investment by the majority of schools, increasing their inelasticity.

We would also note that from a top down level, the ability to regularly increase product pricing does not appear particularly onerous relative to the estimated US$7,974 that OECD countries on average spent per primary student per year. However, it is worth highlighting that a large portion of this involves teacher salaries and pensions.

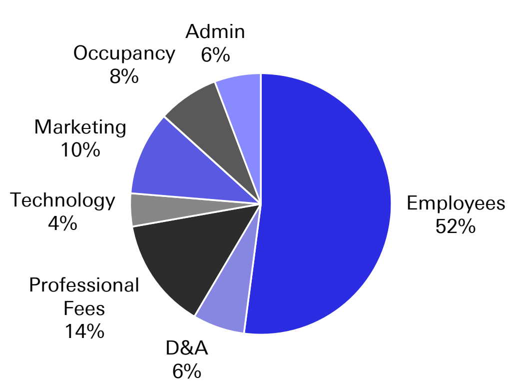
Our forecast pricing assumptions are detailed on page 25.

Cost Leverage

Employee expenses are ~40% of sales

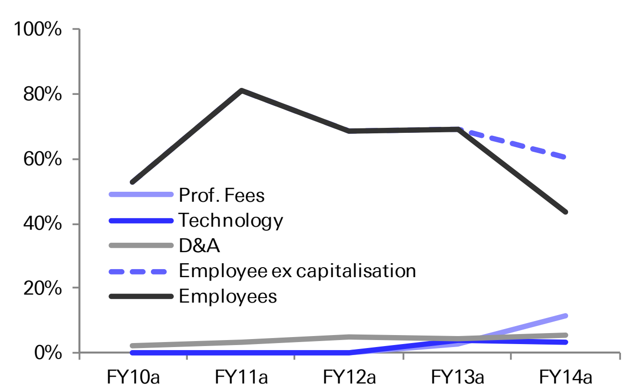
Another feature of the business model is the leverage 3PL can achieve on its cost base. The line item with the greatest scope for cost leverage is the employees' line which accounted for ~50% of FY14 costs. Cost leverage at the employee line will also, at face value, be aided by the recent policy to capitalize development costs associated with 3PL's products.

Figure 35: FY14 cost composition (%)



Source: Deutsche Bank, Company data

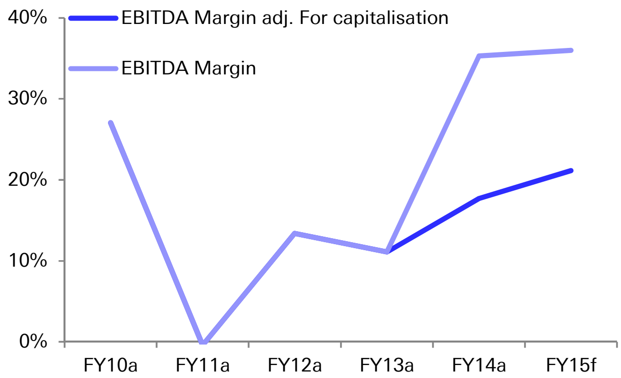
Figure 36: Costs as a % of sales (%)



Source :Deutsche Bank, Company data

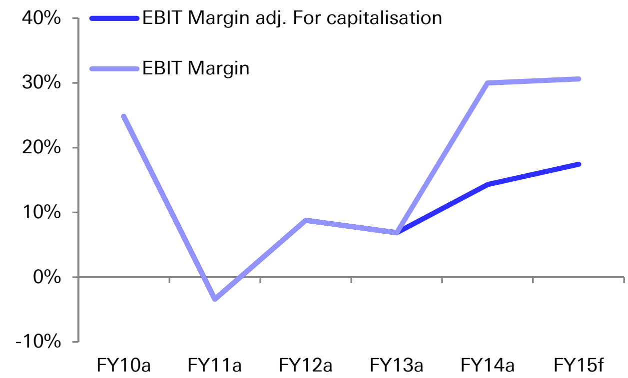
Whilst the recent decision to begin capitalizing development costs may be slightly less conservative (5 year amortization horizon), the effect it has is to overstate the margin expansion achieved in FY14. In the charts overleaf, margins have been adjusted to account for the change in policy highlighting that incremental margins have been lower than the step change in unadjusted margins would suggest (albeit still solid).

Figure 37: Adjusted EBITDA Margin profile



Source: Deutsche Bank, Company data

Figure 38: Adjusted EBIT Margin profile



Source: Deutsche Bank, Company data

Industry outlook

Online Education Market overview

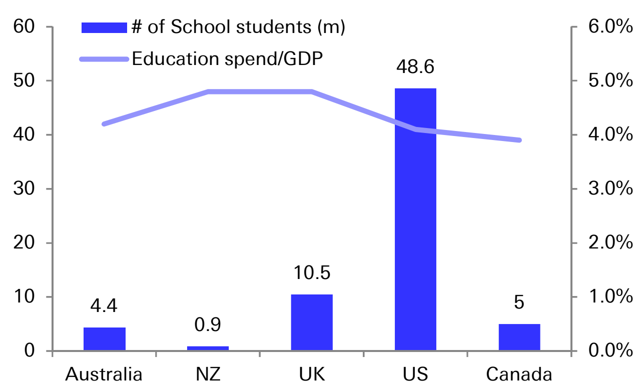
Structural online migration of educational content

The structural migration from printed resources to online content presents a favorable backdrop for the online learning industry, in our view. The market opportunity for 3PL is very large with a cumulative $831b spent on total education in 3PL's key markets in 2010 (*OECD report: Education at a Glance, 2013: OECD Indicators)*. This large market opportunity is most pronounced in the US as shown in Figure 39.

Significant market opportunity

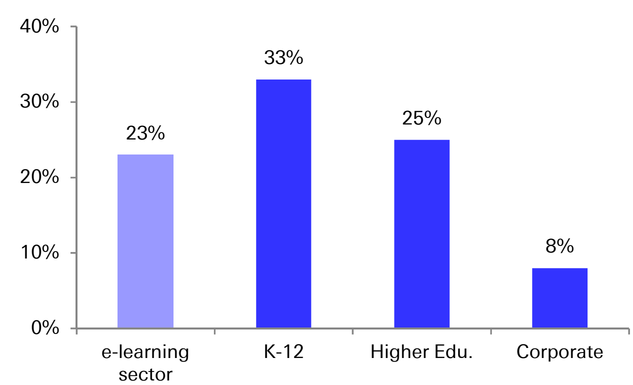
More specifically, according to IBIS Capital *(Global e-Learning Investment Review, January 2013)*, K-12 online learning is forecast to grow at a 33% CAGR through 2012-2017, which is above the forecast growth for the e-learning sector overall. This implies ~$69b worth of global expenditure on e-learning in the K-12 segment by 2017.

Figure 39: Key Market characteristics



Source: Education at a Glance, 2013: OECD Indicators, Deutsche Bank

Figure 40: e-Learning sector forecasts (CAGR 2012-17)



Source: IBIS Capital Estimates, Deutsche Bank

Industry drivers include:

- The degree of computer and mobile device penetration;
- Increased availability of online learning content;
- Increasing internet penetration and bandwidth amongst schools and the broader population;
- The level of government funding; and
- Consumer disposable income and confidence in key markets.

Competitive landscape

The favorable sector dynamics have given rise to a highly competitive and fragmented online education marketplace.

Notable competitors with similar targeted product lines include Dreambox, IXL, Literacy Planet, Amplify and Edmentum.

Figure 41: Competitor's key characteristics

	3PL	Dreambox	IXL	Literacy Planet	Amplify	Edmentum
Products	Math, literacy, Science	Math	Math	Literacy	Math, literacy, Science	Arts, Math, Science, ESL
Major Geography	Australia	United States	United States	Australia	United States	United States
Other markets	US, EMEA	Canada	Aus, Canada, Europe	UK, NZ		
Multiple languages	Yes	Yes			Yes	
Interactive Style	Yes	Yes	Yes	Yes	Yes	Yes
Automated reporting	Yes	Yes	Yes	Yes	Yes	Yes
Years	K-12	K-8	K-12	K-9	K-12	K-12
Pricing	Mathletics - \$99, Reading Eggs - \$80, IntoScience - \$45	\$120 \$25 per student	Individual -\$79. School \$8.30 per student	\$95		
Publicly Listed	Yes	No	No	No		No
Other Info		Chair & co-founder is Netflix co-founder			News Corp. Subsidiary	Offers Reading Eggs products

Source: Deutsche Bank, Company Websites, Company data

It is important to highlight that the above by no means captures all of the competitors with similar targeted product lines as the industry is highly fragmented and contains a very large number of online interactive offerings.

The two major competitors to 3PL with similar offerings in the online Math learning category are Dreambox and IXL.

Dreambox

Dreambox possesses a similar high quality product to 3PL

Dreambox targets the K-8 demographic with a very similar product offering to Mathletics. Similarities include a highly engaging environment, dynamic questioning according to demonstrated competency and curriculum aligned content. Dreambox products are predominantly sold in the US and Canada, with low presence in the UK and Australia. For individual and school licenses, Dreambox operates at a higher price point than 3PL as shown in Figure 41 above. Dreambox has also been the recipient of a number of product awards including the 2014 Tech & Learning Award of Excellence.

IXL

IXL's growth has been driven by strong marketing. Product quality appears lower

IXL targets the K-12 demographic and is a key competitor of 3PL's. IXL possesses similar characteristics to both Dreambox and 3PL; engaging product, dynamic performance tracking and awards upon achievement. IXL is priced at a lower price point than 3PL and operates in a range of Western countries, with the largest presence in the US. The product is used in more than 15,000 schools and covers >2,500 distinct math topics according to the company website. One interesting feature of the IXL product is that students will lose points for incorrect answers. This negative marking may prove de-motivating for students, in our opinion.

In our view, the quality of the Dreambox product exceeds IXL's and is more closely aligned to Mathletics. This is based upon product characteristics, awards received and user feedback. There also appears a lower learning/teaching component in IXL's product.

Former 3PL employees/founders

The Blake Group competes with 3PL in a number of disciplines within the K-12 segment. Two entities associated with the Blake Group, Matthew Sandblom (3PL Co-founder) and Katherine Pike, were shareholders of 3PL from 2004 until listing and were directors from 2006 and 2010 respectively up until listing.

Indeed, a number of the Blake Group's products also retain similar features to 3P products.

Shane Hill, 3PL co-founder and employee until 2008, is the CEO of Skoolbo, another online education competitor to 3PL. Given the aforementioned competitor's degree of knowledge regarding 3PL products/strategies, the risk is that targeted competition increases.

The major Australian competitor to 3PL with a similar offering in the online literacy learning category is Literacy Planet.

Literacy Planet

Literacy Planet is a key competitor of Reading Eggs and is predominantly sold in Australia/New Zealand. Investors in Literacy Planet include Ellerston Capital, Map Capital Partners and Intrepica. Literacy Planet offers Literacy products for children from ages 4-15 and provides more than 15,000 literacy games. The concept behind Literacy Planet is quite similar to Reading Eggs in that it is a curriculum aligned, incentives based personalized learning product. The product enables teachers to monitor student aptitude and diagnose areas of weakness.

Other competitors competing in the same space, but with less targeted offerings include the following categories:

- Traditional publishing companies: These competitors are large, well resourced with prior exposure to the education industry. Whilst some of these companies are looking to enter the industry via acquisition (eg Pearson Education's acquisition of TutorVista et al.), others are focused on creating blended offerings (textbooks and online capabilities). As the industry progressively moves away from textbooks, the desire to enter this market is likely to increase for many of these competitors. This has clearly been the case for Pearson Education which has aggressively acquired e-learning businesses in the last few years. Digital and services businesses comprised 60% of FY13 revenues (40% Print) compared with a 31%/69% split in FY07.
- Large software corporations such as Microsoft and Apple: These potential competitors are well resourced, possess strong technological capabilities and, due to their reach, can source large amounts of educational content. A growth industry such as online education is likely to prove particularly attractive for the potential competitors listed above as they fight to offset slowing growth in their core markets.
- Educational technology and platform providers: These competitors include Edmodo, Knewton and Moodle et al. and they contribute infrastructure platforms that facilitate e-learning as well as creating virtual learning environments. Whilst these providers do not strictly target schools and teachers in the same direct structured manner as 3PL's offering, nor do they provide the same level of adaptive learning, they do provide many of the tools to facilitate online learning. This may partly weaken the value proposition when deciding to onboard 3PL given some of the offerings are free of charge.

Whilst there are clearly a significant number of competitors within the space, the silver lining to this may be the potential for consolidation within the industry, particularly given its fragmented nature. This could prove beneficial for 3PL either as the consolidator (particularly given their access to and low cost of capital) or as a takeover target.

It is also worth acknowledging the industry dynamic is unlikely to be a 'winner takes all' market given the industry's size, fragmented nature of schools, existing entrenchment and individual school/region product requirements. Whilst these characteristics create a less scalable business model, they also permit a large number of competing firms to co-exist and, at least in the short term, earn excess returns.

Barriers to entry

The product market is highly competitive and there exists a vast array of products available. We also note that the scalable nature of the products, the attractive industry returns and the provision of free education content from some companies presents as a concern for 3PL's longer term returns profile.

However, our concerns are somewhat mitigated by the entrenched nature of school providers which creates a barrier to entry element in regions, particularly where sufficient scale has been achieved. This is not simply the aversion to change inherent in many schools but also the additional risk borne by utilizing a new product provider. Switching costs also exist given the expense involved in re-training teachers and students. There are also other factors which may increase the aversion to changing product providers including teacher/student familiarity with the interface/product, teachers customized and recycled content and long term data recording of aptitude and growth in competence. We note that 3PL's FY13 retention rate was 86.3%, implying a reasonable degree of customer satisfaction and/or entrenchment.

Changes in the retention rate will be a key focus given the inferences that can be drawn regarding the competitive environment and product utility. This is particularly noteworthy when much of the valuation is back ended.

In our opinion, teacher endorsement is the key to entrenching a product within a school. This is due to their input regarding the on-boarding of 3PL products and particularly their renewal. 3PL has focused on the value proposition for teachers via a number of means. These include the automatic marking of student course work and the ability to create and share customized course plans which can then be recycled regularly. This ability to create customized re-usable courses increases the commitment to the product and likely the retention rate. These benefits serve to alleviate the teacher's workload and facilitate greater time spent with struggling students.

However, the key concern in the medium to long term is that the industry structure will likely have evolved significantly with products becoming more commoditized.

Financials

FY14 result overview

Before discussing our expectations for FY15 results, it is worth briefly discussing the key outcomes of FY14 results (particularly versus prospectus). Prospectus forecasts were exceeded from a financial perspective as highlighted in Figure 42.

Figure 42: FY14a versus Prospectus

	Actual	Prospectus	Difference
Revenue	36.5	35.3	3%
EBITDA	13	12.5	4%
NPAT	8.5	8.3	2%
ARPU	8.41	7.82	8%
Licenses	4.7	4.7	0%

Source: Deutsche Bank, Company data

However, there were a number of issues worth highlighting. Whilst revenue outcomes exceeded prospectus forecasts, this was largely a function of higher ARPU. This was attributed to mix shift and lower than expected volume discounting. The concern is that they were forced to utilize the pricing lever earlier to meet prospectus forecasts.

Whilst group license numbers were largely in line, this masks significant variation on both a geographic and a product level. The miss in their dominant market and product, ANZ & Mathletics, is slightly concerning however stronger license growth in the Americas is a key positive (Figure 44). If they are able to gain traction within the Americas, the upside potential is very large given market size. Whilst, EMEA license growth numbers also missed, this appears partly due to changes to the UK national curriculum occurring during the peak selling period.

Figure 44: FY14a Licenses versus Prospectus

	FY14 Actual	FY14 Prospectus			FY14 Actual	FY14 Prospectus	
ANZ	2,524	2,585	-2%	**Mathletics**	3,486	3,603	-3%
EMEA	1,480	1,566	-5%	**Reading Eggs**	849	757	12%
Americas	662	571	16%	**Spellodrome**	294	342	-14%
Total Licenses	4,665	4,722	-1%	**Other**	36	20	80%

Source: Deutsche Bank, Company data

Figure 43: FY15 DBf vs. Prospectus

	Prospectus	DBf	Difference
Revenue	43.8	44.4	1%
EBITDA	16.4	16.7	2%
NPAT	9.7	10.7	10%
ARPU	8.32	8.44	1%
Avg. Licenses	5.3	5.0	0%

Source: Deutsche Bank, Company data

Given the FY14 results, we expect 3PL to exceed FY15 prospectus forecasts by 10% at the NPAT line as shown in Figure 43.

The majority of the NPAT beat is because we expect 3PL to receive R&D tax benefits in FY15. We expect 3PL's normalized tax rate to be ~25%-28% over the forecast period.

It is also worth noting that 3PL is positively leveraged to a falling AUD given ~20% of earnings (pre-corp. costs) are sourced offshore, whilst their cost base is predominantly in Australia.

Figure 45: Prospectus FX assumption

	FY15PF	H1 15 avg	
AUDUSD	0.94	0.89	-5%
AUDGBP	0.56	0.55	-2%
AUDCAD	1.02	0.99	-3%
AUDNZD	1.08	1.10	1%
AUDINR	54.83	54.50	-1%
AUDZAR	9.50	9.77	3%

Source: Deutsche Bank, Company data, IRESS

Income statement

Figure 46: 3PL Income Statement

	FY11PF	FY12PF	FY13PF	FY14PF	FY15f	FY16f	FY17f	FY18f
Revenue	23.8	28.4	32.1	36.9	44.9	52.3	60.3	68.6
Opex	-23.9	-24.6	-28.5	-23.9	-28.2	-30.4	-34.2	-37.8
EBITDA	-0.1	3.8	3.6	13.0	16.7	21.9	26.1	30.8
D&A	-0.7	-1.3	-1.3	-1.9	-3.0	-4.4	-5.8	-7.2
EBIT	-0.8	2.5	2.2	11.1	13.7	17.5	20.3	23.6
Net Interest	0.1	0.3	0.3	0.3	0.5	0.6	0.8	1.1
PBT	-0.7	2.8	2.5	11.4	14.3	18.1	21.2	24.8
Tax	-0.5	-0.2	0.2	-2.8	-3.6	-4.5	-5.5	-6.7
NPAT adj.	-1.2	2.6	2.7	8.5	10.7	13.6	15.7	18.1
EPS				6.3	7.9	10.1	11.6	13.4
DPS				19.5	2.2	2.9	3.3	3.8
Revenue Growth		19%	13%	15%	22%	16%	15%	14%
EBIT growth			-12%	401%	24%	27%	16%	16%
NPAT growth			4%	216%	25%	27%	15%	15%
EBIT Margins		9%	7%	30%	31%	33%	34%	34%

Source: Deutsche Bank, Company data

Key points:

- **Revenue**: forecast to grow 22% to $44.9m in FY15 and 16% to $52.3m in FY16. Revenue uplift is primarily driven by strong license growth, with minimal group ARPU inflation forecast.

Strong top line growth

- **EBIT:** projected to increase 24% to $13.7m in FY15 and 27% to $17.5m in FY16.
- **Margins:** At the group level we have assumed margins expand 348bps to 33.5% by FY16. This is primarily driven by the ANZ division which benefits from the 15% price uplift instigated in Australia in FY15.
- **Tax rate**: We assume a tax rate of 25% in FY15 which is lower than the 30% company prospectus forecasts. This is driven by our expectation that 3PL will receive R&D tax credits again in FY15. Our tax rate forecasts are staggered and progressively move towards 28% over our forecast period.

NPAT to benefit from R&D tax credits

- **NPAT:** forecast to grow 25% to $10.7m in FY15 (vs. Prospectus forecast $9.7m and Bloomberg consensus $10.8m) and 27% to $13.6m in FY16 (Bloomberg Finance LP consensus $14.7m)
- **EPS:** forecast to grow in-line with NPAT.
- **DPS**: 3PL's dividend policy is to target a payout ratio of 20-30% of statutory NPAT. We assume a 28% payout ratio in FY15 and FY16, equating to DPS of 2.2cps and 2.9cps, respectively.

Divisional earnings

Figure 47: Segment detail

Divisional	FY11PF	FY12PF	FY13PF	FY14PF	FY15f	FY16f	FY17f	FY18f
ANZ	19.6	22.2	24.3	24.6	28.9	31.4	34.4	37.7
EMEA	3.1	4.5	5.5	8.6	10.9	14.1	17.5	20.7
Americas	1.1	1.7	2.3	3.3	5.1	6.8	8.4	10.2
Other	0.0	0.0	0.0	0.4	0.0	0.0	0.0	0.0
Revenue	**23.8**	**28.4**	**32.1**	**36.9**	**44.9**	**52.3**	**60.3**	**68.6**
ANZ	12.7	12.3	13.5	15.5	19.9	22.0	24.1	25.5
EMEA	0.4	1.5	1.8	3.7	4.7	6.6	8.7	10.9
Americas	-0.4	-0.2	-1.0	0.0	1.3	1.9	2.5	3.3
Corporate	-13.4	-11.1	-12.1	-8.2	-12.1	-13.0	-15.0	-16.0
EBIT	**-0.8**	**2.5**	**2.2**	**11.0**	**13.7**	**17.5**	**20.3**	**23.6**
Margin	-3%	9%	7%	30%	31%	33%	34%	34%

Source: Deutsche Bank, Company data

Key points:

- **ANZ**: FY15 EBIT forecast to grow 28% to $19.9m on 18% revenue growth to $28.9m (in-line with prospectus forecasts), implying 560bps margin expansion to 68.6%. In FY16, we forecast EBIT to grow 11% to $22.0m on 9% revenue growth to $31.4m, implying 140bps margin expansion to 70%.

ANZ revenue growth to moderate from high levels

- **EMEA:** FY15 EBIT forecast to grow 28% to $4.7m on 26% revenue growth to $10.9m, implying 60bps margin expansion to 43.6%. FY16 EBIT is projected to grow 40% to $6.6m on 30% revenue growth to $14.1m (340bps of margin expansion).

Strong EMEA revenue growth with minor margin expansion

- **Americas:** FY15 EBIT forecast to reach $1.3m (vs. $0m in FY14) on 55% revenue growth to $5.1m, implying margins expanding to 24.6%. FY16 EBIT is assumed to grow 50% to $1.9m on 32% revenue growth to $6.8m, with margins expanding 340bps to 28%.

Strong Americas revenue growth

Price growth over the forecast period

Despite our reasonably positive view on 3PL's potential pricing power (refer page 16), we believe our group pricing assumptions are conservative (~2.3% CAGR FY14-FY21).

Our forecasts incorporate the ANZ division achieving a reasonable degree of pricing power with a CAGR of 6.3% from FY14-FY21. Given the market share 3PL has obtained within ANZ, the company's high retention rates and the entrenched nature of school providers, we view this as a realistic base case.

Conservative price inflation forecast

3PL's FY15 prospectus forecasts for ANZ imply an inelastic supply curve with a 15% pricing increase only partially offset by a 0.5%-1% reduction in the retention rate. If this is successfully managed, this would increase our confidence in the ability of other regions to successfully deploy the pricing lever in a material manner (albeit once greater market share has been obtained).

In contrast, our forecast for the EMEA and Americas region incorporates a continued focus on growing licenses with a more measured assumption regarding price inflation. Our ARPU pricing forecasts for EMEA and Americas incorporate a CAGR of 3.1% and 1.4% respectively over the forecast period. We view our forecasts of ~0-1% real price inflation to be conservative.

We are slightly more circumspect on the pricing power in the Americas/EMEA and this is a function of 3PL's lower market share and the competitive nature of the markets. In the Americas, we would also note that contracts are often negotiated with school districts, rather than individual schools, increasing the customer's purchasing power.

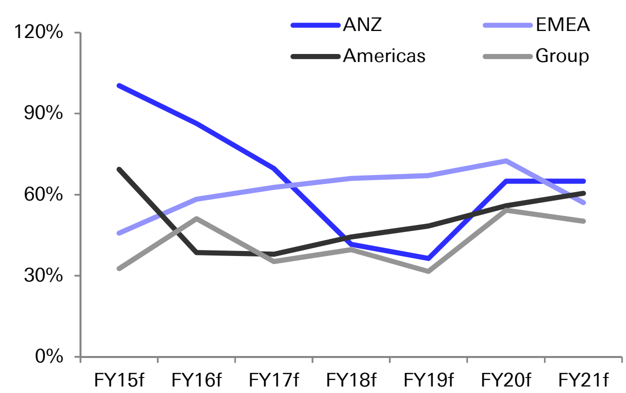
License growth over the forecast period

Given our expectation that 3PL will aggressively market its products, particularly outside of Australia, we have forecast robust license growth for the group (12.0% CAGR FY14-FY21). The majority of this growth comes from the EMEA and Americas regions.

Incremental margins over the forecast period

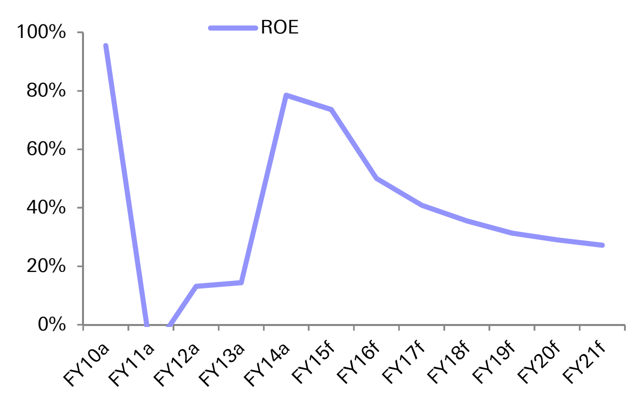
Driven by our assumption that 3PL will look to aggressively grow market share, our incremental EBIT margins appear quite conservative considering the scalable nature of the business model. This is driven by minimal pricing inflation captured in our forecast and an assumption that 3PL will re-invest in product development and invest heavily in marketing and sales.

Figure 48: DBf incremental margins



Source: Deutsche Bank, Company data

Figure 49: ROE profile



Source: Deutsche Bank, Company data

As shown in Figure 49, our forecasts imply a prolonged period of very strong shareholder returns. Part of the ROE decline over the forecast period is a function of a growing cash balance. Were 3PL to deploy its significant balance sheet capacity generated over the forecast period, this would suggest further ROE upside.

Balance sheet

3PL's historical and forecast balance sheet is detailed below.

Strong net cash balance sheet

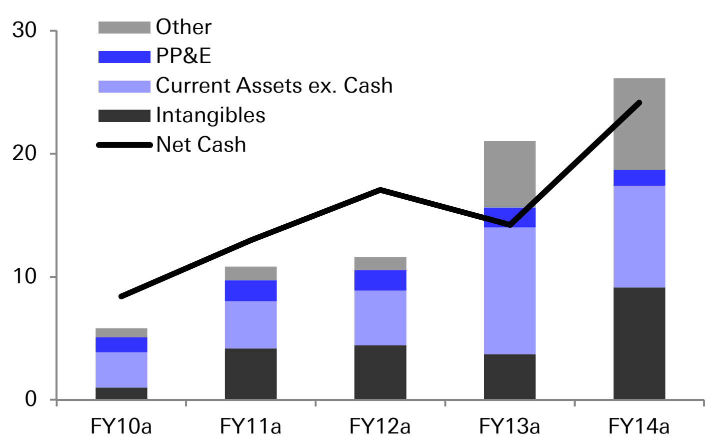
Figure 50: Balance Sheet

Balance Sheet	FY11a	FY12a	FY13a	FY14a	FY15f	FY16f	FY17f	FY18f
Cash	13.9	17.8	14.8	24.4	23.7	34.9	48.6	65.2
Receivables	4.8	5.3	7.0	5.9	8.1	9.4	10.9	12.4
PPE	1.7	1.7	1.6	1.3	1.3	1.3	1.3	1.3
Intangibles	4.2	4.4	3.7	9.1	13.7	17.4	20.2	22.1
Other	0.1	0.2	8.7	9.8	13.7	13.7	13.7	13.7
Total Assets	24.7	29.4	35.8	50.6	60.4	76.7	94.6	114.6
Payables	5.2	5.5	19.5	27.5	35.3	41.0	47.1	53.5
Debt	0.7	0.7	0.6	0.3	0.3	0.3	0.3	0.3
Tax	1.9	0.1	0.0	1.0	1.0	1.0	1.0	1.0
Provisions	0.0	0.0	1.3	14.4	1.9	1.9	1.9	1.9
Other	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Liabilities	8.1	6.3	21.3	43.3	38.6	44.2	50.4	56.8
Share Capital	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4
Reserves	5.2	6.6	7.2	8.0	8.0	8.0	8.0	8.0
Retained earnings	6.6	12.5	4.3	-3.1	11.5	22.0	33.8	47.4
Minority Int.	2.4	1.6	0.6	0.1	0.1	0.1	0.1	0.1
Shareholder Equity	16.6	23.0	14.5	7.3	21.8	32.4	44.2	57.8
ROA	-4%	9%	7%	26%	25%	26%	24%	23%
ROE	-10%	13%	14%	79%	74%	50%	41%	35%

Source: Deutsche Bank, Company data

3PL has a strong balance sheet with no borrowings and net cash of ~$24m (pre $12.5m dividend).

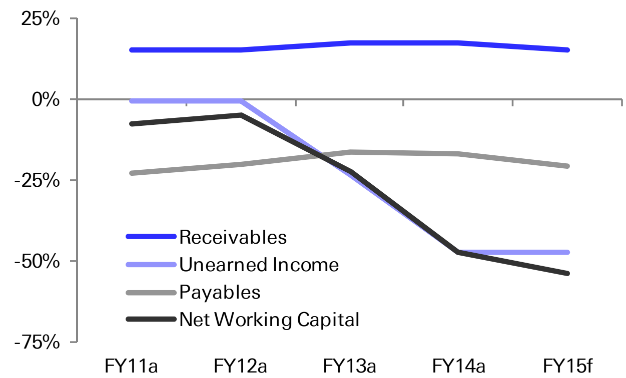
Figure 51: 3PL's Asset composition



Source: Deutsche Bank, Company data

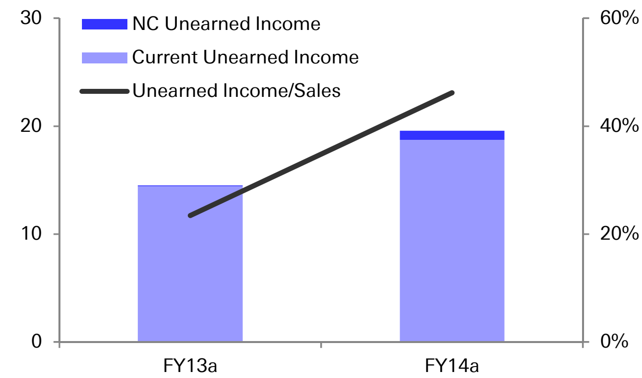
It is worth acknowledging that 3PL's predominantly intangible asset backing, cash flow seasonality and some exposure to operating leases may result in slightly less notional B/S strength than at first glance. We do not view 3PL's negative working capital requirements as an issue since this is predominantly a function of deferred revenue and the incremental cash outflows to "earn" this revenue is low.

Figure 52: Net Working Capital as a % of sales



Source: Deutsche Bank, Company data

Figure 53: Unearned Income

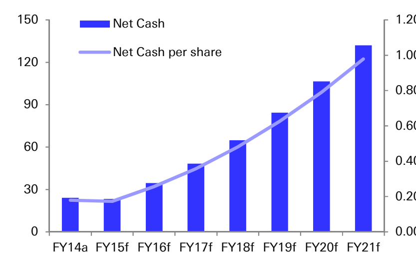


Source: Deutsche Bank, Company data

The capital light business model and associated strong cash flows should see the balance sheet continue to strengthen. In addition, given the balance sheet strength and high value of scrip (reflecting strong growth prospects), 3PL possess significant access to low cost capital which augurs well for acquisition opportunities.

We also make the observation that if our expectations are correct and the business generates very strong cash flow over the forecast period, this is likely to result in a sizeable cash pile on the balance sheet. This large optionality to pursue acquisitions, capital management or other options will not be captured by a DCF.

Figure 54: Net Cash forecasts

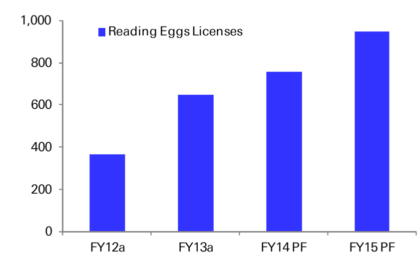


Source: Deutsche Bank, Company data

Potential Acquisition

One potential use of this excess capital would involve acquiring the intellectual property rights to Reading Eggs and Reading Eggspress products. We view this as a lower risk acquisition given 3PL's intimate knowledge of the product (having been a reseller for a number of years) and the online literacy market. The growth in 3PL's distribution of Reading Eggs product has been very strong, particularly in comparison with 3PL's literacy product, Spellodrome. It is our understanding that Spellodrome has received little investment in recent years and we would expect it to be phased out over the next few years. In our view, this implies a commitment to the Reading Eggs product as their core literacy offering.

Figure 55: Reading Eggs Licenses



Source: Deutsche Bank, Company data

The current distribution agreement involves 3PL paying a royalty of 40% of sales to the owner of Reading Eggs, the Blake Group. Revenue from distributing Reading Eggs related products were $4m in FY14, implying gross sales of ~$7m.

Cash flow statement

Figure 56: Cash Flow Statement

Cash flow statement	FY11PF	FY12PF	FY13PF	FY14PF	FY15f	FY16f	FY17f	FY18f
EBITDA	-0.1	3.8	3.6	13.0	16.7	21.9	26.1	30.8
Net interest	0.1	0.3	0.3	0.3	0.5	0.6	0.8	1.1
Tax	-2.0	-3.0	-2.7	-1.1	-3.6	-4.5	-5.5	-6.7
Working capital	-0.4	-0.3	11.6	8.0	5.6	4.3	4.7	4.9
Other	9.7	4.6	-10.8	-2.1	0.0	0.0	0.0	0.0
Net Operating CF	7.3	5.4	2.1	18.2	19.3	22.3	26.2	30.2
Capex	-0.8	-0.4	-0.6	-0.3	-0.7	-0.7	-0.7	-0.7
Intangibles	-0.9	-1.1	-2.0	-6.6	-6.9	-7.4	-7.9	-8.4
Net Investing CF	-1.8	-1.5	-2.6	-7.0	-7.6	-8.1	-8.6	-9.1
Equity proceeds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net debt proceeds	0.0	0.0	0.0	-0.3	0.0	0.0	0.0	0.0
Dividends	-0.7	0.0	-2.5	0.0	-12.5	-3.0	-3.9	-4.5
Other	0.0	0.0	0.0	-1.4	0.0	0.0	0.0	0.0
Net Financing CF	-0.7	0.0	-2.5	-1.7	-12.5	-3.0	-3.9	-4.5
Net cash flow	4.9	3.9	-3.0	9.5	-0.8	11.2	13.7	16.6
Free Cashflow	5.6	3.9	-0.5	11.2	11.7	14.2	17.6	21.1
Gross OCF	9.2	8.1	4.4	19.0	22.3	26.2	30.9	35.7
Gross OCF/EBITDA	NM	213%	124%	146%	133%	120%	118%	116%

Source: Deutsche Bank, Company data

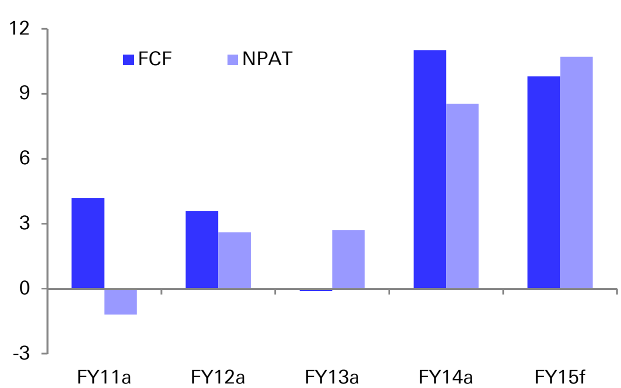
Highly cash generative business model

3PL has historically generated strong cash flow and strong cash conversion, reflecting the asset light business model and negative working capital requirements. We view this as a key positive for the business as it underpins a very strong balance sheet profile over our forecast horizon with associated optionality.

Significant cash flow seasonality

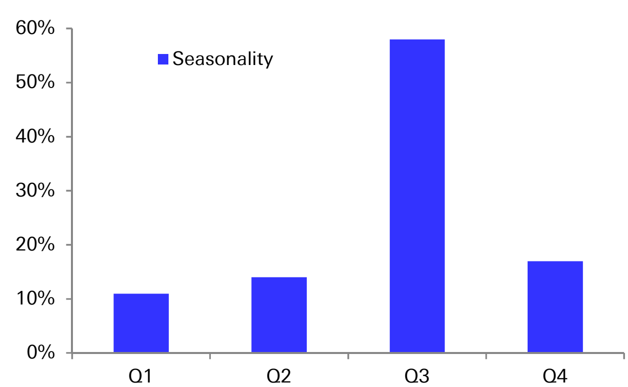
However, it is worth noting the high seasonality of cash receipts which are predominantly received in the second half of the financial year. This is a result of the back to school selling period in February and March for the southern hemisphere regions and to a lesser extent the northern hemisphere countries in the fourth quarter.

Figure 57: Cash flow conversion



Source: Deutsche Bank, Company data

Figure 58: FY14f cash flow seasonality



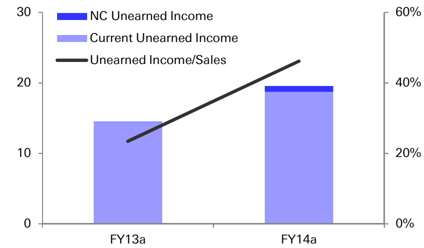
Source: Deutsche Bank, Company data

Whilst, revenues are reported on a straight line basis over the subscription period there still remains significant earnings seasonality with our forecasts implying a 33%/67% split in H1/H2. This revenue/earnings seasonality is a function of the strong license growth and the fixed component of the cost base.

Due to the straight lining of revenue, monitoring the deferred revenue balance (Figure 59) and growth can provide an indication of forward demand. This deferred revenue also increases the visibility of future earnings.

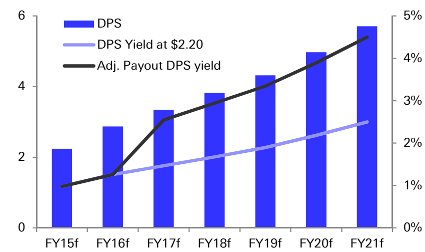
However as a very simplistic exercise to highlight the optionality within the balance sheet, if we assume that the payout ratio is lifted to 50% in FY17, the yield component becomes quite attractive (Figure 60). This payout ratio uplift is not captured in our forecasts.

Figure 59: Unearned Income



Source: Deutsche Bank, Company data

Figure 60: Dividends



Source: Deutsche Bank, Company data

Valuation

Valuation and price target

We value 3PL at $2.70 per share based on DCF methodology. We set our price target equal to our DCF valuation.

PT set equal to $2.70 DCF

DCF

Our Discounted Cash Flow (DCF) valuation for 3PL is $2.70 per share. Key DCF inputs are: beta 1.2; WACC 10.8% and TGR 3.5% (see below). We believe DCF methodology best captures the high cash flow generation and growth potential of the business.

Figure 61: DCF details

DCF		Value	per share	DCF inputs	
Enterprise value	$m	340	2.52	D/D+E	20.0%
Less: Net Debt	$m	-24	0.18	Kd	6.0%
Equity Value	$m	364	2.70	Risk-free r	5.2%
				ERP	6.0%
Implied FY16 EV/EBITDA	x	15.0		Tax rate	30.0%
Implied FY16 EV/EBIT	x	18.8		Beta	1.20
Implied FY16 PER	x	26.8		Cost of equity	12.4%
				WACC	10.8%

Source: Deutsche Bank, Company data

Key parameters used in our DCF are as follows:

- **WACC**: core components of our WACC include a risk free rate of 5.2% (consistent with the average long term bond rate over the last 10 years), an equity risk premium of 6.0% and a beta of 1.2. Our beta estimate is in line with our ex-ASX100 Industrials coverage universe. We have assumed a 20% gearing level for our DCF.
- **3 stage DCF**: our DCF valuation in based on a 3-stage DCF approach in which we forecast explicit cash flows to FY21, followed by a 5-year horizon period where cash flow growth fades to our terminal growth rate of 3.5%. We believe a 3-stage DCF is appropriate considering the high earnings growth potential of the business and the structural drivers of the online education market.
- **Terminal growth rate**: we assume a 3.5% terminal growth rate, based on nominal GDP estimates.

DCF & EPS sensitivities

Our DCF valuation and earnings forecasts are highly sensitive to a number of key assumptions, as outlined below:

WACC & TGR Sensitivity

The table overleaf provides a DCF sensitivity matrix to WACC & TGR.

Figure 62: DCF sensitivity to WACC & TGR ($/share)

		TGR				
		2.5%	3.0%	3.5%	4.0%	4.5%
	9.8%	2.92	3.03	3.16	3.31	3.48
	10.3%	2.71	2.80	2.90	3.02	3.16
WACC	10.8%	2.52	2.60	2.70	2.78	2.89
	11.3%	2.36	2.42	2.49	2.57	2.66
	11.8%	2.21	2.26	2.32	2.39	2.47

Source: Deutsche Bank, Company data

ARPU sensitivity

EPS highly sensitive to changes in ARPU

We currently forecast FY16 ARPU of $8.49 compared with $8.41 achieved in FY14. For the sensitivity analysis in Figure 63, we have held license numbers constant and assumed a 90% incremental margin. As illustrated below, EPS is highly sensitive to change in ARPU with a +/- 1% change in ARPU driving a +/- 2.5% EPS change.

Figure 63: FY16 EPS sensitivity to ARPU changes

ARPU	8.32	8.41	8.49	8.58	8.66
Delta	-2.0%	-1.0%	0.0%	1.0%	2.0%
FY16 EPS	9.59	9.85	10.1	10.34	10.58
Delta	-4.9%	-2.4%	0%	2.5%	4.9%
Implied PER	23.8	23.2	22.6	22.1	21.6

Source: Deutsche Bank, Company data

To highlight the sensitivity of our DCF valuation to price inflation (Figure 64) we have assumed that incremental price inflation relative to our base case is achieved at a 90% incremental margin. For instance, if our price inflation forecasts are too conservative, and 3PL is able to achieve CAGR price inflation of 5.3% (vs. DBf base case of 2.3%), this implies a DCF valuation of $3.70.

Figure 64: Pricing power sensitivity

ARPU Growth above DBf	DCF Valuation
-2.0%	2.09
-1.0%	2.37
0.0%	2.64
1.0%	3.00
2.0%	3.34
3.0%	3.70

Source: Deutsche Bank, Company data

License growth sensitivity

We currently forecast 5,911 average FY16 license numbers. For the EPS sensitivity analysis in Figure 65, we have held group ARPU constant and assumed a 50% incremental margin. As outlined below, EPS is also sensitive to changes in license growth with a +/- 1% change in license growth driving a +/- ~1.7% EPS change.

Figure 65: FY16 EPS sensitivity to License growth changes.

Licenses	5,793	5,852	5,911	5,970	6,029
Delta	-2%	-1%	0%	1%	2%
FY16 EPS	9.74	9.92	10.1	10.26	10.43
Delta	-3.4%	-1.6%	0%	1.7%	3.4%
PER	23.4	23.0	22.6	22.2	21.9

Source: Deutsche Bank, Company data

To highlight the sensitivity of our DCF valuation to license growth (Figure 66) we have assumed that incremental license growth relative to our base case is achieved at a 50% incremental margin. For instance, if our license growth forecasts are too aggressive, and 3PL instead achieves CAGR license growth of 10% (vs. DBf base case of 12.0%), this implies a DCF valuation of $2.39.

Figure 66: License growth sensitivity

License Growth above DBf	DCF Valuation
-2.0%	2.39
-1.0%	2.54
0.0%	2.70
1.0%	2.87
2.0%	3.04

Source: Deutsche Bank, Company data

FY15 Sensitivity Analysis

In the table below, FY15 company provided sensitivities are also detailed. For FY15, 3PL has a high degree of sensitivity to changes in ARPU and customer retention. 3PL is also particularly sensitive to employee numbers, which is not surprising given employees comprise ~40% of sales (see Figure 36). It is worth noting that these ceteris paribus assumptions are unlikely to reflect the offsets to the change. For instance, a reduction in employee headcount is likely to result in reduced sales to new customers etc.

Figure 67: Sensitivity Analysis

Assumption	Change in Assumption	FY15 Stat. NPAT impact	% impact
+15% Australian ARPU	+10% Australian ARPU	-0.4	17%
Sales to new customers	+/-10% of forecast new sales	0.2 / (0.2)	9%
Customer retention rate	+/-3% change in retention rates	0.4 / (0.4)	17%
Employee headcount	+/-5% change in average FTE	0.8/ (0.8)	35%
Movement in FX rates	+/-10%	0.2 / (0.2)	9%

Source: Deutsche Bank, Company data

Spot multiples

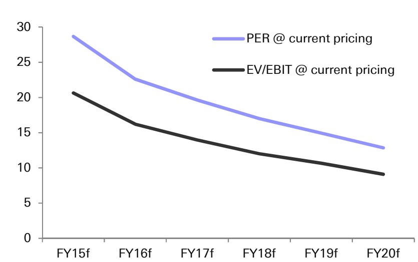
Given 3PL has very strong growth prospects, we do not believe one year forward spot multiples are particularly instructive as they do not capture the long term expected free cash flow of the company. However, since many investors will heuristically avoid high multiple stocks we believe it is worth highlighting which multiples we believe are most instructive for 3PL.

Ungeared multiples are more appropriate

Headline PER multiples certainly appear expensive (~29x). However, we believe one issue with PER multiples is that they are quite punitive for stocks, such as 3PL, with strong balance sheets. Effectively, PER multiples do not capture (and often actually reward) the additional risk caused by leverage. As a result, we believe ungeared multiples are preferable.

On an ungeared basis, multiples do not appear as full with 3PL trading at 17.7x EBITDA and 21.6x EBIT (FY15 multiple and EV adjusted for $12.5m dividend payable). We would also note that generally when there is a high unearned revenue balance, this will cause the EV to be understated. However, given our view that the incremental costs associated with fulfilling the subscription obligations are likely to be low, we believe these EV multiples are appropriate.

Figure 68: Implied Multiples



Source: Deutsche Bank, Company data

Given our expectation that the company will continue to reinvest in the business and capitalize these development costs, we expect many of these incremental costs to be expensed through the D&A line. As we expect this development expense to be a recurring component of the business (both for growth and maintenance of competitive position), we believe the more appropriate valuation metric is EV/EBIT, rather than EV/EBITDA.

Scenario Analysis

Given much of the 3PL valuation is back ended, 3PL is clearly very sensitive to assumptions around ARPU, license growth and the level of margin expansion. Given the dynamic relationship amongst these variables, we believe a scenario analysis captures this better than sensitivity analysis (ceteris paribus based).

Bear Case

Under our Bear case, we have assumed the following:

- License growth slows materially amongst all divisions.
- In an effort to arrest this lost operating momentum, we assume minor price deflation over the forecast period for the ANZ, EMEA and the Americas division.
- Margins decline in the ANZ division with little expansion in the Americas and EMEA division.
- Cash flow generation deteriorates (vs. base case) due to their negative working capital intensity.
- We have assumed 3PL continue to invest in its products at largely the same rate as the base case due to the highly competitive environment.

Whilst maintaining our base case DCF drivers (WACC 10.8% et al.) and including the above assumptions, our bear-case DCF is equal to $1.54, a 32% discount to current pricing.

Given 3PL's strong balance sheet, it is worth highlighting that in this bear case scenario, it is likely that 3PL would look to acquire earnings/scale (albeit likely debt funded) or 3PL could be a potential takeover target.

Figure 72: Cash Flow forecasts

		FY14a	FY 15f	FY 16f	FY 17f	FY 18f	FY 19f	FY 20f	FY 21f
Period		0	1	2	3	4	5	6	7
EBIT	$m	11	14	16	17	18	18	19	20
Taxes on EBIT	$m	(3)	(3)	(4)	(4)	(5)	(5)	(5)	(6)
D&A	$m	2	3	4	6	7	8	9	10
Change in WC	$m	8	5	3	3	2	2	2	2
Capital expenditure	$m	(7)	(8)	(8)	(9)	(9)	(10)	(10)	(11)
Total Free Cash Flow	$m	11	11	11	12	13	14	15	15
Growth	%	*-23%*	*-3%*	*-2%*	*12%*	*10%*	*7%*	*6%*	*1%*
Discounted FCFF	$m	11.4	9.9	8.7	8.9	8.8	8.5	8.2	7.4

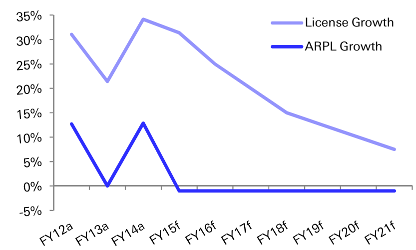
Source: Deutsche Bank, Company data

Figure 69: DCF Components

Cost of Equity (Ke)	12.4%
WACC	10.8%
Firm Value	183
Less previous yr ND	(24)
Equity Value	207
No. Shares	135
Value Per Share	**$1.54**

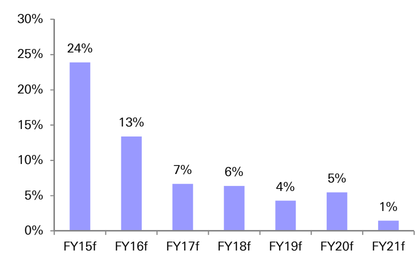
Source: Deutsche Bank

Figure 70: Forecast Growth



Source: Deutsche Bank, Company data

Figure 71: Forecast EBIT growth



Source: Deutsche Bank

Bull Case

Under our Bull case, we have assumed the following:

- The group is able to successfully utilize the pricing lever with CAGR price increases of 3.8% (FY15-FY21). We have assumed CAGR's of 6.0%, 4.8% and 3.0% for the ANZ, EMEA and the Americas division respectively.
- Despite these price increases, license growth remains strong (+14.0% CAGR) but moderates from current levels (+25% CAGR FY11-FY14).
- Margins expand slightly in the ANZ division and expand more materially in the Americas and EMEA division (owing to achieving greater scale and improved pricing outcomes).
- Cash flow generation accelerates reflecting the strong top line growth and the self funding business model (due to negative NWC).

Whilst maintaining our base case DCF drivers (WACC 10.8% et al.) and including the above assumptions, our DCF is equal to $3.86, a premium of ~70% to current pricing.

The positive feedback loops from strong operating momentum include the ability to consolidate the fragmented market using a combination of cheap equity and debt and the capacity to deploy growing net cash levels into dividends and/or buybacks.

Figure 76: Cash Flow forecasts

		FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21
Period		0	1	2	3	4	5	6	7
EBIT	$m	11	14	19	23	29	36	44	53
Taxes on EBIT	$m	(3)	(3)	(5)	(6)	(8)	(10)	(12)	(15)
D&A	$m	2	3	4	6	7	8	9	10
Change in WC	$m	8	5	5	6	7	8	8	9
Capital expenditure	$m	(7)	(8)	(8)	(9)	(9)	(10)	(10)	(11)
Total Free Cash Flow	$m	11	11	16	21	27	32	39	46
Growth	%	-23%	-3%	43%	31%	30%	21%	21%	18%
Discounted FCFF	$m	11.4	9.9	12.8	15.1	17.7	19.4	21.2	22.6

Source: Deutsche Bank, Company data

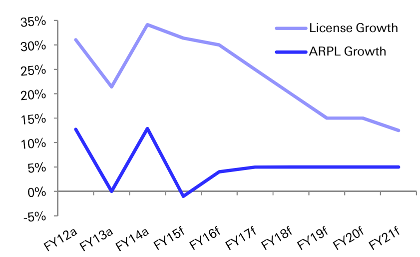
Whilst we acknowledge the additional risk associated with forecasting and valuing a high growth stock, we have gained some comfort from what we consider an asymmetric risk reward profile based on reasonable potential scenarios.

Figure 73: DCF Components

Cost of Equity (Ke)	12.4%
WACC	10.8%
Firm Value	493
Less previous yr ND	(24)
Equity Value	518
No. Shares	135
Value Per Share	**$3.86**

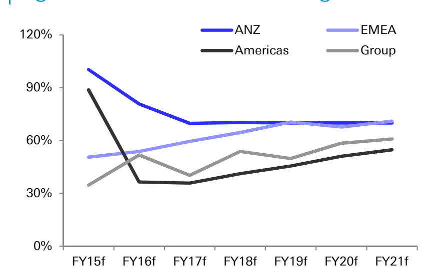
Source: Deutsche Bank

Figure 74: Forecast Growth



Source: Deutsche Bank, Company data

Figure 75: Incremental Margins



Source: Deutsche Bank, Company data

Peer comparison analysis

3PL does not have a direct peer listed on the ASX or any international indices. We have detailed key trading metrics for companies which possess similar high returning, highly scalable business models in Figure 77 below.

3PL is trading on a FY16 PER of 22.6x, broadly in line with domestic peers on 22.8x and at a 17% discount to international peers. We note that while 3PL is trading in line with domestic peers, the company has a superior EPS growth profile and a stronger balance sheet. That said, 3PL has a relatively small market capitalization and tight liquidity.

Figure 77: High returning, capital light peers.

		Price	M Cap	EV/EBIT		PER		EPS growth		ND/EBITDA
				FY15f	FY16f	FY15f	FY16f	FY15f	FY16f	FY15f
ALU	Altium Ltd (NR)	3.01	389	14.4	11.5	23.3	20.1	9%	16%	-2.1
GBT	GBST Holdings Ltd (NR)	3.81	254	15.2	12.3	15.1	14.6	26%	4%	-0.5
HSN	Hansen Technologies Ltd (NR)	1.78	291	13.1	11.7	18.2	17.1	10%	6%	-0.1
CRZ	Carsales.com (DB) Buy $12.00	10.72	2,562	16.8	14.4	22.4	18.9	20%	19%	0.9
TME	Trade Me Group Ltd (NR)	3.37	1,337	12.2	11.4	16.4	15.4	2%	6%	0.9
OFX	Ozforex Group Ltd (DB) Buy $2.95	2.71	650	18.7	16.3	27.0	23.8	51%	13%	-1.5
IPP	iProperty Group Ltd (NR)	2.65	495	63.4	31.6	66.3	42.7		55%	-2.5
IRE	Iress Ltd (DB) Buy $11.30	9.98	1,588	19.3	16.8	31.1	26.5	8%	17%	0.8
TNE	Technology One Ltd (NR)	3.06	946	19.3	16.3	27.3	23.2	11%	18%	-1.9
NEA	Nearmap Ltd (NR)	0.63	219	44.5	19.6	48.5	26.3	30%	85%	-4.6
	Domestic Average			**23.4**	**16.1**	**29.5**	**22.8**	**19%**	**24%**	**-1.1**
ULTI	Ultimate Software (DB) Buy $160.0 USD	145.30	4,122	30.5	24.0	59.0	46.9	22%	26%	-1.8
CRM	Salesforce.com (DB) Buy $70.0 USD	57.97	36,579	65.1	46.1			53%	34%	-0.8
ADVS	Advent Software Inc (NR)	32.42	1,676			21.1	19.6	7%	8%	
VRNT	Verint Systems (DB) Buy $65.0 USD	55.88	3,393	15.6	12.5	16.2	14.8	24%	10%	1.2
	International Average			**37.1**	**27.5**	**32.1**	**27.1**	**27%**	**19%**	**0.2**
3PL	**3P Learning (DB) Buy $2.70**	**2.28**	**307**	**20.7**	**15.6**	**28.7**	**22.6**	**25%**	**27%**	**-1.4**
	3PL Prem/(disc) to Domestic peers			-13%	-4%	-3%	-1%	7%	3%	
	3PL Prem/(disc) to International peers			-44%	-43%	-11%	-17%	-1%	8%	

Source: Deutsche Bank, Bloomberg Finance LP, Company data, Prices as of 14/01/2015

The risk is that over time the market begins pricing 3PL as a commoditized software company (and hence applies a lower multiple) reflecting the possibility that online learning products become more homogenized as imitation occurs. We do not view this as likely in the short to medium term given the immature industry, the current presence of some valuable product differentiation and the existing barriers to entry that exist in our opinion. Nevertheless, it remains a key risk over a longer time frame.

In addition, the key metrics for domestic and global education providers is detailed in Figure 78 below. 3PL is trading at a 45% and 64% FY16 multiple premium compared with domestic and international peers, respectively.

Figure 78: Education Peers

		Price	M Cap	EV/EBIT		PER		EPS growth		ND/EBITDA
				FY15f	FY16f	FY15f	FY16f	FY15f	FY16f	
GEM	G8 Education Limited (DB) Buy $6.55	3.80	1,344	9.1	8.0	12.5	10.7	62%	16%	1.3
NVT	Navitas Limited (DB) Hold $5.00	5.25	1,974	14.5	13.4	20.4	18.7	87%	9%	0.0
RDH	Redhill Education (NR)	1.36	41			14.0	12.6	67%	11%	
	Domestic Education Average			**11.8**	**10.7**	**15.6**	**14.0**	**72%**	**12%**	
PSON	Pearson PLC (NR)	11.95	9,798	13.4	12.1	15.9	14.5	17%	10%	1.3
JW/A	John Wiley & Sons Inc (NR)	58.49	3,442	10.1	9.7	17.8	16.3	11%	9%	
SCHL	Scholastic Corp (NR)	35.47	1,160	10.0	6.7	19.2	16.6	19%	16%	
	International Education Average			**11.2**	**9.5**	**17.6**	**15.8**	**16%**	**11%**	
3PL	**3P Learning (DB) Buy $2.70**	**2.28**	**307**	**20.7**	**15.6**	**28.7**	**22.6**	**25%**	**27%**	**-1.4**
	3PL Prem/(disc) to Domestic peers			75%	45%	83%	62%	-47%	15%	
	3PL Prem/(disc) to International peers			84%	64%	63%	43%	10%	15%	

Source: Deutsche Bank, Bloomberg Finance LP, Prices as of 14/01/2015

Transaction Comparables

In the table below we have included recent transactions which have occurred in the online education space. The average transaction has been conducted at an 11.9X trailing EBITDA multiple, which compares with 3PL currently trading at a 21.7x trailing multiple.

EV/Sales multiples have also been included since they normalize for margins and as a result they implicitly normalize for company maturity/scale achieved. In addition, it is the sales which the acquirers are typically looking to incorporate in this industry presently. 3PL currently trades on a trailing EV/Sales multiple of 7.8, a premium to the average transaction multiple of 4.5x.

Figure 79: Online Education Transactions

	Target	Acquirer	EV (US$m)	EV/EBITDA	EV/Sales
May-10	Skillsoft	Bain, Berkshire et al.	1,100	7.9	
Jun-10	Education City	Archipelago Learning	87	14.0	6.7
Oct-11	Renaissance Learning	Permira	455	11.0	3.3
Oct-11	Blackboard Inc.	Providence Equity	1770	14	3.3
Sep-11	Connections Education	Pearson PLC	400		1 Yr Fwd: 2.1x
Mar-12	Archipelago Learning	Plato Learning	303	11.4	3.8
Mar-13	Renaissance Learning	Hellman & Friedman	1100		~5.5
Mar-14	Skillsoft	Charterhouse Capital	~2,300	13.5	5.6
	Average			**11.9**	**4.5**

Source: Bloomberg Finance LP, company websites, press releases, Deutsche Bank, Trailing multiples used

Risks

- **Competition:** The level of competition within the industry is clearly significant and is detailed in greater detail on page 20. The competitive structure of the industry is also likely to be fluid and constantly evolving. The key impact from the highly competitive environment is that price deflation and a slowdown/decline in license growth is a clear risk. In addition, the risk is that the competitive environment requires a constant re-investment in the product offering, marketing and other aspects of the business in order to retain market share. This is an important risk given much of the valuation is predicated on margin expansion.
- **Technology risk:** Given the nature of 3PL's products, there are three major technological risks. The first is the risk that 3PL's products are superseded by improved technology and 3P's response is ineffectual. The second is the risk of technological disruption/damage. This would include equipment failure due to damage, computer viruses or staff misuse. The third risk is the risk that they have to continually re-invest in new technology in order to maintain their competitive position. This may arise due to continued technological advances within the industry or due to certain regions having specific technological demands.
- **Government spending and regulatory risk:** 3PL is reliant to an extent upon Government school funding. If Government school funding was cut materially, this would impact on 3PL's ability to grow their license base and impinge on their capacity to achieve pricing inflation. This is worth highlighting given the current austere economic climate.

  3PL is also exposed to changes in regulation/policy concerning education providers. One key risk is how regulation evolves regarding the collection and storage of student data. The other government related risk is that curricula are revised frequently necessitating greater investment in changing the content of 3PL products.

  A further government related risk is that the Government may seek to reduce the excess returns being earned by 3PL. For instance, customer bargaining power could be increased significantly if the Government engaged in collective Public school negotiations instead of 3PL negotiating school by school. We view this as highly unlikely in the short term and note that this would likely result in volume offsets.
- **Losing Reading Eggs distribution rights**: We do not view this is a likely risk given the perpetual nature of the contract and the fact minimum requirements have been materially exceeded. However, if the rights were to be lost due to poor sales momentum for instance, we believe this would have a greater effect than simply the re-seller revenue 3PL receives. This is because in our view the Reading Eggs products provide 3PL with a full suite of high quality online learning products.
- **Loss of key personnel:** The risk of losing key personnel, notably Tim Power and Jonathan Kenny, may affect relationships with key customers, partners and stakeholders. 3PL's ability to attract and retain key employees is also a key risk.
- **Currency risk:** Currently ~20% of earnings are derived in currencies other than AUD. Adverse movements in these foreign currencies could impact upon earnings and 3PL's ability to fulfill operating obligations.

Board of Directors

Samuel Weiss, Non-Executive Independent Director & Chairman

Samuel Weiss joined 3PL in June 2014 and possesses more than 20 years of experience in senior management and directorship roles across broad industry groups. He is a current director at Altium (ALU) (Chairman), Oroton (ORL), Breville (BRG) and iBuy Ltd amongst others. He is also Chairman of Open Universities Australia Pty Ltd and previously served as a Non Executive director of iProperty Group (IPP).

Tim Power, Director & Chief Executive Officer

Tim Power has been an Executive Director at 3PL since 2004 and commenced as CEO of 3PL in 2007. Prior to this, he worked at Pascal Press and became Deputy Managing Director in 2001. He was the co-founder of Into Science, ClickView Pty Ltd, the World Education Games and Coraggio Pty Ltd. Tim currently resides on the Board of Clickview and Coraggio.

Roger Amos, Independent Non-Executive Director

Roger Amos joined 3PL in June 2014 and has more than 25 years experience in accounting, business and finance roles. He was previously a partner at KPMG for 25 years and served as an independent director of Austar United Communications Ltd. His current directorships include Chairman of Tyrian Diagnostics Ltd, Deputy Chairman of Enero Group Ltd and a Non-Executive director at REA Group Ltd.

Claire Hatton, Independent Non-Executive Director

Claire Hatton joined 3PL in June 2014 and possesses more than 20 years experience in Operations and Strategy. She is currently a Director at Full Potential Labs and has previously held senior roles with Google Australia/NZ, Travelport and Plan International Australia.

Key Management

Jonathan Kenny, Chief Financial Officer

Jonathan has more than 20 years experience in Finance and Operations roles for a host of ASX listed and multinational companies. His responsibilities as CFO will include the Group Financials, IR functions, legal and monitoring M&A opportunities. Jonathan has previously held the CFO role at Bravura Solutions Pty Ltd and RP Data.

Figure 80: Board Shareholdings

	Shares ('000s)	Value ($m)
Timothy Power	3,036	6.9
Samuel Weiss	130	0.3
Claire Hatton	25	0.1
Roger Amos	8	0.0

Source: Deutsche Bank, Company data, ASX

Shareholders

Substantial shareholders

3PL's register is reasonably well owned by institutional investors.

Figure 81: Substantial Shareholders

Shareholders	Shares	%
Colonial First State	18.0	13.4%
Pascal Education	13.7	10.2%
Fidelity Ltd	12.9	9.6%
Ausbil	12.3	9.1%
Australian Super	8.4	6.3%
Tribeca	8.1	6.0%
Antares	7.2	5.3%

Source: Deutsche Bank, Company data , IRESS

IPO sell down

The IPO was conducted primarily to provide 3PL with access to capital for growth opportunities and to enable original shareholders to realize all or part of their 3P investment.

Figure 82: Sell down in Initial Public Offering

	% held before the offer	% held post completion
Pascal press	36%	10%
MC Education Holdings	23%	0%
Macq. Special Situations	15%	0%
Insight Venture Partners	13%	0%
Employee S/h	6%	4%
Other Shareholders	8%	2%
New Shareholders	0%	84%

Source: Deutsche Bank, Company data

Post the initial public offering, 16.2% of issued shares are subject to voluntary escrow until the first trading day post 2015 results.

Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
3P Learning	3PL.AX	2.26 (AUD) 14 Jan 15	NA

*Prices are current as of the end of the previous trading session unless otherwise indicated and are sourced from local exchanges via Reuters, Bloomberg and other vendors . Data is sourced from Deutsche Bank and subject companies.

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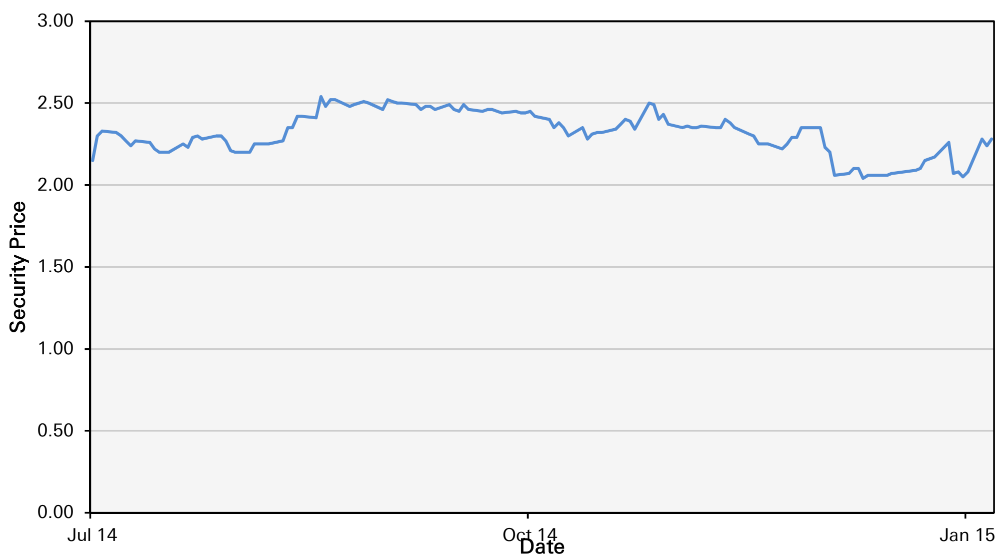
Historical recommendations and target price: 3P Learning (3PL.AX)
(as of 1/14/2015)



Previous Recommendations

Strong Buy
Buy
Market Perform
Underperform
Not Rated
Suspended Rating

Current Recommendations

Buy
Hold
Sell
Not Rated
Suspended Rating

*New Recommendation Structure as of September 9,2002

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Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus pro-jected dividend yield) , we recommend that investors buy the stock.
Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock
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Notes:

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2. Ratings definitions prior to 27 January, 2007 were:

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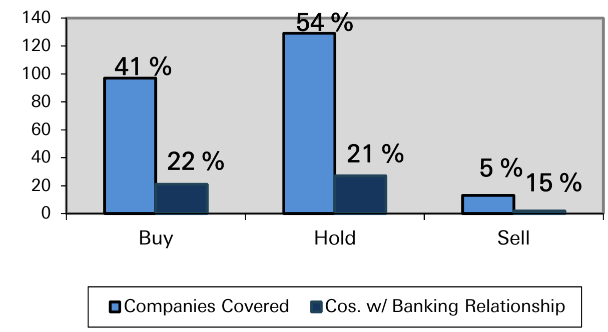

Australia Universe

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GRCM2015PROD033488