

H2 operating cash breakeven, almost EBITDA breakeven

Schrole Group Ltd (ASX:SCL) is an Australian software company focused on providing human resource technology solutions to the international education and training sector. Schrole has developed a suite of five HR Software-as-a-Service (SaaS) offerings including the core product, Schrole Connect, a SaaS-based staff recruitment platform. Schrole Group has reported a 7% increase in year-on-year revenue to \$5.84m and an underlying EBITDA loss of \$0.72m, up from a loss of \$0.57m a year ago. Revenue beat our forecasts, driven by better-than-expected training revenue, which increased 83% on the previous corresponding period. This offset a 15% decline in software revenue which was impacted by the weaker H1. H2 software revenue was flat y-o-y. Schrole Group delivered a near breakeven result in H2, reporting an EBITDA loss of just \$0.05m, its best ever half-year result. H2 operating cashflows were positive at \$0.35m and even excluding government grants were a positive \$0.09m. Schrole Group ended the year with \$2.82m in net cash and no debt. The result again reflected the benefit of ending the uneconomic relationship with International School Services (ISS) with cash receipts generated being retained by the company in its operating cashflow rather than making payments back to ISS. We have lifted our CY23 revenue forecasts by 8% to reflect the momentum in training revenues and expect the full year to be EBITDA positive. Our DCF-derived base-case valuation is currently \$1.11/share (previously \$1.15/share).

Business model

Schrole generates revenues from both transactional services and the sale of subscription licences to its proprietary software modules, which are designed to provide a sophisticated recruitment, onboarding and training platform for highly skilled staff within the international schools segment. SCL develops its software in-house, which enables more efficient development of the platform and new features while allowing for third-party integrations. In combination with SCL's strategy of active client engagement, and the conservative nature of decision-making processes inherent within the international schools segment (SCL's core customer base), the business has a clear competitive edge and highly defensible market position. We believe SCL has a considerable revenue growth opportunity within and across existing clients, driven by management's targeted expansion in contract value per customer from ~\$10kpa at present to ~\$30kpa as schools take up more Schrole modules.

CY22 demonstrates strong operational momentum

Schrole Group has reported its best-ever half-year result with EBITDA close to breakeven and H2 operating cashflow a positive \$0.35m, \$0.09m excluding government grants. Driving the result was strong growth in training revenue which increased 106% in H2 over the pcp and 82.8% for CY22 over the prior period. Software revenue for the year was down 15% to \$3.39m but H2 was flat on the prior period. Software EBITDA declined 24% to \$1.05m for the year but was up 22% for H2. This was despite an increased investment in the sales team, in response to the shift to a direct sales model following the end of the ISS relationship. Average contract value on a rolling 12-months' basis increased 15% to \$11,035 in CY22 from \$9,565 at the end of CY21, while average products per customer increased 23% to 1.64. We have upgraded our CY23 revenue by 8% to \$7.58m and EBITDA to \$0.2m from \$0.1m.

Valuation of \$38.7m or \$1.11/share (previously \$1.15/share)

We use the DCF methodology to value SCL (WACC 15.1%, terminal growth rate 2.2%) which derives an equity valuation of \$1.11/share (previously \$1.15/share). In our view, continued demonstration of strong revenue and cashflow growth should underpin the share price in the near term.

Historical earnings and RaaS estimates (in A\$m unless otherwise stated)

Year end	Sales revenue	Gross profit	EBITDA adj.*	NPAT adj.*	EPS* ^(c)	EV/Sales (x)
12/21a	5.3	4.7	(0.6)	(1.0)	(3.5)	1.69
12/22a	5.7	5.6	(0.7)	(1.8)	(4.4)	1.63
12/23f	7.6	7.6	0.2	(0.4)	(1.5)	1.30
12/24f	9.5	9.4	1.5	0.4	1.2	1.08

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

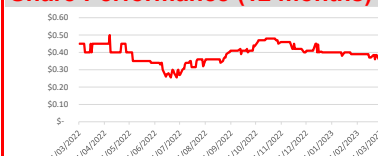
Software & Services

2 March 2023

Share Details

ASX code	SCL
Share price (1-Mar)	\$0.35
Market capitalisation	\$12.2M
Shares on issue	34.8M
Net cash 31-Dec-22	\$2.82M
Free float	~51.7%

Share Performance (12 months)



Upside Case

- Significant lift in revenue per customer (additional product modules)
- Expanded margins as ISS contract ceases and scale benefits kick in
- Investment in sales, marketing and accounts management resources result in lift in global sales and expanded markets

Downside Case

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

Catalysts

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

Latest Company Interview (link)

[Schrole Group RaaS 2023 Outlook Interview 23 January 2023](#)

Board of Directors

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

Company Contacts

Rob Graham (MD/CEO)	+61 8 9230 7000
Stephanie Syme (CFO)	
investors@schrole.edu.au	

RaaS Advisory Contact

Finola Burke*	+61 414 354 712
	finola.burke@raasgroup.com

*RaaS Advisory holds shares

CY22 Results Analysis

Schrole Group reported a 6.7% year-on-year increase in revenue to \$5.84m which was ahead of our forecast for \$5.63m. The company reported that software revenue fell 14.9% to \$3.39m but training revenue jumped almost 83% to a record \$2.35m, well ahead of our forecast for \$2.03m. Invoiced sales for the year rose 37% to \$6.24m with invoiced software sales up 24% to \$3.9m, reflecting improved sales due to the expanded product suite, the retention of customers and renewals following the end of the ISS alliance and several new international schools as clients.

CY22 gross profit was largely in line with our forecasts as were the operating results from the training division and corporate. Software EBITDA was down 24.3% on the pcp and below our forecast, due to higher operating costs. Staff costs were in line with our expectations. Schrole Group reported an EBITDA loss of \$0.76m for the year with the second half result almost at break even. H2 Group EBITDA was a loss of \$0.05m, the company's best-ever half-year result. This was also reflected in the company's cash results with positive operating cashflow of \$0.35m for H2 CY22. The company ended the year with \$2.82m in cash and no debt.

Exhibit 1: CY22 versus CY21 and RaaS forecasts (in A\$m unless otherwise stated)				
Year ending December 31	FY21	FY22	% chg	RaaS fct
Software revenue	3.98	3.39	(14.9)	3.57
Training revenue	1.29	2.35	82.8	2.03
Other revenue	0.21	0.10	(52.6)	0.02
Total revenue	5.47	5.84	6.7	5.63
Gross profit	4.67	5.65	20.8	5.58
Software EBITDA	1.39	1.05	(24.3)	1.20
Training EBITDA	0.39	1.26	225.8	1.23
Corporate EBITDA	(2.35)	(3.04)	29.5	(3.08)
Total EBITDA	(0.57)	(0.72)	27.4	(0.65)
NPAT adjusted	(1.02)	(1.45)	41.3	(1.08)

Source: Company data

A tale of two halves

CY22 was very much a tale of two halves with H2 demonstrating strong momentum across the group. While software revenue in H2 was flat, the company held onto 100% of the revenues as a result of the end of the ISS partnership. This allowed Schrole Group to post a 22% increase in software EBITDA to \$0.64m over the prior period. Training EBITDA growth was also strong, with H2 jumping 142% over H2 CY21. Corporate EBITDA (costs) increased 21% over H2 CY21 but were down on H1. The company delivered close to breakeven operationally with a small loss of \$0.05m in H2.

Exhibit 2: H1 and H2 CY22 (in A\$m unless otherwise stated)		
Six months	H1 CY22	H2 CY22
Software revenue	1.55	1.84
Training revenue	0.91	1.44
Other revenue	0.01	0.09
Total revenue	2.47	3.37
Software EBITDA	0.41	0.64
Training EBITDA	0.52	0.75
Corporate EBITDA	(1.60)	(1.44)
EBITDA	(0.67)	(0.05)

Source: RaaS estimates

Earnings Adjustments

We have adjusted our forecasts for CY23, predominantly lifting our revenue expectations by 8% to reflect the better-than-expected result from the training revenue but we have also adjusted our cost forecasts to reflect our expectation that the company will maintain its sales and marketing efforts and increase its investment in people as it expands into new regions.

Exhibit 3: Earnings adjustments for CY2023 (in A\$m unless otherwise stated)		
Year ending December 31	FY23 old	FY23 new
Sales revenue	7.02	7.58
Gross profit	6.99	7.55
EBITDA	0.10	0.20
NPAT	(0.44)	(0.43)

Source: RaaS estimates

DCF Valuation

We use the discounted cashflow (DCF) methodology as our primary method of valuing Schrole Group. We believe this is the most appropriate method for valuing SCL given its early-stage nature. We use a WACC of 15.1% based on a beta of 1.8 (versus the observed beta of 1.31 from Refinitiv Eikon), and a terminal growth rate of 2.2%. This derives a base-case valuation of \$1.11/share or \$38.7m, with \$0.67/share in the terminal value. Our valuation implies an EV/Sales multiple of 4.7x our CY23 revenue forecast.

Exhibit 3: DCF valuation	
Parameters	Outcome
WACC	15.1%
Beta	1.8
Terminal growth rate	2.2%
Sum of PV (A\$m)	14.2
PV of terminal value (A\$m)	21.6
PV of enterprise	35.9
Net debt (at 31 Dec 2022)	(2.8)
Net value - shareholder	38.7
No. of shares on issue	34.8
NPV in A\$	\$1.11

Source: RaaS estimates

Exhibit 4: Financial Summary

Schrole Group Ltd (ASX:SCL)						Share Price (1 March 2023)						A\$	0.35					
Profit and Loss (A\$m)						Interim (A\$m)						H122A	H222A	H123F	H223F	H124F	H224F	
Y/E 31 December	CY20A	CY21A	CY22A	CY23F	CY24F	ARR (US\$m)												
Sales Revenue (A\$m)	5.7	5.3	5.7	7.6	9.5	Revenue	2.5	2.9	3.1	3.3	3.8	4.3						
Gross Profit	3.3	4.7	5.6	7.6	9.4	EBITDA	(0.7)	(0.1)	(0.2)	0.3	0.4	1.1						
EBITDA underlying	(0.8)	(0.6)	(0.7)	0.2	1.5	EBIT	(1.0)	(0.4)	(0.6)	(0.2)	(0.1)	0.7						
Depn	(0.2)	(0.1)	(0.2)	(0.1)	(0.2)	NPAT (normalised)	(0.9)	(0.5)	(0.4)	(0.1)	(0.1)	0.5						
Amort	(1.0)	(0.3)	(0.5)	(0.8)	(0.8)	Minorities	-	-	-	-	-	-						
EBIT underlying	(1.9)	(1.0)	(1.4)	(0.7)	0.6	NPAT (reported)	(1.2)	(0.6)	(0.4)	(0.1)	(0.1)	0.5						
Interest	(0.0)	(0.1)	(0.0)	0.0	0.0	EPS (normalised)	(2.65)	(1.70)	(1.19)	(0.33)	(0.16)	1.35						
Tax	0.0	0.0	0.0	0.2	(0.2)	EPS (reported)	(3.38)	(2.06)	(1.19)	(0.33)	(0.16)	1.35						
Minorities	0.0	0.0	0.0	0.0	0.0	Operating cash flow	(0.8)	0.4	0.0	0.2	0.3	0.8						
Equity accounted assoc	0.0	0.0	0.0	0.0	0.0	Free Cash flow	(0.0)	1.0	0.5	0.7	0.8	1.3						
NPAT pre significant items	(2.0)	(1.0)	(1.4)	(0.4)	0.4	Divisions						H122A	H222A	H123F	H223F	H124F	H224F	
Significant items	(0.2)	(1.4)	(0.4)	0.0	0.0	Software revenue	1.6	1.8	1.9	2.0	2.3	2.6						
NPAT (reported)	(2.2)	(2.4)	(1.8)	(0.4)	0.4	Training revenue	0.9	1.4	1.5	2.0	1.9	2.4						
Cash flow (A\$m)						Corporate revenue	0.0	0.1	0.1	0.1	0.1	0.1						
Y/E 31 December	CY20A	CY21A	CY22A	CY23F	CY24F	Sales revenue	2.5	3.4	3.4	4.1	4.3	5.2						
EBITDA	(0.8)	(0.6)	(0.7)	0.2	1.5	COGS	(0.0)	(0.1)	(0.0)	(0.0)	(0.0)	(0.0)						
Interest	0.0	0.0	0.0	0.0	0.0	Employment	(2.0)	(1.9)	(2.1)	(2.2)	(2.2)	(2.3)						
Tax	0.0	0.0	0.0	0.0	(0.2)	Operating costs	(1.1)	(1.4)	(1.5)	(1.7)	(1.7)	(1.7)						
Working capital changes	(0.2)	(1.2)	0.3	0.0	(0.2)	Software EBITDA	0.4	0.6	0.7	0.7	1.0	1.3						
Operating cash flow	(1.0)	(1.8)	(0.4)	0.3	1.1	Training EBITDA	0.5	0.7	0.7	1.2	1.1	1.6						
Mtce capex	(0.0)	(0.0)	(0.2)	(0.2)	(0.2)	Corporate EBITDA	(1.6)	(1.4)	(1.5)	(1.7)	(1.7)	(1.7)						
Free cash flow	(1.0)	(1.8)	(0.6)	0.1	0.9	EBITDA	(0.7)	(0.1)	(0.2)	0.3	0.4	1.1						
Growth capex	(0.4)	(0.9)	(1.3)	(0.8)	(0.8)	Margins, Leverage, Returns						CY20A	CY21A	CY22A	CY23F	CY24F		
Acquisitions/Disposals	0.0	0.0	0.0	0.0	0.0	EBITDA	(13.5%)	(11.0%)	(12.6%)	(12.6%)	2.6%	15.8%						
Other	0.0	0.0	0.0	0.0	0.0	EBIT	(33.6%)	(18.4%)	(24.5%)	(24.5%)	(8.8%)	6.0%						
Cash flow pre financing	(1.4)	(2.7)	(1.9)	(0.7)	0.1	NPAT pre significant items	(34.5%)	(19.4%)	(25.2%)	(25.2%)	(5.7%)	4.4%						
Equity	5.0	2.8	0.0	0.0	0.0	Net Debt (Cash)		5.1	5.0	2.8	2.1	2.2						
Debt	(0.0)	0.0	(0.2)	0.0	0.0	Net debt/EBITDA (x)	(x)	n/a	n/a	n/a	10.5	1.5						
Dividends paid	0.0	0.0	0.0	0.0	0.0	ND/ND+Equity (%)	(%)	175.0%	391.2%	613.2%	804.9%	(7981.0%)						
Net cash flow for year	3.6	0.1	(2.1)	(0.7)	0.1	EBIT interest cover (x)	(x)	n/a	n/a	n/a	n/a	-	0.0					
Balance sheet (A\$m)						ROA	(35.7%)	(14.0%)	(20.9%)	(20.9%)	(10.5%)	8.4%						
Y/E 31 December	CY20A	CY21A	CY22A	CY23F	CY24F	ROE	(294.4%)	(82.9%)	(59.6%)	(20.6%)	20.3%							
Cash	5.1	5.0	2.8	2.1	2.2	ROIC	230.7%	69.4%	52.8%	26.0%	(40.4%)							
Accounts receivable	0.6	0.3	0.5	1.1	1.4	NTA (per share)		0.00	0.00	0.01	n/a	0.01						
Inventory	0.0	0.0	0.0	0.0	0.0	Working capital		(0.6)	(0.6)	(0.1)	(0.2)	(0.0)						
Other current assets	0.2	0.4	0.5	0.5	0.5	WC/Sales (%)		(11.4%)	(10.8%)	(1.5%)	(2.7%)	(0.1%)						
Total current assets	5.9	5.7	3.9	3.8	4.2	Revenue growth		1.3%	(7.3%)	9.0%	32.2%	25.0%						
PPE	0.1	0.1	0.1	0.2	0.2	EBIT growth pa		n/a	n/a	n/a	n/a	-184%						
Intangibles and Goodwill	0.5	1.1	1.9	1.9	1.9	Pricing		CY20A	CY21A	CY22A	CY23F	CY24F						
Investments	0.0	0.0	0.0	0.0	0.0	No of shares (y/e)	(m)	1,473	1,739	35	35	35						
Deferred tax asset	0.0	0.0	0.0	0.2	0.2	Weighted Av Dil Shares	(m)	1,136	1,446	33	35	35						
Other non current assets	0.3	0.2	0.4	0.4	0.4	EPS Reported	cps	(9.6)	(8.4)	(5.4)	(1.5)	1.2						
Total non current assets	0.9	1.4	2.4	2.7	2.8	EPS Normalised/Diluted	cps	(8.6)	(3.5)	(4.4)	(1.5)	1.2						
Total Assets	6.7	7.1	6.3	6.5	7.0	EPS growth (norm/dil)		n/a	n/a	n/a	n/a	(177.9%)						
Accounts payable	1.2	0.9	0.6	1.3	1.4	DPS	cps	-	-	-	-	-						
Short term debt	0.0	0.0	0.0	0.0	0.0	DPS Growth		n/a	n/a	n/a	n/a	n/a						
Tax payable	0.0	0.0	0.0	0.0	0.0	Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%						
Other current liabilities	3.1	2.4	3.1	3.1	3.1	Dividend imputation		0	0	0	0	0						
Total current liabilities	4.3	3.3	3.7	4.5	4.5	PE (x)		-	-	-	-	29.4						
Long term debt	0.0	0.0	0.0	0.0	0.0	PE market		15.0	15.0	15.0	15.0	15.0						
Other non current liabs	0.2	0.1	0.2	0.2	0.2	Premium/(discount)		(100.0%)	(100.0%)	(100.0%)	(100.0%)	96.0%						
Total long term liabilities	0.2	0.1	0.2	0.2	0.2	EV/EBITDA		(6.8)	(15.4)	(13.0)	0.0	0.0						
Total Liabilities	4.6	3.4	3.9	4.6	4.7	FCF/Share	cps	(0.1)	(0.1)	(0.8)	1.3	3.8						
Net Assets	2.2	3.7	2.4	1.8	2.2	Price/FCF share		(529.7)	(349.2)	(42.2)	27.4	9.2						
Share capital	19.8	23.2	23.6	23.6	23.6	Free Cash flow Yield		(0.2%)	(0.3%)	(2.4%)	3.6%	10.9%						
Accumulated profits/losses	(16.5)	(18.7)	(20.5)	(21.0)	(20.6)													
Reserves	(1.1)	(0.8)	(0.8)	(0.8)	(0.8)													
Minorities	0.0	0.0	0.0	0.0	0.0													
Total Shareholder funds	2.2	3.7	2.4	1.8	2.2													

Source: Company data, RaaS estimates

FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

ABN 99 614 783 363

Corporate Authorised Representative, number 1248415

of

BR SECURITIES AUSTRALIA PTY LTD

ABN 92 168 734 530

AFSL 456663

Effective Date: 6th May 2021



About Us

BR Securities Australia Pty Ltd (BR) is the holder of Australian Financial Services License ("AFSL") number 456663. RaaS Advisory Pty Ltd (RaaS) is an Authorised Representative (number 1248415) of BR.

This Financial Service Guide (FSG) is designed to assist you in deciding whether to use RaaS's services and includes such things as

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

Contact Details, BR and RaaS

BR Head Office: Suite 5GB, Level 5, 33 Queen Street, Brisbane, QLD, 4000

RaaS. 20 Halls Road Arcadia, NSW 2159

P: +61 414 354712

E: finola.burke@raasgroup.com

RaaS is the entity providing the authorised AFSL services to you as a retail or wholesale client.

What Financial Services are we authorised to provide? RaaS is authorised to

- provide general advice to retail and wholesale clients in relation to
 - Securities
- deal on behalf of retail and wholesale clients in relation to
 - Securities

The distribution of this FSG by RaaS is authorized by BR.

Our general advice service

Please note that any advice given by RaaS is general advice, as the information or advice given will not take into account your particular objectives, financial situation or needs. You should, before acting on the advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Prospectus, Product Disclosure Statement or like instrument. As we only provide general advice we will not be providing a Statement of Advice. We will provide you with recommendations on securities

Our dealing service

RaaS can arrange for you to invest in securities issued under a prospectus by firstly sending you the offer document and then assisting you fill out the application form if needed.

How are we paid?

RaaS earns fees for producing research reports. Sometimes these fees are from companies for producing research reports and/or a financial model. When the fee is derived from a company, this is clearly highlighted on the front page of the report and in the disclaimers and disclosures section of the report.

We may also receive a fee for our dealing service, from the company issuing the securities.

Associations and Relationships

BR, RaaS, its directors and related parties have no associations or relationships with any product issuers other than when advising retail clients to invest in managed funds when the managers of these funds may also be clients of BR. RaaS's representatives may from time to time deal in or otherwise have a financial interest in financial products recommended to you but any material ownership will be disclosed to you when relevant advice is provided.

Complaints

If you have a complaint about our service you should contact your representative and tell them about your complaint. The representative will follow BR's internal dispute resolution policy, which includes sending you a copy of the policy when required to. If you aren't satisfied with an outcome, you may contact AFCA, see below. BR is a member of the Australian Financial Complaints Authority (AFCA). AFCA provide fair and independent financial services complaint resolution that is free to consumers.

Website: www.afca.org.au; Email: info@afca.org.au; Telephone: 1800931678 (free call)

In writing to: Australian Financial Complaints Authority, GPO Box 3, Melbourne, VIC, 3001.

Professional Indemnity Insurance

BR has in place Professional Indemnity Insurance which satisfies the requirements for compensation under s912B of the Corporations Act and that covers our authorized representatives.

DISCLAIMERS and DISCLOSURES

This report has been commissioned Schrole Group Ltd and prepared and issued by RaaS Advisory Pty Ltd. RaaS Advisory has been paid a fee, including a proportion of the fee in Schrole Group shares, to prepare this report. RaaS Advisory's principals, employees and associates may hold shares in companies that are covered and, if so, this will be clearly stated on the front page of each report. This research is issued in Australia by RaaS Advisory and any access to it should be read in conjunction with the Financial Services Guide on the preceding two pages. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable. Opinions contained in this report represent those of the principals of RaaS Advisory at the time of publication. RaaS Advisory provides this financial advice as an honest and reasonable opinion held at a point in time about an investment's risk profile and merit and the information is provided by the RaaS Advisory in good faith. The views of the adviser(s) do not necessarily reflect the views of the AFS Licensee. RaaS Advisory has no obligation to update the opinion unless RaaS Advisory is currently contracted to provide such an updated opinion. RaaS Advisory does not warrant the accuracy of any information it sources from others. All statements as to future matters are not guaranteed to be accurate and any statements as to past performance do not represent future performance.

Assessment of risk can be subjective. Portfolios of equity investments need to be well diversified and the risk appropriate for the investor. Equity investments in listed or unlisted companies yet to achieve a profit or with an equity value less than \$50 million should collectively be a small component of a balanced portfolio, with smaller individual investment sizes than otherwise.

The science of climate change is common knowledge and its impacts may damage the global economy. Mitigating climate change may also disrupt the global economy. Investors need to make their own assessments and we disclaim any liability for the impact of either climate change or mitigating strategies on any investment we recommend.

Investors are responsible for their own investment decisions, unless a contract stipulates otherwise. RaaS Advisory does not stand behind the capital value or performance of any investment. Subject to any terms implied by law and which cannot be excluded, RaaS Advisory shall not be liable for any errors, omissions, defects or misrepresentations in the information (including by reasons of negligence, negligent misstatement or otherwise) or for any loss or damage (whether direct or indirect) suffered by persons who use or rely on the information. If any law prohibits the exclusion of such liability, RaaS Advisory limits its liability to the re-supply of the Information, provided that such limitation is permitted by law and is fair and reasonable. Copyright 2023 RaaS Advisory Pty Ltd (A.B.N. 99 614 783 363). All rights reserved.