

Schrole Group Ltd

Q1 CY23 Results Analysis

Strong growth in Q1 cash receipts in a usually quiet quarter

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 23% increase in quarter-on-quarter cash receipts to \$1.29m and a narrowed operating cash loss of \$0.37m, in what is a seasonally quiet quarter for the company. Schrole Group ended the quarter with cash of \$2.08m and no debt. The company noted that its move to cash breakeven is being helped by its new direct sales model and no revenue sharing with its former partner International School Services, which came to an end of CY22. We have made no changes to our forecasts following the quarterly result. Our DCF-derived base-case valuation is currently \$1.11/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.

Q1 CY23 demonstrates continued sales momentum

Schrole Group has reported its best-ever Q1 cash receipts of \$1.29m, up 23% on the corresponding quarter in CY22, demonstrating the benefit of ending the ISS relationship and moving to a direct sales model. Schrole also saw a significant lift in training receipts which were almost double at 98% higher, while software receipts were in line with pcp. The growth in training receipts was the result of both solid growth domestically and work completed for Rio in Guinea. The net operating cash loss for the quarter was \$0.371m, an improvement on the operating cash loss of \$0.468m reported in the same period a year ago. The improvement in net operating cash outflow was driven by both the increase in cash receipts and receipt of a \$0.2m R&D tax incentive. Schrole Group noted that the average contract value per customer was now \$11,708, versus \$9,494 in March 2022, with average products per customer at 1.45 versus 1.42 in the pcp. We have not made any changes to our forecasts following this result.

Valuation of \$38.7m or \$1.11/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. 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)	1.62
12/22a	5.7	5.6	(0.7)	(1.8)	(4.4)	1.57
12/23f	7.6	7.6	0.2	(0.4)	(1.5)	1.25
12/24f	9.5	9.4	1.5	0.4	1.2	1.05

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

27 April 2023

Share Details

ASX code	SCL
Share price (26-Apr)	\$0.34
Market capitalisation	\$11.9M
Shares on issue	34.8M
Net cash 31-Mar-23	\$2.1M
Free float	~51.7%

Share Performance (12 months)



Upside Case

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

Downside Case

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

Catalysts

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

Latest Company Interview (link)

[Schrole Group RaaS 2023 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 Contact

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

*RaaS Advisory holds shares

Q1 CY23 Results Analysis

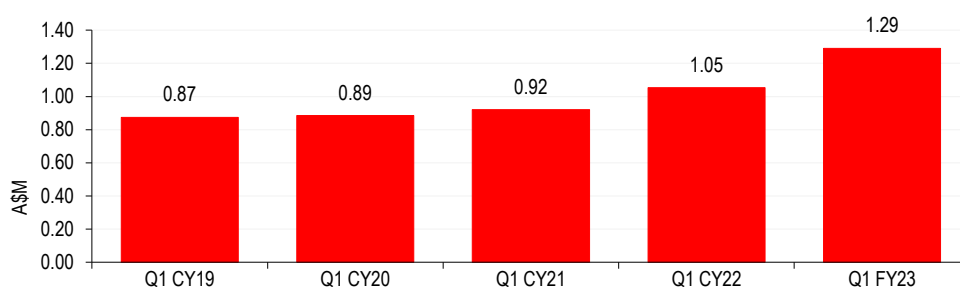
Schrole Group reported a 23% quarter-on-quarter increase in cash receipts to \$1.29m, driven by a 98% increase in training cash receipts and the end to the revenue-sharing arrangements with former partner ISS. The operating cash loss for the quarter narrowed 21% to \$0.371m with the company pointing to it being on a clear path to cash break-even. Employee costs increased 19% for the quarter to \$1.16m, reflecting Schrole's increased investment in sales and marketing staff to drive its direct sales model. The company ended the quarter with \$2.08m in cash and no debt.

Exhibit 1: Q1 CY23 versus Q1 CY22 (in A\$m unless otherwise stated)				
Quarter Ending March 31	Q1 CY22	Q1 CY23		% chg
Cash receipts	1.05	1.29		23
Product manufacturing and operating costs	(0.19)	(0.31)		64
Employee costs	(0.97)	(1.16)		19
Admin, corporate, marketing and other costs	(0.36)	(0.40)		11
Net interest	(0.00)	-		Nm
Taxes	-	-		nm
Other	0.00	0.21		nm
Operating cashflow	(0.47)	(0.37)		(21)
Net cash at the end of the period	4.06	2.08		(49)

Source: Company data

Q1 CY23 cash receipts were the best-ever reported by the group in the first quarter and well ahead of that reported for the previous four years, despite it being a seasonally quieter quarter for the company.

Exhibit 2: Schrole Group Q1 cash receipts CY19 to CY23



Source: Company Reports

The company's performance across its key business metrics in Q1 CY23 demonstrated a strong improvement in Average Contract Value, which increased 23% on the same quarter in CY22 and 6% on the December 2022 quarter. The average product per customer was 1.45, up from 1.42 a year before. Customers declined 4.6% to 517 from a year ago and were down from 520 in December 2022. The company noted that the increase in average products per customer was the result of an increase in the Engage product take-up.

Exhibit 3: Key performance indicators (Rolling five quarters)

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

Source: Company data

We have not made any changes to our forecasts following the Q1 result.

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 (26 April 2023)						A\$	0.34				
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)	2.5	2.9	3.1	3.3	3.8	4.3					
						Revenue	2.5	3.4	3.4	4.1	4.3	5.2					
Sales Revenue (A\$m)	5.7	5.3	5.7	7.6	9.5	EBITDA	(0.7)	(0.1)	(0.2)	0.3	0.4	1.1					
Gross Profit	3.3	4.7	5.6	7.6	9.4	EBIT	(1.0)	(0.4)	(0.6)	(0.2)	(0.1)	0.7					
EBITDA underlying	(0.8)	(0.6)	(0.7)	0.2	1.5	NPAT (normalised)	(0.9)	(0.5)	(0.4)	(0.1)	(0.1)	0.5					
Depn	(0.2)	(0.1)	(0.2)	(0.1)	(0.2)	Minorities	-	-	-	-	-	-					
Amort	(1.0)	(0.3)	(0.5)	(0.8)	(0.8)	NPAT (reported)	(1.2)	(0.6)	(0.4)	(0.1)	(0.1)	0.5					
EBIT underlying	(1.9)	(1.0)	(1.4)	(0.7)	0.6	EPS (normalised)	(2.65)	(1.70)	(1.19)	(0.33)	(0.16)	1.35					
Interest	(0.0)	(0.1)	(0.0)	0.0	0.0	EPS (reported)	(3.38)	(2.06)	(1.19)	(0.33)	(0.16)	1.35					
Tax	0.0	0.0	0.0	0.2	(0.2)	Operating cash flow	(0.8)	0.4	0.0	0.2	0.3	0.8					
Minorities	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					
Equity accounted assoc	0.0	0.0	0.0	0.0	0.0	Divisions	H122A	H222A	H123F	H223F	H124F	H224F					
NPAT pre significant items	(2.0)	(1.0)	(1.4)	(0.4)	0.4	Software revenue	1.6	1.8	1.9	2.0	2.3	2.6					
Significant items	(0.2)	(1.4)	(0.4)	0.0	0.0	Training revenue	0.9	1.4	1.5	2.0	1.9	2.4					
NPAT (reported)	(2.2)	(2.4)	(1.8)	(0.4)	0.4	Corporate revenue	0.0	0.1	0.1	0.1	0.1	0.1					
Cash flow (A\$m)						Sales revenue	2.5	3.4	3.4	4.1	4.3	5.2					
Y/E 31 December	CY20A	CY21A	CY22A	CY23F	CY24F	COGS	(0.0)	(0.1)	(0.0)	(0.0)	(0.0)	(0.0)					
EBITDA	(0.8)	(0.6)	(0.7)	0.2	1.5	Employment	(2.0)	(1.9)	(2.1)	(2.2)	(2.2)	(2.3)					
Interest	0.0	0.0	0.0	0.0	0.0	Operating costs	(1.1)	(1.4)	(1.5)	(1.7)	(1.7)	(1.7)					
Tax	0.0	0.0	0.0	0.0	(0.2)	Software EBITDA	0.4	0.6	0.7	0.7	1.0	1.3					
Working capital changes	(0.2)	(1.2)	0.3	0.0	(0.2)	Training EBITDA	0.5	0.7	0.7	1.2	1.1	1.6					
Operating cash flow	(1.0)	(1.8)	(0.4)	0.3	1.1	Corporate EBITDA	(1.6)	(1.4)	(1.5)	(1.7)	(1.7)	(1.7)					
Mtce capex	(0.0)	(0.0)	(0.2)	(0.2)	(0.2)	EBITDA	(0.7)	(0.1)	(0.2)	0.3	0.4	1.1					
Free cash flow	(1.0)	(1.8)	(0.6)	0.1	0.9	Margins, Leverage, Returns		CY20A	CY21A	CY22A	CY23F	CY24F					
Growth capex	(0.4)	(0.9)	(1.3)	(0.8)	(0.8)	EBITDA		(13.5%)	(11.0%)	(12.6%)	2.6%	15.8%					
Acquisitions/Disposals	0.0	0.0	0.0	0.0	0.0	EBIT		(33.6%)	(18.4%)	(24.5%)	(8.8%)	6.0%					
Other	0.0	0.0	0.0	0.0	0.0	NPAT pre significant items		(34.5%)	(19.4%)	(25.2%)	(5.7%)	4.4%					
Cash flow pre financing	(1.4)	(2.7)	(1.9)	(0.7)	0.1	Net Debt (Cash)		5.1	5.0	2.8	2.1	2.2					
Equity	5.0	2.8	0.0	0.0	0.0	Net debt/EBITDA (x)	(x)	n/a	n/a	n/a	10.5	1.5					
Debt	(0.0)	0.0	(0.2)	0.0	0.0	ND/ND+Equity (%)	(%)	175.0%	391.2%	613.2%	804.9%	(7981.0%)					
Dividends paid	0.0	0.0	0.0	0.0	0.0	EBIT interest cover (x)	(x)	n/a	n/a	n/a	n/a	0.0					
Net cash flow for year	3.6	0.1	(2.1)	(0.7)	0.1	ROA		(35.7%)	(14.0%)	(20.9%)	(10.5%)	8.4%					
Balance sheet (A\$m)						ROE		(294.4%)	(82.9%)	(59.6%)	(20.6%)	20.3%					
Y/E 31 December	CY20A	CY21A	CY22A	CY23F	CY24F	ROIC		230.7%	69.4%	52.8%	26.0%	(40.4%)					
Cash	5.1	5.0	2.8	2.1	2.2	NTA (per share)		0.00	0.00	0.01	n/a	0.01					
Accounts receivable	0.6	0.3	0.5	1.1	1.4	Working capital		(0.6)	(0.6)	(0.1)	(0.2)	(0.0)					
Inventory	0.0	0.0	0.0	0.0	0.0	WC/Sales (%)		(11.4%)	(10.8%)	(1.5%)	(2.7%)	(0.1%)					
Other current assets	0.2	0.4	0.5	0.5	0.5	Revenue growth		1.3%	(7.3%)	9.0%	32.2%	25.0%					
Total current assets	5.9	5.7	3.9	3.8	4.2	EBIT growth pa		n/a	n/a	n/a	n/a	-184%					
PPE	0.1	0.1	0.1	0.2	0.2	Pricing		CY20A	CY21A	CY22A	CY23F	CY24F					
Intangibles and Goodwill	0.5	1.1	1.9	1.9	1.9	No of shares (y/e)	(m)	1,473	1,739	35	35	35					
Investments	0.0	0.0	0.0	0.0	0.0	Weighted Av Dil Shares	(m)	1,136	1,446	33	35	35					
Deferred tax asset	0.0	0.0	0.0	0.2	0.2	EPS Reported	cps	(9.6)	(8.4)	(5.4)	(1.5)	1.2					
Other non current assets	0.3	0.2	0.4	0.4	0.4	EPS Normalised/Diluted	cps	(8.6)	(3.5)	(4.4)	(1.5)	1.2					
Total non current assets	0.9	1.4	2.4	2.7	2.8	EPS growth (norm/dil)		n/a	n/a	n/a	n/a	(177.9%)					
Total Assets	6.7	7.1	6.3	6.5	7.0	DPS	cps	-	-	-	-	-					
Accounts payable	1.2	0.9	0.6	1.3	1.4	DPS Growth		n/a	n/a	n/a	n/a	n/a					
Short term debt	0.0	0.0	0.0	0.0	0.0	Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%					
Tax payable	0.0	0.0	0.0	0.0	0.0	Dividend imputation		0	0	0	0	0					
Other current liabilities	3.1	2.4	3.1	3.1	3.1	PE (x)		-	-	-	-	28.6					
Total current liabilities	4.3	3.3	3.7	4.5	4.5	PE market		15.0	15.0	15.0	15.0	15.0					
Long term debt	0.0	0.0	0.0	0.0	0.0	Premium/(discount)		(100.0%)	(100.0%)	(100.0%)	(100.0%)	90.4%					
Other non current liabs	0.2	0.1	0.2	0.2	0.2	EV/EBITDA		(6.4)	(14.8)	(12.5)	0.0	0.0					
Total long term liabilities	0.2	0.1	0.2	0.2	0.2	FCF/Share	cps	(0.1)	(0.1)	(0.8)	1.3	3.8					
Total Liabilities	4.6	3.4	3.9	4.6	4.7	Price/FCF share		(514.6)	(339.2)	(41.0)	26.6	8.9					
Net Assets	2.2	3.7	2.4	1.8	2.2	Free Cash flow Yield		(0.2%)	(0.3%)	(2.4%)	3.8%	11.2%					
Share capital	19.8	23.2	23.6	23.6	23.6												
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.