

# Schrole Group Ltd

## Q3 CY22 Results Analysis

### Accelerating growth in Q3, cash receipts up 24% on pcp

Schrole Group Ltd (ASX:SCL) is an Australian software company focused on providing technology solutions to the international education and training sector. Schrole HR has a suite of five established and emerging human resources Software-as-a-Service (SaaS) offerings including its core product, Schrole Connect, a SaaS-based staff recruitment platform. Schrole Group has reported a 24% improvement in Q3 CY22 cash receipts to \$1.46m and almost 60% reduction in operating cash outflows, compared with the previous corresponding period. As with recent quarterly results, the benefit of ending the uneconomic relationship with International School Services (ISS) was evident with lower Q3 cash outflow on production manufacturing costs. The operating cash outflow for the period was a loss of \$0.31m, compared with a cash loss of \$0.73m in Q3 CY21. We have made no changes to our forecasts following this result. Our DCF-derived base-case valuation remains unchanged at \$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.

### Q3 demonstrates SCL is tracking to our CY22 forecasts

Schrole Group has reported a ~60% year-on-year reduction in operating cash outflows to \$0.31m in Q3 CY22 driven by a 24% increase in cash receipts to \$1.46m and relatively steady cash payments year on year. The result demonstrated that the company is moving closer to cash breakeven and was the company's fifth consecutive quarter of lower cash loss. Employee costs for the quarter were essentially flat, year on year while product manufacturing costs declined 12.2%, reflecting the ongoing benefit of the decision to exit the ISS relationship. Year to date, the company has invested an additional \$0.57m in its sales team, in response to the shift to a direct sales model. The increase in head count, which we noted at the half-year, should translate into increased sales over the coming 12 months. Admin and other costs increased 25%, or \$0.1m, to \$0.5m for the quarter. SCL ended the quarter with \$2.64m cash in hand, down from \$3.26m in Q2 but up on the \$2.35m reported in Q3 CY21. The company is now moving into its seasonally strongest quarter, noting that it expected to accelerate this momentum in the final quarter of the financial year, which underpins our confidence that Schrole is tracking to our CY22 forecasts. We have made no changes to our forecasts following this result.

### Valuation of \$40m or \$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 \$1.15/share. SCL continues to trade at a significant discount to an observed group of listed Australian peers. It is at a 20% discount to ed-tech peers and a 44% discount to HR-tech peers, discounts which we feel are not justified.

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

Year end	Sales revenue	Gross profit	EBITDA adj.*	NPAT adj.*	EPS* <sup>(c)</sup>	EV/Sales (x)
12/20a	5.7	3.3	(0.8)	(2.0)	(8.6)	1.59
12/21a	5.3	4.7	(0.6)	(1.0)	(3.5)	2.55
12/22f	5.6	5.6	(0.6)	(1.1)	(3.7)	2.39
12/23f	7.0	7.0	0.1	(0.5)	(1.3)	2.09

Source: Company data, RaaS estimates for FY22f, FY23f; \*Adjusted for one-time, significant and non-cash items, including share-based payments; ^Adjusted for share consolidation

### Software & Services

21<sup>st</sup> October 2022

#### Share Details

ASX code	SCL
Share price (20-Oct)	\$0.48
Market capitalisation	\$16.7M
Shares on issue	34.8M
Net cash 30-Sep-22	\$2.64M
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

- Transition to Connect 3.0 encounters challenges and leads to lower renewal rates
- 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

#### 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

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\*RaaS Advisory holds shares

## Q3 CY22 Results Analysis

Schrole Group reported a 24% year-on-year increase in cash receipts to \$1.46m for Q3 CY22. Year to date, cash receipts are \$3.6m, up 18% on the same period in CY21, reflecting the shift to the direct sales model and increased software sales, which the company reported are up 15% on the pcp. Year to date, Schrole has invested an additional \$0.57m in its sales team and \$0.228m in marketing initiatives compared with the same nine months in CY21. Offsetting this investment is the \$0.9m saved from the exit from the ISS partnership model. The company also noted in its result that its strategic reseller agreement with UK-based Eteach, which provides access to two million UK educators, has already delivered its first revenue.

### Exhibit 1: Q3CY22 versus Q3CY21 and Q2CY22 (in A\$m unless otherwise stated)

	Q3FY21	Q2FY22	Q3FY22	% chg Q3 FY22 on Q3 FY21
Cash receipts	1.18	1.06	1.46	24.0
Product manufacturing and operating costs	(0.38)	(0.18)	(0.33)	(12.2)
Employee costs	(1.13)	(1.00)	(1.10)	(2.7)
Admin, corporate and other costs	(0.40)	(0.24)	(0.50)	25.4
Net interest	(0.00)	(0.00)	(0.00)	(33.3)
Taxes	-	0.02	-	na
Other	-	-	0.16	nm
<b>Operating cashflow</b>	<b>(0.73)</b>	<b>(0.33)</b>	<b>(0.31)</b>	<b>(57.8)</b>
Net cash at the end of the period	2.35	3.26	2.64	12.4

Source: Company data, 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 \$1.15/share or \$40.0m, with \$0.70/share in the terminal value. Our valuation implies an EV/Sales multiple of 6.9x our CY22 revenue forecast.

### Exhibit 2: DCF valuation

Parameters	Outcome
WACC	15.1%
Beta	1.8
Terminal growth rate	2.2%
Sum of PV (A\$m)	13.3
PV of terminal value (A\$m)	23.4
PV of enterprise	36.7
Net debt (at 30 June 2022)	(3.3)
Net value - shareholder	40.0
No. of shares on issue	34.8
<b>NPV in A\$</b>	<b>\$1.15</b>

Source: RaaS estimates

**Exhibit 3: Financial Summary**

Schrole Group Ltd (ASX:SCL)						Share price (20 October 2022)						A\$	0.48				
Profit and Loss (A\$m)						Interim (A\$m)						H121A	H221A	H122A	H222F	H123F	H223F
Y/E 31 December	CY19A	CY20A	CY21A	CY22F	CY23F	ARR (US\$m)											
<b>ARR (US\$m)</b>	<b>3.2</b>	<b>3.6</b>	<b>3.2</b>	<b>3.3</b>	<b>4.0</b>	Revenue	2.7	2.8	2.5	3.2	3.2	3.8					
Sales Revenue (A\$m)	5.6	5.7	5.3	5.6	7.0	EBITDA	(0.2)	(0.4)	(0.7)	(0.2)	(0.2)	0.3					
Gross Profit	2.9	3.3	4.7	5.6	7.0	EBIT	(0.4)	(0.6)	(1.0)	(0.5)	(0.6)	(0.1)					
EBITDA underlying	(1.1)	(0.8)	(0.6)	(0.6)	0.1	NPAT (normalised)	(0.3)	(0.7)	(0.9)	(0.4)	(0.4)	(0.1)					
Depn	(0.2)	(0.2)	(0.1)	(0.1)	(0.1)	Minorities	-	-	-	-	-	-					
Amort	(0.6)	(1.0)	(0.3)	(0.5)	(0.7)	NPAT (reported)	(0.7)	(1.7)	(1.2)	(0.4)	(0.4)	(0.1)					
EBIT underlying	(1.9)	(1.9)	(1.0)	(1.3)	(0.7)	EPS (normalised)	(1.14)	(2.38)	(2.65)	(1.04)	(1.13)	(0.21)					
Interest	(0.0)	(0.0)	(0.1)	0.1	0.0	EPS (reported)	(2.54)	(4.98)	(3.38)	(1.04)	(1.13)	(0.21)					
Tax	0.0	0.0	0.0	0.1	0.2	Operating cash flow	(1.3)	(0.4)	(0.8)	(0.1)	(0.2)	0.2					
Minorities	0.0	0.0	0.0	0.0	0.0	Free Cash flow	(0.8)	(0.1)	(0.0)	0.4	0.3	0.7					
Equity accounted assoc	0.0	0.0	0.0	0.0	0.0	<b>Divisions</b>	<b>H121A</b>	<b>H221A</b>	<b>H122A</b>	<b>H222F</b>	<b>H123F</b>	<b>H223F</b>					
NPAT pre significant items	(2.0)	(2.0)	(1.0)	(1.1)	(0.5)	Software revenue	2.1	1.9	1.6	2.0	2.2	2.5					
Significant items	0.0	(0.2)	(1.4)	0.0	0.0	Training revenue	0.6	0.7	0.9	1.1	1.0	1.3					
<b>NPAT (reported)</b>	<b>(2.0)</b>	<b>(2.2)</b>	<b>(2.4)</b>	<b>(1.1)</b>	<b>(0.5)</b>	Corporate revenue	0.0	0.2	0.0	0.0	0.0	0.0					
<b>Cash flow (A\$m)</b>	<b>Y/E 31 December</b>	<b>CY19A</b>	<b>CY20A</b>	<b>CY21A</b>	<b>CY22F</b>	<b>CY23F</b>	<b>Sales revenue</b>	<b>2.7</b>	<b>2.8</b>	<b>2.5</b>	<b>3.2</b>	<b>3.2</b>	<b>3.8</b>				
EBITDA	(1.1)	(0.8)	(0.6)	(0.6)	0.1	COGS	(0.6)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)					
Interest	0.0	0.0	0.0	0.0	0.0	Employment	(1.6)	(1.9)	(2.0)	(2.1)	(2.2)	(2.2)					
Tax	0.0	0.0	0.0	0.0	0.0	Operating costs	(0.7)	(1.2)	(1.1)	(1.2)	(1.2)	(1.3)					
Working capital changes	0.3	(0.2)	(1.2)	(0.2)	(0.1)	Software EBITDA	0.9	0.5	0.4	0.8	0.9	1.2					
Operating cash flow	(0.9)	(1.0)	(1.8)	(0.9)	0.0	Training EBITDA	0.1	0.3	0.5	0.7	0.6	0.9					
Mtce capex	(0.2)	(0.0)	(0.0)	(0.2)	(0.2)	Corporate EBITDA	(1.2)	(1.2)	(1.6)	(1.7)	(1.7)	(1.8)					
Free cash flow	(1.0)	(1.0)	(1.8)	(1.1)	(0.2)	<b>EBITDA</b>	<b>(0.2)</b>	<b>(0.4)</b>	<b>(0.7)</b>	<b>(0.2)</b>	<b>(0.2)</b>	<b>0.3</b>					
Growth capex	(0.6)	(0.4)	(0.9)	(1.0)	(0.8)	<b>Margins, Leverage, Returns</b>	<b>CY19A</b>	<b>CY20A</b>	<b>CY21A</b>	<b>CY22F</b>	<b>CY23F</b>						
Acquisitions/Disposals	0.0	0.0	0.0	0.0	0.0	EBITDA	(20.3%)	(13.5%)	(11.0%)	(11.5%)	1.5%						
Other	0.0	0.0	0.0	0.0	0.0	EBIT	(34.3%)	(33.6%)	(18.4%)	(22.8%)	(9.6%)						
Cash flow pre financing	(1.7)	(1.4)	(2.7)	(2.1)	(1.0)	NPAT pre significant items	(35.1%)	(34.5%)	(19.4%)	(19.3%)	(6.6%)						
Equity	2.0	5.0	2.8	0.0	0.0	Net Debt (Cash)		2.0	5.1	5.0	2.7	1.8					
Debt	0.0	(0.0)	0.0	(0.1)	0.0	Net debt/EBITDA (x)	(x)	n/a	n/a	n/a	n/a	16.9					
Dividends paid	0.0	0.0	0.0	0.0	0.0	ND/ND+Equity (%)	(%)	73.6%	175.0%	391.2%	3055.1%	(435.2%)					
Net cash flow for year	0.3	3.6	0.1	(2.2)	(1.0)	EBIT interest cover (x)	(x)	n/a	n/a	n/a	n/a	n/a					
<b>Balance sheet (A\$m)</b>	<b>Y/E 31 December</b>	<b>CY19A</b>	<b>CY20A</b>	<b>CY21A</b>	<b>CY22F</b>	<b>CY23F</b>	<b>ROA</b>		(52.5%)	(35.7%)	(14.0%)	(18.9%)	(10.7%)				
Cash	2.0	5.1	5.0	2.7	1.8	ROE		284.1%	(294.4%)	(82.9%)	(34.2%)	(19.2%)					
Accounts receivable	0.5	0.6	0.3	0.8	1.1	ROIC		114.3%	83.7%	69.4%	52.0%	29.8%					
Inventory	0.0	0.0	0.0	0.0	0.0	<b>NTA (per share)</b>		n/a	0.00	0.00	0.03	0.01					
Other current assets	0.2	0.2	0.4	0.5	0.5	<b>Working capital</b>			(0.8)	(0.6)	(0.6)	(0.3)	(0.2)				
<b>Total current assets</b>	<b>2.7</b>	<b>5.9</b>	<b>5.7</b>	<b>4.1</b>	<b>3.4</b>	<b>WC/Sales (%)</b>			(13.7%)	(11.4%)	(10.8%)	(5.7%)	(2.7%)				
PPE	0.1	0.1	0.1	0.2	0.2	<b>Revenue growth</b>			113.8%	1.3%	(7.3%)	7.0%	24.7%				
Intangibles and Goodwill	1.1	0.5	1.1	1.6	1.7	<b>EBIT growth pa</b>			n/a	n/a	n/a	n/a	n/a				
Investments	0.0	0.0	0.0	0.0	0.0	<b>Pricing</b>			<b>CY19A</b>	<b>CY20A</b>	<b>CY21A</b>	<b>CY22F</b>	<b>CY23F</b>				
Deferred tax asset	0.0	0.0	0.0	0.1	0.3	No of shares (y/e)	(m)		890	1,473	1,739	35	35				
Other non current assets	0.1	0.3	0.2	0.4	0.4	Weighted Av Dil Shares	(m)		761	1,136	1,446	35	35				
<b>Total non current assets</b>	<b>1.3</b>	<b>0.9</b>	<b>1.4</b>	<b>2.3</b>	<b>2.7</b>	EPS Reported	cps		(12.9)	(9.6)	(8.4)	(4.4)	(1.3)				
<b>Total Assets</b>	<b>4.0</b>	<b>6.7</b>	<b>7.1</b>	<b>6.5</b>	<b>6.1</b>	EPS Normalised/Diluted	cps		(12.9)	(8.6)	(3.5)	(3.7)	(1.3)				
Accounts payable	1.2	1.2	0.9	1.2	1.2	EPS growth (norm/dil)			n/a	n/a	n/a	n/a	n/a				
Short term debt	0.0	0.0	0.0	0.0	0.0	DPS	cps		-	-	-	-	-				
Tax payable	0.0	0.0	0.0	0.0	0.0	DPS Growth			na	n/a	n/a	n/a	n/a				
Other current liabilities	3.4	3.1	2.4	2.4	2.4	Dividend yield			0.0%	0.0%	0.0%	0.0%	0.0%				
<b>Total current liabilities</b>	<b>4.6</b>	<b>4.3</b>	<b>3.3</b>	<b>3.5</b>	<b>3.6</b>	Dividend imputation			0	0	0	0	0				
Long term debt	0.0	0.0	0.0	0.0	0.0	PE (x)			-	-	-	-	-				
Other non current liabs	0.0	0.2	0.1	0.3	0.3	PE market			15.0	15.0	15.0	15.0	15.0				
<b>Total long term liabilities</b>	<b>0.0</b>	<b>0.2</b>	<b>0.1</b>	<b>0.3</b>	<b>0.3</b>	Premium/(discount)			(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)				
<b>Total Liabilities</b>	<b>4.7</b>	<b>4.6</b>	<b>3.4</b>	<b>3.8</b>	<b>3.9</b>	EV/EBITDA			(5.8)	(11.8)	(23.3)	(20.8)	0.0				
<b>Net Assets</b>	<b>(0.7)</b>	<b>2.2</b>	<b>3.7</b>	<b>2.6</b>	<b>2.2</b>	FCF/Share	cps		(0.1)	(0.1)	(0.1)	(1.8)	0.5				
Share capital	14.8	19.8	23.2	23.3	23.3	Price/FCF share			(608.9)	(726.4)	(478.9)	(26.0)	95.3				
Accumulated profits/losses	(16.5)	(16.5)	(18.7)	(20.3)	(20.7)	Free Cash flow Yield			(0.2%)	(0.1%)	(0.2%)	(3.9%)	1.0%				
Reserves	1.0	(1.1)	(0.8)	(0.4)	(0.4)												
Minorities	0.0	0.0	0.0	0.0	0.0												
<b>Total Shareholder funds</b>	<b>(0.7)</b>	<b>2.2</b>	<b>3.7</b>	<b>2.6</b>	<b>2.2</b>												

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: 6<sup>th</sup> May 2021**

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

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

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