

Setting a goal for 25% market-share medium term

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 held its CY22 annual general meeting in Perth, noting that it has an ambition of reaching a 25% share of the international schools' HR SaaS market in the medium term. The company currently holds an estimated 3.0% share, including a 6% share of the South-East Asian market. Schrole Group also noted that the technology stack underpinning its current product suite would continue to expand. We have made no changes to our forecasts following the AGM. 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 ~\$11kpa at present to ~\$30kpa as schools take up more Schrole modules.

Outlook for stronger revenue including training revenue

Schrole Group commented at its annual general meeting on 30 May that net revenue was expected to strengthen as the business has now completed the transition from the ISS alliance. On the training side, SCL expects Schrole Develop revenue to also grow as accredited training demand increases off the back of a strong relationship with Rio Tinto and a developing relationship with BHP and Fortescue. The company noted that the momentum toward cash break-even was continuing to gather pace. It also highlighted its medium-term ambition to reach 25% of the \$4.1b international schools' HR SaaS market from its current share of ~3.0%. SCL also announced two new directors to its board, Matt Adams, a financial advisory specialist and experienced public company director, and Dr Caroline Brokvam, who is currently the Principal of International School of Western Australia. The board appointments follow recent senior executive hires with Diana Shepherd as Chief Financial Officer, replacing Stephanie Syme, and Matt Oelofse as Chief Commercial Officer.

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* ^A (c)	EV/Sales (x)
12/21a	5.3	4.7	(0.6)	(1.0)	(3.5)	1.43
12/22a	5.7	5.6	(0.7)	(1.8)	(4.4)	1.39
12/23f	7.6	7.6	0.2	(0.4)	(1.5)	1.11
12/24f	9.5	9.4	1.5	0.4	1.2	0.94

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

Software & Services

31 May 2023

Share Details

ASX code	SCL
Share price (30-May)	\$0.31
Market capitalisation	\$11.0M
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 3 May 2023](#)

Board of Directors

James King	Non-Executive Chairman
Robert Graham	Managing Director
Colm O'Brien	Non-Executive Director
Guy Perkins	Non-Executive Director
Matt Adams	Non-Executive Director
Dr Caroline Brokvam	Non-Executive Director

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*RaaS Advisory holds shares

Exhibit 1: Financial Summary

Schrole Group Ltd (ASX:SCL)						Share Price (30 May 2023)						A\$	0.31				
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					
Sales Revenue (A\$m)	5.7	5.3	5.7	7.6	9.5	Revenue	2.5	3.4	3.4	4.1	4.3	5.2					
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%)	2.6%	15.8%					
Other	0.0	0.0	0.0	0.0	0.0	EBIT		(33.6%)	(18.4%)	(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%)	(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%)	(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)		-	-	-	-	26.0					
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%)	73.6%					
Total long term liabilities	0.2	0.1	0.2	0.2	0.2	EV/EBITDA		(5.3)	(13.0)	(11.0)	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		(469.2)	(309.3)	(37.4)	24.3	8.1					
Share capital	19.8	23.2	23.6	23.6	23.6	Free Cash flow Yield		(0.2%)	(0.3%)	(2.7%)	4.1%	12.3%					
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

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Corporate Authorised Representative, number 1248415

of

BR SECURITIES AUSTRALIA PTY LTD

ABN 92 168 734 530

AFSL 456663

Effective Date: 6th May 2021

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

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