

Schrole Group Limited

Targeting fast growing international schools

Schrole Group Limited (ASX: SCL) is an ASX-listed technology-driven candidate management solutions provider to international schools. Its suite of digital platforms (Schrole Connect, Schrole Cover, and Schrole Verify) provides the fast-growing international schools' market with recruitment, replacement and background verification services.

Suite of digital solutions with massive cross-sell potential

SCL's **Connect** platform is an online recruitment management tool that filters SCL's teacher database according to international schools' specific requirements. The subscription-based model also provides teachers with the option of applying for best-fit job opportunities.

Through the Schrole **Cover** platform, schools can search and recruit temporary replacement teachers and ad hoc workforce. Teachers looking for casual/temporary job opportunities can also use the platform to search for suitable schools.

SCL's latest solution, **Verify** (launched in 2018), is a customized tool for teacher background verification. Launched in collaboration with the global leader of background verification process, First Advantage, Schrole Verify provides international schools with the option of getting background screening done within SCL's platform. It also provides opportunities to candidates to proactively get their background verification done, which subsequently speeds up their recruitment process. These solutions provide a unique range of services within the same system and offers massive cross-selling opportunities for SCL.

Partnerships with global leaders offer huge market opportunities

Recently, SCL made two strategic alliances that give it massive outreach to international schools and educators, along with a new business approach. (I) SCL formed a wholly owned JV with International School Services (ISS), a nonprofit global leader that provides support services to international schools. Through this JV, SCL is gaining access to ISS' network of 250+ schools and thousands of teachers. (II) SCL has formed an exclusive alliance with First Advantage to be its sales agent for international schools across the Asia Pacific (APAC) region. As candidate screening is paramount in all international schools, this partnership provides SCL with a new revenue stream that is easily scalable globally.

Tapping into the fast-growing market for international schools

SCL has built an attractive suite of recruitment and verification solutions for the fast-growing international schools' market. The attractiveness and growth in this market is illustrated by the recent acquisition of the Cognita group of international schools by Private Equity firm Jacobs for GBP 2BN, or 26x EBITDA. Cognita only started in 2004 and already runs 70 schools in 8 countries educating 40,000 students. This type of fast growth of international schools is witnessed across the APAC markets, driven by emerging middle classes wanting better education for their children.

Schrole Group Ltd.

(ASX: SCL)

Technology Hardware &
Equipment

Australia

Risk: High

Schrole Group Limited (ASX: SCL) offers international schools a suite of technology-based candidate management solutions, including recruitment, background verification and relief placement. It also offers training service solutions in Western Australia.

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BUY

Current price: A\$ 0.013

Price target: A\$ 0.037

18 September 2018

Additionally, SCL's strategic partnerships with ISS and First Advantage allow SCL to leverage this suite of solutions across a very substantial range of clients and prospects. 2019 will be the first full year in which SCL will be leveraging its new partnerships. And while we have incorporated the anticipated revenue synergies and cross-sell opportunities into our financial model, we believe there are likely to be further market opportunities SCL can address going forward.

The 2019 Northern hemisphere academic year, that has just started, is the first in which SCL will be leveraging its new partnerships. We believe there are likely to be significant further market opportunities SCL can address beyond the anticipated revenue synergies and cross sell opportunities we have incorporated into our financial model.

Turning profitable during FY21, but cash flow positive from FY19

Revenue recognition rules require SCL to defer approximately 50% of its annual revenues into the next financial year. Consequently, given the company's strong revenue growth trajectory in the next five years, top line revenue is understated in each of those years resulting in a few more years of losses until FY21. We expect SCL to turn profitable during that financial year.

However, as cash is still king as far as we are concerned, we prefer to look at the company's net cash flow and we expect SCL to turn net cash positive in FY19.

Starting coverage with a BUY rating and A\$ 0.037 price target

Our initial price target of A\$ 0.037 per share, is a blend of DCF and relative valuation methods. Given the large share price upside from today's level, we initiate our coverage of SCL with a Buy rating.

Schrole Group (AUD)

FY-end December

Statement	2017A	2018E	2019E	2020E	Valuation	2018E	2019E	2020E
Revenues	1,413,543	4,081,016	7,242,968	8,963,098	Relative valuation			
Adj.EBITDA	(1,838,304)	(1,502,822)	(987,363)	(289,962)	EV/Sales	3.4x	3.5x	2.8x
Depreciation & Amort.	(195,479)	(176,707)	(331,034)	(398,752)	RV fair value p.s. (A\$ cents)			4.4
EBIT	(8,131,368)	(1,805,529)	(1,444,397)	(814,714)	Discounted Cash Flow			
Interest inc. & exp. net	(93,313)	30,748	52,743	64,759	<i>Assumptions</i>			
Profit before Tax	(8,224,681)	(1,774,781)	(1,391,654)	(749,956)	Long term interest rate			5.0%
Taxes	-	-	-	-	Risk premium			7.7%
Net earnings	(8,224,681)	(1,774,781)	(1,391,654)	(749,956)	Marginal tax rate			27.5%
Ord. shares outst. (₹)	254,984	625,050	625,050	625,050	Long term growth			2.0%
Fully dil. # shares (₹)	304,984	1,079,050	1,079,050	1,079,050	Leveraged Beta			0.97
EPS (A\$ cents)	(3.23)	(0.28)	(0.22)	(0.12)	Implied WACC			10.0%
EPS fully dil. (A\$ cents)	(2.70)	(0.16)	(0.13)	(0.07)	TMT Analytics applied WACC			10.0%
					DCF fair value p.s. (A\$ cents)			2.9

Statement	2017A	2018E	2019E	2020E	Profitability ratios	2018E	2019E	2020E
Profit/(loss) after tax	(8,224,632)	(1,774,781)	(1,391,654)	(749,956)	Return on Equity	-84%	-213%	258%
Non-cash adjustments	4,676,891	2,083,123	2,121,116	1,368,071	Return on Assets	-39%	-26%	-12%
Depreciation	195,479	176,707	331,034	398,752	EBITDA margins	-37%	-14%	-3%
Incr./ (decr.) in def. rev.	168,760	1,780,416	1,664,082	843,318	EBIT margins	-44%	-20%	-9%
Changes in work. cap.	386,409	178,117	371,695	141,381	Net margins	-43%	-19%	-8%
Operating Cash flow	(3,161,331)	497,746	1,107,655	766,235				
Net cash flow from investm.					Financial Strength	2018E	2019E	2020E
Capex	(208,901)	(1,061,064)	(615,652)	(806,679)	Net debt/(Cash) (1,000)	(2,240)	(2,726)	(2,679)
Net cash used in inv.	(70,705)	(1,061,064)	(615,652)	(806,679)	Net debt / Equity	0.0x	-0.1x	NM
Cash flow from financ.	6,222,993	(106,478)	(1,690)	(40,730)	Net debt / EBITDA	NM	NM	NM
Net cash flow	2,990,957	(669,797)	490,313	(81,173)	Interest coverage	NM	NM	NM

Balance Sheet	2017A	2018E	2019E	2020E	Capital Structure		
Current assets:					Ordinary shares (m)		580
Cash and cash equiv.	3,039,416	2,369,619	2,859,932	2,778,759	Performance shares (m)		288
Trade receivable	235,723	670,852	992,187	1,227,822	Options (m)		211
Other current assets	231,100	231,100	231,100	231,100	Fully diluted number of shares (m)		1,079
Total current assets	3,506,239	3,271,571	4,083,220	4,237,680	Market capitalisation (A\$ m)		7.5
Non-current assets:					FD Market capitalisation (A\$ m)		14.0
Prop., plant and equip.	130,675	180,243	276,749	377,562	Free float %		59.8%
Intangible assets	581,133	1,415,924	1,604,036	1,911,150	12 month high/low A\$		0.039/0.010
Other	1,663	1,663	1,663	1,663	Average daily volume (₹)		1,025
Total non curr. assets	713,471	1,597,829	1,882,448	2,290,374			
Total Assets	4,219,710	4,869,401	5,965,667	6,528,055			
Current liabilities							
Trade and other payab.	281,223	894,469	1,587,500	1,964,515			
Deferred revenue	623,470	2,403,886	4,067,968	4,911,287			
Financial liabilities	95,192	95,192	33,990	-			
Total current liabilities	1,092,064	3,485,727	5,781,637	6,967,980			
Non-current liabilities							
Long term Debt	129,182	33,990	100,000	100,000			
Others	62,390	62,391	62,391	62,391			
Total non-current liab.	191,572	96,381	162,391	162,391			
Total liabilities	1,283,636	3,582,108	5,944,028	7,130,371			
Equity							
Issued Capital	11,847,123	12,522,123	12,522,123	12,522,123			
Reserves	1,778,983	1,229,983	1,355,983	1,481,983			
Accumulated losses	(10,690,032)	(12,464,813)	(13,856,467)	(14,606,423)			
Total Equity	2,936,074	1,287,293	21,639	(602,317)			
Total Equity and Liab.	4,219,710	4,869,401	5,965,667	6,528,055			



Source: Capital IQ, TMT Analytics

Digital solutions for staffing in international schools

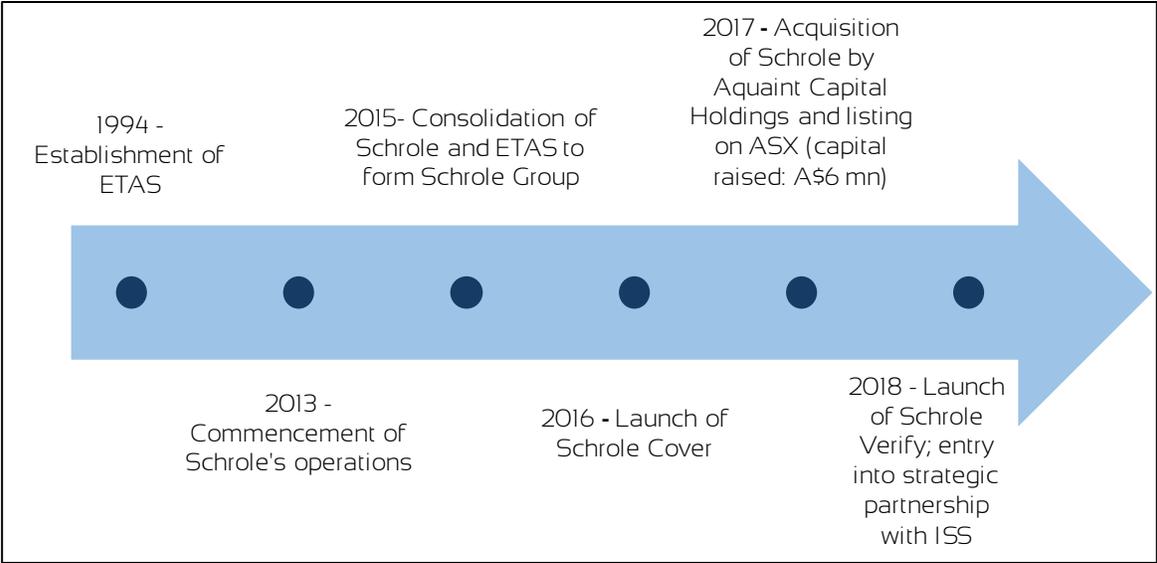
The education sector, aided by technology, is at a tipping point with accessibility, efficiency, and cost of delivery expected to improve rapidly over the coming decade. SCL offers enhanced efficiency of recruitment, background verification and replacement cover in the fast-growing international school ecosystem by leveraging its data analytics-based online platforms. As the number of international schools is expected to double over the next 10 years and 80,000 teacher placements are forecast every year (as per ISC research), SCL is set to capture the enormous opportunities offered by this market.

Roots in vocational training

SCL began its journey in 1994 (Figure 1) when it first established the ETAS business. As a vocational training organization, SCL was largely catering to the Australian mining sector. The group later diversified into leadership and management training. ETAS' business growth was gradual, but it was severely impacted in 2015 and 2016 due to a downturn in the mining sector and the tightening of regulations for vocational training across the country. Sensing the need to diversify, SCL ventured into the candidate management industry for international schools and commenced operations of its recruitment software solution business (Schrole) in July 2013.

The SCL Group, as it is known today, was established in November 2015 through the consolidation of ETAS and Schrole. The company was renamed Schrole Operations in July 2017 and was acquired by Aquaint Capital Holdings (a listed investment management company) in October 2017. Post the acquisition and raising of A\$ 6M in fresh capital, Schrole Group commenced trading on Australian Securities Exchange (ASX).

FIGURE 1: KEY MILESTONES



Source: TMT Analytics

In recent years, the group has continued to expand its offering with the launch of a replacement workforce recruitment platform (Connect) in March 2016 and employee background verification solution (Verify) in March 2018.

Recruitment software and vocational training

SCL operates through two verticals, recruitment software and vocational training, backed by its management’s industry expertise in the education sector (MD & CEO Robert Graham has ~30 years of experience, including as an international school principal and recruitment consultant).

Recruitment software for international schools

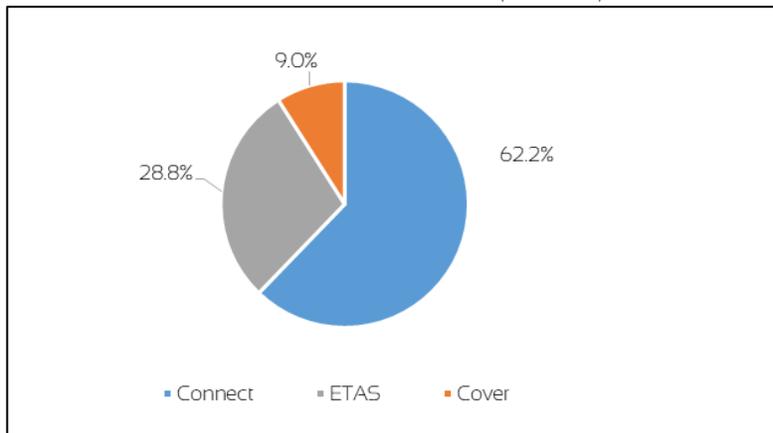
SCL offers hassle-free digital solutions for recruitment, replacement, and verification to international schools, through its various online platforms:

- Schrole Connect/Advantage is a Cloud-based Software-as-a-Service (SaaS) platform, which provides candidate management solutions to international schools.
- Schrole Cover is a Cloud-based SaaS platform that offers a solution for casual/part-time/replacement staff for the education, health, age care and hospitality sectors.
- Schrole Verify provides comprehensive background screening services for schools as well as teachers

Vocational training (ETAS)

ETAS is an accredited vocational training institute that offers training capacity building courses to corporates and individuals and predominantly tailors to the Mining industry. ETAS accounted for ~29% of revenues in 2017 (Figure 2). We will elaborate below.

FIGURE 2: SCL REVENUE BREAKDOWN FY17 (A\$ 1.4M)



Note: Verify commenced operations in March 2018

Source: TMT Analytics, Schrole

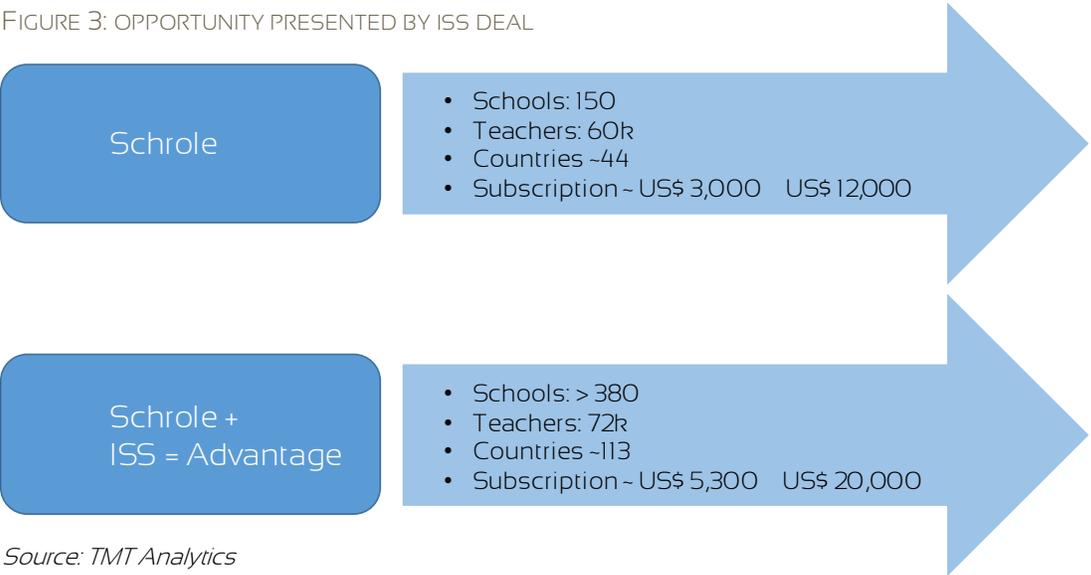
To expand its network and reach, SCL has recently closed two strategic partnerships, with International School Service (ISS) and First Advantage:

- 50:50 joint venture (JV) with International School Service (ISS) ISS is a nonprofit organization working in the field of international education since 1955. It provides support services for the expansion of comprehensive and customized education at its 250+ international schools. Its main services include founding international schools, recruiting educators (through job fairs), securing essential school supplies, and stewarding school functions.

Through this JV, SCL aims to reach the extended network of international schools and teachers and offer its unique boutique of digital services (Figure 3). This JV will also benefit SCL by providing it the opportunity to utilize ISS’ extended channel of job fairs.

To benefit from a combination of the best of both worlds – SCL’s digital solution and ISS’ reach – SCL has been upgrading its Connect platform to include next-generation data analytics capabilities to refine its search and matching functionality. This new platform is called Advantage (also known as Cover 2.0).

FIGURE 3: OPPORTUNITY PRESENTED BY ISS DEAL



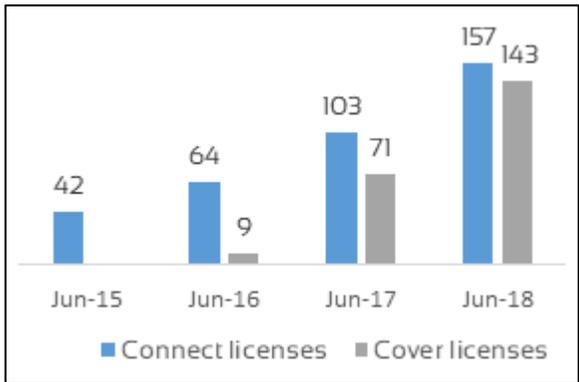
Source: TMT Analytics

- Alliance with First Advantage to launch Schrole Verify – First Advantage is a global leader in background screening solutions present across 26 locations, 14 countries, and serving c.33% of the Fortune 500 global companies. Under this alliance, First Advantage will undertake all the requirements of providing teacher background verification for international schools as designed by the Schrole Verify platform.

Strong traction achieved so far

Management’s strategy of focusing on the high-growth Software segment, to compensate for the structural decline in the Training segment (revenue down 85% in 2017 to A\$ 0.43M vs. 2015), has begun to yield impressive results – revenue from Software increased 3.5x to A\$ 0.97M in 2017 (vs. LTM ending June 2015). The traction achieved in terms of schools procuring Schrole and Connect licenses (Figure 4) and the market reach of the Schrole brand (page views up 38.5% in 2017 to 3.5M and registered teachers up by 17.4% to ~60k) is significant.

FIGURE 4: GROWTH IN LICENSES



Source: TMT Analytics

SCL’s technology leads to superior outcomes for schools

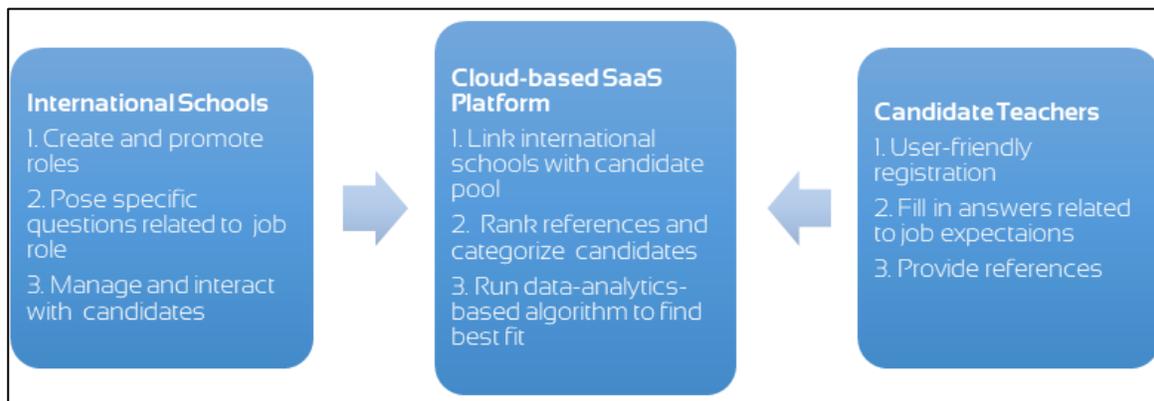
The Advantage platform connects schools with teachers more efficiently

Schrole Advantage is a cloud-based SaaS platform that eases the hiring process for recruiters (international schools) and candidate teachers (>60k sourced from 181 countries). It also aids schools in promoting roles, receiving applications, and managing teacher candidate information. The algorithm which is custom designed by education experts to suit the requirements of international schools rates and ranks candidates and simplifies the recruitment process for school administrators. Following the strategic partnership with ISS, SCL has upgraded its offering and renamed it 'ISS-Schrole Advantage'.

Main Features:

- Advantage provides multiple channels for recruiters to interact with candidate teachers, including online portals, fairs, apps and virtual events.
- It finds the best fit for an opening using its advanced search algorithm (to be significantly updated through its partnership with Edith Cowan University) with superior matching capabilities (Smart Match). The algorithm is based on data analytics principles, wherein the requirements of schools (generated based on a set of questions) are matched with candidate profiles (generated based on answers provided by candidates for specific school-based questions asked during the application process).
- It offers a search algorithm supported by a database wherein candidates’ references are rated and ranked. However, unlike the conventional norm where references are generated based on a 110 scoring, a rubric of performance measures is used to generate a reference score. This enhances the efficiency of the search algorithm by providing a more representative score.
- Advantage also offers social media marketing for schools to advertise their vacancies.
- It has a user-friendly interface internal messaging system (similar to LinkedIn), and checks and balances to avoid creation of duplication of vacancies.
- Advantage also offers a highly secure database sophisticated encryption of details on a separate authentication server.

FIGURE 5: BASIC WORKING MODEL OF SCHROLE CONNECT



Source: TMT Analytics

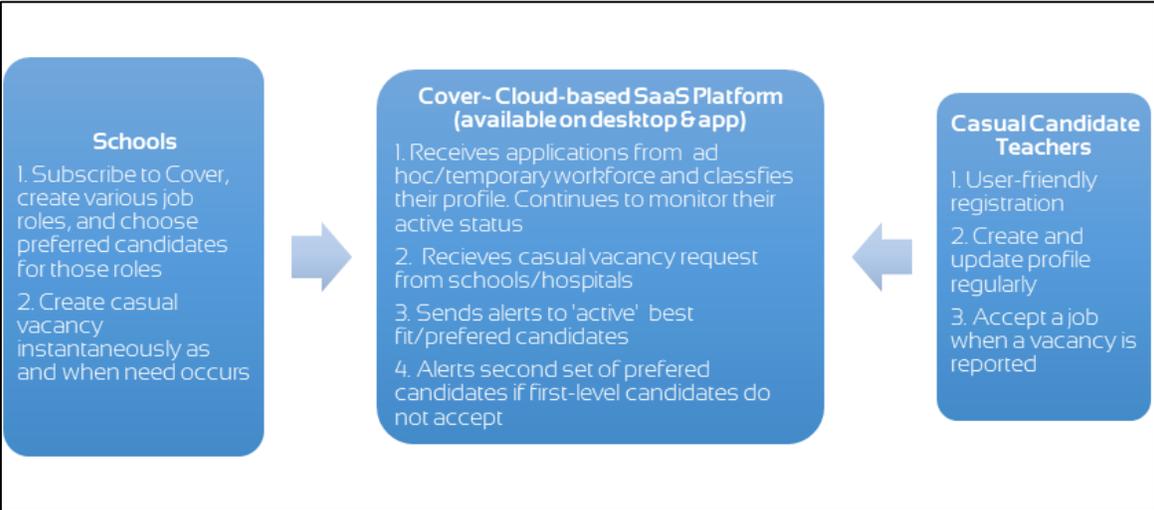
ISS-Schrole Advantage has multiple benefits over similar platforms

- Multichannel approach: While competitors operate based on a traditional offline consultancy model, a jobs-fair-based approach or a few online portals, the Advantage platform provides a synergistic offering with online and offline options (online portal, fairs, apps, and virtual events).
- Superior data-analytics-based algorithm that supports 'best fit'.
- Highly scalable product offering: Being a cloud-based SaaS offering, Advantage can be quickly deployed for clients without much personnel requirement for installation and support. For example, the capacity to cater to the expected ramp-up in the number of clients on the back of the ISS deal is possible because it is cloud-based.
- Option to integrate other services offered by SCL - Verify and Cover - with the Advantage platform, thereby enabling cross-selling.

The Cover platform provides highly efficient teacher replacement platform

Schrole Cover is a cloud-based SaaS platform that automates the temporary/replacement workforce recruitment process for schools. The offering is primarily targeted at schools in Australia and New Zealand. It is also diversifying into other sectors such as healthcare and hospitality by offering a 'white-label' version of the software. Cover is accessible through desktop and a smartphone app (available on Android and iOS).

FIGURE 6: BASIC WORKING MODEL OF SCHROLE COVER



Source: TMT Analytics

Vacancies typically get filled within three minutes

Cover maintains a database of prequalified candidate teachers who are willing to take up temporary placements. Schools can subscribe to Cover, create various job roles, and choose preferred candidate lists for each job role. Analytics support is provided for schools to help select candidates. When a school administrator reports a vacancy, an alert is reported to candidates whose qualifications best match the role's requirements. If no match is found among the first set of preferred candidates, a notification is sent to the second set and so on, until the vacancy is filled. On average, vacancies get filled within 3 minutes, thus offering immense time savings for school administrators.

Cover is substantially more versatile than competing solutions

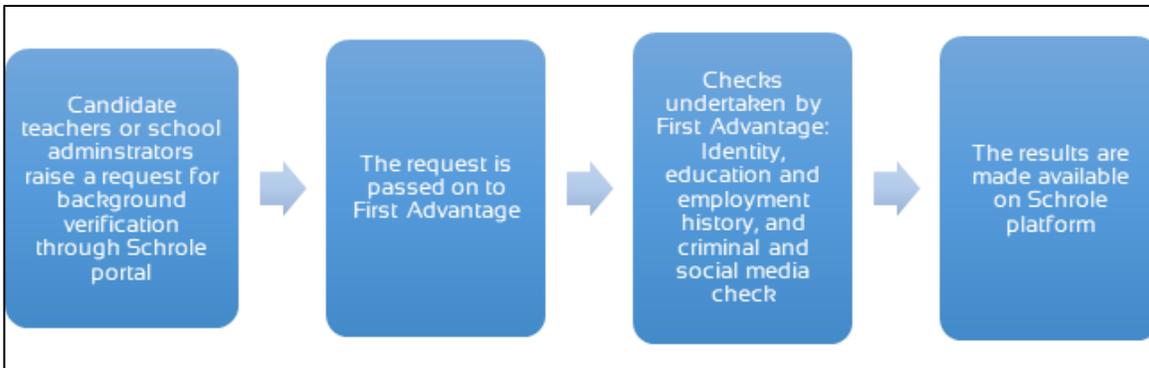
Cover is available as an app and hence provides instantaneous accessibility for both administrators and casual workers. This feature plays a key role in ensuring a quick turnaround time. Furthermore, it offers dedicated support lines and business analytics for larger organizations to improve the process' efficacy. Lastly, Cover provides a highly scalable software that is not specific to an industry or geography and can be customized according to the needs of the industry. For example, healthcare and engineering companies have already signed up for Cover's 'white-label' version.

In our view, Cover is substantially more versatile than other solutions, especially today's archaic method of "calling around" for substitutes.

Verify prevents schools' worst nightmare

While SCL contributes industry understanding of international schools and software competence to the partnership with First Advantage, the latter offers background verification techniques and tools. Both candidates and school administrators can benefit from the background verification service through the Verify platform or through the Advantage platform (Verify is being integrated into Advantage). Presently, through this partnership, the product is active across the APAC region only.

FIGURE 7: BASIC WORKING MODEL OF VERIFY



Source: TMT Analytics

For schools, verify offers timely background verification of candidate teachers. It ensures compliance with the recommendations of the International Taskforce for Child Protection, which is a crucial element for schools in preventing child abuse and in maintaining their reputation.

For candidate teachers it adds credibility and enhances recruitment chances for prequalified candidates.

First Advantage assumes the entire responsibility for the verification process. Apart from basic identity, qualifications and employment history checks (done through tie-ups with agencies and with inputs from authorities concerned), criminal and global sanctions checks as well as press and social media checks are undertaken. Criminal checks are done by referencing 300 databases, including the FBI and Interpol.

Several key benefits of the First Advantage partnership

Verify's operations are backed by the strength of First Advantage's network, which has a global scale and with verification capabilities across 200+ countries. Criminal and social media checks are the key differentiating features of this offering. The partnership with ISS and the

integration of Verify into the Advantage platform enhances Verify's reach. First advantage also has global scalability. Presently, SCL has the exclusive marketing and sales rights for the teacher candidate background verification process across the APAC region. If First Advantage decides to extend the reach of its verification services, Schrole will be given the first preference as the marketing and sales partner.

ETAS: Vocational training gaining momentum through Mining upturn

ETAS is a registered training organization that offers accredited capacity-building courses (training, leadership, and management) for supervisors and first-level managers as well as teachers and school administrative staff. Training is offered both on-site as well as through training centers (based in Perth).

SCL's training and assessment courses are targeted at the mining sector and government agencies, as well as international schools and education institutions. On-site training programs are customized according to the needs of the clients.

Historically, ETAS has conducted on-the-job training in Australia as well as in various international locations, including Africa, China, Germany, Kazakhstan, Laos, and Mongolia.

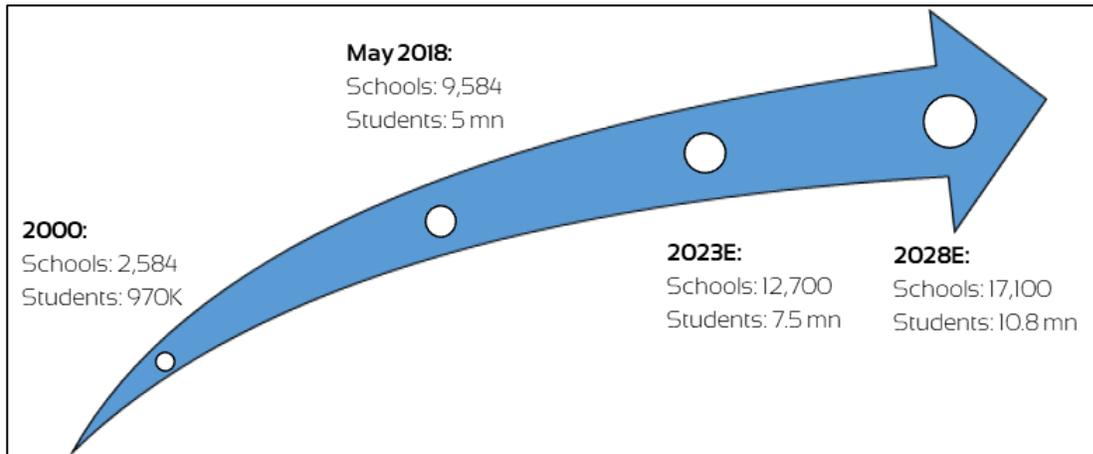
ETAS has an operating track record of ~25 years and the capacity to deliver customized on-the-job training. Though student enrollments have decreased in the wake of the downturn in the mining sector (2015/16) and regulatory tightening in the vocational training sector, the company has survived this episode and recovery is underway with student enrolments and bookings for on-the-job training strongly increasing year-on-year.

Additionally, professional training services are being expanded into a Qatar-based international school. Consequently, ETAS will become less dependent on the Australian mining sector over time.

Market growth fueled by demographics and the digital wave

The education sector is ripe for digital disruption: educating a generation that can compete and survive in the 'fourth industrial revolution' requires an overhaul of the traditional education system. Consequently, as the proportion of digitally empowered millennials increases in the teacher candidate pool, the upgrade of teacher recruitment channels is inevitable.

FIGURE 8: ATTRACTIVE UNDERLYING MARKET



Source: ISC Research estimates

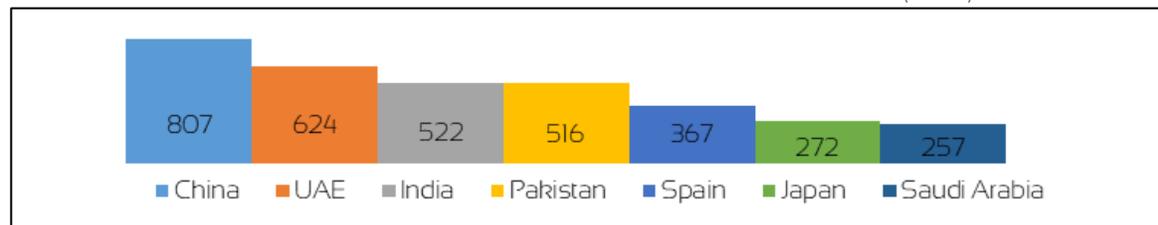
CONNECT: targeting a growing niche market with APAC being a key growth driver

Schrole Connect digitally connects tech-savvy teacher candidates with school administrators, with a focus on lucrative and fast-growing international schools (Figure 8). These schools are a suitable opportunity, considering their affluence (average annual school fee of US\$ 9,891) and status as 'trendsetters' in adopting advanced teaching techniques and technologies.

Strong growth in the number of international schools drives SCL growth

The international school market has been steadily growing over the past two decades (CAGR of 8.0% over 2000-2018 to reach 9,584 schools in May 2018, as per ISC Research estimates) and has reached a tipping point (700 international schools established in 2017 alone). The sudden spike in the number of international schools across the world (specifically Asia) is driven by globalization and increasing preference among parents to ensure that their children study an international curriculum, which seen as a gateway to international universities.

FIGURE 9: COUNTRIES WITH THE LARGEST NUMBERS OF INTERNATIONAL SCHOOLS (2017)



Source: ISC Research estimates

Driven by these factors, the international school count and number of students catered to is expected to nearly double to 17,100 and 10.8M, respectively, by 2028 (ISC Research estimates). Consequently, the total fee income generated by international schools is expected to grow from US\$ 48BN in 2017 to US\$ 89BN in 2026.

This rapid growth in the number of international schools is expected to create an ongoing demand for teacher candidates over the next decade (80k placements every year and doubling of teacher recruitment spend to reach US\$ 4.5BN in 2026 versus US\$ 2BN in 2017, based on ISC Research estimates)

The APAC region will be the linchpin of growth

In 2017, 6 of the top 7 countries with the highest number of international schools were in Asia. The APAC region is expected to continue to be the hub for international school expansion (accounted for >50% of international schools and ~60% of students in 2017) driven by favorable demographic factors:

- A large young population base (as per UN World Population Prospects, average fertility rate over 2015-2020: 2.15 for Asia vs. 1.62 in Europe and 1.86 in North America; Asia accounted for 59% of the world's population in 2017).
- Rising income levels and growing middle-income group.
- Growth in expatriate population.
- Rising preference among parents to educate their children in English-language schools. On average, 80% of children educated in international schools are domestic citizens, according to ISC Research.

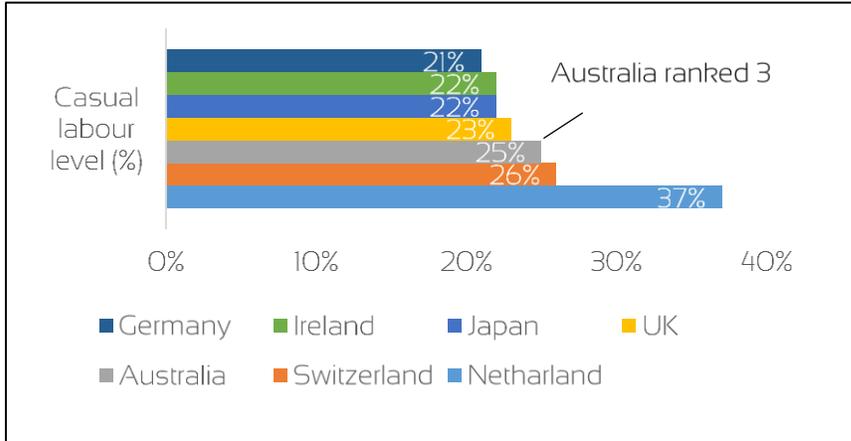
Given the expected growth profile of international schools, a reliable platform to efficiently link schools with 'quality' teacher candidates becomes a necessity. With a global footprint and multichannel approach, Connect is well-positioned to cater to the recruitment needs of international schools in high-growth markets. Notably, the ISS deal is expected to enhance the market penetration of Connect in regions considered to be the growth engines of Asia in the long term (China, India, Indonesia, and

COVER: powered by strong need for casualization in the Australian service sector

The market need for a casual workforce automation platform in the Australian service sector is significant, e.g. in education, healthcare and hospitality. Australia has the third-highest proportion of casual workforce among advanced countries (25% in 2017) ranked only after Switzerland and The Netherlands, according to the Reserve Bank of Australia. The high casualization of the workforce in the Australian economy is attributable to the increasing services sector and the growing preference for part-time employment.

As per the Australian Bureau of Statistics, the total number of schools in Australia and New Zealand stood at ~11.9k, and 33k relief teacher placements were recorded every day. Hence, while it has a current subscriber base of 143 schools, the scope for expansion in the core market is significant.

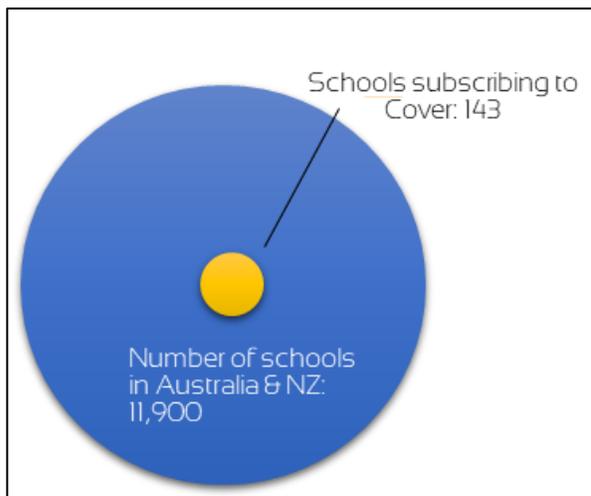
FIGURE 10: OECD COUNTRIES RANKING IN TERMS OF CASUAL LABOR



Source: Reserve Bank of Australia

In addition, given the casualization levels in the Australian economy, the scope for expansion of Cover in other industries remains attractive. Notably, Cover has commenced its diversification into other sectors (healthcare and hospitality) by offering a 'white-label' version of the software.

FIGURE 11: POTENTIAL FOR EXPANSION IN AUS & NZ



Source: Australian Bureau of Statistics (2017)

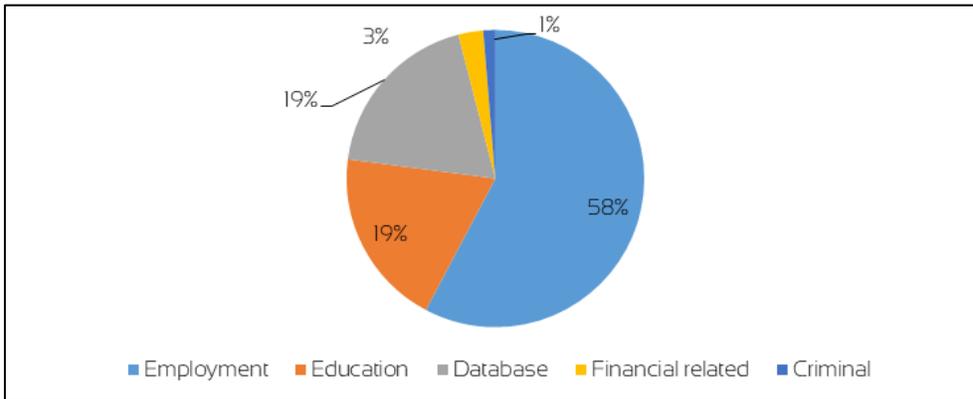
VERIFY: Driven by increasing demand for teacher background verification

Verify is an automated platform for international school teacher candidate background verification. It is presently focused on the APAC region, which is the core market for international schools and accounts for ~50% of total international schools. Across APAC, an elevated level of discrepancies in the employee background verification process has been recorded, i.e. 17.3% of total applicants across different industries in 2016, according to First Advantage.

Background checks needed to filter out qualification fraud

Thorough background verification for international school teacher candidates is a necessity, given the high-quality standards of international schools. Discrepancies regarding education qualifications and prior work experience by teacher candidates could directly impact the learning outcome for children. Furthermore, extrapolation of trends from other industries indicates that ~2.7% of total discrepancies were related to falsification of educational qualifications (Figure 12).

FIGURE 12: PROPORTION OF DISCREPANCIES ACROSS VARIOUS FIELDS OF RESUMES



Source: First Advantage

Background checks needed to prevent child abuse in schools

Moreover, checking the criminal history of teacher candidates is of paramount importance, given the alarming levels of child abuse and increasing awareness about the need for child protection. Various studies have estimated that at least 1 in 10 children suffers from child abuse; as per the widely quoted Irish study on sexual abuse (SAVI report), **1 in 5 girls and 1 in 20 boys are likely to be a victim of child sexual abuse.**

The International Task Force on Child Protection observes that international school students are more vulnerable targets for child abuse given the cultural differences, weak child protection laws in several countries, and easy mobility of candidates with international teaching experience from the place where they may have previously committed a crime.

Driven by these factors, the Council of International Schools (CIS) and the International Taskforce for Child Protection (ITCP) have given detailed recommendations for the background verification process for international teacher candidates in June 2016, which includes a detailed check of sex offender registries.

Verify has been designed according to the recommendations of CIS and ITCP, with detailed industry inputs from the founders who have a broad understanding of the international schools' market. The partnership with First Advantage, along with its network and access to a wide range of criminal databases, ensures that Verify is well-suited to serve the complex background verification needs of international schools

Presently, Schrole Verify has operations in APAC. Should First Advantage choose to extend its service offering for the international school market outside the region, SCL will be given first preference to act as First Advantage's sales and marketing partner.

ETAS: Emerged from the rubble of the resources bust, now seeing rapid growth

ETAS is a vocational training institute that offers accredited capacity building courses for supervisors and first-level managers, as well as teachers and school administrative staff. The core target market for ETAS is the mining sector in Australia, as well as international schools and government agencies overseas.

Australia's VET sector constitutes government institutions, such as Technical and Further Education (TAFE) institutions, as well as private institutions. The Australian government has been consistently focusing on funding, policy development, rationalizing regulation and quality assurance in the VET sector. The government's initiatives over the past 2 decades to increase competition in the sector (leading to easing of licensing norms) and introduction of the VET FEE-HELP scheme in 2012 led to the mushrooming of substandard training institutes, post 2012. The government used to fund the vocational training of students through loans, and students are expected to pay back the loan only after reaching a critical income level in this FEE-HELP scheme.

However, informal delivery models of these courses (mainly online), no prequalification requirements for intake of students, and no major skills development of students adversely impacted the employment status of these VET graduates. As per the National Centre for Vocational Education Research, Australia, average employability of these VET graduates dropped from 68% in 2008 to 55% in 2016. To remedy the situation, the government scrapped the VET FEE-HELP scheme and tightened regulations for the VET sector.

Since 2016, ETAS has been adversely impacted by increasing regulation and headwind in the mining sector due to the slump in resources.

ETAS has survived the excessive regulatory scrutiny in the vocational training sector and a thorough screening process is conducted prior to admission of candidates. ETAS is also diversifying into offering on-site training abroad.

Demand for on-the-job training from Australian mining companies has also started to improve markedly, supported by the recovery in commodity prices.

SCL offers differential and efficient operational mode

Despite the obvious synergies between Connect, Cover and Verify, SCL's various service offerings each operate under different market dynamics and encounter different competitors.

FIGURE 13: SNAPSHOT OF THE RESPECTIVE COMPETITIVE ENVIRONMENTS



Source: TMT Analytics

Schrole Connect/Advantage is the dominant player in its market

The market has many established players, most of whom started as traditional recruitment consultants and gradually transitioned to a multichannel approach (given the internet revolution). ISS, with a track record of ~60 years, is the leading one-stop-shop solution provider for international schools (it also operates its own schools). ISS is considered the leader in rendering traditional personalized recruitment solutions for international schools, and its job fairs are highly sought after. We believe Schrole Connect, strengthened by the partnership with ISS, can be considered the dominant player in this market with an extensive global footprint and the most comprehensive channel mix.

SCL's major competitors for Connect/Advantage include the following players:

- **Search Associates:** An established player which has been operating for the last 25 years on a franchise-based model, catering to ~700 international schools in ~120 countries. From being a job-fair-based recruitment agent, it has gradually strengthened its online portal. Its pricing model is highly conservative, i.e. schools have to pay a one-time registration fee and a hiring fee (for every successful transaction). SCL's offering is more cost-efficient as it only charges an annual subscription fee with unlimited hires (under a fair use policy).
- **TIC Recruitment:** A recognized player (established ~13 years ago) with a presence across 70 countries. It operates through a combination of traditional and online channels and maintains a database of candidates (through online registration). It operates as a personalized recruitment consultant for schools. Its flagship recruitment channel is virtual fairs (recently launched). The pricing model is similar to a traditional recruitment agent, i.e. it collects agency fees from schools while offering free services for teacher candidates.
- **Teachanywhere:** Owned by the leading global placement agency Randstad, Teachanywhere has an operational history of 13 years and a presence across ~20 locations worldwide. Focus markets include East Asia, Middle East, Africa and Australia. Similar to TIC, it operates as a personalized recruitment consultant for schools and reaches out to potential teacher candidates through its online portal. It also cross-sells candidate verification services (similar to Verify's integration with Connect)
- **International Educator:** One of the oldest marketplaces for international school recruitment (established in 1986), it runs a newspaper called *The International Educator* (distributed across 650 international schools). Schools are encouraged to advertise vacancies in the newspaper as well as on its online portal, while candidates can apply online. It also conducts recruitment fairs.
- **Edvectus:** Run by former international school teachers, it operates as a personalized recruitment consultant for schools and reaches out to potential teacher candidates through its online portal.

We believe the Connect/Advantage platform is well-positioned to compete with the incumbents, supported by an innovative pricing model (subscription-based model), the brand equity of ISS and its multichannel approach, i.e. the online portal, fairs, apps and virtual events.

Cover is more advanced and custom-built for replacement teachers

The relief teacher placement market in Australia is fragmented and is catered to by 3 categories of players (Figure 14):

- **Generic online job portals** (SEEK.com, Indeed.com, and Spotjobs.com): These websites cater to all categories of job vacancies (permanent, casual, and part-time) and are industry-agnostic. Though they have a wide reach, they are not customized according to the needs of education sector.
- **Relief teacher online portals** (Class Cover and Tap for Teachers): The incumbents have a wide footprint catering to ~1k to 2k schools and have a multichannel approach (desktop and app). Schrole Cover, though a nascent player in the market with ~143 school licenses, offers a more comprehensive solution, in our view, with relief services for school administrative staff and education assistants as well as greater flexibility and efficiency. E.g. the analytics features offered by Cover allow administrators to tailor job notifications.
- **Recruitment consultants:** They operate in a traditional way (phone- or SMS-based), and hence relief placements are more time-consuming. Further, they have a relatively restricted pool of teacher candidates and offer limited customization for choosing candidates, which

is less attractive for school administrators. Unlike online portals, they usually get a commission from daily wages earned by relief teachers.

FIGURE 14: SNAPSHOT OF COMPETITION FACED BY COVER

Generic online portals	Relief teacher online portals	Recruitment consultants
<ul style="list-style-type: none"> Includes SEEK.com, Indeed.com, Spotjobs.com Have a wide market reach but not customized according to the education sector 	<ul style="list-style-type: none"> Includes Class Cover, Tap for Teachers Customized according to the needs of education sector & have a multi-channel approach Established players (caters to 1,000 to 2,000 schools) 	<ul style="list-style-type: none"> It is a fragmented market They operate based on traditional approach (phone- or SMS-based) and hence are not very efficient Pricing model is unfavorable for teacher candidates

Source: TMT Analytics

The market for Verify is competitive, but undifferentiated

Verify operates in a highly competitive space (Figure 15) in which many traditional recruitment consultants provide undifferentiated products. Traditional players, such as Teachanywhere, cross-sell background verification services as part of their personalized recruitment handholding for schools. Notably, CIS also offers its own background verification services. Though the solutions are customized to the needs of the international school recruitment sector, technical competence, such as access to criminal databases like the FBI's, of these players in background verification is less attractive compared with that of Verify.

Verify also faces indirect competition from generic background service providers, such as Xref, Employment Screening Resources, Mintz Global Screening and CV Check. They are First Advantage's competitors and can potentially partner with other international recruitment agents to compete with Verify.

FIGURE 15: COMPETITIVE ENVIRONMENT FOR VERIFY



Source: TMT Analytics

Despite the broad competition, we believe Verify is well-positioned to gain traction in an undifferentiated market by offering a superior product, which benefits from the domain expertise of First Advantage and is customized to meet compliance requirements for

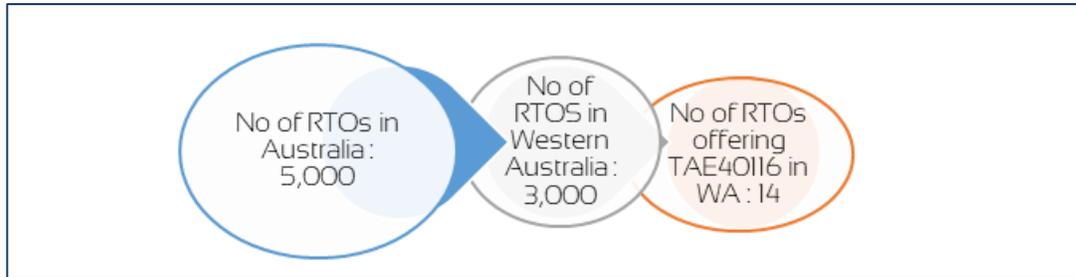
international schools. Seamless integration with the Advantage/Connect platform is also likely to expand Verify’s market reach through cross-sell.

ETAS operates in a relatively benign Western Australia competitive environment

Vocational education providers in Australia include Technical and Further Education (TAFE) institutes run by the government, adult and community education providers, private institutes, community organizations, industry skill centers, and commercial and enterprise training providers. Vocational training providers that are accredited by regulatory authorities, such as the Australian Skills Quality Authority or state regulatory agencies such as the Training Accreditation Council, are called Registered Training Organizations (RTOs). With ~5,000 RTOs operating nationwide (~3,000 RTOs operational in Western Australia), the vocational education sector is highly competitive.

However, ETAS’ principal offering, Certificate IV in Training and Assessment TAE40116, faces relatively limited competition and is offered by only ~90 RTOs across the country and only 14 RTOs in Western Australia, including 5 TAFE institutes (Figure 16).

FIGURE 16: FOCUSING ON A RELATIVELY LESS COMPETITIVE GEOGRAPHY



Source: TMT Analytics

Straightforward, subscription-based, business model

SCL’s integrated business model provides it with multiple sources of revenues.

Schrole Connect/Advantage sells to schools and teachers

The Connect/Advantage platform not only generates revenues from schools through annual subscriptions, it also generates revenues from teachers who use the platform to apply for an open position (Figure 17).

Schools pay a fixed annual fee

For schools, the SCL platform offers a double advantage, i.e. a sophisticated filtering mechanism and cost benefits. In comparison to some of the closest competitors, SCL’s subscription model keeps costs under control for schools. The average annual subscription to SCL’s platform (Connect) is A\$ 11,000 with access to thousands of teachers (as a database) and a large number of recruitment options. For schools that choose to use only fairs as a recruitment approach, or other platforms that work on a commission basis, it turns out to be a relatively costly process, i.e. -US\$ 700 per person to attend a fair plus placement fees of -US\$ 2,000 per person.

FIGURE 17: BUSINESS MODEL FOR SCHROLE CONNECT/ADVANTAGE



Source: TMT Analytics

The premier Advantage license (Connect 2.0) costs A\$ 12,500 to A\$ 15,000 in an annual subscription. Considering the recruitment season starts in the second half of the calendar year, SCL defers ~50% of total subscription revenues into the next financial year. The total subscription revenue under the JV with ISS is shared equally, subject to a transitional arrangement. Both ISS and SCL take home a royalty fee of A\$ 2.5M and A\$ 1.25M, respectively.

Thus, the net revenue from the Connect/Advantage platform has three parts:

- 1 Deferred revenue of last year,
- 2 The royalty fees of SCL, and
- 3 50% of subscription revenues from the current year after deducting the royalty fees of ISS.

Currently, the Advantage platform is subscribed to by 151 schools (end-June 2018). Of all the schools, ~50% have opted for a premier subscription, each valued at approximately A\$ 12,500 on average per annum. The premier subscription additionally gives schools access to fairs run by ISS.

Both ISS and SCL carry out their own share of marketing activities and bear the related costs. SCL markets the Advantage platform as a collaborative exercise with ISS. Recently, SCL has been cutting back on travel expenses and is mostly selling through online demonstrations. ISS will continue to go to all conferences and will make personal sales visits while at conferences and fairs. Meanwhile, SCL uses Facebook advertising and has recently revamped its website. The company also uses LinkedIn to reach out and talk to people who have moved into senior roles. This is expected to keep the marketing cost in check yet maximizing outreach.

Two options for teachers

For teachers, SCL offers both free and paid services. The free version provides teachers with the ability to apply at up to 5 schools that do not belong to SCL’s network system. In the paid version, teachers can search and apply for schools and jobs within SCL’s system and get notified for job openings.

The paid version costs US\$ 75 per annum. Compared with other such tools for candidate management, where the charges are usually a share of the salary along with a minimum administration fees, Connect helps schools and teachers recruit/apply for jobs without attending any job fairs, for an annual subscription fee, and without any additional placement payment fees.

Schrole Cover also sold in annual subscriptions

Schrole Cover helps find replacement staff for various industries, such as schools, hospitals, old age care centers, and leisure center operators, through a subscription-based model. Pricing is customized and based on services provided, i.e. annual license fees range from A\$ 500 to A\$ 2,500 (Figure 18). Currently, about 95% of all Cover revenues is generated from schools, with the remaining share coming from the healthcare sector and hospitals.

FIGURE 18: BUSINESS MODEL FOR SCHROLE COVER



Source: TMT Analytics

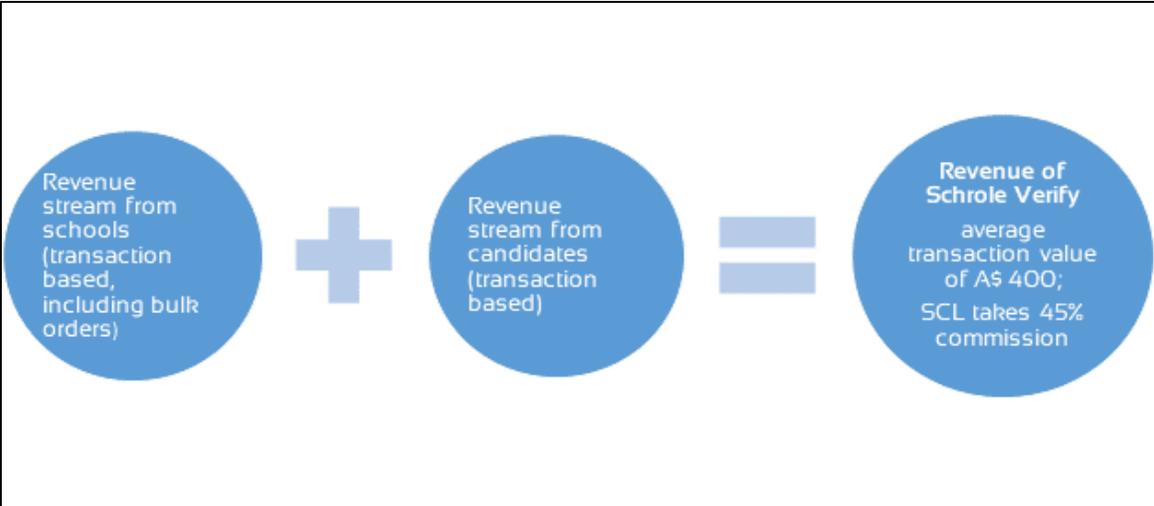
As SCL expands the Cover functionality and widens its sales efforts into other sectors, we expect these percentages to change in favor of sectors other than education.

Schrole Verify is sold through a transaction-based model

Regarding Schrole Verify, the company earns revenues from each applicant’s verification process (Figure 19). In this transaction-based model the process is customized according to the needs of each user (schools/ teachers) and the fee varies accordingly. The average transaction value is approximately A\$ 400.

SCL takes a 45% commission on every sale made through the Schrole Verify platform. Given that the actual verification work is conducted by SCL’s strategic partner First Advantage, the operating costs for SCL are minimal, apart from IT development work and marketing.

FIGURE 19: BUSINESS MODEL FOR SCHROLE VERIFY



Source: TMT Analytics

SCL also generates revenues when teachers/candidates get proactively verified for a small fee in order to spruce up their application. As Schrole Verify will link seamlessly with Schrole Connect, the existing client schools will be able to order background checks from within the existing system.

ETAS has a relatively formal business model

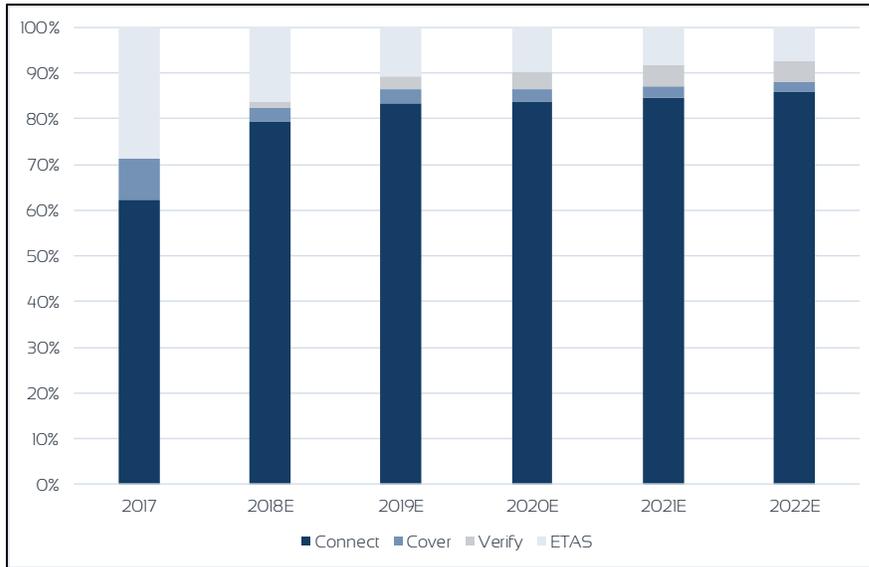
SCL offers standardized class room-based courses to individuals and customized onsite training for corporates. The course fee is either sponsored by companies or recipients subscribe in an individual capacity. The total fee for ETAS’ flagship course, TAE40116, is A\$ 3,700.

In case of onsite trainings, the courses are customized keeping in mind specific company requirements, in which case pricing levels are customized.

Accelerating revenue growth on the back of ISS alliance

To mitigate the impact of declining revenue in ETAS due to tightened regulations and turmoil in mining sector, in 2016 SCL strategically refocused on the education software segment. The company has since launched the Cover and Verify platforms and finalized the ISS deal.

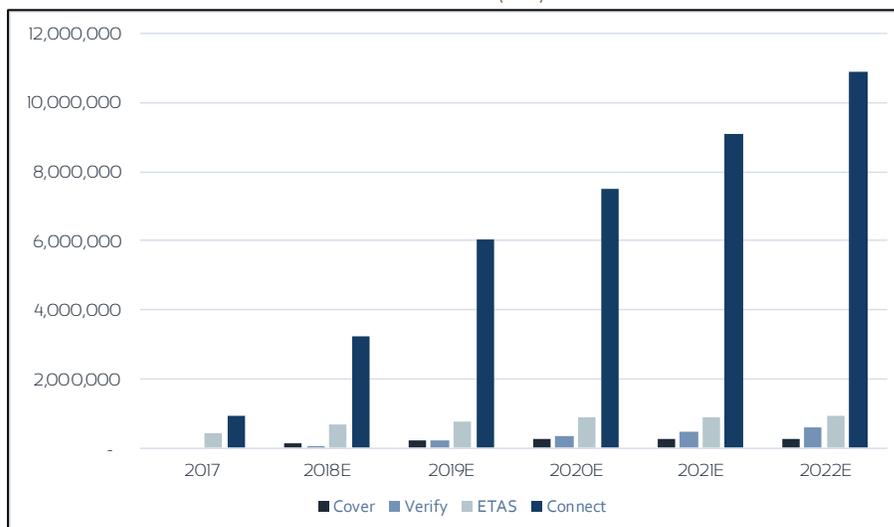
FIGURE 20: SCHROLE PERCENTAGE REVENUE BREAKDOWN



Source: TMT Analytics

Though we expect a recovery in ETAS revenues going forward, aided by steady improvements in classroom training and diversification of on-the-job training, the software segment (Schrole Connect, Cover and Verify) is expected to be the key growth driver going forward. We expect revenues from this segment to account for more than 90% of revenues by 2022 versus ~70% in 2017 (Figure 20) specifically driven by Connect/Advantage. In turn this strong revenue growth (Figure 21) is driven to a large extent by the strategic partnership with ISS.

FIGURE 21: SCHROLE REVENUE BREAKDOWN (A\$)



Source: TMT Analytics

Schrole Connect revenue growth is powered by the ISS deal

We expect strong growth in Schrole Connect/Advantage revenues to A\$ 10.9M by 2022E (vs. ~ A\$ 915k in 2017), aided by multiple drivers (Figure 22):

- Growth in average schools subscribed with critical scale to be gained in the 2018-2019 timeframe through implementation of the ISS partnership.
- Increase in mix of schools opting for the premier package, forecast to reach 70% in 2022E from 50% in 2018E.
- Steady appreciation in the average license value of premier and classic packages.
- Steady growth of the teacher subscriber base.

FIGURE 22: SCHROLE CONNECT REVENUE MODEL AND ASSUMPTIONS

Revenue model (AUD)	2018E	2019E	2020E	2021E	2022E
Revenue from schools	4,730,000	6,243,188	7,472,988	9,223,115	10,840,797
Revenue from teachers	483,000	603,750	694,313	798,459	878,305
Minus Revenue deferred	2,606,500	3,423,469	4,083,650	5,010,787	5,859,551
Add previous year deferred revenues	632,470	2,606,500	3,423,469	4,083,650	5,010,787
Total revenue	3,238,970	6,029,969	7,507,119	9,094,437	10,870,338

Key assumptions (AUD)	2018E	2019E	2020E	2021E	2022E
<u>For revenues from schools</u>					
Average schools subscribed	430	550	633	727	836
Classic package average license value	9,500	9,750	10,000	11,000	11,000
Premier package average license value	12,500	12,800	13,300	13,800	13,800
% of schools opting for premium package	50.0%	52.5%	55.0%	60.0%	70.0%
<u>For revenues from teachers</u>					
Number of teachers subscribed	69,000	86,250	99,188	114,066	125,472
% of active users	10.0%	10.0%	10.0%	10.0%	10.0%
% of active users of premium package	70.0%	70.0%	70.0%	70.0%	70.0%
Average license value	100	100	100	100	100

Source: TMT Analytics

Schrole Cover: Steady growth, but small revenue contribution

Driven by growth in school licenses and diversification into other industry verticals, we expect a steady revenue progression in the Cover segment. The revenue is projected to double in next five years and reach A\$ 0.27M in 2022E (Figure 23). As of now, we have not modeled geographic expansion of Schrole Cover, which can be an additional avenue for revenue growth. Overall, we expect Cover to be a small revenue contributor.

FIGURE 23: SCHROLE COVER REVENUE MODEL AND ASSUMPTIONS

Revenue model (AUD)	2018E	2019E	2020E	2021E	2022E
Revenue from Schools	193,050	222,008	238,658	250,591	263,121
Revenue from Healthcare and others	10,161	11,685	12,561	13,189	13,848
Minus Revenue deferred	81,284	93,477	100,488	105,512	110,788
Add previous year deferred revenues	0	81,284	93,477	100,488	105,512
Total revenue	121,926	221,499	244,208	258,756	271,693

Assumptions	2018E	2019E	2020E	2021E	2022E
Average license value	1,200	1,200	1,200	1,200	1,200
Average number of schools subscribed	161	185	199	209	219

Source: TMT Analytics

Schrole Verify: Leveraging Connect is key to cross-sell

Based on our assumptions in Figure 24 we expect Verify's revenue base to increase significantly through 2022, i.e. towards A\$ 1.3M from ~A\$ 100k in 2018. We expect the number of Connect subscriber schools that opt for Verify to steadily increase from 5% in 2018 to 30% in 2022, which will drive this significant growth. We further assume there will also be significant improvement in the proportion of teachers opting for prequalification, from 3% in 2018 to 12% in 2022.

FIGURE 24: SCHROLE VERIFY REVENUE MODEL AND ASSUMPTIONS

Revenue model (AUD)	2018E	2019E	2020E	2021E	2022E
Commission attributable to Schrole Verify	48,870	212,625	337,928	475,505	587,210
Commission (%)	45.0%	45.0%	45.0%	45.0%	45.0%
Total revenue from Verify	108,600	472,500	750,950	1,056,678	1,304,911

Assumptions	2018E	2019E	2020E	2021E	2022E
Average transaction value	400	400	400	400	400
<u>Revenue stream from Schools</u>					
Average no of schools that opt for verify	22	83	127	182	251
Cross sell ratio with Connect	5.0%	15.0%	20.0%	25.0%	30.0%
Average transaction per school	7	7	7	7	7
<u>Revenue stream from Teachers</u>					
% of active teachers opting for Verify	3.3%	7.0%	10.0%	12.0%	12.0%

Source: TMT Analytics

Gradual revenue recovery projected for ETAS

After two subsequent years (2016 - 2017) of revenue declines, we expect ETAS to recover in 2018, led by stabilization of intake in classroom-based training (Figure 25). Over the 2017-2022 timeframe, we have modeled a doubling in ETAS' revenue base from A\$ 423k in 2017 to more than A\$ 900k in 2022. We expect this to be driven by steady growth in classroom-based courses and a recovery in revenues from on-the-job training courses, aided by international expansion and the recovery in the mining sector.

FIGURE 25: ETAS REVENUE MODEL AND ASSUMPTIONS

Revenue model (AUD)	2018E	2019E	2020E	2021E	2022E
Revenue from onsite training	101,250	151,875	189,844	218,320	240,152
Revenue from classroom training courses	570,000	627,000	684,000	684,000	684,000
Revenue from ETAS	671,250	778,875	873,844	902,320	924,152

Source: TMT Analytics

Steady improvement in earnings as operating leverage ricks in

We believe SCL will turn EBITDA positive during FY21. In the near-to-medium term, R&D spending associated with ongoing Advantage platform improvement and online marketing spend will continue. This is likely to be partially offset by a sharp decline in traveling expenses from 2018 as ISS would be undertaking most of the travel associated with Advantage platform sales from 2H18 onwards.

We have also factored in that operating leverage will gradually increase with employee expenses falling from 43% of revenues in 2018 to 21% in 2020 (Figure 26). Though capacity expansion is required in the training segment to facilitate increased on-the-job training, headcount increase in the software segment is not expected.

FIGURE 26: PROFITABILITY MARGINS

Margins (%)	2018E	2019E	2020E	2021E	2022E
Employee expense as a % of revenue	43.4%	25.3%	21.6%	18.7%	16.4%
Travel expense as a % of revenue	5.1%	2.5%	2.2%	2.0%	1.8%
Adj. EBITDA margin	-36.8%	-13.6%	-3.2%	3.0%	8.3%
EBIT margin	-44.2%	-19.9%	-9.1%	-2.7%	2.7%
Net margin	-43.5%	-19.2%	-8.4%	-2.1%	2.4%

Source: TMT Analytics

Valuation: Long-term value clearly exceeds current price

In order to derive SCL's long-term value, we have used a weighted average valuation methodology, giving equal weight to a peer-group-based Sum-Of-The-Parts (SOTP) valuation and Discounted Cash Flow (DCF) calculation.

Peer-group-based SOTP valuation suggest a fair value of A\$ 0.044 per share

Considering the distinct nature of SCL's different segments, one single peer group would be ineffective in valuing SCL. We have used three distinct peer groups to value the three main businesses, i.e. recruitment solutions (both the Connect and Cover platforms), candidate verification (Verify) and the vocational training business (ETAS).

We have used a mix of ASX-listed and APAC-listed companies to value the diversified business segments. As far as ASX-listed companies are concerned, we believe Xref Limited (ASX: XF1) and CV Check (ASX: CVI) are the closest competitors in the verification business. For the purpose of valuing the ETAS business, we have included the following Australian education eers: IDP Education (ASX: IEL), Navitas Limited (ASX: NVT), RedHill Education (ASX: RDH), G8 Education (ASX: GEM), and Think Childcare (ASX: TNK).

FIGURE 27: PEER GROUP VALUATION

SOTP	Sector	Sector Average*	Premium / Discount	Multiple	FY19E Revenue (AUD)	Implied EV (AUD)
EV/Sales	Schrole Connect	7.3x	-50%	3.7x	6,029,969	22,052,150
	Schrole Cover	7.3x	-50%	3.7x	221,499	810,044
	Schrole Verify	5.5x	-50%	2.7x	212,625	581,518
	ETAS	2.1x		2.1x	778,875	1,646,224
	Total				3.6x	7,021,469

Source: TMT Analytics, S&P CapitalIQ

As recruitment and replacement candidate management services are more global in nature, it is imperative to consider some developed APAC market peers in addition to ASX-listed companies. This peer list includes Livehire (ASX: LVH), IntelliHR Holdings (ASX: IHR), SEEK Limited (ASX: SEK), en-japan inc. (TYO: 4849), TechnoPro Holdings (TYO: 6028), and Freelancer Limited (ASX: FLN). Some other small ASX-listed companies were not included given the lack of earnings forecast, limited analyst coverage and small market size.

We have applied the relevant sector average EV/Sales multiples to SCL revenues for FY19 as illustrated in Figure 28.

Considering that SCL is still a growing business and is in the early stages of leveraging its new strategic alliances, we have applied a discount to the sector average EV/Sales multiples. The company's peer group is valued at an average EV/Sales multiple of 6.9x for FY19E. Applying a 50% discount to recruitment and verify peer valuation multiples, SCL would yield an Enterprise Value of A\$ 25M, or an equity value of A\$ 0.044 per share (Figure 28).

FIGURE 28: RELATIVE VALUATION PER SHARE

Equity Value Determination (AUD cents)	
Implied EV	25,089,937
Net debt (cash)	(2,725,942)
Pension	102,180
Equity value (AUD)	27,713,699
Share outstanding (for 2019)	625,050,230
Implied price (AUD cents)	4.4
Current price (AUD cents)*	1.2
Upside (%)	267.5%

* Adjusted for performance share series A vesting

Source: TMT Analytics

DCF calculation suggests substantial long-term upside

Our DCF model yields a WACC for SCL of 9.96% (risk-free rate of 2.7%, a Beta of 0.97 and an equity risk premium of 7.7%). Applying that discount rate to our free cash flow projections through 2027 and using a terminal growth rate of 2%, SCL yields a value of A\$ 0.029 per share (Figure 29).

Even though there is execution risk associated with SCL's strategy currently, we believe that as the company matures and approaches EBITDA breakeven, there will be room for lower discount rates, which would translate into higher share price values.

FIGURE 29: DCF VALUATIONS USING VARYING WACC'S

WACC	8.0%	9.0%	10.0%	11.0%	12.0%
Implied price (AUD cents)	3.4	3.1	2.9	2.7	2.6
Current price (AUD cents)*	1.2	1.2	1.2	1.2	1.2
Upside/ Downside (%)	179.0%	159.9%	142.5%	126.5%	111.9%

* Adjusted for performance share series A vesting

Source: TMT Analytics

Fair value of A\$ 0.037 per share

Our fair value for SCL of A\$ 0.037 is derived from a weighted average valuation methodology, equally combining an EV/Sales-based SOTP valuation and a DCF calculation (Figure 30). This implies substantial upside from the current share price. Hence, we start our research coverage of SCL with a BUY rating.

FIGURE 30: WEIGHTED AVERAGE VALUATION

Valuation	Weights (%)	Price (AUD)
DCF	50.0%	2.9
EV/Sales-based SOTP	50.0%	4.4
Composite (AUD cents)		3.7
Adjusted current price (AUD cents)*		1.2
Upside/ Downside (%)		205.3%

* Adjusted for performance share series A vesting

Source: TMT Analytics

Conclusion: Starting coverage with a BUY rating

SCL has built an attractive suite of recruitment and verification solutions for the fast-growing international schools' market. The attractiveness and growth in this market is illustrated by the recent acquisition of the Cognita group of international schools by Private Equity firm Jacobs for GBP 2BN, or 26x EBITDA. Cognita only started in 2004 and already runs 70 schools in 8 countries educating 40,000 students.

Additionally, SCL's strategic partnerships with ISS and First Advantage allow SCL to leverage this suite of solutions across a very substantial range of clients and prospects.

2019 will be the first full year in which SCL will be leveraging its new partnerships. And while we have incorporated the anticipated revenue synergies and cross-sell opportunities into our financial model, we believe there are likely to be further market opportunities SCL can address going forward.

Turning profitable during FY21, but cash flow positive from FY19 already

Revenue recognition rules require SCL to defer approximately 50% of its annual revenues into the next financial year. Consequently, given the company's strong revenue growth trajectory in the next five years, top line revenue is understated in each of those years resulting in a few more years of losses until FY21. We expect SCL to turn profitable during that financial year.

However, as cash is still king as far as we are concerned, we prefer to look at the company's net cash flow and we expect SCL to turn net cash positive in FY19.

Starting coverage with a BUY rating and A\$ 0.037 price target

Our initial price target of A\$ 0.037 per share, is a blend of DCF and relative valuation methods. Given the large share price upside from today's level, we initiate our coverage of SCL with a Buy rating.

Near-term share price catalysts

- Conversion of clients to Advantage from the Connect platform following from the partnership with ISS. This is expected to provide SCL with substantial cross-sell opportunities.
- Market acceptance for Verify by schools and teachers should accelerate SCL's revenue growth.
- Fast pick up in the ETAS business will support SCL in becoming EBITDA-positive.

SWOT Analysis

Strengths

- **Business model and pricing strategy:** While most traditional recruitment agencies are positioned as service providers, Connect/Advantage is offered as a product (subscription-based model), characterized by a relatively sticky customer base and a stable revenue stream. Additionally, the subscription model is cost-efficient for customers vs. the traditional agent model, thereby increasing the attractiveness in terms of pricing.
- **Superior product offerings:** Backed by the ISS deal, Schrole Connect has the most comprehensive channel mix (online portal, fairs, apps, and virtual events) among international school recruitment agencies. Connect's intelligent algorithm, which enhances the efficiency of teacher recruitment ('smart match') and Verify's comprehensive background screening process (including criminal screening) are key product differentiators.
- **Growth acceleration through partnership:** Management's strategy to partner with market-leading firms (ISS and First Advantage) to tap their network strength and technical competence, is a prudent approach to accelerate market share gains in a fast-growing market. ISS' track record (working in the field of international education since 1955) is likely to boost the brand perception of Schrole Advantage.
- **Highly scalable offering:** The software product suite (Connect, Cover) is SaaS-based and hence is quickly deployable without much personnel requirement for installation and support.
- **Management experience:** MD & CEO Robert Graham has ~30 years of experience including as an international school principal and recruitment consultant. Management's industry understanding enables SCL to tailor its products according to the needs of international schools.
- **Strong traction achieved:** In terms of customer acquisition, the number of Connect licenses has more than doubled to 157 since 2016, and Cover licenses have reached 143 within 2.5 years of inception. Further, the newly launched Advantage platform has been well-received with 40% of renewing customers opting for Advantage.

Weaknesses

- SCL continues to remain **loss-making** in the next few years due to high R&D and marketing costs. Though travel expenses are likely to moderate (aided by ISS deal), business expansion costs are expected to remain elevated in the near to medium term.
- Though SCL has an operational history of ~25 years in the education sector (ETAS), its track record in the EdTech space is limited (~5 years).

- Although management has commenced efforts to geographically diversify the revenue base of ETAS, it remains highly **exposed to the volatilities of the Australian mining sector**.

Opportunities

- **Growth in international schools to drive Connect demand:** Driven by growing income levels in APAC and increasing preferences for Western-style international curriculums, the number of international schools is expected to nearly double to 17,100 over the next decade.
- **Scope for deployment of Cover across industries:** Cover's software is industry-agnostic and is well-positioned to be deployed in other industries by capitalizing on the high casual labor levels in the Australian market.
- **Verify powered by raising awareness:** Given the quality standards expected by international schools and increasing awareness around child protection, demand for background screening is expected to remain firm among international schools.
- **Huge opportunity to cross-sell:** Given the complementary nature of the software product suites and expected integration of Verify with Advantage platform, there is a sizable opportunity to cross-sell.
- **Option to expand the geographic reach of Verify:** SCL is the preferred sales and marketing partner if First Advantage chooses to expand Verify beyond the APAC region.

Threats

- SCL faces **strong competition from incumbent** players in the Connect and Cover verticals. Though brand equity and network strength of ISS is expected to moderate the impact, competitive pressures are expected to remain strong.
- The Australian vocational training industry has become **highly regulated** in the aftermath of the crackdown on sector-wide irregularities in 2016.
- The partnership with leading background verification service provider 'First Advantage' is the backbone of Verify. Any partnership between traditional recruitment agencies and leading background verification providers to mimic Verify's offerings may erode the product differentiation of Verify.

APPENDICES

Peer comparison

High tech HR Tech Peers	Ticker	CY 2016	CY 2017	LTM	CY 2018E	CY 2019E	CY 2020E
Livehire Limited	ASX: LVH	NM	NM	83.8x	36.3x	22.1x	13.4x
intelliHR Holdings Limited	ASX: IHR	NM	NM	72.2x	NM	NM	NM
SEEK Limited	ASX: SEK	6.1x	7.6x	6.8x	6.3x	5.5x	4.9x
en-japan inc.	TYO: 4849	3.3x	7.3x	4.8x	4.3x	3.6x	3.2x
TechnoPro Holdings, Inc.	TYO: 6028	1.6x	2.3x	2.0x	1.8x	1.6x	1.4x
Freelancer Limited	ASX: FLN	11.0x	3.5x	4.3x	4.2x	3.7x	3.2x
Average		5.5x	5.2x	29.0x	10.6x	7.3x	5.2x

Verification portal		CY 2016	CY 2017	LTM	CY 2018E	CY 2019E	CY 2020E
Xref Limited	ASX: XF1	NM	47.3x	19.5x	16.2x	10.0x	6.5x
CV Check Ltd	ASX: CVI	2.1x	1.3x	1.2x	1.1x	0.9x	NM
Average		2.1x	24.3x	10.4x	8.6x	5.5x	6.5x

Educational and Allied Peers		CY 2016	CY 2017	LTM	CY 2018E	CY 2019E	CY 2020E
IDP Education Limited	ASX: IEL	2.8x	4.1x	5.5x	4.8x	4.2x	3.7x
Navitas Limited	ASX: NVT	1.8x	2.2x	2.0x	2.0x	2.0x	NM
Red-Hill Education Limited	ASX: RDH	0.9x	1.7x	2.0x	1.7x	NM	NM
G8 Education Limited	ASX: GEM	2.5x	2.2x	1.7x	1.6x	1.4x	1.3x
Think Childcare Limited	ASX: TNK	2.0x	2.0x	1.5x	1.2x	1.0x	0.7x
Average		2.0x	2.5x	2.5x	2.2x	2.1x	1.9x

Source: TMT Analytics, S&P CapitalIQ

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