

Schrole Group Limited

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Very strong start to the year for Advantage

(ASX: SCL)

Technology Hardware & Equipment

Australia

Risk: High

Schrole Group Limited (ASX: SCL) recently updated the market on its 3Q18 performance. We are particularly pleased with the growth and revenue mix of the Schrole Advantage platform. This is SCL's cloud-based solution for international school staff recruitment.

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.

SCL signed up an additional 167 schools in the quarter through 31 October, bringing the total number of schools that use the Schrole Advantage platform to 320, an increase of 166% year-on-year.

Most schools opt for the more expensive package

Interestingly, since the launch in September, 80% of schools have opted for the Premier subscription package, rather than the Classic subscription. Premier generates an average annual fee for SCL of around A\$ 12,500 as compared to an average annual fee of approximately A\$ 9,500 for the more basic Classic package. This percentage of 80% is substantially higher than the 50% we forecasted in our recently published initiation report on SCL, which can be found [HERE](#).

The main difference between the two subscription packages is that Premier gives access to the teacher recruitment fairs that SCL's partner ISS hosts several times per year. SCL's back end IT costs to run the Advantage platform are essentially fixed though. In other words, we expect the higher than expected revenues from schools opting for Premier instead of Classic to largely drop straight to SCL's bottom line.

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SCL has also signed up ~1,300 teachers as Premium Candidates, with these teachers paying an average of A\$ 100 per year for this service. Premium Candidate teachers are able to search the Advantage database for current job openings, can attend ISS recruitment fairs and will receive notifications of new teaching positions that match their profile.

Expanding into the Healthcare sector with Schrole Cover

Regarding Schrole Cover, the company's online relief staff platform for the Education and Healthcare sectors, SCL indicated it has seen a 45% increase in the number of licenses year-on-year, which brings the total to 166 Cover licenses per the end of October. This is already ahead of the 161 we had projected per the end of FY18 ending in December.

Furthermore, SCL added two hospitals in Western Australia to its client list with a total contract value (multi-year) for these hospitals of ~A\$ 30,000.

BUY

Current price: A\$ 0.016

Price target: A\$ 0.037

8 November 2018

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Number of shares (m)	627.1
Market capitalisation (A\$ m)	10.0
Number of FD shares (m)	1,126.1
FD Market capitalisation (A\$ m)	18.0
Free Float(%)	62.8%

12 month high/low A\$ 0.039/0.010

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This is substantially higher than the A\$ 1,200 average annual subscription fee that schools pay for Cover. Given these attractive subscription rates, SCL is aggressively expanding into the Healthcare vertical.

Revenues to be spread out over the financial year

Total invoices raised from the Advantage platform in Q3 amounted to A\$ 1.86M. However, from a revenue recognition perspective, SCL will need to even this out as these revenues are earned in the course of the financial year. Gross cash receipts in the quarter amounted to A\$ 1.13M, bringing the total for the first nine months to A\$ 1.98M.

However, considering the new SCL Advantage platform under the ISS joint venture was only launched in September, we expect quite a strong ramp up in sales and revenues in the next several quarters. Net cash flow amounted to A\$ 298k in Q3.

With an anticipated gross cash outflow of A\$ 915k in Q4, according the SCL’s 4C announcement, we expect the company to be cash flow positive again in the current quarter.

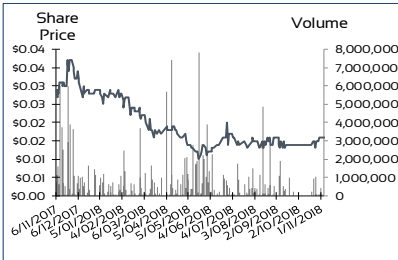
Buy rating and A\$ 0.037 price target reiterated

In summary, we believe the Advantage platform has had a very strong start since the relaunch under the joint ISS/Schrole banner in September 2018. The high percentage of schools opting for Premier is very encouraging and should see SCL generate increasingly attractive margins given the very limited marginal costs.

Furthermore, the Healthcare sector is turning out to be a potentially very lucrative vertical for Schrole Cover, which longer term may contribute more to the topline than we had previously estimated.

Given the strong performance in Q3 we reiterate our Buy recommendation and A\$ 0.037 price target.

Schrole management may be available for Sydney investor meetings in the latter part of November. Please let us know if you are interested in meeting the team.



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TMT Analytics issues a BUY recommendation in case of an expected total shareholder return (TSR, share price appreciation plus dividend yield) in excess of 25% within the next twelve months, an ACCUMULATE recommendation in case of an expected TSR between 5% and 25%, a HOLD recommendation in case of an expected TSR between -5% and +5% within the next twelve months, and a SELL recommendation in case of an expected total return lower than -5% within the next twelve months.