

Schrole Group Limited

Strong uptake of premier Advantage package

Schrole released its 4C statement on 31 January 2019 and the overall outlook of the company has been very pleasing. The growth in sales of the Schrole Advantage platform, which is their cloud-based solution for international school staff recruitment has been satisfactory. SCL has signed up a total of 244 international schools and over 3,400 teachers since launch, bringing the total number of schools to 360, which is an increase of more than 165% Y-o-Y. Of these schools, 189 happen to be existing clients who have renewed their subscriptions, generating revenues of over A\$1.9m (as of 12 September 2018). The rest are new schools who have brought in revenues of A\$580,000.

The total revenue of Advantage since its launch in September has been A\$2.5m. The strong growth in teachers on the Advantage platform, which has exceeded our expectations, has brought in A\$360k in revenues since the relaunch of Advantage.

Most schools opt for the more expensive package

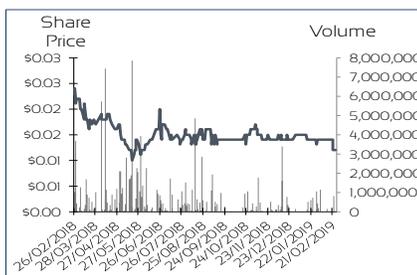
Interestingly, since the launch in September, more than 80% of schools have opted for the Premier subscription package, rather than the Classic subscription. Premier generates an average annual fee for SCL of around A\$ 12,500 as compared to an average annual fee of approximately A\$ 9,500 for the more basic Classic package. This preference of the premier subscription has resulted in higher average subscription revenues per school, of around A\$ 12,000, despite the number of school sign-ups being slightly lower than our previous estimate.

The main difference between the two Advantage 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.

Strong license sales for 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 171 Cover licenses per the end of December. This is ahead of the 161 we had projected.

Number of shares (m)	631.4
Market capitalisation (A\$ m)	7.6
Number of FD shares (m)	1,126.4
FD Market capitalisation (A\$)	13.5
Free Float (%)	63.1%
12 month high/low A\$	0.039/0.01
Average daily volume	534



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Flash note

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\$ 0.012

Price target: A\$ 0.037

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Furthermore, SCL added two hospitals in Western Australia to its client list with a total contract value (multi-year) for these hospitals of ~\$30,000. This is substantially higher than the A\$ 1,200 average annual subscription fees that schools pay for Cover. Given these attractive subscription rates, we believe SCL will likely be looking to expand further into the Healthcare vertical once the company feels comfortable with its market share and service level in the Education vertical.

Schrole ETAS to benefit from Renewal Cycle

Schrole Develop, the company's consulting and training division, continues to get strong enrolments for the new Certificate of Training and Assessment as well as increased bookings for its on-the-job training programs at remote sites of mining companies in Western Australia. Recent sales have been strongest in over 2 years driven by the growing activity in the resources sector, with average monthly revenue in the December 2018 quarter of ~A\$ 77k, more than 160% growth y-o-y. We believe this growth is going to continue through April, owing to the regulatory renewal cycle that requires the employees to renew their qualifications by that time.

Move to optimize operations and increase the software update cycle

Schrole has commenced work on the next scheduled software release for its Advantage platform. The company plans on releasing enhancements every 6 to 8 weeks. This should help Schrole to continually improve the functionality and respond faster to customer feedback and feature requests. The company has also brought more development capabilities in-house, which should provide more control and speed to the entire process. Over time, we expect this should result in higher customer retention rates.

Buy rating reiterated

Based on SCL's quarterly update, we believe the Advantage platform is tracking largely in line with expectations, i.e. new school signups were somewhat lower than we expected, but the average annual fee is turning out higher than forecast.

We expect the renewal cycle for Certificates of Training and Assessment in the Mining sector to result in continued strong revenues at ETAS in the near term.

SCL is expected to provide the market with its full financial results for the period ending December 2018 in a few weeks, at which time we will have more granular insight into the company's financial performance.

We reiterate our Buy recommendation and A\$ 0.037 price target for SCL.

Please refer to <https://www.tmt-analytics.com.au/schrole.html> for our initiating coverage of SCL with an in-depth analysis of the company's addressable market, SWOT, financials and valuation.

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