

## ASX RELEASE | Schrole Group Limited (ASX:SCL) Q2 FY20 Cash Flow and Summary of Activities

### Highlights:

- **Strategic Partnership with Faria, a world-leader in online education systems and services;**
- **Successfully raised \$5.0 million via a strategic investment by Faria and a placement to professional and sophisticated investors;**
- **Revised ISS-Schrole Advantage agreement is expected to deliver increased revenue share for Schrole in FY20. Termination of ISS agreement planned from June 2022;**
- **Total revenue in Q2 FY20 grew by 23.7% to \$1.72m compared to \$1.39m in Q1 FY20;**
- **Q2 FY20 cash receipts of \$1.28m, up 28.5% compared to \$885,000 in Q2 FY19;**
- **Annual Recurring Revenue grew by 6.9% to USD3.1m at end Q2 FY20 compared to USD2.9m in Q1 FY20;**
- **ISS-Schrole Advantage school revenue grew by 25% and candidate revenue grew by 81% compared to Q2 FY19;**
- **School numbers declined marginally to 388 during Q2 FY20 compared to 397 at end Q1 FY20; reflecting the impact of COVID-19 uncertainty on new sales, however this was offset by a solid retention rate of existing customers;**
- **Total paid candidates grew by 6.2% in Q2 FY20 to 6,600, compared to 6,200 at end Q1 FY20;**
- **New paid candidates in Q2 FY20 grew by 70% to 933 compared to 547 in Q2 FY19.**

**23 July 2020:** Schrole Group (ASX: SCL) ('Schrole' or the 'Company'), an Australian education technology company, is pleased to provide an update on its activities for the quarter ended 30 June 2020.

Schrole Group Managing Director, Mr Rob Graham said: *"Schrole's partnership with Faria represents a major milestone that is expected to transform the business. The completion of the capital raise together with the strategic partnership with Faria, represent the beginning of an exciting new chapter for the business and one that will enable Schrole to expand the sale of our software as a service platform to drive growth.*

*"Faria is highly regarded in the global education sector and represent an excellent partner for Schrole with a highly complementary service offering. We are very encouraged by Faria's commitment to the partnership, in particular their plans to promote Schrole's products to their extensive customer base.*

*"During the quarter, Schrole demonstrated resilience as it adapted to the challenges associated with COVID-19. The Q2 FY20 result was pleasing because it was achieved despite significant economic disruption, travel restrictions and school closures globally.*

*"At the start of COVID-19, we moved quickly to enable our employees to work from home and successfully transitioned our ETAS training business to an online offering. Furthermore, the Company took decisive actions in reducing operating expenses, deferring non-essential expenditure, and optimising cash management.*

*“The June quarter traditionally represents the low point in the international teaching recruitment cycle; however, even taking into consideration widespread school closures globally, it was particularly pleasing to deliver increased teacher engagement and 28.3% growth in ISS-Schrole Advantage revenues.*

*“The improved engagement in the platform despite the particularly challenging operating environment during the second quarter bodes very well for the upcoming six months which represent the peak recruitment period.*

*“Schrole is now focused on its long-term strategy to provide integrated HR solutions to schools for Recruitment, Background Checking, Onboarding, Professional Development and securing casual staff,” he said.*

### **Faria Partnership**

Schrole and Faria have signed an agreement to integrate and cross-sell Schrole’s unique product portfolio into Faria’s extensive school networks comprising over 3,000 international schools across 130 countries.

Schrole and Faria have a highly complementary service offering and initial technical integrations have been completed incorporating a Single-Sign-On to allow users to move seamlessly from Faria into Schrole’s ISS-Schrole Advantage and Verify services. Combined marketing activities will commence by October 2020. The partnership is expected to deliver significant growth for Schrole and represents a major milestone in the Company’s history.

As announced, under the Integration Agreement, from 1 July 2021 (Effective Date), Schrole will pay a percentage of revenue derived from qualifying purchases to Faria. Qualifying purchases under the integration agreement are any purchases or subscriptions of Schrole software referred by Faria following the Effective Date. The revenue percentage of qualifying purchases payable by Schrole to Faria is commercially sensitive information but is a fixed percentage that Schrole considers to be commensurate with Faria's role as an App Store provider.

### **Improved Capital Position**

On 13 May 2020, Schrole announced that Faria would invest AUD \$2.9 million in Schrole via a convertible note, which will convert into a 19.99% strategic stake. This was approved by shareholders at the recent EGM on 2 July 2020. Schrole also successfully completed a placement to sophisticated and professional investors raising \$2.12 million.

The combined funds will be used to support and accelerate planned technical and product development initiatives, cross selling initiatives and working capital to underpin the significant growth opportunity.

### **ISS Termination**

On 8th July 2020, Schrole announced that it had agreed to terminate its agreement in June 2022 with International Schools Services, Inc ('ISS') for sales of ISS-Schrole Advantage Platform ('Advantage').

In April 2018, Schrole entered into an agreement with ISS to provide recruitment services for international schools under the brand ISS-Schrole Advantage. ISS was an ideal initial partner for Schrole due to their position as market leaders in providing educational services to International schools including teacher recruitment.

Under the terms of the original Alliance Agreement with ISS, the net revenue of ISS-Schrole Advantage Pty Ltd was expected to be shared on a 50:50 basis by Schrole and ISS, subject to a transitional arrangement aimed at maintaining each party's prior revenue base at minimum. However, due to the structure of the agreement Schrole has yet to reach a position of sharing revenues on a 50:50 basis.

The ISS-Schrole Advantage alliance generated revenue of \$4.3 million in FY2019 (January to December 2019). Over that period Schrole's revenue share under the Alliance Agreement was 37%. The decision to revise the agreement will allow Schrole to focus on its evolution into a traditional SaaS business, and in particular selling its suite of HR software solutions to education software and services groups globally, from which they can offer Schrole's suite of products to their school networks.

The revised agreement covers a transition period of 48 months during which Schrole and ISS will split revenues for new sales and renewals as follows:

- 12 months to 30 June 2021 - Fixed 50-50 basis for new sales and renewals
- 12 months to 30 June 2022 – New sales by Schrole to be allocated 100% to Schrole and renewals to be split 50-50 (ISS / Schrole)
- Agreement to be terminated from 30 June 2022

Schrole Group Managing Director, Mr Rob Graham added: *"The revised agreement with ISS is expected to deliver improved cash flow generation for Schrole until the completion of the Alliance Agreement and reflects the investment we have made in the partnership."*

*"As we transition Schrole towards becoming a SaaS business providing HR software to global education groups, this represents an appropriate time for ISS and Schrole to transition towards independent strategies,"* he said.

### **Review of Operations**

Total revenue in Q2 FY20 grew by 23.7% to \$1.72m vs. \$1.39m in Q1 FY20.

Annual Recurring Revenue, calculated as the current value of active annual software licences, as at 30 June 2020, increased by 6.9% to USD3.1m compared to USD2.9m at the end of Q1 FY20.

Total revenue in Q2 FY20 for ISS-Schrole Advantage was \$1.17m with associated premium candidate revenue of \$0.11m. Total revenue for ETAS was \$0.14m reflecting the negative impact of COVID-19 restrictions however pleasingly there was growth of 4% in revenues in June 2020 compared to June 2019 as customers took up the online training option. The remaining businesses, including Verify and Cover, totalled \$0.13m.

Subsequent to the end of the quarter, a major mining company confirmed a contract for Schrole ETAS to design and deliver a bespoke Enterprise Trainer-Mentoring Skill Set. This contract will begin imminently and will be delivered over two years.

Net cash used in operating activities in Q2 FY20 totalled \$296,000. During the quarter, the Company received government funding including JobKeeper and Cashflow Boost totalling \$175,000. In addition, the company received payroll tax waivers from March to June.

Additional savings were achieved in reduction of office lease payments, the cancellation of all travel as well as a continuation in the 15% salary cuts that were introduced in Q1 FY20, replaced by performance rights that are to be approved at the AGM.

Further information regarding the activities in the major business units is set out below.

## ISS-Schrole Advantage



During Q2 FY20, the renewal rate was consistent with historical levels. The total of five new sales during the period were below budget as schools were impacted by Covid-19. While the number of schools fell by 2.3% to 388, overall engagement was high and the number of teacher candidates engaged on the platform continued to increase. The company remains well positioned for the upcoming peak selling period of September to November.

International schools continued to be impacted by border closures during the period. This has resulted in some schools looking for teachers within their countries and resulted in increased engagement on the platform. Additional 'ifairs' have been added to assist schools in this recruitment process. Sales and Marketing efforts will be ramped up in August 2020 to capitalise on the start of the new school year. Additional low-cost subscription offerings are also being developed and in late July, a new lite subscription will be launched allowing schools to advertise up to four jobs to the comprehensive database for US\$3,000.

School groups continue to represent a major growth opportunity for Schrole. There are over 70 international school groups that consist of ten or more schools, representing over 2,000 schools. The school group functionality that was launched on the Advantage platform in December 2019 allows these school groups to manage their staff recruitment activities across multiple school locations and across different countries.

### ***Strong school and teacher engagement despite school closures***

During Q2 FY20, over 930 Premium candidates signed up to the Advantage platform, with total premium candidates on a rolling 12-month basis now at 6,600 compared to 6,200 at the end of Q1 FY20. Revenue generated from candidate subscriptions totalled A\$106,000 during the period.

### **Change to ARR calculation methodology**

In Q2 FY20 the company revised the methodology for calculating ARR to better reflect the annual subscription nature of the software business. Historically the company reported ARR based on invoiced sales, regardless of the subscription period to which the sale/renewal related which resulted in complexity to avoid double counting of revenue invoiced but not yet contracted to be received.

Going forward, Schrole ARR will reflect the recurring revenue expected in the next 12 months based on existing subscriptions at the date of reporting. Revenues from new customers, upgrades from existing customers and revenues lost from non-renewals are now reflected in the ARR as they occur. The ARR calculation does not include any future pricing changes or new product offerings. The ARR will also now be reported in USD to remove the impact of currency movements.

## Schrole Verify



Schrole Verify (background screening solution), which was launched in September 2019, has received a positive response from customers and the Company continued to invest in marketing this product during 1H FY20. The demand for Schrole Verify continues to increase globally as schools are increasingly compelled to undertake reference checks for their existing and prospective teachers as well as for non-teaching staff members. During the quarter, sales were made to several schools across the Caribbean, Oman, Hong Kong and Cambodia.

## Schrole Cover



Schrole Cover, a cloud-based software-as-a-service platform (SaaS) for the fast filling of casual staffing positions, continued its expansion into schools in Western Australia with further sales to new schools, as well as confirmed renewals of key hospital clients during the quarter.

Schrole has seen continued sales growth in Schrole Cover, with the total number of active licences growing to 301 as at 30 June 2020, representing an increase of 8% over the total number of licences as at 31 March 2020. Revenues grew by 76% to \$89,907 compared to Q2 FY19.

## Schrole Develop



Schrole ETAS is the consulting and training division of the Company, providing nationally recognised training qualifications in training, leadership and management to major multinational mining companies and government agencies in Western Australia.

Sales during the quarter were impacted by reduced training activity overall as a result of COVID-19 as well as the transition to online however in June there was an improvement in sales and growth on the prior year.

Pleasingly, under the new brand 'Schrole Develop', the first sale was made to an international school in China for the Diploma of Leadership and Management. An additional resource has been appointed to promote this service to international schools.



### Payments to Related Parties

During the quarter the following payments were made to related parties of the entity and their associates as disclosed in Item 6 of the Appendix 4C;

- Payments to HWL Ebsworth, a related party of director Shaun Hardcastle, for legal fees on arms-length terms totalling \$25,156 (inc GST);
- Payments to Ventnor Capital, a related party of chairman Stuart Carmichael, for company secretarial services on arms-length terms totalling \$19,531 (inc GST);
- Non-executive Director and Chairman fees totalling \$28,800; and
- Salary payments to Robert Graham totalling \$109,294.

**-Ends-**

*This announcement was approved for release by the Board of Directors.*

### **About Schrole**

Schrole delivers innovative, technology-based solutions for the education sector. The company has four revenue generating business units:

- **ISS-Schrole Advantage** for the international school market – an online Software-as-a-Service platform that enables international schools to streamline teacher recruitment and candidate management activities;
- **Schrole Verify** – a new global standard for background screening in the international schools sector;
- **Schrole Cover** – a cloud-based software platform that engages your preferred relief staff at the touch of a button; and
- **Schrole ETAS** – Schrole Education and Training Advisory Service provides accredited training solutions customised to the contexts in which our clients operate.

### **For further information please contact:**

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## Appendix 4C

### Quarterly cash flow report for entities subject to Listing Rule 4.7B

**Name of entity**

SCHROLE GROUP LTD (ASX: SCL)

**ABN**

27 164 440 859

**Quarter ended ("current quarter")**

30 June 2020

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$A'000</b>	<b>Year to date (6 months) \$A'000</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	1,287	2,171
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(836)	(1,405)
(c) advertising and marketing	(26)	(34)
(d) leased assets	-	-
(e) staff costs	(734)	(1,468)
(f) administration and corporate costs	(207)	(384)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	1	1
1.5 Interest and other costs of finance paid	(1)	(1)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	220	220
1.8 Other (provide details if material)	-	-
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(296)</b>	<b>(899)</b>

<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(19)	(19)
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	43 <sup>1</sup>	(134)
<sup>1</sup> Revision to basis for capitalisation of software development costs		

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
<b>2.6</b>	<b>Net cash from / (used in) investing activities</b>	<b>24</b>	<b>(154)</b>
<b>3.</b>	<b>Cash flows from financing activities</b>		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	1,412	1,412
3.2	Proceeds from issue of convertible debt securities	2,895	2,895
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	(155)	(155)
3.5	Proceeds from borrowings	(12)	(31)
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
<b>3.10</b>	<b>Net cash from / (used in) financing activities</b>	<b>4,140</b>	<b>4,122</b>
<b>4.</b>	<b>Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1	Cash and cash equivalents at beginning of period	914	2,005
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(296)	(899)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	24	(154)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	4,140	4,122



## Quarterly cash flow report for entities subject to Listing Rule 4.7B

<b>Consolidated statement of cash flows</b>		<b>Current quarter \$A'000</b>	<b>Year to date (6 months) \$A'000</b>
4.5	Effect of movement in exchange rates on cash held	(223)	(516)
<b>4.6</b>	<b>Cash and cash equivalents at end of period</b>	<b>4,558</b>	<b>4,558</b>

<b>5.</b>	<b>Reconciliation of cash and cash equivalents</b> at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	<b>Current quarter \$A'000</b>	<b>Previous quarter \$A'000</b>
5.1	Bank balances	4,558	914
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>4,558</b>	<b>914</b>

**6. Payments to related parties of the entity and their associates**

- 6.1 Aggregate amount of payments to related parties and their associates included in item 1
- 6.2 Aggregate amount of payments to related parties and their associates included in item 2

<b>Current quarter \$A'000</b>
(183)
-

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments

6.1 Directors' fees, salaries and superannuation and legal fees paid to a firm in which a director is a partner.

## Quarterly cash flow report for entities subject to Listing Rule 4.7B

**7. Financing facilities**

*Note: the term "facility" includes all forms of financing arrangements available to the entity.*

*Add notes as necessary for an understanding of the sources of finance available to the entity.*

	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1 Loan facilities	-	-
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
7.4 <b>Total financing facilities</b>	-	-

7.5 **Unused financing facilities available at quarter end** -

7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.

<b>8. Estimated cash available for future operating activities</b>	<b>\$A'000</b>
8.1 Net cash from / (used in) operating activities (Item 1.9)	(296)
8.2 Cash and cash equivalents at quarter end (Item 4.6)	4,558
8.3 Unused finance facilities available at quarter end (Item 7.5)	-
8.4 Total available funding (Item 8.2 + Item 8.3)	4,558
8.5 <b>Estimated quarters of funding available (Item 8.4 divided by Item 8.1)</b>	15.4

8.6 If Item 8.5 is less than 2 quarters, please provide answers to the following questions:

1. Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

Answer: N/A

2. Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer: N/A

3. Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer: N/A

## Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

23 July 2020

Date: .....

Brett Tucker

Authorised by: .....  
(Name of body or officer authorising release – see note 4)

## Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.