

18 September 2020

Vanessa Nevjestic
Adviser, Listings Compliance (Perth)

Via email: Vanessa.Nevjestic@asx.com.au

Schrole Group Limited (ASX: SCL) (“Schrole” or the “Company”) refers to your Query letter dated 16 September 2020 and provides the following responses:-

1. Please provide the final “annual sales figure” that SCL used to determine whether the Series B Performance Shares milestone had been met and what twelve month period was used.

The value for determining whether the milestone had been met is \$7,666,388, covering the amount invoiced by SCL in the period from June 2019 to May 2020.

Attached in **Attachment A** are the invoiced sales over this period.

As noted in the 27 August 2020 announcement (**Conversion Announcement**), this figure is based on invoiced sales and does not account for un-earned revenue.

Since admission, SCL has reported total invoiced sales and total annual invoices and this is a key metric for evaluating the performance of the Company, both for internal reporting purposes and for communication to the market.

Management of SCL considers this to be a key metric for SCL, as it is a readily ascertainable metric which is indicative of sales performance and cashflow. For this reason, management reports to the board its *total revenue (invoiced sales)* figure on a monthly basis. Similarly, total annual invoiced sales have been consistently reported to the market, examples include the following:

Quarter Ending	Disclosure
June 2019	“Total invoiced sales... for the June 2019 quarter were A\$380,000...”
September 2019	“Total revenue (invoiced sales) increasing by 33%...”
December 2019	“Total revenue (invoiced sales) in FY19 increased by 36% to \$6.2m from \$4.5m in FY18. During Q4 FY19, total revenue (invoiced sales) increased by 7% over Q4FY18 to \$2.1m
March 2020	“Total revenue (invoiced sales) in Q1 FY20 increased by 27% to \$1,086,979...”

SCL's annual report for the year ending 31 December 2019 is also consistent with this approach. An extract is set out below:

Annual recurring revenue, calculated as the current value of active annual software licences, increased by \$785,000 to \$4,541,000 as at 31 December 2019 compared with the prior year.

In the year ended 31 December 2019 Schrole Group has achieved an increase in income from its ISS-Schrole Advantage, Schrole Connect and Schrole Cover software platforms to approximately \$4,173,000 from \$1,835,000 in the previous corresponding period, an increase of 127%.

Schrole Group recorded total software licence sales (before adjustment for deferred revenue) of approximately \$3,541,000 in the year ended 2019 compared with approximately \$3,768,000 in 2018.

2. ASX notes the milestone definition in the Prospectus (paragraph A) makes a specific reference to “total annual sales revenue”. However, the Conversion Announcement refers to “total annual sales”. Please explain why:

2.1. the word “revenue” was omitted from the reference to the milestone in the Conversion Announcement; and

Omission of the word "revenue" was unintentional. The basis of conversion is on total revenue (invoiced sales) over a 12 month period.

2.2. why SCL considers it acceptable that it has not followed the milestone wording used in the Prospectus.

SCL has consistently reported total annual sales figures both to the market in its quarterly activities report, annual report and internally, and is of the view that the total annual sales figures is consistent with the Prospectus disclosure.

Due to the annual subscription nature of SCL's business, customers are invoiced for their annual subscription in one lump sum each year and (subsequently pay in one instalment). This was set out in the Prospectus at page 49 as follows:

"The annual recurring subscription fee for the use of Schrole Connect by schools is a key revenue stream for Schrole.

"The current revenue derived from Schrole Connect are annuity based with the number of schools covered by contracts..."

Annual recurring revenues are a common metric used to assess technology companies that use a subscription model. It is common industry practice for invoiced sales to be used as a running proxy for this figure, notwithstanding that it is not consistent with the AASB definition of revenue (**AASB 15 Revenue**), as the total invoiced sales figure can be readily calculated on a rolling basis.

The Prospectus did not define *revenue* and it was the intent of management and the Board at the time of the Prospectus that the total annual sales revenue reflect the total annual sales invoices, rather than AASB 15 Revenue.

While SCL concedes that it has used revenue in a manner that is not consistent with AASB 15 Revenue, and that there has been some interchangeability of terminology used to describe (*total revenue*) *invoiced sales*, it maintains that it has always kept the market abreast of this

key metric, such that investors could readily track this figure against the milestone disclosed in the Prospectus.

ASX calculates from SCL's audited and reviewed financial statements referred to above that, for the 12 month period ending 30 June 2020, revenue was approximately \$5.9m.

The basis for the performance share conversion was based on *total revenue (invoiced sales)* as reported as part of SCL's quarterly releases. Please see **Attachment A** which sets out the invoiced sales over the relevant period.

3. Please confirm whether satisfaction of the Series B Performance Shares milestone was independently verified.

The Board requested the Company Secretary to audit the annual sales revenue figures provided by management and present a summary of findings. In auditing the annual sales revenue figures, the Company Secretary (amongst other things):

- obtained a schedule of monthly revenue for the 12 months from June 2019 to May 2020;
- selected a random sample of invoices; and
- agreed individual sale entries to supporting documents and subsequent bank receipt on a sample basis where possible.

A report was prepared to the Board based on the above, and in light of Schrole's ongoing reporting of *total revenue (invoiced sales)*, it was considered that the performance share milestone had been met in a manner consistent with the milestone disclosed in the Prospectus.

4. Does SCL consider the market to be fully informed regarding the conversion criteria for the Series B Performance Shares, specifically in relation to using a measure that is not compliant with accounting standards? If so, please identify the announcement in which SCL informed the market of this.

Yes, as noted above there is a long history of SCL reporting to the market its *total revenue (invoiced sales)*, including its quarterly disclosures and annual report disclosure. Further, SCL informed the market that the measure of *total revenue (invoiced sales)* for the conversion criteria in the announcement dated 27 August 2020 and that this methodology does not account for unearned revenue and "is not recognised in accordance with accounting standards. This satisfaction of this sales milestone should not be considered a revenue forecast".

The market therefore is fully informed:

- as to SCL's AASB 15 Revenue - as this is set out in SCL's financial statement for the six months ending 30 June 2020 released on 27 August 2020;
- that AASB 15 Revenue differs from the *total revenue (invoiced sales)* metric historically reported by SCL; and
- SCL's long term performance against the Series B Performance Share milestone.

5. Please confirm that SCL is complying with the Listing Rules and, in particular, Listing Rule 3.1.



Schrole confirms that it is in compliance with the Listing Rules and, in particular, Listing Rule 3.1.

- 6. Please confirm that SCL's responses to the questions above have been authorised and approved in accordance with its published continuous disclosure policy or otherwise by its board or an officer of SCL with delegated authority from the board to respond to ASX on disclosure matters.**

Schrole's responses have been authorised and approved by the Board.

Brett Tucker
Company Secretary
Schrole Group Ltd
E: investors@schrole.com
P: +61 8 9482 0500

Attachment A - Total Annual Sales Revenue



16 September 2020

Reference: 23362

Mr Brett Tucker
Company Secretary
Schrole Group Ltd
Ground Floor
142 Hasler Road
OBSORNE PARK WA 6017

By email: btucker@ventnorcapital.com

Dear Mr Tucker

Schrole Group Ltd ('SCL'): Query Letter

ASX refers to the following:

- A. SCL's prospectus released on the ASX Market Announcements Platform ('MAP') on 21 August 2017 ('Prospectus'), stating that the milestone for the Series B Performance Shares issued to the "Majority Vendors" (as defined in the Prospectus) in consideration for the acquisition of all shares in Schrole Operations Ltd is:

"Schrole achieving total annual sales revenue of \$7,000,000 over any twelve month period prior to the Milestone Date (Series B Milestone)."

The "Milestone Date" being 36 months from the date of SCL's admission to the official list of ASX (which was 11 October 2017).

- B. SCL's announcement titled "Conversion of Series B Performance Shares" released on MAP on 27 August 2020 ('Conversion Announcement'), disclosing (emphasis added):

"Schrole Group (ASX: SCL) ('Schrole' or the 'Company') is pleased to advise that it has satisfied the sales milestone for conversion of its Series B Performance Shares into ordinary shares.

As described in the Company's prospectus released to the ASX on 21 August 2017, the Company issued 93,000,000 Series B Performance Shares as partial consideration for the acquisition of 100% of the issued capital of the Schrole group.

The conversion criteria is upon the Company achieving total annual sales of \$7 million over any 12 month period prior to the milestone date of 12 October 2020.

The annual sales figure is based on gross (invoiced) sales and does not account for unearned revenue and is not recognised in accordance with accounting standards. This satisfaction of this sales milestone should not be considered a revenue forecast.

- C. SCL's announcement titled "Half Yearly Report and Accounts" released on MAP on 30 August 2019, disclosing that revenue for the six months ending 30 June 2019 was \$2,782,350.
- D. SCL's announcement titled "Annual Report to shareholders" released on MAP on 31 March 2020, disclosing that total revenue for the year ended 31 December 2019 was \$5,684,245.
- E. SCL's announcement titled "Half Yearly Report and Accounts" released on MAP on 27 August 2020, disclosing that revenue from ordinary activities for the six months ending 30 June 2020 was \$3,005,507.

Request for information

Having regard to the above, ASX asks SCL to respond separately to each of the following questions and requests for information:

1. Please provide the final “annual sales figure” that SCL used to determine whether the Series B Performance Shares milestone had been met and what twelve month period was used.
2. ASX notes the milestone definition in the Prospectus (paragraph A) makes a specific reference to “total annual sales revenue”. However, the Conversion Announcement refers to “total annual sales”. Please explain why:
 - 2.1 the word “revenue” was omitted from the reference to the milestone in the Conversion Announcement; and
 - 2.2 why SCL considers it acceptable that it has not followed the milestone wording used in the Prospectus.

ASX calculates from SCL’s audited and reviewed financial statements referred to above that, for the 12 month period ending 30 June 2020, revenue was approximately \$5.9m.

3. Please confirm whether satisfaction of the Series B Performance Shares milestone was independently verified.
4. Does SCL consider the market to be fully informed regarding the conversion criteria for the Series B Performance Shares, specifically in relation to using a measure that is not compliant with accounting standards? If so, please identify the announcement in which SCL informed the market of this.
5. Please confirm that SCL is complying with the Listing Rules and, in particular, Listing Rule 3.1.
6. Please confirm that SCL’s responses to the questions above have been authorised and approved in accordance with its published continuous disclosure policy or otherwise by its board or an officer of SCL with delegated authority from the board to respond to ASX on disclosure matters.

When and where to send your response

This request is made under Listing Rule 18.7. Your response is required as soon as reasonably possible and, in any event, by no later than **9:30 AM AWST Friday, 18 September 2020**. You should note that if the information requested by this letter is information required to be given to ASX under Listing Rule 3.1 and it does not fall within the exceptions mentioned in Listing Rule 3.1A, SCL’s obligation is to disclose the information ‘immediately’. This may require the information to be disclosed before the deadline set out in the previous paragraph and may require SCL to request a trading halt immediately.

Your response should be sent to me by e-mail at ListingsCompliancePerth@asx.com.au. It should not be sent directly to the ASX Market Announcements Office. This is to allow me to review your response to confirm that it is in a form appropriate for release to the market, before it is published on the ASX Market Announcements Platform.

Trading halt

If you are unable to respond to this letter by the time specified above, you should discuss with us whether it is appropriate to request a trading halt in SCL’s securities under Listing Rule 17.1. If you wish a trading halt, you must tell us:

- the reasons for the trading halt;

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- how long you want the trading halt to last;
 - the event you expect to happen that will end the trading halt;
 - that you are not aware of any reason why the trading halt should not be granted; and
 - any other information necessary to inform the market about the trading halt, or that we ask for.

We require the request for a trading halt to be in writing. The trading halt cannot extend past the commencement of normal trading on the second day after the day on which it is granted. You can find further information about trading halts in Guidance Note 16 *Trading Halts & Voluntary Suspensions*.

Suspension

If you are unable to respond to this letter by the time specified above, ASX will likely suspend trading in SCL's securities under Listing Rule 17.3.

Listing Rules 3.1 and 3.1A

In responding to this letter, you should have regard to SCL's obligations under Listing Rules 3.1 and 3.1A and also to Guidance Note 8 *Continuous Disclosure*: Listing Rules 3.1 – 3.1B. It should be noted that SCL's obligation to disclose information under Listing Rule 3.1 is not confined to, nor is it necessarily satisfied by, answering the questions set out in this letter.

Release of correspondence between ASX and entity

We reserve the right to release a copy of this letter, your reply and any other related correspondence between us to the market under listing rule 18.7A.

Questions

If you have any questions in relation to the above, please do not hesitate to contact me.

Yours sincerely

Vanessa Nevjestic
Adviser, Listings Compliance (Perth)