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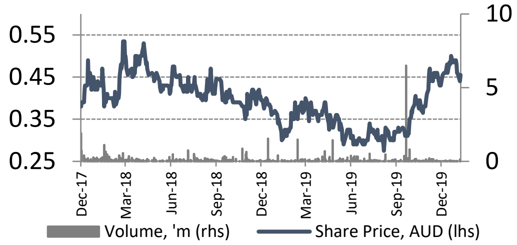
Janison Education (JAN)

1H20 Result: A+ for ARR Growth

Recommendation: BUY	Target Price: 51cps	Market Capitalization: $78m
Index: N/A	Share Price: 43cps	Sector: Technology

Values in AUD'm unless otherwise stated, pre AASB 16 impact

YE Jun	2018A	2019A	2020E	2021E	2022E
Revenue	17.3	22.5	26.0	30.5	35.3
EBITDA	3.2	2.0	4.0	6.8	11.2
U-NPAT	2.0	0.5	0.1	1.3	3.8
U-EPS (cps)	2.3	0.3	0.0	0.7	2.1
U-EPS growth	N/A	(86.0%)	(90.9%)	2,284.3%	198.5%
PE	18.6x	133.0x	1,454.9x	61.0x	20.4x
EV/EBITDA	23.4x	36.3x	19.0x	10.8x	6.0x
Div Yield	0.0%	0.0%	0.0%	0.0%	0.0%



Report HY	1H-19	2H-19	1H-20	2H-20E
U-NPAT	1.0	(0.6)	0.6	(0.2)
Div (cps)	0.0	0.0	0.0	0.0

- **Results and subsequent highlights:** +56% on pcp 1H FY20 ARR growth to $14.4m; Deal signed with Beaconhouse for use of JAN's PBTS platform in Pakistan (6th country since June 2019); Gross margin up 21 percentage points to 46% for 1H FY20 (vs. 24% 1H FY19); Learning gross margin above 60% in 1H FY20 (vs 49% in pcp) due to shift away from low margin implementation revenue; 1H FY20 EBITDA pre AASB16 of $1.0m (vs $0.7m loss in pcp) with earnings weighed to 2H FY20; $2.8m 1H FY20 operating cashflow ($0.3m net of $2.5m spend on capitalised software); 12% reduction in 1H FY20 staff costs (incl. capitalised wages, vs pcp) to $6.65m; 1H FY20 exit cash on hand at $4.2m with no gross debt.

- **Outlook commentary:** JAN has reiterated its FY20 ARR growth guidance (provided at the 2019 AGM) of greater than +25% on pcp, >45% gross margin, >$4m operating cash flow and >$4m EBITDA (inclusive of ~$0.5m AASB16 impact). On a like for like basis, CCZ forecasts a slightly more optimistic $4.5m in FY20 EBITDA.

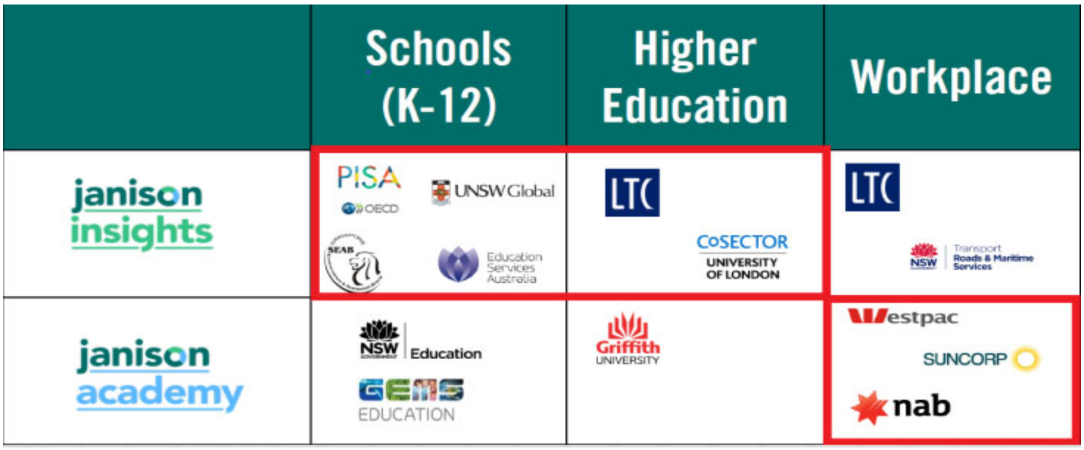
- **Forecasts relatively unchanged:** Forecasts are broadly unchanged from our last published report on 4 Feb'20. We have reduced our FY20 forecasted R&D tax benefit by ~$700k. Our projected gross margin for the learning division has increased from 50% to 60% reflecting the change in revenue mix toward higher margin platform revenues, however this has been offset by a reduction in our FY20 forecast gross margin for the assessments division. CCZ still view the assessments division as having the most exciting growth prospects over medium to longer term. **JAN will benefit from the relationships it is building with governments around the world as assessments become digitised. Signing up further countries to the PBTS platform to drive significant revenue growth at 70%+ gross margins going forward.**

- **Investment thesis reinforced:** The 1H20 performance reinforces our view that the investments both in time and capital made into developing functional and scalable assessment and learning platforms will allow for significant uplifts in revenue with relatively stable fixed costs. Going forward the transition from a project based business to a product based business will drive the shift in product mix from lower margin services revenue (driven by implementation projects which are charged at an hourly rate) to higher margin recurring platform and licensing revenues will improve JAN's profitability.

BACK TO SCHOOL FOR JANISON 101

Janison is an education technology provider providing innovative digital solutions via **two distinct businesses; ASSESSMENTS** (janison insights) and **LEARNING** (janison academy). Over $40m has been invested into expanding the capabilities of JAN's offering over the past 20 years building a solid platform to support future global revenue growth. Services revenue which comes from one off jobs, ie. establishing assessment or learning platforms for clients, has a much lower margin than the recurring platform revenue. As more of the content and services projects (charging based on time to implement and amend systems and content) are completed and converted to platform revenues, JAN will experience an expansion in gross margins and profitability.

Figure 1: Janison Target Market Segments



Source: JAN FY19 Results Presentation, Target segments highlighted in red

CCZ views the Assessments business as having the most exciting growth prospects (represents 62% of revenue in FY19, expect to approach ~70% of revenue in FY20), specifically in the schools (K – 12) and higher education sectors. The **strategic acquisition of pen and paper assessments facilitator LTC** (has relationships with 38 of 42 top AU universities & 20 professional associations incl. CFA) should allow JAN to take advantage as the higher education assessments market becomes digital. Expect ~$500k licensing annual recurring revenue (ARR) for each large university signed.

Since the acquisition of LTC, JAN operates in both the digital and traditional assessments segments. The assessments segment includes diagnostic (before learning), formative (during learning) and summative (after learning) assessments. JAN's focus is on the provision of digital summative assessments and the recent LTC acquisition focuses on the provision of traditional (pen and paper) summative assessments. There are 4 stages to the assessments process: authoring, delivery, marking and analysis. Whilst the traditional method has been used historically, it is possible and increasingly accepted to perform one or more of the steps digitally.

The online enterprise learning segment includes all digital learning and teaching tools used by enterprises for the development of employees. Within the segment, a learning management system (LMS) is often used to deliver the administration, reporting and educational tools. Most of JAN's learning solutions are delivered via an LMS.

OECD PISA AND PBTS ASSESSESSMENT OPPORTUNITIES

PBTS Assessment

In April 2019, **Janison won a 5-year contract from the OECD to provide the PBTS** via their assessments platform beating much larger player Pearson. The PISA-based Test for Schools (PBTS) is a voluntary assessment of 15-year-old students to benchmark and improve education standards.

The PBTS is conducted **each year** and allows schools within countries to benchmark their students against their region, country or the world. This makes it similar to NAPLAN for countries that don't have a test to benchmark education across schools. Under the deal JAN will sign separate agreements with each country that chooses to participate.

10 countries participated in the previous version of the PBTS (pen and paper). JAN have already signed PBTS agreements with Brazil, Russia, USA, Portugal and Pakistan. CCZ estimate that deals are close to be signed for Japan and UAE. It is important to note that Pakistan and Japan did not take the PBTS in its previous format as it shows that any country is a potential customer. Notably, **the 1st year revenues for countries that have already signed is forecast by JAN to be $1.4m, while CCZ believe there is upside risk to this forecast**. 2nd year revenues for these 4 countries could potentially more than double as more schools take the test.

The map released in November 2019 with countries JAN expect to sign in FY20 indicates that the following countries will be signed prior to June 2020: Argentina, Colombia, Japan, Mexico, Pakistan (deal announced today), Qatar and United Arab Emirates. It is worth noting that 5 of these countries did not participate in the previous non-digital method of PBTS testing. **JAN estimate they can sign up 40 of the 80 countries** that participate in PISA, while noting **each country that signs up represents a minimum ARR of $100k! Based on the relationships with individual governments, successful delivery of the PBTS should open doors to provide further digital assessments to various countries.**

Under the terms of the agreement, each country must pay a minimum of €60,000 ($100k AUD) per annum at a 70%+ gross margin which covers 200 schools. Each additional school (avg 100 students) to take the PBTS costs €100. Based on this pricing structure it is possible that some countries will have annual contracts worth over $1m (5,500+ schools) annually to JAN. CCZ believe that the new digital format and analytics will entice more countries to take part in the PBTS program.

Potential revenue impact of PBTS (70%+ gross margin), 40 countries x $250k average = $10m per annum

Potential revenue impact of digitising other paper-based tests in countries where a relationship is built through the PBTS = $500k to $5m revenue per assessment per annum

PISA (Programme for International Student Assessment) Test

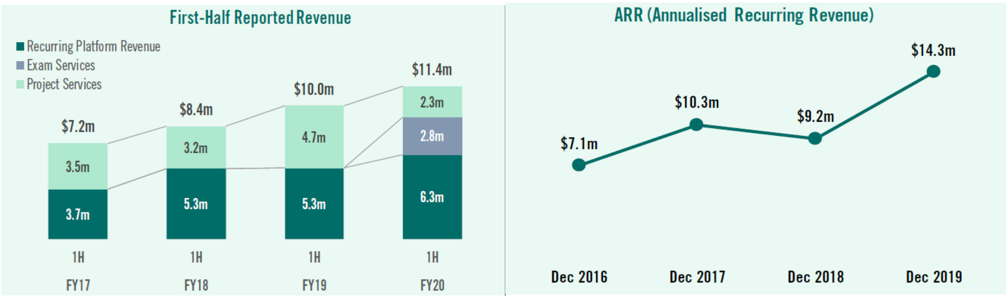
Created by the OECD in 1997, PISA tests the skills and knowledge of 15-year-old students in reading, mathematics and science. The PISA test is conducted every 3 years and focuses on benchmarking countries against each other. Seventy-nine countries and economies took part in the 2018 assessment. For PISA 2021 around 90 countries are estimated to participate. This number is expected to increase further for PISA 2024. Th test is paid for over 3 yearly instalments leading up to year of test. The 2021 test is being run by not for profit ETS.

The 2024 test is up for tender with the winning provider likely to be announced this year. CCZ estimate that the contract will be paid for in equal instalments over 2021, 2022, 2023 and 2024. 90 countries x 210k euros = $31m AUD. **It is possible that Janison will win the tender for the 2024 test this year given they just won the OECD tender for the similar PBTS in 2019 and their relationship seems to be developing well with the quick PBTS rollout.**

Estimated potential revenue impact = average of ~$5m per annum.

The charts below show the impressive growth in ARR and shift in revenue mix from lower margin services revenue to higher margin platform revenue.

Figure 2: Janison Revenue Growth



Source: JAN 1H20 Results Presentation

Figure 3: Janison Market Opportunity

Sector	Schools (K-12)	Higher Education	English Language	Corporate / Lifelong
Clients	PISA for Schools, Education Services Australia, SEAB, UNSW Global, GEMS Education, NSW Education	Deakin, Monash University, Australian National University, CoSector University of London, CQUniversity, Charles Sturt University, Open Universities Australia, University of Wollongong Australia, TTE	British Council, idp	Westpac, Suncorp, nab, nabtrade, NSW Transport Roads & Maritime Services, Sydney Water, AGL, agl, CFA Institute, Defence Force, David Jones, The Royal Australasian College of Physicians, AEC Australian Electoral Commission
Products / Services	janison insights: Digital assessment platform janison academy: Online learning (LMS)	janison insights: Digital assessment platform LTC: Exam services janison academy: Online learning (LMS)	janison insights: Digital assessment LTC: Exam services	janison insights: Digital assessment platform LTC: Exam services janison academy: Online learning (LMS)
Geography	Australia, NZ, Singapore, UK, USA, Russia, Brazil, Spain, Portugal	Australia, NZ, UK, USA, South Africa	Global	Australia, NZ, UAE,
Revenue (FY19)	$9.3M	$3.3M	$0.7M	$9.1M
SAM*	$2.0B *(400,000 schools x $5,000 / school)*	$1.8B *(6,000 institutions x $300k / institution)*	$1.2B *(3.5m tests x $350 per test)[2]*	$0.4B *(1,000 companies x $400k / company[1])*
TAM**	$4.9T	$2.2T	$49B	$500B

Source: JAN 1H20 Results Presentation

Figure 4: CCZ Segment Forecasts

Segment Revenue (m)	2018A	2019A	2020	2021	2022	2023
Assessment Total	9.7	14.0	18.5	22.4	26.8	32.4
Learning Total	7.6	8.5	7.5	8.1	8.5	8.7
Revenue	**17.3**	**22.5**	**26.0**	**30.5**	**35.3**	**41.1**

Sales Growth & GP Margins	2018A	2019A	2020	2021	2022	2023
Assessment - Recurring	92%	29%	58%	45%	34%	32%
Learning - Recurring	17%	-6%	-8%	**13%**	**9%**	**5%**
Project services revenue	-1%	26%	-43%	0%	1%	1%
Exam management revenue			170%	-5%	-5%	-5%
Total Sales	21%	30%	16%	**17%**	**16%**	**17%**
Assessment GP margin	23%	25%	41%	49%	58%	63%
Learning GP margin	58%	52%	60%	58%	59%	60%

Source: CCZ Forecasts

JANISON (JAN.AX)

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Values are in millions and in AUD unless otherwise expressly stated
Latest Published Forecast Date: 13 Feb 2020

Market Capitalization	78m	Index	N/A	Year End	Jun
Share Price (AUD/share)	0.43	Sector	Education	Shares on Issue (m)	181.5

Recommendation	**BUY**	**JAN.AX Investment Thesis**	**A technology leader providing online assessment and learning platforms on the world stage. Beginning to benefit from over $40m spent on IP and significant education and tech tailwinds.**
Target Price (AUD/share)	**0.51**		
Total Shareholder Return	**+18.6%**		

Returns Analysis	2018A	2019A	2020	2021	2022
Underlying EPS (cps)	2.31	0.32	0.03	0.70	2.10
Growth	N/A	(86.0%)	(90.9%)	2,284.3%	198.5%
Wtd Avg SOI (m)	87.2	146.3	178.6	181.6	181.6
PE	18.6x	133.0x	1,454.9x	61.0x	20.4x
PEG	N/A	(1.5x)	(16.0x)	0.0x	0.1x
EV/EBITDA	23.4x	36.3x	19.0x	10.8x	6.0x
EV/EBIT	26.1x	70.4x	472.2x	38.4x	12.4x
Dividend	0.00	0.00	0.00	0.00	0.00
Div Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Franking	N/A	N/A	N/A	N/A	N/A
Payout Ratio	0.0%	0.0%	0.0%	0.0%	0.0%
ROFE	22.3%	3.7%	0.6%	6.9%	17.4%
ROE	29.9%	2.5%	0.2%	5.1%	13.8%
ROA	16.2%	1.7%	0.1%	3.8%	10.6%
Gearing (ND/ND+E)	(39.7%)	(31.4%)	(13.8%)	(22.8%)	(60.8%)
ND/EBITDA	(1.1x)	(3.0x)	(0.8x)	(0.7x)	(1.0x)
EBITDA Interest Cover	(75.7x)	19.9x	65.7x	229.2x	234.0x
Cash Conversion	26.5%	13.6%	125.2%	78.0%	94.8%
Free Cash Yield	(1.0%)	(3.8%)	0.9%	2.3%	8.2%

Balance Sheet	2018A	2019A	2020	2021	2022
Cash & Equivalents	3.6	6.0	3.0	4.8	11.2
Trade Receivables	5.1	7.3	5.4	6.3	7.3
Inventories	0.0	0.0	0.0	0.0	0.0
Other	0.6	0.6	0.6	0.6	0.6
Current Assets	**9.3**	**14.0**	**8.9**	**11.7**	**19.1**
PPE	0.6	0.6	0.7	0.8	1.0
Goodwill	0.2	5.8	5.8	5.8	5.8
Intangibles	2.3	12.6	13.0	11.5	9.8
Other	5.1	5.4	5.2	4.2	2.1
Non-Current Assets	**8.2**	**24.5**	**24.8**	**22.3**	**18.7**
Total Assets	**17.5**	**38.5**	**33.7**	**34.0**	**37.8**
Trade Payables	1.9	7.6	3.8	2.8	2.8
Debt	0.0	0.0	0.0	0.0	0.0
Provisions	0.1	0.1	0.1	0.1	0.1
Other	2.9	5.6	5.3	5.3	5.2
Total Liabilities	**4.8**	**13.3**	**9.2**	**8.2**	**8.2**
Net Assets	**12.7**	**25.2**	**24.5**	**25.8**	**29.6**
Contributed Equity	35.1	47.5	47.5	47.5	47.5
Retained Earnings	(22.4)	(22.3)	(22.5)	(21.3)	(17.4)

Income Statement	2018A	2019A	2020	2021	2022
Underlying					
Revenue	**17.3**	**22.5**	**26.0**	**30.5**	**35.3**
EBITDA	3.2	2.0	4.0	6.8	11.2
D&A	(0.3)	(1.0)	(3.8)	(4.9)	(5.8)
EBIT	**2.9**	**1.0**	**0.2**	**1.9**	**5.4**
Net Interest	(0.0)	0.1	0.1	0.0	0.0
Underlying PBT	2.8	1.1	0.2	1.9	5.4
Underlying Tax	(0.8)	(0.7)	(0.2)	(0.7)	(1.6)
Underlying NPAT	**2.0**	**0.5**	**0.1**	**1.3**	**3.8**
Statutory					
Underlying PBT	**2.8**	**1.1**	**0.2**	**1.9**	**5.4**
One-offs	(23.9)	(1.8)	(1.0)	(0.7)	(0.7)
PBT	**(21.1)**	**(0.6)**	**(0.7)**	**1.2**	**4.7**
Tax	(0.8)	(0.7)	(0.2)	(0.7)	(1.6)
NPAT	**(21.9)**	**(1.3)**	**(0.9)**	**0.6**	**3.1**
Basic EPS (cps)	(25.1)	(0.9)	(0.5)	0.3	1.7
Sales Growth	20.7%	30.0%	15.8%	17.1%	15.7%
Underlying NPAT Growth	78.9%	(76.5%)	(88.8%)	2,325.0%	198.5%
Basic EPS Growth	N/A	(96.5%)	(42.5%)	(163.2%)	438.1%
EBITDA Margin	18.4%	8.8%	15.2%	22.3%	31.7%
EBIT Margin	16.5%	4.5%	0.6%	6.3%	15.3%
Underlying NPAT Margin	11.7%	2.1%	0.2%	4.2%	10.8%

Forecasts excl. AASB16 impact

Cash Flow Statement	2018A	2019A	2020	2021	2022
Cash Received	16.6	21.6			
Cash Paid	(16.2)	(21.8)			
Cash EBITDA			3.7	6.8	11.2
Working Capital Change			1.7	(1.5)	(0.6)
Net Interest Paid	(0.0)	0.1	0.1	0.0	0.0
Tax Paid	0.5	0.2	(0.5)	0.0	0.0
Other	0.1	0.1	0.0	0.0	0.0
Operating Cash Flow	**0.8**	**0.3**	**5.0**	**5.3**	**10.6**
Capital Expenditure	**(1.6)**	**(3.2)**	**(4.3)**	**(3.5)**	**(4.2)**
Acquisitions	(2.7)	(5.0)	(3.2)	0.0	0.0
Other	0.3	0.0	0.0	0.0	0.0
Investing Cash Flow	**(4.0)**	**(8.3)**	**(7.5)**	**(3.5)**	**(4.2)**
Change in Debt	(2.9)	0.0	0.0	0.0	0.0
Change in Equity	9.3	10.4	0.0	0.0	0.0
Dividends Paid	(1.0)	0.0	0.0	0.0	0.0
Other	0.0	0.0	(0.5)	0.0	0.0
Financing Cash Flow	**5.4**	**10.4**	**(0.5)**	**0.0**	**0.0**
Starting Cash	**1.4**	**3.6**	**6.0**	**3.0**	**4.8**
Net Cash Flow	2.3	2.4	(3.1)	1.8	6.4
Ending Cash	**3.6**	**6.0**	**3.0**	**4.8**	**11.2**
Free Cash Flow	**(0.8)**	**(3.0)**	**0.7**	**1.8**	**6.4**

Interim Expectations	2H-19A	1H-20A	2H-20	1H-21	2H-21
Revenue	12.5	11.4	14.6	14.7	15.8
EBITDA	2.6	1.0	2.9	2.6	4.2
EBIT	1.8	(0.5)	0.7	0.1	1.8
Underlying NPAT	1.0	(0.6)	0.6	(0.2)	1.5
NPAT	(0.1)	(1.2)	0.3	(0.2)	0.8
Basic EPS (cps)	(0.05)	(0.67)	0.15	(0.12)	0.44
Dividend	0.00	0.00	0.00	0.00	0.00
Gearing	(31.4%)	(15.9%)	(13.8%)	(15.3%)	(22.8%)
Cash Conversion	105.4%	232.5%	80.5%	71.4%	82.7%
Sales Growth	25.5%	(9.0%)	28.5%	0.5%	7.2%
EBIT Margin	14.5%	(4.5%)	4.6%	0.8%	11.4%

Forecasts excl. AASB16 impact

Valuation	2019A	2020	2021	2022
EV/EBITDA multiple (fwd)		10.0	10.0	10.0
Valuation / Share		0.25	0.40	0.64
EV / Revenue Multiple (bkwd)	5.0	5.0	5.0	5.0
Valuation / Share B	0.66	0.75	0.86	0.99
Valuation		**0.51**		

Substantial Shareholders	
W & J Houlden Entities	39%
Perennial	14%
T Richardson Entities	11%
Australian Ethical	7%

Disclosures

Shareholding in Reported Stock(s)	Personal Holdings	Family Holdings	Investment Banking	Other Conflicts
Publishing Analyst	Yes/~~No~~	~~Yes~~/No		
Head of Research	~~Yes~~/No	~~Yes~~/No		
Company: CCZ Equities	~~Yes~~/No		~~Yes~~/No	~~Yes~~/No

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