

One on One Educational Services Limited

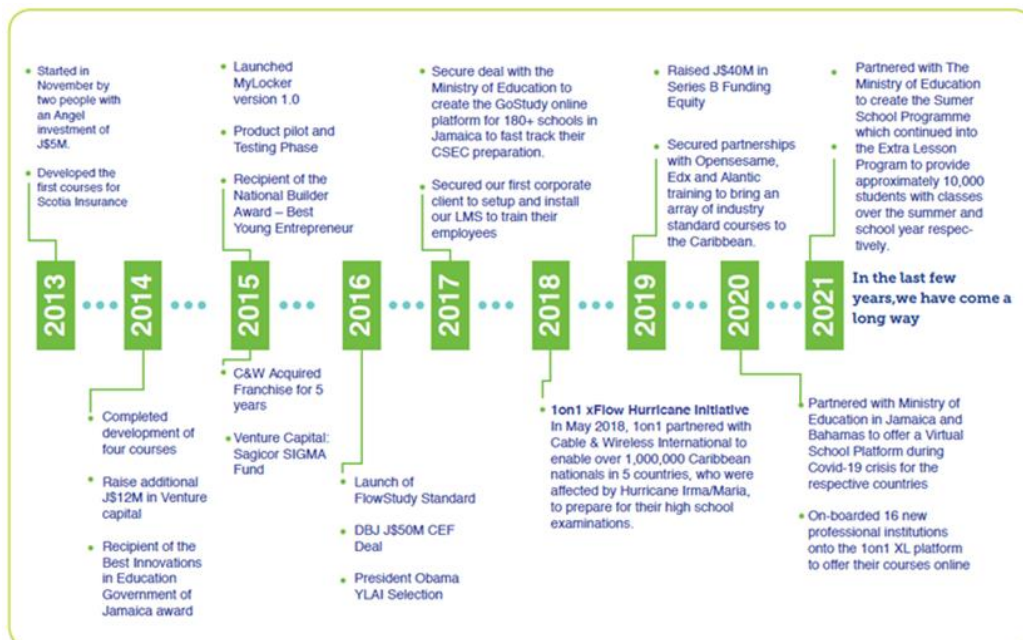


One on One, the learning platform, was incorporated in Jamaica in 2013 and commenced operations approximately two years later in 2015. In 2017, the company changed its business model from one which provided a face-to-face learning experience to its customers, to a full enterprise electronic learning company delivering its services predominantly to businesses and governments across the region.

In 2020, at the onset of the COVID-19 pandemic, the company was engaged in Jamaica, the Bahamas, St. Kitts & Nevis and Antigua and Barbuda among other countries to utilise its enterprise-grade technology and learning content to connect students and teachers at all grade levels. They were also contracted by colleges and universities to deliver COVID-19 contact tracing courses across the region.

Essentially, One on One is now a technology platform providing solutions to some of the real challenges faced locally and around the region in delivering education. Perhaps the most appropriate demonstration of this has been its Classroom-in-a-box and exam-in-a-box solutions. This innovation allows students in low or no internet environments to access internet-based learning resources and content offline. The technology allows a school to “download” parts of the internet on a micro-server, place it in a remote area, and then allow students to connect to it as they would to a regular Wi-Fi connection. One on One is now poised to deliver offline learning hardware to the most vulnerable communities across the region, and to other parts of the world.

Following several rounds of capital raises and key partnerships, with some of Jamaica’s most recognizable companies and regional governments, One on One is the latest entity to seek funding from the public by way of an Initial Public Offering.



IPO



Key Features

Offer Price	J\$1.00
Estimated Fair Value	J\$1.83
Implied Discount	45.60%
Forward EPS	J\$0.067

SUMMARY

One on One Educational Services Limited is seeking to raise J\$358,250,000.

- No of shares offered 380,000,000 Ordinary Shares @ ~J\$1.00 per share. This offer includes Reserved Shares of 258,750,000.
- If successful, the Company will apply to the JSE for the Shares to be admitted to the Junior Market

Contact a Financial Advisor Today!!

(876) 929-7159

Or

Schedule an appointment

Invitation Details

www.jnfunds.com

One on One Educational Services Ltd. is inviting offers for the subscription of **up to 380,000,000** Ordinary Shares at prices of **J\$1.00 and J\$0.80**. Please see the Summary of the Terms of the Offer for more details. If the offer is fully subscribed, the number of issued shares after the completion of the IPO will be **1,900,000,000**.

Summary of Offer Terms						
Company	One-on-One Educational Services Ltd.					
Arranger / Lead broker	Sagikor Investments					
Shares the Subject of the Invitation	Up To 380,000,000 Ordinary Shares					
Offer Open	9:00 a.m. on August 12th, 2022.					
Closing Date	4:30 PM August 19th, 2022					
Pool	Conversion Reserve	Key Strategic Partners	Sagikor Reserve	Teachers and Trainers	Employees Reserve	General Public
Price	J\$0.80	J\$1.00	J\$1.00	J\$1.00	J\$1.00	J\$1.00
Share Allocation	108,750,000	60,000,000	30,000,000	30,000,000	30,000,000	121,250,000
Use of Proceeds	The proceeds will be used to: (i) investing in next generation learning content for new and existing markets (ii) Invest in the Company's adaptive learning technology that utilizes machine learning and artificial intelligence ideas to personalize learning and to increase the company's working capital reserves (iii) the Company may also use a portion of the net proceeds to acquire complementary businesses, products,					
Minimum Share offering	1,000 Shares, with increments of 100 Shares thereafter					

Corporate Governance

The board comprises seven (7) members; one (1) Executive Director, two (2) Independent Directors, and four (4) Non-Executive Directors. Global best practices recommend that most directors be independent as they are more likely to consider the best interest of shareowners

first¹. In theory, independent directors will not be subject to pressure, and therefore are more likely to act in the shareholders' interests when those interests run counter to those of entrenched management. The directors appointed to the board of One on One come with varied background including manufacturing, finance and technology. The mentor appointed to guide the company is Douglas Orane who has significant experience as a leader of industry in Jamaica.

DIRECTORS		
Independent	Executive Directors	Non-Executive Directors
Tyrone Wilson	Ricardo Allen	Michael Bernard
Carol Granston		John Bailey
		Karen Vaz
		Mischa McLeod-Hines

¹ <https://www.cfainstitute.org/en/advocacy/issues/board-independence#sort=%40pubbrowsedate%20descending>

One on One business Model in 2022

The One on One company has two distinct segments. One is geared to its business customers and the other targets individuals.

- I. **The Business to Business (B2B) segment** – This includes the company's delivery of its learning management system (LMS) which allows companies to quickly deliver live and on-demand training online. It also licenses its online learning technology to multinationals to build out their own eLearning initiatives. Its Educational Management Information System (OpenEMIS) is a product that it deploys to governments in developing countries. Typically, One on One is paid to customize the software and integrate it with its learning management system. It uses the software to digitalize information and processes, effectively providing governments with real-time access to data and information on its education system. Additionally, the B2B segment delivers highly customized training content to its business clients and forms the core of One on One's product offering. This E-learning product line allows them to offer rapid course development, custom course creation, simulation-based training programme, induction training, mobile learning content, compliance training, gamification-based assessment and content based on training activities to their corporate clients. The fee charged for this service is based on customization level while in terms of the LMS platform, the company licences its software and off-the-shelf content for an annual fee which is charged per employee using the system. The license fee will vary based on the number of employees in an organisation.
- II. **The Business to Consumer (B2C) segment** – The One on One for Students and Teachers includes the OneX product, an exponential business model where it connects knowledge sharers (teachers) with knowledge seekers (students) for a fee. The fee is charged for each hour of tutoring booked and students are charged a membership fee to subscribe to its premium content. The company's One for Professionals Platform will allow trainers and training organisations to use its online learning platform to create, manage, market, and sell their online courses. One on One's intent is to build a community of professionals across the region who will receive personalized career tracks on its platform. For this, One on One charges the professionals a percentage of the cost for each course sold.



Financial Analysis

Revenue & Profitability

In its most recently completed financial year One on One reported record revenues of more than J\$250 million and profits of J\$67.45 million. Over the five-year period up to FY 2021 revenues grew by a compound annual growth rate (CAGR) of 76.41%. This growth was mainly driven by the company's pivot from its face-to-face model which existed prior to FY 2017 to a fully technology-based platform, targeting large businesses and governments across the region. This move led to an expansion in the company's margins with the Gross margin moving from 50.42% in FY 2017 to 83.81% in FY 2021. For the nine-month period ending May 30, 2022, One-on-One's Gross profit margin saw further improvement as its direct costs declined from J\$34.01 million to J\$11.60 million on top of a 23.67% growth in revenues. At the end of the nine months the company reported revenues of J\$194.41 million.

Other income for the technology company was J\$2.12 million in FY 2021. This reflects the income from interest received on its bank balances and grants received by the company. In the nine-month period ending May 31, 2022, other income came in at J\$9.49 million for a growth of over 400%.

Administrative and General Expenses were J\$144.84 million in FY 2021 following growth at a CAGR of 48.90% over the five-year period. Its general and administrative expenses are related to legal, finance, and HR-related costs as well as indirect taxes, professional fees, and other corporate expenses. Due to the rapid expansion of the company's top line coupled with modest growth in costs the company's operating efficiency saw significant improvement over the five years with the company reporting an efficiency ratio of 54% in FY 2021 down from the 106% reported in FY 2016. Essentially, the efficiency ratio shows the amount of the revenues the firm uses to cover its expenses and as a result, a lower ratio implies that the company is improving in this regard. Over the nine-month period ending May 31, 2022, the company reported an efficiency ratio of 68% which was a slight improvement over the 67% which was generated over a similar nine-month period in FY 2021.

One and One's Finance cost was J\$13.65 million in FY 2021. In addition to loan interest, its finance cost includes foreign exchange (gains)/losses which generally account for the lion's share of this charge annually. In FY 2021, loan interest was J\$11.28 million following a growth of 73.59% over the J\$6.50 million recorded in FY 2020. It is important to note that in FY 2021 One on One's long-term loans (Debt) more than doubled and close that year at ~J\$119 million up from just under J\$50 million. It is anticipated that a significant portion of this balance will be extinguished as the noteholders (Sagicor & PanJam Investments Ltd.) are expected to convert the sums owed to them to equity in this IPO.

If nowhere else, the significant knock-on effects of the pivot to a technology-based platform in FY 2017 can clearly be seen in the company's bottom line. In FY 2017 the company reported a net loss of J\$29.32 million and showed an impressive turnaround by FY 2021 following two successive years of profit growth and record profits of J\$67.45 million in that year. The net profit reported for the nine-month period up to May 31, 2022, was J\$40.04 million, 171.19% above the J\$14.76 million seen in the prior year.

Balance Sheet

As at the end of FY 2021, One on One's Asset base stood at J\$326.90 million, a growth of ~151% above the amount reported at the end of the previous year. The majority of the year-over-year growth in assets was seen in Current Assets where the company's Trade and Other receivables jumped from just J\$8.26 million to J\$114.22 million. At the end of the nine-month period ended May 31, 2022, the company reported outstanding receivables of J\$126.75 million. A large portion of the receivables represents sums owed by regional governments and the company expects these amounts to be settled within four months.

Significant growth was also recorded in non-current assets with Intangible Assets moving up by J\$62.44 million from J\$77.38 million. One on One's intangible assets have increased from FY 2019 through to FY 2021 and consists of additions to its software, platform, content, and video development. At the end of May 2022 intangible assets climbed to J\$139.82 million.

As at the end of FY 2021, One on One's Total liabilities stood at J\$226.56 million, this following growth of J\$129.13 million or 132.52%. Most of the Y-o-Y growth was seen in its Non-current Liabilities category which saw a growth of J\$72.02 million following the jump in long term loans. Y-o-Y, long term loans increased by J\$70.54 million. During FY 2021, the company borrowed J\$75 million from two entities with a plan to covert these obligations to equity by way of an IPO (the subject of this review).

Current liabilities increased by J\$57.10 million in FY 2021 with Trade and other payables accounting for most of this growth. As at the end of the nine-month period ended May 31, 2022, total liabilities were reported at J\$260.46 million. One on One's long-term loans saw a further increase following the acquisition of a new loan from PanJam (J\$15 million) and an expansion in the loan facility outstanding with Sagicor Bank Ja. Ltd. This loan balance at Sagicor was reported at J\$44.77 million at the end of FY 2021 and grew to J\$71.70 million at the end of the nine-month period.

Over the years the company used a combination of debt and equity to finance its growth. Following several rounds of recapitalization and strong net profits, shareholders' equity which was negative up to the end of FY 2019 turned positive in FY 2020 and climbed to J\$100.34 million. Following the strong profits generated in nine-month period ending May 31, 2022, shareholders' equity was reported at J\$140.38 million.

Valuation Analysis

To arrive at a fair price for the One on One shares we used the Price to Earnings (P/E) method. The appropriate average P/E ratio was calculated by looking at the companies that were listed on the JSE (Junior Market) within the last three years. The average P/E of the subset of listed entities was 27.36x. One on One's forward P/E was calculated at \$0.067 and when multiplied by the average P/E for the entities recently listed on the Junior market, a fair price of J\$1.83 was determined. As the shares are being offered to the general public at J\$1.00 per share, the stocks on offer at IPO are undervalued.

Investment Positives and Negatives

Investment Positives

High Growth Potential: In addition to the fact that content creators have increased substantially over the last two years, providing a significant market for One on One's B2C offering locally, the company plans to expand aggressively into the region.

Efficient Technology Platform: Given that its backbone is built on technology, this facilitates significant scaling as the company grows. Additionally, with an efficiency ratio averaging less than 55% between FY 2022-FY 2022 and projected to improve to around 50% in 2023, its net profit margin could see significant expansion in short term.

Strong Value Proposition: One on One provides various solutions targeting real long-standing problems in Jamaica and many parts of the region. These include low internet penetration and the overall inequity in the delivery of quality education. Its solutions also assist various businesses and governments to mobilize online learning efficiently and therefore minimize cost.

High Potential for Short-Term Gain: Given the relatively low number of shares being offered to the public and the demand estimated for this stock, the IPO is likely to be oversubscribed. If this happens, there is a strong possibility that after listing the share price could advance given that the demand from the IPO is likely to carry over after listing in the short term.

Attractive Valuation: The shares are being offered to the public at J\$1.00 per share while the estimated fair value is J\$1.83. This implies that the stock is being offered at a discount of ~45% to the fair value.

Forecasted Low Debt Platform: As at the end of the nine-month period ended May 31, 2022, the company's total debt stood at ~J\$162 million. Given the expectation that \$75 million will be converted to equity and other loan facilities are expected to be extinguished over the short term, the D/E ratio which stood at 1.19x at the end of May 2022 is projected to fall substantially, providing significant room (compared to its peers) to recapitalize with debt capital to provide for future growth and expansion if required.

Investment Negatives

Keyman Risk: This arises from One on One's seeming heavy reliance on one or few individuals in the company's leadership to drive the growth and strategy. To mitigate this risk, there is life insurance in place in the amount of US\$1.0 million.

COVID-19 and the Economy: The pandemic and measures to control it have resulted in severe disruptions to economic activity, consumers' spending patterns, and business operations. The nature, scale, and timing of the risks from the pandemic vary and further restrictions could negatively impact the company's operations and profitability.

Price Risk: The trading activity could result in the stock's price fluctuating without regard for the operating performance of One and One and cause the stock price to remain below its fair value for an extended period, generating lower returns for the investor.

Analyst's Opinion

One on One has evolved into an efficient technology firm using its diversified platform to improve the educational landscape in Jamaica and the region. Today, One on One is among the largest online learning companies in the Caribbean, providing its proprietary online learning platform and content to governments, businesses, and individuals across fifteen countries and impacting over 250,000 learners over the past two years.

Since its pivot, away from its face-to-face model in FY 2017, One on One has seen significant improvement in its business' economics almost annually and, armed with its robust technological platform, has benefitted greatly from increased usage during the pandemic. The pivot has also brought about an exponential improvement in the company's economic position. For example, revenues which were only around J\$28.0 million in FY 2017, grew to J\$268.82 million in FY 2021 at a CAGR of 76.41% and are projected to reach over J\$400 million in FY 2023. This change also led to significant margin expansion which when combined with the significant revenue growth, led to the company delivering consecutive years of net profits in FY 2020 and 2021.

The outlook for the company is positive and we expect One on One to continue its current growth trajectory. This IPO is expected to strengthen the company and reduce its debt level, allowing it to invest in next-generation learning content and adaptive learning technology thus combining modern technology with its core competence of delivering personalized learning to its learners. In 2021, the company decided to re-enter the individual e-Learning market which is expected to diversify the current enterprise-only environment and provide the platform with rapid growth, regionally.

We have an estimated fair value of One on One's stock at J\$1.83, implying that the shares are undervalued and investors who invest at the IPO could get a discount of ~45%. Based on this and the foregoing analysis, we recommend that investors **PARTICIPATE** in this offer and we assign a **Medium to High risk** rating to the stock.

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