



ASX:JAN

Strategic Acquisition of LTC

March 2019



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Although Janison Education Group Limited believe that these measures provide useful information about the financial performance of Janison Education Group Limited, they should be considered as supplements to the income statement measures that have been presented in accordance with the Australia Accounting Standards and not as a replacement for them.

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Janison is expanding its reach into the Higher Education and Certifications markets

- Janison has entered into an agreement to acquire **LTC Language & Testing Consultants Pty Ltd (“LTC”)**
 - LTC provides in-person exam invigilation services to c.40 large domestic and international clients. Services includes venue hire, equipment, invigilation staffing and management supervision
- Purchase price of \$8m plus an earn-out based on FY19 normalised EBITDA of LTC
- The acquisition represents:
 - A continuation of Janison’s strategic expansion into the **Higher Education** and **Certification** segments
 - Access to a large number of significant, long-term, trusted account relationships
 - A vertical integration into the exam invigilation segment
 - >40% EPS accretive on a pro forma basis in the first year
- Completion date: **1 April, 2019**

Transaction summary

	Cash	Shares	Total
Upfront Payment	\$4.5m	\$2.0m	\$6.5m
Deferred Payment	\$1.5m	--	\$1.5m
Consideration	\$6.0m	\$2.0m	\$8.0m
Earn-out Payment (estimate) ¹	\$3.3m	\$3.3m	\$6.6m
Total	\$9.3m	\$5.3m	\$14.6m

- Purchase price: approximately \$8m + \$6.6m potential earn-out (total \$14.6m subject to earn-out)
- Upfront shares issued at \$0.33 per share and escrowed for six months
- Earn-out shares issued in August 2019 at the 30 day VWAP prior to 30 June 2019 and held in escrow for a further 6 months
- 5.715x earn-out multiple on FY19 normalised EBITDA in excess of \$1.65m (LTC FY19 EBITDA forecast: \$2.8m)
- LTC pro forma revenues of \$5.1m in FY18 and normalised FY18 EBITDA of \$1.7m, FY18 EBITDA margin of 33%
- Profitable and growing business, privately owned
- Key management personnel retained with the business

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Overview of LTC

LTC is the largest examination services provider in Australia. It is highly regarded as a secure service provider able to facilitate customisable end-to-end exam management services ranging from 1 to 8,000 students per sitting.

- Established in 1988
- Family-run business until 2016
- Headquartered in Sydney with operations across Australia and NZ
- Holds strong, long-standing relationships with c.40 large clients
- Top 13 customers' average relationship is 14.5 years
- Key clients include; large Australian universities, international professional bodies delivering qualifications in the post graduate sector and international universities



Financial performance of LTC ¹

Revenue

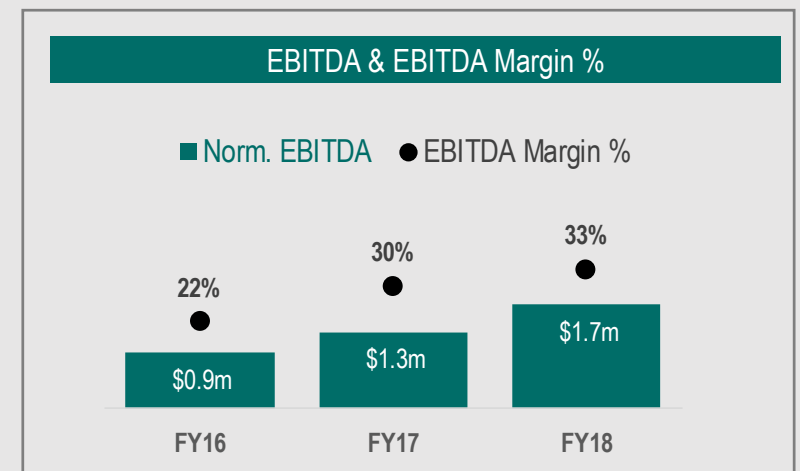
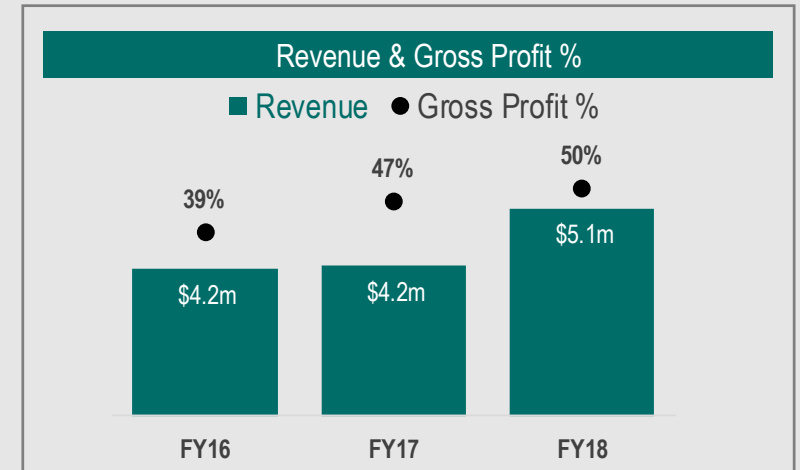
- Revenue growth of 20% in FY18 primarily driven by client expansion (additional assessment subjects), candidate growth and new client wins
- Revenue consists of the marked-up cost of staff supervision (invigilation), equipment hire, venue hire and management services
- Services are provided on a purchase order basis

Gross Margin

- Gross margin improvement of 3.1pps in FY18 driven by an increase in special condition test environments (higher staffing ratio), client mix improvement and an improved pricing process

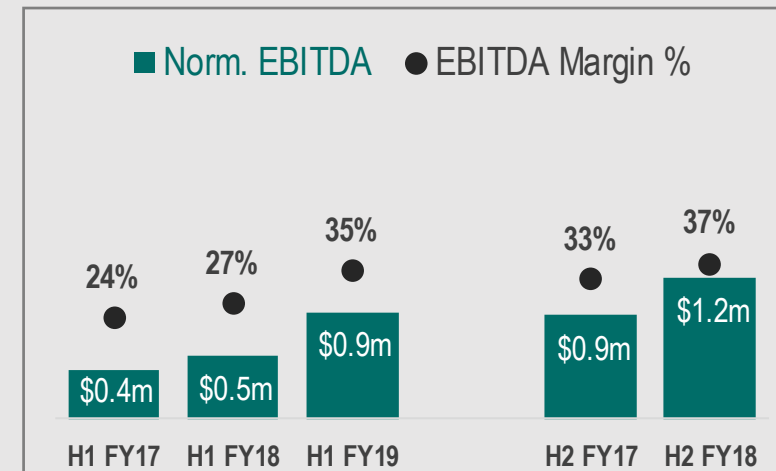
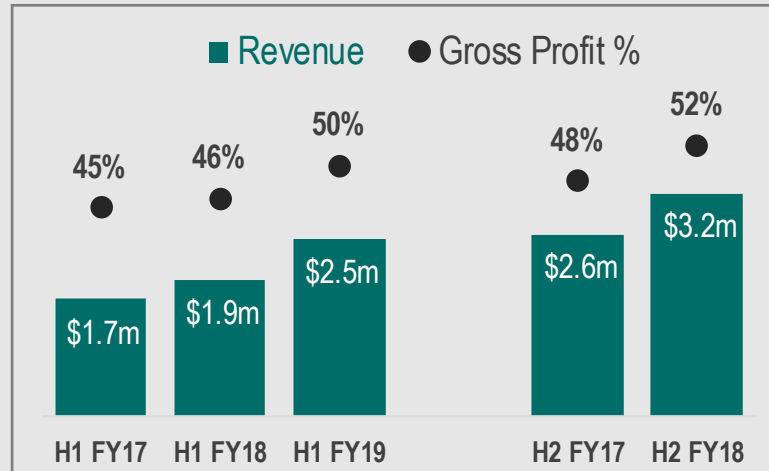
EBITDA

- EBITDA growth of +\$0.4m (+35%) in FY18 from revenue gains and scale benefits from a low fixed cost base.



¹ Based on LTC unaudited FY18 accounts

Recent half year performance of LTC ¹

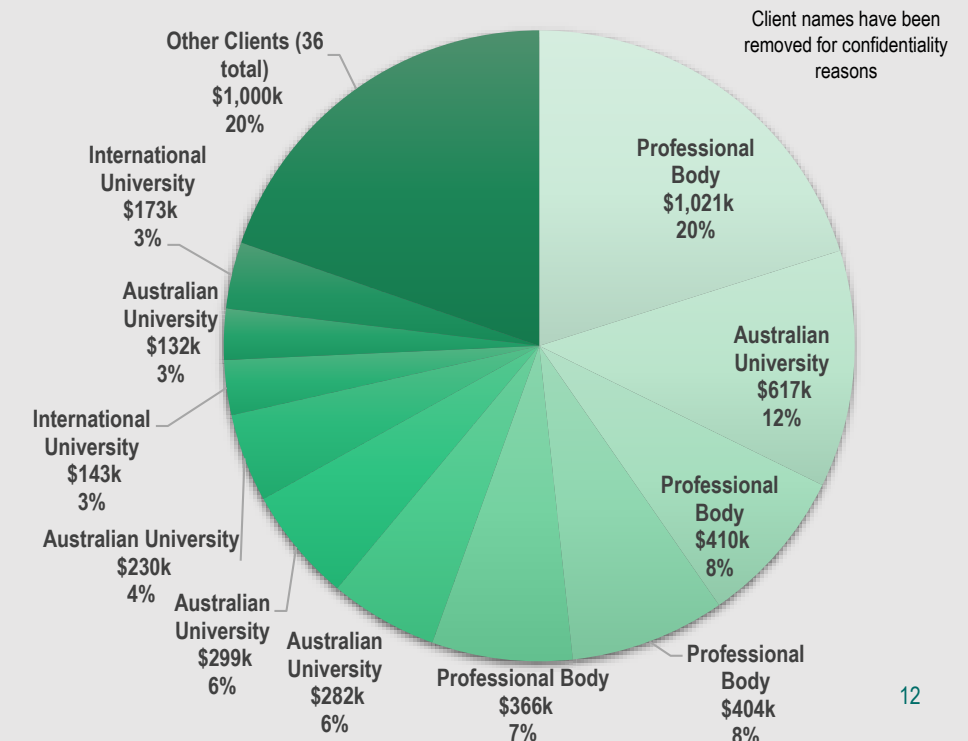


- 30% growth in revenue for first half FY19 driven by growth in candidate numbers and broader share of existing clients' assessments.
- Revenue in the second half is traditionally **60%** of full year revenue (first half: 40%).
- Gross Margin % improvement of 3.9pps in H1 FY19 driven by a favourable client mix and additional special condition test environments (increased supervisor ratio).
- EBITDA growth of **\$0.35m** (+67%) in H1 FY19 from revenue growth, scale benefits of a low fixed operating cost base and margin improvement.

Customers

- Nearly all LTC clients are new to Janison
- 58% (by count) of clients in FY18 were universities, the remainder being professional bodies
- University client revenue grew 14% in FY18, the remainder grew at +20%
- The top 11 customers account for 80% of FY18 revenue and the top 3 account for 40% of revenue

Client Name ¹	(in \$000s)		Change YoY	Cumulative Revenue (FY18)
	FY17 Revenue	FY18 Revenue		
Customer 1 - Professional Body	\$ 739k	\$ 1,021k	+38%	20%
Customer 2 - Australian University	\$ 538k	\$ 617k	+15%	32%
Customer 3 - Professional Body	\$ 388k	\$ 410k	+6%	40%
Customer 4 - Australian University	\$ 381k	\$ 404k	+6%	48%
Customer 5 - Professional Body	\$ 238k	\$ 366k	+53%	56%
Customer 6 - Australian University	\$ 299k	\$ 282k	(6)%	61%
Customer 7 - Australian University	\$ 251k	\$ 299k	+19%	67%
Customer 8 - Australian University	\$ 281k	\$ 230k	(18)%	71%
Customer 9 - International University	\$ 153k	\$ 143k	(6)%	74%
Customer 10 - Australian University	\$ 147k	\$ 132k	(10)%	77%
Customer 11 - International University	\$ 65k	\$ 173k	+168%	80%
Other Clients (36 total)	\$ 863k	\$ 1,000k	+16%	100%
	\$ 4,342k	\$ 5,077k	+17%	



¹ Client names have been removed for confidentiality reasons

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Opportunities for Growth

- LTC's strong client relationships provide Janison a significant opportunity to grow its customer base on Janison's Assessment product.
- LTC's test centres provide a full-service examination solution for Janison's clients, reducing sales friction and de-risking the online transition.
- LTC brings expertise in event management and exam invigilation which will complement and broaden Janison's service offering.

New Services & Cross Learning

- Janison can expand LTC's service offering with digital authoring, marking, student identification tools and remote proctoring.
- Janison provides expertise in digital assessment testing and can complement LTC's current offering with an automated and efficient service for its clients and students, reducing the environmental impacts of paper based testing and reducing the examination process timeline.

Accretive Acquisition

- LTC generates free cash flow of c.\$2m p.a. and has growing revenues of c.\$6m p.a.
- Janison expects the acquisition to be >40% EPS accretive on a pro forma basis in the first year

Strengthened Reputation & Common Values

- LTC (30 years of operation) is highly regarded among its clients for the same values and reputation as Janison (20 years' operation):
 - Trustworthiness / Reliability
 - Customer Service
 - Customised Secure and Scalable Solutions

Within the Higher Education sector, Australian universities have the potential to generate \$26m revenue per year

University	Students ('000)
Monash University	69.4
RMIT University	59.4
University of Melbourne	57.8
University of Sydney	57.6
University of New South Wales	52.3
Deakin University	51.3
University of Queensland	49.5
Curtin University	48.4
Queensland University of Technology	47.3
Griffith University	44.2
Western Sydney University	43.8
Macquarie University	39.4
University of Technology Sydney	39.4
Charles Sturt University	

1.3m students

Enrolled in Australian universities¹

X

\$20 per student p.a.

Test revenue

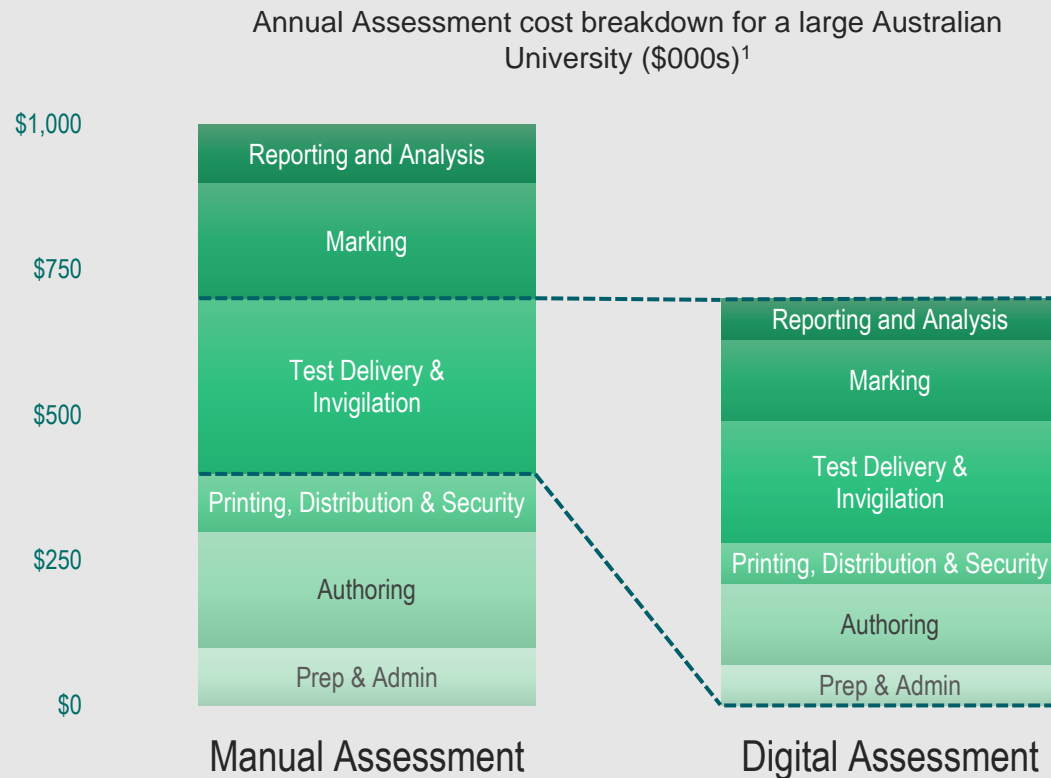
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\$26m

Addressable assessment market across Australian universities

Digitisation enables Janison to capture a greater share of wallet within universities

The test is only one component in the university assessment process:



\$400k

Incremental Revenue
per University²

43

Universities in Australia³

¹ 'Large' is defined as greater than 20,000 students. The total cost and breakdown is an approximation and may vary depending on several factors such as the number of students, test complexity and frequency and whether elements are conducted in-house or outsourced.

² \$400k is the amount of additional revenue Janison believes it can extract from the current total annual assessment spend by transitioning the assessment process to a digital solution and capturing all associated ancillary services (e.g. marking and reporting) in addition to the test itself.

³ In 2018, source: docs.education.gov.au/

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Transaction funding and pro-forma financials

Acquisition Terms

Purchase Price	Janison has entered into an agreement to acquire 100% of the shares of LTC HoldCo Pty Ltd (the parent entity of LTC Language & Testing Pty Ltd) for an upfront consideration of \$8.0m plus an earn-out based on 5.175 x LTC normalised FY19 EBITDA in excess of \$1.65m (estimated at approximately \$6.6m based on LTC forecast normalised EBITDA) payable in cash and Janison shares.
Completion Date	The acquisition is expected to complete by 1 st April 2019.

Sources and uses of funds

Sources of funds	\$ million
Internal Cash	3.7
Placement Funds	6.0
Shares Issued to Vendors	5.3 ²
Total	15.0¹

Uses of funds	\$ million
Cash Purchase Consideration for LTC	9.3
Share Purchase Consideration	5.3
Transaction Costs	0.4
Total	15.0¹

¹ Note: Total cost is approximate and may vary depending on the earn-out amount

² Based on assumed earn-out of \$6.6m based on LTC forecast FY19 EBITDA of \$2.8m

Pro forma combined Balance Sheet

	Pro forma Balance Sheet (31 Dec 2018)			
	Janison	LTC	Net Adjustments	Pro forma
Cash ¹	\$6.8m	--	\$1.1m	\$7.9m
Receivables & Unbilled Revenue ¹	\$6.2m	\$1.3m	--	\$7.5m
Fixed Assets	\$0.6m	\$0.2m	--	\$0.8m
Other Assets (incl. DTA)	\$6.2m	\$0.2m	--	\$6.4m
Goodwill & Intangibles	\$3.6m	--	\$13.2m	\$16.8m
Total Assets	\$23.4m	\$1.7m	\$14.3m	\$39.4m
Trade and Other Payables	\$2.6m	\$0.1m	--	\$2.7m
Deferred Consideration and Earn-out ²	--	--	\$8.1m	\$8.1m
Other Liabilities	\$3.9m	\$0.2m	--	\$4.1m
Total Liabilities	\$6.5m	\$0.3m	\$8.1m	\$14.9m
Total Equity	\$16.9m	\$1.4m	\$6.2m	\$24.5m

¹ Cash adjustments represent equity placement of \$6m minus transaction costs and initial purchase consideration. Cash has been pro forma adjusted for receivables received in Jan 2019.

² Adjustments represent the estimated deferred and earn-out component of the total purchase price. This includes a deferred cash payment of \$1.5m, a cash earn-out of approximately \$3.3m and an estimated scrip earn-out of \$3.3m. Note, these amounts have not been discounted to their present value.

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Placement Offer	<p>An equity raising comprising a placement (the Offer) of approximately 18.2m fully paid ordinary shares (Shares) to raise \$6.0m (before costs) at an issue price of \$0.33 per Share.</p> <p>The shares under the Placement will be issued utilising the Company's existing capacity under ASX Listing Rule 7.1 and 7.1A.</p>
Scrip to vendors	<p>Issue of \$2.0m of Shares at completion to the vendors of LTC at \$0.33 per Share – approximately 6.1m Shares.</p> <p>Issue of approximately \$3.3m of Shares to the vendors of LTC under the earn-out (following the finalisation of the FY19 accounts) at an issue price equal to the 30 day VWAP prior to 30 June 2019.</p> <p>Shares are subject to a 6 month escrow period from the date of issue for each tranche of shares</p> <p>The shares under the acquisition will be issued utilising the Company's existing capacity under ASX Listing Rule 7.1</p>

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- **Contracting risk**

Only a few of LTC's existing customers are under contractual obligations. There is a risk that clients may decide not to continue using LTC's services, adversely impacting revenue and earnings. Since the average length of relationship with the Company's top 10 clients is over 14 years management believe this to be a low risk. Following the acquisition Janison will endeavor to introduce contractual agreements where possible.

- **Employee risk**

LTC relies on the experience and knowledge of a small group of key management personnel. Should these employees decide to terminate their employment with LTC it may adversely impact future revenue and earnings. As a condition of the acquisition, all staff including key management personnel will be appropriately incentivized to remain with the company in the short term and long term. All permanent staff will also transition to a Janison Solutions employment agreement.

- **Competition risk**

The education technology industry is a highly competitive global industry. LTC is subject to risk from competitors, including the introduction of digital technologies and price reductions from existing comparative businesses which could adversely impact revenue and earnings. Management believe there are a number of barriers to entry within this marketplace which appropriately protect against competition in the medium term. The strength of existing relationships and the value clients place on reliability over price also positions LTC well to weather competitive forces. Janison's acquisition is also an effort to 'future-proof' the LTC business by enabling it to provide a full digital assessment solution to its existing clients whilst retaining their current earnings by providing a physical presence and supervision services to conduct computer-based tests.

- **Execution risk**

LTC's underlying business is dependent on its ability to retain existing clients, extract additional business from these existing clients and attract new clients. If the strategy around the retention or attraction of clients is poorly executed, results could face downside risk. Management and the Board continuously provide governance and monitoring of the business to ensure it retains existing clients and is appropriately resourced to acquire new business.



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