23rd May 2017

Mayfield Childcare Limited
Annual General Meeting
Level 4, 91 William Street Melbourne VIC 3000

Chief Executive Officer Report

I am delighted to present my first report as the Chief Executive Officer of Mayfield Childcare Limited

Mayfield listed on the ASX on the 30th November 2016, and in our first six months of operation the Board and Management have delivered on our integration plan. We have settled and integrated 16 centres with many renovated and/or refreshed. We have established our head office along with the functional systems and processes to run an effective operation. We've managed the regulatory focus that comes with so many centres changing ownership to a single operator, and most importantly we have engaged with the many hundreds of families that we provide quality education and care for, much to their satisfaction.

Business Performance

Overall the business is performing well and is in line with our full year profit forecast as outlined in the original prospectus. As has been widely reported, occupancy is down across the sector in the first half of calendar 2017, and Mayfield has experienced the same trend, particularly with our smaller trade-up centres.

A number of factors have contributed to this, including a late start to the school year, a record number of centre openings in the first quarter, and a slower than usual April, with the overlap of school holidays and Easter. Lastly, as is the case each year, parent's Rebates begin to run out each financial year, though this year seems particularly challenging in some areas of Melbourne, as the real value of the Rebate has diminished over time.

However, our enrolments are now increasing on the back of consistent promotional activity aimed at both existing and new parents, and we are expecting a strong second half.

Most importantly, our larger centres which underpin the portfolio are performing well with occupancy sitting at 80% in line with forecast. Of note, our most profitable centre, which was bought at 100% remains at this level. Similarly our mid-tier centres continue to grow as planned. Though as indicated, some of the trade-up centres are below expectation, while they are small centres, with continued promotional effort we are confident of turning them around.

As previously advised, Mayfield operates a funded Kindergarten program at 15 of our 16 centres. While Mayfield has been approved for this additional funding, it is typically paid to centres in May/June of the calendar year, retrospectively from January. Notification received from the Department will see these monies flow through in June, representing approx. $500K in revenue. This contributed to a lower March quarter cash balance.

Operating expenses, both at the centre level and head office, have been well controlled benefiting from efficiencies employed across the group, and will come in under Prospectus forecasts.

The Board and Management of Mayfield believe that the company is on track to achieve its Prospectus forecast for the year ending 31 December 2017 with Net Profit after Tax of $3.5m.

Future Growth

Consistent with the strategic intent of acquiring and improving under-performing centres, Mayfield expects to shortly announce its first new acquisition subject to the normal license transfers and regulatory approvals. Funded within our existing debt facility, the centre is located within the eastern suburbs of Melbourne and operates on a 25 year lease. With this acquisition Mayfield has secured the rights to a new greenfield site on the property adjacent.

The company is also starting to implement a Management Services and Pre-construction Consultancy model. Mayfield will shortly take over formal management services of two (2) centres located in Melbourne. Further, Mayfield is expecting to sign two (2) agreements for consulting services in 2017 and Management of those centers in 2018/2019.

Quality and Compliance.

As has previously been reported, part of our integration initiatives involved an extensive self-assessment of all centres, under the National Quality Framework. The intent was to establish a clear work plan for management and our educators as part of the Quality Improvement Program. Our efforts have been rewarded with our centre at Officer the first to be re-rated, moving from an overall “Meeting” rating to an “Exceeding” rating. Our focus on delivering the highest possible standards to children at all of our centres, will we believe, deliver a strong second half of the calendar year as more and more parents understand our commitment to providing the most outstanding educational programs and leadership.

Integration Plan

The company’s integration plan has worked well and the renovation budget set aside for a number of centres came in at $151k against a budget of $148k.

Major works included, internal and external painting, new play equipment, updated play yards, landscaping, room resources, signage and extensive centre clean-ups, all to the delight of parents.

Mayfield Childcare Limited
Level 1, Suite 3, 275 Wattletree Road Malvern, VIC 3144
PO Box 2214 Wattletree Road Malvern East, VIC 3145
Phone: 03 9576 3156

Industry Review

There has been considerable comment in the marketplace about supply. Australia reasonably needs 250 new centres per annum to keep pace with demand. The building of new centres has become an attractive investment opportunity for developers but there is some evidence that inexperienced developers are building centres that are either too large, in the wrong place where there is already sufficient supply and/or are building centres inappropriate to the needs of children or the Regulations that apply to new centres.

Additionally, banks are tightening lending to developers and the experienced operators are being very cautious about signing new leases where the rents are too high. A number of inexperienced operators signing rent agreements in excess of $4,000 per place child may well come to grief. I remind shareholders that Mayfield's average rent per place child for CY17 is $1901. The regulatory burden on single owner operators is now so great that many of these are struggling with compliance and with the more experienced operators who are offering exceptional childcare quality services.

In summary, Mayfield Childcare is performing well, we expect a strong second half for 2017, we have delivered on our first acquisition coupled with developing a Management Services model and we will continue with our commitment of delivering high quality education and care to the families we serve.

Dean Clarke
Chief Executive Officer
Mayfield Childcare Limited

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