MAYFIELD
Childcare Limited


# Investor Presentation

**30 January 2018**

**CY 2017 Full Year Results**

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# Market Summary

| Issued Shares | 30,005,000 |
|---|---|
| Share Price as at 29 January 2018 | $1.05 (issue price $1.00) |
| Market Capitalisation | $31,505,250 |
| Official Listing Date | 30 November 2016 |
| Issuer Code | MFD |

**Substantial Shareholders as at 29 January 2018**

| Rank | Name | Shareholding | % of Issued Shares |
|---|---|---|---|
| 1 | Riversdale Road Shareholding Company | 5,920,000 | 19.7% |
| 2 | DW & MR Clarke Pty Ltd | 2,900,000 | 9.7% |
| 3 | Buttonwood Nominees Pty Ltd | 1,660,225 | 5.5% |
| 4 | BNP Paribus Nominees Pty Ltd | 1,013,638 | 3.4% |
| 5 | JT Campbell Properties Pty Ltd | 1,000,000 | 3.3% |

# Operational Results

## CY 2017 Full Year Results

# Centre Based Metrics

| Operations | CY 2016 | CY 2017 |
| --- | --- | --- |
| Centres | 16 | 19 |
| Licensed places | 1,360 | 1,588 |
| Average centre size | 85 | 84 |
| Centres with funded kindergarten program | 15 | 19 |
| | | |
| Average daily fee per day | $100 | $106 |
| Average daily fee Increase (1 July 2017) | | 5.9% |
| | | |
| Number of educators | 370 | 481 |
| Wages to revenue ratio (%) | 58.8% | 55.6% |
| Average award wage increase | 2.4% - 1 July 2016 | 3.3% - 1 July 2017 |
| | | |
| Average lease term (incl options) | 23.9 years | 22.2 years |
| Average rent increase | | 2.7% |
| | | |

# The Mayfield Journey

- The first full year for Mayfield has been a demanding, fast paced, though ultimately rewarding year as the Board and Management have worked tirelessly to deliver against expectations
- The initial integration proceeded without fault, and the messaging of our strategic focus to deliver high standards of care and education resonated very well with our families and educators alike.
- In context of a limited first year capital budget, we moved quickly to implement physical improvements in the centres, along with investments in educational resources and equipment, to not only enhance the centre experience for families, but nurture trust and appreciation for Mayfield as the new owner.
- Significant attention and effort was placed on the engagement of our educators and empowerment of our centre managers. As the primary touch point with families, success depended on them taking ownership of the centres, while advocating the values and standards of Mayfield.
- We focused our Quality Improvement plan on the Educational Programming and Leadership aspects of the National Quality Standards, facilitating various professional development programs and training courses across all levels of the centres.
- Supplementing our Quality platform we implemented our ePortfolio and Learning system supporting our children's development, while enhancing the parent experience and engagement with the centre
- At an administrative level, we implemented our payroll system, supported via our online rostering and time & attendance systems, allowing for effective control of labour costs relative to occupancy. Additionally a third party payment system was deployed across all centres

# The Mayfield Journey

- As has been widely publicised, the childcare sector has been adversely affected by a number of factors,
  - Of most significance has been the delay in increases to the childcare rebate, forcing parents to reduce days, and/or seek short term placement for their children, rather than continuous placement throughout the year.
  - Over supply of childcare services driven by new centre developments
- Mayfield was also challenged by low forward enrolments from 2016 into the 2017 year.
- Occupancy growth in the first half was slow, particularly in our small and trade-up centres.
  - Our larger centres which account for approximately 45% of the business have performed well with steady occupancy growth over the year, with a high of 83%, with a number achieving above 90%
  - Similarly, the medium centres which account for approximately 30% of the business, while slower in the first half, recovered well to be trading between 75-80%.
  - Of the development centres, we had mixed results with one exceeding expectations at 90%, one inline at 65% and one below at 55%
  - Though the smaller and trade-up centres struggled throughout the year, and only began to lift in the August / September period, with a high of 63%

# The Mayfield Journey

- Successful delivery of our operational plans have ensured we fulfilled our commitments to shareholders
  - Extensive marketing and community engagement programs aimed at attracting new families
  - Targeted pricing initiatives to increase participation by existing families
  - Strong cost control in the areas of centre operations and head office administration, along with stringent management of our labour costs relative to occupancy
  - Recruitment of talented educators and centre managers where required, and expansion of our Area Management team
  - Invested in our social media and website platforms,
  - New acquisitions and the development of new revenue streams
- The result, strong performance in the second half, shaping what is a sound, scalable and robust business, set for strong future growth

# New Acquisitions and Managed Services

- Three centres were acquired in 2017,
  - Purpose built, 58 place centre located in Glen Waverley
    - Includes owner funded new 120 place centre on adjacent site, offering Mayfield first right of refusal and non-compete protections
  - Purpose built, 95 place centre located in Tullamarine
  - Purpose built, 75 place centre located in Cranbourne
- Managed Services and Consultancy Services
  - Secured Managed Service agreements and currently negotiating further opportunities for 2018
  - Adhoc Consultancy assignments focused on establishment services for new operators with a view of managing centres longer term

# The 2017 Score Card

- Settled all centres on Day 1 of operations
- Regulatory & Licensing completed in the first 2 weeks
- Centre re-measures on all centres by Feb 17
- Self assessment under the NQS conducted on all centres by Feb 17
- Undertook capital works to improve centre presentation
- Invested in Educator training and development
- Provided extensive children's resources
- Implemented Payroll, Rostering, Time & Attendance and Payment systems
- Implemented cost efficiency processes
- Invested in technology for each centre
- Developed centre websites and enhanced others
- Developed social media presence for centres
- Deployed online Learning and Development portal for families
- Expanded our Area Management and HO Finance teams
- Settled and integrated 3 new acquisitions
- Submitted Town Planning application in conjunction with Glen Waverley Landlord for new 120 place centre
- Developed new revenue streams
- Redesigned our Kindergarten program
- Conducted extensive parent information sessions driving 2018 enrolments
- Improved our centre rating under the NQS for those centres that underwent Assessment & Rating by the Dept of Education
- Managed a 30% increase in employee numbers

# Dividend & Dividend Reinvestment Plan

- The Mayfield Board is proud to confirm its maiden dividend of 7.65 cents per share.
- While the 2017 NPAT result was slightly below forecast, the Board, not wanting shareholder return to be compromised, took the decision to increase the dividend payout ratio from 65.0% to 67.1%, delivering the Company's Prospectus dividend yield forecast.
- Further, and exceeding expectation, Mayfield will deliver a fully franked dividend to its shareholders, payable on 29 March 2018.
- As announced in December 2017, the Board also recommends for shareholder consideration, the Company's Dividend Reinvestment Plan (DRP).
- Shareholders that elect to take shares instead of cash under the DRP will receive their shares at a discount of 5% to the share price based on the volume weighted average share price over 15 days from 15 February to 7 March 2018

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# Financial Information

## CY 2017 Full Year Results

# Key Financial Metrics

| Operations | CY 2016 Actual | Prospectus CY 2017 Forecast | CY 2017 Actual |
|---|---|---|---|
| NPAT | ($1.25) mil | $3.48 mil | $3.42 mil |
| Earnings per Share | (4.2c) | 11.6c | 11.4c |
| Dividend per Share (100% Franked) | n/a | 7.65c | 7.65c |
| EBIT Margin | (61.3%) | 18.3% | 18.7% |
| Net Profit Margin | (54.5%) | 12.0% | 12.6% |
| Cash & Cash Equivalents | $1.41 mil | $0.83 mil* | $1.54 mil |
| | | | |
| Debt to Equity | 29.2% | 33.9% | 25.0% |
| Gearing | 22.6% | 25.3% | 20.0% |
| Interest Coverage | n/a | 16.4x | 15.4x |
| Debt to Asset | 19.5% | 23.9% | 16.6% |
| | | | |

- Operating margins for CY2017 have exceeded Prospectus forecast, while our gearing position provides adequate capacity to debt fund future acquisitions.

* Prospectus balance sheet reflected pre-trading position

# Profit & Loss Statement CY 2017

| A$ 000's | Actual CY 2017 | Prospectus Forecast | Variance $ 000's | Variance % | |
|---|---|---|---|---|---|
| **Revenue (1)** | **27,117** | **28,962** | **(1,845)** | **(6.4%)** | (1) Occupancy below forecast, particularly in the small and trade-up centres |
| | | | | | |
| Centre Employee Expense (2) | (15,070) | (15,479) | 409 | 2.6% | (2) Effective rostering across all centres, allowing wage costs from acquisitions to be absorbed |
| Centre Rent (3) | (2,691) | (2,585) | (106) | (4.1%) | (3) Additional lease costs associated with acquisitions |
| Centre Operations (4) | (2,702) | (3,519) | 817 | 23.2% | (4) Significant and ongoing operational efficiencies gained across the group |
| Admin and Integration (5) | (1,521) | (1,866) | 345 | 18.5% | (5) Savings across financial system fees and corporate regulatory & compliance |
| **EBITDA** | **5,133** | **5,513** | **(380)** | **(6.9%)** | |
| Depreciation (6) | (57) | (202) | 145 | 71.8% | (6) Revaluation of assets acquired at initial listing |
| **EBIT** | **5,076** | **5311** | **(235)** | **(4.4%)** | |
| Interest Expense | (330) | (324) | (6) | (1.9%) | |
| Tax Benefit (Expense) | (1326) | (1505) | 179 | 11.9% | |
| **NPAT (7)** | **3,420** | **3,482** | **(62)** | **(1.8%)** | (7) Overall NPAT, $62K below prospectus forecast |

# Balance Sheet as at December 31, 2017

| A$ 000's | Actual CY 2017 | Actual CY 2016 |
|---|---|---|
| **Current Assets** | | |
| Cash & Cash Equivalents (1) | 1,539 | 1,410 |
| Trade & Other Receivables (2) | 715 | 1,115 |
| Other Current Assets | 289 | 287 |
| **Total Current Assets** | **2,543** | **2,812** |
| | | |
| **Non Current Assets** | | |
| Intangibles (3) | 33,062 | 27,018 |
| Plant & Equipment (4) | 452 | 1,161 |
| Deferred Tax | 208 | 234 |
| **Total Non Current Assets** | **33,722** | **28,413** |
| | | |
| **Total Assets** | **36,265** | **31,225** |

(1) Solid cash position with all 2017 acquisitions funded from cash reserves

(2) CY 2017, reflects normal operating level's of receivables associated with parent and government payments of childcare fees

(3) Reflects the three centre acquisitions during 2017

(4) Revaluation of the original prospectus estimate of centre based assets that were acquired on listing, offset to goodwill

# Balance Sheet as at December 31, 2017

| A$ 000's | Actual CY 2017 | Actual CY 2016 |
|---|---|---|
| **Current Liabilities** | | |
| Payables & Tax Liabilities (1) | 3,835 | 2,074 |
| Provisions (2) | 747 | 278 |
| **Total Current Liabilities** | **4,582** | **2,352** |
| **Non Current Liabilities** | | |
| Provisions (3) | 88 | 613 |
| Borrowings (4) | 7,532 | 7,480 |
| **Total Non Current Liabilities** | **7,620** | **8,093** |
| **Total Liabilities** | **12,202** | **10,445** |
| | | |
| Net Assets | 24,063 | 20,780 |
| | | |
| **Equity** | | |
| Contributed Equity | 21,990 | 22,028 |
| Accumulated Earnings (losses) | 2,073 | (1,248) |
| **Total Equity** | **24,063** | **20,780** |

(1) Reflects increased tax obligations and consideration owed to acquisition vendor

(2) Full year effect of employee entitlement provisions

(3) Performance based earn-out associated with purchase of the Diamond Creek centre at listing, reversed

(4) The current loan facility with Westpac is $8.5mil, with $1.1mil in available funds

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# CY 2018 Outlook

# CY 2018 Growth

- Mayfield is forecasting 20% growth of NPAT

- Growth will come from
  - Our 2018 forward enrolment strategy has already delivered strong results as evidenced by a 25% growth in funded kindergarten enrolments.
  - An improved operating market with increases in government rebates will provide a strong stimulus to further occupancy growth
  - Realisation of our 2017 acquisitions, which are trading inline with expectation
  - Continuation of our cost efficiency programs and investment in technology
  - Continued focus on our Quality Improvement program
  - Interest rates on our existing loan facilities has been fixed at 4.65%
  - Childcare fee increases greater than CPI and labour costs
  - Centre improvement works for 2018 are well underway, gaining traction with existing and new parents
  - Continuing and extending our marketing initiatives and community programs

- Acquisitions
  - Continue to seek Victorian based acquisitions, with a number of potential opportunities currently under review
  - Acquisitions will be considered, in line with agreed criteria and with a focus on improving shareholder value

# Corporate Details

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