THINK Childcare Limited

Investor Presentation

15th February 2018

Full Year CY2017 Results

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Operational Results

Full Year CY2017 Results

Market Summary

Issued Shares	**42,737,620**
Share Price as at 15th February 2018	$2.01 (issue price $1.00)
Market Capitalisation	$85,903,000
Official listing date	24/10/2014
Issuer code	TNK

Substantial Shareholders – Top 5 as at 15th February 2018

Rank	Name	Type	Shareholding
1	Mr Mathew Edwards	Related	14,391,511
2	FIL Limited (Fidelity)	Institution	3,861,933
3	Riversdale Road Shareholding Company Pty Ltd as trustee for Riversdale Road Shareholding Trust	Institution	3,212,938
4	Colonial First State Asset Management (Australia) Ltd & Colonial First State Investments Limited	Institution	2,589,572
5	Perpetual Limited and Subsidiaries	Institution	1,778,107
	Board - Outside of Mathew Edwards	Related	2,243,376

Financial Summary

	CY2017	CY2016	Variance
Revenue	$66,886,000	$54,543,000	Up 23%
NPAT	$5,944,000	$5,367,000	Up 11%
EBITDA	$10,447,000	$8,495,000	Up 23%
Underlying EBITDA	$9,645,000	$8,584,000	Up 12%
Revenue Centres owned for full CY2016	$52,236,891	$52,794,630	Down 1%
EBITDA Centres owned for full CY2016	$11,316,720	$11,800,762	Down 4%
Centres' Base Wages* to Turnover	48.21%	49.55%	Down 3%
Earnings Per Share (EPS)	14.08c	13.12c	Up 7%
Dividend declared for period	10.0c	9.0c	
Increase in Head Office Costs from CY2016	$652,000		
Total Capital Expenditure	$2,211,000	$1,741,000	Up 27%

**Wages excluding on costs*

Actual Compared to Forecast

	Actual CY2017	Forecast CY2017	Variance $	Variance %
Revenue	$66,886,000	$66,338,584	$547,416	Up 0.8%
NPAT	$5,944,000	$5,977,720	(33,720)	Down 0.6%
EBITDA	$10,447,000	$10,242,243	$204,757	Up 2.0%
Underlying EBITDA	$9,645,000	$9,620,141	$24,859	Up 0.3%
Earnings Per Share (EPS)	14.08c	14.00c	0.08c	Up 0.6%
Total Capital Expenditure	$2,211,000	$2,200,000	$11,000	Even

Dividend

	CY2017
Interim Dividend HY2017	4.0c per share
Final Dividend CY2017	6.0c per share
Total CY2017 Dividend	10.0c per share
Franking	100%
Dividend Announced	16 February 2018
DRP* pricing	5% discount to the VWAP
VWAP calculation period	19 February – 2 March 2018
Dividend payment & issue under the DRP	16 March 2018
Previous DRP price [$]	$1.86

**Dividend Re-investment Plan ("DRP")*

Business Metrics Overview

Operations	CY2015 (Dec 15)	CY2016 (Dec 16)	CY2017 (Dec 17)
Centres	32	38	43
Licensed Places	2,476	3,147	3,588
Average Centre size	77	83	83
Average Fees per day	$92	$103	$110
Centres' Base Wages to Turnover	47.54%	49.55%	48.21%

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2017 The Year that Was

Full Year CY2017 Results

The ‘Perfect Storm’ Passes

TNK has come through the ‘perfect storm’ stronger, more focused strategically and with an aligned team, that are better equipped and resourced. TNK remains an agile business that continues to focus on the performance of individual centres, as we are only as good as the sum of our parts.

Although it was a tough year - like ‘*the recession we had to have*’, it was ‘*the year we had to have*’. It has shaken out the cowboys and cowgirls alike. The ‘perfect storm’ of 2017 has tested the team, relationships, resilience and our resolve to build a more robust world class organisation.

A Silver Lining

The sector in the last four years has experienced significant opportunistic investor activity. This was fuelled by cheap money, willing lenders and some indiscriminate purchases at inflated multiples from both onshore and offshore.

The market conditions we now face shows a tightening of credit, and in the main, considered acquisitions at EBITDA multiples of four to five. The realisation from many investors that childcare, whilst it can be very lucrative, isn’t a licence to print money. It requires a commitment to excellence in early education and care, innovation in centre design, and the ability and motivation to invest capital to continually improve.

The net result is that the quick money has left the sector, with landlords now actively on the market looking for tenants, where previously they had a long list of willing operators. We are seeing fewer centres under construction and fewer development applications being lodged; with the sector returning to more sustainable numbers.

2017 Year in Review

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- Third full year of operations for TNK.
- Acquired five centres.
- Incurred an increase of $652k in HO expenses over CY2016. In part this allowed us to extended our support team head count to build a more robust foundation for future growth.
- Delivered a 10.75% growth in NPAT and a 7.32% growth in EPS.
- We invested over $2.2m in capital improvements and new centre development, with yard upgrades, painting, flooring and resources for our educators and the children.
- We continue to empower our centres to manage their wages using our online platforms with a positive effect.
- Extended our existing funding facility from $29 million to $62 million for acquisitions. In late 2017, TNK executed a credit approved term sheet with ANZ, with the facility agreement expected to be executed by end of March 2018.

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Financial Information

Full Year CY2017 Results

Key Financial Metrics

	CY17	CY16
NPAT	$5.94m	$5.37m
Earnings per Share (EPS)	14.08c	13.12c
Interim Dividend per Share- Fully franked	4.0c	4.0c
Final Dividend per Share- Fully franked	6.0c	5.0c
Net Profit Margin (NP/Revenue)	9.07%	9.84%
Enterprise Value (EV)	$107.65m	$106.36m

	CY17	CY16
Net Debt / Equity+	89.4%	40.3%
Gearing*	47.2%	28.7%
Debt/ (Equity + Common control) ++	51.1%	21.3%
Debt/(total assets+ Common control) **	29.3%	13.7%
EBIT/Interest (times)	12.3	21.7
Debt/ Assets	38.8%	19.7%

**EV = market value of equity (Share price [at 14/02/18]x no of shares in issue) + market value of debt - cash*

+ (Net Debt/ Equity)
** Gearing is calculated as (Net Debt / (Equity + Net Debt)*
++ Net debt/ equity +Common control reserve
*** Net debt/ Total Assets +Common control reserve*

Profit & Loss CY2017

	CY17 $m	CY16 $m	Variance $m	Variance
REVENUE	**66.88**	**54.54**	**12.34**	**22.63%**
Employee expenses	40.99	34.18	6.81	19.93%
Occupancy expenses	8.80	6.42	2.38	37.07%
Direct expenses	2.42	2.14	0.28	13.08%
Marketing expenses	0.91	0.80	0.11	13.75%
Corporate expenses	0.59	0.47	0.12	25.53%
Acquisition expense	0.58	0.09	0.49	100.00%
Other expenses	2.11	1.74	0.37	21.26%
Share based payments	0.04	0.21	(0.17)	(80.95%)
Total expenses	**56.44**	**46.05**	**10.39**	**22.56%**
EBITDA	**10.44**	**8.49**	**1.95**	**22.97%**
Depreciation	1.02	0.60	0.42	70.00%
EBIT	**9.42**	**7.89**	**1.53**	**19.39%**
Net finance costs	0.76	0.36	0.40	111.11%
Income tax	2.72	2.16	0.56	25.93%
NPAT	**5.94**	**5.37**	**0.57**	**10.61%**

Underlying Profit & Loss CY2017

	CY17 $'000	CY16 $'000	Variance
REVENUE	**66,886**	**54,543**	Up 23%
EBITDA			
Profit after income tax	**5,944**	**5,367**	Up 11%
Add: Income tax expense	2,722	2,163	
Add: Depreciation and amortisation	1,017	604	
Add: Finance cost	764	363	
Less: Interest income	-	(2)	
EBITDA	**10,447**	**8,495**	Up 23%
Add: Acquisition expenses	580	89	
Less: Earn-out consideration liability reversal	(1,382)	-	
Underlying EBITDA	**9,645**	**8,584**	Up 12%

Underlying Revenue, underlying EBITDA, and EBITDA are financial measures which are not prescribed by Australian Accounting Standards ("AAS") and represent the results under AAS ***adjusted*** *for non-cash and other items.*

The directors consider the underlying results to reflect the core earnings of the consolidated entity.

Balance Sheet as at 31st December 2017

THINK Childcare Limited

	CY17 31-Dec-17 $ m	CY16 31-Dec-16 $ m	Variance $ m	%
Current assets				
Cash at bank	0.45	1.80	(1.35)	(75%)
Trade and other	3.03	1.94	1.09	56%
Other current assets	2.07	1.18	0.89	75%
Total-current assets	**5.55**	**4.92**	**0.63**	**13%**
Non-Current assets				
Property plant & equipment	4.68	3.32	1.36	41%
Intangible assets	43.39	31.35	12.04	38%
Deferred tax assets	1.28	1.54	(0.26)	(17%)
Other non-current assets	3.65	2.29	1.36	59%
Total-non-current assets	**53.00**	**38.50**	**14.50**	**38%**
Total assets	**58.55**	**43.42**	**15.13**	**35%**

	CY17 31-Dec-17 $ m	CY16 31-Dec-16 $ m	Variance $ m	%
Current liabilities				
Trade & other payables	6.17	4.57	1.60	35%
Borrowings	0.11	0.06	0.05	83%
Current tax payable	0.35	0.54	(0.19)	(35%)
Employee benefits	1.96	1.80	0.16	9%
Contingent & deferred payable	0.80	2.51	(1.71)	(68%)
Total-current liabilities	**9.39**	**9.48**	**(0.09)**	**(1%)**
Non- current liabilities				
Borrowings	23.05	10.28	12.77	124%
Employee benefits	0.66	0.55	0.11	20%
Derivative financial instruments	0.07	-	-	100%
Contingent & deferred payable	-	1.91	(1.91)	(100%)
Total non- current liabilities	**23.78**	**12.74**	**11.04**	**87%**
Total liabilities	**33.17**	**22.20**	**10.95**	**49%**
NET ASSETS	**25.38**	**21.20**	**4.18**	**20%**
Equity				
Issued capital	42.53	40.40	2.13	5%
Reserves	(18.95)	(18.84)	(0.11)	1%
Accumulated profits / (losses)	1.80	(0.36)	2.16	100%
TOTAL EQUITY	**25.38**	**21.20**	**4.18**	**20%**

Cash Flow
for the year ended 31 Dec 2017

	Actual CY17	Actual CY16
	$m	$m
Cash flows from operating activities		
Cash receipts from parents and Gov. funding	62.96	51.96
Payments to suppliers and employees	(55.55)	(44.91)
Government grants received	1.69	2.00
Interest and other finance costs paid	(0.76)	(0.32)
Income taxes paid	(2.95)	(3.11)
Net cash from operating activities	**5.39**	**5.62**
Cash flows from investing activities		
Payments for purchase of centres	(10.61)	(6.77)
Payments for future acquisitions	-	(0.06)
Payments for PPE	(2.11)	(1.65)
Payments for security deposits	(1.35)	(0.52)
Payments for intangibles	(0.01)	(0.21)
Payment for contingent and deferred consideration	(2.25)	-
Proceeds from disposal of PPE	0.01	0.01
Net cash used in investing activities	**(16.32)**	**(9.20)**

	Actual CY17	Actual CY16
Cash flows from financing activities		
Proceeds from issue of shares	1.97	2.80
Proceeds from borrowings	11.45	4.86
Dividends paid	(3.77)	(4.49)
Payments of costs relating to bank facility	-	(0.13)
Change in finance lease liabilities	(0.06)	(0.03)
Net cash from/(used in) financing activities	**9.59**	**3.01**
Net Decrease in cash and cash equivalents	**(1.34)**	**(0.57)**
Cash and cash equivalents at the 1 Jan 2017	1.79	2.36
Cash and cash equivalents at the 31 Dec 2017	**0.45**	**1.79**

	Actual CY17	Actual CY16
	$m	$m
Free cash flow*	7.50	7.27

**Free Cash flow = Net cashflow from operating activities + capex*

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Looking Forward

Full Year CY2017 Results

2018 Year Ahead

Whilst the 'perfect storm' has passed, TNK have factored into our 2018 forecast that we will be buffeted by some moderate head winds in the first half until the New Childcare Package commences in July.

With supply remaining an issue and parents having a real choice, we are seeing a flight to quality. TNK are executing our strategy of being the 'best in market', which we expect will have a positive influence in 2018 and beyond. We are increasing our capital investment from $2.2mil in 2017 to $4.5mil in 2018 to ensure TNK's centres are best in market.

Our 'Jindalee' – Over the Horizon

TNK is re-invigorated with the addition of a people and culture team, a refreshed marketing team, expanded legal, property and finance teams. We have a strong focus on our people who deliver, and support the delivery of, the highest quality of early education and care, which we believe is best in market.

We are seeking to build better options and outcomes for our children, their families, our educators, our shareholders and our business partners. TNK management believe it is beholden on us to lead by example in every aspect of our business. We have been evolving to a position of 'Quality' as we strive for excellence. This includes the restructuring of our branding, people strategy, digital footprint, marketing strategies, learning and education curriculum and educational outcomes.

This is a conscious and considered decision by TNK to add to the robustness and predictability of the business in a financially disciplined way.

"We are continuing to evolve our centre designs and people and culture practises to ensure the 'world's best educators' have the 'world's best environments' to deliver the highest quality educational outcomes for the children in their care."

Growth Strategy

We are continuing to execute on opening greenfield sites and acquiring high occupancy/trading centres, predominantly from our incubator partners, to ensure we deliver a balanced and long term approach to the 'risk vs reward' equation.

Greenfield sites

Whilst the less capital intensive 'greenfield' site developments are higher on the risk curve from proven, stable and established centre acquisitions. We believe the return is greater in the mid to long term, and expect to now open four new centres in CY2018. We forecast these centres as a group to breakeven in CY2018. We will restrict the number of greenfield sites in trade up to ensure we have a healthy balance and remain compliant to our banking covenants.

Acquisitions – High Occupancy/Trading Centres

Whilst more capital intensive, the majority of the 'trading centres' we acquire will have 'earn out and claw back' clauses to ensure we are not paying beyond four x EBITDA. We have forecast acquiring six centres throughout 2018, and these are expected to contribute c$2 million in EBITDA ($4 million annualised) in the CY2018 period.

As our incubator partners' developments continue to mature, we expect to see an acceleration in our acquisition numbers into CY2019.

Building for Quality Outcomes

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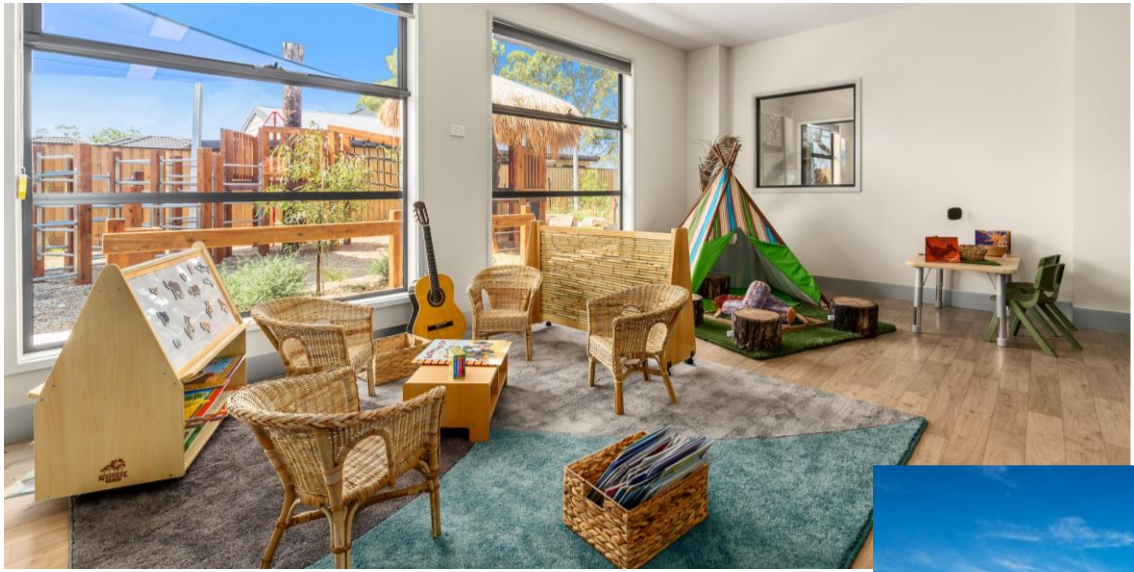
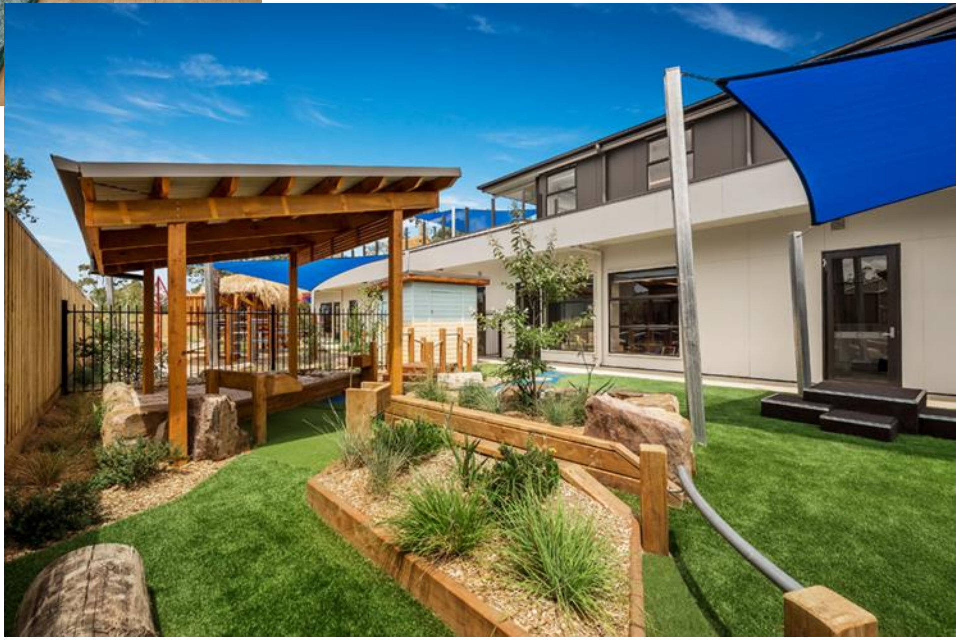
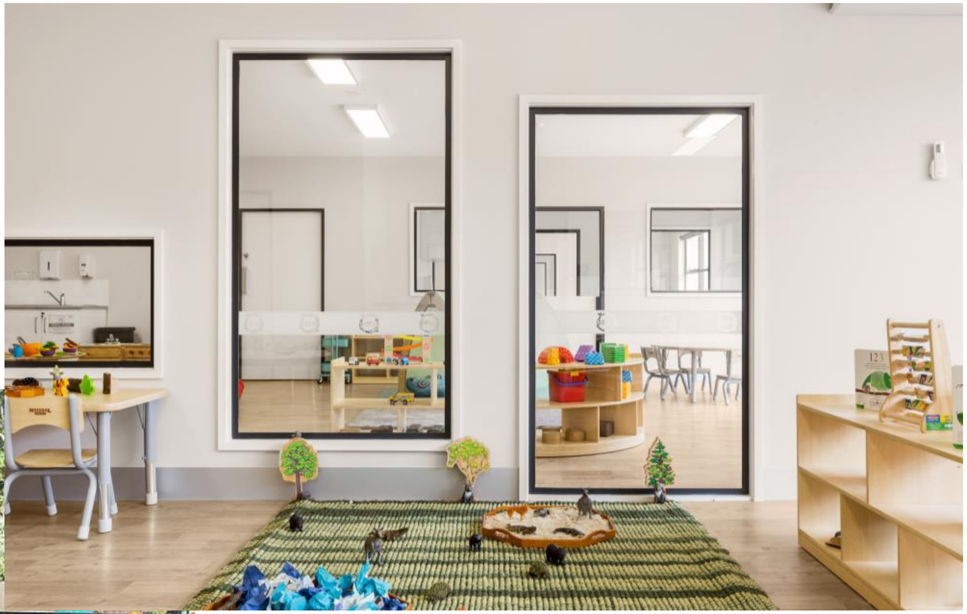
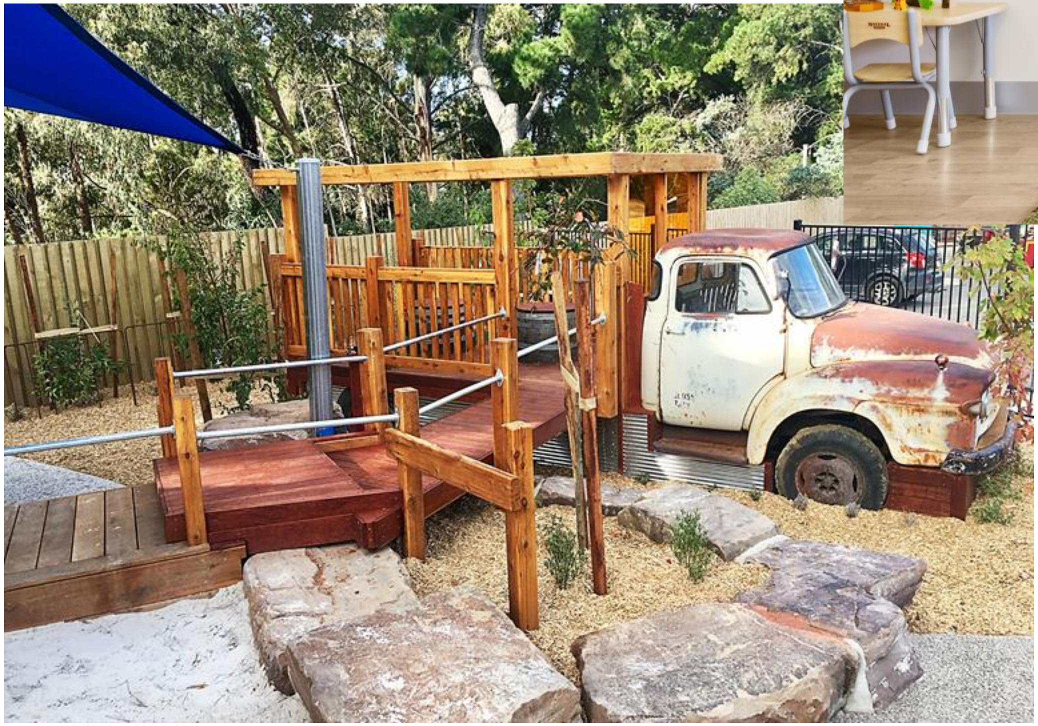




Building for Quality Outcomes





Forecast 2018

Full Year CY2017 Results

Financial Forecast 2018

	CY2016	CY2017	Change %	Projected CY2018	Change %
Revenue	$54,543,000	$66,886,000	23%	$88,511,233	32%
NPAT	$5,367,000	$5,944,000	11%	$8,116,566	37%
EBITDA	$8,495,000	$10,447,000	23%	$14,239,300	36%
Underlying EBITDA	$8,584,000	$9,645,000	12%	$14,395,300	49%
Earnings Per Share (EPS)	13.12c	14.08c	7%	18.68c	34%
Dividend	9.0c	10.0c			
Total Capital Expenditure	$1,741,000	$2,211,000	27%	$4,500,000	104%
Assumptions					
Acquisitions				6	
Greenfield developments				4	
Incubator opening				10	
Fee increase				3.75%	
Wage increase				3.5%	

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Corporate Details

Full Year CY2017 Results

Board of Directors

The Board of TNK comprises two executive Directors and one non-executive Director:

Non-Executive Chairman**: Mark Kerr**

- Chairman of Hawthorn Resources Limited
- Director of Contango Income Generator Limited and Alice Queen Limited
- Advisor to public and private boards

Managing Director and CEO**: Mathew Edwards**

- Managing Director of Learning and Education Australia ("LEA") (2008-2014), which owned 12 of the TNK centres
- Formerly LEA's business focused on developing greenfield child care sites and trading up under-performing centres
- Former Director of Australian Daycare Group

Executive Director and CFO**: Paul Gwilym**

- A Chartered Accountant with over 20 years' experience in accounting and financial management
- Formerly CFO of LEA (2013-2014)

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