May 22, 2018

Mayfield Childcare Limited
Annual General Meeting
Level 12, 150 Collins Street Melbourne VIC 3000

Chief Executive Officer Report

On behalf of the Board of Directors and the Management team, it is with pleasure that I present Mayfield Childcare Limited's first full year Annual Report for the 2017 calendar year.

The first full year of operations was a demanding, fast paced, though ultimately rewarding year as every member of the Mayfield family worked tirelessly to deliver against expectations. While the final NPAT result of $3.42 mill was marginally down against the Prospectus forecast, in light of the sector headwinds encountered during the period, I was delighted with the result.

The strategic growth strategy of the business is underpinned by our Quality Improvement Plan. As childcare professionals, this is a holistic concept which encompasses the Company's commercial ideas, proposals, strategies and know-how to optimise the efficiency and quality of each centre.

2017 In Review

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 the context of a limited first year capital budget, we moved quickly to implement physical improvements in the centres, to not only enhance the centre experience for families, but nurture trust and appreciation for Mayfield as the new owner. Further, significant attention and effort was placed on the engagement of our educators and empowerment of our centre managers.

We focused our Quality program on the Educational Programming and Leadership aspects of the National Quality Standards, and we invested in our operational systems to deliver cost efficiencies across the group.

The sector challenges of oversupply and delays in Government Rebates impacted occupancy in the first half, with particular impact on our smaller and trade-up centres. Successful delivery of our business plan, encompassing marketing and community engagement, tight cost control, and recruitment of talented people delivered strong financial performance.

During the year Mayfield acquired three additional centres, all from cash reserves, and has begun to develop new revenue streams from its managed services business.

The Mayfield Board delivered its maiden dividend of 7.65 cents per share. Notably, the Board not wanting shareholder return to be compromised due to the NPAT shortfall, took the decision to increase the dividend payout ratio, delivering the Company's yield forecast. Further and exceeding expectation, Mayfield delivered a fully franked dividend, supported with a DRP offering a 5% discount.

Business Performance

Overall the business is performing in line with our full year CY 2018 NPAT forecast of $4.1m. As expected, the sector challenges of over-supply and diminishing value of government rebates have continued to put downward pressure on occupancy levels in the first half.

Conversely, the new Child Care package schedule for July 1, 2018, will be a welcomed stimulate to the sector as its provides much needed relief to families, effectively resetting the affordability of childcare.

In line with our ongoing commitment to improving the centre experience for families we have substantially increased our capital expenditure on physical improvements on centres, with an estimated spend of $750K for the 2018 year.

We have further invested over 2017 levels, in our technology systems, marketing and people resources at both centre and head-office level, to not only drive growth and operational efficiency, but to provide a more supportive environment to our centre managers and educators.

As announced in March 2018, the Company has secured an extension to its debt facility with Westpac, from $8.5m to $18.5m putting Mayfield in a strong position to deliver its growth strategy through acquisitions which will add to long-term shareholder value.

Mayfield has contracted its first acquisition for the year, a medium sized Victorian based centre. While the arrangement is subject to the traditional licensing approvals, the deal represents a multiple of 4x on CY2019 EBITDA. Mayfield has also taken the decision to dispose of one of its underperforming centres, as the ongoing low operating performance of the centre was no longer viable. The business will continue to monitor centre performances and will take the decision to dispose of centres when appropriate.

In summary, Mayfield Childcare is performing well, despite the difficult conditions. We are confident the second half will be strong as we experienced in 2017 and lead to a result in line with our forecast. We anticipate further acquisitions as we utilize the expanded facility provided by Westpac.

Dean Clarke
Chief Executive Officer
Mayfield Childcare Limited

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