



MAYFIELD

Childcare Limited



**Igniting your child's
love of learning**

Mayfield Childcare Ltd (ASX:MFD)

First Half CY18 Financial Results

17 August 2018

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1H CY18 in Review

- **Stable & Structured** – 1H18 was only Mayfield's 3rd full 6-month period of operations
 - More stable and structured environment across the business, in particular, centre operations and central administration function
- **Performance** - Sound performance of the business in a tough environment, with growth coming from:
 - stable (less volatile) occupancy
 - higher pricing
 - increased kindergarten funding on a higher volume
 - flow through of 2017 acquisitions
 - continued focus on cost control, albeit with a larger portfolio
- **Investment – Service** - Comparatively, Mayfield has invested further in:
 - Educational Programs, Technology & Marketing, Field and Centre Management,
 - Delivering a more robust operational structure with higher levels of engagement with families
- **Investment – Infrastructure** - Continued to invest in the Centre Refresh Program - significant works undertaken at 6 of our centres
- **FY17 Dividend** - Paid inaugural fully franked dividend of \$2.3M (7.65 cps) for the year ended 31 December 2017
 - cash dividend (\$1.3M) and 959,116 ordinary shares issued under the DRP at \$1.06/share
- **Strong Cash flow** - Strong operating cash flows underpin the business
 - 30 June 2018 cash position is post-payment of the cash dividend (\$1.3M) and first full year tax obligation (\$1.4M)

**1H CY18 core business strategic targets achieved -
improved stability, structure, performance - serving our children & families better - investment - cashflow**

1H CY18 in Review

- **Quality Recognition** - Our Quality Improvement Program (under the Industry's National Quality Standards) continues to reap rewards,
 - All centres assessed improved their Quality ranking
- **Much Improved Govt Funding Landscape** - The new Child Care Subsidy came into effect on 2 July 2018,
 - Mayfield migrated 100% of its families to the new system without fault
- **Increased Debt Capacity** - Additional \$10.0M debt facility for acquisitions was secured - taking the Westpac debt facility to \$18.5M
- **Centre Disposal⁽¹⁾** - Mayfield disposed of one of its underperforming centres in April 2018 - realised NPAT of \$0.4M
- **Centre Acquisitions⁽²⁾** - Mayfield announced an acquisition of a medium sized centre in May 2018

⁽¹⁾ Post 30 June 2018 - Mayfield announced that it had exchanged contracts for the divestment of an additional centre on 17 Aug 2018 – this is expected to realise NPAT of \$0.5M

⁽²⁾ Post 30 June 2018 - Mayfield announced the acquisition of 2 additional centres on 17 Aug 2018 – details on Slide 11

Corporate activity – increased debt facility, acquisitions and divestments – improved portfolio

Income Statement – 1H CY18

A\$'000	Actual 1HCY17	Actual 1HCY18	Variance \$'000	Variance %
Revenue⁽¹⁾	11,675	13,957	2,282	19.6%
Profit on Disposal ⁽²⁾	0	420	420	+100.0%
Centre Employee Expense ⁽³⁾	7,111	8,473	(1,362)	(19.2%)
Centre Rent ⁽⁴⁾	1,263	1,582	(319)	(25.3%)
Centre Operations ⁽⁵⁾	1,012	1,382	(370)	(36.6%)
Administration	797	853	(56)	(7.0%)
EBITDA⁽⁶⁾	1,492	2,087	595	39.9%
Depreciation	102	68	34	33.3%
EBIT	1,390	2,019	629	45.3%
Interest Expense	157	206	(49)	(31.2%)
Tax Expense	324	345	(21)	(6.5%)
NPAT⁽⁷⁾	909	1,468	559	61.5%

⁽¹⁾ Stable occupancy, price increases, 2017 acquisitions, kindergarten funding

⁽²⁾ Disposal of underperforming centre

⁽³⁾ 3.3% wage increase, investment in Field & Centre Mgt, larger portfolio

⁽⁴⁾ 2.7% rent increase and larger portfolio

⁽⁵⁾ Investment in Technology, Marketing, CCS Transition

⁽⁶⁾ **Underlying EBITDA of \$1.7M - up 11.7%**

⁽⁷⁾ **Underlying NPAT of \$1.1M - up 15.3%**

Balance Sheet as at June 30, 2018

A\$'000	31 Dec 2017	30 Jun 2018
Cash & Cash Equivalents ⁽¹⁾	1,539	780
Trade & Other Receivables	764	846
Other Current Assets	289	276
Current Assets - Total	2,592	1,902
Intangibles ⁽²⁾	32,943	34,380
Plant & Equipment ⁽³⁾	458	946
Deferred Tax	364	397
Non-Current Assets - Total	33,765	35,723
Assets - Total	36,357	37,625
Payables & Tax Liabilities ⁽⁴⁾	3,830	2,689
Provisions	747	731
Current Liabilities - Total	4,577	3,420
Provisions	88	86
Borrowings ⁽⁵⁾	7,532	9,775
Non-Current Liabilities - Total	7,620	9,861
Liabilities - Total	12,197	13,281
Net Assets	24,160	24,344

Assets

⁽¹⁾ Solid operating cash flows offset by Dividend and Tax payments

⁽²⁾ Movement reflects June 2018 acquisition

⁽³⁾ Investment in Centre Refresh Program

Liabilities

⁽⁴⁾ Reduction due to payment of CY17 tax obligation

⁽⁵⁾ Increased borrowings to fund acquisitions and working capital

The current loan facility limit with Westpac was increased to \$18.5M on 28 March 2018

Balance sheet is strong – significant unutilised debt facility for centre acquisitions

Cash Flow – 1H CY18

A\$'000	1H CY17	1H CY18
Receipts from Customers, incl Govt Funding	11,630	13,922
Payments to Suppliers & Employees	(9,807)	(11,926)
Other	(151)	(201)
Net Cash Inflow from Operating Activities (Pre-Tax payment)	1,672	1,795
Income Tax Paid	(50)	(1,387)
Net Cash Inflow from Operating Activities	1,622	408
Net Cash Outflow from Investing	(1,459)	(2,127)
Net Cash Inflow / (Outflow) from Financing	(59)	960
Net (Decrease) / Increase in Cash & Cash Equivalents	104	(759)
Cash & Cash Equivalents at end of Half Year	1,514	780

**The business delivered another strong half of pre-tax operating cashflow
– applied to tax, dividends and future growth initiatives**

Industry - Conditions

The first half of 2018 continued to experience the considerable dual challenges of:

1. Diminishing value of the now historical Child Care Rebate (CCR)
2. Market Over-supply

1. Government Rebates / Subsidies

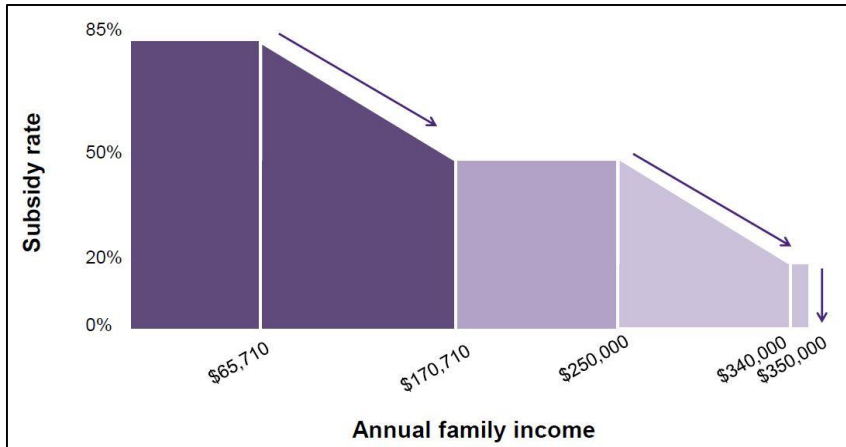
- As was to be expected, families experienced the issues of their Rebates running out, forcing them to make discretionary decisions about the extent of childcare they could afford / participate in
- On a lesser scale, some new families looked to defer the childcare decision, as they were waiting to see what the outcome of the new Child Care Subsidy would be for them

2. Market over-supply - Victoria

- Record number of new Victorian childcare centre openings over the last 18 months
- Development applications continue, though there appears to be a slow down in actual construction.
- Developers ability to secure new Tenants for Planning approved sites proving to be more difficult
 - Repeat marketing campaigns for the same site
 - Developers selling land with plans and permits
 - Growing awareness of new green-field's opening with minimal occupancy – some empty on opening!
 - Though inner-suburban sites still sought after on the right terms

The 1H18 landscape was extremely challenging for all operators in the Victorian childcare sector

Industry - New Child Care Subsidy



Step	Hours of activity (per fortnight)	Maxi number of hours of subsidy (per fortnight)
	Less than 8 hours (for a family earning less than \$65,710)	24 hours
1	8 hours to 16 hours	36 hours
2	More than 16 hours to 48 hours	72 hours
3	More than 48 hours	100 hours

To Recap

- The new Child Care Subsidy (CCS) came into effect on 2 July 2018
- Family assessment is now based on Combined Family Income and Activity Levels for Work, Study, Training and Volunteering
- Parent or guardian with the lowest activity will determine the amount of eligible hours for a family
- No annual cap on families earning less than \$185,710 and a \$10,000 cap on income up to \$350,000
- All subsidies paid directly to the service
- Families had to be confirmed with Centrelink and Service to be eligible for funding from Day 1

**From 1 July 2018, Childcare Benefit and Childcare Rebate ceased
– effective 2 July 2018 a single scheme commenced – Child Care Subsidy (CCS)**

Industry - New Child Care Subsidy

- **Successful Planning & Execution** - Mayfield successfully migrated 100% of families on Day 1
 - Through extensive parent engagement & communication, staff training and system development,
- **Difficult transition** - New government systems initially experienced technical issues and delays – subsequently resolved
 - Flow-on impact to Childcare Software providers, Operators and Parents.
 - Parent confusion over the “MyGov” registration process and in particular what constituted “Activity”
- **Post-Implementation** - July 2018 has been a time of confusion and uncertainty for families - this is now abating
 - Families on the low end of the “activity scale” have been adversely impacted – particularly in the “36 hour” category
 - CCS Subsidy entitlement methodology incompatible with centres open for 12 hours/day
- **Session Hours** - Mayfield introduced “flexible session” hours - allowing parents to optimise their eligible hours & financial entitlements
 - Delivered out-of-pocket savings to parents.
 - Mayfield is well positioned for when child attendance reporting to Dept. of Education comes into effect - January 2019

Mayfield has carefully planned and navigated a successful path through the industry changes

2018 Acquisition Summary

- So far in 2018 Mayfield has secured 3 new childcare centres and announced the disposal of 2 childcare centres, resulting in a net portfolio of 20 centres.

Details	1H CY2018	2H CY2018
Number of centres	1	2
Registered Places	58	156
Purchase Price	\$1.49m	\$4.58m
CY19 EBITDA Forecast	\$0.37m	\$1.04m
Purchase Multiple on CY19 EBITDA forecast	4.0x	4.4x
Rent Cost per place	\$2,069	\$2,870
Funding	Debt	Debt
Source	3 rd Party Vendor	3 rd Party Vendor

- The acquisitions are in line with our strategic direction and objectives
 - Victorian based, metropolitan Melbourne
 - Purpose built, medium sized centres (and above)
 - Existing business that will improve shareholder value
- More broadly, acquisition opportunities have slowed, which appears to reflect Vendors' need to focus on the CCS Transition requirements

Mayfield will continue to seek additional centres, albeit in a quieter market

CY18 Outlook

CY 2018 Revised NPAT Guidance	CY 2018
Estimated NPAT from Continuing Operations	\$3.5M
Estimated NPAT from Disposal of Centres (1 executed , 1 contracted)	\$0.9M
Estimated Statutory NPAT	\$4.4M
Estimated Dividend	9.2 cps (fully franked)

- There are number of factors that have resulted in Mayfield revising its NPAT guidance at this early stage:
 - Market oversupply continues to impact all industry participants
 - Occupancy softened in July and, although there have recent been improvements, 2H CY2018 performance is below the usual strong gains made at this time of year
 - Price increases were lower than we had anticipated, in response to competitive pressures
 - There has been a lack of quality stock on the market, which had a timing impact on the acquisitions
- Mayfield believes the new CCS funding model will be a stimulant to the market, though real gains are unlikely to materialise until later in the year.
- Consistent with Mayfield's dividend policy of paying out 65% of full year statutory NPAT, Mayfield anticipates paying a fully franked Full Year dividend of 9.2 cps in early 2019.

Thankyou

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