# Mayfield Childcare Limited (ASX:MFD) - CY 2018 Full Year Results

1 February 2019

MAYFIELD
Childcare Limited

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## Contents



# 01 2018 Highlights

- **Stable, structured and resilient**
  - Second full year of operations reflects a more stable and structured business platform.
  - Proven resilience as the sector manages its way through unprecedented funding changes and supply challenges.

- **Attractive earnings and dividends**
  - Generated calendar year statutory NPAT of $4.3m (NPAT from continuing operations of $3.4m)
  - Fully franked dividend for CY 2018 of 8.97cps (CY 2017 dividend 7.65cps)

- **Solid performance**
  - The business has successfully navigated through significant industry change with solid performance results.
  - Revenue gains reflect acquisitions and flow through of modest price increases.
  - Continued focus on cost control, albeit with a larger portfolio, while lower occupancy levels impacted wage ratios.
  - Gains on disposal of underperforming centres generated a one-off NPAT gain.

- **Tough trading environment**
  - As expected 1H18 performance was challenging with sector headwinds remaining, particularly the decreasing value of childcare rebates.
  - Parents reached the rebate caps in Q2 and, with uncertainty and confusion around the new Child Care Subsidy (CCS), occupancy levels fell.
  - The majority of Q3, fell below traditional growth rates, as parents navigated the new CCS system.
  - While the new CCS wasn't the instant stimulus to the sector, Q4 showed strong gains as parents embraced the new funding model.

# 01 2018 Highlights

- **Quality recognition**
  - Our Quality Improvement Program, under the industry's National Quality Standards, has brought about a significant shift in our NQS profile
  - 'Exceeding' ratings have risen from 6% to 15% of the portfolio
  - 'Working Towards' ratings have decreased from 56% to 15%, while 'Meeting' ratings have grown from 38% to 70%, of the portfolio

- **Increased investment**
  - Expansion of central support function in line with business growth and continued development of our Centre Management Team.
  - Investment in our educational programs, training and technology as part of our Quality Improvement Program.
  - Phase 1 launch of our new centre-based websites and social media platform.
  - Significant investment in upgrades to the centres and provision of educational resources.

- **Continued expansion with strong cash flow**
  - Acquired 3 additional centres, while disposing of 2 underperforming centres, resulting in a total portfolio of 20 centres
  - Strong operating cash flows continue to underpin the business

- **Increased debt capacity with Westpac**
  - Additional $10.6m debt facility was secured to fund future growth – total facility of $19.1m
  - Initial debt facility of $8.5m has been restructured

- **Improved government funding landscape**
  - Successfully migrated 100% of families to the new Child Care Subsidy on commencement
  - New Child Care Subsidy has delivered welcome financial relief to families, while inclusion of the new 'Activity Test' has disadvantaged some
  - Introduced flexible session hours for families, allowing parents to optimise their eligible hours and financial entitlements.

## 02 Financial performance:

Operating performance

Balance Sheet

Cash flows

Dividend

# 02 Operating Performance

| $000's | CY 2017 | CY 2018 | Var % |
|---|---|---|---|
| Revenue | 27,117 | 31,489 | 16.1 |
| Labour costs | 15,070 | 17,749 | (17.8) |
| Centre operating expenses | 1,820 | 2,321 | (27.5) |
| Facilities | 3,573 | 4,384 | (22.7) |
| **Centre EBITDA** | **6,654** | **7,035** | **5.7** |
| HO Staff & related costs | 951 | 1,073 | (12.8) |
| Other corporate overheads | 570 | 692 | (21.4) |
| **Group EBITDA** | **5,133** | **5,270** | **2.7** |
| Depreciation | 57 | 179 | (100.0+) |
| EBIT | 5,076 | 5,091 | 0.3 |
| Interest | 330 | 562 | (70.3) |
| Tax | 1,326 | 1,151 | 13.2 |
| **NPAT from Continuing Operations** | **3,420** | **3,378** | **(1.2)** |
| Profit from disposals | - | 897 | 100.0+ |
| **Statutory NPAT** | **3,420** | **4,275** | **25.0** |
| Earning per share (EPS) | 11.4c | 13.91c | 22.0 |
| Dividend per share | 7.65c | 8.97c | 17.3 |
| Centre EBITDA margin | 24.5% | 22.3% | (9.0) |

The operating performance for CY 2018 reflects the following

- Revenues up 16.1% driven by full year impact of CY17 acquisitions, CY18 acquisitions and flow through of CY17/CY18 price increases
- Total centre expenses up 19.5%, driven by network growth and investment in quality. Allowing for acquisitions underlying expenses up 6.2%,
- Further, the childcare award wage increase was 3.5% versus 3.3% in 2017
- Corporate increases reflect expanded Area Mgt function, investment in IT systems, along with CCS transition costs
- Deprecation driven by increased investment in centre refurbishment program
- Movements in finance costs reflect acquisitions

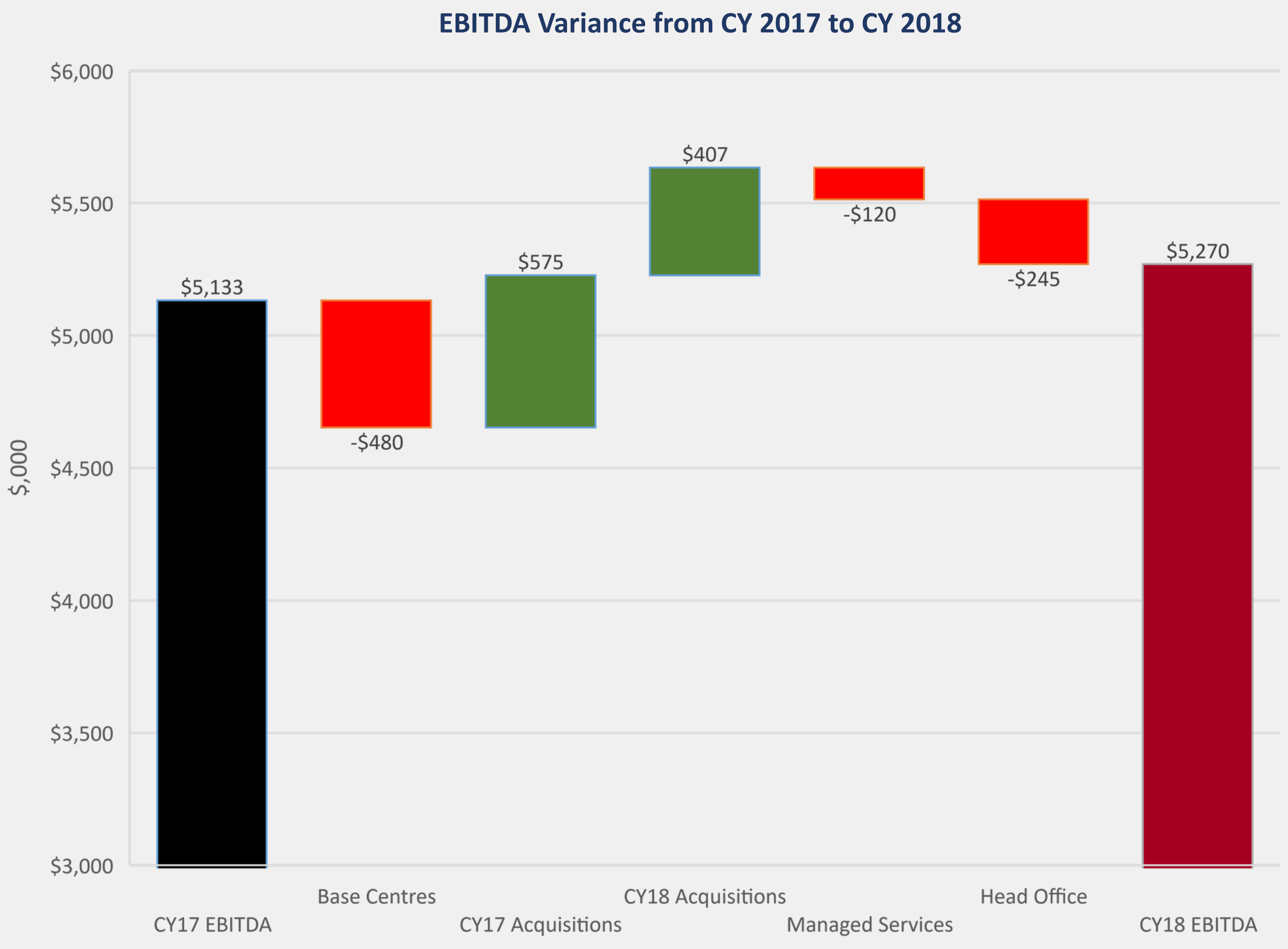
- NPAT of $3.4m in line with prior year
- Profit of $897k realised on the disposal of two(2) underperforming centres, resulting in Statutory NPAT of $4.3m

- Fully franked dividend of 8.97c

## 02 EBITDA Reconciliation



- Our 2017 base centres took the brunt of the fall in occupancy and the flow on to operating expenses, with EBITDA down $0.5m
- CY 2017 acquisitions have responded well to our investment in centre refurbishments along with the Quality Improvement program with EBITDA up $0.6m
- While opportunities slowed in 2018, our acquisitions are performing well at $0.4m
- Managed services marginally down $0.1m
- Head Office expenses up $0.2m recognising a full year of structural expenses and growth of the business



# 02 Balance Sheet

| $000's | 31 Dec 17 | 31 Dec 18 | Var |
|---|---|---|---|
| Cash & cash equivalents | 1,539 | 1,777 | 238 |
| Trade & other receivables | 764 | 933 | 169 |
| Other | 289 | 322 | 33 |
| **Current Assets** | **2,592** | **3,032** | **440** |
| Plant & equipment | 458 | 1,324 | 866 |
| Deferred tax | 364 | 396 | 32 |
| Intangibles | 32,943 | 38,856 | 5,913 |
| **Non-current assets** | **33,765** | **40,576** | **6,811** |
| **Assets** | **36,357** | **43,608** | **7,251** |
| Trade & other payables | 3,830 | 2,099 | (1,731) |
| Provisions | 747 | 916 | 169 |
| **Current liabilities** | **4,577** | **3,015** | **(1,562)** |
| Borrowings | 7,532 | 13,367 | 5,835 |
| Provisions | 88 | 75 | (13) |
| **Non-current liabilities** | **7,620** | **13,442** | **5,822** |
| **Liabilities** | **12,197** | **16,457** | **4,260** |
| **Net Assets** | **24,160** | **27,151** | **2,991** |
| Net debt (A$000's) | $5,993 | $11,590 | $5,597 |
| Debt to equity (%) | 24.8% | 42.7% | 72.1% |
| Gearing (%) | 19.9% | 29.9% | 50.3% |
| Debt to asset (%) | 16.5% | 26.6% | 61.2% |

Balance sheet reflects growth strategy of the business, specifically

- Healthy cash position of $1.8m
- Capital Investment in our centres increased by a net $0.9m
- CY 2018 acquisitions less disposals added a net $5.9m to goodwill
- Decrease in payables reflects deferred settlement on 2017 acquisition of $1.2m
- Increased borrowings of $5.8m to fund CY 2018 acquisitions, Westpac facility now $19.1m
- 12.4% improvement in Net Assets to $27.2m
- Gearing ratios consistent with debt funded acquisitions

# 02 Cash flows

| $000's | CY 2017 | CY 2018 |
|---|---|---|
| **Operating cash flows** | | |
| Childcare receipts | 26,059 | 31,465 |
| Operating expenses | (21,063) | (26,262) |
| Net interest paid | (329) | (523) |
| Other | 149 | 51 |
| **Net operating cash flows (excl income tax)** | **4,816** | **4,731** |
| Income tax paid | (50) | (1,783) |
| **Net operating cash flows** | **4,766** | **2,948** |
| **Investing cash flows** | | |
| Plant & equipment | (240) | (1,078) |
| Centre acquisitions | (4,330) | (7,178) |
| Centre disposals | (1) | 1,034 |
| **Net investing cash flows** | **(4,571)** | **(7,222)** |
| **Financing cash flows** | | |
| Proceeds from borrowings | (11) | 5,836 |
| Dividends paid | - | (1,279) |
| Other | (55) | (45) |
| **Net Financing cash flows** | **(66)** | **4,512** |
| Net increase / (decrease) | 129 | 238 |
| **Cash & cash equivalents** | **1,539** | **1,777** |

- Positive cash from operations, despite difficult trading conditions and payment of year 1 tax obligation of $1.8m
- Net Investing cashflows, reflect ongoing investment in centre upgrades and resources along with acquisition growth
- Increased borrowings to fund acquisitions and payment of cash component of CY 2017 dividend
- Healthy closing cash balance of $1.8m

# 02 Dividend

- Mayfield paid its inaugural fully franked dividend of $2.3m or 7.65 cps for the year ended 31 December 2017
  - Dividend payment made up of $1.3m in cash and 959,116 ordinary shares issued under the DRP at $1.06/share
- Board announces for the 12 months ending 31 December 2018, Mayfield will pay a fully franked divided of 8.97cps
  - Payable in March 2019
  - *(Note: Dividend calculation includes the one-off profit on disposal NPAT gain of $897k)*
- The Board recommends consideration of the Dividend Reinvestment Plan (DRP).
  - Shareholders who elect to take shares instead of cash under the DRP will receive shares at a discount of 5% to the VWAP share price over the pricing period

## 03 Operational performance:

Centre based metrics

Occupancy & revenue

Operational metrics

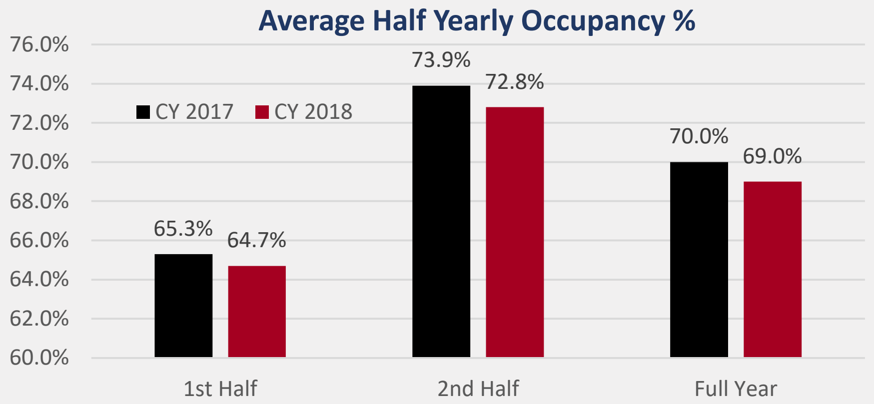
# 03 Centre Based Metrics



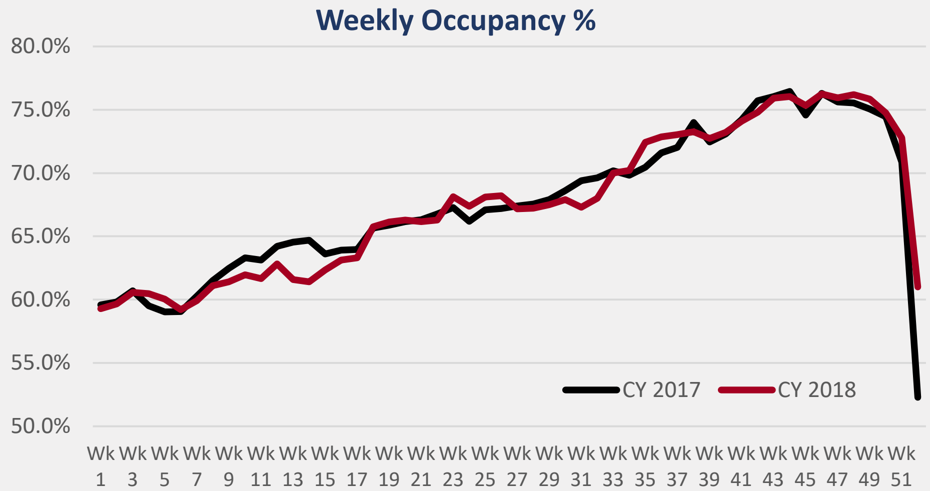
- Registered places up 6.6%, net of centre disposals
- Average fees are $111, following a 3.9% price increase
  - Price increases lower than planned in response to competitive pressure
  - Excluding the 2 highest priced centres, underlying average daily fee is $108
- Wages to revenue up slightly to 56.4%, reflecting lower occupancy in 1H18
- Award wage rates increase continue to rise, up from 3.3% to 3.5%, payable at July 1 each year
- Healthy average lease term across the business of 22.4 years and below market rental rates per child at $2,119
- Leasehold rental increases of 3.1% is a mixture of CPI, and fixed rates increases, along with planned market reviews

| Key Metrics | CY 2016 | CY 2017 | CY 2018 |
|---|---|---|---|
| Number of centres | 16 | 19 | 20 |
| Number of registered places | 1,360 | 1,588 | 1,693 |
| Average centre size | 85 | 84 | 85 |
| Average fees per day | $99 | $105 | $111 |
| Average daily fee increase | N/A | 5.9% | 3.9% |
| Number of educators | 328 | 423 | 445 |
| Wages to revenue ratio | 58.8% | 55.6% | 56.4% |
| Average award wage increase | 2.4% | 3.3% | 3.5% |
| Average lease term | 23.9 yrs | 22.2 yrs | 22.4 yrs |
| Average rent per registered place | $1,901 | $1,933 | $2,119 |
| Average rent increase | N/A | 2.7% | 3.1% |

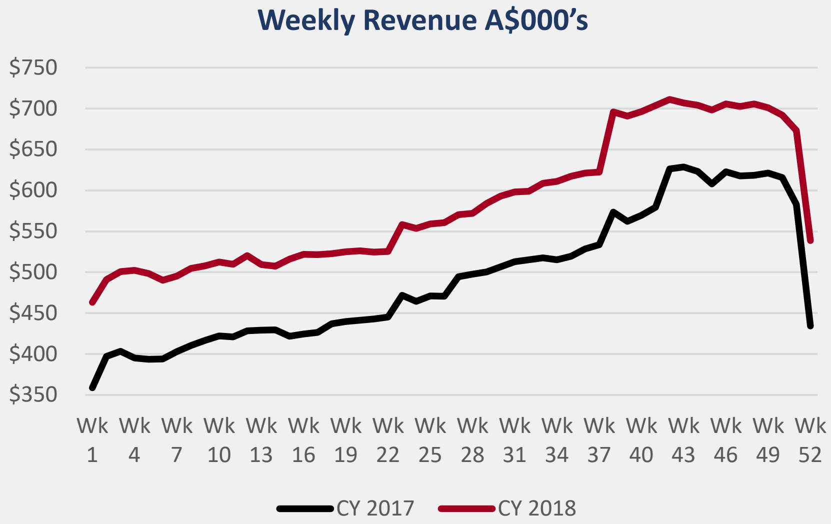
# 03 Occupancy & Revenue Performance




Given sector challenges, 1H18 was expected to be a difficult trading period. Parent confusion and uncertainty of the new CCS saw 2H18 results fall below expectation, with overall occupancy down 1% for the year.

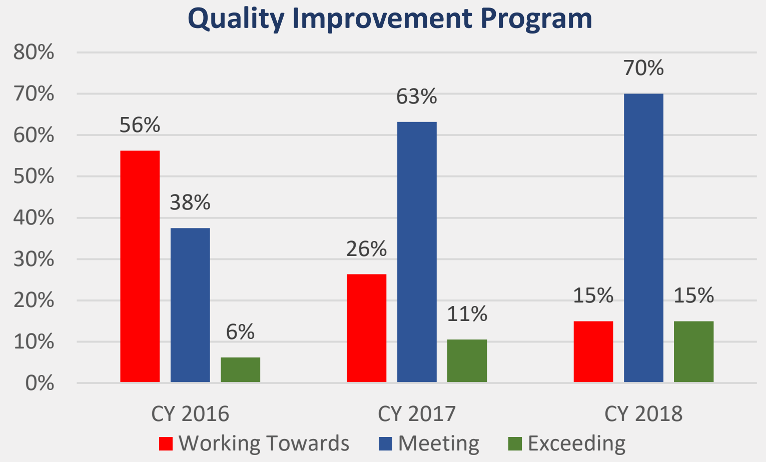



Q3 performance was flat following the implementation of CCS, though strong and encouraging gains were made during Q4.

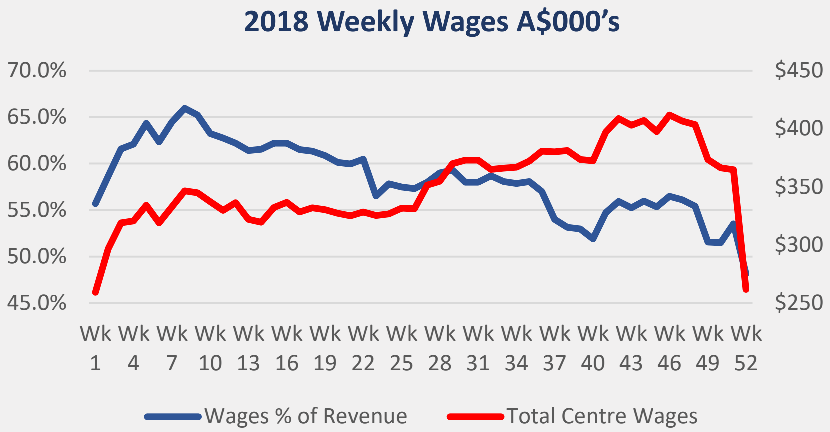



Weekly revenue reflects occupancy curve, albeit at higher fee levels.

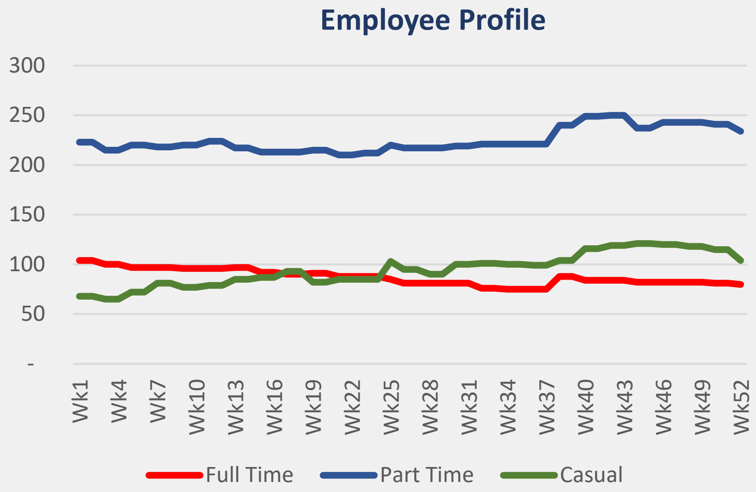
# 03 Operational Metrics



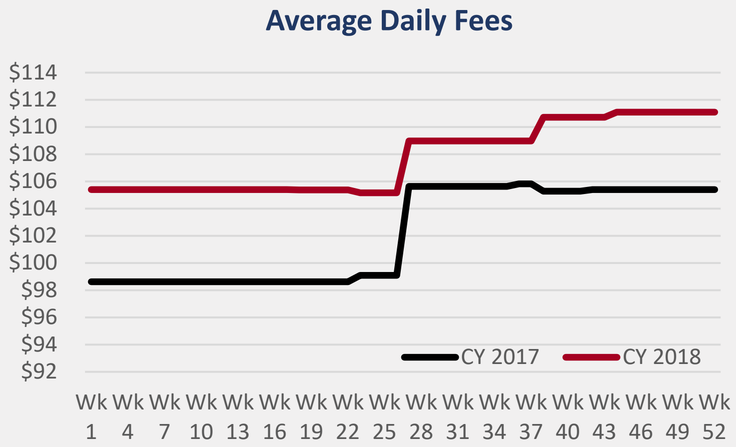

Our continued investment in Quality has seen a significant shift in our National Quality Standards profile as measured by the Dept of Education




Increase in wages consistent with revenue growth and centre acquisitions. Wages to revenue high during low occupancy with full year averaging 56.4%




Total centre based staff of 445 with minimal turnover.




Average daily fees as at Dec 18 are $111, reflecting a 3.9% price increase in July 18, versus 5.9% in July 17

## 04 Acquisitions:

# 04 Acquisitions & Disposals



**19** — **No of centres as at Dec 2017**

**3** — **Centres acquired in July and October 2018**

**-2** — **Centres disposed in April and October 2018**

**20** — **Total centres**

| Key Metrics | Acquisitions | Disposals |
|---|---|---|
| Number of centres | 3 | 2 |
| Registered places | 214 | 108 |
| EBITDA CY 2018 | $0.4m | ($0.2m) |
| EBITDA CY 2019 | $1.2m | N/A |
| Average Daily Fees | $121 | $101 |
| Rent per place | $2,653 | $1,850 |
| Purchase price | $6.01m | N/A |
| Funding source | Debt / Cash | N/A |

- 2018 Acquisition opportunities slowed, as vendors focused on CCS transition requirements
- Acquisitions remain inline with strategic direction
  - Victorian based supporting management structure
  - Purpose built, medium size and above
  - Existing businesses with trade-up potential to improve shareholder value
  - Target under-supplied areas
  - Ideally purchase multiple circa 4.2x

05 Industry:

# 05 Industry

- **Government Funding - 2018**
  - Representing the most significant change the Industry has seen in several years, the Child Care Subsidy has brought welcome relief to many working families, who are battling with the cost of childcare.
  - Though the new Activity Test has certainly disadvantaged some, particularly those with low activity, whether by choice or circumstance
  - There are still some 'discoverables' for operators and families to ensure entitlements are maintained

- **Government Funding - 2019**
  - Families have yet to realise the benefits of the changes to their subsidy caps
  - For families whose rebates typically run-out during the Apr-Jun period, the No-Cap up to $185k combined income and a $10,000 cap beyond that, should see a positive change in childcare participation

- **Industry supply**
  - While supply peaked during 2017, developers are now struggling to find tenants on favourable terms and the banks are tightening lending criteria
  - Development applications continue, though progression through to actual construction is slowing, particularly in Victoria
  - Council's in well serviced areas are beginning to assess the merits of new development applications
  - Inner suburban sites in Melbourne are still sought after

## 06 2019 Outlook:

# 06 2019 Outlook

- Market Outlook
  - A more stable market environment, influenced by cyclical improvements in the sector
  - Positive impacts from the new CCS are set to continue as families find further relief through changes to rebate levels
  - Supply and demand are forecast to be more in balance
  - New developments will slow, as Victorian supply moderates, following a strong development phase over the last 18 months

- In light of the turbulence of 2018, Mayfield will provide more detailed guidance post Q1 trading activities
- Broadly, Mayfield expects:
  - **Earnings** – Improvement on CY 2018 earnings (excluding any potential acquisitions)
  - **Pricing** – Higher pricing, though cognisant of competitive pressures in some areas
  - **Occupancy** – Our Day 1 focus and investment in Quality will positively improve occupancy
  - **Wage Ratios** – Underlying performance improvements should see wage ratios back to prior year levels
  - **Managed Services** – Marginal increases in Managed Services fees
  - **Investment** – Continued investment in centre upgrades and resources
  - **Acquisitions** – Continuation of our acquisition strategy, with increased brownfield stock coming onto the market

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# Thankyou

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