2 August 2019

Mayfield Childcare Limited - Financial Results for the Half Year ended 30 June 2019

Mayfield Childcare Limited (ASX:MFD) is pleased to announce its results for the first half of Calendar Year 2019.

Revenue from continuing operations was $15.9m (up 13.6%) delivering a Reported NPAT of $0.9m (down 36.1%). Statutory results reflect the application of new Australian Accounting Standard for Leases (AASB 16 *Leases*) from 1 January 2019.

After reversing the impact of AASB 16 *Leases*, Underlying Results are as follows:

CY 2019 First Half Underlying Results:

	CY 2019 First Half	PCP Variance %
Revenue from continuing operations	**$15.9m**	**+13.6%**
Centre EBITDA	**$3.0m**	**+20.9%**
Group EBITDA	**$2.0m**	**+18.8%**
Group EBIT	**$1.8m**	**+14.0%**
NPAT	**$1.1m**	**+7.5%**

First half results reflect the flow through of CY2018 acquisitions and price increases, continued centre investment, along with focused operational cost control. While occupancy is up 0.3% on the prior corresponding period (pcp), a slow April combined with a small number of underperforming centres, (which now has been addressed) affected the Group average.

Centre operating margins have continued to strengthen up 1.1% to 19.2%. Wages as a percentage of revenue, continue to trend favourably down to 59.9%.

As part of the ongoing centre refurbishment program, substantial improvements have been made to a number of the centres, reflecting the company's commitment to its Quality Improvement Program as an occupancy driver, while maintaining a competitive position to greenfield developments. These works have been complemented with increased investment in local marketing and community programs.

The most recent centre acquisition as previously advised in May 2019, was completed during the 2nd quarter. The transaction was partly cash funded, which contributed to the lower cash balance, coupled with tighter cash management strategies to offset financing costs. Net operating cash flows continue to strengthen.

With the continued support of Westpac, the Company restructured its debt facility, extending the terms of its individual loans by 5 years through to May 2024, while adding additional redraw flexibility.

In March 2019, Mayfield Childcare paid its annual dividend for the year ended 31 December 2018 of $2.8m. Cash dividend payments totalled $1.9m and 869,647 ordinary shares were issued under the Dividend Reinvestment Plan (DRP) at $0.97 per share.

Effective 1 July 2019, the business put through its 2019/2020 price increases reflecting an overall increase of 3.9% or approx. $5/day. This was on the back of the Award wage rate increases of 3.0%, down from last year's 3.5%. Overall lease rentals are expected to hold at 2.9% for 2019.

Mayfield CEO Dean Clarke said:

"The financial outlook for CY 2019 is for revenue of approx. $34.0m, delivering Group EBIT in the range of $5.8m - $6.2m.

The July 2018 Government funding package is taking pressure off many families and enabling them to provide important educational and social activities for their children through childcare in the critically important early learning years. Mayfield, for its part, is passionate about providing a high-quality childcare service and we are constantly looking at ways to improve a child's experience at a Mayfield Childcare Centre".

Please direct any further enquiries to:

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2 August 2019

MAYFIELD
CHILDCARE LIMITED

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Contents

01 CY 2019 First Half Highlights

- **Solid first half performance**
  - Business generates positive results across all operating measures
  - Revenue performance reflects CY 2018 acquisitions, price increases and favourable occupancy and mix
  - Operating margins continue to strengthen - up 1.1% to 19.1%
  - Continued rigour across rostering and staffing mix yields results - wages down to 59.9% of revenue

- **Continued investment in business assets and operations**
  - Substantial investment in centre refurbishment programs, particularly in the outdoor environments
  - Our Quality programs remain a key focus in the areas of educational programs and staff professional development
  - Work continues on Phase 2 of our centre-based websites and social media platforms, to deliver "full-service" applications
  - Community engagement remains a key feature of our marketing mix with many centres hosting community days at the services
  - Created State Operations management role with direct oversight of Area and Centre management functions
  - One acquisition during the period, (*advised 8 May 2019)*

- **Improving trading conditions**
  - Occupancy is up 0.3% on the back of a slow April combined with a small number of underperforming centres – since addressed
  - Victorian supply growth is slowing as developer margins decline and new tenant pool subsides
  - Councils now taking a more commercial approach to new developments seeking validation of demand / supply metrics

- **Improved treasury management**
  - Restructured debt facility, extending the terms of the individual loans by 5 years, while adding additional redraw flexibility.
  - Smarter cash management strategies to offset finance costs
  - Available debt of $4.5m for acquisitions and working capital
  - Fully franked dividend for CY 2018 of 8.97c paid in March 2019

02 **Financial performance:**

AASB 16 Leases

Operating performance

Balance sheet

Cash flow

02 AASB 16 *Leases* Standard

- 1 January 2019 saw the implementation of the new Accounting Standard, AASB 16 *Leases*. With the exception of short-term and low-value asset leases, all leases are now recognised on the balance sheet, with the following implications:
  - Lease liabilities (current and non-current) matched by corresponding right-of-use assets (non-current) upon implementation;
  - Right-of-use asset depreciated on a straight line basis over the life of the lease; and
  - Lease payments apportioned between principal (repayment of liability B/S) and interest (P&L) components resulting in lower profits in the early years and higher profits in the later years of each lease.

- In keeping with the sector, Mayfield is reporting the reversal of AASB 16 *Leases* to highlight its underlying business, the economics of which remain unchanged.
  - CY 2019 First Half NPAT impact of ($189K)
  - CY 2019 Full Year NPAT impact estimated at ($371K)

- The table below highlights the key financial statutory metrics impacted by AASB 16 and the underlying business result:

	CY19 1H Statutory	CY 19 1H Underlying	Fav / (Unfav) Movement		CY19 1H Statutory	CY 19 1H Underlying	Fav / (Unfav) Movement
Performance				**Balance Sheet**			
Earnings before interest & tax	1,889	1,824	(65)	Working Capital Ratio	22%	46%	24%
NPAT from continuing operations	938	1,127	189	Debt to Equity Ratio	147%	56%	91%
Earnings per share (EPS) - cents	2.99	3.59	0.60	Gearing Ratio	59.4%	35.7%	23.7%
EBIT Interest cover	2.8x	5.4x	2.6x	Net Tangible Assets - cents	(117.9)	(43.6)	74.3

02 Operating Performance

$000's	CY19 1H Statutory	AASB 16 *Leases*	CY19 1H Underlying	CY18 1H Underlying	Var %
Revenue	15,861		15,861	13,957	13.6
Labour costs	9,501		9501	8,473	(12.1)
Operating expenses	921		921	860	(7.1)
Facilities	548	1,843	2,391	2,103	(13.7)
Centre EBITDA	**4,891**	**(1,843)**	**3,048**	**2,521**	**20.9**
HO Staff & related costs	667		667	497	(34.2)
Other corporate overheads	371	29	400	356	(12.4)
Group EBITDA	**3,853**	**(1,872)**	**1,981**	**1,668**	**18.8**
Depreciation	1,964	(1,807)	157	68	(100.0+)
EBIT	1,889	(65)	1,824	1,600	14.0
Interest	666	(325)	341	206	(65.5)
PBIT	1,223	260	1,483	1,394	6.4
Tax	285	(71)	356	346	(2.9)
NPAT from Continuing Operations	**938**	**189**	**1,127**	**1,048**	**7.5**
Earning per share (EPS)			3.59c	3.44c	4.4
Centre EBITDA margin			19.2%	18.1%	6.4
Wages to Revenue %			59.9%	60.7%	1.3

The operating performance for CY 2019 reflects the following

- Revenues up 13.6% driven by flow through of CY 2018 acquisitions and price increases
- Total centre expenses up 12.0%, driven by network growth, allowing for acquisitions and disposals underlying expenses up 2.0%,
- Wages to revenue of 59.9% favourable by 1.3%
- Centre operating margins have improved 6.4% to 19.2%
- Corporate increases reflect expanded Operations and Area Management functions, along with investment in IT systems
- Depreciation driven by increased investment in centre refurbishment program. Annualised Capex of $1.0m
- Movements in finance costs reflects increased borrowings to fund acquisitions
- Underlying NPAT of $1.1m - up 7.5%

Note: Statutory Reports have been adjusted to reverse the impact of AASB 16 Leases

02 Balance Sheet

$000's	30 Jun 19 Statutory	AASB 16 *Leases*	30 Jun 19 Underlying	31 Dec 18 Underlying	Var
Cash & cash equivalents	73		73	880	(807)
Trade & other receivables	1,326		1,326	1,256	70
Current Assets	**1,399**		**1,399**	**2,136**	**(737)**
Plant & equipment	1,950	63	2,013	1,324	689
Deferred tax	543		543	396	147
Right of use assets	23,402	(23,402)	-	-	-
Intangibles	39,739		39,739	38,856	883
Non-current assets	**65,634**	**(23,339)**	**42,295**	**40,576**	**1,719**
Assets	**67,033**	**(23,339)**	**43,694**	**42,712**	**982**
Trade & other payables	1,698		1,698	1,317	381
Borrowings	529	18	547	-	547
Leases	3,383	(3,383)	-	-	-
Tax liabilities	(170)		(170)	765	(935)
Provisions	967		967	933	34
Current liabilities	**6,407**	**(3,365)**	**3,042**	**3,015**	**27**
Borrowings	14,121	57	14,178	13,300	878
Leases	20,290	(20,290)	-	-	-
Provisions	66		66	142	(76)
Non-current liabilities	**34,477**	**(20,233)**	**14,244**	**13,442**	**802**
Liabilities	**40,884**	**(23,598)**	**17,286**	**16,457**	**829**
Net Assets	**26,149**	**259**	**26,408**	**26,255**	**153**

- Lower cash position from partial funding of acquisitions, and tighter cash management strategies to offset financing costs.
- P&E increases reflect ongoing centre refurbishment programs
- Intangibles up $0.9m following latest centre acquisition
- Commencing debt repayments in Jan 2020
- Tax movement reflects final payment of 2018 tax and timing on 2019 obligations
- Increased borrowings predominately related to centre acquisition

Note: Statutory reports have been adjusted to reverse the impact of AASB 16 Leases

02 Cash flows

$000’s	CY19 1H Statutory	AASB 16 *Leases*	CY19 1H Underlying	CY 2018 Underlying
Operating cash flows				
Childcare receipts	15,756		15,756	13,922
Operating expenses	(11,566)	(1,873)	(13,439)	(11,926)
Net interest paid	(338)	(8)	(346)	(207)
Other	6		6	6
Income tax paid	(1,367)		(1,367)	(1,387)
Net operating cash flows	**2,491**	**(1,881)**	**610**	**408**
Investing cash flows				
Plant & equipment	(842)		(842)	(563)
Centre acquisitions	(887)		(887)	(2,049)
Centre disposals & other	6		6	65
Net investing cash flows	**(1,723)**		**(1,723)**	**(2,547)**
Financing cash flows				
Borrowings	1,350		1350	2,300
Repayment of Leases	(1,556)	1,556	-	-
Interest paid on Leases	(327)	327	-	-
Dividends paid	(1,924)		(1,924)	(1,279)
Other	(5)	(2)	(7)	(61)
Net financing cash flows	**(2,472)**	**1,881**	**(591)**	**960**
Net increase / (decrease)	(1,704)	0	(1,704)	(1,179)
Cash & cash equivalents	**73**		**73**	**360**

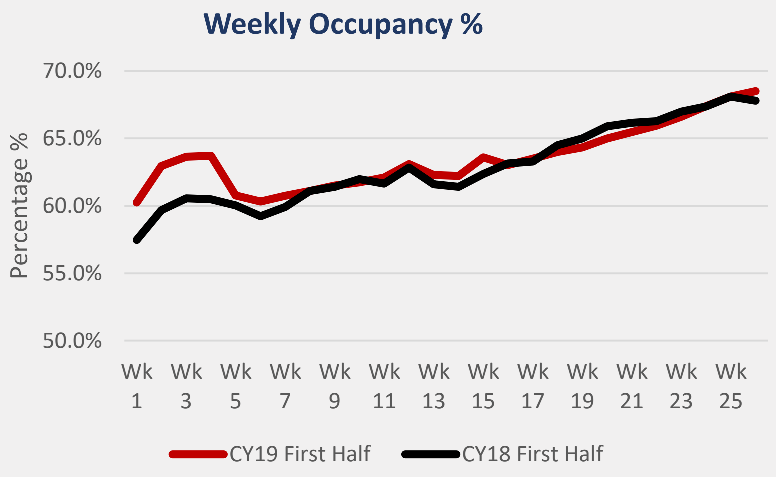
- Positive net operating cash flows in line with business performance
- Net Investing cashflows, reflect ongoing investment in centre upgrades and resources along with acquisition growth
- Increased borrowings to fund acquisitions, cash component of CY 2018 dividend and working capital

Note: Statutory reports have been adjusted to reverse the impact of AASB 16 Leases

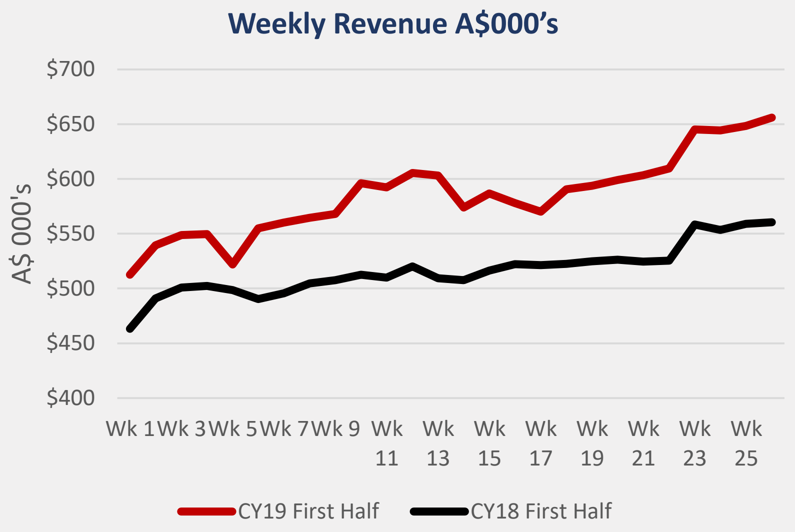
03 Operational Performance:

Occupancy, Revenue & Wage Performance

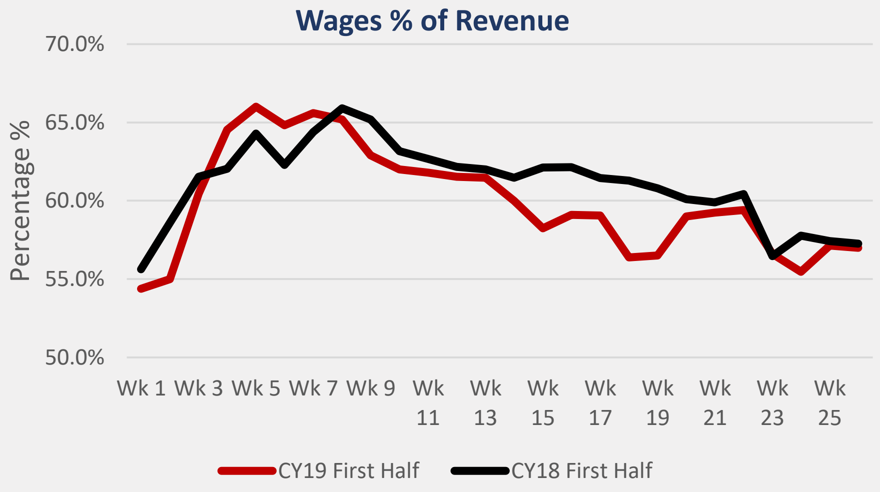
03 Occupancy, Revenue and Wage Performance



While occupancy is up 0.3% on pcp, a slow April combined with a small number of underperforming centres, now addressed, affected the Group average.



Weekly revenues continue to strengthen on the back of favourable occupancy and occupancy mix, along with higher fee levels



Improved operating margins reflect tighter control of wages, rostering and staffing mix

04 Acquisitions:

04 Acquisitions

21 LONG DAY CARE CENTRES

1,777 REGISTERED PLACES

100% VICTORIAN

3,000+ FAMILIES

500+ EDUCATORS

- Mayfield continues to seek acquisition opportunities with a number of prospects under consideration, though stocks of suitable sites are low

- Selection criteria - the business remains committed to its selection criteria, and will not compromise for acquisition sake:
  - Brownfield
  - Minimum of 60 licensed places, ideally not greater than 100 places
  - Minimum overall lease term, including options, of 20 years
  - Occupancy at or above 65% or EBIT exceeding $225K p.a.
  - Average fee equal to or greater than $100/day
  - Compliant with National Regulations
  - Qualifications and staffing arrangements to ratio and pay rates at award

- Market insights
  - Purchase multiples for the above profile centres range from 4.0 to 4.3, with inner suburban, high margin, high occupancy centres upwards of 5x
  - Typical vendor remains husband and wife duo, looking to retire, and probably own the freehold
  - Small group sales happening off-market and therefore difficult to get visibility of
  - Stocks of suitable centres in Victoria below levels of NSW and Qld
  - Greenfield developments / sales continue to slow
  - Council reviewing demand / supply metrics on new applications, and in some cases seeking input from existing operators on occupancy levels

05 Industry:

05 Industry

- **Government Funding - 2019**
  - We are now 12 months into the new CCS system, and both existing and new families, are well versed in the machinations of the system
  - It's clear that families with an 'activity test' below full time in the main have been disadvantaged, which presents in the lower socio/economic areas
  - Conversely there are families who under utilise their subsidies with respect to entitled hours of care
  - While rebate capping issues have significantly reduced, some full-time care families reached their thresholds before 30 June
  - Long day hourly cap increased by 1.8% to $11.98 effective 1 July 2019
  - The Department of Education is currently working through its implementation plans for 3yr old Kindergarten and funding, which will mirror the 4 yr old structure

- **Industry supply**
  - As stated previously, declining developer margins, tighter lending requirements and a decreasing pool of new tenants have all contributed to a slow down in Victorian developments
  - More recently, some Local Councils have taken steps to assess the commercial viability and impact on existing services, of new development applications, by seeking validation of demand / supply metrics from applicants as well as surrounding childcare operators
  - From a competitive perspective
    - Only 2 new developments have opened in close proximity to Mayfield centres during the period, with little or no impact to performance
    - Mayfield's Quality program seeks to create a point of difference and enhance a child's learning experience relative to other services
    - Continued investment in our centre refurbishment programs, particularly in the outdoor environments, aims to mitigate the appeal of new builds

06 2019 Outlook:

06 Full Year 2019 Outlook

- Market guidance remains unchanged and excludes impact of AASB 16 Leases
  - Revenues of approx. $34.0m
  - EBIT of $5.8m to $6.2m
  - Occupancy up +1%

- Guidance is prefaced on
  - **Earnings** – Improvement on CY 2018 earnings
  - **Pricing** – Comparatively higher pricing, award wage rate increases of 3.0% and rental cost increases of 2.9%
  - **Occupancy** – Continued investment in Centre Refurbishment and Quality programs
  - **Wage Ratios** – Performance improvements and wage ratios back to prior year levels
  - **Managed Services** – Marginal increases in Managed Services fees
  - **Acquisitions** – Continuation of our acquisition strategy

Thankyou

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