THINK Childcare Limited

2019 Half-year results presentation

14 August 2019

CONTENTS

1 FINANCIAL PERFORMANCE

HIGHLIGHTS

On-track to achieve 2019 Guidance and operating model to support long-term growth

- Service (Centre) performance 50% higher than prior comparison period
- Capital raise of $18m in March 2019 to support future acquisitions and growth
- Achieved 13.5% total return including franked dividends since IPO (ASX300 Accumulation Index of 9.3%)
- Determined a fully franked interim dividend of 2 cents per share payable on 20 September 2019
- Acquired 4 services from 2 incubator partners above acquisition hurdle metrics[1]
- Construction completed for 2 purpose-built Nido services with 1 service open in 1H19
- Closed 2 services[2] that did not align with Nido strategy
- National rollout of Nido education curriculum
- 41 Nido services trading[3] or soon to be opened https://nidoearlyschool.com.au/

1. Nido purpose-built services located in Perth metropolitan area
2. Closure followed expiry of leases
3. Includes managed Nido services

OPERATING PERFORMANCE

67% growth in Underlying EBITDA compared with prior comparison period (pcp)

($m)[5]	1H19 Statutory	AASB 16 Leases	1H19 Underlying	1H18 Underlying[6]	Variance vs pcp
Revenue	47.9	-	47.9	33.9	14.0
Labour	(30.1)	-	(30.1)	(21.7)	(8.4)
Occupancy[1]	(2.2)	5.8	(8.1)	(5.5)	(2.5)
Service overheads	(3.5)	-	(3.5)	(2.5)	(1.0)
Service performance	**12.0**	**5.8**	**6.2**	**4.1**	**2.1**
Management fees	2.1	-	2.1	1.8	0.3
Employee expenses	(2.6)	-	(2.6)	(2.0)	(0.5)
Corporate overheads[1]	(1.3)	0.1	(1.4)	(1.3)	(0.1)
Corporate costs/revenue	**(1.8)**	**0.1**	**(1.9)**	**(1.5)**	**(0.3)**
EBITDA (Underlying)	**10.2**	**5.9**	**4.3**	**2.6**	**1.7**
Acquisition expenses	(0.2)	-	(0.2)	(0.3)	0.1
EBITDA (Statutory)	**10.0**	**5.9**	**4.1**	**2.3**	**1.8**
Finance costs[2]	(5.2)	(3.4)	(1.8)	(0.5)	(1.3)
Depreciation[3]	(5.1)	(4.0)	(1.1)	(0.7)	(0.5)
Tax[4]	(0.1)	0.4	(0.6)	(0.4)	(0.2)
NPAT	**(0.4)**	**(1.0)**	**0.6**	**0.7**	**(0.1)**
Earnings per share (cents)	**(0.74)**		**1.18**	**1.57 -**	**0.39**
Dividend per share (cents)			**2.00**	**-**	**2.00**

Underlying EBITDA increase of 1.7m due to

- 2.1m service performance (see next slide)
- Offset by increase in corporate costs 0.3m due to impact of employees hired in 2H18

On a like-for-like basis the service performance is 12% higher in 1H19 vs pcp due to

- Daily average fee higher by 7%
- Offset by 1% shortfall in days of learning (days sold)

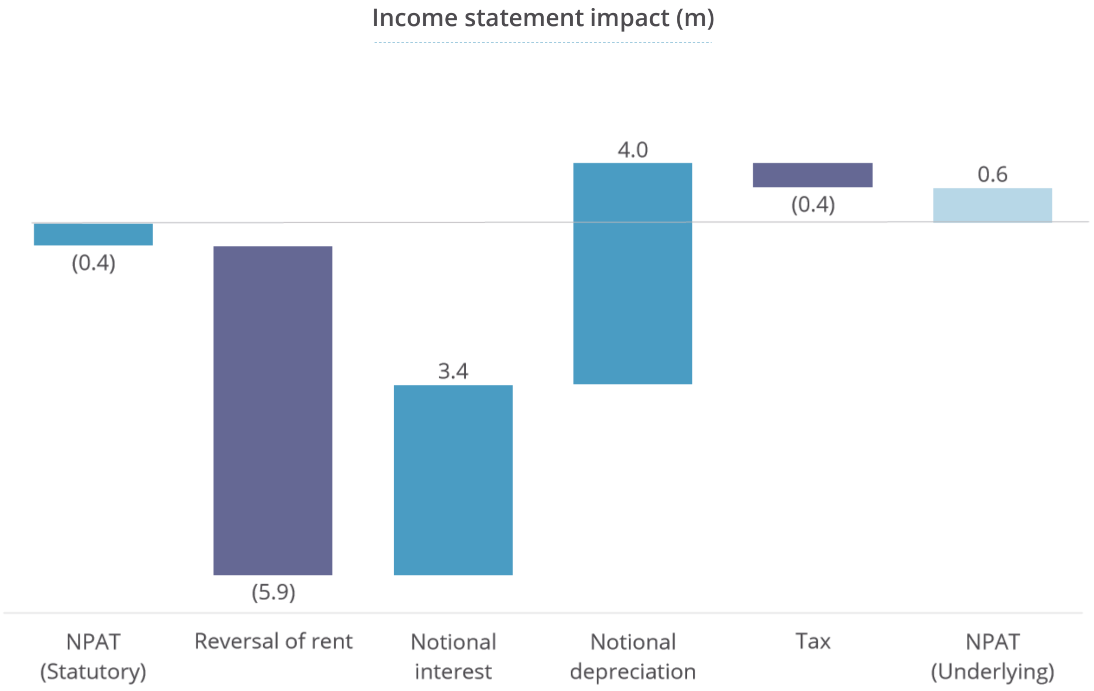
Finance costs driven by mark to market loss of 0.5m and amortisation of costs of the new debt facility secured in 2H18

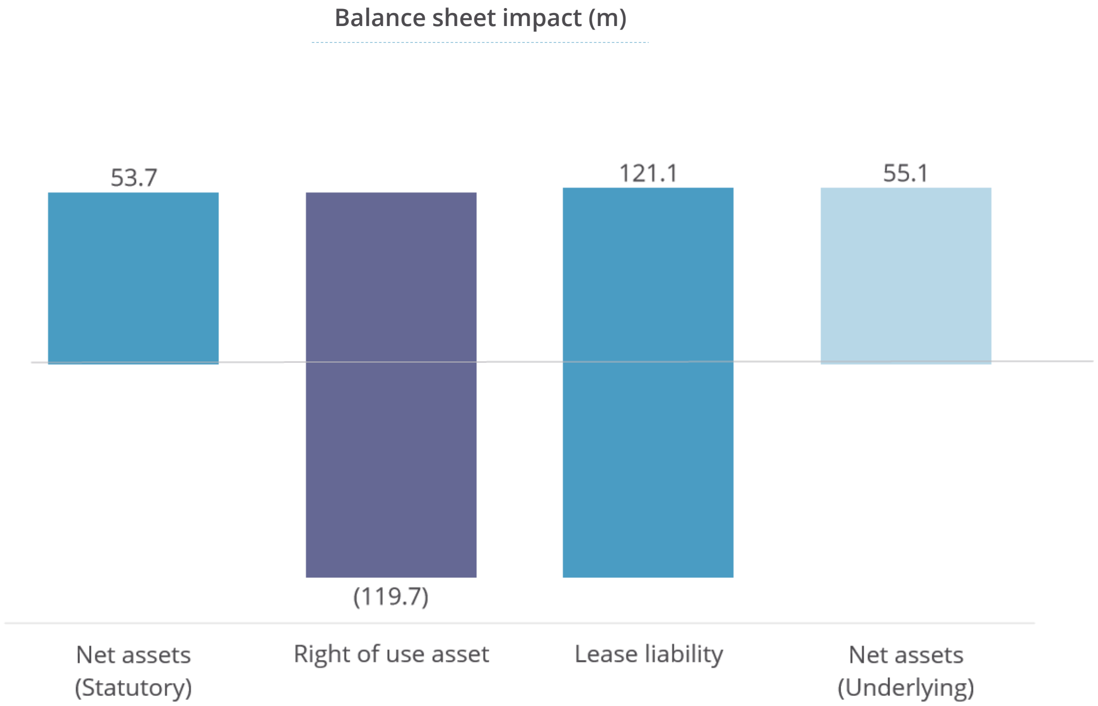
AASB 16 Leases

1. Reversal of rent
2. Notional interest on lease liability
3. Notional depreciation for right of use asset
4. Tax impact on timing differences associated with footnote 1 and 2
5. Figures are rounded to million hence subject to rounding differences
6. Reclass of 0.2m from service overheads to corporate overheads

IMPACT OF AASB 16 LEASES

AASB 16 adjustments do not impact cashflow



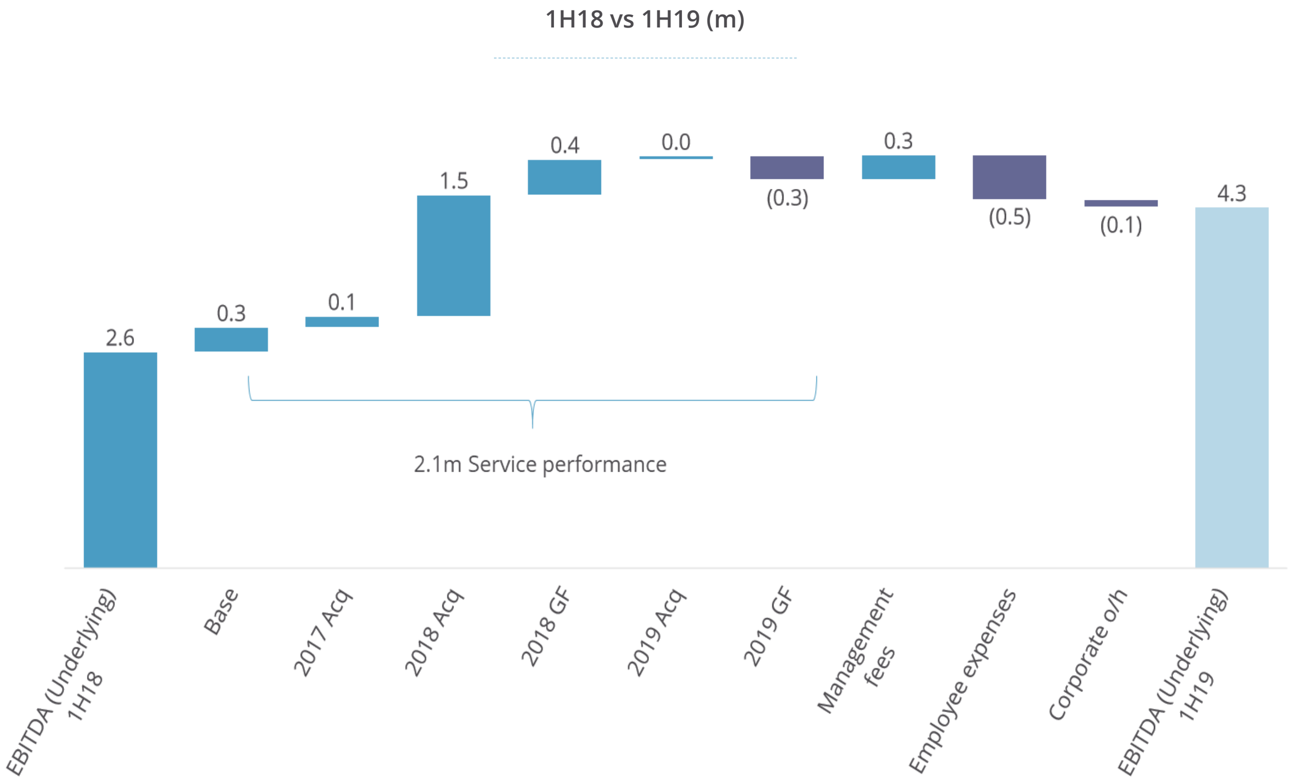


- Rent expense is replaced by notional depreciation of the right of use asset and
- Notional interest expense in respect of lease liability

- Lease liability initially measured at the present value of the lease payments that are not paid at the commencement date and corresponding right of use asset is recognised
- AASB 16 adjustments do not impact ability to generate cash

OPERATING PERFORMANCE

Service performance driven by higher days of learning from the 2H18 acquisitions



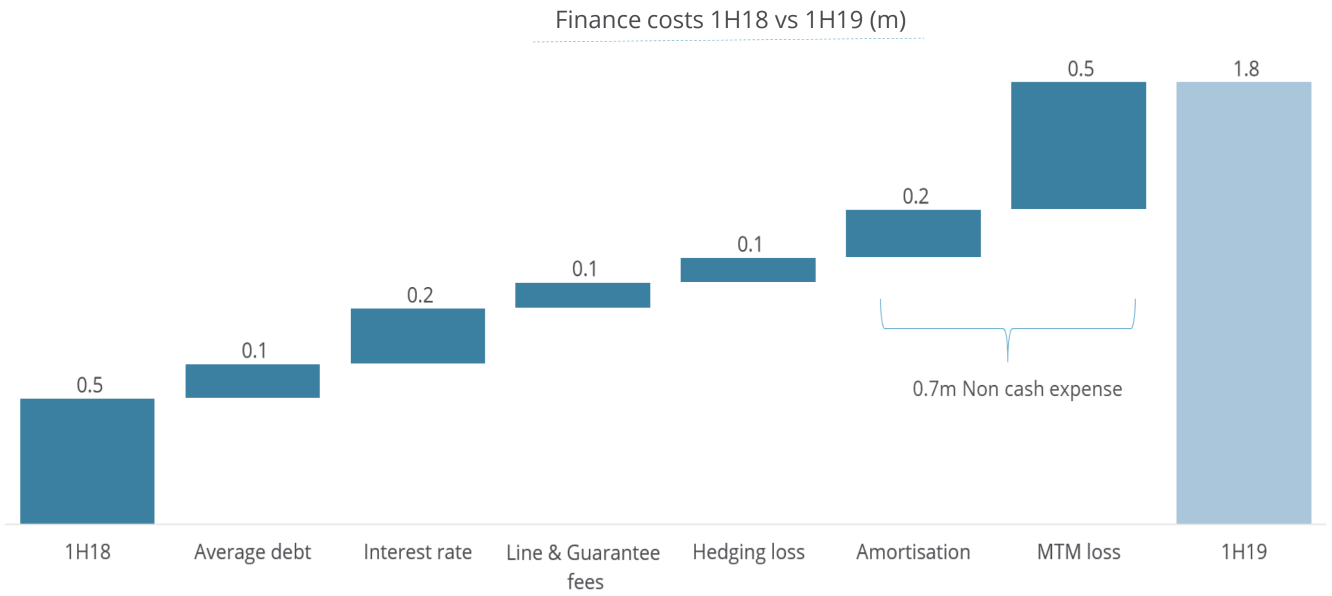
2.1m service performance due to:

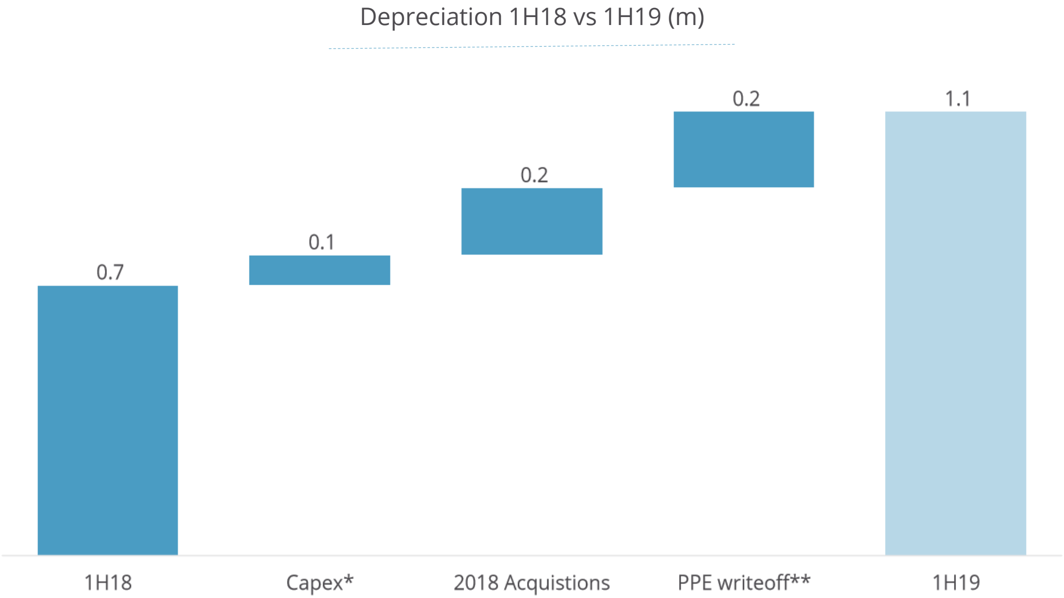
- 1.5m due to higher days of learning and 0.6m higher fees
- Services acquired in 2H18 contributed 1.5m
- 0.4m ramp up of 2018 GF
- Base services contributed 0.3m due to higher fees offset by lower days of learning (3.6% vs pcp)

Increase in corporate costs 0.3m mainly due to impact of employees hired in 2H18

NON-OPERATING COSTS

Non-cash finance costs and capital investments drive higher finance and depreciation





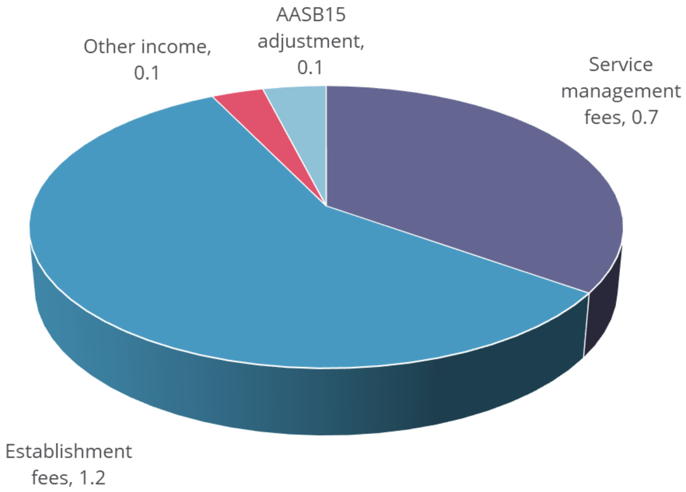
- Higher finance costs in 1H19 reflects
  - Mark to market (MTM) loss of 0.5m
  - Amortisation of establishment fees and other costs related to the new debt facility 0.2m

- Capital works related to re-opening service in Victoria and corporate office upgrade *
- Property plant and equipment (PPE) written off for the 2 services closed in 1H19 that did not align with Nido strategy**

MANAGED SERVICES REVENUE

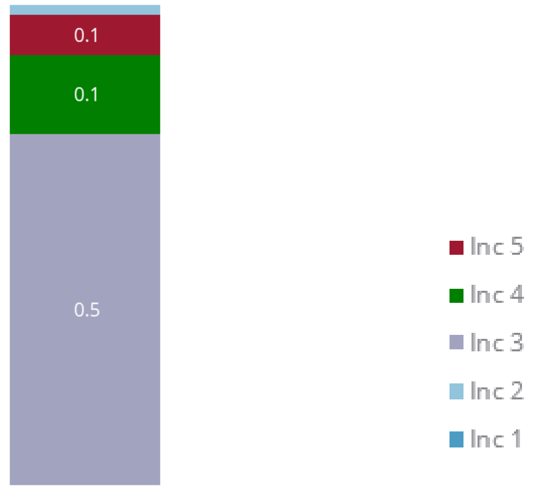
1H19 Management fees from a range of incubator partners

Management fees and other income (2.1m)



Establishment fees (1.2m)

Management fees (0.7m)



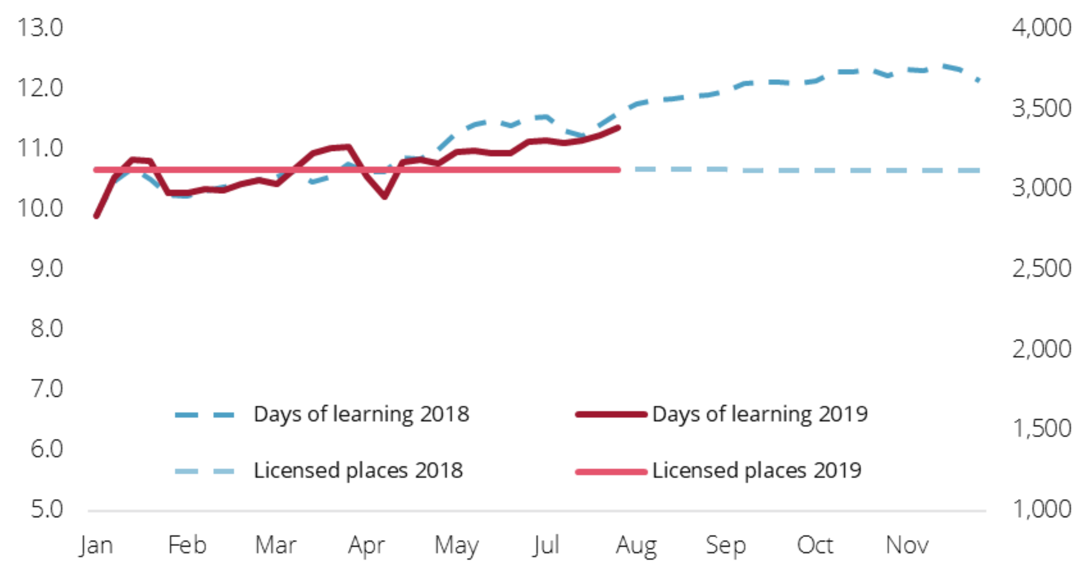
- Management and establishment fees in 1H19 are from various incubator partners
- Strategically partnered with a range of incubators to deliver future pipeline

1. Incubator partners are numbered the same as TNK FY2018 Investor presentation released to the ASX on 27 February 2019

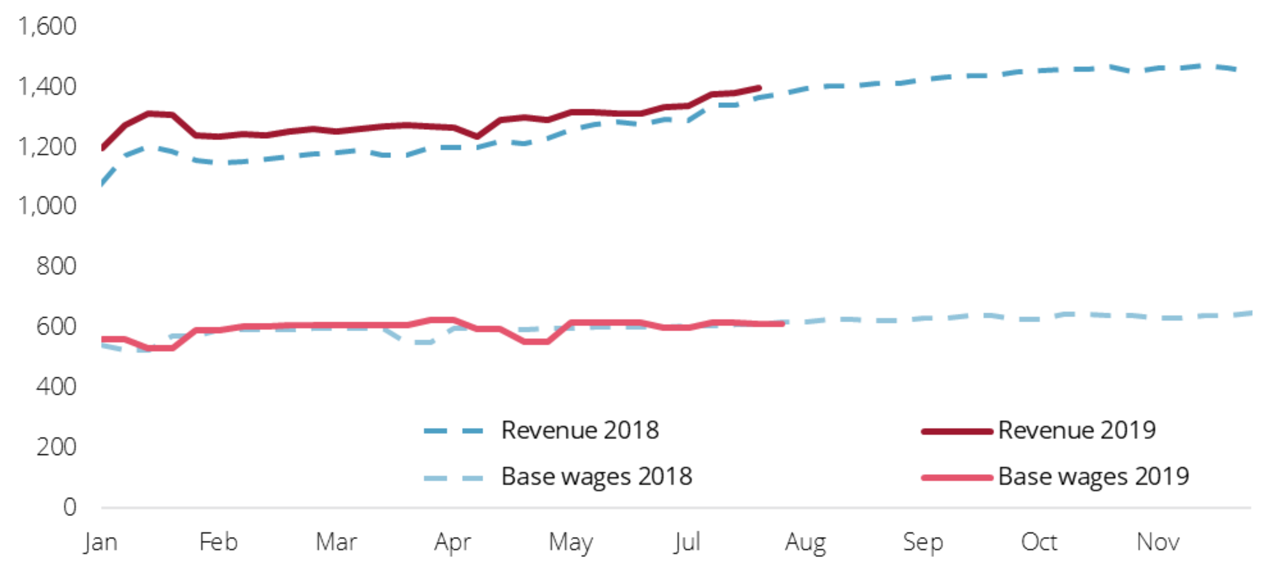
SERVICE TRADING UPDATE

Weekly revenue up by 5% YOY on a like for like[1] basis

Days of learning (000s)



Revenue and base wages (000s)

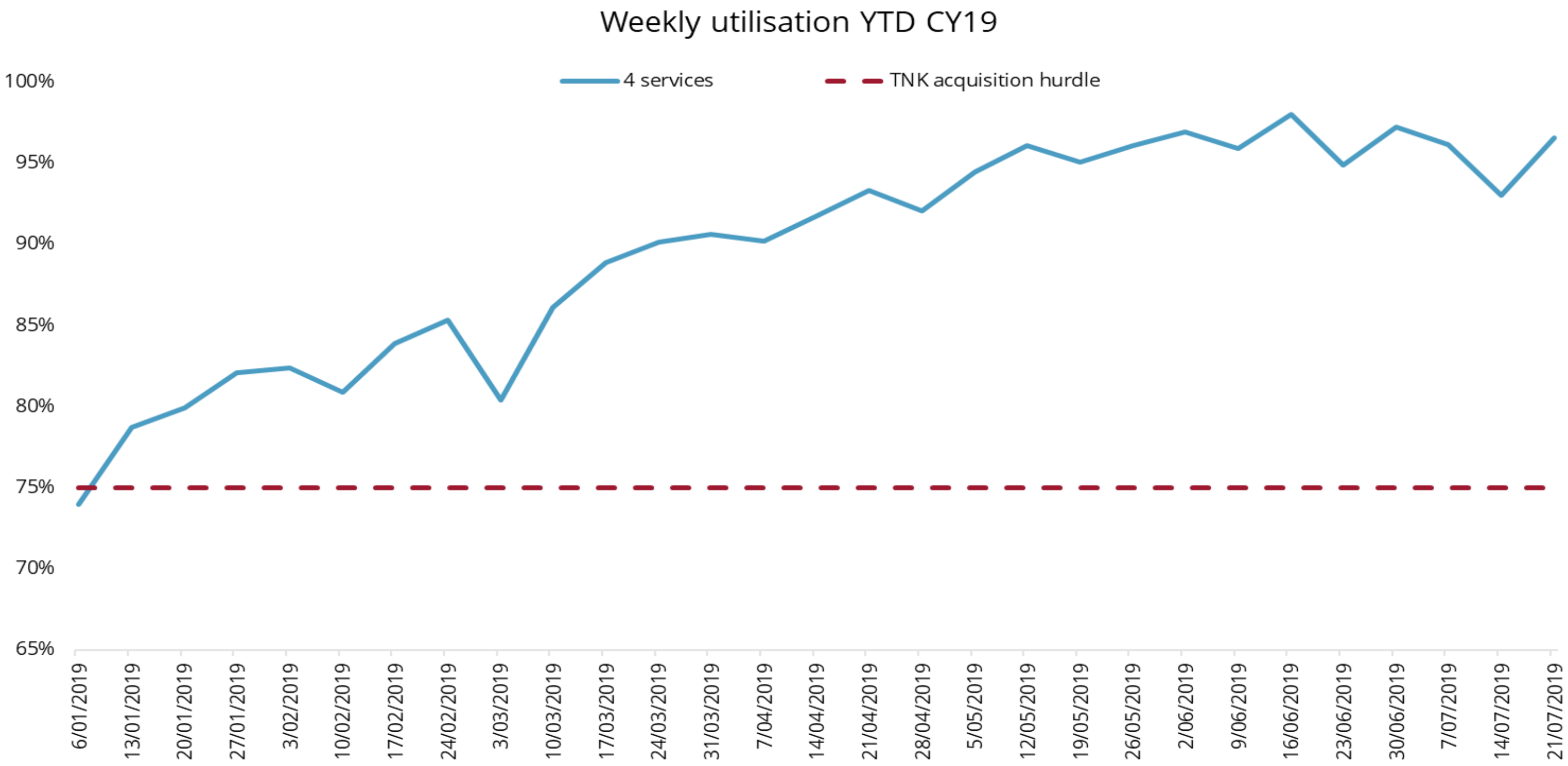


- On a like for like basis (41 services cohort) compared to pcp:
  - Weekly revenue was up by an average of 5% (66k)
  - Days sold were slightly behind 1% in part due to aggressive discounting in CY18, with the gap decreasing in July 2019
  - Base wages were up by 1.7% compared with pcp driven by higher rate per hour (3.9%) offset by reduction of 17.3k hours (2.2%)

1. 41 services cohort refers to like for like services excluding 2 services closed in March 2019

ACQUISITIONS – COMPLETED 1H19

4 services acquired above acquisition hurdles



- Completed acquisition of four newly constructed purpose-built Nido services from two incubator partners
- The four acquisitions have continued to trade-up well since reaching TNK's acquisition hurdle of 75% utilisation
- Further 6 acquisitions planned in 2H19

STRONG BALANCE SHEET

Disciplined capital management with strong cash position

($m)	1H19 Statutory	AASB 16 Leases[4]	1H19 Underlying	CY18
Cash	9.1	-	9.1	3.6
Receiveables and other assets	8.9	-	8.9	6.2
Plant, property & equipment	14.1	-	14.1	11.0
Intangible assets	63.1	-	63.1	57.3
Right-of-use asset	119.7	(119.7)	-	-
Total assets	214.9	(119.7)	95.2	78.0
Borrowings	26.4	-	26.4	26.3
Other liabilities	13.7	-	13.7	13.1
Lease liability	121.1	(121.1)	-	-
Total liabilities	161.3	(121.1)	40.1	39.4
Equity	53.7	1.5	55.1	38.6
Total leverage ratio [1]	*1.3x*		*1.3x*	*2.3x*
Debt to equity (%) [2]	*49%*		*48%*	*68%*
Debt to asset (%) [3]	*12%*		*28%*	*34%*
Fixed charge cover ratio [1]	*1.9x*		*1.9x*	*1.6x*

- Strong balance sheet notwithstanding impact of AASB 16 leasing standards
- Improvement in debt to equity ratio
- No additional draw-downs with 42.5m headroom in debt facility
- Strong cash position of 9.1m due to capital raise in March 2019
- Increase in PPE due to continued capital investment programme along with greenfield development to execute on Nido strategy
- Debt facility covenants are not impacted by AASB 16 as these were negotiated at time of executing the facility

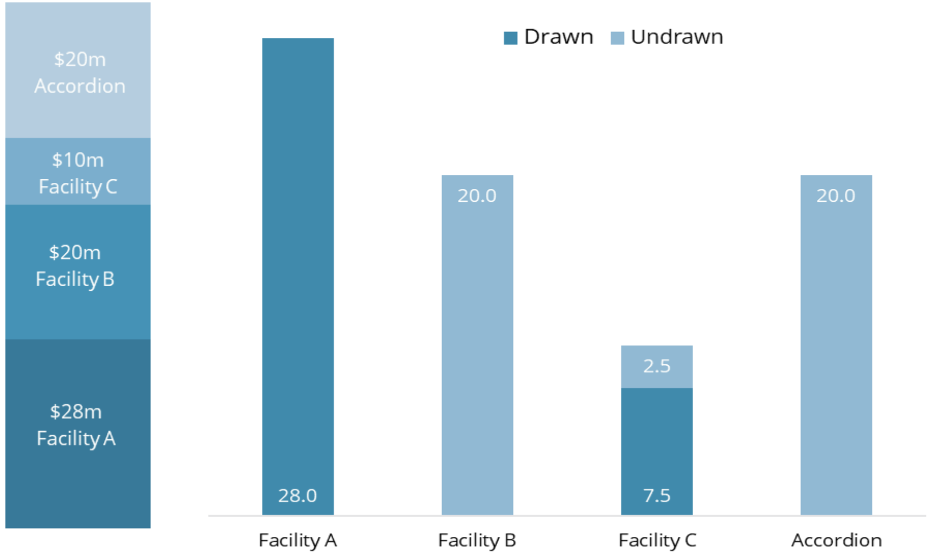
1. As defined in Macquarie Bank Limited syndicated facility agreement
2. Borrowings/Equity
3. Borrowings/Total Assets
4. Right of use asset includes 123.5m initial recognition less (4m) accumulated depreciation. Lease liability includes 123.5m initial recognition less (5.9m) rent payment and 3.4 interest

CASH FLOW

Strong closing cash of 9.1m and 42.5m facility headroom

Cashflow ($m)	1H19	1H18
Childcare receipts & other revenue	47.3	35.6
Operating Expenses	(44.4)	(33.7)
Interest & Finance Costs	(0.5)	(0.5)
Income Tax Paid	(1.0)	(0.8)
Net operating cashflow	1.4	0.6
Acquistions and Earnouts	(6.4)	(3.2)
Nido Transition/Capital Expenditure	(3.7)	(2.5)
Contingent Consideration	(1.1)	(0.8)
Net investing cashflow	(11.2)	(6.5)
Borrowings	-	1.0
Shares issued	17.6	10.0
Dividends paid	(2.2)	(1.7)
Net financing cashflow	15.4	9.4
Closing cash	9.1	3.9
Cash Conversion Ratio (CCR) [1]	*76%*	*45%*

- 42.5m facility headroom (4 years remaining until maturity)
- 50% interest rate hedge
- Strong cash position of 9.1m due to capital raised in March 2019
- Net operating cashflow impacted by incubator delay in payment



1. *CCR = Net operating cashflow/(NPAT + Depreciation)*

2 STRATEGY AND INVESTMENT

NIDO STRATEGY

With 41 services open[1], or soon to be opened Nido Early Schools; mapping to a best in sector education and care offering, exceeding quality level national curriculum, state of the art environments and a highly motivated and engaged team







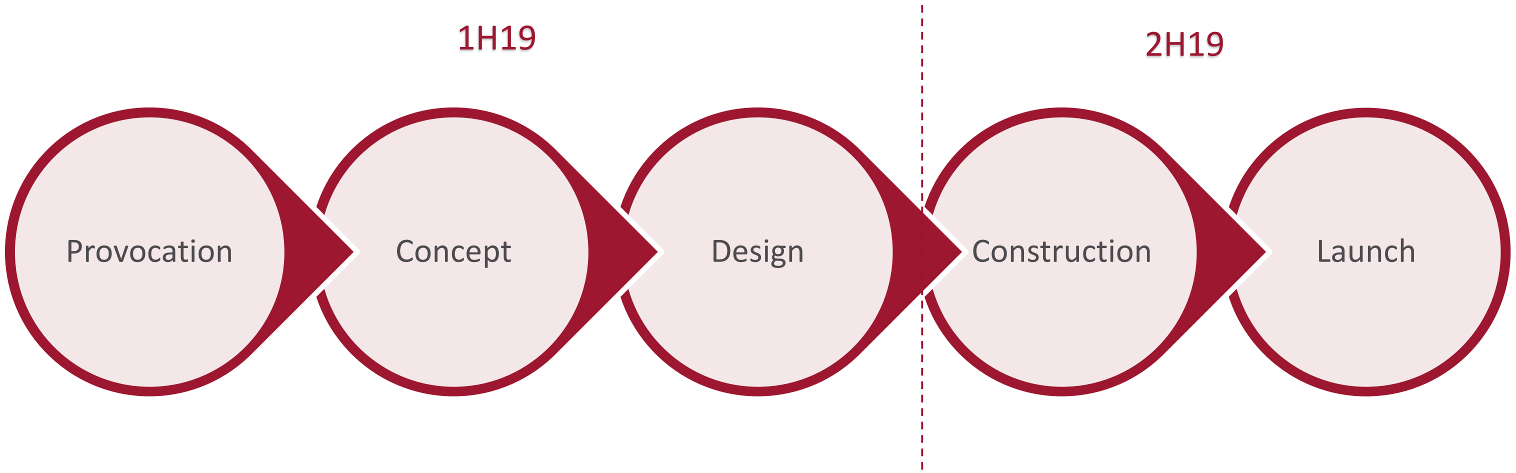


https://nidoearlyschool.com.au/
https://www.youtube.com/watch?v=O9Zo_ch2so4

1. Including managed services

CAPITAL IMPROVEMENT

Capital improvement programme



- 1H19 completion of provocation, concept and design including landlord approvals for the 14 priority services identified for capital improvement program
- 2H19 target is to complete the construction and launch in line with Nido strategy
- Additional 7 services have been identified for transition with minimal capital improvement required
- Work completed for 2 purpose-built Nido services of which one has already opened and second expected to open in 2H19

PROJECT ELEVATE - OVERVIEW

Progress made across all streams in 1H19

People

Education

Service delivery

Finance & operations

Baseline Elevate Scale

People

- Injury management specialists onboarded and processes rolled out
- Innovative recruitment strategies in place
- Initiatives to promote Nido branded careers website

Education

- National Quality Programme launched targeted to improve bottom 10 areas as per NQS
- Enhanced use of collaborative technologies with process champions appointed
- Fast tracked adoption of online planning platform (Storypark)

Service delivery

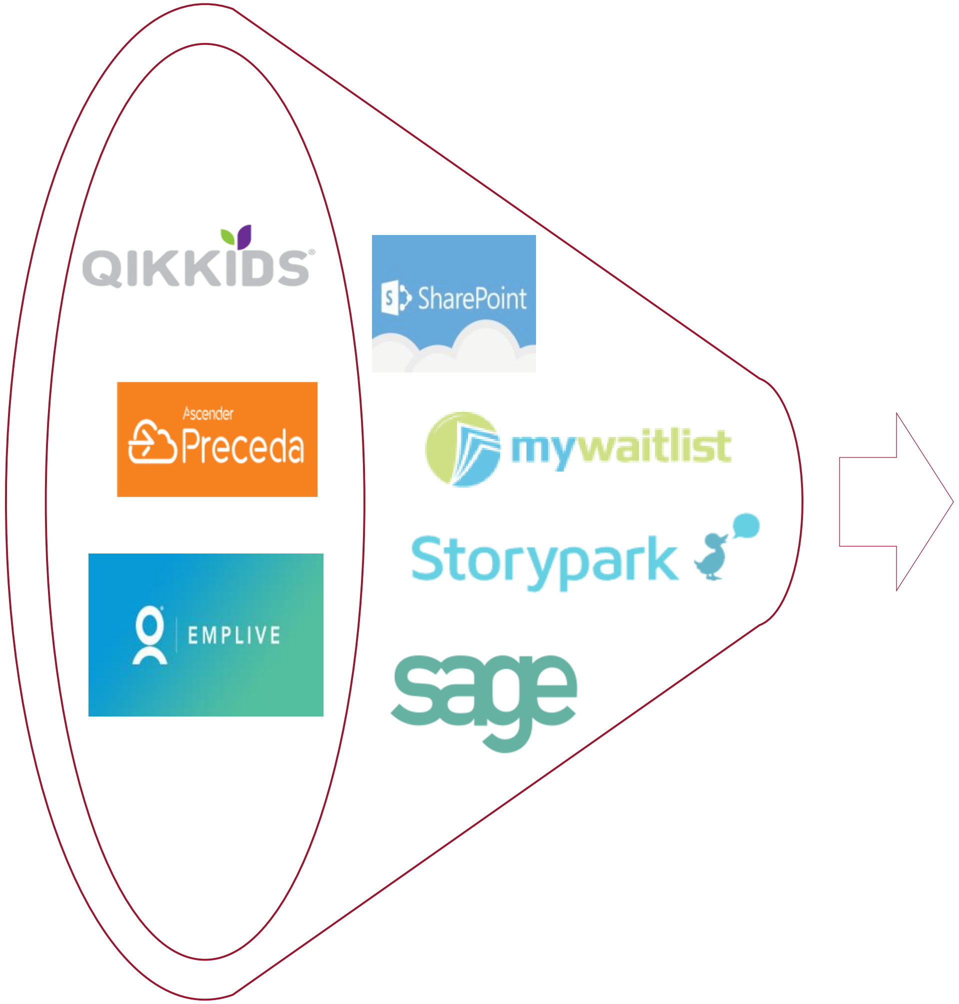
- Launched OKRs (see slide 21 for details)
- Refocused position descriptions of PQL
- Implementing new resource model by prioritising services on a case by case basis subject to affordability
- Remuneration and rewards programme developed

Finance & operations

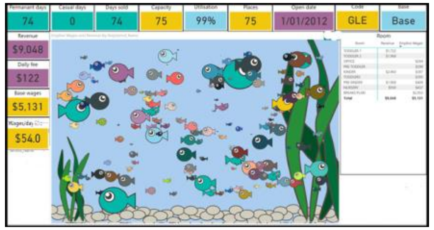
- Upgraded core financial system (Sage)
- On-shored accounts payable function
- Risk and compliance framework substantially completed
- Health check of payroll system underway
- Lease management system implemented

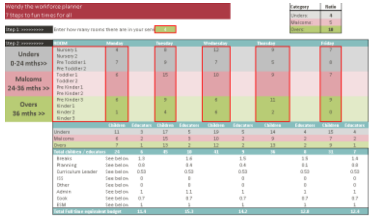
PROJECT ELEVATE – COLLABORATIVE TECHNOLOGIES

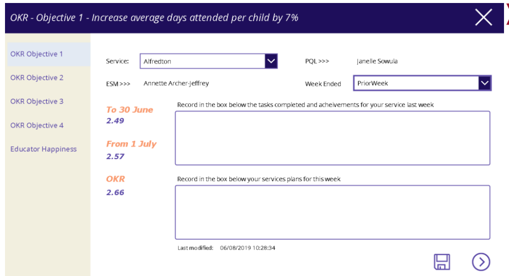
Disparate applications converted to single source of truth

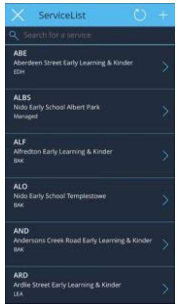


Dennis the database









- Technology audit well advanced with application health checks underway for all systems
- Transitioned from silo systems, manual reporting, multiple truths
- Transitioned to single source of truth, streamlined and automated using database and collaborative technologies to deliver dashboards to services
- Enhanced insights and decision-making

3 OUTLOOK

CY19 OUTLOOK

Guidance range of 13.8m - 14.8m EBITDA (Underlying) maintained

- 1H19 service performance slightly below expectation. Lower days of learning (2.9%) partly due to delay in acquisitions, opening of greenfield services and capital works to transition to Nido Early Schools
- Service specific objectives and key results (OKRs) rolled-out supported by weekly dashboards (see slide 21 for details)
- Deferred hire of new roles as positions are being elevated and redefined
- Project Elevate activities (uncommitted) have been deferred until CY20 in order to bed-down initiatives rolled-out in 1H19
- 6 acquisitions planned for 2H19, 5 services from incubator 3 and 1 from incubator 4[1]
- On target to complete capital improvement works and launch of the 14 priority services in 2H19

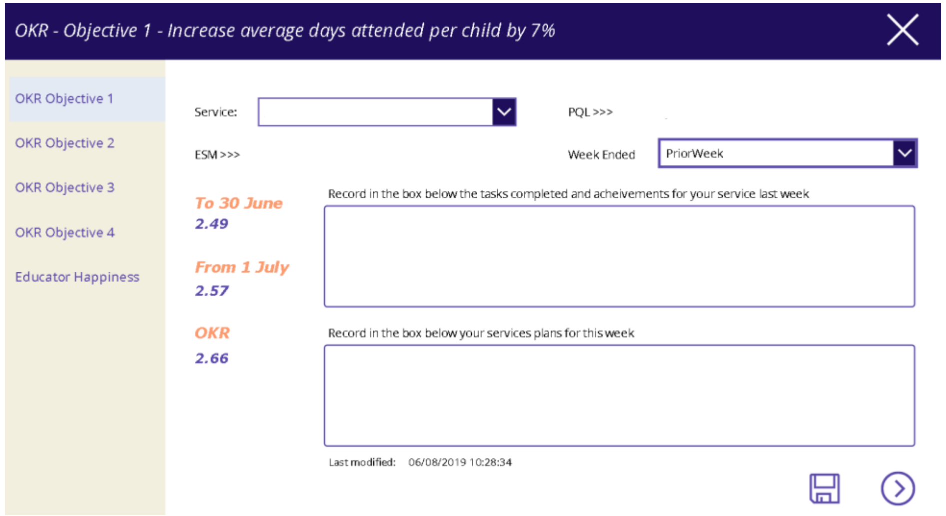
1. Refer slide 9 for outline of managed services revenue

OPERATIONS - OKR

Objectives and key results (OKR) set out for services for 2H19

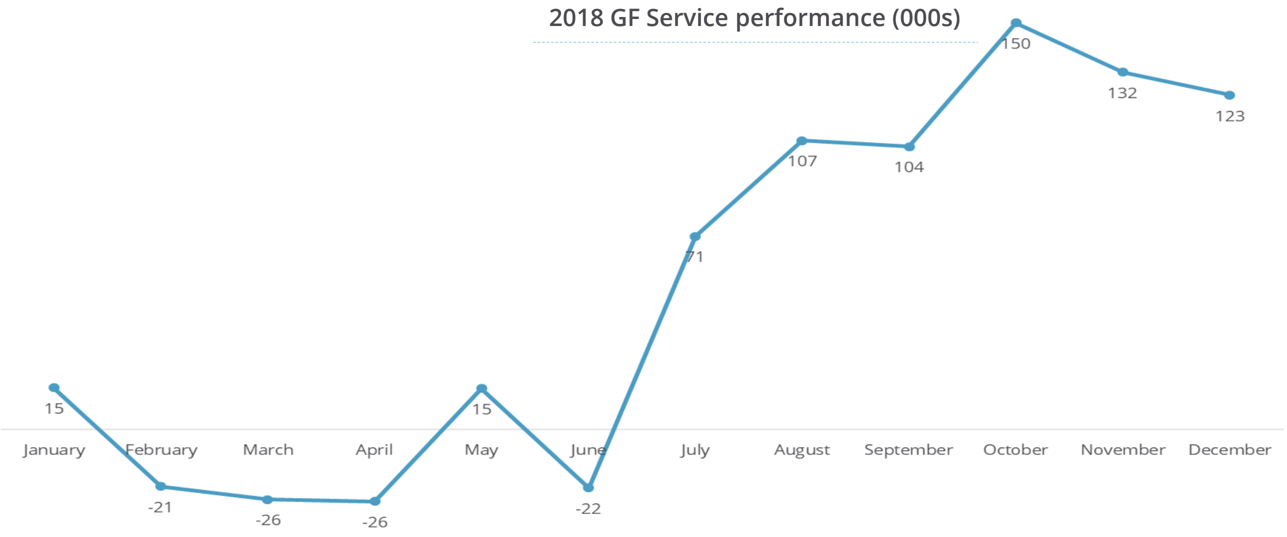
The senior leadership team has set out below OKRs for services in 2H19 to deliver remuneration report initiatives detailed in the company's 2018 annual report

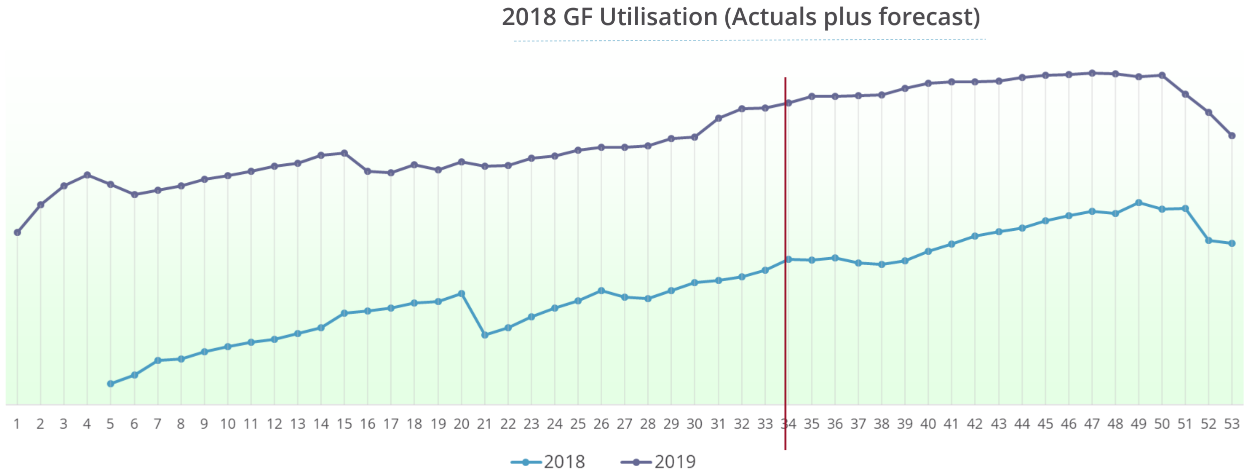
- Objective: Deliver 1.3m days of exceeding quality learning whilst improving profitability through better cost management (including managed services)
- Key Results
  - Increase the average days of learning per child per week by 7% from now to 31 December
  - Reduce wages per child per day from now to 31 December
  - Increase days of learning from now to 31 December
  - Improve in areas under the NQS, by targeting specific quality areas from now to 31 December
- Online forms have been setup to track and measure the OKR performance and create a feedback loop with services (see sample to the right)
- Reward and recognition programme will be put in place for services that will achieve their OKRs



2018 GREENFIELD PERFORMANCE

0.7m expected from 2018 GF portfolio in 2H





Three greenfield services opened in 2018 expected to start making profit in 2H19. Greenfield key metrics as at 10 August 2019;

- Average utilisation over 70%
- Weekly revenue 129k v pcp 57k
- Average daily fees $128 v pcp $123
- Average days in care per child per week 2.92 v pcp 2.72
- Base wages per child per day $57.14 v pcp $69.29,
- Base wages as percentage of revenue 45% of v pcp 56%

4 CONTACT DETAILS

CORPORATE DETAILS

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earlylearningandkinder.com.au

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5 APPENDIX

THINK

KEY METRICS

Focused margin management to improve profitability

TNK portfolio	1H19	1H18	Variance
Service margin (%)	12.9	12.2	0.8
EBITDA (underlying) margin (%)	8.6	7.3	1.3
Labour / revenue (%)	62.9	64.1	1.2
Consumables / revenue (%)	2.7	2.9	0.1
Corporate OH / revenue[1] (%)	7.9	9.3	1.4
Base wage/day/child	59.0	57.7	-1.3
Fee/day/child (avg)	117.5	110.9	6.7
Days of learning	396,162	295,791	100,370
No. of services (owned)	58	47	11
Licensed places (owned)	4,777	3,626	1,151

TNK Like-for-like[2]	1H19	1H18	Variance
Service margin (%)	15.2	14.2	1.0
Labour / revenue (%)	61.9	63.2	1.3
Consumables / revenue (%)	2.8	2.8	0.0
Base wage/day/child	58.4	57.1	-1.3
Fee/day/child (avg)	119.6	111.3	8.3
Days of learning	275,589	279,057	-3,469
No. of services (owned)	41	41	0
Licensed places (owned)	3,097	3,097	0

Margin management initiative includes face to face training workshops to

- Drive new enrolments through efficient wait list management via MyWaitlist (online tool)
- Wage management through use of "Wendy the workforce planner" which is an in-house tool

Procurement initiatives to leverage scale

1. Revenue includes management fee revenue for calculating this metric
2. Like-for-like refers to 41 services cohort excluding 2 services closed in March 2019

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