Mayfield Childcare Limited

ASX Small and Mid-Cap Conference 2019

5 September 2019

MAYFIELD
CHILDCARE LIMITED

DISCLAIMER

This Presentation contains summary information about the current activities of Mayfield Childcare Limited (Mayfield). It should be read in conjunction with Mayfield's other periodic and continuous disclosure announcements lodged with the Australian Securities Exchange (ASX), which are available at www.asx.com.au.

No employee or member of Mayfield gives any warranties in relation to the statements or information contained in this Presentation. The information contained in this Presentation is of a general nature and has been prepared by Mayfield in good faith and with due care but no representation or warranty, express or implied, is provided in relation to the accuracy or completeness of the information.

This Presentation is for information purposes only and is not a prospectus, product disclosure statement or other disclosure or offering document under Australian or any other law. This Presentation does not constitute an offer, invitation or recommendation to subscribe for or purchase any security and neither this Presentation nor anything contained in it shall form the basis of any contract or commitment.

This Presentation is not a recommendation to acquire Mayfield shares. The information provided in this Presentation is not financial product advice and has been prepared without taking into account any recipient's investment objectives, financial circumstances or particular needs, and should not be considered to be comprehensive or to comprise all the information which recipients may require in order to make an investment decision regarding Mayfield shares.

All dollar values are in Australian dollars (A$) unless otherwise stated.

Neither Mayfield nor any other person warrants or guarantees the future performance of Mayfield shares or any return on any investment made in Mayfield shares. This Presentation may contain certain 'forward-looking statements'. The words 'anticipate', 'believe', 'expect', 'project', 'forecast', 'estimate', 'likely', 'intend', 'should', 'could', 'may', 'target', 'plan' and other similar expressions are intended to identify forward-looking statements. Indications of, and guidance on, financial position and performance are also forward-looking statements. Any forecasts or other forward looking statements contained in this Presentation are subject to known and unknown risks and uncertainties and may involve significant elements of subjective judgement and assumptions as to future events which may or may not be correct. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of Mayfield that may cause actual results to differ materially from those expressed or implied in such statements. There can be no assurance that actual outcomes will not differ materially from these statements. You are cautioned not to place undue reliance on forward looking statements. Except as required by law or regulation (including the ASX Listing Rules), Mayfield undertakes no obligation to update these forward-looking statements.

Past performance information given in this Presentation is given for illustrative purposes only and should not be relied upon as it is not an indication of future performance.

Contents

01 Mayfield Childcare Beginnings

Mayfield Childcare Limited was listed on the Australian Securities Exchange (ASX:MFD) on 30 November 2016

- Offer Price of $1.00 per share
- Market capitalisation of $30m
- Forecast CY 2017 Revenues of $29m delivering NPAT of $3.4m
- Forecast dividend yield of 7.65%

At listing, Mayfield comprised

- Roll-up of 16 independent stand alone childcare centres located in and around metropolitan Melbourne
- Provision of 1,360 licensed childcare places as approved by the governing body ACECQA
- Ownership and operation of Leasehold business only
- Centralised administration and area management functions

Business Rationale

- Opportunity for a corporate operator to benefit from the growth and consolidation of the Childcare industry
- Long term industry growth fundamentals – government assistance, higher workforce participation & population growth
- Well experienced hands-on management team with a passion for early learning
- Demonstrated ability to create value from businesses with trade-up value

01 Guiding Principles and Strategic Focus

Guiding Principles

- Provide Victorian families with high quality developmental and educational child care services
- Foster a nurturing family setting that supports a child's physical, social and emotional development
- Provide families with support services to assist with their child's early years development and education

Strategic Focus

- Differentiated strategy to listed peers, that offers attractive organic growth at lower risk levels
- Seek acquisitions of existing and profitable centres, with trade up potential
- Create value for shareholders from operational and capital improvements
- Victorian centric, with centres located in the major growth corridors of Melbourne

Strategic Priorities

- Strict acquisition criteria – location, size, occupancy, fee levels and compliance
- Provision of a uniform educational and quality program and service across all centres
- Investment in our Quality framework through centre upgrades and educational programs
- Centralised compliance and administration
- Intimate area management structure to drive business turnaround
- Strong local community focus and associated marketing programs
- Stringent cost control particularly with respect to rostering and wage costs

01 Mayfield Childcare Today

- **Stable, structured and resilient**
  - Delivered on our initial IPO commitments and year on year growth
  - Established a well structured business platform with scale capability
  - Proven resilience as the business managed its way through unprecedented government funding changes and supply challenges.

- **Attractive earnings and dividends**
  - Generated calendar year 2018 NPAT of $3.4m
  - Delivered attractive fully franked dividends for CY 2018 of 8.97cps (CY 2017 dividend 7.65cps)
  - Strong operating cash flows underpin the business

- **Growth and Investment**
  - Expanded the portfolio to 21 centres, through the acquisition of 7 new centres, while disposing of 2 underperformers
  - Invested in innovative services, systems and our people with over 500 employees
  - Capital Investment focused on our Centre Refurbishment programs and Educational Resources

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

21 LONG DAY CARE CENTRES

3,000+ FAMILIES

100% VICTORIAN

1,777 REGISTERED PLACES

500+ EDUCATORS

Strategic Targets Achieved – Scale Capability – Investing In Growth

01 1H CY 2019 Performance Highlights

Performance to date reflects overall business strength, buoyed by CY18 acquisitions and pricing, continued centre investment, along with focused operational cost control

+ 14%

Revenue $15.86m, up from $13.96m

- Driven by flow through of CY18 acquisitions and price increases

+ 21%

Centre EBITDA $3.05m, up from $2.52m

- Reflects improved operating margins of 16.5% up from 15.1%

+ 19%

Group EBITDA $1.98m, up from $1.67m

- Increased investment in Operations teams, as well as Marketing and Training

+ 14%

Group EBIT $1.82m, up from $1.67m

- Increases in depreciation reflects continued Capital Investment focused on centre improvements

+ 0.3%

Occupancy 65.0%, up from 64.7%

- Small gains in occupancy reflects improved sector conditions

+ 1%

Wages to Revenue Ratio 59.9%, down from 60.7%

- Stringent control on wage costs with tighter rostering and management of staffing mix

+ 1

New Acquisitions

- Acquired one additional Victorian purpose built centre

+ 6%

Employees 525, up from 495

- Reflecting new acquisitions and expansion of central support functions

Business Scorecard Reflects Favourable Trends Across All Measures

02 Financial Performance

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

- 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%,
- 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

Solid Performance in line with Expectations

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
- 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	CY18 1H 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	(332)	(8)	(340)	(201)
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 / disposals	(881)		(881)	(1,984)
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	(1,929)	(2)	(1,931)	(1,340)
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**

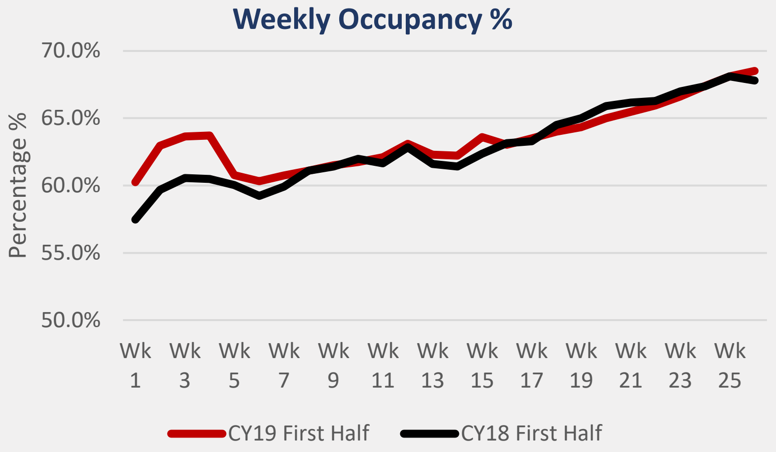
- Positive net operating cash flows in line with business performance
- Net Investing cashflows, reflect ongoing investment in centre upgrades and resources along with acquisition growth
- Increased borrowings to fund acquisitions, cash component of CY 2018 dividend and working capital

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

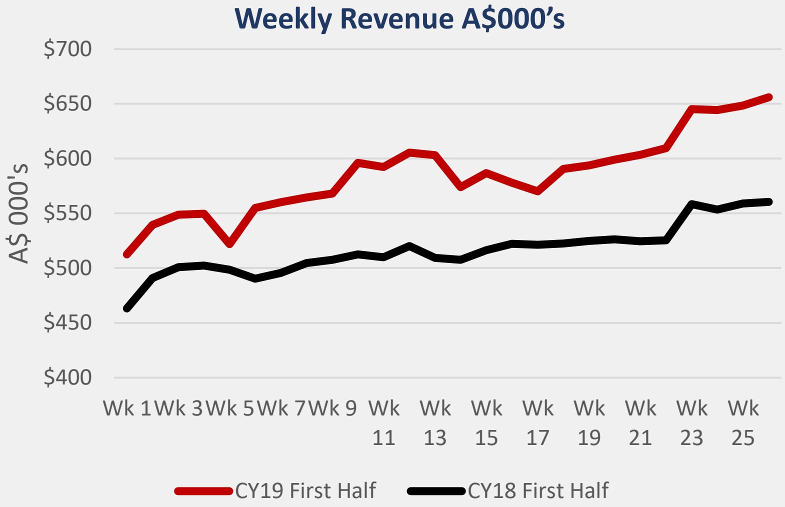
Operating Cash Flows Continue to Fund Growth

03 Operational Metrics

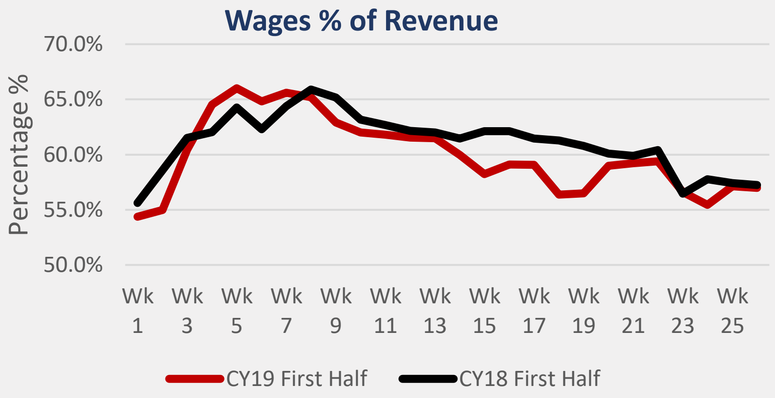
03 Occupancy, Revenue, Wage and Quality Performance



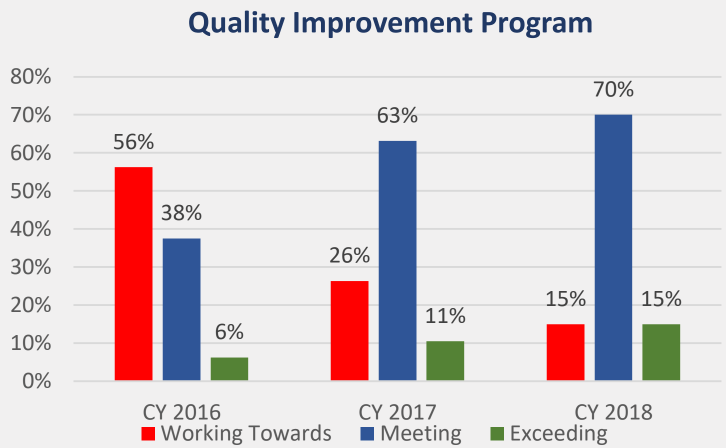
Occupancy is up 0.3% on pcp, a slow April combined with a small number of underperforming centres, now addressed, affected the Group average.



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



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

04 Industry

04 Industry Challenges

› **Government Funding**

Pre July 1, 2018 – Child Care Rebate (CCR)

- No change to government funding model since 2012
- Rising cost of childcare – wages, regulatory & compliance, quality
- Diminishing value of Child Care Rebate to families
- Families maximising available Rebates before year-end

Families reducing their utilisation of childcare

Post July 1, 2018 – Child Care Subsidy (CCS)

- Federal government implements new Child Care Subsidy (CCS) system
- Means tested on combined Family Income and Activity Levels
- No caps on subsidies for families earning below $187k combined income
- Structure incentivises higher workforce participation
- 85%+ of families better off under new funding model

New CCS has improved affordability and stimulated demand

› **Market Supply**

Supply exceeds Demand

- In 2017 supply exceeds demand by 2%+
- Fuelled by opportunistic developers and enthusiastic new entrants
- Supply growth slows in 2018 but remains above demand
- Reduction primarily caused by tighter lending to developers in the sector

Secondary driver for reductions in occupancy for Mayfield

Supply Growth Moderating

- Latest industry supply data showed supply growth in CY19 H1 below PCP
- Continued tightening of bank funding constrains supply growth
- New entrants realise that previous developer Lease Terms not sustainable
- Lower conversion rate of development approvals to actual construction

Supply remains a challenge but market is closer to being in balance

Sector Headwinds Abating – New CCS Addresses Affordability – Supply Moderating

05 2019 Outlook

05 2019 Outlook

- **Positive 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

- **Market guidance for CY 2019 (excluding impact of AASB 16 Leases)**
  - Revenues of approx. $34.0m
  - EBIT of $5.8m to $6.2m
  - Occupancy up +1%

- **Mayfield expects**
  - **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 focus and investment in Quality will positively improve occupancy
  - **Wage Ratios** – Underlying performance improvements will see wage ratios back to prior year levels
  - **Investment** – Continued investment in centre upgrades and educational resources
  - **Acquisitions** – Continuation of our acquisition strategy against selection criteria

CY 2019 – Revenues of $34m – EBIT $5.8m-$6.2m – Occupancy +1%

Thankyou

Mayfield Childcare Limited
Level 1, 275 Wattletree Road
MALVERN VIC 3144
www.mayfieldchildcare.com.au

Dean Clarke	Glenn Raines	Andrew Angus
Chief Executive Officer	Chief Financial Officer	Investor Relations
dclarke@mayfieldchildcare.com.au	graines@mayfieldchildcare.com.au	andrewangus@overlandadvisers.com.au
+61 3 9576 3156	+61 3 9576 3156	+61 402 823 757