



## Affinity Education Group (ASX:AFJ)

Morgans Conference

10 October 2014



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Section 1  
Company Overview




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*We provide a positive environment that allows our children,  
families and educators to flourish.*



*With a leadership team who bring decades of experience in  
the Australian early childhood sector, Affinity Education's  
child care and high quality education solutions for families  
are second to none.*



*We provide the highest standard, localised education  
programs and care solutions for children. Combined with  
centralised support functions and disciplines of a corporate  
entity, we can deliver value to our children, families,  
educators and shareholders.*



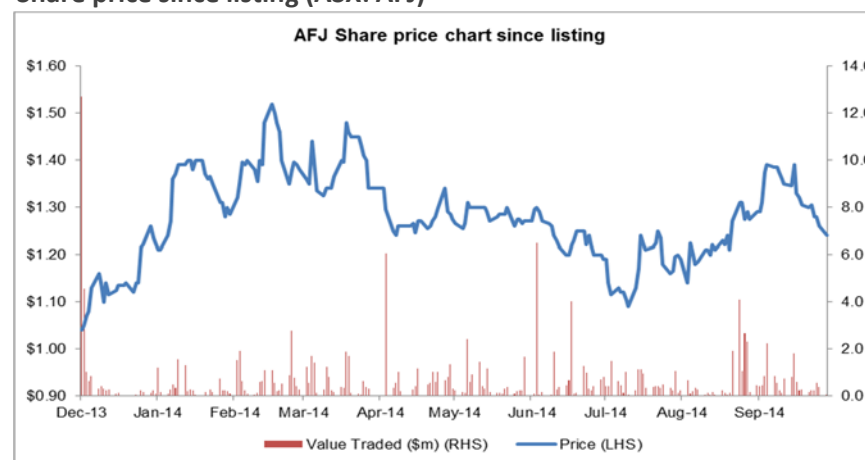
# AFJ Background



Affinity Education is a leading provider of education and care to children aged six weeks to twelve years in the Australian market

- Portfolio of 140 child care centres, 18 of which are still subject to contract
- Geographically diversified portfolio across Australia with centres located in QLD, NSW, VIC, ACT, WA and NT
- Experienced Board and Management with proven industry expertise
- Successfully listed on the ASX, with a current market capitalisation of c. \$210m<sup>(1)</sup>

Share price since listing (ASX: AFJ)<sup>(2)</sup>



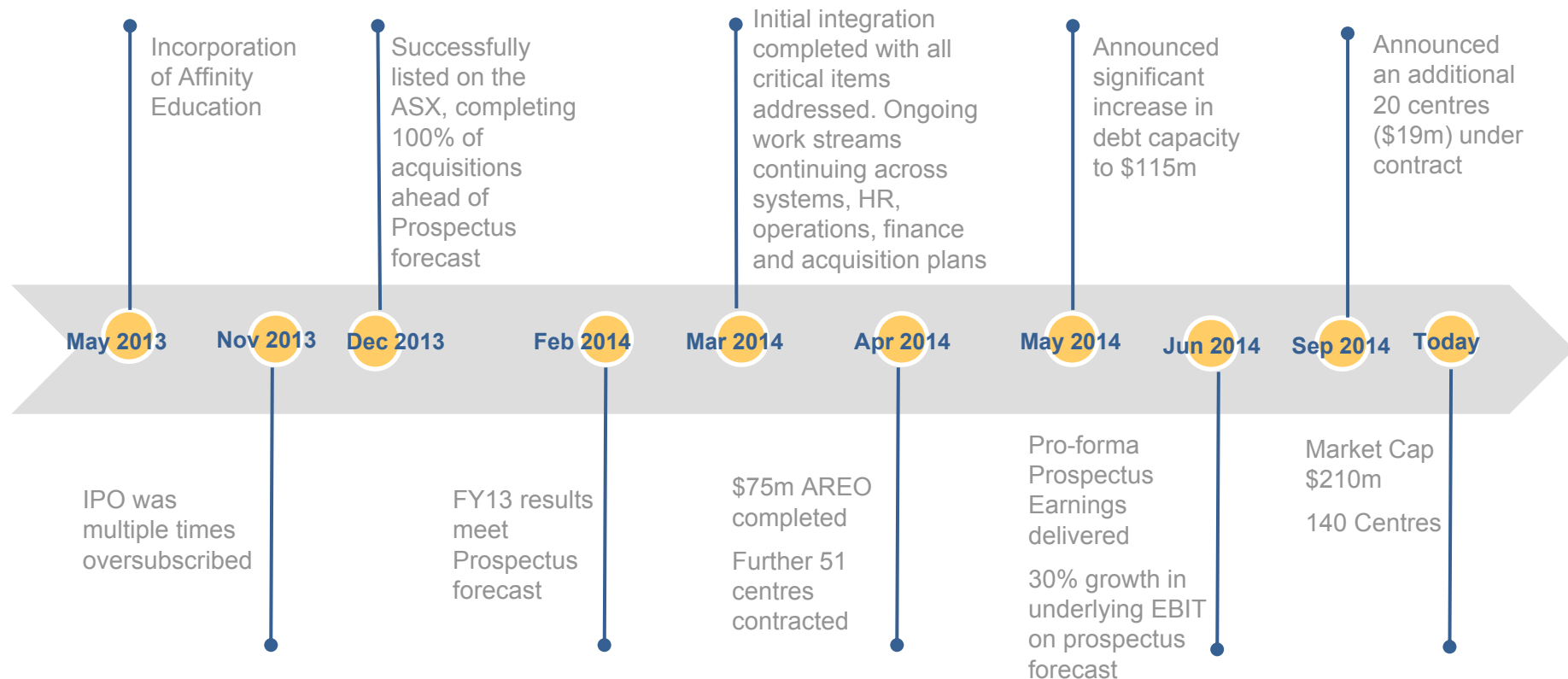
Substantial shareholders<sup>(3)</sup>

Shareholder	% ownership
Perpetual Investments	10.3%
Renaissance	5.7%
AMP Capital Investors	5.5%

<sup>(1)</sup> Assuming \$1.25 share price; <sup>(2)</sup> Share price has been TERP adjusted; <sup>(3)</sup> As per the most recent substantial shareholder notice lodged with the ASX

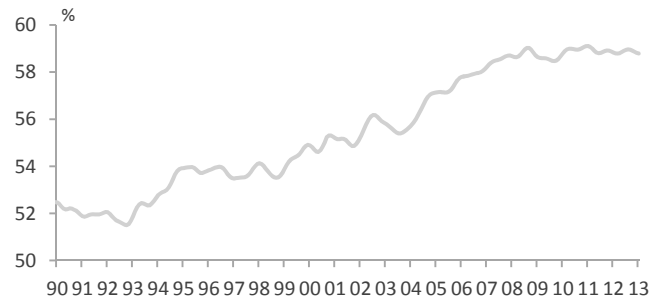
# Significant milestones

Affinity has achieved a number of significant milestones since listing in December 2013

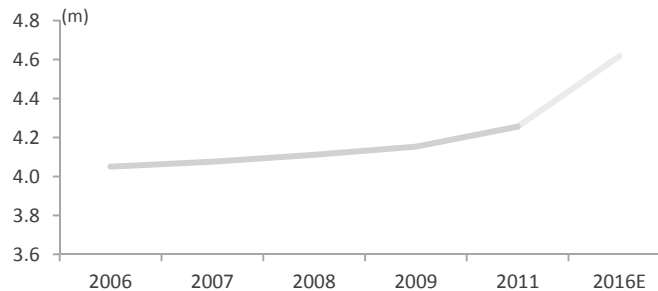


# AFJ Background – Sector Overview

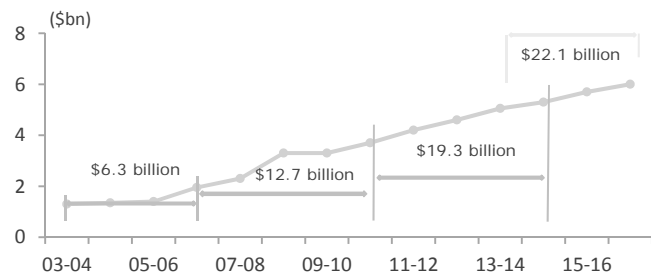
## Strong industry fundamentals <sup>(1)</sup>



Increased female participation in the labour force.



Increased number of children between 0-14.



Financial support for the industry from the government.

## Market Overview<sup>(2)</sup>

The childcare industry remains highly fragmented



84% of operating providers manage only 1 child care centre

There were 7,183 approved child care providers in Australia as at December 2013

(1) Source: DEEWR, Child Care in Australia, August 2013; and ABS (2) Source: Australian Children's Education and Care Quality Authority Q4 2013 Report



Section 2  
Financial Highlights





# H1 FY2014 Financial highlights



Affinity Education has delivered on the Pro-forma IPO earnings forecast

\$'000s	Prospectus H1 FY14	Pro-forma H1 FY14	Variance %
Revenue	37,767	35,424	(6.3)%
EBITDA	4,255	4,297	0.1%
EBITDA margin	11.3%	12.1%	7.1%
EBIT	3,845	3,862	0.1%

The statutory numbers for Affinity Education are materially impacted by successfully completing acquisitions that double the group's size in the first 6 months, the NPAT result is impacted by acquisitions, excluding acquisition costs of \$7.8m, EBIT would have been \$4.0m or 30% above the prospectus EBIT of \$3.1m

\$'000s	Prospectus H1 FY14	Actual H1 FY14	Variance %
Revenue	37,767	38,465	1.8%
EBITDA	3,483	(3,378)	n.m.
EBITDA margin	9.2%	n.m.	n.m.
EBIT	3,073	(3,840)	n.m.
NPAT	2,047	(5,002)	n.m.

# Financial Statements H1 FY2014



## Operating Cash Flows

Excluding acquisition costs, operating cash flows are \$3.8m, which represents a 85% conversion rate from EBITDA (excluding acquisition costs)

\$'000s	Six months to 30 June 2014 Actual	Six months to 30 June 2014 Prospectus
<b>Cash flows from operating activities</b>		
Receipts from customers	36,862	38,463
Payments to suppliers and employees	(33,135)	(33,051)
Acquisition costs	(3,478)	-
Financing income / (costs)	37	(114)
<b>Net cash flows from operating activities</b>	<b>286</b>	<b>5,298</b>
<b>Cash flows from investing activities</b>		
Payments for purchase of businesses	(41,201)	-
Payments for assets	(419)	(478)
Other investing items	22	250
<b>Net cash flows from investing activities</b>	<b>(41,598)</b>	<b>(228)</b>
Net proceeds from issue of shares	71,983	-
Proceeds / (repayment) of borrowings and lease liabilities	570	(230)
<b>Net cash flows of financing activities</b>	<b>72,553</b>	<b>(230)</b>
<b>Net increase in cash and equivalents</b>	<b>31,241</b>	<b>4,840</b>

## Balance Sheet capacity

Strong borrowing capacity with \$100m of undrawn facility for acquisition purposes and leverage ratio <1% (as at 30 June)

\$'000s	As at 30 June 2014	As at 31 December 2013
<b>Current assets</b>		
Cash and cash equivalents	34,309	3,068
Other current assets	5,475	2,818
<b>Non-current assets</b>		
Intangibles	117,008	62,122
Deferred tax assets	9,374	6,814
<b>Total assets</b>	<b>166,166</b>	<b>74,822</b>
<b>Current liabilities</b>	<b>17,269</b>	<b>8,425</b>
<b>Non-current liabilities</b>	<b>1,563</b>	<b>958</b>
<b>Total liabilities</b>	<b>18,832</b>	<b>9,383</b>
<b>Net Assets</b>	<b>147,334</b>	<b>65,439</b>
<b>Equity</b>		
Issued share capital	161,192	74,295
Retained earnings	(13,858)	(8,856)
<b>Total equity</b>	<b>147,334</b>	<b>65,439</b>

Section 3  
Operational and Integration Overview



# Operational and integration highlights



Operations continue to improve, acquisitions and integration continue in line with expectations

- 1 **Debt capacity** - Debt is expected to be drawn down in the second half in line with the finalisation of further accretive acquisitions
- 2 **KIC transaction** – Successful retention of the management team has ensured continuity of centre performance, with integration progressing well and on plan
- 3 **Systems** – Our ability to further improve system architecture allows staff to put greater focus on delivery of quality care and education programs
- 4 **People** - AFJ is a people driven business and we are undertaking several key initiatives to improve efficiency, professional development and employee retention
- 5 **Integration** - The broader portfolio integration is continuing with key functions now stabilised and improvement programs underway, the new centres are performing well and integrating on plan



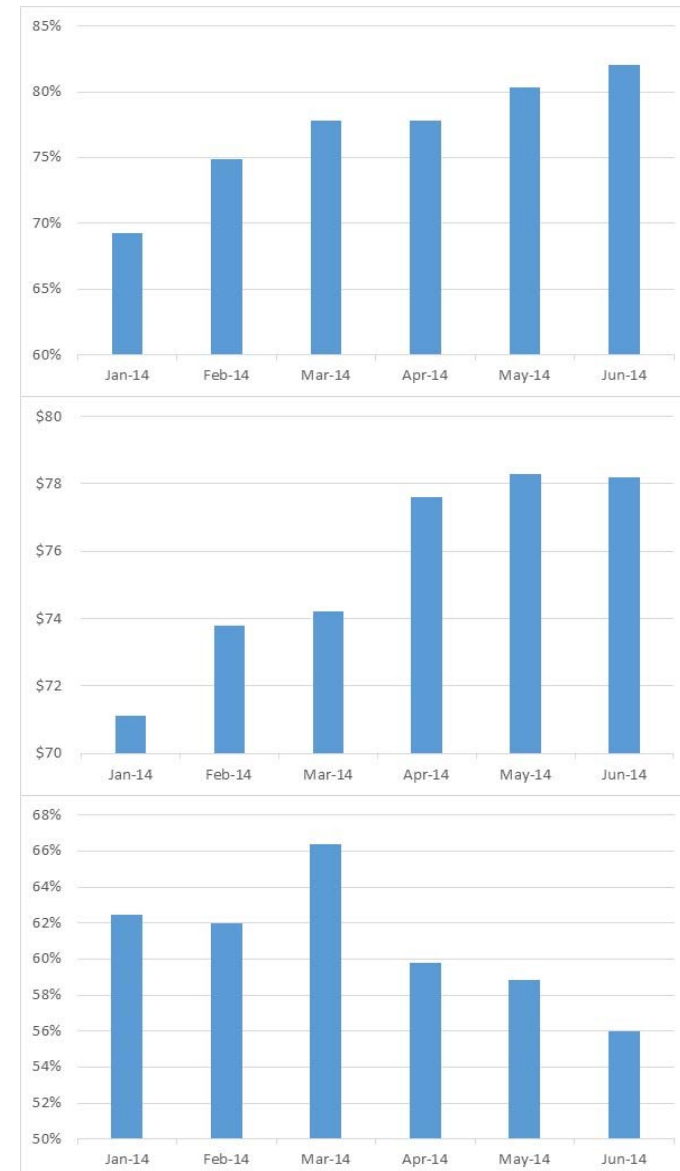
# Operational update



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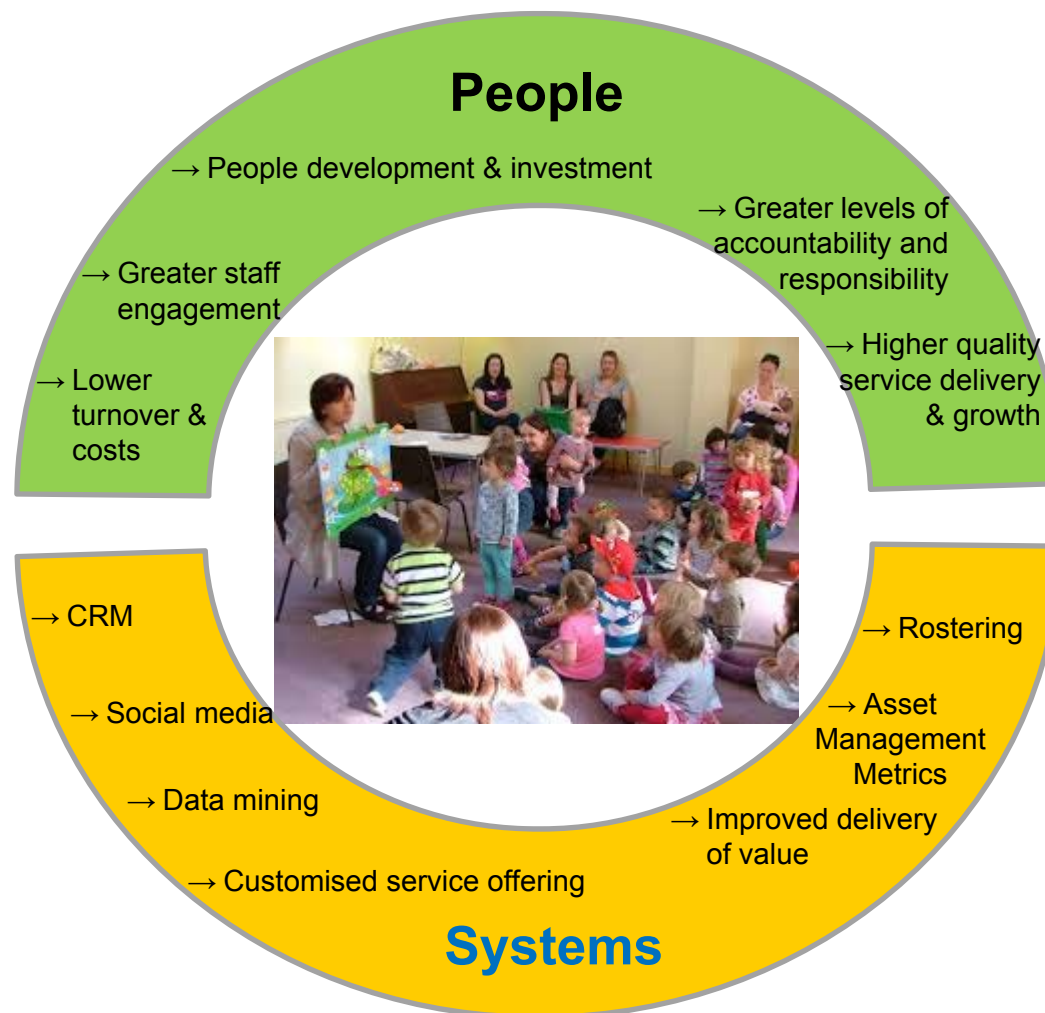
Strong trends from increased stabilisation and ongoing improvement initiatives increasing performance

1. **Occupancy** has continued to increase through strong action and focus from management in a relatively short space of time, currently the prospectus portfolio is sitting around 87%
2. Importantly our **Average Fee** rates grew at the same time as occupancy increased, showing that the growth was “*quality*” growth, and not growth achieved by reducing margin
3. **Wage to Revenue** continues to trend down with initiatives implemented to continue to strengthen this result in the second half



# Customer Centric Business Model

Delivering exceptional customer service will come through investing in our people and our systems

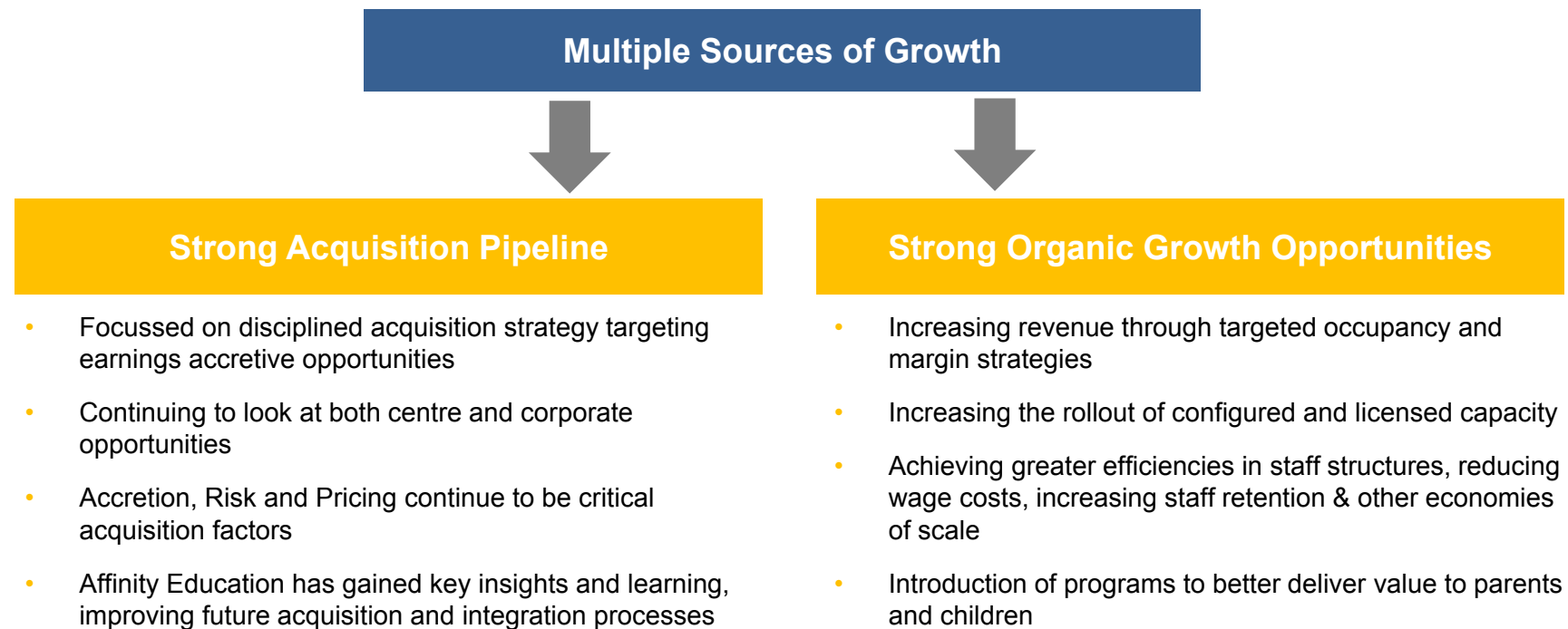


Section 4  
Growth Strategy and Outlook



# Growth Strategy and Outlook

Affinity Education will continue to focus on organic growth and a disciplined acquisition strategy targeting earnings accretive acquisitions with strong available debt capacity



**Highly fragmented market with significant acquisition opportunities continues**

**Strong Acquisition Pipeline going forward**

**Significant balance sheet capacity of \$100m to fund acquisition pipeline**





# Five pillars delivering shareholder returns

Organic growth driven through a balanced approach across five critical areas



**Delivering growing shareholder returns**

# 2014 Outlook



Based on current trends Affinity Education maintains a strong outlook

- Stronger operational performance coming into H2 FY2014
- Access to significant funding to increase accretive growth in H2 FY2014
- Strong acquisition pipeline going forward
- Continued investment in people and systems to deliver superior customer focussed strategy
- Strengthening platform improving acquisition integration
- Establishment of the Affinity Education platform, sees the group ideally placed to work with the Productivity Commission recommendations to capture further opportunities, if or when enacted
- The company's policy remains that dividend expectations will be up to approx. 60% of NPAT



Thank you

# Corporate information

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