

Affinity Education Group

Full Year 2014 Results

27 February 2015

AFFINITY EDUCATION GROUP

2014 Highlights

FY 2014 Earnings Growth	✓ Underlying EBITDA of $17.9m(1) and underlying NPAT of $11.4m(1) ✓ Underlying EPS of 8.1 cents(1) ✓ Achieved IPO earnings forecasts for full year ✓ Statutory NPAT(2) $(4.1m)
Strengthening Portfolio	✓ Portfolio growth from 57 to 152 centres, with 125 centres settled ✓ Occupancy of 80% across the portfolio in FY2014, with the IPO portfolio peaking at 90% in the final quarter of 2014 ✓ Entry into an agreement with ACP/MSREI(3) for managing centres, further leverages the Group's corporate platform
Successful Operational Platform	✓ Successful integration creating a strong corporate platform ✓ Continued focus on system investment across the business driving better information flow and decision making ✓ High levels of employee engagement with program rollouts to improve staff costs and retention
Positive Outlook	✓ Continued focus on acquisitions and integration ✓ Strong funding support ✓ Maiden dividend is expected to be announced during the course of 2015

(1) Normalised for one-off acquisition and integration costs
(2) Including one-off acquisition and integration costs
(3) Australian Childcare Projects an entity acquired by Morgan Stanley Real Estate Investing

Section 1

FY2014 results highlights

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Financial highlights

Revenue and earnings growth driven by successful integration of acquisitions

- Strong revenue and underlying NPAT growth
  - Completion timing impacting commencement of revenue recognition
- Statutory NPAT impacted by one-off acquisition costs of $15.5m - includes stamp duty, commissions and due diligence related expenses

	2014	2013
Revenue (excluding interest income)	$111.4m	$3.7m
Underlying EBITDA(1)	$17.9m	($1.2m)
Underlying PBT(1)	$16.2m	($1.3m)
Underlying NPAT(1)	$11.4m	($0.8m)
Acquisition & integration costs (after tax)(2)	($15.5m)	($7.9m)
Statutory NPAT	($4.1m)	($8.9m)

(1) Excluding acquisition & integration costs
(2) Largely non-deductible for tax purposes

IPO earnings forecast delivered

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IPO portfolio in line with prospectus

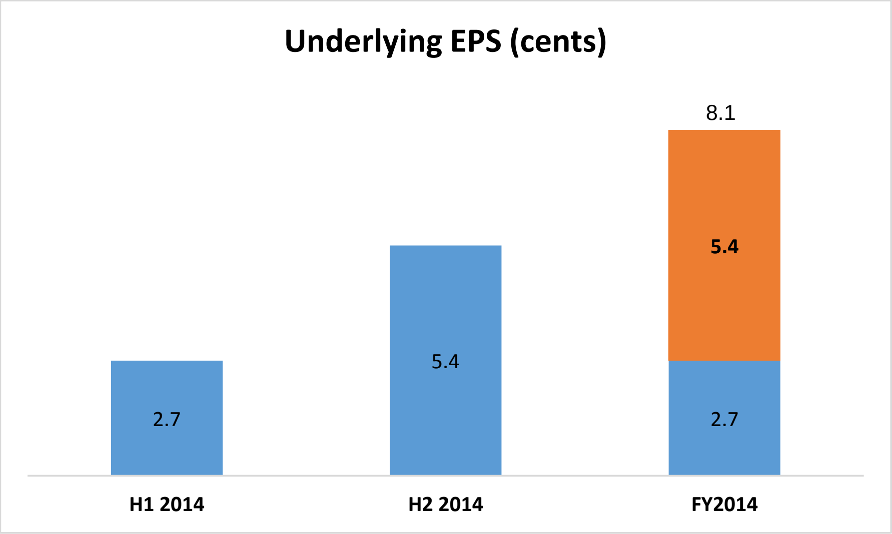
- Integration of centres and creation of corporate platform delivering cost efficiencies
- Margin improvement delivered earnings in line with the prospectus forecast
- Revenue down due to average occupancy

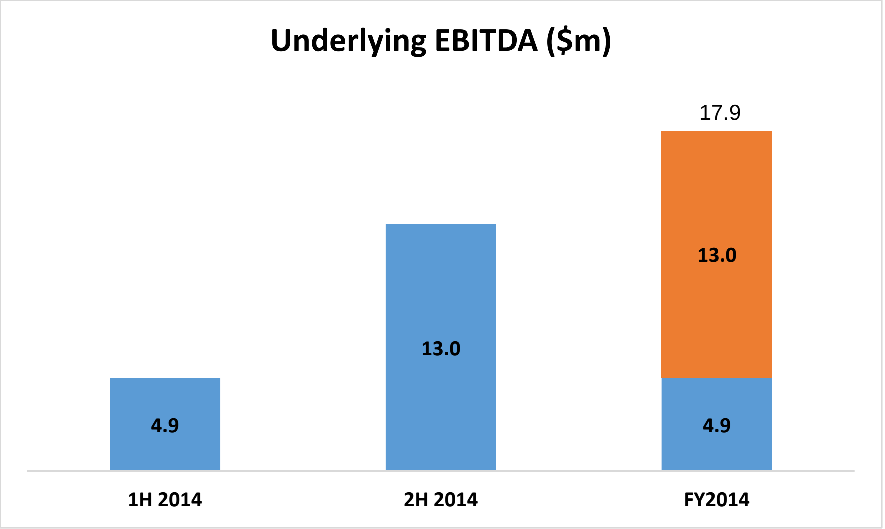
IPO Portfolio	Actual Pro-forma	Prospectus Pro-forma	Variance %
	FY14	FY14	
Revenue	$75.7m	$81.4m	(7.0)%
EBITDA	$13.0m	$12.9m	0.1%
EBITDA margin	17.1%	15.8%	8.2%

Half yearly earnings breakdown

Strong earnings growth throughout 2014

- Underlying EPS and underlying EBITDA growth delivered through successful integration of acquisitions





Funding capacity

Well placed to grow funding support

- Net debt of $18.7m as at 31 December 2014
- The $100m CBA Acquisition Facility, $78m undrawn as at 31 December 2014
- In advanced discussions to diversify domestic bank funding
- Monthly operating cashflow will reduce debt levels

	2014
Net debt	$18.7m
Total equity	$148.2m
Gearing[1]	11%

1 Gearing defined as net debt divided by (total equity plus net debt)

Section 2

Detailed financial information

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Financial performance

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Revenue

- Increase driven by acquired centres
- Increase in average fees and occupancy across the year

Expenses

- Strong focus on cost management
- Improving wage to revenue ratio

EBITDA Margin

- 16% underlying EBITDA margin for the full year

Acquisition & Integration Expenses

- These costs include stamp duty, agent's commissions, due diligence and legal costs
- Higher than target driven by activity in year 1 to create the platform
- Second half 2014 consistent with first half 2014

$'000s	FY14 Actual	FY13 Actual
Revenue from continuing operations	111.4	3.7
Employee expenses	(69.0)	(3.3)
Building occupancy expenses	(14.8)	(0.7)
Direct expenses of providing services	(6.8)	(0.5)
Other expenses	(2.9)	(0.3)
Total expenses	(93.5)	(4.8)
Underlying EBITDA	17.9	(1.1)
Depreciation	(1.2)	-
Underlying EBIT	16.7	(1.1)
Net finance income / (expense)	(0.4)	(0.1)
Underlying profit / (loss) before tax	16.3	(1.2)
Income tax (expense) / benefit	(4.9)	0.4
Underlying profit / (loss) after tax	11.4	(0.8)
Acquisition & integration costs (after tax)	(15.5)	(7.9)
Loss for the period	(4.1)	(8.9)

Financial position

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Intangibles

- Increase represents goodwill on acquired centres

Current liabilities

- Increase consistent with increased scale of operations

Non-current liabilities

- Includes $22m utilised of $100m acquisition facility

Borrowing capacity

- Strong balance sheet capacity with 11% effective gearing

$'000s	FY14 Actual	FY13 Actual
Current assets		
Cash and cash equivalents	3.3	3.1
Other current assets	7.9	2.8
Non-current assets		
Intangibles	172.7	62.1
Other non-current assets	12.2	6.8
Total assets	196.1	74.8
Current liabilities	22.3	8.4
Non-current liabilities	25.6	1.0
Total liabilities	47.9	9.4
Net Assets	148.2	65.4
Equity		
Issued share capital	161.2	74.3
Retained earnings	(13.0)	(8.9)
Total equity	148.2	65.4

Cashflow statement

Operating cash flows

- Excluding acquisition and integration costs, positive operating cash flows are $17.6m

Borrowings

- Proceeds from borrowings from senior debt acquisition facility

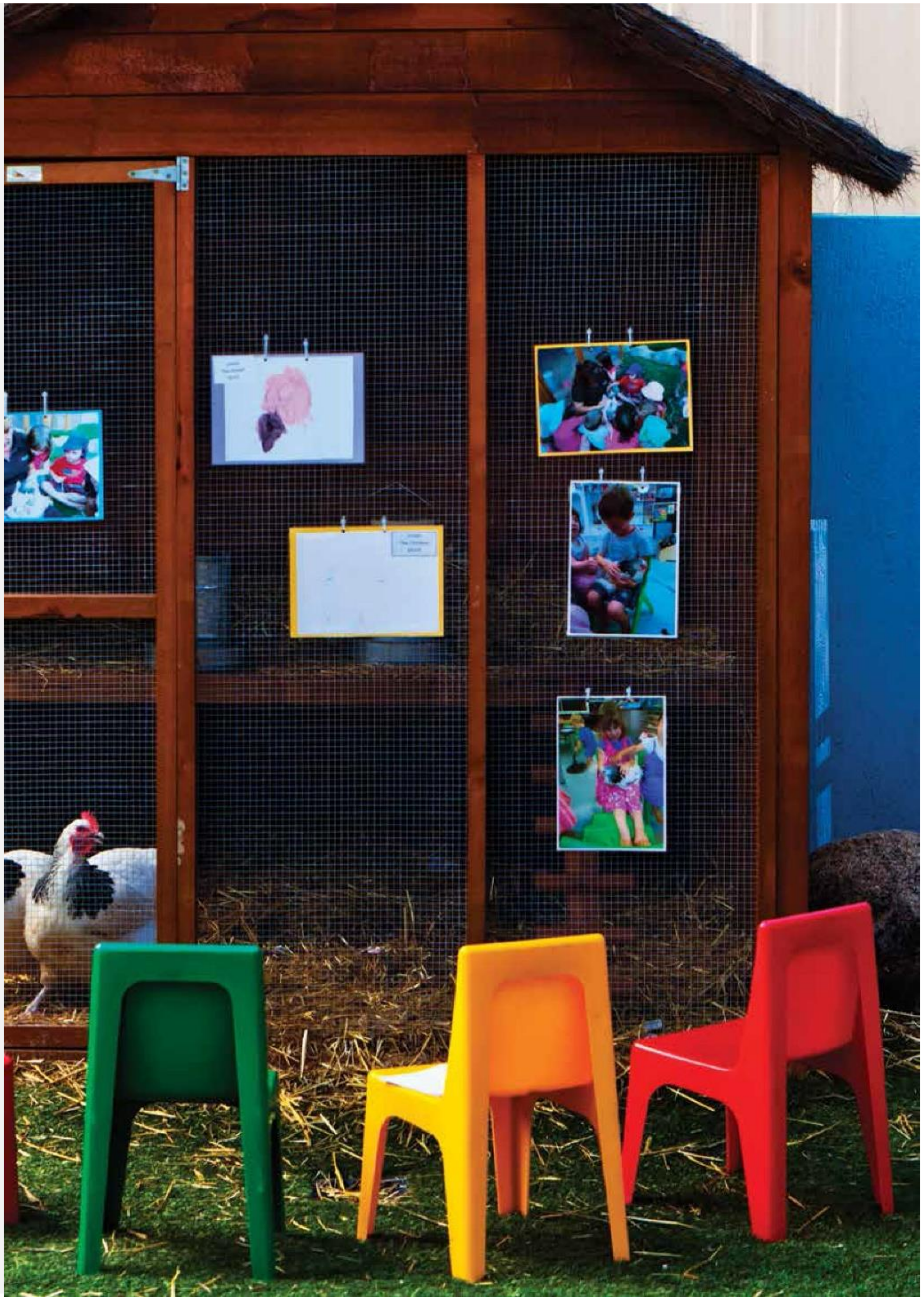
$'000s	FY14 Actual	FY13 Actual
Cash flows from operating activities		
Receipts from customers	109.8	2.0
Payments to suppliers and employees	(91.1)	(0.9)
Acquisition and integration costs	(14.1)	(7.8)
Financing income / (costs)	(0.4)	-
Income tax paid	(0.7)	-
Net cash flows from operating activities	3.5	(6.8)
Cash flows from investing activities		
Payments for purchase of businesses	(96.7)	(60.4)
Payments for assets	(1.2)	(0.1)
Other investing items	-	(0.8)
Net cash flows from investing activities	(97.9)	(61.3)
Net proceeds from issue of shares	72.0	71.0
Proceeds / (repayment) of borrowings and lease liabilities	22.1	-
Other financing items	0.5	0.1
Net cash flows of financing activities	94.6	71.1
Net increase in cash and equivalents	0.2	3.0

Acquisition and funding parameters

Item	Commentary
Acquisition multiples	▪ One year forward basis at the centre level (including incremental payroll tax), excluding acquisition costs
Acquisition costs	▪ One-off, non-recurring ▪ Expensed through the P&L ▪ Largely non-deductible for tax purposes ▪ Expected to be approximately 10% of the acquisition value going forward, including: stamp duty, broker commission, due diligence costs and legal fees
Acquisitions announcement and settlement timing	▪ Acquisitions are announced at time of signing a sale and purchase agreement ▪ Due diligence, perfecting security arrangements with landlords and other work streams result in a 2 to 6 month time lag between announcement and settlement / revenue and earnings contribution to the Group
Acquisition completion	▪ Affinity to provide more regular updates on acquisition completion timing

Section 3

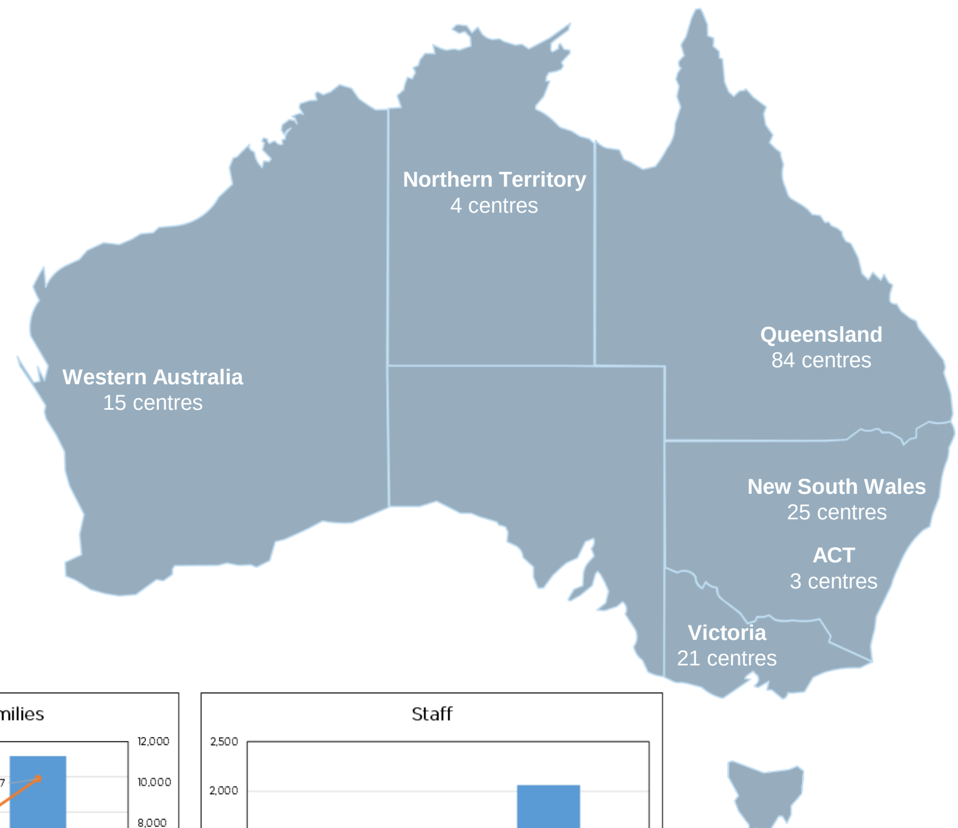
Operational update

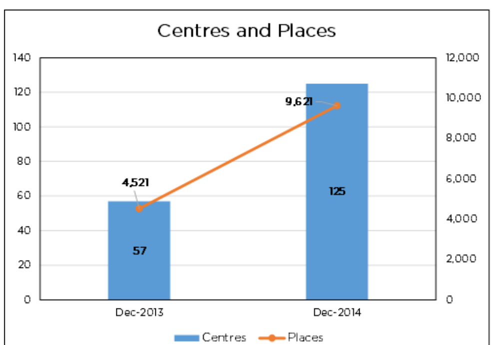


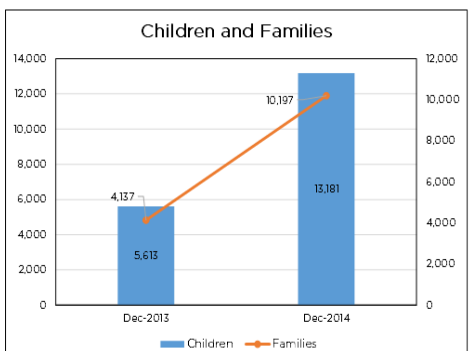
Portfolio overview

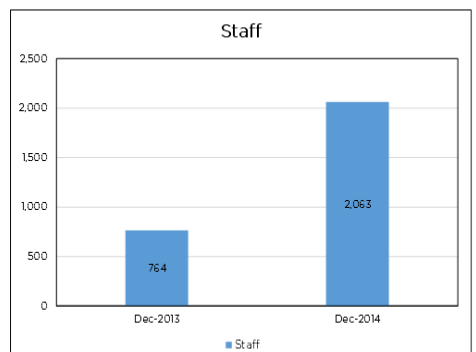
Geographically diversified portfolio of 152 centres located across Australia

- Balanced split between metropolitan and non metropolitan locations
- Higher weighting towards areas with households with incomes less than $130,000
- Cluster strategy continuing
- Targeting a reweighting to Sydney and Melbourne
- Leasing status across the group remains strong, with the portfolio average lease duration at 23 years









House of brands

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Maintain brands to leverage existing community value and mitigate risk

TLC Childcare

Springfield Children's Development Centre

Milestones Childcare

Bambini Early Childhood Development

Village Kids Childrens Centre

The Learning Tree Aspley

Box Hill Early Learning Child Care Centre & Kindergarten

little gems Early Learning Centre

ASILO bilingual childcare and learning centre

Westbrook Child Care Centre

Ladybug Early Learning Centre

Aussie Kindies Preschool & Long Day Care Centre

Shiny Star

Grow to Learn Early Childhood Education

freckles Creative Learning Centre

Blue Gum Preschool & Childcare Centre

Highfields Early Learning Centre

Reaching for the Stars Casey Childcare & Kindergarten

Eagleby Children's Centre

MapleStreet Early Learning

Creswick Childrens Services

Early Learning Centre Building imagination

Riverstone Rise early learning journey

Milestones Early Learning Centre

Pitt Town Pre School

121 Child Care

Premier Early Learning Centres

imaginations Early Learning Centre

Palmerston Early Learning Centre

Operational achievements

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Operations continue to improve and integration is continuing in line with expectations

- **Occupancy**
  - Occupancy of 80% across the group for 2014, with the IPO portfolio peaking at 90% in final quarter of 2014
    - 2014 January reported – 69%
    - 2015 January portfolio – 72%

- **Fees**
  - Average 5% increase across 2014, implemented earlier than forecast
  - Centres individually assessed to ensure sustainability of performance
- **Successful integration**
  - Integration continues to perform in accordance with expectations across multiple workstreams
- **Established corporate platform**
  - Leveraging strong platform to become a leading player in the sector
- **High levels of employee engagement**
  - Programs underway to improve efficiency & retention
  - High levels of employee satisfaction
- **Systems**
  - Strong focus across the business to provide better information flow and decision making
  - Driver of organic growth

Centre operations update

Multiple operational improvement opportunities exist across the group

- Long Day Care Professional Development Program (LDCPDP) – sees the Government to provide $5m over the next 3 years for the training and development of Affinity centre staff
- Fee increase in 2015 – a 2.7% average fee increase was implemented across the group in February 2015
- Managed provider arrangements with Australian Childcare Projects/Morgan Stanley Real Estate Investing – provides Affinity with further growth opportunities in high demand areas, whilst also leveraging our platform

Systems investment

A number of key system initiatives are underway, as technology remains a strong opportunity to reduce costs and further improve compliance and value to families

- Roster automation
- QK centre kiosks
- Storypark
- Intranet operational performance system
- ERP enhancements

Section 4

Outlook

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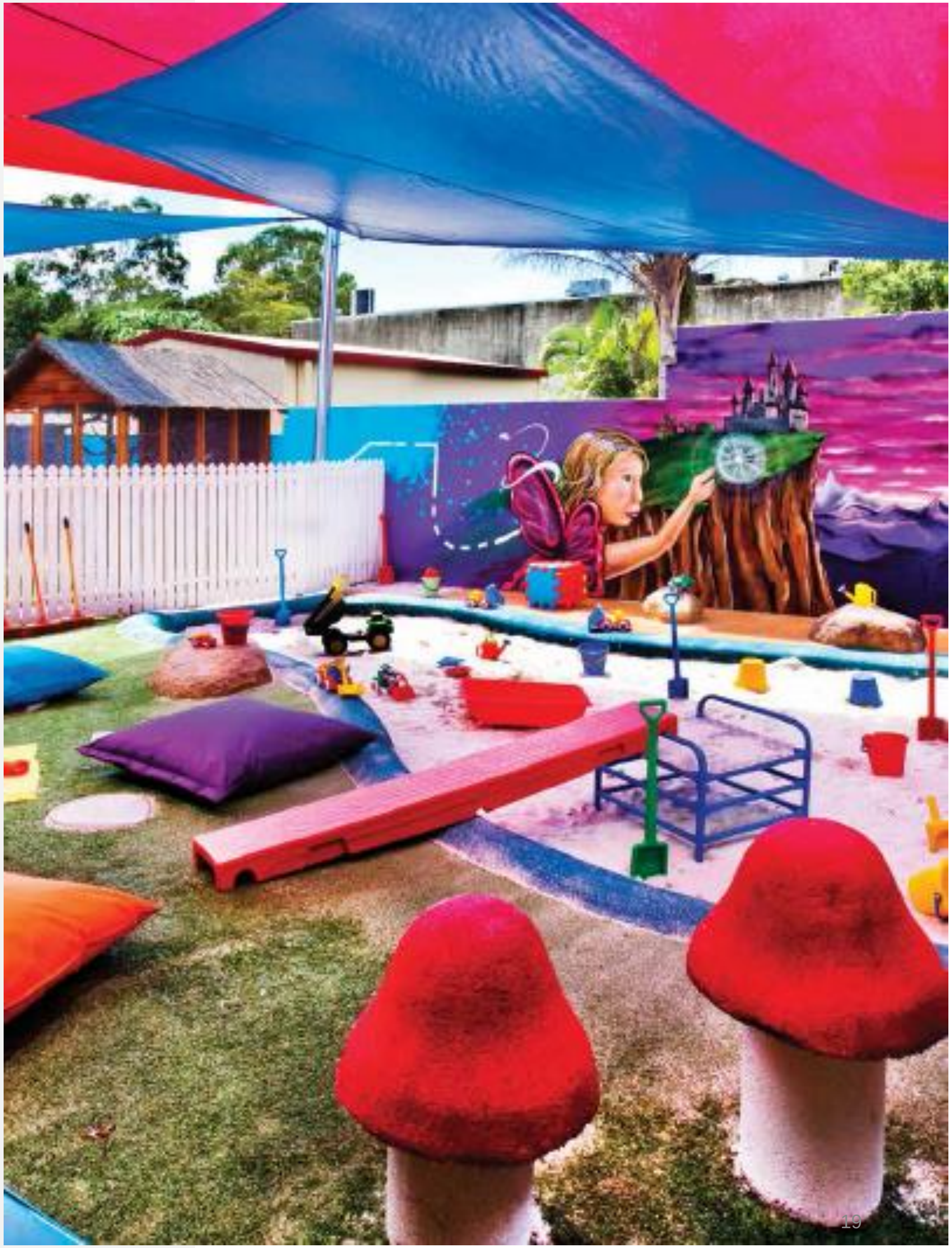

Growth strategy

Affinity Education will continue to focus on organic growth and value enhancing acquisitions

Organic growth initiatives	▪ Increasing revenue through individual centre specific strategies ▪ Growing capacity of existing centres ▪ Continued focus on staffing costs and retention ▪ Greater economies of scale anticipated as the corporate platform matures ▪ Introduction of programs and technology to deliver better value to families
Acquisition growth strategy	▪ Continued focus on disciplined acquisition strategy targeting earnings accretive opportunities ▪ Will consider both individual and group opportunities ▪ Quality, pricing, location and integration risk remain key acquisition criteria

Productivity Commission Report

Affinity Education is closely following the Government's response to the Productivity Commission Report

- Any change that makes childcare more affordable, flexible and accessible to families is welcomed
- Key recommendations include:
  - Replacing the current multiple subsidies with a single means and activity tested subsidy, with 20%-85% of fees paid by Government
  - Nannies being eligible for childcare subsidies, subject to tighter regulation including National Quality Framework
  - Payments directly to Service Providers
  - Removal of tax exemptions for NFPs
- Government has indicated redirection of Paid Parental Leave scheme
- Affinity is well placed to work with Government and capture potential opportunities

2015 Outlook

2015 to focus on delivering continued growth and better margins with multiple initiatives underway to increase profitability

- Underlying market fundamentals strong with increasing workforce participation rates and growing population underpinning growing demand for places
- Positive start to FY2015 enrolments
- In advanced discussions to diversify domestic bank funding
- Strong acquisition pipeline
- Ongoing investment in people and systems
- Affinity continuing to work with Government on future industry opportunities
- Maiden dividend is expected to be announced during the course of 2015

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Corporate information

Affinity Education Group Limited

ABN 37 163 864 195

170 Scarborough Street
Southport QLD 4215 Australia

Justin Laboo
Chief Executive Officer and Managing Director

Paul Cochrane
Chief Financial Officer and Company Secretary

Website: www.affinityeducation.com.au