AFFINITY EDUCATION GROUP

2 July 2015

Affinity Education Earnings Guidance and Operational Update

Affinity Education Group Limited (ASX: AFJ) is providing the following guidance for the 2015 half and full year and an operational update.

Guidance

The group advises that it expects underlying EBITDA to be in the range of $7.5m to $8.5m for the HY15 and $27m to $32m for the FY15, excluding one off acquisition and integration costs.

We confirm previous advice that a maiden dividend for FY15 of up to 60% of NPAT is expected.

The business outlook for the year remains positive, with: average occupancy expected to increase; a scheduled fee increase; and benefits expected from the implementation of new rostering technology, which will result in a stronger performance in the second half of the year.

The FY15 forecast is based on expected results from the current portfolio only, which will include a contribution from the 36 centres acquired at the end of the HY15.

The group will continue its disciplined strategy to deliver portfolio growth of 20% to 25% per annum, maintaining a strong acquisition pipeline and continually assessing new acquisition opportunities that align with the company strategy and meet internal return requirements.

The group expects to announce the HY financial results on Friday 28 August.

Operational Update

Following the successful completion of all announced acquisitions through the HY15, the group currently has 161 centres, approximately 12,000 places and 3,600 staff.

The group's occupancy is currently 77%, which started from 72% in January and has trended up, however the occupancy increases post the first quarter of the calendar year have not been as high as that seen in 2014.

The group is implementing a number of centre specific initiatives to maximise occupancy, with plans to further increase enrolments. The factors impacting lower than expected enrolments to date are unique to each local service and no broader issues have been identified across the portfolio.

In accordance with our normal operations, the group expects to implement an average 3% fee increase across the portfolio from July 2015.

In line with occupancy, wage to revenue performance is behind 2014 by approximately 2% but has been improving week to week and is expected to improve in the second half. Further improvements in wage to revenue are expected with the introduction of rostering technology later in the year.

Integration is progressing to plan, with a range of workstreams being managed across: systems; processes; people; finance; and operations. The key achievements in the integration include: receipt of government subsidies, evidencing necessary licencing, regulatory and compliance requirements; completion of financial integration (payroll, accounts receivable and accounts payable); and asset performance reporting providing weekly, fortnightly and monthly information for all centres.

The group is implementing a number of initiatives to further incentivise centre performance. The group is pleased to be in partnership with the Australian Institute of Management in the development of a tailored early learning education management course, to continue to build on the pre-existing skills and leadership effectiveness.

The group has developed an online learning platform that hosts a range of modules developed by Early Childhood Australia and other leading early childhood experts, to deliver leading services in the early learning environment. The group is also implementing *Storypark*, an online curriculum tool for families and staff, improving communication and collaboration for child focused education and care.

The impending staffing ratio changes across the country from 2016 are not expected to impact the group's margins. The group is planning measures to mitigate fee impacts on families through optimising centre configurations and incremental staffing costs.

The group's average leasing tenure is approximately 21 years and other expenses are tracking in line with the group's expectations.

Sector Update

The group welcomed the Federal Government's Budget in May 2015 increasing overall funding for the sector. The Budget's proposed streamlining of funding into a single combined subsidy will see higher proportional support for families with household incomes of between $100,000 and $160,000. The group's centres are well placed across this demographic to benefit from the initiative, once passed by the Federal Government.

It's the group's view that the government remains strongly committed to the childcare sector, with strong long term fundamentals of increasing participation in the workforce and the growing number of children in the early education market.

The sector experiences stronger second half seasonal growth, with enrollments increasing from the start of the year, typically peaking in November before reducing for summer holidays and the commencement of formal schooling in the new year. This seasonality combined with the acquisitions in the first half, results in an expected earnings split of approximately 25-30% in the first half and 70-75% in the second half, which is broadly in line with the 2014 year.

Industry data from government and childcare associations indicates a marginal reduction in the pace of growth in occupancy generally across the sector in 2015. Various sources have indicated potential reasons, including general economic weakness and industry subsidy uncertainty.

Funding

As announced on 15 June 2015, the group has re-negotiated its debt facilities with the Commonwealth Bank of Australia, providing it with enhanced flexibility, lower pricing and longer tenure, with the maturity of the debt facility being extended by 12 months to July 2018. The group continues to receive strong interest from several domestic banks to diversify and increase its debt funding capacity. Given the group's strong balance sheet and substantial available debt capacity, it expects to only add additional banks when the funding need justifies the associated costs.

ENDS

Justin Laboo
Managing Director

Paul Cochrane
Company Secretary

About Affinity Education Group Limited
Affinity Education Group Limited has been established to be a leading provider in the Australian market of high quality education and care to children aged six weeks to 12 years. Provision of these services includes long day care, before and after school care and occasional care.