MAYFIELD CHILDCARE LIMITED

ASX Market Announcements

ASX Limited

Date: 8 May 2019

CY 2019 1st Quarter Trading Update & Acquisition Announcement

Mayfield Childcare Limited (ASX:MFD) is pleased to provide a trading update for the 1st Quarter of CY 2019.

Key Highlights for the period are as follows:

	CY 2019 1st Quarter	PCP Variance
Revenue from continuing operations	**$7.62m**	**+13.3%**
Centre EBITDA	**$1.26m**	**+23.7%**
Group EBITDA	**$0.73m**	**+20.0%**
Group EBIT	**$0.66m**	**+13.8%**

The CY 2019 1st Quarter gains reflect overall business strength, buoyed by CY2018 acquisitions and price increases, continued centre investment, along with focused operational cost control. Occupancy for the period is up 0.5% and centre operating margins have improved 1.4% to 16.5%, through tighter rostering and management of wage costs.

The business has continued to invest strongly in its Quality framework, through its ongoing centre upgrade and educational programs, coupled with investment in marketing and community engagement to drive participation.

The trading environment has improved, characterised by a slow down in supply from tighter lending conditions and reduced developer margins, along with increased benefits to families from the Child Care Subsidy. Government contributions to the business have increased from 49% to 60%, delivering welcome relief to families.

The business has recently signed a Heads of Agreement to acquire an additional Victorian based, purpose-built, 78 place centre. The 12-month EBITDA forecast is $225K, reflecting a 4.0x purchase multiple. Timing is subject to standard Licensing approvals and transfers.

The outlook for CY 2019 is for revenue of approx. $34.0m, delivering Group EBIT in the range of $5.8m to $6.2m, and occupancy growth of 1%.

Please direct any further enquiries to:

Dean Clarke **CEO** dclarke@mayfieldchildcare.com.au +61 3 9576 3156	**Glenn Raines** **CFO** graines@mayfieldchildcare.com.au +61 3 9576 3156	**Andrew Angus** **Investor Relations** andrewangus@overlandadvisers.com.au +61 402 823 757

Mayfield Childcare Limited
Level 1, Suite 3, 275 Wattletree Road Malvern, VIC 3144
PO Box 2214 Wattletree Road Malvern East, VIC 3145
Phone: 03 9576 3156

Mayfield Childcare Limited (ASX:MFD) - CY 2019 1st Quarter Trading Update

May 2019

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Contents

01 CY 2019 1st Quarter Highlights

- **Solid first quarter performance**
  - Business strength yields positive results across all operating measures
  - Revenue gains reflect CY18 acquisitions, which are performing inline with expectations
  - Investment in central support and centre management teams delivering operational gains
  - Fully franked dividend for CY 2018 of 8.97c paid in March 2019
- **Improving trading environment**
  - Supply growth is slowing with tighter lending conditions coupled with reduced developer margins
  - Increased Child Care Subsidy (CCS) benefiting families, with government contributions averaging 60% for Mayfield, up from 49%
  - While rebate capping issues have significantly reduced, some higher income, full-time families, will reach thresholds before June 30
- **Increased investment**
  - Significant investment in our centre upgrade program, with a focus on yard re-design and development
  - Continued investment in our educational programs and technology, as part of our Quality program
  - Increased investment in our marketing and community engagement programs
- **Continued expansion with strong cash flow**
  - Acquiring an additional 78 place, purpose-built centre in Victoria
  - Available debt facility of $4.1m
  - Continuation of our acquisition strategy, with increased brownfield stock coming onto the market
  - Managed Services agreements on track for 2nd half

02 CY 2019 1st Quarter Highlights

First quarter gains reflect overall business strength, buoyed by CY18 acquisitions and pricing, continued centre investment, along with focused operational cost control

+ 13%

Revenue $7.62m, up from $6.72m

› Driven by flow through of CY18 acquisitions and price increases

+ 24%

Centre EBITDA $1.26m, up from $1.02m

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

+ 20%

Group EBITDA $0.73m, up from $0.61m

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

+ 14%

Group EBIT $0.66m, up from $0.58m

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

+ 0.5%

Occupancy 62.0%, up from 61.5%

› Small gains in occupancy reflects improved sector conditions

+ 0.5%

Wages to Revenue Ratio 62.0%, down from 62.5%

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

+ 1

New Acquisitions

› Contracted for one additional Victorian based centre

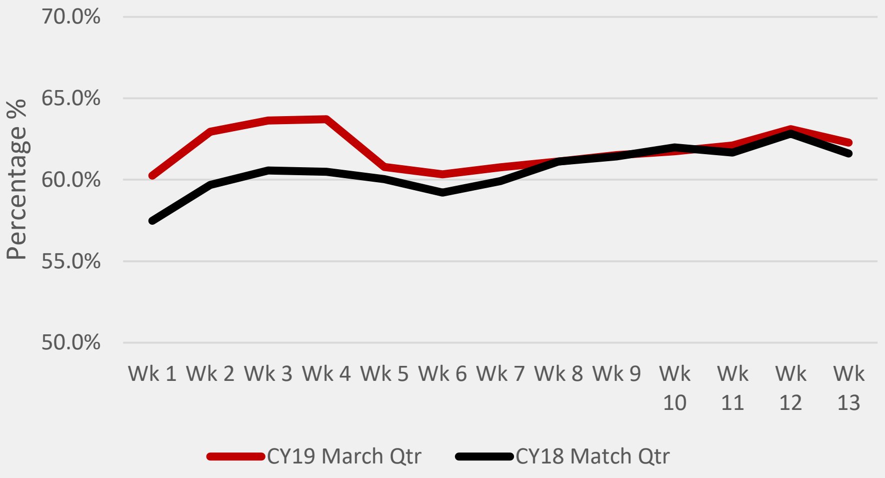
+ 17%

Net Assets $27.2m, up from $23.2m

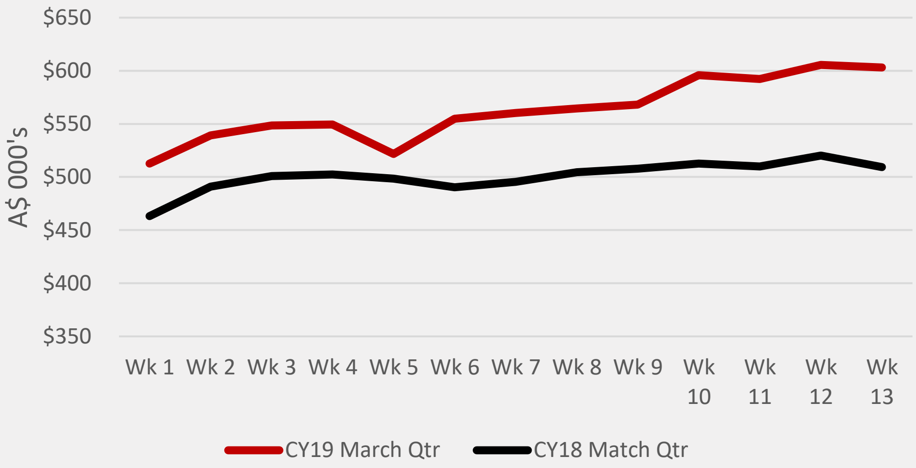
› Reflecting new acquisitions and underlying profitability of the business

03 Occupancy, Revenue and Wage Performance

Weekly Occupancy %



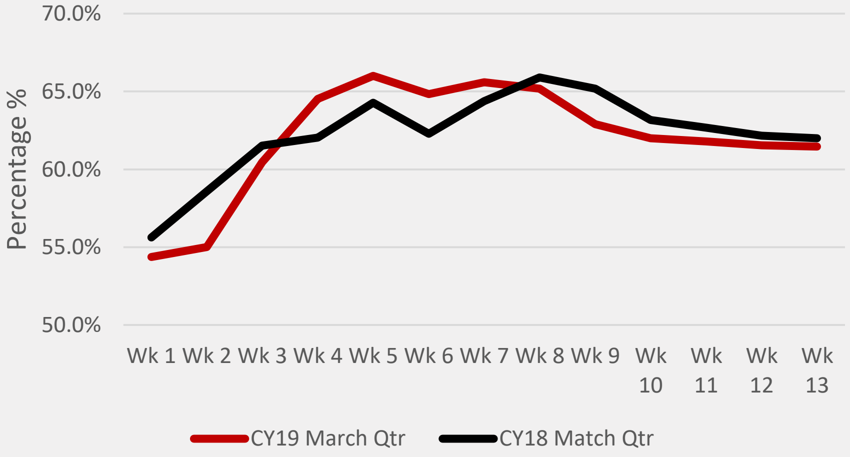
Weekly Revenue A$000's



While early gains dissipated with the transition of children starting school, occupancy is trending favourably at +0.5% to pcp

Weekly revenues continue to strengthen on the back of favourable occupancy and occupancy mix, along with higher fee levels

Wages % of Revenue



Improved operating margins reflect tighter control of wages, rostering and staffing mix

04 Acquisitions & Disposals

20	No of centres as at Dec 2018
1	Centres acquired
0	Centres disposed
21	Total centres

Key Metrics	Acquisitions
Registered places	78
Purchase Price	$900K
12-month EBITDA Forecast	$225K
Purchase multiple	4.0x
Average Daily Fees	$114
Rent per place	$3,500
Funding	Debt and Cash
Source	3rd Party Vendor

- Acquisition of a Victorian based, purpose built centre (2yrs old) with solid trade-up capability
  - Heads of agreement executed
  - Timings subject to DET Licensing approvals and transfers
- Greenfield developments continue to slow, as the market returns to more traditional methods, with increased stock of existing / brownfield sites becoming available

05 2019 Outlook

- 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
  - New developments will slow, as Victorian supply moderates, following a strong development phase over the last 18 months

- Mayfield expects:
  - **Earnings** – CY 2019 EBIT forecast in the range of $5.8 to $6.2m
  - **Pricing** – Targeted fee increase of approx. 4.1%, though cognisant of competitive pressures in some areas
  - **Occupancy** – Continued investment in Quality delivering 1% occupancy growth for the year
  - **Wage Ratios** – Focused cost control with wage ratios back to CY 2017 levels
  - **Investment** – Capital expenditure in the order of $1.0m, focused on centre upgrades and resources
  - **Acquisitions** – Continuation of our acquisition strategy, with increased brownfield stock coming onto the market

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