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ASX Announcement
Mayfield Childcare Limited (ASX:MFD)
30 August 2024

Financial Results for the Half Year ended 30 June 2024

Mayfield Childcare Limited (the "Company", "Mayfield") is pleased to announce its results for the half-year ended 30 June 2024 (1H24).

Highlights

- **Building Momentum after 1Q24 Challenges** – 1H24 underlying centre EBITDA [1,3] of $4.7M was driven by second quarter underlying EBITDA of $3.2M, which was a 109% increase on 1Q24 of $1.5M and a 27% uplift on pcp. As previously announced, 1H24 earnings were impacted by temporary weather-related closures of 25% of the portfolio (9 centres) in 1Q24 and flow-on impacts in subsequent months.
- **Underlying profit and reinstatement of dividend program** – the Group delivered an 82% uplift on underlying EBITDA to $1.5M (1H23: $0.85M) and a $0.5M uplift in underlying NPAT from continuing operations to $0.4M (1H23: -$0.1M). Having returned to underlying profitability, underpinned by a positive outlook and healthy cashflows, the Company is pleased to reinstate its dividend program and to declare an initial fully franked dividend of half a cent for 1H24.
- **Healthy cashflow and capital management** – the Company continued to generate healthy free cashflow which has resulted in the further reduction of debt drawn on its available bank loan facilities net of cash at hand to $6.3M as at 30 June 2024 (31 Dec 2023: $7.2M). The Company continues to actively manage its capital and as at reporting date had $4.4M available on its primary working capital facility.
- **Cost reduction program delivers results** – management's continued focus on cost control has resulted in a significant improvement in controllable centre related expenditure, which includes, a 67% reduction in agency costs and a 31% reduction in facilities cost.
- **Delivery of strategic objectives** – the Company was pleased to recently announce the strategic acquisition of 7 centres which are expected to generate between ~$1.3M - $1.5M in EBITDA in CY25 and will expand the Group's presence in South Australia from a single centre with 60 licensed places to a total of 942 licensed places in the State.
- **High family satisfaction continues** – the Group continues its focus on the delivery of high-quality education and care across its centres nationally, as demonstrated by a strong family net promotor score (NPS) in 1H24 of 55.0, which improved on an already high benchmark[3] of 53.5 in CY2023.
- **Culture and Governance** - staff retention improved 7% on the prior year, driven by people and culture focused initiatives, and continued uplift in staff satisfaction rates. The Company continued efforts to establish best practice Corporate Governance and is pleased to advise that it is in the final stages of the appointment of two additional independent Non-Executive Directors to the Board which it anticipates concluding in September.

Portfolio optimisation

Management continues its portfolio optimisation program to drive centre occupancy and performance. The Company recognises that the current scale of the portfolio remains susceptible to volatility from the underperformance of small cohorts, which occurred this year with weather-related closures impacting 25% of the portfolio (9 centres) in Q1:

1. Underlying centre EBITDA excludes corporate labour and overhead costs of $3.2M from Underlying EBITDA as reported in the Interim Report for the Half-year ended 30 June 2024
2. Excludes divestment centre closed in 2024.
2. An NPS score above 20 is considered favourable and above 50 excellent
3. Adjusted, NPAT, NPAT from Continuing Operations, Underlying, EBITDA and EBIT are non-statutory financial concepts and measures which are not prescribed by Australian Accounting Standards (AAS). The Directors consider that these measures are useful in gaining an understanding of the performance of the entity, consistent with internal reporting.

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- **Healthy core portfolio** – despite the impact to the group of Q1 closures and a sector-wide softening of occupancy, as at August 2024, as a cohort approximately 75% of the Group's centres had an occupancy of 75% and generated underlying centre EBITDA of $5.9M in the first half, with the top 20 centres averaging occupancy of 80%.
- **Acquisitions**– the recently announced acquisition of 7 centres in South Australia are forecast to deliver ~1.3M - 1.5M in CY25 and expands the Group's capacity to 4,195 licensed places. The Company continues to pursue strategic acquisitions to build the sufficient scale required to minimise volatility and to drive further operational efficiencies within existing sub-scale clusters.
- **Divestments** - management has successfully closed one divestment centre in the period which coincided with an expiring lease and thus minimal additional costs to the Group on closure. Staff and families were successfully transitioned across to nearby local Mayfield Centres. Management continues to focus on divestments as a priority and are exploring alternative strategies to realise value for those with challenging long-term leases.
- **Organic Growth** - management anticipates further year-on-year occupancy growth with the upcoming funded award increase announced by the government likely to alleviate continuing staffing constraints on growth. Local and targeted marketing initiatives also are expected to contribute to improved organic growth in occupancy across the Group.
- **Brand Management** – the acquisition of the Precious Cargo brand and associated IP relating to the establishment of Montessori pedagogy provides the Group with another capability to drive occupancy in selected centres likely to benefit from the differentiated positioning.

Overall group occupancy[2] in 1H23 was down 3% to 60.9% (1H23: 63.9%) driven by the impact of weather-related centre closures which were estimated to have had a 2.2% impact to occupancy, the continued underperformance of divestment centres and the general industry-wide softening of demand resulting from cost-of-living pressures. Spot occupancy of the Core Portfolio, (excluding divestments), was 70.3% as at the week beginning 26/8.

Outlook & Guidance

As a result of weather-related centre closures in Q1, which occurred during a critical enrolment period and the overall sector wide softening of demand due to the rising cost of living pressures, the Board and management do not view the previously stated guidance as achievable within the current financial year. The Company provides revised guidance for FY24 of $6.0M - $6.5M.

This ASX announcement has been approved for release by the Board of Directors of Mayfield Childcare Limited.

For further information, please contact:

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