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# AFFINITY EDUCATION GROUP

Full Year December 2013 Results Overview

28 February 2014



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# Agenda



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| <b>1</b> | <b>FY13 Results Highlights</b>             |
| <b>2</b> | <b>Detailed Financial Information</b>      |
| <b>3</b> | <b>Operational and Integration Updates</b> |
| <b>4</b> | <b>Growth Strategy and Outlook</b>         |



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# 1. FY13 Results Highlights



# FY2013 Financial Highlights

Affinity Education has delivered ahead of its IPO financial forecasts

	Prospectus FY13	Actual FY13	Variance %
Revenue	2,033	3,677	+80.9%
EBITDA	(9,615)	(9,321)	+3.1%
EBIT	(9,669)	(9,388)	+2.9%
NPAT	(8,981)	(8,856)	+1.4%

- 1 Realistic forecasting
- 2 Focussed on over-delivery
- 3 Appropriate allowances for platform investment and integration



# Operational and Integration Highlights

**IPO and initial integration is complete with ongoing work streams focussing on stabilising the platform and targeting the delivery of greater value from the portfolio**

- 1 Successfully listed on the ASX, meeting all listing criteria**
- 2 Completed 100% of the acquisitions ahead of prospectus forecast, with a net favourable settlement adjustment of \$2.5 million**
- 3 Initial integration has been completed with all critical items addressed**
- 4 IT infrastructure in place and operating in line with expectation and ahead of schedule**
- 5 No drawdown on working capital facility demonstrating the efficiency of the acquisition and integration execution**
- 6 Ongoing work streams are continuing across: systems, HR, operations, finance and acquisition strategy plans**

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## 2. Detailed Financial Information



# Financial Performance

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- 1 Revenue**

  - 80.9% higher than prospectus primarily due to successful completion of acquisitions earlier than forecast
- 2 Employee, occupancy and direct expenses**

  - Higher than prospectus due to brought forward acquisitions
- 3 Integration expense**

  - 11.7% higher than prospectus reflecting brought forward FY14 spend
- 4 Acquisition expenses**

  - 7.8% greater than prospectus due to a provision for professional fees
- 5 Other expenses**

  - Down on prospectus due to \$240k of accounting reclassifications

\$'000s	Period ended 31 December 2013 Audited	Period ended 31 December 2013 Prospectus
<b>Revenue from continuing operations</b>	<b>3,677</b>	<b>2,033</b>
Employee expenses	3,335	2,689
Building occupancy expenses	698	539
Direct expenses of providing services	503	342
Integration expenses	609	545
Acquisition expenses	7,485	6,943
Other expenses	368	590
<b>Total expenses</b>	<b>12,998</b>	<b>11,648</b>
<b>EBITDA</b>	<b>(9,321)</b>	<b>(9,615)</b>
Depreciation	67	54
<b>EBIT</b>	<b>(9,388)</b>	<b>(9,669)</b>
Net finance expense	60	89
<b>Profit before tax</b>	<b>(9,448)</b>	<b>(9,758)</b>
Income tax expense	(592)	(777)
<b>Profit for the year</b>	<b>(8,856)</b>	<b>(8,981)</b>





# Financial Position

## 1 Cash Balance:

- Favourable cash balance due to positive settlement adjustments, collection of government revenue and working capital management

## 2 Trade and other receivables

- Trade and other receivables represent primarily government debt which was outstanding due to the regulatory transfer process. All transfers were completed by mid-February

## 3 Net current liabilities

- Net current liability position of \$2.5m reflects primarily employee leave provisions recognised on acquisition and working capital management at year end. The CBA overdraft facility of \$7m was not drawn at 31 December 2013.

\$'000s	As at 31 December 2013
<b>Current assets</b>	
Cash and cash equivalents	3,068
Trade and other receivables	2,568
Assets held for sale	250
<b>Non-current assets</b>	
Property, plant and equipment	3,358
Deferred tax assets	3,456
Intangibles	62,122
<b>Total assets</b>	<b>74,822</b>
<b>Current liabilities</b>	
Trade and other payables	5,073
Provisions and other	3,352
<b>Non-current liabilities</b>	
Provisions and other	958
<b>Total liabilities</b>	<b>9,383</b>
<b>Net Assets</b>	<b>65,439</b>
<b>Equity</b>	
Issued share capital	74,295
Retained earnings	(8,856)
<b>Total equity</b>	<b>65,439</b>



# Cashflow Statement

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## 1 Cash conversions

- Actual cash conversion is ahead of forecast due to government debtors and management of working capital at year end

## 2 Payment for purchase of businesses

- Reduction reflects favourable settlement adjustments

## 3 Payment for assets

- Differs to prospectus primarily due to timing of financing for computer software

\$'000s	Period ended 31 December 2013 Actual	Period ended 31 December 2013 Prospectus
<b>Cash flows from operating activities</b>		
Receipts from customers	1,958	1,079
Payments to suppliers and employees	(8,713)	(11,807)
Financing costs	(22)	(44)
<b>Net cash flows from operating activities</b>	<b>(6,777)</b>	<b>(10,772)</b>
<b>Cash flows from investing activities</b>		
Payments for purchase of businesses	(60,414)	(61,724)
Payments for assets	(823)	-
Payments for security deposits	(22)	-
<b>Net cash flows from investing activities</b>	<b>(61,259)</b>	<b>(61,724)</b>
Net proceeds from issue of shares	71,045	71,020
Borrowings	59	(88)
Proceeds from seed capital loans	1,375	1,375
Repayment of seed capital loans	(1,375)	(1,375)
<b>Net cash flows of financing activities</b>	<b>71,104</b>	<b>70,932</b>
<b>Net increase in cash and equivalents</b>	<b>3,068</b>	<b>(1,564)</b>

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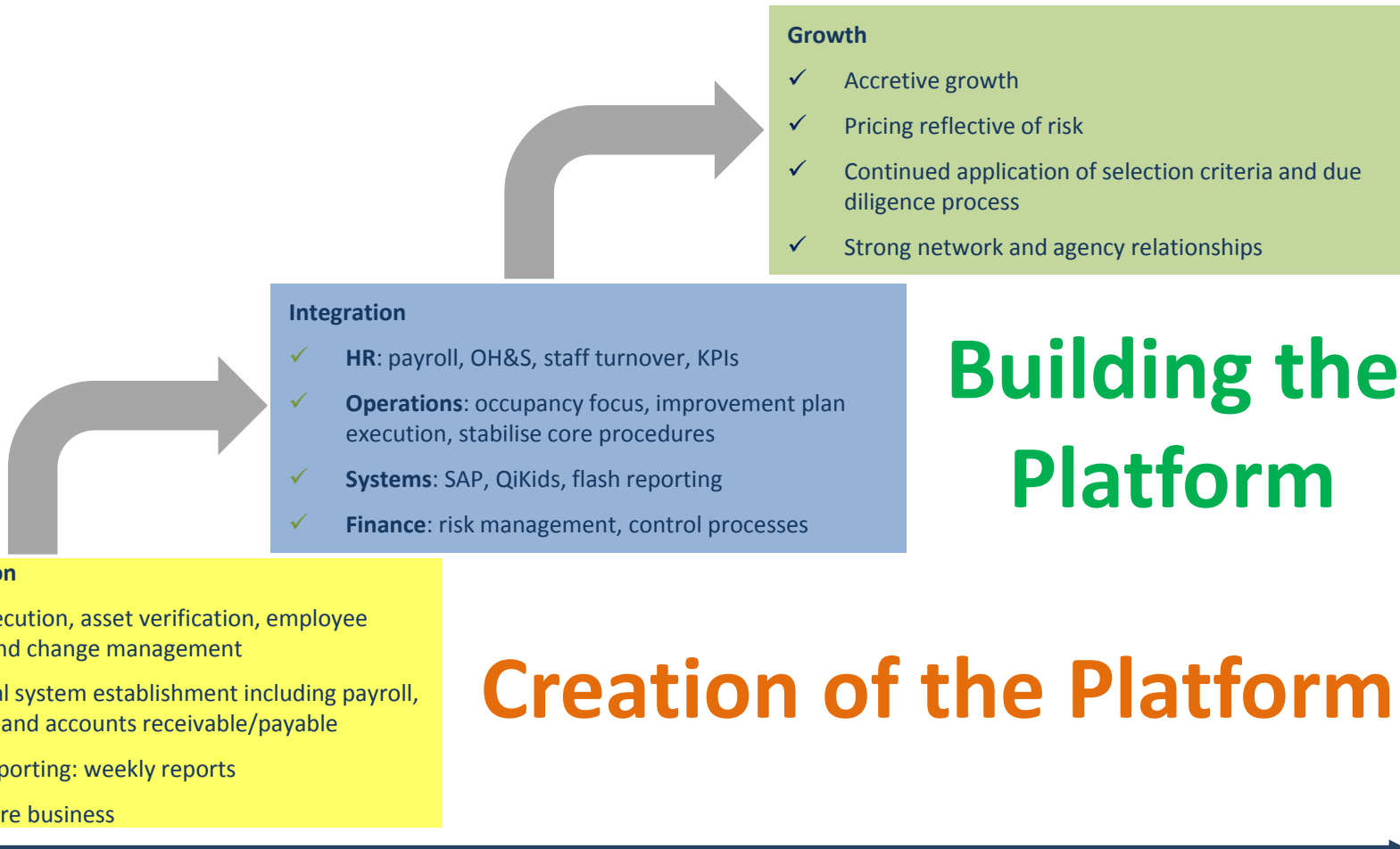
### 3. Operational and Integration Update



# Operational Strategic Overview

Multi phase, logical execution to create, build and then leverage the platform

Value



## Building the Platform

## Creation of the Platform

Time

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# Occupancy Update

## FY2014 Prospectus forecasts remains supported

- ✓ Outlook supports FY14 Prospectus forecasts
- ✓ Narrow timeframe over holiday season, with occupancy trending upward from seasonal low period
- ✓ Performance across the portfolio has been mixed, with a distribution of over forecast, on target and under forecast results
- ✓ Occupancy focus:
  - ✓ Weekly reports cascading from Centre Support to Area Managers to Centre Directors
  - ✓ Marketing, age group migration and upselling
  - ✓ Rolling forecasting enrolment discipline
  - ✓ Wage to revenue responsiveness



# Operational Update

**Business continuity remains the focus at centre level, whilst a strategic corporate framework has been established to provide a platform for growth**

- 1 Human Resources:** Systems and processes is catering for 1100 employee workforce with room for expansion
- 2 Weekly reporting & actioning:** Focus on driving the right behaviours
- 3 Core processes stabilised:** Day to day business, intranet delivery, communication standardisation
- 4 Improvement initiatives:** Extracting additional places, margin increases and other revenue initiatives



# Integration Update

Whilst the IPO integration phase is complete, Affinity Education will continue to implement best practices in establishing the corporate platform to extract the greatest value from the portfolio

- 1 **Implementation of SAP:** Core ERP executed and functioning including the general ledger, accounts payable and receivable – 25% of system capability utilised
- 2 **Flash Reports:** Evolution into real time performance improvement culture
- 3 **Payroll/Employee Central:** Excellent execution, significant system capability to provide further value
- 4 **Exit of Legacy Systems:** Antiquated systems shutdown, implementation of cloud based IT platform to provide long term benefits
- 5 **Integration Next Phase:**
  - ✓ Transition out consultants in January, critical retention only
  - ✓ Operationalise budgets, planning, and KPIs
  - ✓ Further development of marketing, IT, acquisition process & due diligence refinement

## 4. Growth Strategy and Outlook





# Growth strategy

Affinity Education will continue to focus on organic growth and a disciplined acquisition strategy targeting earnings accretive acquisitions throughout 2014

## Sources of Growth

### Strong Organic Growth Opportunities

- ✓ Increasing revenue by implementing targeted marketing strategies and broadening the range of services
- ✓ Implementing a strategy to increase the number of configured places from 4,279 to levels closer to 4,521 licensed places
- ✓ Leveraging the operating structure to achieve greater efficiencies and synergies; staff pooling and program roll out
- ✓ Improving the platform for staff retention and wage control

### Strong Acquisition Pipeline

- ✓ Focussed on a disciplined acquisition strategy as outlined in the Prospectus targeting earnings accretive acquisitions throughout 2014
- ✓ The corporatised structure is capable of supporting significant growth in the portfolio
- ✓ Looking at centre and corporate opportunities, with some costs starting to be incurred
- ✓ Risk and Acquisition Pricing are important factors to balance
- ✓ Affinity Education is looking to incorporate integration expertise for future executions



# 2014 Outlook

**Based on current information, Affinity Education maintains its FY2014 pro forma financial forecasts as outlined in the Prospectus**

- ✓ **Well placed to grow organically through increasing configured places at existing centres and leveraging from the corporatised structure**
- ✓ **Solid foundation in place for future acquisitions in a highly fragmented market**
- ✓ **With increasing competition in assets, a disciplined approach to acquisitions will be maintained focussing on risk and earnings accretion**
- ✓ **Significant balance sheet capacity to fund acquisitions**
- ✓ **Reaffirming FY14 pro-forma forecasts EBITDA of \$12.9 million and NPAT of \$8.3 million as detailed in the Prospectus**

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# Corporate Information



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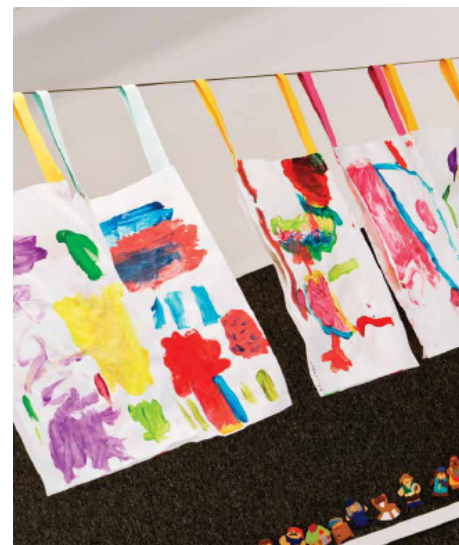
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