# Childcare

## Industry, Performance & Finance

*Connecting the dots*

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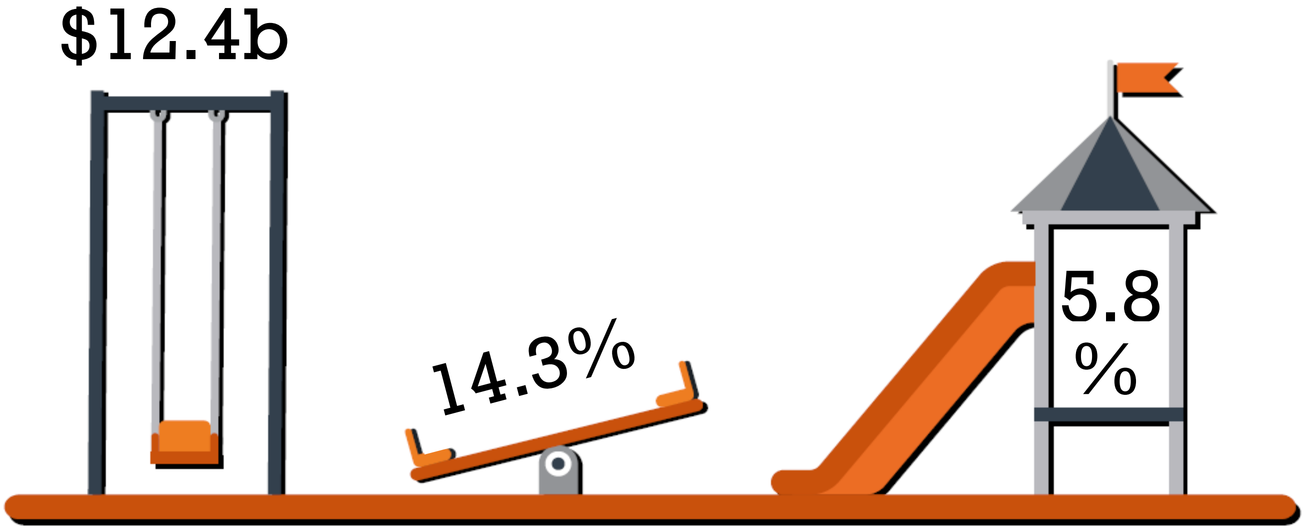
# Australian Childcare Industry at a Glance




Industry Revenue (2015-16)

Industry Growth (2012-17)

Industry Growth (2017-22)

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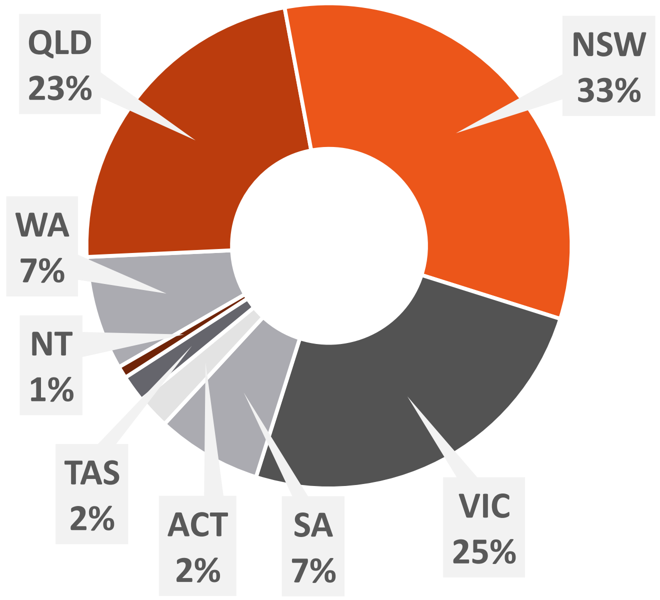
*Source: Q8710 Child Care Services in Australia Industry Report 2016 (IBIS)*

# Australian Childcare Industry at a Glance

## Financial Year 2016

| | |
|---|---|
| EBIT $992m | ↑ 18% |
| Wages $8bn | ↑ 15% |
| Businesses 10,400 | ↑ 3% |

## Share by # Children Attending

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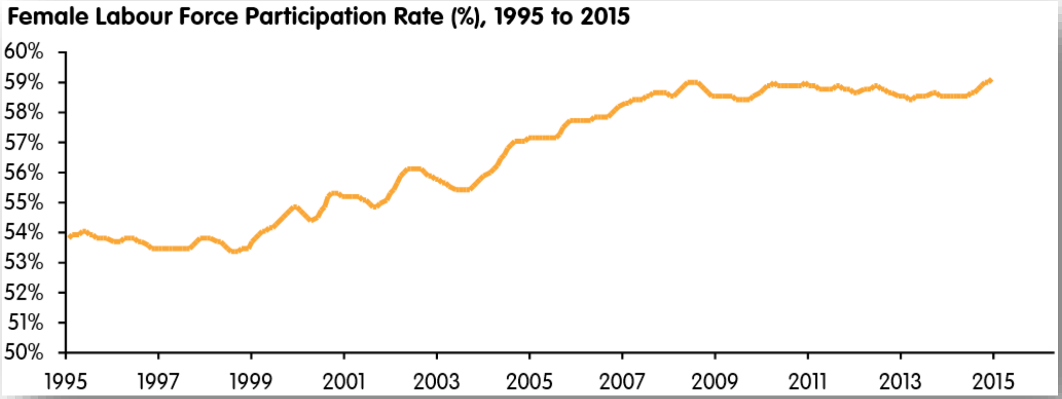
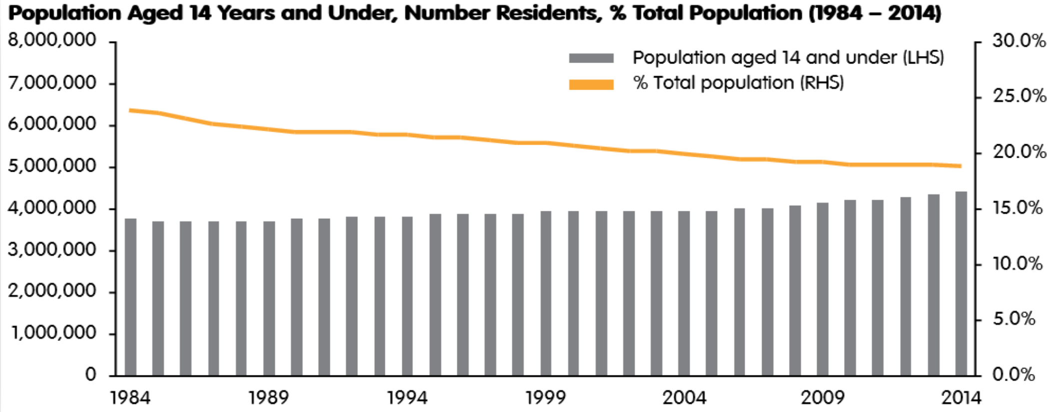
*Source: Q8710 Child Care Services in Australia Industry Report 2016 (IBIS)*

# Key External Drivers

- Level of social assistance
- Females in the labour force
- Population aged 14 and younger
- Real household discretionary income
- Labour force participation rate

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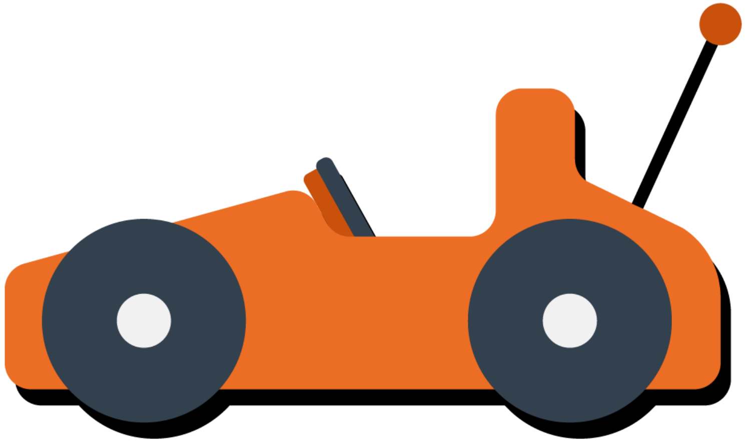
*Source: ABS*

# Key Success Drivers

- **Compliance** with government regulations
- **Location** and easy access for clients
- **Marketing** and local support
- **Occupancy** and capacity utilisation



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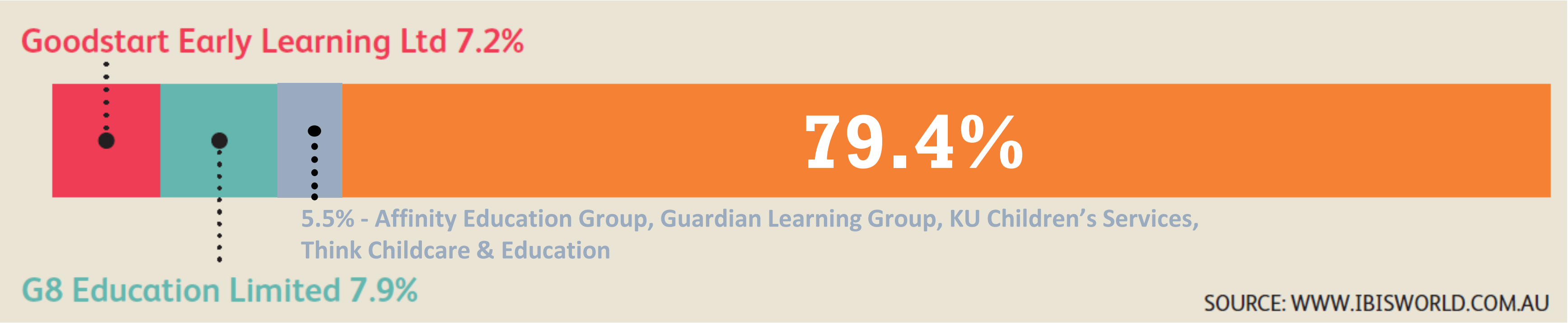
# Competition

***"The Australian Childcare Services industry is fragmented with numerous small-scale players. The industry's top six players account for just over 20% of industry revenue."***




- Goodstart dropped 1.1% market share since last year

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*Source: Q8710 Child Care Services in Australia Industry Report 2016 (IBIS)*

# Increasing Profitability

***“Analysis from sector-provided data has revealed that profitable centres had around 10% lower costs per place and 10% higher revenue per place on average, when compared to loss making centres”.***

Places (Revenue per place) × Occupancy % − Expenses

=

Profit / EBIT

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*Source: Q8710 Child Care Services in Australia Industry Report 2016 (IBIS), Productivity Commission, The Costs and Viability of ECEC Services 20 February 2015*

# Occupancy

- Banks will typically like to see occupancy above 80%
- What does increasing your occupancy by 5% do to your profit/EBIT?
- How do you compare to the Corporates and Industry averages?

***"Maintaining high occupancy rates is crucial to success in the industry. To be profitable, a centre must have an occupancy rate of at least 70%"***

G8 Peak Occupancy

| Centres Acquired In: | Occupancy |
|---|---|
| Pre-2011 | 85% |
| 2011 | 93% |
| 2012 | 93% |
| 2013 | 85% |

Think Occupancy

5 August 2016 ~80%

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*Source: Q8710 Child Care Services in Australia Industry Report 2016 (IBIS), G8 Investor Presentation 22 February 2016, Think Investor Presentation 11 August 2016*

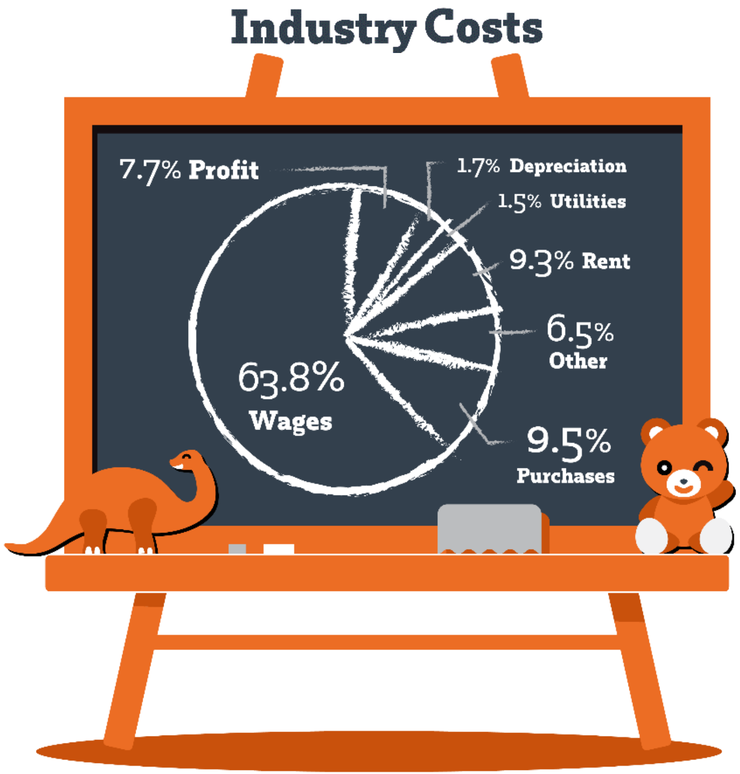
# Expenses

***"Wages are the largest cost for players in the Childcare industry. IBISWorld estimate that they account for 64% of industry revenue."***

- Rent has shown an increasing trend over the past five years.
- Other costs tend to remain relatively stable.

| Percentage of Revenue 2015-16 | Industry Average | G8 | Think |
|---|---|---|---|
| Wages | 63.8% | 54.6% | 44.7% |
| Rent | 9.3% | 11.3% | 12.3% |

Goodstart (Not for profit) wage cost for reference is **67.6%**

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*Source: Q8710 Child Care Services in Australia Industry Report 2016 (IBIS), G8 Investor Presentation 22 February 2016, Think Investor Presentation 11 August 2016*

# EBIT Margin

- Average Industry EBIT Margin: 8.0%
- G8 EBIT Margin: 15.8% (half year)
- Think Childcare EBIT Margin: 9.8% (half year)

***"The fragmented, small-scale nature of the industry influences profitability. The ownership split between not for profit organisations and private childcare centres has an effect as profit margins vary significantly between the two."***

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*Source: G8 Investor Presentation 16 August 2016, Productivity Commission, The Costs and Viability of ECEC Services 20 February 2015, Think Investor Presentation 11 August 2016*

# Business Valuations

***"Businesses in the smaller end are changing hands on EBIT multiples of 4-6 times. Larger businesses have a greater chance of attracting a premium"***

- G8 values target acquisitions at 4x the 12 month forecast EBIT assuming G8 were running the business*.
- Value of a registered place is around $9k - $15k which is more applicable to smaller centres purchased in the private sector.
- Larger centres may attract a purchase premium due to demand from corporate players looking to grow market share.




*Source: *G8 Investor Presentation 22 February 2016*

# Scenario: Increasing EBIT & Value

***You have a 70 place centre***

***Increasing occupancy by 5% to 80% has the following effect…***

| Current EBIT | Increased EBIT* p.a | Increased Value* |
|---|---|---|
| $225k | +$15k<br>*+7%* | +$60k<br>*+7%* |

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*Assumes daily rate of $110 per place, EBIT% of 15% and Valuation of 4 x EBIT*

# A Financing Partner

***Getting the most out of your relationship…***

- ✓ Share and discuss your KPIs
- ✓ Use the Annual Review as an opportunity
- ✓ How can we help you increase your wealth?
- ✓ Understanding and open lines of communication

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# Your team of commercial bankers and specialists who are here to make things easier for your business

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Strategic Business Relationship Management & New Business Development.

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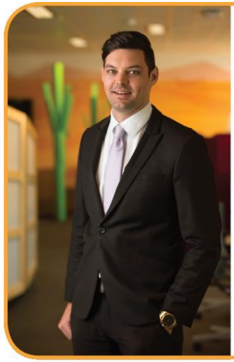

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# Thank you

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