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ASX Announcement
Mayfield Childcare Limited (ASX:MFD)
31 August 2023

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Financial Results for the Half Year ended 30 June 2023

Mayfield Childcare Limited (the "Company", "Mayfield") is pleased to announce its results for the first half of Calendar Year 2023.

Highlights

- **Revenue** – Childcare Revenue for the consolidated Mayfield Group increased by 14.9%, from $31.0M in the first half of 2022 (1H22) to $35.7M in 1H23.
- **Occupancy** – Occupancy for the core portfolio, which excludes centres approved for divestment, improved 3.6% to 70.6% (1H22: 67.0%) with spot occupancy as at the week beginning 31 July 2023 of 76.0%, reflecting robust fundamentals, effective rebranding and marketing efforts, and the extensive remediation work undertaken. Occupancy of the Group, including planned divestments, improved 1.2% to 63.9% (1H22: 62.7%) with spot occupancy as at the week beginning 31 July 2023 of 68.8%.
- **Family Engagement** – Family engagement strengthened across the Group with a 3.3% increase in days utilised per family to 3.2 (1H22: 3.1) and a 2.9% decrease in enrolment churn to 6.0% (1H22: 8.9%).
- **Staff Satisfaction** – Staff turnover[1] decreased 0.8% to 4.5% (1H22: 5.4%) reflecting management's focus on people and culture, centre remediation efforts, and the positive impact of Mayfield's new branding, which has received a 100% staff satisfaction rate[2].
- **Acquisitions (1H23)** – The Company was pleased to announce 3 centre acquisitions completed in the first half, all of which continued to perform strongly, with spot occupancy as at the week beginning 31 July 2023 of 82.9% and a post-acquisition trading multiple of 4.5x (acquired at 5x) reflecting the strength of management's revised acquisition approach and the quality of centres being identified for acquisition.
- **Acquisitions (2H23)** – The Company has executed agreements to acquire a centre in Enoggera (QLD) from Genius Learning. The acquisition strategically expands Mayfield's presence along the east coast of Queensland into a major city. The acquisition purchase price of $885K represents a multiple of 5.0x CY23 EBITDA forecast.
- **Rebranding** – The Company has successfully rebranded 14 centres to the Mayfield Early Education identity. With the Company's strategic focus on a consolidated single brand, it has terminated the Genius IP Agreement which will result in savings of approximately $400K in CY24. The rebrand of the remaining Mayfield portfolio is underway and expected to be completed by Q1 2024.
- **Balance Sheet** – The Company maintained $16.5M undrawn in its debt facilities, which it can use to fund acquisition opportunities to drive further growth.

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1. Staff turnover is measured as the number of employee terminations each month as a percentage of the number of employees processed in payroll.
2. Survey conducted at centres where rebranding has been completed.

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Chief Executive Officer, Ashok Naveinthiran said: "We are pleased to present Mayfield's results for the first half of 2023, which reflect a notable 14.9% increase in Childcare Revenue for the consolidated Group to $35.7 million, driven by an increase in occupancy growth and family utilisation, and the contribution of new centre acquisitions. Our topline performance underscores our commitment to delivering quality services to families and children in our care, and the robust fundamentals of our business."

"The prior period issues and investigation announced earlier this year resulted in the Board and management having to take decisive action and remediation steps, including, litigation against a former Executive, significant centre remediation and reinvestment, and the preservation of cash by not declaring a half-year dividend. The Board continues to work with the Company's legal advisors to pursue the recovery of a number of expenses."

"We view this chapter as a critical turning point in our pursuit of a stronger, more resilient organisation. While one-time expenses are reflected in our financial performance for this period, they underscore our dedication to laying a solid and transparent foundation for sustainable growth. With remediation actions substantially completed, we maintain a strong outlook for the Group and look forward to a return to normal operations as we close out the year."

"We remain steadfast in our mission to provide exceptional early education across Australia and our vision to help each child reach their natural potential. As we move forward, bolstered by our strengthened foundations, we are excited about the opportunities ahead. We thank our dedicated team, families, and stakeholders for their unwavering support on this transformative journey."

Prior period issues

Following the independent investigation announced in February 2023 into prior period misappropriations by a former Executive / Director, the Company has taken the following steps to strengthen its foundations and remediate prior period issues:

1. **Litigation and cost recovery:** The Company has engaged King & Collins, a specialist litigation firm, to recover costs and safeguard the Company's assets against potential misconduct outside the independent investigation period of 2020 – 2022. The Company seeks to recover approximately $1.1M and secure warranties to protect against other potentially unidentified misconduct.

2. **Centre remediation and reinvestment:** Numerous centres have required additional resourcing and extensive repairs and maintenance to rectify prior periods of underinvestment and incomplete Capital Expenditure (capex) work.

3. **Strategic portfolio review and optimisation**: The Board has approved the divestment of 6 centres due to underperformance over multiple periods and underlying issues - occupancy of these centres in 1H23 was 36.0% (1H22: 44.6%; 1H21: 37.9%), with 1H23 underlying EBITDA contribution of ($0.7M).

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4. **Compliance review**: A number of non-compliant policies, environments and centre procedures have been rectified, with further work required in this area.

5. **Management Restructuring**: In response to past issues the Company has taken the following restructuring actions:

    - Established a new Quality and Compliance department and discontinued the use of its external Quality Improvement Advisor appointed in 2016.
    - A facilities manager has been assigned to oversee maintenance and Capex, ensuring clear separation of responsibilities.
    - A Financial Controller has been appointed to reinforce segregation of duties and enhance financial resources for future growth.
    - The appointment of a new CFO with substantial audit and commercial experience aims to strengthen the Company's financial governance capability.

6. **Governance Review:** Completion of an external governance review, and commencement of process to appoint two vacant independent non-executive director positions through the Australian Institute of Company Directors. The Company aims to appoint at least one additional independent Non-Executive Director by 30 September 2023.

(continued next page)

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Financial Performance

The results for this period include significant one-time expenses relating to essential strategic actions required to remediate prior period issues and systemic underinvestment across the Group:

	Group 1H 2023 $'000	Group (Restated) 1H2022 $'000
Childcare Revenue	**35,654**	**31,040**
Adjusted EBITDA[1] including abnormal items	848	5,171
Insurance and other income	(669)	(1,314)
Genius Transitional Management Benefit	-	(642)
Investigation related costs	606	-
Remediation costs	1,253	-
IP Agreement & Branding	234	-
Head office staff & related costs	1,312	920
Other corporate overheads	960	803
Underlying Centre EBITDA[2]	**4,544**	**4,938**

1. *Adjusted EBITDA reflects the reversal of the impact of AASB 16 Leases.*
2. *Underlying Centre EBITDA reflects the reversal of the impacts of AASB 16 Leases and additionally the impact of abnormal items during the period.*
3. *Adjusted EBITDA and Underlying Centre EBITDA 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.*

- Childcare Revenue increased $4.6M to $35.7M (1H22: $31.0M) driven by improved occupancy across the Group, an increase in utilisation by families and the contribution from new acquisitions.
- Underlying Centre EBITDA was down $0.4M to $4.5M (1H22: 4.9M) driven by the underperformance of centres approved for divestment, which contributed ($0.7M), a $0.6M increase in the use of agency staff at two Victorian centres due to staff shortages, and a 0.7% increase in operational expenses resulting from overall cost pressures.
- Adjusted EBITDA was impacted by a number of abnormal items:
    - $0.6M in costs relating to the investigation of prior period misappropriation and misallocations by a former Executive / Director as announced to the market in February 2023
    - $1.3M in remediation costs to rectify prior period issues, comprising $0.3M in impairment charges, $0.3M in additional centre supplies and admin costs, and $0.6M in repairs & maintenance work at a number of centres due to prior underinvestment and incomplete capital expenditure work.

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- A decrease in non-Long Day Care income, predominantly comprised of insurance payments relating to centre damage.
- The discontinued benefit received from Genius Learning through the Transitional Services Agreement (terminated in 2022).
- An increase in Head office staff and related costs, stemming from the requirement of additional resources following the termination of the Transitional Services Agreement and investments into the Group's financial governance capability.
- The Company seeks to recover approximately $1.1M in investigation and related costs, and secure warranties to protect against other potentially unidentified misconduct.

Outlook

- Occupancy continues to grow with core portfolio spot occupancy as at the week beginning 31 July 2023 of 76.0%. Notwithstanding healthy demand, staff shortages continue to remain a limiting factor to maximising Group occupancy, and the continued use of agency at a small number of centres will continue to compress margins in the short term.
- Cost pressures are expected to have a continued impact on 2H23. A fee increase is scheduled in September to partially offset operational cost increases and the 5.75% award increase which took effect on 1 July 2023.
- The Group's foundations have been strengthened by the completion of significant remediation work; coupled with 4 newly acquired high-performing centres and the planned divestment of 6 underperforming centres the Group's outlook is promising.

In closing, CEO Ashok Naveinthiran said: "Despite the significant challenges of the first half, our investment in our centres, people and brand equips us well for the road ahead. As we move into the second half of the year and look ahead to 2024, our focus turns to growth, both organic and through new acquisitions. We have proven this year the effectiveness of our acquisition approach and refined how we identify and integrate these opportunities, and while the Genius Incubator remains a source, we're also looking at a range of other avenues for expansion. With a more strategic approach to acquisitions and a diversified pipeline, we're optimistic about Mayfield's trajectory."

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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