

MACQUARIE
ACN 002 574 923

Macquarie Financial Services

Snapshot

ABC Learning Centres

Business Description

A.B.C. Learning Centres Limited (ABS) is involved in private child care and education businesses in Australia and New Zealand. ABC has operated its child care centres under regional management licences which are considered to be franchise agreements under the Franchising Code of Conduct. The freehold property of the childcare centres is owned by private third party landlords and a variety of private trusts, and is leased by ABC.

Strategy Analysis

The childcare industry is fragmented despite the considerable consolidation activity in recent times. ABC is seeking growth by increasing the number of centres it owns and its main method of doing this is acquisition. Value creation is targeted through the roll out of management systems to each new location and synergistic gains through centralising certain administrative functions. Rapid growth in child care centre numbers is translating into strong profit growth. ABS is demonstrating an ability to increase the occupancy levels within the portfolio. Centres held less than a year have average occupancy of 75%. Average occupancy for centres held for more than a year is 92%. Some 850 centres are expected by year end and 1200 in three years providing market share above 20%. Corporate childcare, schools and overseas are longer term growth opportunities. ABS's rapid growth in child care centre numbers is translating into strong profit growth. The significant contribution from the merged Peppercon (PPA) and Child Care Australia (CCA) businesses from December allowed a 76.6% rise in FY05 NPAT to \$37.8m, beating managements own guidance. Revenues rose 40.9% to \$160.2m as the number of child care centres doubled over the year to 660. The moderate slip in margins reflects inclusion of the less profitable PPA and CCA centres. Centre renovations ran ahead of schedule resulting in a lift in depreciation. Some 12-14 centres will be renovated monthly over the next 18 months. EBITDA margin slipped from 41.1% to 40.1%

02 December 2005

Recommendation

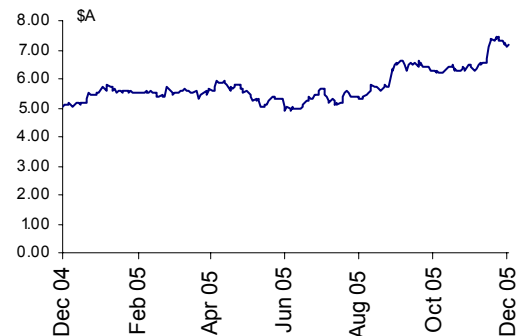
Recommendation: Neutral
Relative to: All ind (ex Fins)

Investment Fundamentals

ASX code: ABS
Stock price: \$7.10
Market cap: \$1,879m

| Y/E 30 Jun | 2006e | 2007e | 2008e | 2009e |
|------------------|-------|-------|-------|-------|
| Reported EPS \$m | 80.8 | 94.9 | 102.9 | 113.9 |
| Adjusted EPS \$m | 80.8 | 94.9 | 102.9 | 113.9 |
| EPS adjusted \$c | 31.1 | 36.3 | 39.4 | 43.6 |
| EPS growth % | 51.0 | 16.8 | 8.3 | 10.8 |
| PE x | 22.8 | 19.5 | 18.0 | 16.3 |
| PE relative x | 1.5 | 1.5 | 1.4 | 1.3 |
| DP \$c | 16.0 | 18.0 | 20.0 | 22.0 |
| Dividend yield % | 2.3 | 2.5 | 2.8 | 3.1 |
| Franking % | 100.0 | 100.0 | 100.0 | 100.0 |

Share Price



Source: ASX and Company accounts

| Segment Performance | Annual Shareholders' Return | | |
|---------------------------|-----------------------------|---------------------|----------------------|
| Results by Industry | Revenue (%) | Return on Sales (%) | Return on Assets (%) |
| Childcare business | 100.0 | 100.0 | 100.0 |
| Total | 100.0 | 100.0 | 100.0 |
| Results by Country | | | |
| Australia | 96.9 | 0.0 | 0.0 |
| New Zealand | 3.1 | 0.0 | 0.0 |
| Total | 100.0 | | |

Company contact details:

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If you have any queries regarding this Research information or with any aspect of your ARF account please call the Australian Retirement Fund on 1300 300 273

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