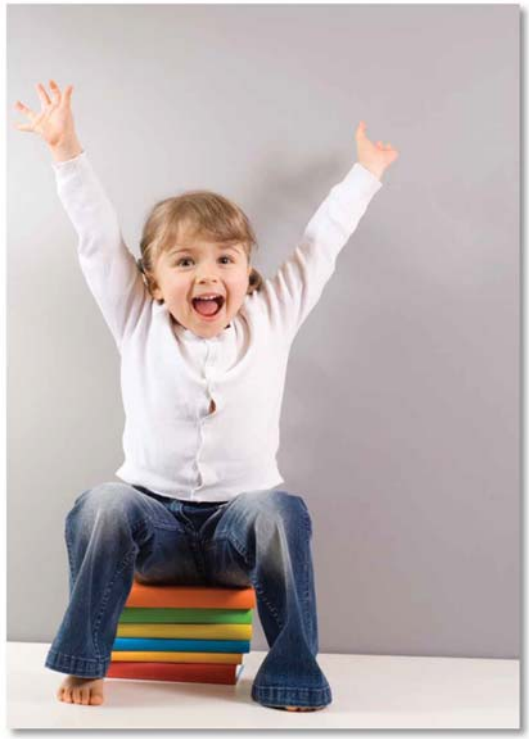






Affinity Education Group (ASX:AFJ)

Morgans Conference

10 October 2014

AFFINITY EDUCATION GROUP

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Section 1

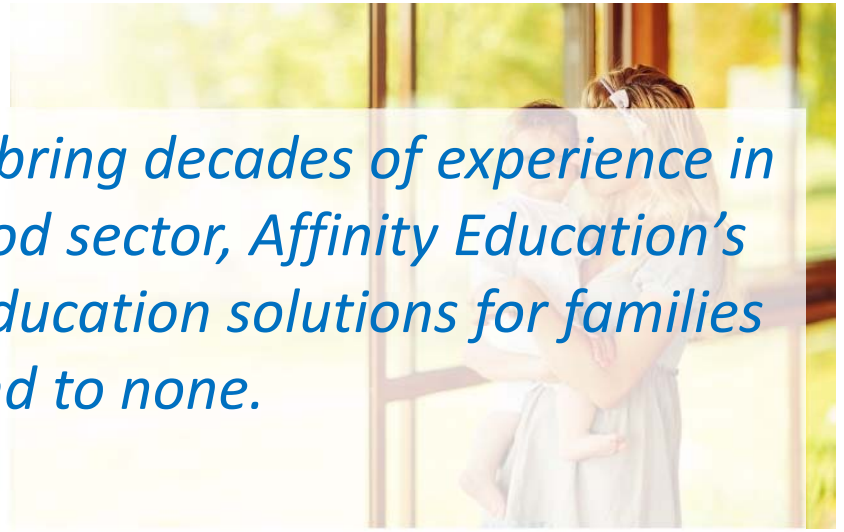
Company Overview



We provide a positive environment that allows our children, families and educators to flourish.

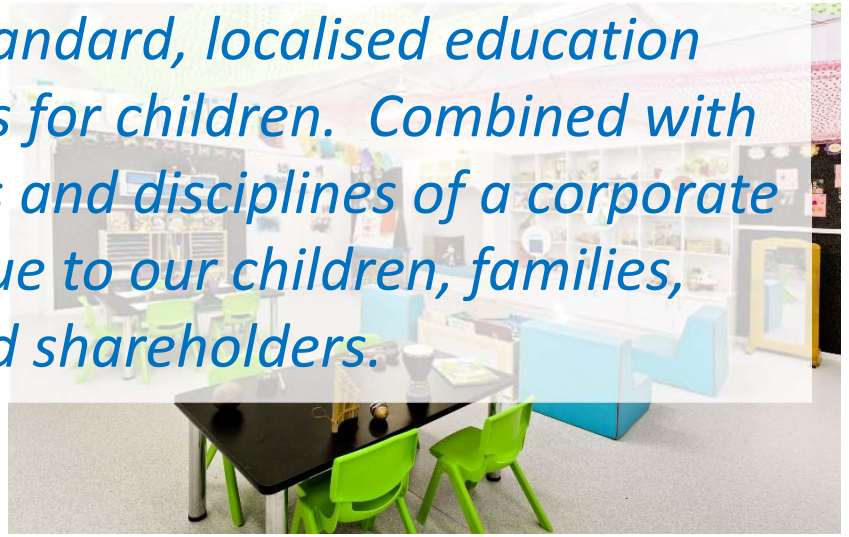
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With a leadership team who bring decades of experience in the Australian early childhood sector, Affinity Education's child care and high quality education solutions for families are second to none.





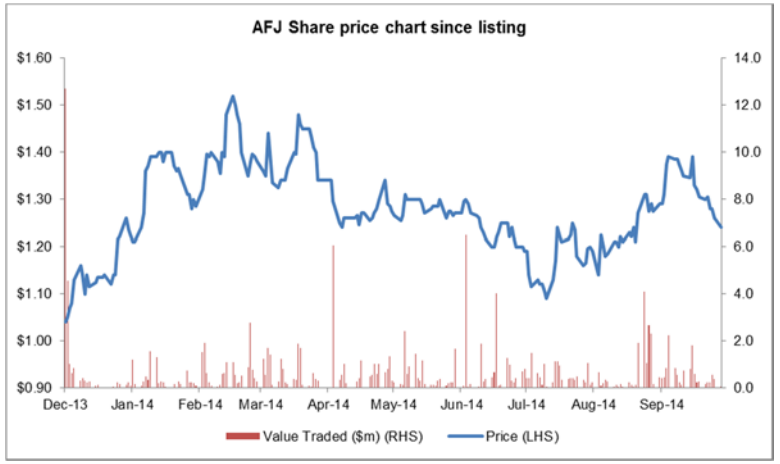
We provide the highest standard, localised education programs and care solutions for children. Combined with centralised support functions and disciplines of a corporate entity, we can deliver value to our children, families, educators and shareholders.

AFJ Background

Affinity Education is a leading provider of education and care to children aged six weeks to twelve years in the Australian market

- Portfolio of 120 child care centres - 108 owned, 12 managed and a further 20 subject to contract with a total of [9467] places
- Geographically diversified portfolio across Australia with centres located in QLD, NSW, VIC, WA and NT
- Experienced Board and Management with proven industry expertise
- Successfully listed on the ASX, with a current market capitalisation of c. $225m[1]

Share price since listing (ASX: AFJ)[2]



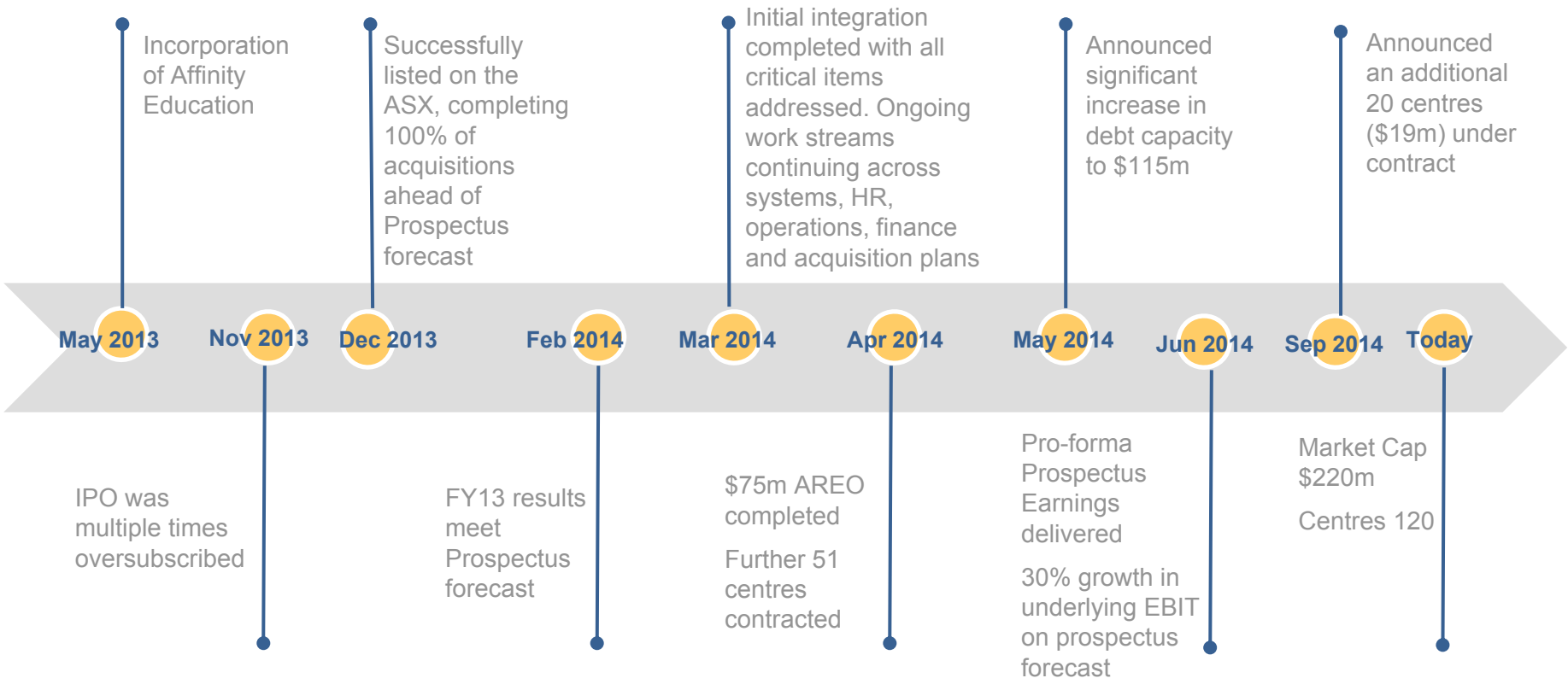
Substantial shareholders[3]

Shareholder	% ownership
Perpetual Investments	11.7%
Renaissance	5.7%
AMP Capital Investors	5.5%

[1]Assuming $1.35 share price; [2]Share price has been TERP adjusted; [3] As per the most recent substantial shareholder notice lodged with the ASX

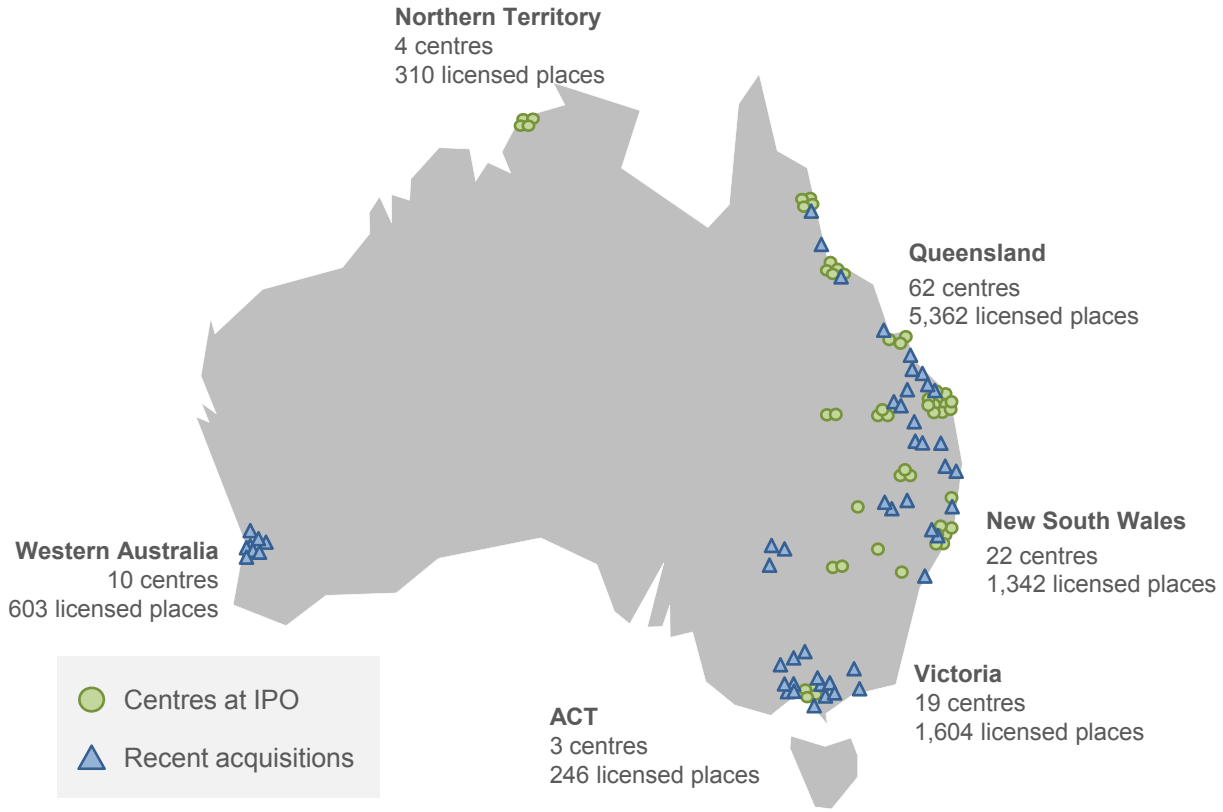
Significant milestones

Affinity has achieved a number of significant milestones since listing in December 2013



Portfolio snapshot

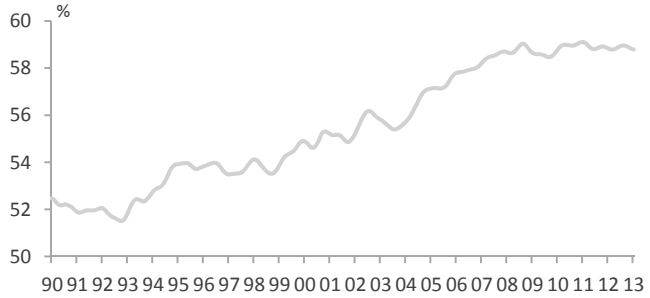
Diversified portfolio of 120 centres including 12 managed centres located across Australia with 9,467 licensed places



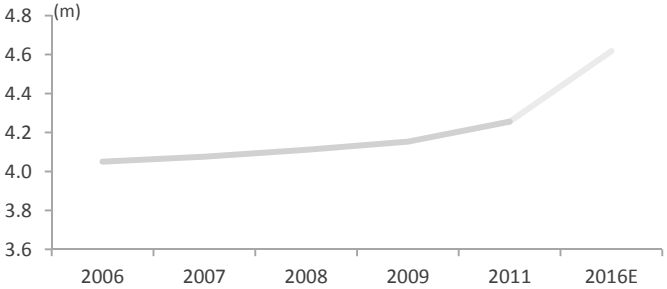
(1) Includes 9 centres to be settled in August and September 2014.

AFJ Background – Sector Overview

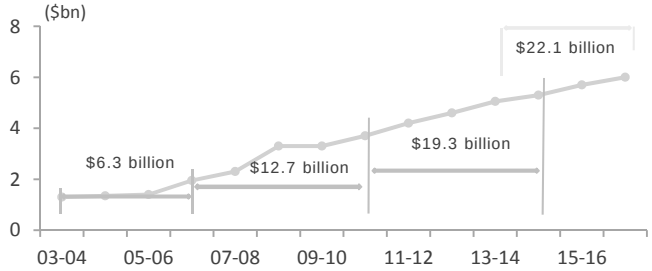
Strong industry fundamentals (1)



Increased female participation in the labour force.



Increased number of children between 0-14.



Financial support for the industry from the government.

Market Overview(2)

The childcare industry remains highly fragmented



84% of operating providers manage only 1 child care centre

There were 7,183 approved child care providers in Australia as at December 2013

(1) Source: DEEWR, Child Care in Australia, August 2013; and ABS (2) Source: Australian Children's Education and Care Quality Authority Q4 2013 Report

Section 2

Financial Highlights



H1 FY2014 Financial highlights

Affinity Education has delivered on the Pro-forma IPO earnings forecast

$'000s	Prospectus H1 FY14	Pro-forma H1 FY14	Variance %
Revenue	37,767	35,424	(6.3)%
EBITDA	4,255	4,297	0.1%
EBITDA margin	11.3%	12.1%	7.1%
EBIT	3,845	3,862	0.1%

The statutory numbers for Affinity Education are materially impacted by successfully completing acquisitions that double the group's size in the first 6 months, the NPAT result is impacted by acquisitions, excluding acquisition costs of $7.8m, EBIT would have been $4.0m or 30% above the prospectus EBIT of $3.1m

$'000s	Prospectus H1 FY14	Actual H1 FY14	Variance %
Revenue	37,767	38,465	1.8%
EBITDA	3,483	(3,378)	n.m.
EBITDA margin	9.2%	n.m.	n.m.
EBIT	3,073	(3,840)	n.m.
NPAT	2,047	(5,002)	n.m.

Financial Statements H1 FY2014

Operating Cash Flows

Excluding acquisition costs, operating cash flows are $3.8m, which represents a 85% conversion rate from EBITDA (excluding acquisition costs)

$'000s	Six months to 30 June 2014 Actual	Six months to 30 June 2014 Prospectus
Cash flows from operating activities		
Receipts from customers	36,862	38,463
Payments to suppliers and employees	(33,135)	(33,051)
Acquisition costs	(3,478)	-
Financing income / (costs)	37	(114)
Net cash flows from operating activities	286	5,298
Cash flows from investing activities		
Payments for purchase of businesses	(41,201)	-
Payments for assets	(419)	(478)
Other investing items	22	250
Net cash flows from investing activities	(41,598)	(228)
Net proceeds from issue of shares	71,983	-
Proceeds / (repayment) of borrowings and lease liabilities	570	(230)
Net cash flows of financing activities	72,553	(230)
Net increase in cash and equivalents	31,241	4,840

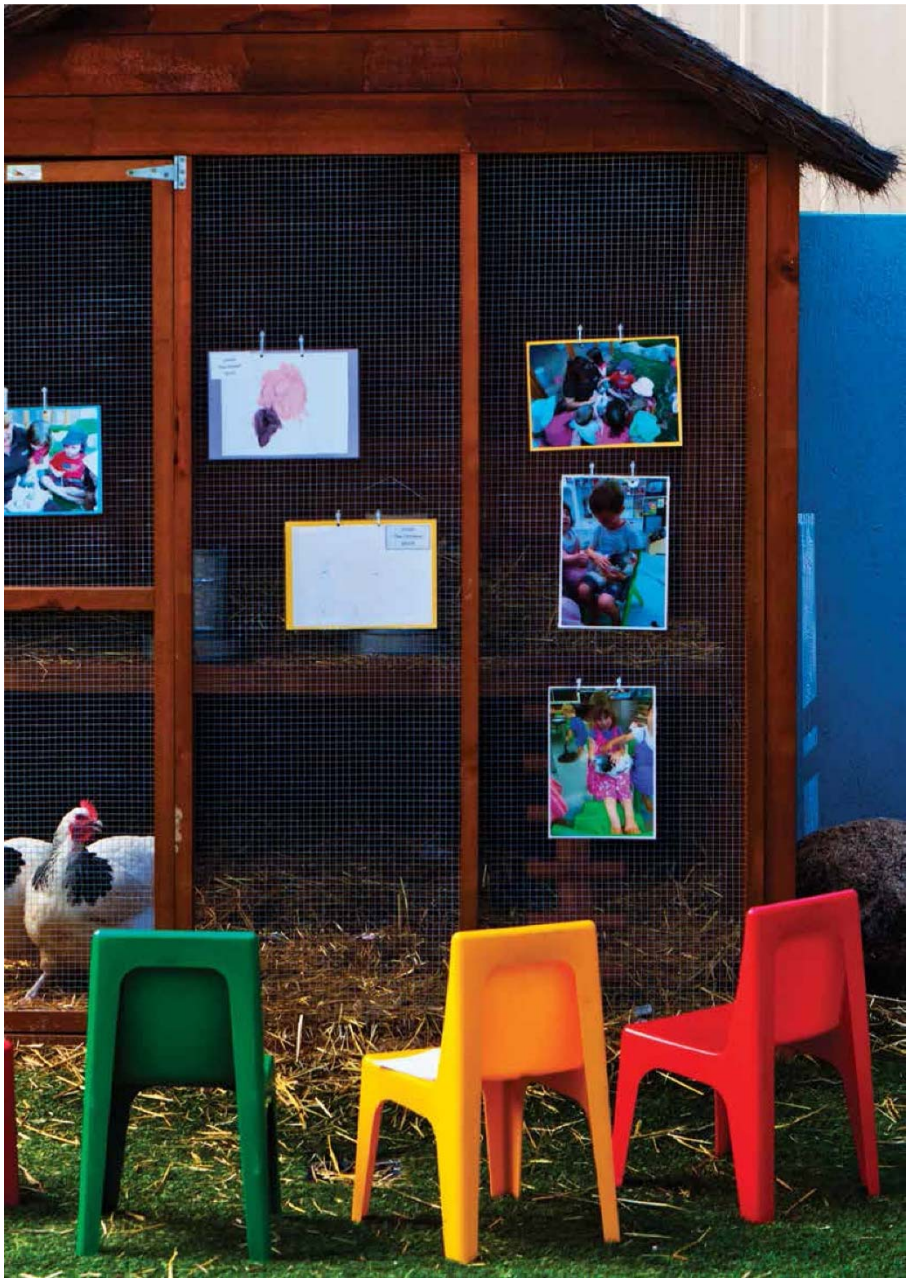
Balance Sheet capacity

Strong borrowing capacity with $100m of undrawn facility for acquisition purposes and leverage ratio <1% (as at 30 June)

$'000s	As at 30 June 2014	As at 31 December 2013
Current assets		
Cash and cash equivalents	**34,309**	**3,068**
Other current assets	**5,475**	**2,818**
Non-current assets		
Intangibles	**117,008**	**62,122**
Deferred tax assets	**9,374**	**6,814**
Total assets	**166,166**	**74,822**
Current liabilities	**17,269**	**8,425**
Non-current liabilities	**1,563**	**958**
Total liabilities	**18,832**	**9,383**
Net Assets	**147,334**	**65,439**
Equity		
Issued share capital	**161,192**	**74,295**
Retained earnings	**(13,858)**	**(8,856)**
Total equity	**147,334**	**65,439**

Section 3

Operational and Integration Overview



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Operational and integration highlights

Operations continue to improve, acquisitions and integration continue in line with expectations

1. **Debt capacity -** Debt is expected to be drawn down in the second half in line with the finalisation of further accretive acquisitions
2. **KIC transaction –** Successful retention of the management team has ensured continuity of centre performance, with integration progressing well and on plan
3. **Systems –** Our ability to further improve system architecture allows staff to put greater focus on delivery of quality care and education programs
4. **People -** AFJ is a people driven business and we are undertaking several key initiatives to improve efficiency, professional development and employee retention
5. **Integration -** The broader portfolio integration is continuing with key functions now stabilised and improvement programs underway, the new centres are performing well and integrating on plan

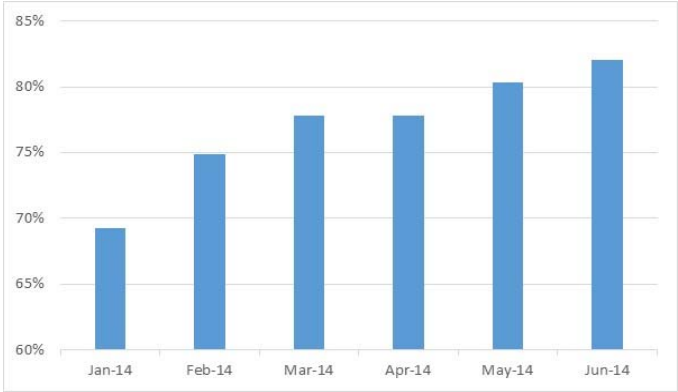
Operational update

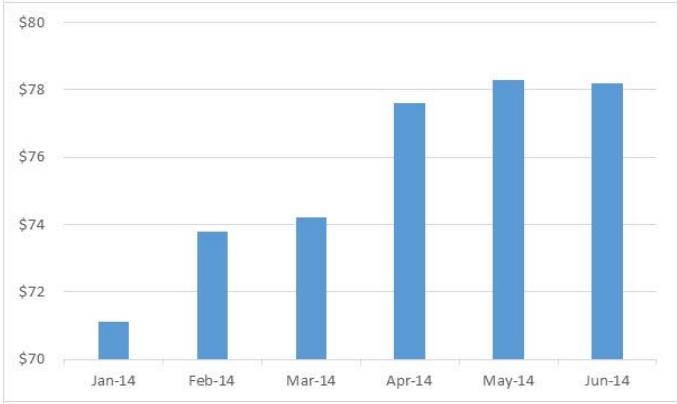
Strong trends from increased stabilisation and ongoing improvement initiatives increasing performance

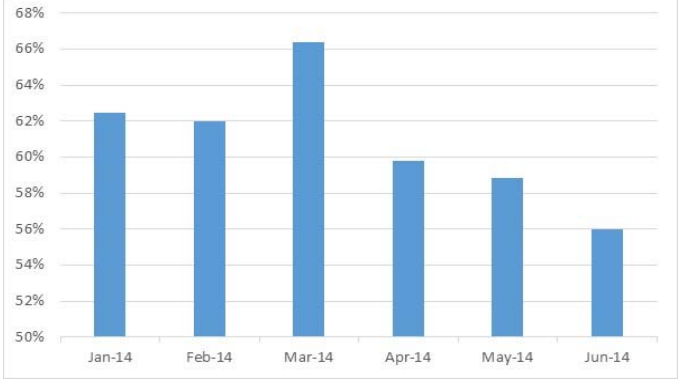
1. **Occupancy** has continued to increase through strong action and focus from management in a relatively short space of time, currently the prospectus portfolio is sitting around 86%

2. Importantly our **Average Fee** rates grew at the same time as occupancy increased, showing that the growth was "*quality*" growth, and not growth achieved by reducing margin

3. **Wage to Revenue** continues to trend down with initiatives implemented to continue to strengthen this result in the second half

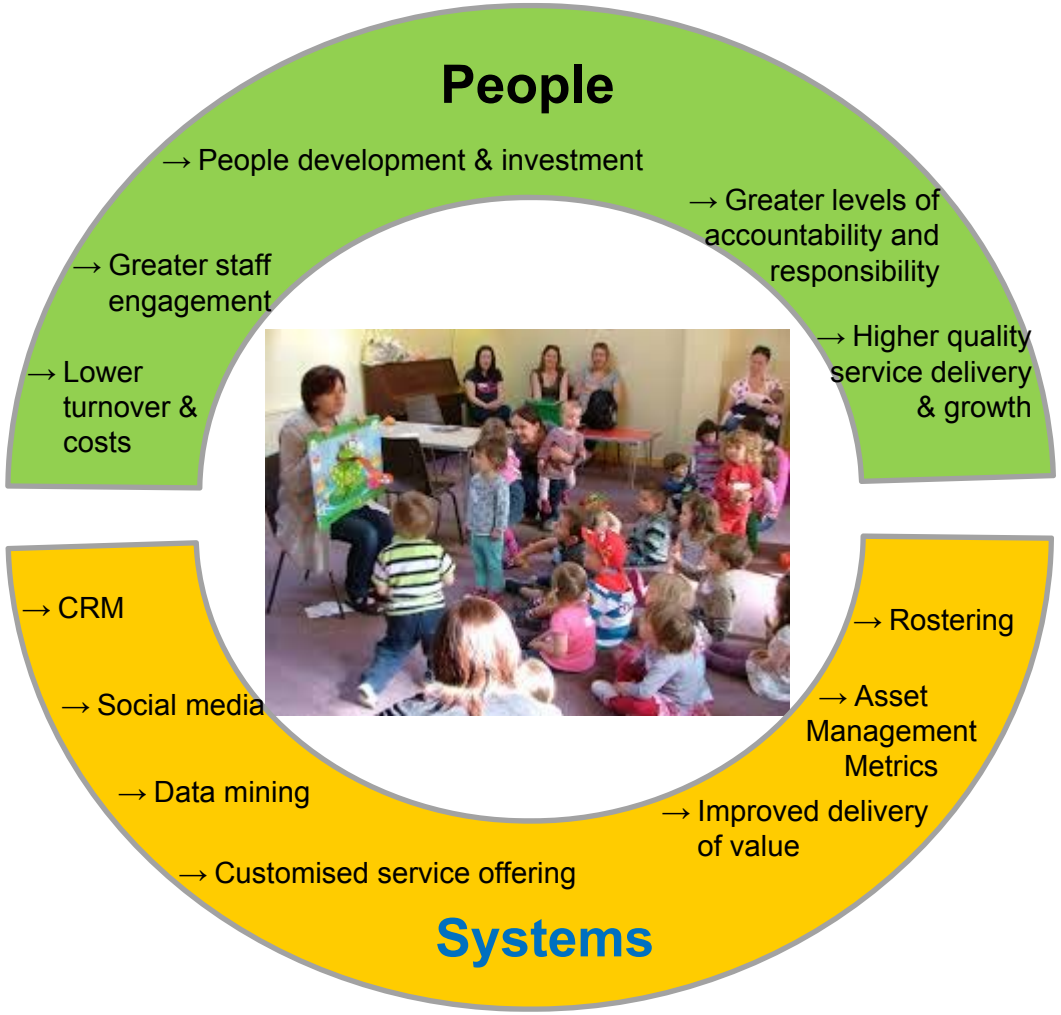






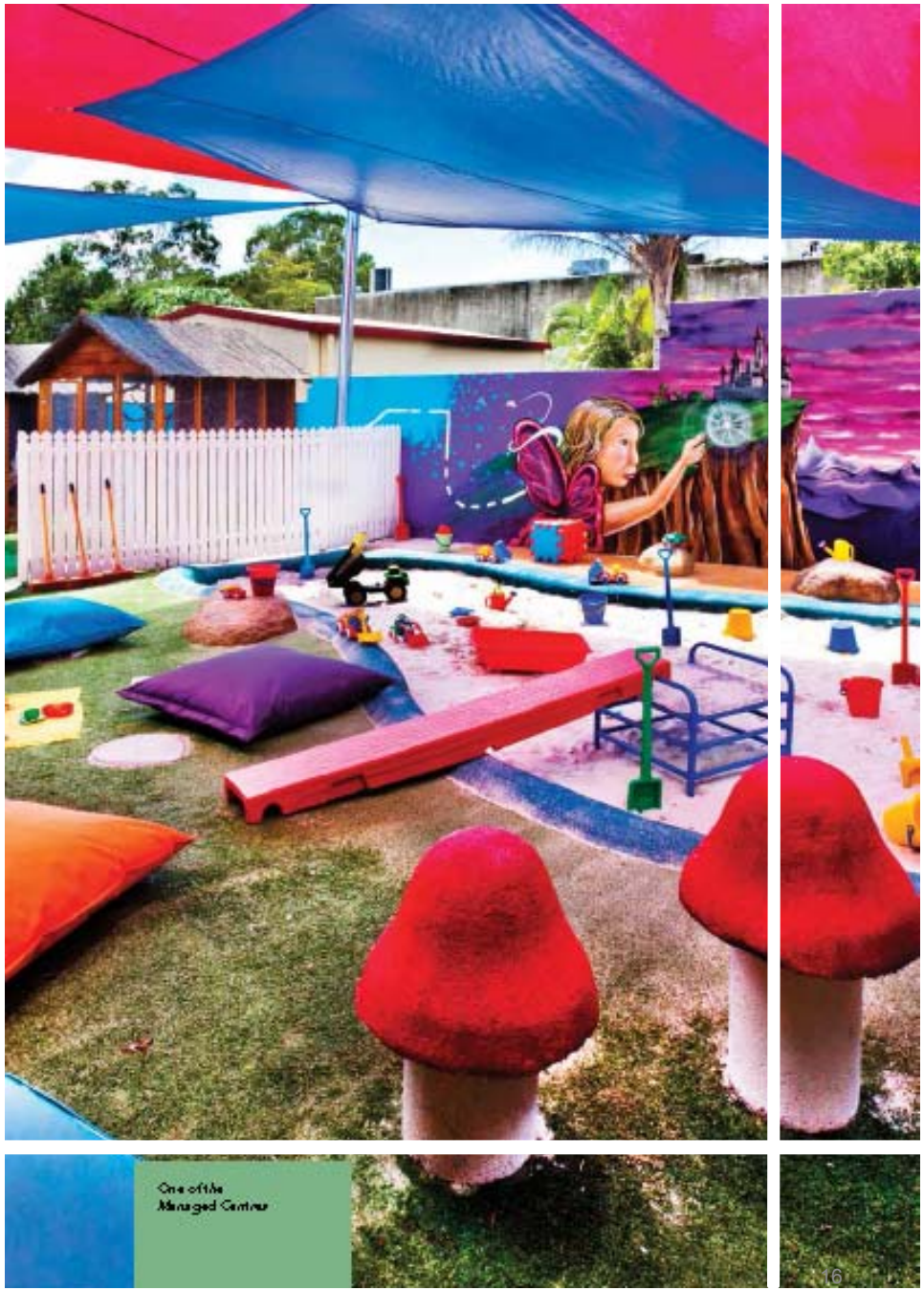
Customer Centric Business Model

Delivering exceptional customer service will come through investing in our people and our systems



Section 4

Growth Strategy and Outlook



Growth Strategy and Outlook

Affinity Education will continue to focus on organic growth and a disciplined acquisition strategy targeting earnings accretive acquisitions with strong available debt capacity

Multiple Sources of Growth

Strong Acquisition Pipeline

- Focussed on disciplined acquisition strategy targeting earnings accretive opportunities
- Continuing to look at both centre and corporate opportunities
- Accretion, Risk and Pricing continue to be critical acquisition factors
- Affinity Education has gained key insights and learning, improving future acquisition and integration processes

Strong Organic Growth Opportunities

- Increasing revenue through targeted occupancy and margin strategies
- Increasing the rollout of configured and licensed capacity
- Achieving greater efficiencies in staff structures, reducing wage costs, increasing staff retention & other economies of scale
- Introduction of programs to better deliver value to parents and children

Highly fragmented market with significant acquisition opportunities continues

Strong Acquisition Pipeline going forward

Significant balance sheet capacity of $100m to fund acquisition pipeline

Five pillars delivering shareholder returns

Organic growth driven through a balanced approach across five critical areas



Delivering growing shareholder returns

2014 Outlook

Based on current trends Affinity Education maintains a strong outlook

- Stronger operational performance coming into H2 FY2014
- Access to significant funding to increase accretive growth in H2 FY2014
- Strong acquisition pipeline going forward
- Continued investment in people and systems to deliver superior customer focussed strategy
- Strengthening platform improving acquisition integration
- Establishment of the Affinity Education platform, sees the group ideally placed to work with the Productivity Commission recommendations to capture further opportunities, if or when enacted
- The company's policy remains that dividend expectations will be up to approx. 60% of NPAT



Thank you

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