



Business Optimisation Series

Event 2 - Deal Readiness

March 2023



Acknowledgement of Country

NAB recognises Aboriginal and Torres Strait Islander peoples as Australia's First Peoples, and the Traditional Custodians of the land where we live and work. We pay our respects to their Elders, past, present and emerging, and we're proud to live in a country which is home to the world's oldest living cultures.



Business Optimisation Series

Event



1. Financial literacy

2. Deal readiness

3. Tax structuring

4. Strategic planning

5. Succession planning

Date



23 February 2023

15 March 2023

TBC

TBC

TBC

Deal Readiness

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01

Valuation

Valuation

“The process of determining the fair value of an asset, business or company”

Value is in the **‘eye of the beholder’**

- buyers may approach valuation differently
- the price that a buyer is willing to pay

There are however, a number of techniques / methodologies;

- may yield different results
- no one method is best suited for every transaction
- while quantitative in nature, involves qualitative assumptions

Common methodologies for obtaining an indicative valuation:

Relative valuations - ratio and multiples based

Comparable listed companies

Precedent transactions



Intrinsic valuations

Discounted cashflow

Asset based valuations

Common valuation methodologies

Relative valuations - ratio and multiples based

Trading comparables

- **Public equity markets**
- EV: EBITDA
- EV: Revenue
- P: E

Precedent transactions

- **Relevant transactions**
- EV: EBITDA
- EV: Revenue
- P: E

Where:

- EV is Enterprise Value
 - represents the company's total value
- EBITDA is Earnings Before Interest, Tax, Depreciation and Amortisation
 - proxy for cashflows
- P: E is Price to Earnings

Intrinsic valuations

Discounted cashflow

- Present value of expected future cash flows using a discount rate
- Theoretical valuation
- Heavily reliant / highly sensitive to assumptions
- Consider with caution

Asset based valuations

- Total assets less total liabilities
- Liquidation or sale value



Enterprise valuation using multiples

EBITDA: Earnings Before Interest Tax Depreciation and Amortisation

Normalised EBITDA x Valuation Multiple = Enterprise Value

Less: Debt

Less: Preferred equity and Minority Interests

Plus: Cash and short term investments

= Value of the shares / Equity value

Value of shares / Equity Value (or market capitalization)

Plus: Debt

Plus: Preferred equity and Minority Interests

Less: Cash and short-term investments

= Enterprise value

EBITDA is normalised for;

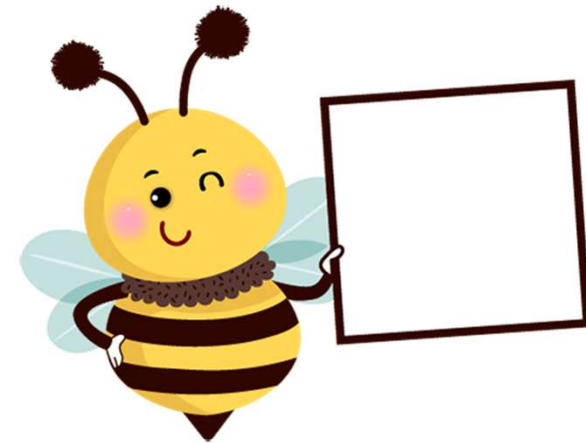
- Non-recurring or one-off expenses (e.g. unusual legal fees),
- Family expenses (including family salaries),
- Non-business expenses,
- Non-business revenues (jobkeeper/ jobsaver),



Public trading multiples

Trading comparables

- **Public equity markets**
- EV: EBITDA
- EV: Revenue
- P: E



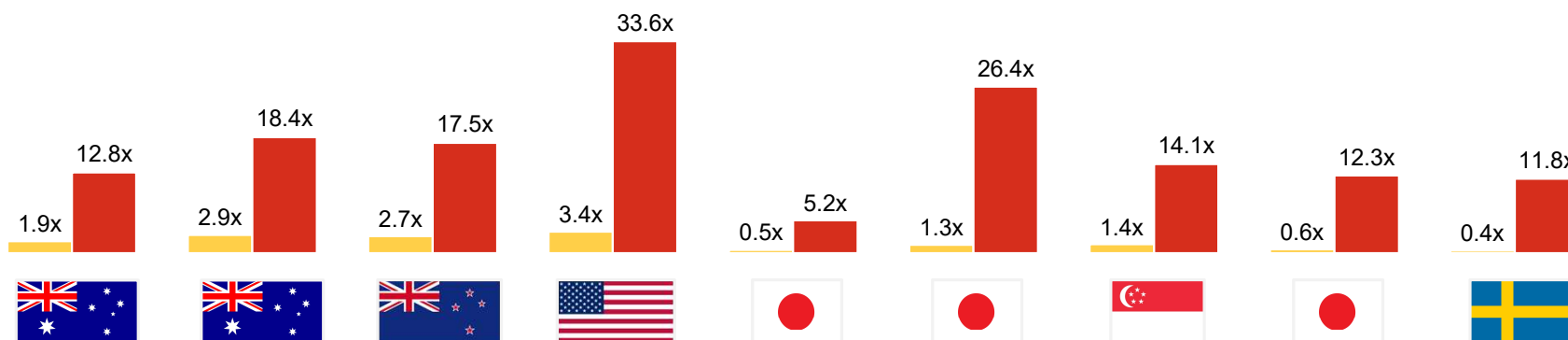
It should be noted:

- Small number of ASX listed childcare operators
- Smaller companies trade at a significant discount to their larger peers
- An illiquidity discount is applicable when comparing non-listed to publicly listed companies
- EBITDA multiples - mature companies
- Revenue multiples - high growth or in the case of (temporary) low, breakeven or negative profitability

Listed childcare companies



■ EV / Rev
■ EV / EBITDA



Ticker	ASX:GEM	ASX:MFD	NZSE:EVO	NYSE:BFAM	TSE:9783	TSE:6557	SGX:CNE	TSE:7097	OM:TELLUS
Enterprise Value (\$m)	1,672	208	150	10,199	2,134	109	92	81	21
Net Debt (\$m)	676	138	55	2,802	-97	76	45	42	6
LTM Revenue (\$m)	901	70	56	2,973	4,601	83	68	131	49
LTM EBITDA (\$m)	130	11	9	303	414	4	7	7	2
EV / Rev	1.9x	2.9x	2.7x	3.4x	0.5x	1.3x	1.4x	0.6x	0.4x
EV / EBITDA	12.8x	18.4x	17.5x	33.6x	5.2x	26.4x	14.1x	12.3x	11.8x

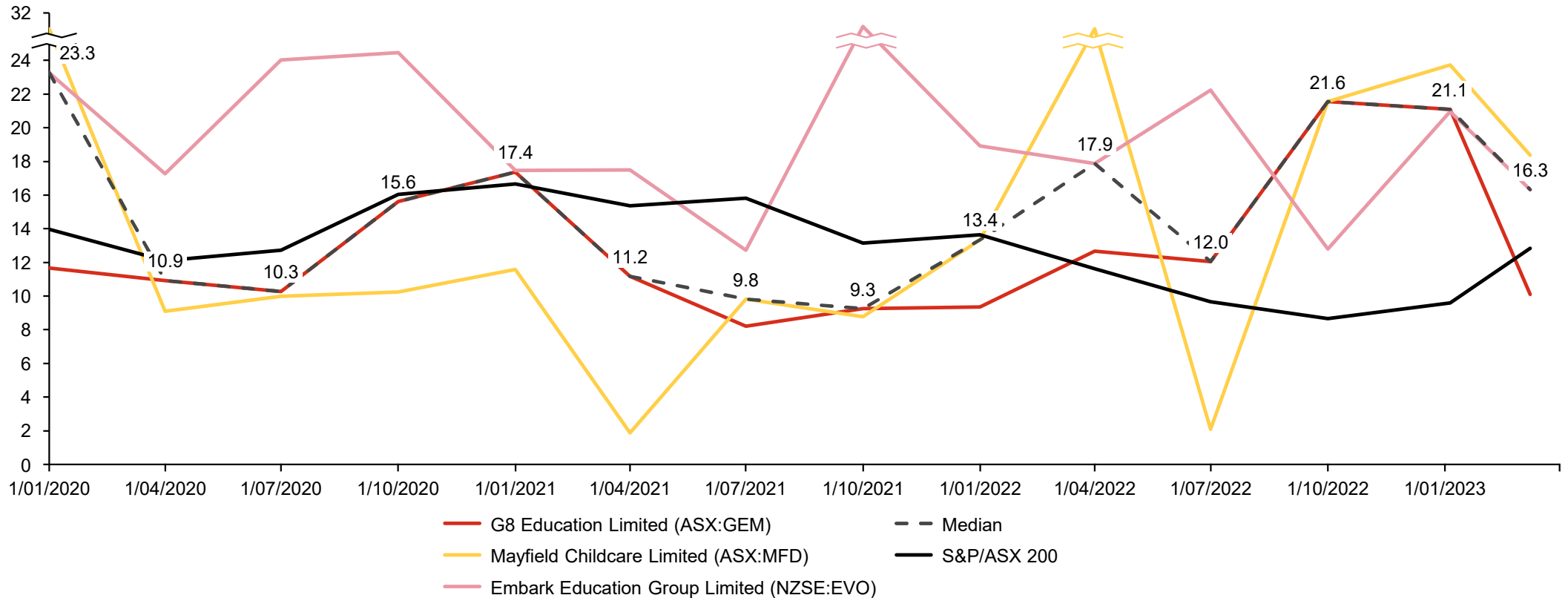
Source: CapIQ, Mergermarket, Public market research



ASX and NZSE trading EV/ EBITDA multiples

ASX listed comparables provide a view of how public equity markets currently view similar companies

ASX trading EV/ EBITDA multiples



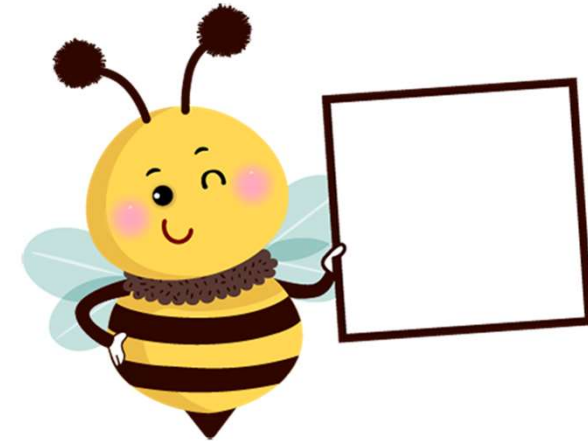
Source: CapIQ, Mergermarket, Public market research



Precedent transactions

Precedent transactions

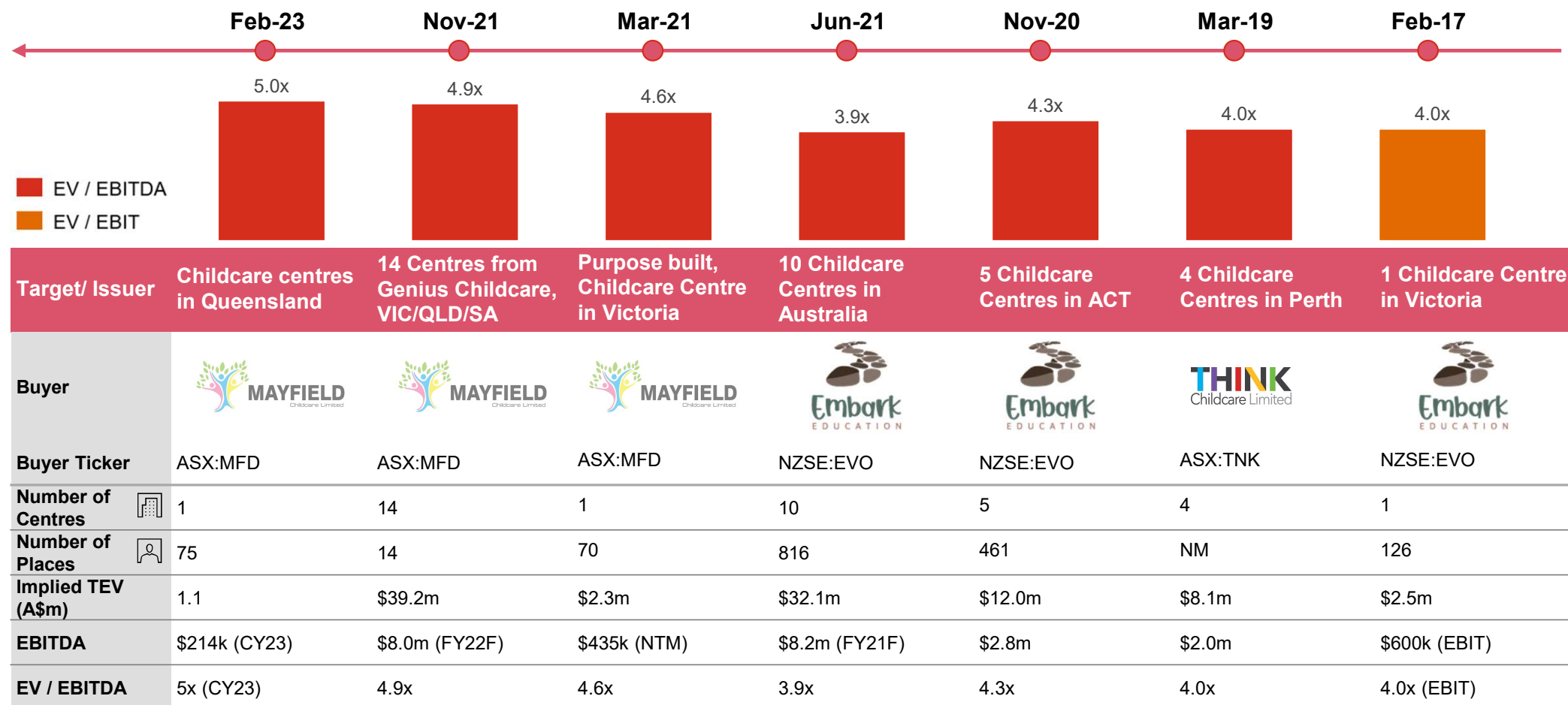
- **Publicly available information**
- EV: EBITDA
- EV: Revenue



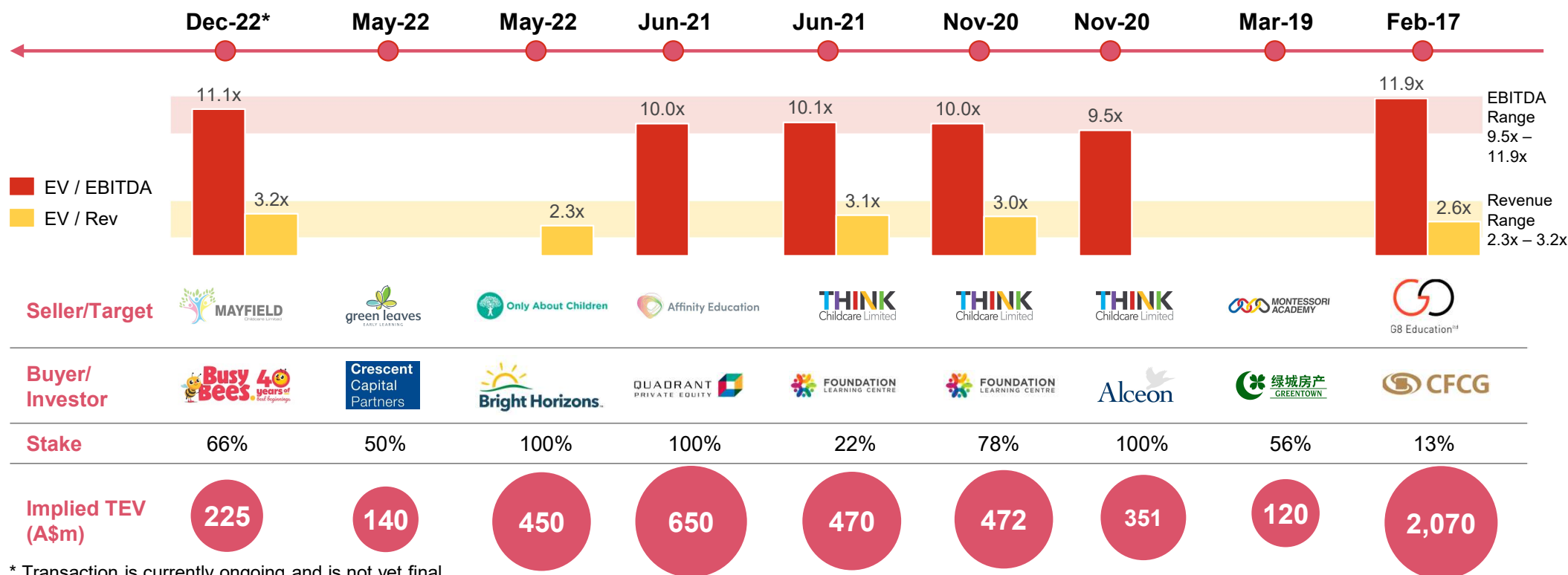
It should be noted:

- A number of transactions have occurred in the Australian childcare sector (albeit a number without public metrics)
- Smaller companies (including single site operators) transact at a significant discount to their larger (including multi-site operator) peers

Precedent transactions – childcare centres



Precedent transactions – multi site childcare operators



* Transaction is currently ongoing and is not yet final
Source: CapIQ, Mergermarket, Public market research

Presenting maximum value to acquirers

Scale

- Number of centres
- Number of places

Financial and Performance metrics

- EBITDA
- EBITDA Margin
- Occupancy
- Retention

Confidence in the industry

- Large and fragmented industry
- Increasing female workforce participation
- Parent's changing work habits
- Risk of oversupply



Scale

Quality

Financials

Earnings

Industry

Regulatory

Quality of operations

- Warmth of Care-giving
- Location
- Cost
- Flexible Hours of Care
- Word-of-mouth reputation
- Early learning program
- Staff credentials

Quality of earnings

- Revenue
- Gross margin
- Quality of earnings
- 1/3/5 year Compound Annual Growth Rate (CAGR)

Regulatory environment

- Regulation and policy
- Federal government support
- Higher staff-to-child ratios

A blurred background of a classroom with several students raising their hands. A large pink banner is overlaid across the middle of the image, containing the number '02' and the title 'Preparing for a transaction'.

02

Preparing for a transaction

Introduction to the transaction process

- Identify your goals
- **Tax structuring**
- Plan your transition / make yourself redundant
- Housekeeping
- Performance improvement
- Focus on EBITDA

Strategy and Planning

- Confirm transaction objectives
- Preparation of transaction materials
 - Financial forecast
 - Information memorandum
 - Dataroom materials
- Calculation of performance ratios
- Profit and Loss / EBITDA normalisation

Preparation

- Go to market strategy
 - Market timing
- Know your prospective buyers
- Test / soft sound the market
- Articulate your value proposition

Marketing

- Negotiation
- Due diligence
- Drafting and finalisation of transaction documents;
 - Share Purchase Agreement (SPA)
 - Shareholders Agreement (SHA)
- Sale completion

Completion



Preparation

1 Profit and Loss “Normalisation”

- Adjusting your profit and loss to only include items that are part of “normal course of business” (or - provide an explanation of these items)
 - salaries of family members
 - Full year operations (for start-up centres)
 - COVID

2 KPI Tracking

- Tracking KPI's assists in telling the story of your centre, and how it performs. It also shows a level of sophistication potential buyers may like to see.
- KPI's to keep track of include:
 - Occupancy
 - EBIT / Revenue
 - Wages / Revenue
 - Rent / Revenue

3 Budget & Forecasting

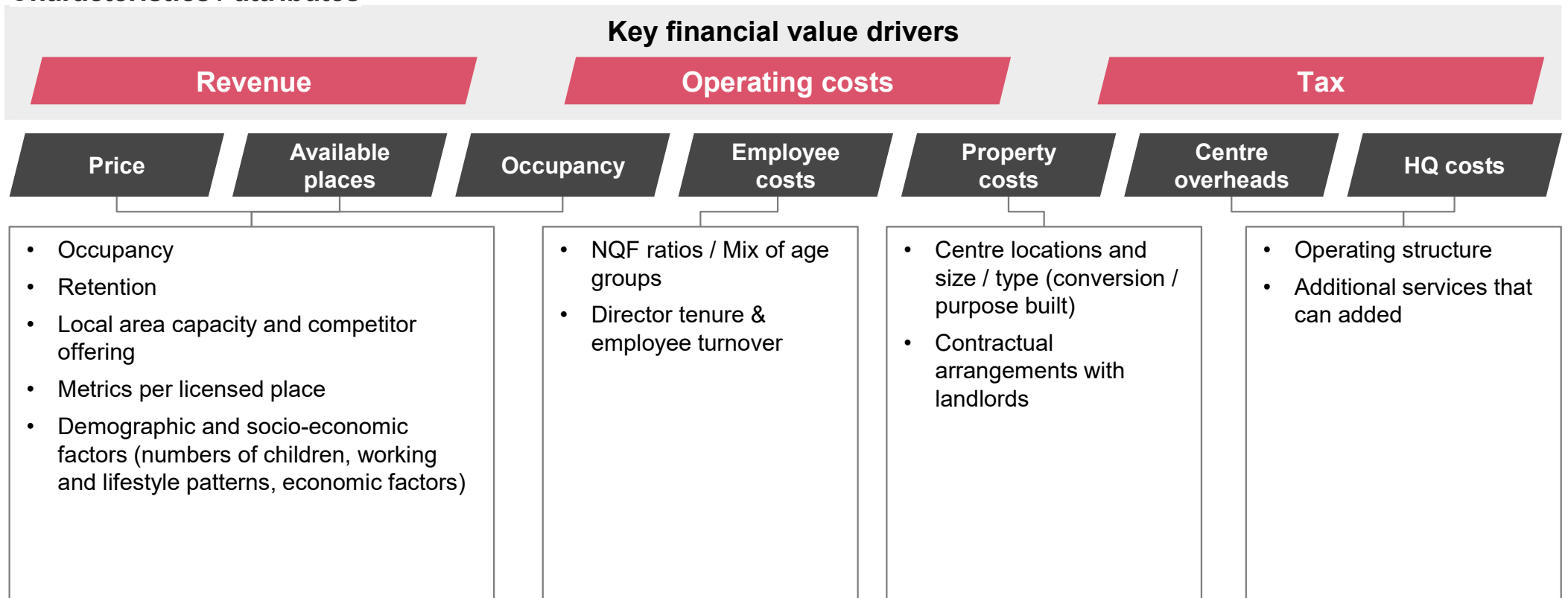
- Budgets and Forecasts allow you to take the strategic plan and put it in financial terms. These may assist in showing the potential growth in the service for a future investor.
- Three way financial forecast incorporating – balance sheet, profit and loss and cashflow.

4 Key Documents

- A prospective buyer might want to look at:
- Historical financials
 - Forecasts/Budgets
 - Lease Agreements
 - Staff Contracts
 - Staff and client feedback
 - Constitutions/Deeds
- Consider using a cloud based document management system to store these

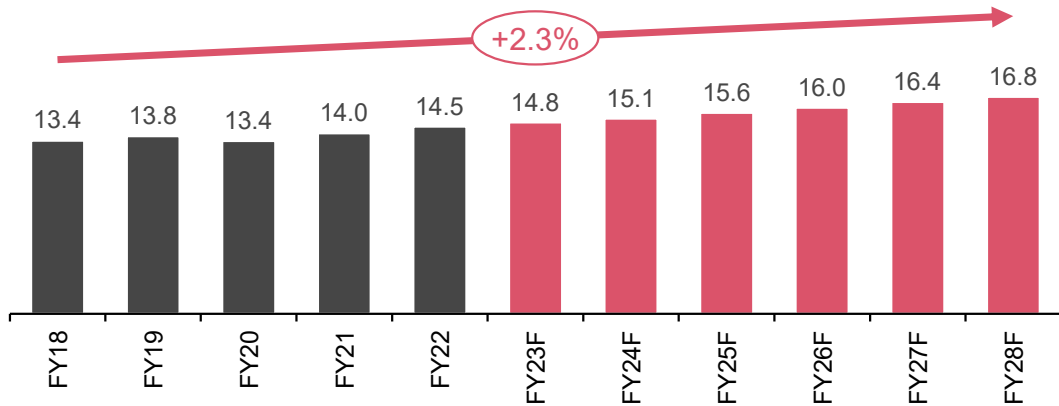
Key financial and performance metrics

Characteristics / attributes

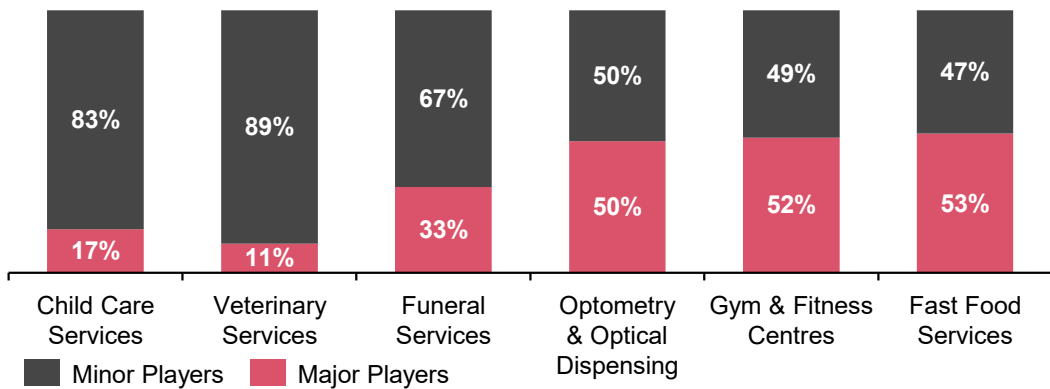


Industry fundamentals

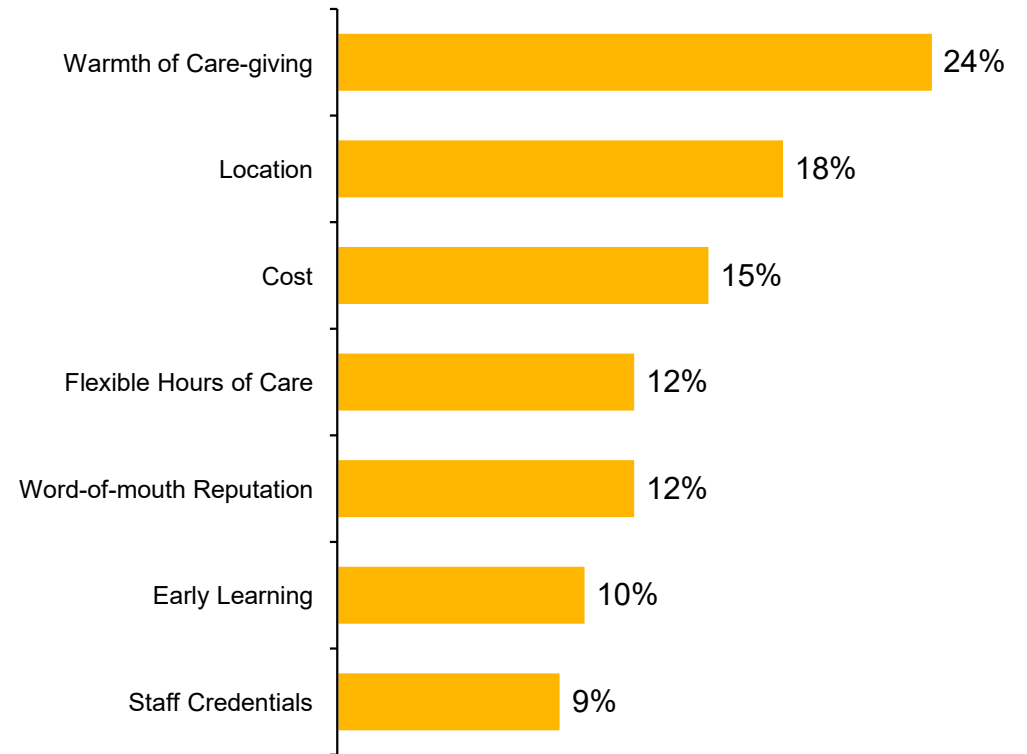
Child Care Services Industry Revenues ¹ (\$b)



Low relative Industry Consolidation ¹ (\$m)



Most Important Factor in Selecting Childcare Service ²



Source: 1 IBIS World

2 Centre for Independent Studies, Australian Childcare Preferences and Attitudes, Sep 2019

03



Q&A



PwC - Your contacts



Tamara Brown
Partner
Relationship and Consulting Partner

Tamara is a Partner in PwC's Private Clients practice with 20 years experience working with privately owned groups to help them grow and realise value.

In recent years, Tamara has led the firm's childcare practice - presenting at many key child care seminars with respect to strategy, growth and benchmarking as well personally acting for a number of childcare groups across Australia.

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Lisa Foster
Partner
M&A Deals

Lisa has over 25 years of experience in providing M&A and transaction advisory services to large corporates, small enterprises and family companies, across a range of industries including childcare and early learning education.

Lisa has worked on a large number of capital raisings, acquisitions and divestments in Australia, the US, UK and Asia.

Lisa now specialises in and enjoys supporting family businesses through the process of preparing for and executing sale transactions.

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Chris Chaing
Director - Private Clients

Chris is a Director in PwC's Private Clients practice with over 11 years experience in providing business and tax advisory services to privately owned businesses, their owners and their family. This includes business structuring, tax due diligence, tax consulting, business advisory, tax controversy and tax compliance.

Chris has experience working with large multi-centre child care groups, through to single centre Approved Providers, assisting with their structuring, tax planning and tax compliance.

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Thank you!

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