

ASX Market Release

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The Manager
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By electronic lodgment

The Board of UCW Limited (**UCW or the Company**) is pleased to provide the following market update for the year to 30 June 2019.

Key highlights

Noting that the Company's FY19 financial results remain subject to audit and adjustment:

- As a result of stronger than expected student enrolments for both ALG and Ikon in 2H19, the Company now expects to report full year group revenue of between \$21.0m and \$22.0m, ahead of the Company's previous guidance of between \$19.0m and \$21.0m
- ALG and Ikon are also expected to record materially stronger EBITDA in 2H19 compared to the prior half, as the benefits of scale begin to be realised
- The Company expects ALG to report FY19 EBITDA of between \$1.0m and \$1.1m and Ikon to report between \$1.4m and \$1.6m
- Excluding its equity accounted share of Gradability's earnings, the Company expects to report underlying consolidated EBITDA for FY19 of between \$1.4m and \$1.7m (FY18: \$0.1m)
- Given the strong performance of Ikon, an earn-out payment is required to be made to the vendors of Ikon. The Company intends to fund the cash portion of the earn-out payment through existing cash reserves and an increase to its existing debt facilities
- Strong cash generation in 2H19 has resulted in UCW's cash position at 30 June 2019 increasing to \$4.7m (31 December 2018: \$1.6m). Borrowings, excluding bank guarantees, stood at \$1.2m (31 December 2018: \$1.4m)

Australian Learning Group (ALG)

Benefiting from the investment in additional campus capacity, the introduction of new courses and the ongoing national rollout of its Community Services course offering, ALG continued to record strong growth in international student enrolments. Enrolments in 4Q19 were a record 2,001, up 37.4% on the prior corresponding period (**PCP**). FY19 enrolments totaled 6,987, up 27.2% on the PCP (FY18: 5,495) with a three-year CAGR¹ to 30 June 2019 of 30.3%.

¹ CAGR - compound annual growth rate

ALG's FY19 revenue is expected to be between \$14.5m and \$15.0m (FY18: \$12.5m), up from previous guidance of \$13.5m to \$14.5m. ALG's FY19 EBITDA is expected to be between \$1.0m and \$1.1m, noting EBITDA for 1H19 was \$nil.

Chief Executive Officer, Adam Davis, commented: "We are pleased with the turnaround in ALG's profitability between the first and second half of FY19, as the new Melbourne campus performed ahead of expectations and student volumes across other campuses also continued to grow.

After a number of years of investment, we are starting to see operating leverage emerge in the business. We intend to continue to invest in growth, as we proceed down the path of building a scalable operation."

Ikon Institute of Australia (Ikon)

FY19 is the first fiscal year in which UCW has owned Ikon (acquired 4 July 2018).

Ikon recorded a healthy mid-year intake of approximately 80 students, adding to the 200 that commenced at the beginning of the calendar year, and has enjoyed reduced withdrawal rates in 2H19. Importantly, 2H19 was the first time that Ikon had students in all three years of its degree programs, with the first cohort of students due to graduate later this calendar year. Ikon has also had some early success in recruiting international students to its HE programs.

As a result, Ikon's FY19 revenue is expected to be between \$6.5m and \$7.0m, up from the Company's previous guidance of \$5.5m to \$6.5m. Ikon's FY19 EBITDA is expected to be between \$1.4m and \$1.6m, noting EBITDA for 1H19 was \$0.1m.

Under the terms of the Ikon share sale agreement (**SSA**), an earn-out payment equal to 8 x FY19 EBITDA (as defined and calculated in accordance with the SSA) less the upfront payment of \$5.5m (which has already been paid to the vendors), is likely to be payable to the vendors of Ikon. The earn-out payment (expected to be made in 1H20) is capped at \$6.5m, up to 20% of which is payable in UCW shares (to be issued at the 20-day VWAP prior to payment and subject to a 12-month escrow) with the balance payable in cash. The Company intends to fund the cash portion of the earn-out payment from existing cash reserves and an increase to its existing debt facilities. The number of UCW shares to be issued to the vendors will be disclosed once the amount of the final earn-out payment (and the weighted average issue price for the shares) is determined.

Chief Executive Officer, Adam Davis, commented: "The combined result of having strong 2H19 intakes, reduced withdrawals and students in all three years of its degree programs, as well as tight cost control, has produced a strong end to the year for Ikon. The strong student intakes set the business up well for FY20 and future years.

As we have come to the end of the earn-out period, we have commenced bringing the operations of Ikon and ALG together. We have started combining certain support functions and are turning our focus to enhancing revenue opportunities between the businesses.

We intend to increase our investment into Ikon as we move into FY20, including strengthening the academic team, and on program development.

In this regard, we are close to submitting for accreditation the first of what we anticipate will be a number of new bachelor degree programs in Ikon which will provide opportunities for ALG students to further extend their studies within the UCW group, noting it takes around 24 months from inception to get a new higher education course into the market."

Gradability

UCW owns a 25% minority share of Gradability, a leading national provider of the Professional Year Program (**PYP**).

The themes described in UCW's market update at 9 April 2019 (including increased student enrolments and revenue, but lower gross margin and higher overheads) have resulted in a weak 2H19 performance.

Gradability management have effected a restructure of the business with the aim of reducing costs and improving operating margins in FY20. As a result of the weak second half performance and the once-off costs of the aforementioned restructure, UCW currently expects its equity accounted share of Gradability's FY19 earnings to be minimal.

Group

Notwithstanding the addition of Ikon into the group, UCW's corporate costs for FY19 are expected to remain relatively stable at approximately \$1.0m (FY18: \$0.9m).

Excluding its equity accounted share of Gradability's earnings, the Company expects to report underlying consolidated EBITDA for FY19 of between \$1.4m and \$1.7m (FY18: \$0.1m). This has been driven by the strong 2H19 result of between \$1.8m and \$2.1m as operating leverage begins to emerge. It is also reflective of the seasonality in UCW's operating businesses, which typically have higher student volumes in the second half of the financial year, together with Ikon's course delivery being weighted to the second half.

Strong cash generation in 2H19 has resulted in UCW's cash position at 30 June 2019 increasing to \$4.7m (31 December 2018: \$1.6m). Borrowings, excluding bank guarantees, stood at \$1.2m at 30 June 2019 (31 December 2018: \$1.4m).

The Company intends to continue to invest in growing the business, noting that such investments may impact short-term profit growth. Notwithstanding this, the Company expects to report higher profits in FY20.

Detailed commentary on the FY19 results and FY20 outlook will be provided at the time of the Company's full-year results announcement, expected to be released to the ASX on or around 30 August 2019.

All estimates included in this update in relation to FY19 are unaudited and may be subject to change as the Company's external auditor completes its independent audit process.

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About UCW

UCW operates in the tertiary education sector through two wholly-owned subsidiaries:

- Australian Learning Group Pty Ltd (**ALG**), a vocational education provider, primarily focused on the international student market; and
- Proteus Technologies Pty Limited, trading as Ikon Institute of Australia (**Ikon**), a higher education provider, primarily focused on the domestic student market.

ALG and Ikon are both positioned as high-quality providers in Health and Community Services related fields of education, which the Board considers to be an attractive market segment with strong employment and PR opportunities.

The businesses provide UCW a level of diversification within the education sector and the opportunity to build study pathways across the student lifecycle.

ALG

The majority of ALG's revenue is derived from international students. Delivery is undertaken from ALG's campuses in Sydney, Melbourne, Brisbane and Perth. ALG has a centralised administration function in Sydney, where the majority of its staff are based.

ALG's international students are predominantly recruited through ALG's growing agent network. Agents are paid a commission on tuition fees received. ALG currently has more than 250 active agents and students from over 70 source countries.

ALG also has a fee-for-service, distance education offering for domestic students.

Ikon

Ikon's revenue is primarily derived from domestic higher education students. Students are recruited directly (ie. not through agents) and most pay via FEE-HELP.

Ikon operates nationally, with delivery locations in Sydney, Melbourne, Brisbane, Byron Bay, Perth and Adelaide, where its head office is based.

Ikon is also an accredited vocational education provider, however as of 1 July 2019, it is no longer accepting new enrolments into its VET courses.

Gradability

UCW also owns a 25% stake in Gradability, a leading national provider of the Professional Year Program (**PYP**).

The PYP is a work-readiness program for international student graduates in the fields of accounting and information technology, designed to assist them in gaining employment and permanent residency.