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The Manager
Company Announcements
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By electronic lodgment

Update on acquisition of Australian Learning Group Pty Limited (ALG)

The Board of UCW Limited (Company) provides the following update in relation to the acquisition and performance of ALG.

ALG performance

- As previously advised, ALG recorded strong growth in international student enrolments during FY16. Enrolments were up 27.4% on the prior year, supported by the national rollout of existing courses and the introduction of new courses. The international student market is ALG's core focus and represents more than 80% of its total revenue.
- Despite investing in growth during the period, ALG's FY16 Normalised EBITDA as defined in the Share Sale Agreement, which approximates operating cash flow and is the measure on which the Earn Out Amount is based, outperformed the minimum Earn Out Amount threshold at \$1.75m.
- Growth in international student enrolments has continued into FY17, with Q1 enrolments up 25.8% on the previous corresponding period.

Earn Out Amount

- The Earn Out Amount due to the vendors of ALG per the Share Sale Agreement is calculated as 5 x FY16 Normalised EBITDA, minus the initial payment (which was made at the time of completion) of \$5.0m, subject to a minimum of \$3.5m.
- In accordance with the above, the Earn Out Amount has been agreed with the vendors in the amount of \$3.7m. It is payable by 15 December 2016 and will be funded from existing cash reserves.

- As the agreed Earn Out Amount exceeds the liability recorded in the Company's FY16 accounts (which was the minimum amount of \$3.5m), the excess, being \$0.2m, will be taken up as an abnormal expense in the FY17 accounts.

Statutory reporting

- As previously noted, Normalised EBITDA, which approximates operating cash flow and is the measure on which the Earn Out Amount is based, is not statutory EBITDA for reporting purposes.
- The Company has adopted conservative accrual accounting policies and will be reporting the performance of ALG in accordance with these policies going forward. In accordance with these policies, ALG's FY16 EBITDA was \$1.2m.
- EBITDA lags operating cash flow principally due to the recognition of international student revenue i.e. deferred income. While accounting policies dictate deferral of income where courses have not commenced, cancellations are minimal and the Company considers the deferred income balance as an asset, representing locked in future revenue and margin. Deferred income as at 30 June 2016 was in excess of \$2m.
- The Company will endeavour to continue to report both EBITDA and operating cash flow going forward.

The Company continues to invest in corporatising and systematising the business to facilitate growth and operating leverage and to create a robust platform to integrate acquisitions.

The Company will provide a further update on the performance of ALG together with its December Appendix 4C.

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