UCW Limited (ASX:UCW)
ACN 108 962 152
Level 1, 333 Kent Street
Sydney NSW 2000
P: 9112 4540
UCWLimited.com.au

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CEO Address to 2019 Annual General Meeting

As required by Listing Rule 3.13.3, UCW Limited hereby provides a copy of the prepared address by Adam Davis, the Chief Executive Officer, to the 2019 Annual General Meeting.

Yours faithfully

Lyndon Catzel
Company Secretary

Welcome to the UCW Limited 2019 Annual General Meeting.

It is my pleasure to provide an overview of our FY19 performance and an update on how we are tracking this financial year.

FY19 was a transformative year for UCW:

- We entered into the higher education sector, through the acquisition of Ikon Institute of Australia, one of around 70 for-profit, private, higher education providers. This represents a significant strategic step forward for the group. Higher education courses are typically longer in duration, at higher price points and generate higher margins than vocational offerings. Ikon provides us scale and profitability and, more importantly, a platform from which to undertake further program development to support our growth objectives. Having a higher education offering has allowed us to begin to develop pathways across the student lifecycle, from vocational into higher education, a strategy we are adopting as a core tenet moving forward

- Our vocational business had a strong year and we continued the rollout of ALG's Community Services courses, including launching the full course offering into Melbourne. These courses have underpinned our growth in recent years, and we remain optimistic for further growth in this broad field of study, given the positive market dynamics that are driving employment growth and, in turn, demand for education services. Opportunity exists to extend ALG's Community Services offering into higher education, through Ikon, in due course

- Our investment in a new ALG campus in Melbourne's CBD performed above expectations in FY19 and continues to perform strongly. Melbourne course commencements are quickly catching up to Sydney's, notwithstanding we currently have around twice the student base in Sydney. The Melbourne market remains a strong growth opportunity for ALG

- ALG's international student enrolments for the year were up 27.2%, which reflects a 3-year compound annual growth rate of 30.3%

- The Ikon acquisition and ALG initiatives, together with our ongoing focus on balancing investment and cost management, came together to produce a record 75.6% growth in group revenue to $22.0m, with operating EBITDA up 158.0% to $2.6m, at an 11.9% margin, before UCW corporate costs. Post corporate costs, the group recorded EBITDA of $1.6m. The strong earnings also delivered strong operating cashflows of $3.2m, compared to $0.2m last year

It was pleasing to see operating leverage starting to emerge after several years of investment.

Turning to our FY20 performance to date, I am pleased to report that:

- We are seeing a further increase in ALG's international student enrolments and continued strong growth for its Community Services courses, including at its new Melbourne campus;

- We have submitted our first new degree program for accreditation since acquiring Ikon; and

- We have appointed an experienced Dean to lead the Ikon business

Our focus in FY19 and to date in FY20, has principally been on the development and growth of our two wholly owned subsidiaries.

They are positioned as high-quality providers in the Health and Community Services related fields of education, which we consider to be an attractive market segment with strong employment opportunities for domestic and international students - and equally good migration opportunities for the latter cohort of students.

The businesses also provide UCW diversification in the education sector and, as previously mentioned, the opportunity to build study pathways across the student lifecycle.

Long-term our commitment remains unchanged. To grow UCW into a large and profitable education service provider by anticipating new trends in education and making investments in our underlying businesses.

Importantly, we recognise that we have multiple stakeholders. We are committed to investing in and delivering quality study experiences to our students, becoming an employer of choice for academic and other staff, maintaining positive relationships with our various regulators and being a responsible corporate citizen.

As always in a growth phase, these investments can impact short-term returns, but we believe this strategy will deliver good returns in the future and build long-term shareholder value. Indeed, we expect record revenue and earnings for the group in FY20.

On behalf of the board, I would like to thank all shareholders for your continued support.

Let me now spend a little time going through the individual business unit's performance.

Australian Learning Group

First to ALG. International student enrolments have continued to grow strongly in the first and second quarters of this financial year. This has been supported by strong momentum continuing in Melbourne, where enrolments were up 66.7% and 62.6% in the first and seconds quarters compared to the respective previous corresponding periods.

In total, ALG had a record 2,117 international student enrolments for the first quarter, an increase of 41.3% compared to last financial year's first quarter and second quarter enrolments of 2,288, an increase of 40.9% on the previous corresponding period. This compares to the 27.2% growth achieved during FY19.

Almost half or 48.5% of these enrolments were in Community Services courses, compared to 36.3% during FY19. We expect this positive shift to continue, given the large market size and aforementioned strong employment and migration opportunities.

ALG now offers 16 qualifications at Certificate III, Certificate IV and Diploma level. The courses are delivered from ALG's campuses in Sydney, Melbourne, Brisbane and Perth. They range in duration from six months to two years and are often packaged. The business has a centralised administration function in Sydney where most of its staff are based.

Most of ALG's tuition revenue is derived from international students – in FY19 it was 92.3% - from over 75 countries, more than 90% of whom are recruited through a growing network of more than 250 active agents, located in Australia and offshore.

Students typically attend class two days a week during each of ALG's four academic terms per year, with a number of courses having a work placement component. This provides students valuable experience and an opportunity to both further develop their skills and commence developing employment-related relationships.

ALG also has a fee-for-service, distance education offering for domestic students. A limited number of its qualifications are offered in this format. These students are recruited via direct marketing, primarily online. Revenue in this offer has remained flat to negative in recent years at around $1m per year, a trend we expect to continue given ALG's focus on the international student market.

In the meantime, the rollout of ALG's Community Services courses into Brisbane and Perth will continue progressively, and on a selective basis, during FY20 and FY21.

As flagged in our recently released annual report, to accommodate expected continued growth, ALG recently leased and opened a new campus in Sydney's CBD. This provides an additional eight training rooms. The business has also recently leased and fitted-out additional floor space to provide three new training rooms for its existing Brisbane CBD campus.

To reduce the cost impact of the expansion and to provide flexibility to match demand with supply, we have entered short-term sub-leasing arrangements for five of these eleven additional rooms.

As in prior years, and as flagged in our recent results presentation, we expect a skew in ALG's revenue and earnings to the second half of the financial year, as student numbers continue to grow.

While we expect to report a material improvement in ALG's gross profit and EBITDA in the first half of FY20 compared to the previous corresponding period, this will nevertheless be tempered by a number of factors.

These include additional rental costs, the annual general pay increases implemented in July 2019, and the investments we are making in new academic, compliance and student services roles.

There are strong structural drivers for more workers in the Community Services sector. This is resulting in commensurate strong expansion in education services in the sector and related fields. With its expanding agent network and national campus footprint, ALG remains well positioned to capitalise on this opportunity.

Ikon Institute of Australia

Turning to Ikon, the higher education provider we acquired in July 2018, which is currently primarily focused on the domestic student market.

As shareholders would be aware, we recently finalised the earn-out payment to the Ikon vendors. Encouragingly, the business exceeded the earn-out cap and the maximum earn-out amount of $6.5m was paid. This was funded as follows: $1.7m from UCW existing cash reserves, all of which was generated through Ikon's positive cashflow during FY19; $3.5m from an increase in the company's existing acquisition facility with CBA; and $1.3m from proceeds of a placement to an institutional investor, Viburnum Funds Management, who we welcome as a new substantial shareholder, alongside Microequities Asset Management, who also recently joined the UCW register as a substantial holder.

The business currently has two 3-year degree programs, each with nested diploma and associate degree exit points. Most of the domestic students pay their tuition fees via FEE-HELP, a federal government loan scheme, and are recruited directly, not through agents.

Ikon is also an accredited vocational education provider, but from 1 July 2019 stopped accepting new enrolments into its VET courses, given its higher education offering accounts for the large majority of its revenue and we offer similar VET courses through ALG. We will however continue delivering the VET courses through FY20 and FY21 to allow Ikon's current students to complete their studies.

Ikon's first quarter trading performed in line with our expectations. The business has achieved two important milestones year to date: lodging a new degree program for accreditation and appointing a senior academic leader with extensive experience in the for-profit higher education sector.

We consider the organic opportunities for the business to be significant and both these milestones demonstrate our strategy to invest for long-term growth. We expect to shortly make further investments in additional senior roles to this end.

Accreditation approval for the new degree is expected to take around nine months, and if successful, we intend to launch the new degree at the beginning of the 2021 academic year.

By way of background, Ikon's academic year has three trimesters or terms, which are delivered from campuses in Sydney, Melbourne, Brisbane, Perth, Byron Bay and Adelaide, where its head-office is based.

As is typical in domestic higher education, most student commencements occur in the first intake in late February/early March, with the mid-year intake in late May/early June typically considerably smaller.

Given that some students in the first two trimesters attrit (drop out) during the year, and that there is no intake in the third trimester, student numbers tend to fall in the second half of the calendar year, that is, the first half of the financial year.

Furthermore, Ikon recognises revenue in accordance with AASB 15, aligning revenue to delivery on a day's elapsed basis. This results in a natural skew in revenue and EBITDA to the second half of the financial year.

We expect to report a material improvement in Ikon's first-half revenue and EBITDA compared to the previous corresponding period. However, as a result of the skew and, to a lesser extent, investment, we expect first-half results to be down on those of the second half of 2019. Subject to the February/March 2020 full year intake being at the level we expect, full-year earnings in FY20 should be higher than in FY19.

We have begun integrating ALG and Ikon, noting the integration has always been much more about revenue opportunities and operational improvements than cost savings.

Gradability

In July 2017, UCW acquired a 25% minority stake in Gradability, a leading national provider of the Professional Year Program, the PYP. This is a work-readiness program for international student graduates in the fields of accounting and information technology.

During our period of ownership, student volumes and revenue have grown considerably. Revenue is up 47% from $35.6m in FY17 to $52.4m in FY19.

However, despite this volume and revenue growth, their earnings have unfortunately materially declined. EBITDA has declined from $4.1m in FY17 to $1.5m in FY19, in the face of increased competitive pressures on pricing and commissions, as well as from the increased operating expenses required to service greater student volumes.

During this period, Gradability developed and invested in a strategic, second business unit, ReadyGrad, which also impacted earnings. Although ReadyGrad has shown some early positive developments, such as the signing up of a number of key University partnerships, it remains unprofitable and has not helped to reduce Gradability's reliance on the Professional Year Program.

UCW accounts for its investment in Gradability using the equity method. Our equity accounted share of Gradability's net profit after tax for FY19 was $49k, compared to $548k for the previous corresponding period.

Gradability's performance has been disappointing to the UCW board. At the time we acquired the minority stake, the prospect of a potential broader transaction made sense. But as we've continued to deepen our focus on Community Services, Gradability's strategic fit within the group, particularly as a minority stake, has become less obvious.

Gradability management has implemented a restructure of the business and had budgeted for improved profitability in FY20, stemming from a revised approach to pricing, commissions and premises. Unfortunately, trading in the first quarter, whilst profitable, has been below budget expectations, mainly due to lower-than-expected enrolments. As such, management is currently finalising a revised outlook for the full year. We intend to re-assess the carrying value of our investment as part our half-year financial reporting obligations. At 30 June 2019, the carrying value was $6.2m.

It is likely that a, non-cash impairment of the carrying value will result from this review. Any impairment charge will not affect our debt covenants and we will continue to review and consider alternatives for our investment in this business as new information comes to light.

Outlook

So, let me summarise our outlook. We expect both ALG and Ikon student numbers to grow throughout FY20.

Group revenue and EBITDA is expected to be higher in the second half compared to the first, both due to growth in ALG's student numbers throughout the year and a natural skew in Ikon to the second half based on its intake dates.

Overall, and as flagged in our FY19 results presentation, we are expecting record revenue and earnings in FY20.

Last year we noted that employment projections indicate that Health Care and Social Assistance jobs will grow by 15% or around 250,000 a year over the next five years, driven by Australia's ageing population and increasing demand for childcare and home-based care services. This presents exciting employment opportunities for both international and domestic students and we have certainly seen the impact in our student numbers. We expect growth to continue.

We are continuing to improve on our existing programs and develop new ones in both ALG and Ikon, with a view to enabling students to package courses within and across vocational and higher education to extend the duration of their studies with us.

The board remains committed to growing the group, mindful of servicing our multiple stakeholders, and we will continue to invest in the organic growth initiatives we have identified. We will continue to explore both add-on and larger scale acquisition opportunities over the medium to long-term.

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