



**UCW**  
LIMITED

ASX: UCW

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**IKON INSTITUTE  
ACQUISITION**

**NON-RENOUNCEABLE  
RIGHTS ISSUE**

**29 MAY 2018**

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# EXECUTIVE SUMMARY

- UCW has entered into an option agreement to acquire IKON Institute of Australia (**IKON**)
- IKON is an accredited education provider operating in both the Vocational Education and Training (**VET**) and Higher Education (**HE**) sectors
- Acquisition in line with UCW's strategic growth plan to provide education across the student lifecycle
- Purchase price of \$5.5m upfront plus a deferred amount equal to (8 x FY19 EBITDA less the upfront amount), payable in September 2019. The deferred payment is subject to a cap of \$6.5m
- 80% of total purchase price payable in cash, remaining 20% in UCW scrip, subject to 12-month escrow
- Capital raise of \$4m via a fully underwritten non-renounceable rights issue to partly fund the upfront amount
- UCW major shareholder, directors and officers have committed to take up their full pro rata entitlement (and certain directors and officers have agreed to sub-underwrite part of the rights issue) - c. \$2m in total
- Expected completion date of 1 July 2018

## ORGANIC GROWTH

- Geographic expansion
- Program development
- Leverage agent network
- Offshore recruitment

## ACCRETIVE ACQUISITIONS

- Scale
- Sector expansion
- Breadth of offering

### STUDENT LIFECYCLE

Sector

VOCATIONAL



HIGHER EDUCATION



PROFESSIONAL

Typical qualifications

Certificate I - IV  
Diploma  
Advanced Diploma

Associate Degree  
Bachelor Degree  
Masters Degree

Work-ready programs  
Placements/internships  
Short courses

UCW assets



100%



100%



100% (subject to completion)



24.6%

# ...ON STRATEGY

- Acquisition extends UCW's reach into the HE sector, including Bachelor Degree level courses, and broadens VET offering
- Aligned to ALG/4Life fields of study - Health and Community Services
- Opportunity to articulate UCW's c. 1,500 existing VET students into HE programs
- Platform for future HE program development
- Diversification into the funded domestic market - both VET (VET Student Loans) and HE (FEE-HELP)
- Provides scale benefits and medium-term integration opportunities

	Domestic student market		International student market		Funding model		
	VET	HE	VET	HE	FFS*	VSL**	FEE-HELP
ALG/4LIFE	✓		✓✓		✓✓		
IKON	✓✓	✓✓		✓		✓✓	✓✓
COMBINED	✓✓	✓✓	✓✓	✓	✓✓	✓✓	✓✓

✓ = limited existing operations ✓✓ = current organisational strength \*Fee for service \*\*VET Student Loans

# TRANSACTION OVERVIEW

## IKON SUMMARY

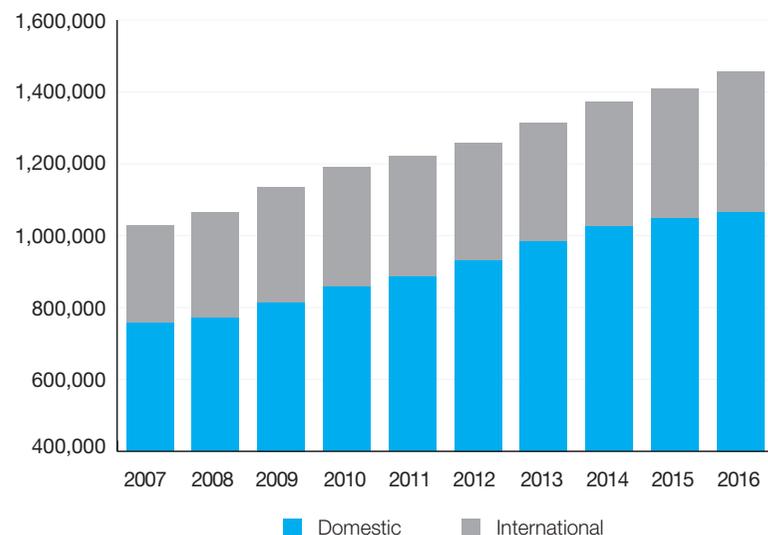
- >10 year operating history
- Dual-sector provider - VET and HE
- Health and Community Services fields of study
- Strong compliance record and student outcomes
- National presence with head office in Adelaide
- Approved VET Student Loans and FEE-HELP provider
- Recently launched CRICOS\* (international student) offer
- FY18e revenue of c. \$6m, expected to grow to c. \$7.5m in FY19 (with majority of revenue from HE)
- At \$7.5m revenue, anticipated FY19 EBITDA of c. \$1m

## ACQUISITION DETAILS

- Purchase price of \$5.5m upfront plus a deferred amount equal to (8 x FY19 EBITDA less the upfront amount), payable in September 2019. The deferred payment is subject to a cap of \$6.5m
- 80% of total purchase price payable in cash, remaining 20% in UCW scrip, subject to 12-month escrow
- Typical working capital adjustment
- Management retained
- Expected completion date of 1 July 2018

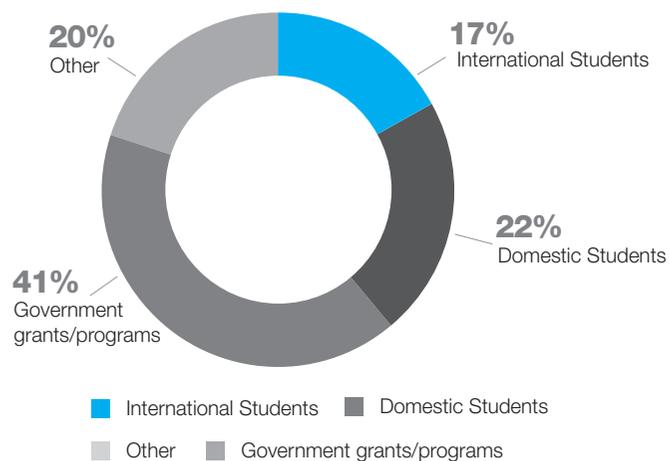
\*CRICOS stands for Commonwealth Register of Institutions and Courses for Overseas Students. CRICOS registration is required to deliver accredited education courses to overseas students studying in Australia on a student visa

## HE STUDENTS



- 1.5m students studying higher education in 2016
- Largest component of the international student market (c. 68% by revenue)
- Total sector revenue of \$35b in 2016
  - International student revenue \$6.1b, up 12% on PCP
  - Domestic student revenue \$7.8b, up 4% on PCP
  - Structural shift occurring towards private provision of HE
- 168 HE providers - compared to c. 5,000 Registered Training Organisations
  - 43 Universities (including 2 overseas Universities), together account for c. 90% of sector revenue
  - 125 non-University HE providers, of which c. 50% are for-profit
- Only 13 new for-profit providers registered since 2012 – stringent registration process provides high barrier to entry

## HE SECTOR REVENUE



Data on this slide sourced from Department of Education and Training and TEQSA publication, Key financial metrics on Australia's higher education sector, November 2017

## ACTS AND STANDARDS

Higher Education Standards Framework 2015

TEQSA Act

ESOS Act

National Code of Practice

Foundation programs and ELICOS

Australian Qualifications Framework

- Highly regulated sector with a framework consisting of various legislative Acts and Standards
- National regulator - Tertiary Education Quality and Standards Agency (**TEQSA**) - established under the TEQSA Act
- TEQSA responsibilities include:
  - registering providers
  - accrediting courses
  - investigating and enforcing compliance
  - imposing and revoking conditions on provider registrations
  - managing the CRICOS register for HE providers
  - data collection, analysis and dissemination

# ABOUT IKON

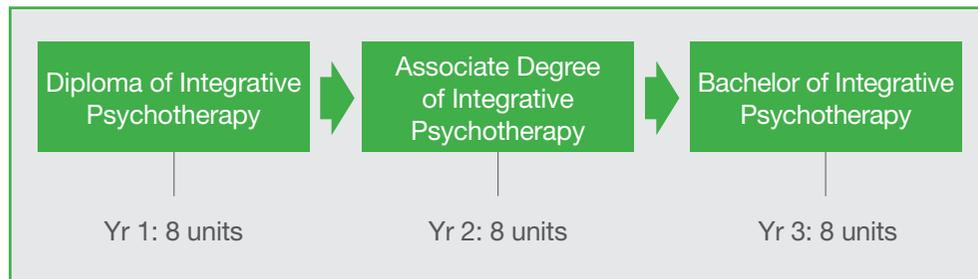


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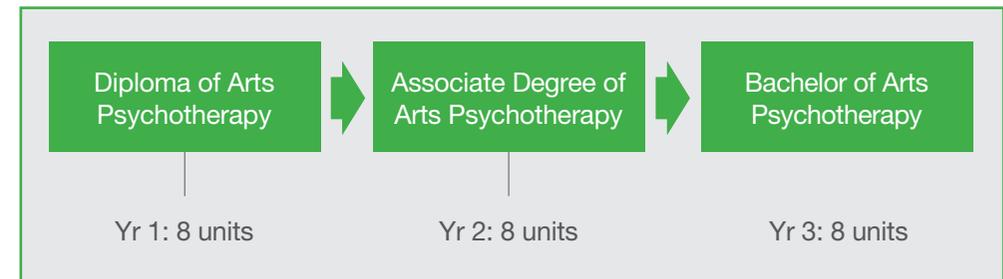
- Established in Adelaide in 2005
- Dual sector provider - VET and HE
- 7-year VET registration from 6 May 2018
- 7-year HE registration from 27 April 2016
- VET Student Loans and FEE-HELP provider
- 6 accredited HE qualifications and broad VET scope - all within Health and Community Services, complementary to existing ALG offering
- Campuses in SYD, MEL, BNE, PER and ADL
- Historically focused on the domestic market
- Recently obtained CRICOS approval to launch international student offering
- FY18e revenue of c. \$6m, expected to grow to c. \$7.5m in FY19 (with majority of revenue from HE)
- At \$7.5m revenue, anticipated FY19 EBITDA of c. \$1m



## INTEGRATIVE PSYCHOTHERAPY



## ARTS PSYCHOTHERAPY



- 2 x 3-year programs – Diploma (Yr 1: 8 units), Associate Degree (Yr 2: 8 units), Degree (Yr 3: 8 units)
- Campus-based, sequential program with work-placement component
- Common units between the 2 programs provides an element of delivery efficiency
- 3 x trimesters per year, with student intakes in trimesters 1 and 2
- \$1,650 per unit of study - \$13,200 per annum
- Large majority of students pay via FEE-HELP
- Currently >250 HE students

## SCOPE OF REGISTRATION

Counselling
Community Services
Mental Health
Youth Work
Youth Justice
Alcohol and Other Drugs
Individual Support
Disability

## DOMESTIC

- Current VET Student Loans cap of c. \$500k
- 3 course offerings – 2 of which are dual diplomas:
  - Dual Diploma of Youth Work & Youth Justice
  - Dual Diploma of Alcohol & Other Drugs and Mental Health
  - Diploma of Community Services (Case Management)
- 12-18 month course duration
- Blended delivery - campus-based and online

## INTERNATIONAL

- Recently launched CRICOS offer for above and other VET qualifications
- Similar model to ALG/4Life

- FY18e revenue of c. \$6m, expected to grow to c. \$7.5m in FY19
- At \$7.5m revenue, anticipated FY19 EBITDA of c. \$1m
- FY18 is a transition year from VET to HE
  - VET FEE-HELP revenue ceased 31 Dec-17 (IKON has retained approval for VSL)
  - IKON is investing in its HE offering ahead of attaining scale
  - EBITDA and EBITDA margin lower than historic levels as a result of the above
- From FY19 the majority of IKON's revenue is expected to be derived from HE
- UCW expects IKON's maintainable EBITDA margin (once it attains scale in its HE offering) to be in the order of 15-20%\* in line with industry averages

\* The EBITDA margin range for for-profit Higher Education Providers in 2016 (TEQSA publication, Key financial metrics on Australia's higher education sector, November 2017) shows median EBITDA margins of 14.1% and third quartile EBITDA margins of 26.2%

# INTEGRATION OPPORTUNITIES

- Leverage ALG's international student agent network to recruit students for IKON's VET and HE offering
- Develop HE programs relevant to ALG's c. 1,500 VET students to extend their period of study with the UCW corporate group and maximise the life time value of each student
- Sharing of campus infrastructure and certain operational functions
- Leverage IKON's funding approval for ALG's course offering

# CAPITAL RAISING DETAILS

## NON-RENOUCEABLE RIGHTS ISSUE

- \$4m fully underwritten non-renounceable rights issue of 1 new share for every 3.18618332 existing shares
- Rights issue price of \$0.16 per new share, representing a discount of 12.2% to 20-day VWAP
- Shaw and Partners engaged as Lead Manager and Underwriter to the rights issue<sup>+</sup>
- UCW major shareholder, directors and officers have committed to take up their full pro rata entitlement (and certain directors and officers have agreed to sub-underwrite part of the rights issue) - c. \$2m in total
- New shares rank equally with existing shares in all respects

## CAPITAL STRUCTURE POST TRANSACTION

	Number	%
Ordinary shares pre-capital raising and acquisition	79,654,583	72.3%
Shares issued to vendors of IKON at \$0.20 per share	5,500,000	5.0%
Shares to be issued under non-renounceable rights issue at \$0.16	25,000,000	22.7%
Total*	110,154,583	100.0%
	\$'000	
Market capitalisation at \$0.16 per share	17,625	
Cash (at 31 Mar-18)**	4,136	
Debt (at 31 Mar-18)**	(1,509)	
Less cash from existing reserves to fund acquisition	(630)	
Enterprise value	15,628	

\*Please refer to the Company's cleansing notice given to ASX on 29 May 2018 for details in relation to the proposed sub-underwriting arrangements between certain related parties and the Underwriter

\*\*Excluding 18.7m options at various exercise prices between \$0.20 and \$0.40 (rounded), of which 17.9m expire 30 June 2018

\*\* Cash and debt at 31 Mar-18 used as proxy - will change at completion date.

# INDICATIVE TIMETABLE

Event	Indicative date
Announcement of Rights Issue, lodgement of Appendix 3B and cleansing notice	29 May 2018
Despatch of notice to security holders	30 May 2018
“Ex” Date (date from which the Company’s existing shares commence trading without an entitlement to participate in the Rights Issue)	5 June 2018
Record Date (date for determining entitlements to participate in the Rights Issue)	6 June 2018
Despatch of Offer Booklet and personalised Entitlement and Acceptance Form to Eligible Shareholders*	8 June 2018
Closing Date for acceptances	20 June 2018
New Shares quoted on a deferred settlement basis	21 June 2018
Notification to ASX of under subscriptions	22 June 2018
Issue of New Shares	26 June 2018
Despatch date of holding statements for New Shares/deferred settlement trading ends/lodgement of updated Appendix 3B (if necessary)	28 June 2018

\*Please see the Company’s ASX announcement given to ASX on 29 May 2018 for details of who is considered to be an Eligible Shareholder

# KEY RISKS

Risk factor	Explanation
Completion risk	Completion of the acquisition is conditional on satisfaction or waiver of various conditions precedent. There is no guarantee that completion will occur
Regulatory risk	The acquisition may trigger regulatory action which could result in conditions being placed on IKON's various registrations which could impact its ability to continue to trade or cancellation of regulatory approval
Integration risk	The anticipated benefits from the acquisition may be delayed or ultimately not achieved at all
Key person risk	The senior management of IKON may not be retained post completion of the earn-out period
Due diligence risk	Due diligence undertaken by the Company and its advisers may not have identified material risks inherent in the business

# CONTACT DETAILS

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# APPENDICES

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- Private education provider, with a focus on the international student market

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  - Vision to be multi-sector provider – Vocational, Higher Education and Professional

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  - Strategy to grow both organically and via accretive acquisitions

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  - Experienced board and management team, with successful track record in education
- Large and growing sector - \$28.0b in FY17, up 16.1% on PCP (source: ABS)
  - Positive enrolment trends – 32.4% 3-year CAGR in UCW’s international student enrolments
  - Attractive business model, expected to deliver operating leverage with increased scale
  - National presence - campuses in Sydney, Melbourne, Brisbane and Perth
  - Diverse source countries, agent network and course offering

## ACQUISITION TIMELINE

Mar-16



- International student provider in fields of Fitness, Remedial Massage, Sport and Recreation Management and Dance Teaching
- Campuses in Sydney, Melbourne, Brisbane and Perth
- Strategy to broaden course offering
- Strong growth in international student enrolments - 3-year CAGR of 32.4%

Jan-17



- Acquired as an add-on to ALG – integration now complete
- Performance since acquisition well ahead of expectations
- Broadened ALG's offering into Childcare, Aged Care, Disability, Mental Health, Counselling and Community Services
- 4Life courses currently only offered in Sydney – national rollout represents significant market opportunity, commencing 2H18

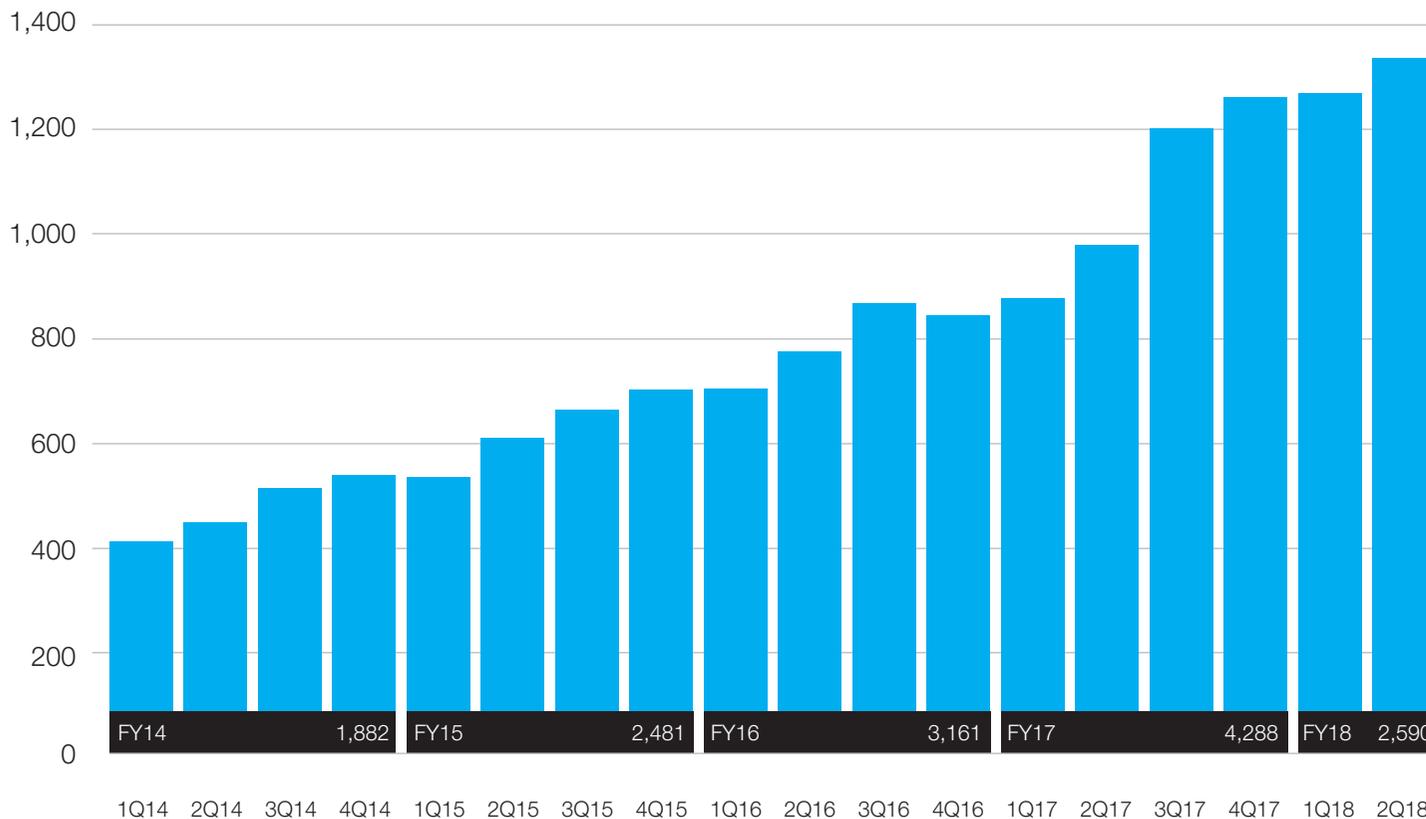
Jul-17



- 24.6% strategic stake
- New name and brand to reflect expanded offering:
  - **Performance Education** – leading provider of the Professional Year Program for international student graduates in Accounting and IT
  - **ReadyGrad** – work-readiness training and internship placements for University partners
- Share of NPAT of \$345k included in UCW's results
- Significant business at scale – FY17 revenue of \$35.6m, EBITDA of \$4.1m

# INTERNATIONAL STUDENT ENROLMENTS

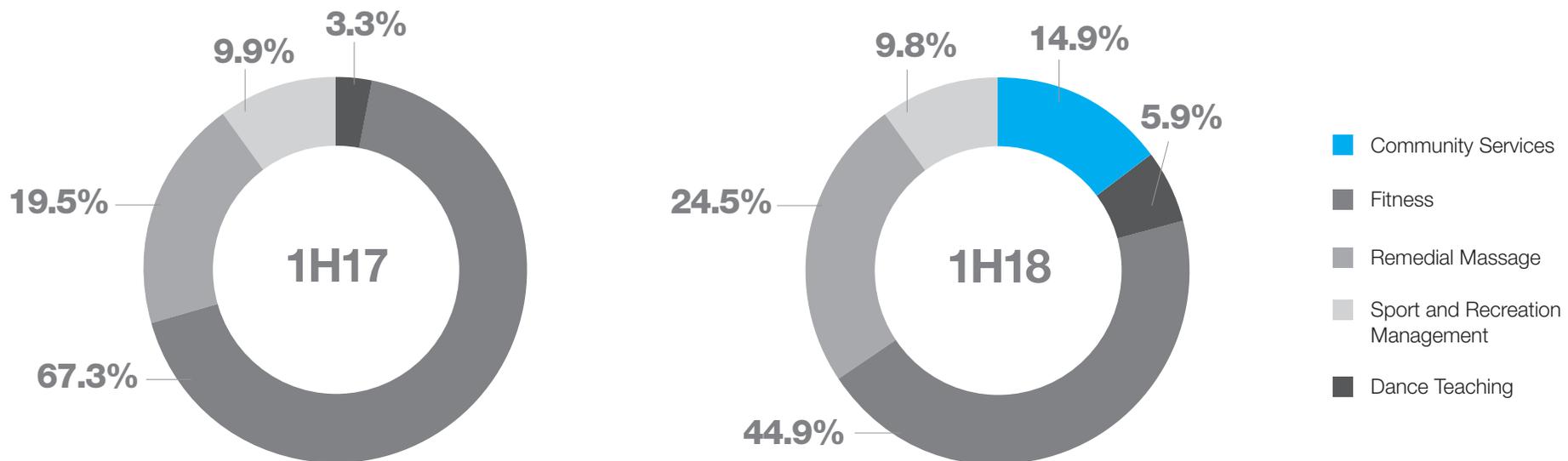
## International student enrolments by term



- Strategy to broaden course offering and national expansion delivering growth
- 4Life courses offered in Sydney only - national rollout represents significant market opportunity, commencing 2H18
- Structured as 4 x 10-week academic terms per year
- International students pay in advance of term commencement

# COURSE MIX

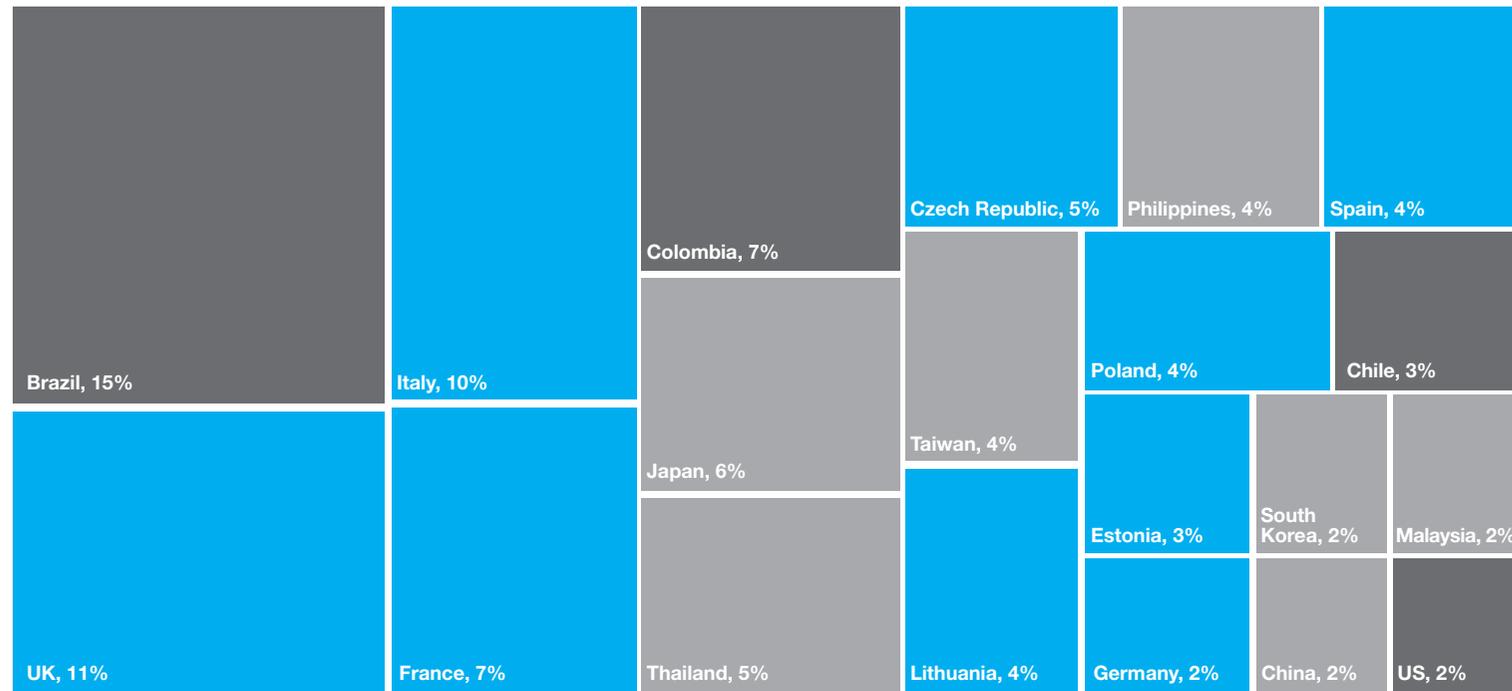
## International student enrolments by field of study



- 4Life acquisition expanded ALG's course offering into Community Services – Childcare, Ageing Support, Disability, Mental Health, Counselling and Community Services
- ALG now offers 16 qualifications at Certificate III, Certificate IV and Diploma level
- 4Life courses currently offered in Sydney only - national rollout represents significant market opportunity, commencing 2H18
- Strategy to continue to broaden course offering both organically and via acquisition

# STUDENT DIVERSITY

## International student enrolments by source country (Top 20)<sup>1</sup>



- International students from 73 source countries
- Top 20 source countries represent 82.6% of current enrolments - majority low risk rating
- >250 active agents in Australia and offshore
- 16.7% of enrolments are direct (i.e. not through an agent)

## International student enrolments by source region (Top 20)<sup>1</sup>



<sup>1</sup>As at 3Q18



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