

ASX Market Release

29 May 2018

UCW to Acquire IKON Institute of Australia

The Board of UCW Limited (**UCW**) is pleased to announce that it has entered into an option agreement to acquire 100% of the issued equity capital of Proteus Technologies Pty Ltd ACN 112 989 581, the legal entity that owns and operates IKON Institute of Australia (**IKON**).

Key highlights:

- IKON is a dual-sector provider in the field of Community Services, with a strong record of compliance and student outcomes
- Acquisition expands UCW's reach into the Higher Education (**HE**) sector and broadens its Vocational Education and Training (**VET**) offering
- Provides opportunity to build HE articulation pathways for UCW's c. 1,500 vocational students
- Purchase price of \$5.5 million upfront and a deferred payment based on FY19 EBITDA¹ (capped at \$6.5 million)
- 20% of the total purchase price payable in UCW scrip and subject to 12-month escrow
- Expected completion date of 1 July 2018.

Commenting on the acquisition of IKON, UCW CEO Adam Davis said:

"The acquisition of IKON is an exciting step for UCW as we build out our education offer across the student lifecycle. There are strong revenue synergies in bringing the ALG, 4Life and IKON businesses together, and we look forward to working with the IKON team to support the ongoing growth and development of the business."

"Alongside UCW's focus on the international education market, Health and Community Services has become a major investment thematic of the group. IKON builds on our existing strength and positioning in this market through ALG and 4Life."

Commenting on the acquisition by UCW, IKON Institute CEO Brad Seaman said:

"IKON was established to effect social change through education and we remain committed to this purpose. Since its establishment in 2005, IKON has grown to become one of the leading private providers of therapeutic education in Australia."

"The need for qualified therapists, within the specialised fields we teach, has never been greater. We are excited by the prospect of continuing to grow and develop the business inside the UCW corporate group."

¹ EBITDA means earnings before interest, tax, depreciation and amortisation.

About IKON

Established in Adelaide in 2005, IKON operates as both a Registered Training Organisation (**RTO**) and a Higher Education Provider (**HEP**). It is an approved provider of both VET Student Loans (**VSL**) and FEE-HELP. IKON is also registered as a Commonwealth Register of Institutions and Courses for Overseas Students (**CRICOS**) provider.

IKON offers accredited vocational and higher education courses in the field of Community Services to the domestic and, more recently, international student markets. Its course offering includes Counselling, Psychotherapy, Youth Work, Mental Health and Community Services.

IKON has a national presence with operations in Sydney, Melbourne, Brisbane, Perth and Adelaide, where its head office is based.

Historically focussed on the domestic VET sector, IKON was registered as a Higher Education Provider in 2016 and its HE offer now constitutes its primary focus. IKON currently has six accredited HE qualifications in the field of Psychotherapy (akin to Counselling), which are targeted primarily at domestic students. The courses include a Diploma, Associate Degree and Bachelor Degree in Integrative Psychotherapy and a Diploma, Associate Degree and Bachelor Degree in Arts Psychotherapy. As at the date of this announcement, IKON has more than 250 students enrolled in its HE programs.

IKON's FY18 revenue is estimated to be c. \$6m and is expected to grow to c. \$7.5m in FY19, with the majority of revenue derived from HE. Should IKON achieve revenue of \$7.5m in FY19, UCW anticipates it will produce c. \$1m in EBITDA.

Strategic rationale

The acquisition of IKON is in line with UCW's strategic growth plan to offer education services across the student lifecycle. UCW currently has operations in the VET sector, through its wholly owned subsidiaries Australian Learning Group Pty Limited (**ALG**) and 4Life Pty Ltd (**4Life**), and a strategic 24.6% interest in Gradability Pty Ltd, which operates in the professional education sector. IKON extends UCW's reach into the HE sector and broadens its VET offering.

IKON has a strong record of compliance and student outcomes. This positioning as a high-quality provider is common to ALG and 4Life.

The acquisition provides UCW with additional scale and there are numerous revenue and cost synergies the combined group will look to achieve over the medium-term. These include:

- Leveraging the respective student recruitment strengths of IKON (domestic students) and ALG/4Life (international students) to support growth
- Developing additional HE programs (subject to approval by IKON's Board of Governors) to extend the period of study and lifetime customer value of ALG's c. 1,500 current vocational students
- Sharing of campus infrastructure and certain operational functions such as student services, sales and marketing, compliance, finance and human resources (again subject to approval by IKON's Board of Governors)
- Extending IKON's VET funding approval (i.e. VET Student Loans) to include courses currently offered by ALG

Transaction structure and key terms

UCW has entered into a put and call option arrangement to acquire 100% of the issued capital in IKON. Due diligence investigations by UCW are complete and a share sale agreement has been negotiated. The transaction is expected to complete during July 2018.

The purchase price is \$5.5 million upfront and a deferred payment equal to 8 x FY19 EBITDA (as defined in the share sale agreement) less the upfront amount. Subject to the satisfaction of agreed performance hurdles, the deferred amount is payable in September 2019 and is subject to a cap of \$6.5 million.

Both the upfront amount and the deferred amount are payable 80% in cash and 20% in UCW scrip. The UCW shares for the upfront amount will be issued at \$0.20 per share whilst the UCW shares for the deferred amount will be issued at the 20-day volume weighted average price at the time of payment. Both tranches of shares will be subject to a 12-month period of escrow from the respective date of issue.

The principals of the vendors, Mr Brad Seaman and Mr Simon Paul, will continue in their current roles under new employment agreements for an initial term ending on the payment date of the deferred amount and then renewable for one-year extensions by mutual agreement. Both Brad and Simon will remain as directors of IKON post completion.

Completion of the transaction is subject to the satisfaction or waiver of a number of conditions precedent. The share sale agreement contains a typical working capital adjustment as well as warranties and indemnities that are customary for a transaction of this nature.

Capital raising

As separately disclosed to ASX, UCW today announced a fully underwritten non-renounceable rights issue to raise \$4 million. The funds raised under the rights issue will be used to partly fund the upfront amount payable for the acquisition of IKON.

UCW's major shareholder, the Company's directors and certain officers have committed to take up their full pro rata entitlement (and certain directors and officers have also entered into sub-underwriting arrangements in relation to the rights issue) to a total of c. \$2 million of the \$4 million rights issue. Further details of directors and related party participation in the rights issue are contained in the rights issue offer booklet. Shareholders are directed to the rights issue documentation given to ASX today for further details of the rights issue.

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About UCW

UCW has a portfolio of tertiary education businesses, with a current focus on Health and Community Services related fields of study in both the international and domestic student markets. The Company's strategy is to invest in the growth of its existing businesses, through initiatives such as campus and course expansion, while concurrently pursuing accretive acquisitions. The Board includes directors with extensive corporate experience and a successful track record in the education sector.