

## ASX Market Release

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## Market Update

The Board of UCW Limited (**UCW** or **the Company**) provides the following market update in relation to the UCW Group including its operating businesses, Australian Learning Group (**ALG**) and Ikon Institute (**Ikon**).

### Key Highlights

- Group revenue of \$24.5m to \$25.5m and EBITDA<sup>1</sup> of \$2.7m to \$3.5m expected for FY20
- Net debt as at 31 May of \$0.2m – improvement of \$2.1m on half year position
- ALG enrolments up 29.0% in FY20, Term 2 enrolments down 12.6% on Term 1
- Accreditation received for Ikon's Bachelor of Early Childhood Education and nested Diploma qualifications. On track for CY21 commencement

### *Australian Learning Group (ALG)*

International student enrolments for Term 2 closed at 2,149, down 12.6% on Term 1 and up 7.4% on the previous corresponding period (PCP).

Despite the weaker Term 2 enrolments, total international student enrolments for the FY20 year<sup>2</sup> were 9,012, delivering student growth of 29.0% on FY19 and 28.1% on a 3-year CAGR basis.

ALG has been successfully delivering its courses online since the commencement of Term 2 on 20 April 2020. It intends to return to face-to-face delivery from the commencement of Term 3 on 13 July 2020, subject to it remaining safe to do so.

As noted, in the previous Market Update (provided to ASX on 20 April 2020), ALG implemented a 10% tuition fee discount for Terms 2 and 3, as part of a financial support package for its international students. In addition, ALG has affected a number of cost saving measures in response to the pandemic, including reducing the size and working hours of its non-academic workforce, negotiating reduced rental and exiting certain leases and licensed premises, and reducing campus related operating expenses. ALG has also benefited from Government financial assistance programs.

The Board expects<sup>3</sup> ALG to report revenue of between \$18.5m to \$19.0m for FY20 (+23% to +26% on PCP), with EBITDA in the range of \$2.5m to \$3.0m (+127% to +173%).

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<sup>1</sup> All references to EBITDA are on a pre-AASB16 basis.

<sup>2</sup> Total international student enrolments for FY20 is the sum of international student enrolments in each term of the year.

<sup>3</sup> Due to uncertainty surrounding the accounting impact of Covid-19 cost-saving measures, the Board has provided a wider range for revenue and for earnings than it would ordinarily do so.

The Board anticipates that until the Australian border re-opens, global international student mobility normalises and the pipeline of eligible students onshore replenishes, ALG's new student commencements and total student numbers are likely to continue to decline.

#### *Ikon Institute (Ikon)*

As previously advised, Ikon recorded 168 new student enrolments (NSEs) in Trimester 1 of CY20. Attrition from CY19 was higher than expected, attributable to a range of factors which are being addressed. In particular, recruitment processes and student support services have been strengthened. A total of 398 students passed a census date in Trimester 1.

The Company will provide an update on Trimester 2 NSEs, continuing students and the total number of students that pass a census date, once this data is available.

Ikon has been successfully delivering its courses online since the resumption of Trimester 1, following a two-week mid-term recess. Ikon intends to re-assess returning to classroom delivery mid-Trimester 2, around mid-July.

The impact of Covid-19 on the Ikon business is expected to be less pronounced than for ALG, given 90% of its students are domestic and pay via FEE-HELP. Notwithstanding, a number of cost initiatives have been implemented including delaying certain planned new roles. Ikon has also benefited from applicable Government financial assistance programs.

While core higher education revenue is expected to be up c. 20% in FY20 on the PCP, the discontinuation of certain non-core revenue streams throughout the year and investment in a number of new roles to strengthen the academic and compliance functions of the business, has resulted in lower total revenue and earnings.

The Board expects<sup>3</sup> Ikon to report revenue of between \$6.0m to \$6.5m (-6% to -13%) for FY20 with EBITDA in the range of \$1.2m to \$1.5m (0% to -20%).

Ikon has recently received accreditation for its Bachelor of Early Childhood Education and nested Diploma qualifications. These are the first new qualifications that Ikon has had accredited since UCW acquired the business in July 2018.

The courses will be offered to both domestic and international students, noting that Early Childhood Education and Care is currently ALG's largest course by student numbers.

The Group's strategy is to continue developing new courses with a focus on creating higher education progression pathways for ALG students within health and community services fields of study.

#### *Group*

As at 31 May 2020, cash stood at \$4.9m and drawn debt (including bank guarantees) was \$5.1m, an improvement of \$2.1m to net debt since 31 December 2019. As previously advised, amortisation of the Company's market rate loan has been paused until January 2021.

Also as previously advised, a number of cost saving measures have been implemented at the Group level, including the Board foregoing all Board fees and the CEO and CFO agreeing to a 20% reduction in their respective remuneration and waiver of short-term incentive entitlements in respect of FY20.

For FY20, the Board expects<sup>3</sup> the Group to report revenue of \$24.5m to \$25.5m (+11% to +16%), with EBITDA in the range of \$2.7m to \$3.5m (+69% to +119%).

CEO Adam Davis said: "I would like to acknowledge the dedication and support of staff, management and the Board as we navigate these unprecedented times.

As we prepare to return to classroom delivery, the safety of our staff and students remains front of mind, and we will continue to be guided by the advice of the relevant authorities."

The Board will continue to provide updates to the market as appropriate.

This announcement was approved for release by the Board of Directors.

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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 focussed on the international student market; and
- Proteus Technologies Pty Limited, trading as Ikon Institute of Australia (Ikon), a higher education provider, primarily (currently) focussed 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 migration opportunities for both international and domestic students.

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

## **ALG**

ALG offers 16 qualifications at Certificate III, Certificate IV and Diploma level. The courses range in duration from six months to two years and are often packaged.

The majority of ALG's revenue is derived from international students, more than 90% of who are recruited through ALG's growing agent network. ALG currently has more than 250 active agents, located both in Australia and offshore, and students from over 75 source countries. Agents are paid a commission on tuition fees received.

Delivery is undertaken from ALG's campuses in Sydney, Melbourne, Brisbane and Perth. Students typically attend class two days per week during each of ALG's four academic terms per year. A number of ALG's courses have a work placement component.

ALG also has a fee-for-service, distance education offering for domestic students. A limited number of its qualifications are offered in this delivery format. Domestic distance-education students are recruited via direct marketing, primarily online.

ALG has a centralised administration function in Sydney where the majority of its staff are based.

## **Ikon**

Ikon has three Degree programs, with nested Diploma and Associate Degree exit points.

Ikon's revenue is primarily derived from domestic students, most of who pay their tuition fees via FEE-HELP. Students are recruited directly (ie. not through agents).

It operates a trimester model academic year (ie. three terms), with delivery undertaken from its campuses in Sydney, Melbourne, Brisbane, Perth, Byron Bay 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% minority 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.