

Læringsverkstedet Gruppen AS –Q2 Financial report 2018

The group's focus area is the operation of preschools. The goal is to develop a quality concept in the field of child development and learning to create market demand.

In Norway, the Group operated 215 kindergartens as of 30 June 2018 with approximately 17 000 children. This is an increase with 15 kindergartens and 1 000 children compared to year-end 2017.

In Sweden, the Group operates 77 kindergartens and schools, with capacity for approximately 1 000 students (schools) and 3 750 kindergarten children.

Material events in 2018

As of 30 June 2018 the Group has acquired 15 kindergartens in Norway. Three of these is by acquiring the operations directly, the others by acquisition of shares. The Group has also acquired a company in Sweden that operates one school and two kindergartens.

5 of the kindergartens in Norway was acquired in Q1, the rest has been acquired in Q2.

The construction of four new preschools in Norway is ongoing, two will open in 2018 and two in 2019. Two of these projects started in Q2. One rehabilitation and expansion project in Norway is also ongoing.

The Group has previously informed that a new CEO started on 1 February 2018. Owner, Hans Jacob Sundby, had then been the CEO of Læringsverkstedet since the start of the company in 2003 and were to take on a role focusing on strategy and expansion. Based on an evaluation of this structure Hans Jacob has now resumed the role of CEO.

The regulatory framework in the countries the Group operates in has a significant influence on the operations. The Norwegian Parliament has adopted a minimum staffing norm. The norm must be followed before 1 august 2019. There is however still details regarding the norm that is unclear. This relates for example to if there will be requirements regarding the use of extra personnel during sick leave, if there will be minimum requirements regarding local management and also how private kindergartens will be funded in the first two years after the norm is mandatory. The norm will apply to both private and public kindergartens, and will have consequences for the Groups revenue and distribution of cost. The Group has today a lower staffing than the norm and the cost relating to this part of personnel cost will increase. The Group spends today considerable amounts on other service quality increasing activities. The norm will mean that the Group must reduce the cost on these activities and increase the staffing cost. The Group has plans for various scenarios depending on how much the revenue will increase in connection with implementation of the norm. In the long-term we expect to be able to maintain the necessary operating margin also after implementation of such a norm.

Overview of development and profits for the period ended 30. June

A bit simplified the children attends kindergarten in 11 months during the year. Revenue is therefore distributed over 11 months. The main cost is employee benefits that is also mainly distributed over 11 months. For practical reasons the Group considers June as the holiday month in the financial statements. This means that June each year contains very limited revenue and operation expenses. Non variable cost such as depreciation, finance cost and rent is fully included in June. June has therefor weaker results than other months.

Total revenue has increased with approximately 40% compared to same period in 2017. This is mainly due to full period effect of the acquisitions made in 2017 and the acquisitions made in 2018.

Operating profit margin is 9,0% compared to 11,3% in the same period in 2017 and 9,3% full year 2017. All the entities in Sweden is in rented locations, while most of the locations in Norway is owned. This means that the EBITDA and operating margins in Sweden is lower than in Norway. The operating margin in Norway in 2018 is approximately the same as in 2017. The reduction in the Groups operating margin is related to the lower margin in Sweden.

The Groups equity ratio is stable on approximately 6.5%. Total assets has increase with 400 million, due to acquisitions made, new build activity and a strong cash flow.

Cash flow from operations in the period is strong. Timing of payment of subsidies from the municipalities highly effects our cash flow during the year. This has given a positive effect for first half of 2018.

Investments in fixed assets is mainly related to construction activity. The Group has in the period drawn approximately NOK 90 million on its RCF. Other cash flows from financing activity is primarily construction loans, conversion of construction loans to Husbank loans, and ordinary amortization of borrowings.

Overview of development and profits for Q2

Total revenue has increased with almost 50% compared to Q2 2017. This is mainly due to full period effect of the acquisitions made in 2017 and the acquisitions made in 2018.

Operating profit margin is 8,0% compared to 11% in the same period in 2017. All the entities in Sweden is in rented locations, while most of the locations in Norway is owned. This means that the EBITDA and operating margins in Sweden is lower than in Norway. The Swedish entities were acquired in Q3 2017.

The margin in Norway is slightly weaker in Q2 2018 than in Q2 2017. This is mainly related to newly acquired entities and is monitored closely. The necessary steps to improve the margin in these entities is taken.

Læringsverkstedet Gruppen AS –Q2 Financial report 2018

Cash flow from operations in the period is strong. Timing of payment of subsidies from the municipalities highly effects our cash flow during the year. This has given a positive effect both in Q2 2018 and Q2 2017.

Investments in fixed assets is mainly related to construction activity. The Group has in the period drawn approximately NOK 90 million on its RCF. Other cash flows from financing activity is primarily construction loans, conversion of construction loans to Husbank loans, and ordinary amortization of borrowings.

Jessheim, 21 August 2018

Gunnar Johansson
Board Chairman

Torill Eskeland
Board Member

Charlotte Wego
Board Member

Juan Garcia
Board Member

Hilde Martinsen
Board Member

Hans Jacob Sundby
Board Member/CEO

Læringsverkstedet Gruppen AS - Group

Income statement

Numbers in NOK 1 000	Unaudited Q2 2018	Unaudited Q2 2017	Unaudited 1.1-30.6 2018	Unaudited 1.1-30.6 2017	Audited Full year 2017
Total revenue	688 898	463 333	1 584 543	1 108 228	2 718 976
Cost of goods sold	0	83	0	87	1 164
Employee benefits expense	446 415	281 602	1 076 866	731 706	1 869 870
Depreciation	50 789	42 638	101 952	85 195	186 708
Other operating expenses	135 139	85 065	263 813	165 800	408 112
Total operating expenses	632 343	409 388	1 442 631	982 788	2 465 854
Operating profit	56 555	53 945	141 912	125 440	253 122
Net finance	-38 070	-34 539	-74 543	-65 734	-131 208
Profit before income tax	18 485	19 406	67 369	59 706	121 914
Income tax expense	4 798	5 873	17 031	16 153	22 995
Net profit	13 687	13 533	50 338	43 553	98 919

Læringsverkstedet Gruppen AS - Group

Balance sheet

Numbers in NOK 1 000	Unaudited 30.06.2018	Unaudited 30.06.2017	Audited 31.12.2017
Assets			
Non current assets			
Total intangible assets	717 273	449 405	675 159
Total fixed assets	4 227 893	3 707 962	4 054 609
Financial assets			
Loan to group companies	60 598	60 893	60 598
Investment in associated companies			25
Investment in shares and units	1 708	1 458	1 458
Long term receivables	32 747	29 403	28 428
Pension asset	36 965		22 853
Total financial assets	132 018	91 754	113 362
Total non current assets	5 077 184	4 249 121	4 843 130
Current assets			
Inventories	1 147	934	651
Receivables			
Accounts receivables	27 323	6 110	16 748
Other receivables	137 229	104 083	140 379
Total receivables	164 552	110 193	157 127
Cash and cash equivalents	339 707	564 645	196 274
Total assets	5 582 590	4 924 893	5 197 182

Læringsverkstedet Gruppen AS - Group

Balance sheet

Numbers in NOK 1 000	Unaudited 30.06.2018	Unaudited 30.06.2017	Audited 31.12.2017
Equity and liabilities			
Equity			
Owners equity			
Share capital	100	100	100
Total paid inn equity	100	100	100
Retained earnings			
Other equity	360 812	244 833	331 609
Total accumulated profits	360 812	244 833	331 609
Total equity	360 912	244 933	331 709
Liabilities			
Provisions			
Pensjon obligations	0	29 366	0
Deferred tax	299 680	265 321	275 995
Total provisions	299 680	294 687	275 995
Other non current liabilities			
Bond loans	1 200 000	1 200 000	1 200 000
Liabilities to financial institutions	2 988 931	2 636 173	2 845 014
Other non current liability	24 270	6 718	26 037
Total other non current liabilities	4 213 201	3 842 891	4 071 051
Current liability			
Accounts payable	36 908	32 958	66 926
Income tax payable	37 501	6 633	42 085
Public duties payable	107 238	85 414	130 958
Other current liabilities	527 150	411 785	269 695
Dividend/group contribution		5 592	8 763
Total current liability	708 797	542 382	518 427
Total liabilities	5 221 678	4 679 960	4 865 473
Total equity and liabilities	5 582 590	4 924 893	5 197 182

Læringsverkstedet Gruppen AS - Group

Cash Flow statement - Indirect method

Numbers in NOK 1 000	Unaudited Q2.2018	Unaudited Q2.2017	Unaudited 1.1-30.6 2018	Unaudited 1.1-30.6 2017	Audited Full year 2017
Cash flow from operating activities					
Profit before income tax	18 435	19 406	67 369	59 706	121 914
Income tax payable	-2 435	-3 756	-28 683	-23 618	-30 216
Loss/gain on sale of fixed assets					
Depreciation	50 789	42 638	101 952	85 196	186 708
Difference on pension expense and paid pension premium	-38 090	-35 342	-14 112	-17 733	-40 317
Change in inventory, accounts receivable and accounts payable	-34 598	-6 506	-35 633	-9 029	19 243
Change in other accruals	123 240	68 066	211 774	132 948	-27 946
Net cash flow from operating activities	117 344	84 506	302 667	227 469	229 387
Cash flow from investing activities					
Proceeds from disposal of fixed assets					6 079
Purchase of fixed assets	-71 657	-93 571	-103 185	-154 931	-305 807
Net payment in acquisition of subsidiaries	-72 253	-35 843	-103 322	-180 235	-486 587
Purchase of intangible assets			-8 475		-1 849
Proceeds from disposal of other shares)					
Net effect other shares and loans	-250	-870	-250	-10 470	-10 175
Net cash flow from other investments					
Net cash flow from investing activities	-144 160	-130 384	-215 232	-345 636	-798 339
Cash flow from financing activities					
Proceeds from recent borrowings	200 505	1 241 226	240 440	1 513 802	1 778 374
Full down payment of borrowings	-78 296	-804 247	-111 731	-934 159	-1 050 939
Repayment (ordinary amortization) of borrowings	-31 255	-21 959	-60 992	-59 687	-119 473
Net change participants deposit in group accounts					
Net payment (-), proceeds (+) group companies					
Payment of group contribution			-8 763		-5 592
Net cash flow financing activities	90 954	415 020	58 954	519 956	602 370
Net change in cash and cash equivalents	64 138	369 143	146 389	401 789	33 418
Currency effect on cash at the beginning of the period	-926		-2 956		
Cash and cash equivalent at the beginning of the period	276 495	195 502	196 274	162 856	162 856
Cash and cash equivalent at the end of the period	339 707	564 645	339 707	564 645	196 274

LÆRINGSVERKSTEDET GRUPPEN AS - GROUP

NOTES TO THE FINANCIAL REPORT 30.06.2018 (Unaudited)

Accounting principles

The financial report have been prepared in accordance with the Norwegian Accounting Act and generally accepted accounting principles in Norway. The accounting principles described in the Annual report for 2017 has, with the following exceptions, been applied;.

1. Revenue is distributed over 11 months during the year. For accounting purposes, June is treated as the holiday month. Hence, very limited revenue is allocated to June. Similarly, June is also regarded as the holiday month for the employees and very limited salary expenses is included in June. For a full year report, this allocation method has no effect.
2. The income tax expense is based on preliminary tax calculation for the year.
3. Purchase price allocations of acquisitions of companies is preliminary and might be subject to change
4. Provision for pension cost is based on the estimates made in the actuarial calculation for 2017. At year end an actuarial calculation for 2018 will be made and pension cost might be subject to change in the annual statement.

See the annual report for 2017 for a full description of the account principles.

Equity

	Share capital	Other equity	Total
Equity 01.01.	100	331 609	331 709
Net profit	-	50 338	50 338
Currency translation effect		-21 135	-21 135
As of 30.06	100	360 812	360 912

Financial covenants

All figures in NOK 1 000

Covenant 1; Minimum liquidity of NOK 100 million

	30.06.2018
Booked value cash and cash equivalents	339 707
-less restricted cash	-90 000
Undrawn credit facilities	157 800
Total liquidity according to loan terms definition	407 507

Covenant 2; Interest cover ration > 2,75

	As at 30.6.2018
Operating profit (last 12 months)	269 594
+ Depreciation (last 12 months)	203 465
= EBITDA	473 059
Net finance (last 12 months)	140 017
EBITDA / Net finance (Interest cover ratio)	3,38