

The group's focus area is the operation of preschools and schools. 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 236 preschools as of 31 December 2019 with approximately 18 500 children.

In Sweden, the Group operates approximately 75 preschools and schools, with capacity for 2 000 students (schools) and 3 850 preschool children.

Material events in 2019

During 2019, the Group has acquired five preschools in Norway and one preschool/school in Sweden which is for children with special needs. Three acquisitions were made in first quarter, two in the second quarter and one in the third quarter.

The Group had at the start of the year two construction projects ongoing in Norway. The projects were started in 2018 and has been completed in Q2 2019. One of these was for a new preschool, which opened in august 2019.

In Q3 two new construction projects were started in Norway. Both are expansions and relocating of two existing preschools that are currently in rented buildings.

The salary and other employee benefits in the Norwegian preschools is regulated in a collective pay agreement for the private preschools industry. This agreement regulates amongst other things also minimum salary levels and pension plans. In the negotiations in 2019 it was agreed to change the pension plan, with effect from 1th January 2020. Today all employees have a defined benefit plan. Going forward employees above 52 years on 1th January 2020 will remain in the current defined benefit plan, while all others will be moved to a defined contribution plan. The employer's contribution in the contribution plan will be 4%.

From an accounting perspective this means that the pension cost for 2019 on the defined benefit plan is calculated for the period up until termination date (31.12.2019), in addition the effect of terminating the plan has been calculated and included in the 2019 accounts.

The net results of the termination of the pension plan, including the one-time payment of the administration reserve is approximately 20 million in loss. This has been presented on a separate line in the profit and loss statement.

Staffing norm in Norway

The Group operates in markets that are strict regulated by the governments, and this has impact on how the Group operates. The Norwegian Parliament has adopted a minimum staffing norm that had to be implemented no later than august 1st 2019.

The norm applies to both private and public preschools and will have consequences for the Groups revenue and distribution of cost. The Norwegian business has made a gradient adoption towards the norm during the last part of 2018 and first half of 2019 and is in line with the Norm from 1st August 2019.

The revenues in the Norwegian preschools is to a very large extent based on the cost in the municipality's own public preschools. However, the system is that grant for the private preschools is calculated at the beginning of the year and based on the latest available annual financial accounts of the municipality. This creates a two-year gap between cost and revenue, as our 2020 grants is based on the 2018 cost in the municipality.

One of the uncertainties when implementing the norm has been to what extent this two-year gap will be compensated. On the state level some compensation will be given to small preschools, but not enough to fully compensate the increased costs for these entities. Other type of preschools will not be compensated from the state level. A few municipalities have stated that they will give some compensation with regards to this, but most of the municipalities will not give any special compensation and the grants for 2020 are based on the ordinary rules for grant calculation.

The Group will also after 1 august 2019 continue its policy of combining healthy economic operations with delivering high quality preschool services in line with regulations and general governmental expectations. In the long-term we expect to be able to maintain the necessary operating margin. However, it will first be in 2022 that all municipalities will have grants that are based on costs for a full year of staffing norm. We therefor expect the Norwegian preschools in the group to have lower margins than normal in 2020 and 2021.

New regulations of private preschools in Norway

On 26th of April 2019 the Ministry of Education published a suggestion to changes in legislation of private preschools in Norway. The Ministry states that the primary goal of the changes is to make sure that the regulations is better adapted to the development of the sector. The changes shall facilitate a diversity of preschools with high quality. The changes are meant to provide good operational terms for various types of preschools and preschool owners, and secure that public contributions and parent payments is beneficial to the children. To achieve this, they suggest changes in how public financial contributions shall be calculated, how financial supervision of the industry shall be organized and suggest regulating company structures and financial structures.

There was a hearing period until 26th July 2019 and the ministry received over 200 hearing answers. The Ministry is now evaluating the feedback and will then propose the final suggestion. Any changes in the legislation must be decided upon by the Norwegian Parliament before it can be implemented. An amended suggestion to changes in the regulations was previously expected to be released in December, but the ministry has stated that the suggestion probably will be published during Q1 2020.

As part of business development of the group, the appropriateness of organization and funding is assessed on an ongoing basis. As a result of the two-year gap on contributions related to the staffing norm as well as uncertainties related to ongoing regulatory processes the board has decided to start a strategic process with a goal to create more flexibility with regards to a possible refinancing of the group.

Overview of development and profits for the year 2019

Total revenue has increased with approximately 16% compared to same period 2018. This is due to full period effect of the acquisitions made in 2018 and the acquisitions made in 2019.

The one-time net cost of terminating the defined benefit pension plan for parts of the employee is approximately 20,5 million NOK and has been included as a cost in the 2019 accounts. The net cost consists of the gain arising as the future net pension liability is terminated, the cost related to the associated previously unrecognized effects of actuarial losses and the one-time payment of an administration reserve that by law must be paid when terminating a defined contribution plan. The administration reserve will be paid in 2020.

Operating profit margin (excluding the one-time effect of pension termination) for 2019 is 6,85%, compared to 7,5% for 2018. The margin in Norway is slightly weaker in 2019 than in 2018. The main reason for this is a higher than expected salary increase in 2019. The salary level is set in collective pay agreement between Private Barnehagers Landsforbund (The preschool Industry's employer organization) and the employees labor organizations. This year's process was completed in august and resulted in a salary increase from 1th May for Læringsverkstedets Norwegian preschools of approximately 4%. This was 1% higher than last year.

The margin in Sweden is slightly higher in 2019 than in 2018. All the Swedish entities is in rented buildings, while most of the Norwegian entities own the preschool building. The operating margin level in Sweden is therefore lower than in Norway. The Swedish part of the group has increased as a result of acquisitions made, and this also affects the total margin for the group.

The Groups equity ratio has increased from 7% to 8%. Total assets have increase with 100 million, mainly due to increased cash balance.

Cash flow from operations was stronger in 2019 than 2018. Timing of payment of subsidies from the municipalities highly effects our cash flow during a period particularly related to prepayments made in the previous quarter and prepayments received relating to the next quarter. This has given a more positive effect in 2019 than 2018.

Investments in fixed assets is primarily related to construction activity.

Financing activities includes refinancing of construction loans on completed projects with long term Husbank loans as well as drawn on construction loans.

Overview of development and profits for Q4

Total revenue has increased with approximately 14% compared to Q4 2018. This is mainly due to full period effect of the acquisitions made in 2018 and the acquisitions made in 2019.

Operating profit margin (excluding the one-time effect of pension termination) is 6% compared to 5% in Q4 2018. In 2018 the quarter was materially negatively affected by one-time costs and administrative investments, mainly related to IT systems. The salary increases in 2019 described above is the main reason for why the margin improvement in 2019 is not larger. Q4 2019 has also been impacted by unusual extra cost related to internal change- and improvement projects in Sweden.

Cash flow from operations in the period is stronger than in 2018. Timing of payment of subsidies from the municipalities highly effects our cash flow during the year. This gave a more positive effect in Q4 2019 than the same quarter in 2018.

Investments in fixed assets is mainly related to construction activity, which has been quite low in the period. This also applies to acquisition activity and the group expects in the short term a lower level of acquisitions than what has been the case the last years. No acquisitions have been made in Q4 2019, but payments have been made to previous periods acquisitions.

Jessheim, 28 February 2019

Gunnar Johansson
Board Chairman

Hans Jacob Sundby
Board Member/CEO

Læringsverkstedet Gruppen AS - Group

Income statement

Numbers in NOK 1 000	Unaudited Q4 2019	Unaudited Q4 2018	Unaudited Full year 2019	Audited Full year 2018
Total revenue	1 127 028	988 871	4 100 237	3 517 454
Cost of goods sold	1 967	1 264	3 049	1 264
Employee benefits expense	809 672	716 908	2 922 566	2 476 283
Effect on termination pension plan	20 497		20 497	0
Depreciation	64 278	65 345	246 828	221 815
Other operating expenses	184 117	158 894	646 914	553 332
Total operating expenses	1 080 531	942 411	3 839 854	3 252 694
Operating profit	46 497	46 460	260 383	264 760
Net finance	-42 229	-41 903	-172 113	-158 706
Profit before income tax	4 268	4 557	88 270	106 054
Income tax expense	1 021	1 111	13 810	15 852
Net profit	3 248	3 446	74 461	90 202
Total Majority Share	3 248	3 465	74 457	90 221
Total Minority share	0	-19	4	-19

Læringsverkstedet Gruppen AS - Group

Balance sheet

Numbers in NOK 1 000	Unaudited 31.12.2019	Unaudited 31.12.2018
Assets		
Non current assets		
Total intangible assets	844 590	871 016
Total fixed assets	4 612 151	4 598 648
Financial assets		
Loan to group companies	60 598	60 598
Investment in associated companies		
Investment in shares and units	308	1 708
Long term receivables	38 930	32 862
Pension asset	0	9 526
Total financial assets	99 836	104 694
Total non current assets	5 556 577	5 574 358
Current assets		
Inventories	993	1 083
Receivables		
Accounts receivables	29 253	25 916
Other receivables	177 253	160 804
Total receivables	206 506	186 720
Cash and cash equivalents	368 418	258 248
Total assets	6 132 494	6 020 409

Læringsverkstedet Gruppen AS - Group

Balance sheet

Numbers in NOK 1 000	Unaudited 31.12.2019	Unaudited 31.12.2018
Equity and liabilities		
Equity		
Owners equity		
Share capital	100	100
Total paid inn equity	100	100
Retained earnings		
Other equity	479 335	413 885
Minority share		396
Total accumulated profits	479 335	414 281
Total equity	479 435	414 381
Liabilities		
Provisions		
Pensjon obligations	7 928	0
Deferred tax	319 963	308 501
Total provisions	327 891	308 501
Other non current liabilities		
Bond loans	1 500 000	1 500 000
Liabilities to financial institutions	3 158 220	3 163 033
Other non current liability	16 582	17 846
Total other non current liabilities	4 674 802	4 680 879
Current liability		
Accounts payable	70 580	71 641
Income tax payable	5 613	47 195
Public duties payable	184 851	163 945
Other current liabilities	389 322	328 810
Dividend/group contribution		5 057
Total current liability	650 366	616 648
Total liabilities	5 653 059	5 606 028
Total equity and liabilities	6 132 494	6 020 409

Læringsverkstedet Gruppen AS - Group

Cash Flow statement - Indirect method

Numbers in NOK 1 000	Unaudited Q4.2019	Unaudited Q4.2018	Unaudited Full year 2019	Audited Full year 2018
Cash flow from operating activities				
Profit before income tax	4 268	4 557	88 270	106 054
Income tax payable	1 267	-22 810	-52 286	-43 081
Loss/gain on sale of fixed assets				
Depreciation	64 278	65 345	246 828	221 815
Difference on pension expense and paid pension premium	10 343	-28 863	15 031	-10 538
Change in inventory, accounts receivable and accounts payable	19 116	9 965	-16 672	-6 975
Change in other accruals	-18 954	-27 897	70 123	-3 386
Net cash flow from operating activities	80 318	297	351 294	263 889
Cash flow from investing activities				
Proceeds from disposal of fixed assets				9 126
Purchase of fixed assets	-59 540	-54 932	-156 100	-265 726
Net payment in acquisition of subsidiaries	-1 922	-178 891	-31 893	-353 161
Purchase of intangible assets	-1 841	-2 937	-3 904	-15 075
Proceeds from disposal of other shares)				
Net effect other shares and loans	-	49	-	-
Net cash flow from other investments	-7 604		-7 604	-201
Net cash flow from investing activities	-70 907	-236 711	-199 501	-625 037
Cash flow from financing activities				
Proceeds from recent borrowings	70 547	232 341	220 249	776 685
Full down payment of borrowings	-32 052	-104 532	-123 018	-212 044
Repayment (ordinary amortization) of borrowings	-33 459	-33 765	-132 516	-131 899
Net change participants deposit in group accounts				
Net payment (-), proceeds (+) group companies				
Payment of group contribution			-5 057	-8 763
Net cash flow financing activities	5 036	94 044	-40 342	423 979
Net change in cash and cash equivalents	14 446	-142 371	111 452	62 832
Currency effect on cash at the beginning of the period	849	1 706	-1 282	-857
Cash and cash equivalent at the beginning of the period	353 123	398 913	258 248	196 274
Cash and cash equivalent at the end of the period	368 418	258 248	368 418	258 248

LÆRINGSVERKSTEDET GRUPPEN AS - GROUP

NOTES TO THE FINANCIAL REPORT 31.12.2019 (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 2018 has, with the following exceptions, been applied;

1. The income tax expense is based on preliminary tax calculation for the year.
2. Purchase price allocations of acquisitions of companies made in 2019 is preliminary and might be subject to change

See the annual report for 2018 for a full description of the account principles.

Equity

	Share capital	Other equity	Minority Share	Total
Equity 01.01.	100	413 885	396	414 381
Net profit	-	74 457	4	74 461
Change in ownership		400	-400	
Currency translation effect		-9 407		-9 407
As of 30.06	100	479 335	-	479 435

Financial covenants

All figures in NOK 1 000

Covenant 1; Minimum liquidity of NOK 100 million

	31.12.2019
Booked value cash and cash equivalents	368 418
-less restricted cash	-74 825
Undrawn credit facilities	<u>62 200</u>
Total liquidity according to loan terms definition	<u>355 793</u>

Covenant 2; Interest cover ratio > 3,0

	As at 31.12.2019
Operating profit (last 12 months)	260 383
+ Depreciation (last 12 months)	246 828
+ Net cost effect of termination of pension plan	20 497
+ Other adjustments according to loan terms definitions*	<u>7 532</u>
= EBITDA according to loan terms definitions	535 240
Net finance (last 12 months)	172 113
EBITDA / Net finance (Interest cover ratio)	3,11

*The adjustments relate mainly to costs of restructuring administrative functions in Sweden, as well as other organizational development costs in Sweden (Unusual one-time costs).