

The group's focus area is the operation of kindergartens and schools.

In Norway, the Group operated 238 kindergartens as of 30 June 2020 with approximately 19 000 children.

In Sweden, the Group operates approximately 80 kindergartens and schools, with capacity for 2 000 students (schools) and 3 850 kindergarten children.

The group has in 2020 also entered Germany and operated 12 kindergartens with a capacity of 750 children in Germany as of 30 June 2020.

Since 2018, The Group also includes a minor business related to operations of a rehabilitation health centre in Norway as well as a business operating three schools in Norway with an English-speaking concept.

Material events in 2020

On 3th July 2020 Læringsverkstedet Gruppen announced that it had entered into a sale- and lease back agreement related to parts of its property portfolio. This transaction was completed on 31 August 2020. Proceeds from the sale will be used to repay existing debt, including outstanding bond loan.

A call notice regarding repayment of the bond loan was sent on 31 august and the loan will be repaid in full on 14th September 2020 at 102% of par value.

With effect from 1 January 2020 the Group acquired a German kindergarten group with 10 kindergartens in operations. The Group considers the German marked an exiting marked with good growth potential. Læringsverkstedet Gruppen expects to grow further in Germany, primarily by establishing new entities.

In first quarter 2020, the Group has also acquired two kindergartens in Norway and two kindergartens in Sweden.

The Group has had five construction projects ongoing in Norway during the period. Three of the projects where started in 2019, and two in 2020. One of the projects is a rehabilitation project on an existing entity, two is an expansion and move of existing kindergartens that is currently operating in rented buildings, and two is establishing of new kindergartens. All projects are expected to be completed in 2020.

The group has had an undrawn credit facility with DnB. During Q1 2020 the Group has drawn up NOK 61,5 million on this facility and converted the facility to a down payment loan. There is no remaining undrawn credit facility after this.

On 2th July 2020 the group announced that it had entered into an agreement to acquire the Finnish preschool operator Pilke. This transaction is expected to be completed on 7th September 2020.

Corona virus outbreak

In relation to revenues, costs and cash flow, the corona situation has had a limited effect on the company and the group so far and based on information as of the end of August, no significant effect is expected.

In Sweden, schools and kindergartens have not been closed. The Swedish business has thus maintained its operations, and no general closures have been imposed for the purpose of infection control.

In Norway, the government introduced in March 2020 the most stringent measures introduced in Norway in peacetime to prevent the spread of coronary infection. All Norwegian kindergartens were required to close from March 13, and only maintain a care provision for children of parents in defined socially beneficial functions. This closure lasted until Friday, April 17 (5 weeks). At the same time as the kindergartens were required to close, the government confirmed that private kindergartens would maintain their income, even during the closed period. A prerequisite for maintaining revenue was that kindergartens did not lay off employees.

New regulations of private kindergartens in Norway

On 26th of April 2019 the Ministry of Education published a suggestion to changes in legislation of private kindergartens in Norway. They suggest changes in how public financial contributions shall be calculated, how financial supervision of the industry shall be organized and also suggest regulating company structures and financial structures.

There was a hearing period until 26th July 2019. Several of the suggested changes is disputed and the Ministry has since the expiration of the hearing period considered the feedback received and the composition of the final suggestion to new legislation.

In June 2020, the Parliament decided to implement parts of the new legislation. The most disputed changes have not been included, as the Ministry has stated that they need more time to evaluate these areas. The main change that was decided in June 2020 is that financial supervision of the industry will be moved from the municipality today and to a centralized unit in the future.

Staffing norm in Norway

As informed about in previous financial reports, a Staffing norm was implemented in Norway with effect from august 1st 2019.

The norm applies to the entire industry, both private and municipal kindergartens. The income model for private kindergartens is such that the income is dependent on the municipality's costs for the operation of municipal kindergartens in the relevant municipality. When the norm is fully implemented, it will affect both revenue and the cost composition for the Norwegian part of the group.

The revenue for private kindergartens is to a large extent based on the cost in the municipal's own kindergartens. The current technical practice of the income model means that the municipal costs that generate income are based on the last available financial year, ie two years difference. The revenue for 2020 is thus based on the relevant municipality's 2018 accounts. With the current income model, the introduction of a norm entails a 2-year difference from the introduction of the norm until it is fully reflected in the municipal costs that form the basis for the income payments to private kindergartens.

This creates a temporary and abnormal gap between revenue and cost for the Norwegian kindergartens in the Group in this period, affecting the margins in Norway.

Læringsverkstedet supports the introduction of a staffing norm but finds it unfortunate that the norm is not financed for private kindergartens in the first 2 years. The Group will continue its policy of combining healthy economic operations with delivering high quality kindergartens services in line with legislation and general governmental expectations.

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

A bit simplified the children in Norway attends kindergarten in 11 months during the year. Revenue in Norway is therefore distributed over 11 months. The main cost is employee benefits that is also mainly distributed over 11 months. For practical reasons the Norwegian part of 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 are fully included in June. June has therefor weaker results than other months.

Total revenue has increased with approximately 10% compared to same period 2019. This is mainly due to increase in grants per child.

Operating profit margin is 8,4%, compared to 7,9% in 2019. The margin is affected by several issues. Both in Norway and Sweden the government has implemented various general financial measures to reduce the negative effect of the virus outbreak. This includes a period of reduced social cost payment and changes to sick leave rules, reducing the period that the employer bears the cost. The margin in Sweden has improved during 2020, particularly related to the preschools. The margin in the preschools in Sweden is now on a satisfactory level. The margin in Norway is in 2020 affected by the staffing norm and the unfinanced part of it created by the temporary 2-year gap in how grants is calculated. The underlying operations in Norway has been in accordance with plan.

Cash flow from operations in 2020 is materially affected by changes in pension premium payments. The pension plan in Norway was changed with effect from 1st January 2020. Previously the employees in the kindergartens in Norway had a defined benefit plan. This was changes for all employees under 52 years, and from 1st January they changed from a defined benefit to a defined contribution plan. The net profit/loss effect of the termination of the pension plan was included in the 2019 accounts. However, when terminating a plan, the company must pay an administration fee to the insurance company. A provision of 70 million to cover this fee was included in the 2019 accounts. This has been paid in 2020.

Also the timing of payment of ordinary pension premiums have changed. In 2019 the pension plan was a defined benefit plan and premiums were paid twice a year, in May and November. In 2020 payments is made monthly for the defined contribution plan, and quarterly for the remaining defined benefit plan.

Cash flow from operations in the period was strong both in 2020 and 2019. 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 normally gives a strong cash flow in June each year.

Læringsverkstedet Gruppen AS –Q2 Financial report 2020

Investments in fixed assets is primarily related to construction activity.

Financing activities includes a drawdown of 64,5 million on a credit facility with DnB as well as drawn on construction loans.

Overview of development and profits for Q2

Total revenue has increased with approximately 12% compared to Q2 2019, mainly due to increased grants per child. Operating profit margin is 10,9% compared to 8,7% in Q2 2019. The margin is affected by the same elements as described above.

Cash flow from operations in the period is very strong both in 2020 and 2019. Timing of payment of subsidies from the municipalities highly effects our cash flow during the year and is normally very strong in June every year. The difference regarding pension payment in the cash flow statement relates to the change in payment structure described above.

Investments in fixed assets is mainly related to construction activity, which has been quite high in 2020 in the period.

Jessheim, 31 August 2020

Gunnar Johansson
Chairman of the Board

Hans Jacob Sundby
Board Member/CEO

Læringsverkstedet Gruppen AS - Group

Income statement

Numbers in NOK 1 000	Unaudited Q2 2020	Unaudited Q2 2019	Unaudited 1.1-30.6 2020	Unaudited 1.1-30.6 2019	Audited Full year 2019
Total revenue	922 290	824 145	2 121 298	1 926 152	4 101 782
Cost of goods sold	553	1 182	1 214	1 182	3 166
Employee benefits expense	594 870	548 223	1 464 202	1 327 698	2 942 955
Depreciation	68 163	64 193	132 877	126 707	261 704
Other operating expenses	158 625	138 631	344 975	317 723	653 831
Total operating expenses	822 211	752 229	1 943 268	1 773 310	3 851 656
Operating profit	100 079	71 916	178 030	152 842	250 126
Net finance	-45 204	-43 721	-90 218	-86 343	-169 100
Profit before income tax	54 875	28 195	87 812	66 499	81 026
Income tax expense	8 319	4 944	8 939	9 990	8 873
Net profit	49 556	23 251	78 873	56 509	72 153
Total majority share	49 556	23 216	78 873	56 605	72 153
Total minority share		35	0	4	0

Læringsverkstedet Gruppen AS - Group

Balance sheet

Numbers in NOK 1 000	Unaudited 30.06.2020	Unaudited 30.06.2019	Audited 31.12.2019
Assets			
Non current assets			
Total intangible assets	929 349	860 271	846 189
Total fixed assets	4 718 862	4 597 732	4 614 798
Financial assets			
Loan to group companies	55 324	60 598	60 598
Investment in shares and units	350	1 708	350
Long term receivables	54 037	32 375	37 945
Pension asset	78 367	43 684	58 969
Total financial assets	188 078	138 365	157 862
Total non current assets	5 836 289	5 596 368	5 618 849
Current assets			
Inventories	1 019	1 064	1 019
Receivables			
Accounts receivables	23 356	22 583	25 295
Other receivables	210 065	196 662	168 854
Total receivables	233 421	219 245	194 149
Cash and cash equivalents	462 724	473 193	371 886
Total assets	6 533 453	6 289 870	6 185 903

Læringsverkstedet Gruppen AS - Group

Balance sheet

Numbers in NOK 1 000	Unaudited 30.06.2020	Unaudited 30.06.2019	Audited 31.12.2019
Equity and liabilities			
Equity			
Owners equity			
Share capital	100	100	100
Total paid inn equity	100	100	100
Retained earnings			
Other equity	584 378	451 332	472 581
Total accumulated profits	584 378	451 332	472 581
Total equity	584 478	451 432	472 681
Liabilities			
Provisions			
Pensjon obligations	0	0	0
Deferred tax	285 456	313 830	286 624
Total provisions	285 456	313 830	286 624
Other non current liabilities			
Bond loans	1 500 000	1 500 000	1 500 000
Liabilities to financial institutions	3 206 847	3 172 864	3 158 220
Other non current liability	27 906	16 863	16 582
Total other non current liabilities	4 734 753	4 689 727	4 674 802
Current liability			
Accounts payable	60 952	45 656	75 512
Income tax payable	5 089	12 478	31 736
Public duties payable	150 538	150 046	182 744
Other current liabilities	712 187	626 701	456 104
Dividend/group contribution			5 700
Total current liability	928 766	834 881	751 796
Total liabilities	5 948 975	5 838 438	5 713 222
Total equity and liabilities	6 533 453	6 289 870	6 185 903

Læringsverkstedet Gruppen AS - Group

Cash Flow statement - Indirect method

Numbers in NOK 1 000	Unaudited Q2.2020	Unaudited Q2.2019	Unaudited 1.1-30.6 2020	Unaudited 1.1-30.6 2019	Audited Full year 2019
Cash flow from operating activities					
Profit before income tax	54 875	28 295	87 812	66 599	81 027
Income tax payable	-25 320	-3 912	-50 946	-45 660	-47 492
Depreciation	68 163	64 193	132 877	126 707	251 704
Difference on pension expense and paid pension premium	-9 375	-45 271	-83 398	-34 158	10 700
Change in inventory, accounts receivable and accounts payable	21 314	-14 848	-3 749	-20 576	-7 451
Change in other accruals	137 112	168 668	201 049	237 280	47 994
Net cash flow from operating activities	246 769	197 125	283 645	330 192	336 482
Cash flow from investing activities					
Proceeds from disposal of fixed assets					933
Purchase of fixed assets	-72 017	-15 701	-121 822	-53 674	-151 045
Net payment in acquisition of subsidiaries	-9 938	-7 678	-86 732	-31 680	-29 282
Purchase of intangible assets	-	-894	-910	-2 063	-3 179
Net effect other shares and loans	1 176	-	-4 276		
Net cash flow from other investments	-3 917		-16 092		1 358
Net cash flow from investing activities	-84 696	-24 273	-229 832	-87 417	-181 215
Cash flow from financing activities					
Proceeds from recent borrowings	33 293	37 491	138 633	135 985	220 258
Full down payment of borrowings	-32 814	-813	-32 814	-90 509	-113 432
Repayment (ordinary amortization) of borrowings	-33 996	-34 166	-67 174	-66 117	-142 111
Payment of group contribution	-5 700	-4 057	-5 700	-5 057	-5 057
Net cash flow financing activities	-39 217	-1 545	32 945	-25 698	-40 342
Net change in cash and cash equivalents	122 856	171 308	86 758	217 077	114 925
Currency effect on cash at the beginning of the period	-1	-90	4 080	-2 132	-1 287
Cash and cash equivalent at the beginning of the period	339 869	301 976	371 886	258 248	258 248
Cash and cash equivalent at the end of the period	462 724	473 193	462 724	473 193	371 886

NOTES TO THE FINANCIAL REPORT 30.06.2020 (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 2019 has, with the following exceptions, been applied;

1. In Norway 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 change
4. Provision for pension cost related to the defined benefit plan is based on the estimates made in the actuarial calculation for 2019. At year end an actuarial calculation for 2020 will be made and pension cost might be subject to change in the annual statement.

See the annual report for 2019 for a full description of the accounting principles.

Equity

	Share capital	Other equity	Total
Equity 01.01.	100	472 581	472 681
Net profit	-	78 873	78 873
Currency translation effect		32 924	32 924
As of 30.06	100	584 378	584 478

Financial covenants

All figures in NOK 1 000

Covenant 1; Minimum liquidity of NOK 100 million

	30.06.2020
Booked value cash and cash equivalents	462 724
-less restricted cash	-57 400
Total liquidity according to loan terms definition	405 324

Covenant 2; Interest cover ratio > 3,0

	As at 30.06.2020
Operating profit (last 12 months)	275 314
+ Depreciation (last 12 months)	257 874
+ Unfinanced staffing norm adjustment	32 500
+/- Other one-off adjustments from 2019	23 000
= EBITDA according to loan terms definitions	588 688
Net finance (last 12 months)	172 975
EBITDA / Net finance (Interest cover ratio)	3,40

Other one-off adjustments from 2019 is mainly the net effect of the termination of a defined benefit pension plan in Norway.

A staffing norm was implemented in Norway from 1st August 2019. The staffing norm applies to both private and public kindergartens but will only be fully financed for private kindergartens in 2022. The reason is the technical calculation of grants to private kindergartens. The revenue for private kindergartens is to a large extend based on the cost in the municipal's own kindergartens 2 years earlier. Our revenue for 2020 is thus based on the relevant municipality's 2018 accounts. Many municipalities did not have a staffing in 2018 that was within the staffing norm and its 2018 cost does therefor not fully reflect the cost of staffing within the staffing norm.

This gap between the basis for our revenue and the cost of complying with the staffing norm is considered, in line with the terms and conditions for the bonds issued by the company, as a one-off, non-recurring, unusual item and has therefore been adjusted for in the calculation of the interest cover ratio. This will affect the accounts and be adjusted for until it is neutralized in the grant levels (in 2022 by the latest)

The interest cover ratio before adjustment for the unfinanced part of the staffing norm is 3,22.