

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 30 September 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

As of 30 September 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 have 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 will be calculated for the period up until termination date (31.12.2019), in addition the effect of terminating the plan will be calculated and included in the 2019 accounts. The calculations will be made at year end and included in the Q4 report.

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 will apply 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 extend 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 will be 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 preschools 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 is 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 also suggest regulating company structures and financial structures.

There has been 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 will be published in the beginning of 2020.

Classification error in the Q2 financial report

During the consolidation of the Q3 numbers it was discovered that it was a classification error in the Q2 numbers. The group has changed its accounting system and reorganized its financial function in Sweden. This process was ongoing when the Q2 numbers was consolidated and is the reason for the classification error. The error has no effect on profit, but resulted in an overstatement of revenue, employee benefit expense and other operating expense. The error has no effect on the Q3 report. Enclosed is an overview of the difference in the Q2 report;

	Q2 reported numbers	Adjustment	Q2 adjusted numbers
Revenue	2 019 078	-92 926	1 926 152
Cost of goods sold	1 182	0	1 182
Employee benefits expenses	1 386 939	-59 331	1 327 698
Depreciation	126 707	0	126 707
Other operating expenses	351 309	-33 595	317 714
Total operating expenses	1 866 136	-92 926	1 773 210
Operating profit	152 942	0	152 942

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

Total revenue has increased with approximately 20% compared to same period 2018. This is due to full period effect of the acquisitions made in 2018 and the acquisitions made in 2019.

Operating profit margin is 7,5%, compared to 8,5% as of 30 September 2018 and 7,5% totally in 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 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 is stable on approximately 7%. Total assets have increase with 150 million, mainly due to increased cash balance.

Cash flow from operations in the period was strong both in 2019 and 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 slightly 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.

As part of business development of the group, the appropriateness of organization and funding is assessed on an ongoing basis.

Overview of development and profits for Q3

Total revenue has increased with approximately 15% compared to Q3 2018. This is mainly due to full period effect of the acquisitions made in 2018 and the acquisitions made in 2019.

Operating profit margin is 6,7% compared to 8% in Q3 2018. The salary increases in 2019 described above is the main reason for the difference. The increase was known in august so the full effect of the increase from 1th May has been taken in Q3. Therefore, the margin in Norway is weaker in Q3 2019 compared to Q3 2018, but the margin in Sweden has improved in the same period.

Cash flow from operations in the period is as expected weak. Timing of payment of subsidies from the municipalities highly effects our cash flow during the year. This gave a very positive effect in Q2 as much of the grants for Q3 was prepaid in Q2. In Q3 this then gives a negative effect.

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.

Jessheim, 20 November 2019

Gunnar Johansson
Board Chairman

Hans Jacob Sundby
Board Member/CEO

Læringsverkstedet Gruppen AS - Group

Income statement

Numbers in NOK 1 000	Unaudited Q3 2019	Unaudited Q3 2018	Unaudited 1.1-30.9 2019	Unaudited 1.1-30.9 2018	Audited Full year 2018
Total revenue	1 067 057	944 040	2 993 209	2 528 583	3 517 454
Cost of goods sold	0	0	1 082	0	1 264
Employee benefits expense	798 286	682 509	2 112 894	1 759 375	2 476 283
Depreciation	63 343	54 547	190 050	156 499	221 815
Other operating expenses	134 983	130 625	465 797	394 438	553 332
Total operating expenses	996 612	867 681	2 769 823	2 310 312	3 252 694
Operating profit	70 445	76 359	223 386	218 271	264 760 7,5 %
Net finance	-43 541	-42 069	-129 884	-116 612	-158 706
Profit before income tax	26 904	34 290	93 502	101 659	106 054
Income tax expense	5 769	8 384	15 759	25 415	15 852
Net profit	21 135	25 906	77 743	76 244	90 202
Total majority share	21 135		77 739		90 222
Total minority share			4		-19

Læringsverkstedet Gruppen AS - Group

Balance sheet

Numbers in NOK 1 000

	Unaudited 30.09.2019	Unaudited 30.09.2018	Audited 31.12.2018
Assets			
Non current assets			
Total intangible assets	854 288	763 062	871 016
Total fixed assets	4 599 260	4 349 980	4 598 648
Financial assets			
Loan to group companies	60 598	60 598	60 598
Investment in shares and units	1 708	1 708	1 708
Long term receivables	32 601	32 254	32 862
Pension asset	4 838	5 249	9 526
Total financial assets	99 745	99 809	104 694
Total non current assets	5 553 293	5 212 851	5 574 358
Current assets			
Inventories	911	1 161	1 083
Receivables			
Accounts receivables	26 816	16 714	25 916
Other receivables	248 173	156 704	160 804
Total receivables	274 989	173 418	186 720
Cash and cash equivalents	353 123	398 913	258 248
Total assets	6 182 316	5 786 343	6 020 409

Læringsverkstedet Gruppen AS - Group

Balance sheet

Numbers in NOK 1 000	Unaudited 30.09.2019	Unaudited 30.09.2018	Audited 31.12.2018
Equity and liabilities			
Equity			
Owners equity			
Share capital	100	100	100
Total paid inn equity	100	100	100
Retained earnings			
Other equity	475 377	387 853	413 885
Minority share	0		396
Total accumulated profits	475 377	387 853	414 281
Total equity	475 477	387 953	414 381
Liabilities			
Provisions			
Pensjon obligations	0	0	0
Deferred tax	316 409	313 610	308 501
Total provisions	316 409	313 610	308 501
Other non current liabilities			
Bond loans	1 500 000	1 500 000	1 500 000
Liabilities to financial institutions	3 153 184	2 983 301	3 163 033
Other non current liability	16 731	13 846	17 846
Total other non current liabilities	4 669 915	4 497 147	4 680 879
Current liability			
Accounts payable	51 224	60 290	71 641
Income tax payable	9 623	47 978	47 195
Public duties payable	176 175	87 532	163 945
Other current liabilities	483 493	391 833	328 810
Dividend/group contribution			5 057
Total current liability	720 515	587 633	616 648
Total liabilities	5 706 839	5 398 390	5 606 028
Total equity and liabilities	6 182 316	5 786 343	6 020 409

Læringsverkstedet Gruppen AS - Group

Cash Flow statement - Indirect method

Numbers in NOK 1 000	Unaudited Q3.2019	Unaudited Q3.2018	Unaudited 1.1-30.9 2019	Unaudited 1.1-30.9 2018	Audited Full year 2018
Cash flow from operating activities					
Profit before income tax	26 903	34 290	93 502	101 659	106 054
Income tax payable	-7 893	1 743	-53 553	-26 940	-43 081
Depreciation	63 343	54 547	190 050	156 499	221 815
Difference on pension expense and paid pension premium	38 846	32 344	4 688	18 232	-10 538
Change in inventory, accounts receivable and accounts payable	-15 212	22 675	-35 788	-12 958	-6 975
Change in other accruals	-165 201	-190 301	72 079	21 473	-3 386
Net cash flow from operating activities	-59 214	-44 702	270 978	257 965	263 889
Cash flow from investing activities					
Proceeds from disposal of fixed assets					9 126
Purchase of fixed assets	-41 177	-78 017	-96 560	-181 202	-265 726
Net payment in acquisition of subsidiaries	-	-68 732	-29 971	-172 054	-353 161
Purchase of intangible assets	-	-21 065	-2 063	-29 540	-15 075
Net effect other shares and loans				-250	
Net cash flow from other investments					-201
Net cash flow from investing activities	-41 177	-167 814	-128 594	-383 046	-625 037
Cash flow from financing activities					
Proceeds from recent borrowings	13 717	300 693	149 702	541 133	776 685
Full down payment of borrowings	-457	-643	-90 966	-112 374	-212 044
Repayment (ordinary amortization) of borrowings	-32 940	-28 723	-99 057	-89 715	-131 899
Payment of group contribution	-		-5 057	-8 763	-8 763
Net cash flow financing activities	-19 680	271 327	-45 378	330 281	423 979
Net change in cash and cash equivalents	-120 071	58 810	97 006	205 200	62 831
Currency effect on cash at the beginning of the period	1	396	-2 131	-2 560	-857
Cash and cash equivalent at the beginning of the period	473 193	339 707	258 248	196 274	196 274
Cash and cash equivalent at the end of the period	353 123	398 913	353 123	398 913	258 248

NOTES TO THE FINANCIAL REPORT 30.09.2019 (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. 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 made in 2019 is preliminary and might be subject to change
4. Provision for pension cost is based on the estimates made in the actuarial calculation for 2018. At year end an actuarial calculation for 2019 will be made and pension cost will be subject to change in the annual statement.

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	-	77 739	4	77 743
Change in ownership		400	-400	
Currency translation effect		-16 647		-16 647
As of 30.06	100	475 377	-	475 477

Financial covenants

All figures in NOK 1 000

Covenant 1; Minimum liquidity of NOK 100 million

	30.09.2019
Booked value cash and cash equivalents	353 123
-less restricted cash	-50 708
Undrawn credit facilities	<u>62 200</u>
Total liquidity according to loan terms definition	<u>364 615</u>

Covenant 2; Interest cover ratio > 3,0

	As at 30.09.2019
Operating profit (last 12 months)	270 792
+ Depreciation (last 12 months)	255 395
+/- Adjustments according to loan terms definitions*	<u>9 166</u>
= EBITDA according to loan terms definitions	535 353
Net finance (last 12 months)	171 787
EBITDA / Net finance (Interest cover ratio)	3,12

*The adjustments relate mainly to costs regarding management changes, (Unusual one-time costs).