GoodStart: a social investment story

Prepared by Social Ventures Australia for the Australian Government Department of Education, Employment and Workplace Relations

SVA Consulting is supported by Macquarie Group Foundation

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Glossary of terms

Term	Description
ABCD&E	Australia's Best Childcare, Development and Education - initial document outlining for purpose model for GoodStart
Accommodation bond facility	A loan to provide for accommodation bonds (being bank guarantees, letters of credit or performance bonds). Typically repayable in full on maturity date
Amortising term facility	A loan where the principal of the loan is paid down over the life of the loan, according to some amortisation schedule
ASX	Australian Stock Exchange
BBSY	Bank Bill Swap Bid Rate. A benchmark interest rate quoted and dispersed by Reuters Information Service
BenSoc	The Benevolent Society
BSL	The Brotherhood of St Laurence
CEO	Chief Executive Officer
Company Limited by Guarantee	Company with members who agree to provide guaranteed amount to meet outstanding creditor claims in the event the company is wound up. No shares are issued. No distribution of surplus to members is permitted
DD	Due Diligence
DEEWR	Australian Department of Education, Employment and Workplace Relations
EBIT	Earnings before Interest and Tax. An indicator of profitability
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation. An indicator of profitability
ECE	Early Childhood Education
FCF	Free Cash Flow. A measure of financial performance (operating cash flow minus capital expenditures)
Fixed upfront fees	Fixed non-discretionary fees paid by potential buyer or syndicate to advisors up front for professional services
GFC	Global Financial Crisis
GM	General Manager
LDC	Long Day Care

Term	Description
Mezzanine debt	Subordinated, unsecured debt. Usually more expensive than secured or senior debt (ranks below senior debt and above subordinated debt)
Mission	Mission Australia
NAB	National Australia Bank
NFP	Not-for-profit
OECD	Organisation for Economic Co-operation and Development
On success fees	Fees paid to advisors only upon successful completion of the transaction
Pari passu	A Latin phrase meaning "equal footing" that describes situations where two or more assets, securities, creditors or obligations are equally managed without preference
PEP	Pacific Equity Partners
Private equity	An asset class consisting of equity securities in operating companies that are not publicly traded on a stock exchange
Secured debt	Debt backed or secured by collateral to reduce the risk associated with lending
Senior debt	Debt that takes priority over other unsecured or otherwise more "junior" debt owed by the issuer (mezzanine debt and subordinated debt rank below senior debt)
Social capital notes	Debt instruments that offer a blended return of social impact and financial return
Subordinated debt	Debt which ranks after other debts should a company fall into receivership or bankruptcy (ranks below senior debt and below mezzanine debt)
SVA	Social Ventures Australia
Working capital facility	A loan whose purpose is to finance everyday operations of a company, typically with a revolving line of credit

Contents

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Introduction

- This report on GoodStart Early Learning was commissioned by Social Innovation Group in the Department of Education, Employment and Workplace Relations as part of its work to promote dialogue and practice on social investment in Australia.
- Social investing is a rapidly evolving field of practice that focuses on investment opportunities that offer some measure of both social impact and financial return.
- The GoodStart Syndicate was established over the course of 2008-09 following the collapse of ABC Learning, the largest single provider of child care in the Australian market.
- From the outset, the Syndicate adopted a social investment approach working across public, private and community sectors to build a consortium of partners and investors that were committed to quality service provision in the critical area of early childhood education and care.
- GoodStart Early Learning is now one of the largest social enterprises of its type in Australia providing services to over 72 000 children and their families through 660 child care centres across the country.
- This document details the background to the transaction, the processes used and the key issues considered at each stage of the social investment process.

How to use this report

- This report provides an overview of the GoodStart deal and is intended to serve as a guide for others interested in social investing.
- The focus of this report is on the period after ABC Learning went into voluntary administration (6th November 2008) up to the time that GoodStart was announced as the preferred bidder (9th December 2009).
- The report is presented in five parts:
  1. Context: the factors that gave rise to the GoodStart Syndicate
  2. Building the Syndicate: how the Syndicate was formed and why
  3. Defining the social impact: how the Syndicate reached consensus on the social impact sought
  4. Defining the commercial proposition: the factors considered in developing a viable business model
  5. Raising the capital and winning the bid: the opportunities and challenges faced by the Syndicate in raising the money to purchase 678 child care centres across the country.

High level summary

Context	• From 1988-2006 ABC Learning grew its stake in childcare; but in 2007 it faltered and in 2008 went into administration • Receivers initiated twin sale process of around 720 financially viable centres and 260 non-financially viable ones
Building the Syndicate	• The GoodStart Syndicate was built in two stages. Social Ventures Australia, the Benevolent Society and Mission Australia joined together in November 2008. The Brotherhood of St Laurence joined the Syndicate in September 2009
Defining the social impact	• From December 2008 to July 2009, the Syndicate sought expert advice on early childhood evidence and frameworks to inform its social impact objectives
Defining the commercial proposition	• The commercial deal had a lot of the usual elements and was managed by Michael Traill, CEO SVA and a private equity veteran • The Syndicate were well-connected to advisors and attracted high-quality advisory support with no or low upfront fees • CHAMP/Koczkar: initial commercial diligence in Dec 2008 / Jan 2009. CHAMP, with Rob Koczkar from PEP, helped manage advisors and provided advice on price, bid tactics, debt structuring and structuring the completion process • KPMG: provided support in Mergers & Acquisition, Debt Advisory, Tax Advisory and Commercial Due Diligence • Gilbert + Tobin: had worked with Mission on their acquisition of some ABC centres; G+T provided high-quality legal support, especially on the leases • Parker & Partners: provided public relations support for the Syndicate during the bid process
Raising the capital and winning the bid	• For GoodStart, raising the capital proved to be the most challenging part of the deal. The intention from early on was to obtain normal senior bank debt, then a layer from the government and then a layer of social capital • Syndicate members: 3 syndicate members (BenSoc, Mission and BSL) invested $2.5m cash each in members' subordinated notes and all 4 members invested $2.5m non-cash each in members' deeply subordinated notes • NAB: provided a package of four senior debt facilities worth $120m • Australian Government: provided a loan worth $15m allowing most of the principal to be repaid in later years as the transaction was in the public interest • Social investors: the Syndicate approached more than 150 high net worth individuals, philanthropists and foundations to invest in social capital notes. 41 social investors invested a total of $22.5m in social capital notes • GoodStart were announced as the preferred bidder on 9 December 2009 for their offer of $95m for 678 centres

Timeline for the deal

	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09
Context	ABC enters receivership The idea for the bid is initiated													
Building the Syndicate	SVA joins Mission joins BenSoc joins								BSL engaged		BSL joins Members approve $250k each			
Defining the social impact		Draft ABCD&E doc	Expert group starts 'Connecting Head and Heart' doc							Foundation document finalised				
Defining the commercial proposition		CHAMP initial DD		Syndicate meets KPMG Corp Fin	Syndicate asks UBS for special treatment. Response is NO	Revise deal tactics			Syndicate engages advisors	Indicative offer $150-170m	Payroll tax exemption Lease issues addressed	Non-binding offer $100m Formal DD begins	Binding offer of $90m	GoodStart increases bid and is preferred bidder for $95m
Raising the capital and winning the bid	Syndicate members expect to contribute	Engage NAB for senior debt							Engage Australian Government		Engage social investors BenSoc, Mission, BSL $2.5m each		NAB $120m Aust Govt $15m Social capital $22.5m	

Deal structure

Advisory Input

Area	Provider	Fixed±	On success
Legal	Gilbert + Tobin	250k	750k
Mergers & Acquisitions Debt advisory Tax advisory	KPMG	50k	2,450k
Due Diligence	KPMG	500k	1,300k
Commercial Due Diligence	CHAMP, Koczkar	Pro bono	
Public Relations	Parker & Partners	20k	60k
Total		**820k**	**4,560k**

± Fixed refers to non-discretionary fees paid by Syndicate to advisors up front. On success refers to fees paid to advisors only upon successful completion of the transaction (i.e. GoodStart purchases ABC centres^)
^ refers to 'ABC 1' centres – see page 13 for details

The Syndicate

Mission Australia

The Benevolent Society

Social Ventures Australia

Brotherhood of St Laurence

Formed a Company Limited by Guarantee

Purchased 678 ABC Learning centres^ for $95m on 9 Dec 2009

Investors

Cash to purchase ABC^ centres

$95m	Capital	Provider	Terms
50	Senior debt (amortising term facility)	NAB	Secured 5 years 10%
15	2nd ranking secured debt	Aust Govt	Secured 7 years ~6%*
22.5	Social capital notes	Social investors	Unsecured 8 years 12%
7.5	Members' sub-ordinated notes	Mission Ben Soc BSL	Unsecured 20 years 15%

$70m cash + $10m non-cash

Other #

5	NAB: Remainder of amortising term facility
15	NAB: Non-amortising term integration facility
15	NAB: Revolving working capital facility
35	NAB: Accommodation bond facility
10	Members' deeply subordinated notes at 15% (non cash – for advisory services)

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* Interest rate is mid-rate of the market yields for Treasury Fixed Coupon Bonds that mature after the end of the Term as published by RBA / Reuters closest to the date and time the loan agreement is entered into

Facilities provided for operations of the new GoodStart entity. That is, not to fund the purchase of the assets from the receiver, but to fund the operations of the new business

Key observations

The GoodStart Early Learning case offers a number of insights into the opportunities and challenges associated with social investing. While GoodStart can be distinguished from many other social investments due to its origins in a sudden market change, its scale and reach, there are a number of observations to be drawn that can guide future practice. Foremost amongst these are:

The importance of networks to mobilising support and action

A key lesson is the value of personal networks and professional trust in being able to mobilise support and action quickly to build the social investment deal. This was evidenced by the speed with which the Syndicate could be formed, the level of pro bono and low bono support that was offered and relied upon, and the ability of the leadership team to raise the necessary capital from a range of commercial and social investors in the limited timeframe.

The need to keep both the social impact and the financial return in mind at all times

GoodStart, like all social investment deals, required the articulation of both realistic and achievable social impact and the development of a viable and sustainable financial model to support the achievement of both social and financial returns. Throughout the deal, these issues were considered in tandem and are evident in the ultimate design of the investment proposition and its execution.

Financial innovation as a means of achieving social innovation

The GoodStart deal illustrates the value of a layered investment approach which is designed to accommodate the different risk appetite and investment tolerances of the parties involved. It also highlights the scope through negotiation for developing new financial instruments, such as social capital notes, that meet the particular needs of investors.

Market factors

The ABC centres were available for sale because ABC Learning went into voluntary administration and appointed a receiver. The scale was significant: in 2009 ABC had approximately 15% share of the long day care market. The confluence of market factors made the investment more commercially viable.

Contents

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2 Context timeline

From 1988-2006 ABC Learning grew its stake in the childcare sector; but in 2007 it began to falter and by the end of 2008 had gone into administration

1 — 1988
ABC Learning Centres begins operating in Brisbane suburbs

2 — 1997
ABC Learning is largest single provider of childcare in Australia, with 18 centres

3 — Mar 2001
ABC Learning lists on the ASX. At the time ABC operated 43 centres across Australia

4 — 2004
Begins to pursue a very aggressive growth strategy. Very high levels of debt were used to fund the growth

5 — Apr 2006
Market cap reaches $2.6b. $1b equity raised 2002-06. 100% p.a. growth. Now >800 centres

6 — Dec 2006
ABC Learning reaches peak value of shares at $8.62

7 — May 2007
Temasek (Singapore govt) buys significant holding in ABC Learning at $7.30 per share

8 — Feb 2008
Dec 2007 half-year results show drop in pre-tax earnings to $49.5m (from $93.5m); shares drop to $1.15

9 — Apr 2008
ABC Learning announces Morgan Stanley deal. 60% of ABC for $742m investment. Deal later collapses

10 — 25 Aug 2008
Shares suspended with bank debt amounting to $1b; Company announces write-offs of $437m

11 — Nov 2008
ABC goes into voluntary admin, receiver appointed; Govt injects $22m to keep centres open until year end

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Source: Literature review

2

Childcare is a critical market for Australian families and the Australian Government

Context 2008-2009

Sep 2008 **Childcare Taskforce**

- Prior to ABC Learning entering receivership, DEEWR formed a Childcare Industry Taskforce
- The aim was to understand the business situation and provide advice to Government about what to do and prepare for possibility of collapse

Nov 2008 **$22m cash injection**

- The then Education Minister, the Hon Julia Gillard MP, announced that the Australian Government would commit up to $22 million (paid to the receiver) to ensure the continuity of childcare services through ABC centres at least until year end
- Media reports indicated around 400 centres were unprofitable and fears were that they might be closed

Dec 2008 **$34m cash injection**

- The Australian Government announced a further sum of up to $34 million for 2009 to maintain the centres and to fund the sale process for those centres not considered financially viable

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Source: Literature review

Context 2008-2009

2 Receivers separated centres into around 720 financially viable centres and around 260 non-financially viable ones and then initiated a twin sale process

	ABC 1	ABC 2
Number	• 720 centres	• 262 centres
Characteristics	• Financially viable centres	• Centres that were not financially viable
Receiver	• McGrath Nicol • Appointed by creditors (banks) in Nov 08	• PPB Corporate Recovery • Court-appointed receiver (funded by Australian Government) Dec 08
Sale objective	• Obligation to take reasonable care to sell charged property for not less than its market value or, if there is no market value, the best price reasonably obtainable • Primary duty of receiver was to collect and sell enough of the charged assets to repay the debt owed to the secured creditors	• Priority was sustained access to quality childcare • Secure a range of sustainable options for ABC2 centres, including transfer back to landlords, sale to new owners or, in some cases where possible, the transfer of children to suitable alternative arrangements • Aim was to sell to range of providers to gain greater diversity in childcare market

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Contents

3

The Syndicate was built in two stages; the first stage in November 2008 and the second stage in July-September 2009

1 — Nov 08
Evan Thornley, Co-founder Per Capita calls Michael Traill, CEO SVA, who agrees to consider buying ABC as social investment

2 — Nov 08
Traill talks to Richard Spencer, CEO BenSoc, and Toby Hall, CEO Mission Australia; 3 form a syndicate

3 — Jul 09
Robin Crawford, philanthropist and former banker, agrees to be involved with Syndicate

4 — Jul 09
Syndicate considers inviting Brotherhood of St Laurence to join

5 — Sep 09
Other party expresses interest in joining the Syndicate

6 — Sep 09
Syndicate approaches Tony Nicholson, CEO BSL, who agrees to join

7 — Sep 09
BenSoc, Mission and BSL boards approve $250k each to fund the deal process

8 — Oct 09
Other party declines offer to join Syndicate

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3

The Syndicate was interested in purchasing the ABC 1 centres

Financially viable distressed asset

- Operating at scale within childcare industry, with ~15% of the Long Day Care market in Australia
- Clear upside if able to drive up occupancy levels and manage labour more efficiently
- Potential for large positive cash flow impact if able to run as a not-for-profit and get payroll tax exemption (labour is a major expense)
- The collapse happened during the GFC, which meant that with few buyers around it might sell at a cheap price

Significant potential for social impact

- Benefits of quality ECE shown to be linked to future educational achievement, workforce participation and social connectedness
- ABC 1 controlled approximately 15% of the Australian childcare market at the time
- Driving a quality and equity agenda via the largest network in Australia could help create a high-performing, high-equity system

3

The Syndicate had some debate about the legal structure, but agreed to form a not-for-profit company limited by guarantee

- The Syndicate members had substantial discussions and debate about what type of legal entity to use for the new organisation

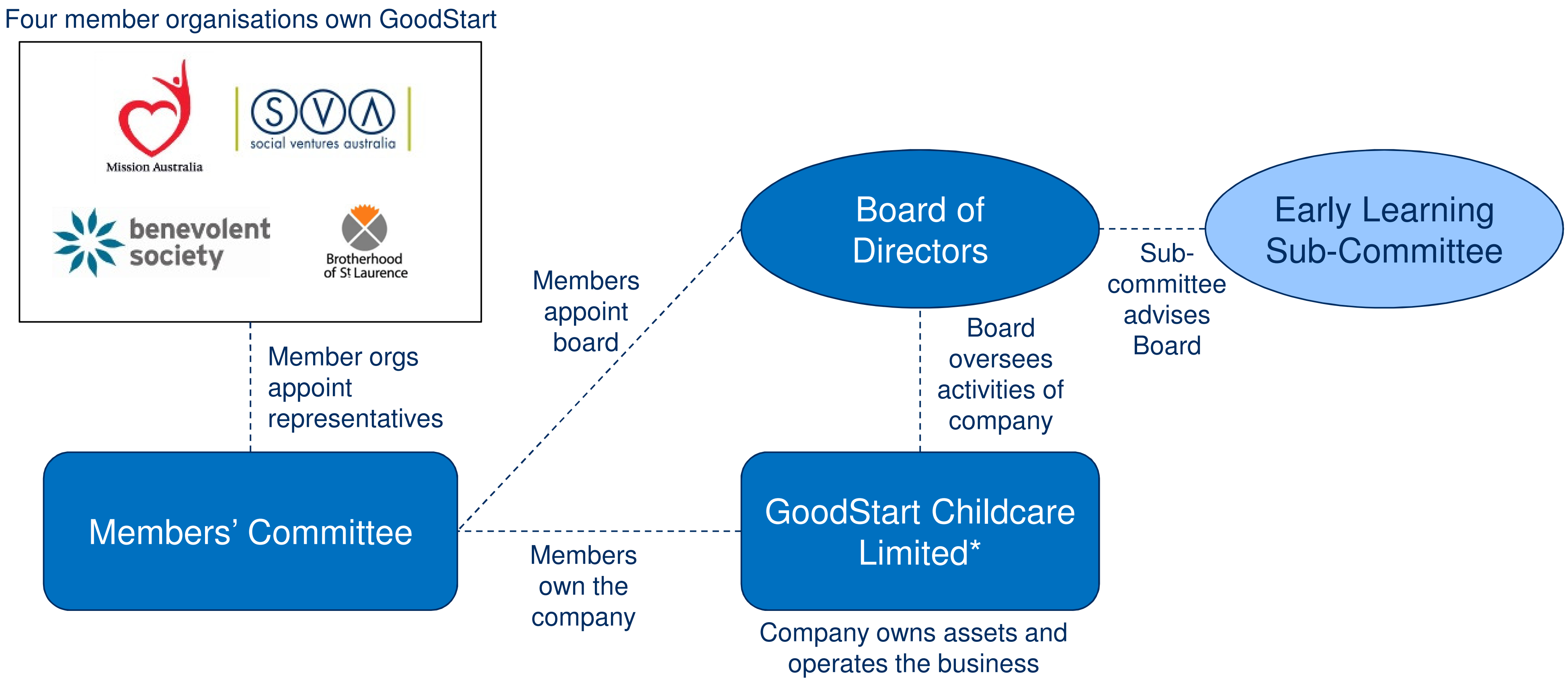
	Not-for-profit (company limited by guarantee)	For profit (company limited by shares)
Pros	• More suitable for organisation wanting to achieve social impact • Relative tax advantages	• Easier to raise capital because entity can issue equity capital and equity owners may receive benefit of 'upside'
Cons	• Potentially harder to raise capital because must be 100% debt funded	• Relative tax disadvantages

- The strongly preferred position of the Syndicate was to have a not-for-profit structure providing that it would accommodate investor needs
- The not-for-profit structure would ensure that some tax advantages were granted and would allow the organisation to focus on its social impact objectives (including investing the surplus into programs that improved quality and social inclusion)
- The Syndicate also believed that they could utilise a range of different financial instruments to enable them to attract enough capital

3

4 Syndicate members would have a 25% stake in GoodStart Childcare Ltd*, which would report to a Board and have an Early Learning Sub-Committee

Syndicate Oct



* GoodStart Childcare was re-branded as GoodStart Early Learning in 2011

3

Syndicate Oct

Each element of the governance structure represents a different role

	Member Organisations	Members' Committee	GoodStart Childcare Ltd	GoodStart Board of Directors	Early Learning sub-committee
Who	Mission, BenSoc, SVA and BSL Each organisation is an independent legal entity and a not-for-profit entity in its own right	Each Syndicate organisation has one representative on the members' committee (each member organisation appoints a representative). Members each hold 25% of membership. Each has an equal voting interest	Legal entity of the new business operating the acquired centres – a company limited by guarantee. The company is managed by the CEO and senior management team	Majority independent board of directors made up of individuals with a range of different skills and industry backgrounds	A range of experts in early learning and childcare
Role	Provide capital cash investment to the company as well as non-cash advisory and support services	The members of GoodStart agreed in writing to pay a nominal amount of $1 to the property of the company. If the company is wound up, the liability of the members is limited to this nominal amount. Members may vote to appoint and remove board directors, admit or reject new members, resign their membership etc.	CEO and senior management team manage the day-to-day running of the business	The Board acts on behalf of the members of the company and directors are appointed by the members. The Board oversees the activities of the company, establishes broad policies and objectives, appoints the CEO, approves budgets, approves strategy etc.	Provide advice to the Board and to the CEO and senior management team on early learning, including improving quality, improving equity, social impact programs etc.

Contents

4

Defining the social impact
Timeline

1 Dec 08

Syndicate engages Jane-Frances Kelly who drafts ‘Australia’s Best Childcare, Development and Education ‘ doc

2 Jan-Sep 09

Kelly works with experts from the Syndicate organisations to develop ‘Connecting Head and Heart’ doc

3 Jul-Sep 09

Consensus building meetings to discuss model and objectives for social impact

4 Sep 09

Syndicate finalises Foundation doc, with detail on how the syndicate will work, including for purpose aspects of the mission

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The Syndicate worked through a process to build consensus on the social impact objectives sought

- From the beginning of the process, the Syndicate members believed that a primary purpose of purchasing the ABC Learning centres would be to achieve social impact
- Each of the members wanted to ensure that they had a common solid understanding of the major issues surrounding early learning so that they could develop an informed set of social impact objectives
- In December 2008 the three Syndicate members began to form an informal advisory group of people with expertise in early learning. Initially, Jane-Frances Kelly (a former Blair government advisor in the UK) worked with the Syndicate and helped to draft an initial outline of the for purpose model, called 'Australia's Best Childcare, Development and Education (ABCD&E)
- Building on the ABCD&E work, from January to September 2009 the Syndicate built a knowledge sharing group. This allowed them to draw on their combined expertise to help develop and articulate the early learning vision and the for-purpose model. The experts included; Anne Hampshire (Mission), Annette Michaux (BenSoc), Collette Tayler (Uni Melb) and Sarina Greco (BSL). This group helped to draft the 'Connecting Head and Heart' document that outlined in more detail how the new organisation might operate
- It was not a straightforward task to define the social impact objectives. The process required several consensus building meetings among the Syndicate members before the Foundation document, defining the social impact objectives, was finalised in September

The Syndicate agreed on a range of inter-related social impacts

Social Impact Objectives

1. Achieve quality in delivery, educational outcomes and integrated community care – within a framework of rigorous business discipline
2. Use the scale of nearly 700 centres to create a world-leading evidence-based model of early learning and care
3. Attract, retain and develop high quality staff at each level of qualification as well as play a leading role in improving qualifications, staffing ratios and pay levels in the sector
4. Create a long-term partnership with governments in the critical public policy imperatives of early childhood development
5. Develop new models of accessibility for disadvantaged families and communities

Source: *GoodStart Foundation Document*, 2009

Contents

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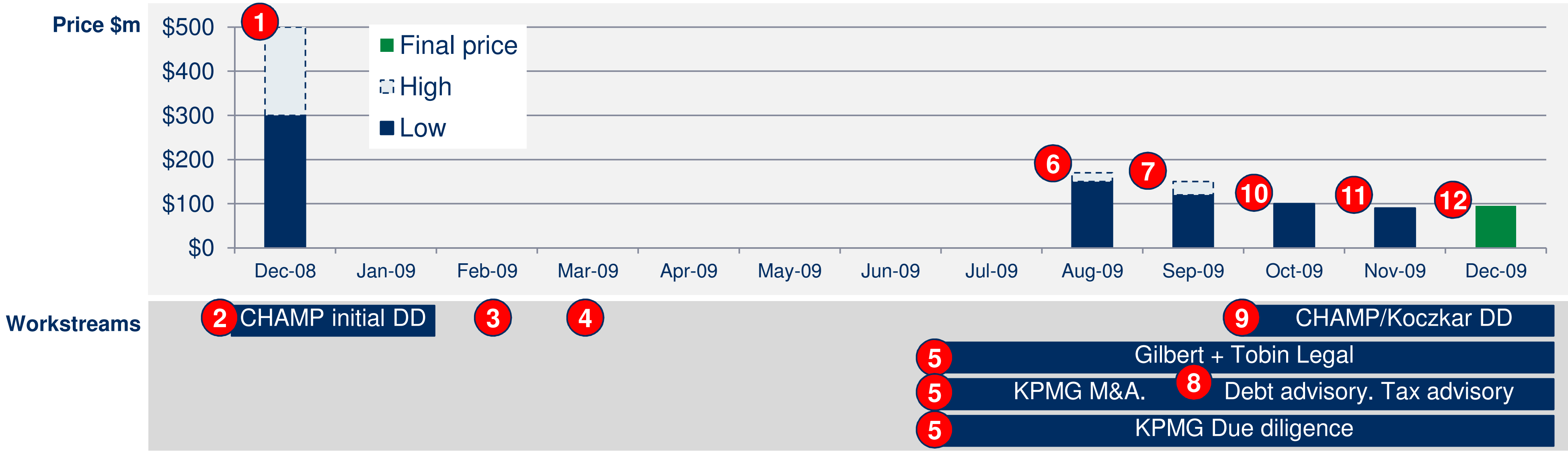
Defining the commercial proposition
Timeline



1 Dec 08
Toby Hall, CEO Mission Australia, estimates price range for ABC

2 Dec 08-Jan 09
CHAMP does initial diligence and builds simple economic model

3 Feb 09
Syndicate meets KPMG Corp Fin for first time

4 Mar 09
Met receiver to ask for preferential treatment. Receiver refused. Standard sale process to be held

5 Jul 09
Syndicate engages KPMG Corp Fin, KPMG Advisory, Gilbert + Tobin

6 Aug 09
GoodStart submits non-binding indicative offer of $150-170m

7 Sep 09
KPMG advise that successful bid range $120-150m. Formal bid process opened for ABC 1 centres

8 Sep 09
KPMG Tax secure payroll tax exemption. Gilbert + Tobin work through lease transfer issues

9 Oct 09
Formal commercial due diligence begins. CHAMP and Koczkar provide advisory support

10 Oct 09
GoodStart submits non-binding offer $100m for 704 centres

11 Nov 09
GoodStart submit final binding bid of $90m for 678 ABC 1 centres

12 9 Dec 09
GoodStart increase final binding bid to $95m and are announced as preferred bidder

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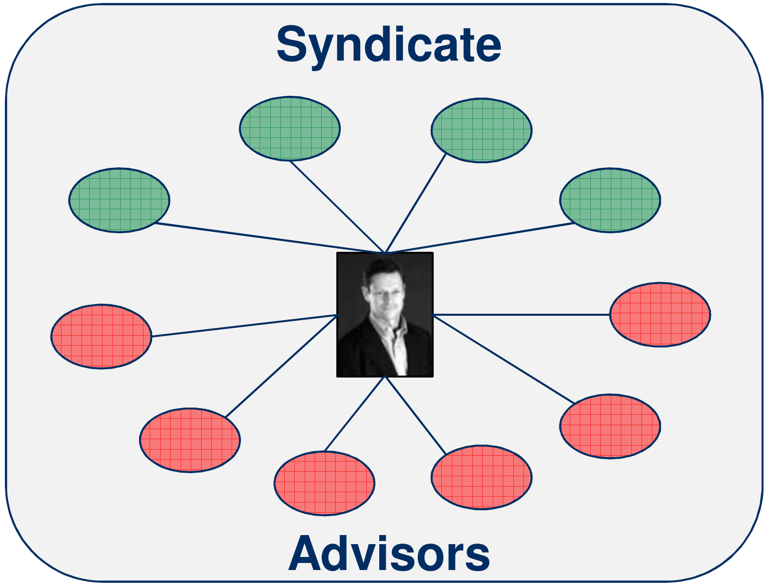
5 The commercial deal process was very standard and was managed by Traill, a private equity veteran who dedicated 50-90% of his time to the deal

SVA gave Traill the opportunity to manage the deal

- SVA Chair Rob McLean and the board were prepared to support Traill spending a substantial amount of time on the deal
- Meanwhile, SVA Executive Director Jan Owen took carriage of many SVA activities



Traill was the epicentre of the deal process

- Traill dedicated 50-90% of his time in bursts during particular periods. He was instrumental in coordinating the deal
- Key activities included;
  - Being the '**traffic cop**' – a clearinghouse of all information, communications, etc.
  - Attracting and **engaging quality advisors**
  - **Negotiating fees**
  - **Engaging with key Syndicate individuals**: Toby Hall and Tim Morris-Smith (CFO, Mission), Sam Weiss (Chair, BenSoc) and Mike James (Finance Committee Chair, BSL)
  - **Communications**: weekly summary emails, twice-weekly phone calls from October onwards, deal team meetings
- Crawford and Hall also provided significant support throughout the deal process, by providing advice, input and access to their networks

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The Syndicate put forward a ‘better option’ case to UBS (running sale process) early on, but UBS had duty to creditors so ran standard sale process

‘Testing the waters’

- In March 2009 Traill and Hall met with UBS (who were running the sale process on behalf of receiver McGrath Nicol) to put forward the case that the NFP Syndicate would be a better option than any commercial buyer
- While UBS agreed that a NFP running the largest childcare network in Australia might have a positive social impact, they were unable to offer any special treatment or ‘cut a deal’
- Ultimately, UBS had a duty to optimise the sale price for the creditors (the banks)

Standard sale process

A step-by-step sale process was undertaken

1. February: **market sounding process**
2. August: **indicative offers**
3. October: **non-binding offers**
4. November: **binding offers**

If GoodStart were to be successful, it would simply have to submit the best bid

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The Syndicate drew on the experience and expertise of members and their networks to secure high-quality advisory support

Advisory Input

Area	Provider	Fixed±	On success
Legal	Gilbert + Tobin	250k	750k
Mergers & Acquisitions Debt advisory Tax advisory	KPMG	50k	2,450k
Due Diligence	KPMG	500k	1,300k
Commercial Due Diligence	CHAMP, Koczkar	Pro bono	
Public Relations	Parker & Partners	20k	60k
Total		**820k**	**4,560k**

± Fixed refers to non-discretionary fees paid by Syndicate to advisors up front. On success refers to fees paid to advisors only upon successful completion of the transaction (i.e. GoodStart purchases ABC 1 centres)

Key points

- Network: Most of the key individuals in the advisory firms were well-known to at least one Syndicate member prior to the engagement
- Motivation: The individual people involved were convinced of both elements of the compelling proposition that GoodStart offered:
  - Commercially viable
  - *And* potential for significant social impact
- Fees: The fixed (up front) fee component was much lower than a traditional transaction. The advisors were accommodating on fees and weighted their fees towards fees on success

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The Syndicate secured high-quality advisory support with no or low upfront fees

- The three members with substantial balance sheets (BenSoc, Mission and BSL – not SVA) had agreed to contribute $250k each to fund the deal process
- Typically the upfront fees for a transaction of this size would be around the $2m mark

- When communicating with potential advisors, it was absolutely critical that they knew from the outset that the Syndicate could not pay any more than $750k
- There were two levers available to accommodate this:
  1. Discount the overall fees so that the Syndicate could afford them
  2. Reduce the amount payable upfront (the fixed component) and weight it more heavily towards the 'on success' fee if the transaction was completed

- The total transaction fee of ~$5m was within the standard range. However, the fixed upfront component was much lower than usual

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CHAMP did initial commercial diligence in Dec 2008 / Jan 2009 by building a simple economic model based on BenSoc centres and ABC estimates

Commercial Dec 08

CHAMP PRIVATE EQUITY

Why CHAMP got involved	
	• Traill approached David Jones (Managing Director) and Darren Smorgon (Director) from CHAMP private equity to engage them to do some preliminary commercial due diligence • Jones was a colleague of Traill's at Macquarie Bank and Jones, Smorgon and Traill had worked together in the past on social sector projects • CHAMP's Jones and Smorgon agreed to help, together with Patrick Rodden (Associate Director), and agreed to provide support on a pro bono basis • Each volunteered their time because he personally believed in the importance of the social issues related to early learning and the potential social impact that GoodStart could have if it were to successfully purchase the ABC Learning centres

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- Each volunteered their time because he personally believed in the importance of the social issues related to early learning and the potential social impact that GoodStart could have if it were to successfully purchase the ABC Learning centres

What CHAMP's initial diligence consisted of

- Simple economic model based on a single centre model with a limited number of line items, which later evolved to a model based on a grid of 12 centre types (different sizes and income levels)
- The preliminary modelling and assessment noted the following key drivers:
  - Child mix,
  - Scale effect as centre gets bigger
  - Utilisation of the building
  - Mix of staff qualifications and cost
  - Public funding sources
- Early discussions took place regarding capital structure, service model, network model, public policy reform, integration and coordination
- Preliminary estimates suggested **free cash flow of $75-80m** from 720 centres, as they were being run at the time. **Assumptions saw this improving to ~$120m** under GoodStart's management

5 KPMG Corporate Finance did the bulk of the work on commercial due diligence and liaised with all the other advisors throughout the process

What KPMG Corporate Finance provided

- Trevor Allen (Partner, Corporate Finance), Will O'Neill (Director, Corporate Finance) and their team provided a range of services for the transaction and drove the entire commercial due diligence process
  - **Overall:** Childcare in Australia, Summary of key residual risks
  - **Financial:** Key drivers of financial performance, Sensitivity analysis, Potential one-off items, Adjusted earnings, Balance sheet considerations, Cash flow, Working capital
  - **Property:** Property-related matters
  - **Operating:** Licenses, Centre visits, Demographic considerations, Underperforming centres, IT
- KPMG advised the Syndicate on bid price and bid tactics
- In many respects, the commercial deal process that KPMG completed was very similar to other commercial deals. However, there were some complexities that KPMG faced that were unusual:
  - Working with a Syndicate meant multiple stakeholders and sometimes multiple points of view
  - Working with not-for-profits who are generally more conservative than private equity investors
  - Forming a new entity with a structure and governance that all members could agree to
  - Raising the capital, which was much more challenging than most standard commercial deals
- For KPMG, this transaction represented a very significant risk. Staff time costs amounted to over $5m and the upfront fixed fee was only $500k, so they had a lot to lose if the bid were unsuccessful

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KPMG Corporate Advisory was also engaged; the tax team secured a payroll tax exemption, which was the tipping point in making the deal attractive

Commercial Aug

KPMG

Why KPMG Corporate Advisory got involved	• Allen and O'Neill, from KPMG Corporate Finance, proposed that KPMG Corporate Advisory be engaged by the Syndicate as well • KPMG's Corporate Advisory teams would be able to provide the full range of advisory services required • Corporate Advisory were engaged to focus on Due Diligence and tax issues, particularly securing a payroll tax exemption
What KPMG Corporate Advisory provided	• KPMG Corporate Advisory provided a range of services for the transaction – Debt and advisory – Taxation structuring and ruling advice – Overall strategy – Managing other advisors • The most important element was Tax Partner David Linke and his team's work to secure a payroll tax exemption in September since it was a charitable company* – Obtaining tax rulings can be complex and time-consuming – With a deal deadline looming, the KPMG Tax team quickly and efficiently secured the necessary tax rulings in each state and territory as well as at the Federal level – The payroll tax exemption was critical because labour made up such a large proportion of costs. The exemption translated into approximately $20m p.a. uplift in cash flow

* Not all not-for-profit entities may be granted payroll tax exemptions. Only religious institutions, public benevolent institutions and non-profit organisations whose objectives are solely or dominantly for charitable, benevolent, philanthropic or patriotic purposes. Schools, educational institutions, educational companies and instrumentalities of the State are excluded

5

Gilbert + Tobin was engaged in August, having worked with Mission on ABC 2*; G+T provided high-quality legal support, especially on the leases

Why G+T got involved	• Crawford and Traill had known founder and managing partner Danny Gilbert for years. Gilbert believed in GoodStart's purpose and helped to ensure that G+T could provide advice with discounted fees and, in particular, very low upfront fees • G+T Partner Andrew Bullock had also come via another connection: he had worked extensively advising Rob Koczkar at PEP, who brought Bullock on board to work with Toby Hall to support the Mission Australia purchase of 29 ABC 2* centres in January
What G+T provided	• G+T provided the full suite of legal services for the transaction – Incorporation, debt structuring, debt term sheets and commitment letters, intercreditor term sheet, bid letter review – Legal due diligence on leases, employment and regulatory issues – Negotiation, execution and confirmatory due diligence on administrator's contract – Pre-completion deliverables including licences, landlords • G+T were absolutely critical in dealing with the very complex task of negotiating the transfer of hundreds of leases if the Syndicate bought the centres – The Syndicate originally believed that upon purchasing the ABC 1* centres they could simply transfer the leases over – This assumption was incorrect. Instead, each lease had to be negotiated with the 2 major landlords (Austock and Orchard) as well as dozens of smaller private landlords

* The ABC 2 centres were the ~260 centres considered not to be financially viable. In contrast, ABC 1 centres were the ~720 centres considered to be financially viable

5

The issue of whether the leases could be transferred from ABC Learning to the Syndicate was a make-or-break issue

Commercial Aug

Syndicate believed the lease transfer would be straightforward

- Early on in the process, the Syndicate understood the lease transfer to be critical, but were initially under the impression that the transfer would be relatively straightforward
- The Syndicate believed that, for example, if Landlord A lets property to Organisation 1 and Organisation 1 enters receivership and Organisation 2 steps in and is prepared to take on all the same lease terms then you can simply transfer the exact same lease with no fuss
- Furthermore, they believed that this could be enforced in a court of law

Lease transfer turned out to be an extremely thorny issue

- Gilbert + Tobin advised that this was not straightforward and that the landlords of the properties could use this as an opportunity to re-negotiate lease terms
- If GoodStart did not have a signed lease for a particular centre it would not have been able to operate that centre
- Gilbert + Tobin's legal team undertook the task of negotiating the transfer of hundreds of property leases

SVA consulting

5

CHAMP and Koczkar helped manage the advisors and provided advice on price, bid tactics, debt structuring and structuring the completion process

Commercial Sep-Dec

CHAMP PRIVATE EQUITY

Why CHAMP and Koczkar got involved	• CHAMP's David Jones (Managing Director) and Darren Smorgon (Director) knew Traill and had helped conduct preliminary due diligence in early 2009. When formal due diligence began, Traill asked Jones and Smorgon if they would help again • Rob Koczkar (Managing Director, Pacific Equity Partners) knew Toby Hall and had provided pro bono advice to Mission earlier in 2008 around the purchase of 29 ABC 2 centres. Koczkar had knowledge of the business, the Syndicate and the sector. With this Hall thought he would make a valuable addition to the deal team • Each volunteered their time because of a personal belief in the importance of the social issues related to early learning and the potential social impact of GoodStart
What CHAMP and Koczkar provided	• The private equity professionals were involved in the overall integrated deal process. They provided independent advice and were all acting in a pro bono capacity, so had no personal incentive to encourage a high bid just in order to win • CHAMP's Jones and Smorgon helped to coordinate the commercial due diligence. Associate Director Patrick Rodden assisted them to help 'sanity check' key assumptions in the working model. Jones and Smorgon provided advice on key decisions around pricing, debt structuring and business strategy • Koczkar's support mainly consisted of interpreting information and advice from other advisors, providing input on pricing and bid tactics, input on debt structuring and structuring for completion. He worked closely on the deal with the Syndicate's CFOs

5

Hall approached Matt Jones, Managing Director Parker & Partners to provide PR support for the Syndicate during the bid process

Commercial Oct-Nov

Parker&Partners
An Ogilvy PR Worldwide Company

Why Parker & Partners got involved

- Hall knew Matt Jones, Managing Director Parker & Partners, and thought he would be able to provide valuable PR support for the Syndicate during the bid process
- Prior to working in politics, Jones had worked as a journalist and public relations specialist in the community sector

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What Parker & Partners provided

- Jones provided PR advice and support
- The Syndicate was referred to in the press from October 2009 onwards and Jones helped to craft the messages to the press about the nature of the consortium and the intended for-purpose model

5

The Syndicate also received input from Greg Hutchinson, who would later become a non-executive director of GoodStart

Commercial Oct-Nov

Why Hutchinson got involved

- Crawford approached Greg Hutchinson, a senior advisor and former partner/ director of Bain & Company, a leading global strategy consultancy
- Hutchinson was also the founding Chief Executive of The Australian Charities Fund (he was Deputy Chairman at the time) and was a founding director of the Centre for Social Impact
- With his passion for building the links between business and the community, Hutchinson saw an opportunity to use those skills and was keen to provide input

What Hutchinson provided

- Hutchinson leveraged his experience from both the commercial and social sectors
- He worked with the Syndicate members and advisors to help define the strategy pre- and post-acquisition for GoodStart. This included helping to define the commercial strategy and the social impact strategy
- Hutchinson went on to become a non-executive director of GoodStart in 2010

The team defined the commercial proposition

Revenue drivers

Increase occupancy

NFP reputation, improve brand, increase quality

The Syndicate hoped that they could provide stability in comparison to recent times at ABC Learning. The existing reputations of the Syndicate members as social organisations might also appeal to parents and drive enrolments up

Major costs

Reduce labour costs

Payroll tax exemption, more efficient staffing (offset to some extent by increase in pay rates)

A not-for-profit operator could get a tax concession and this would not be available to a for-profit operator

Contents

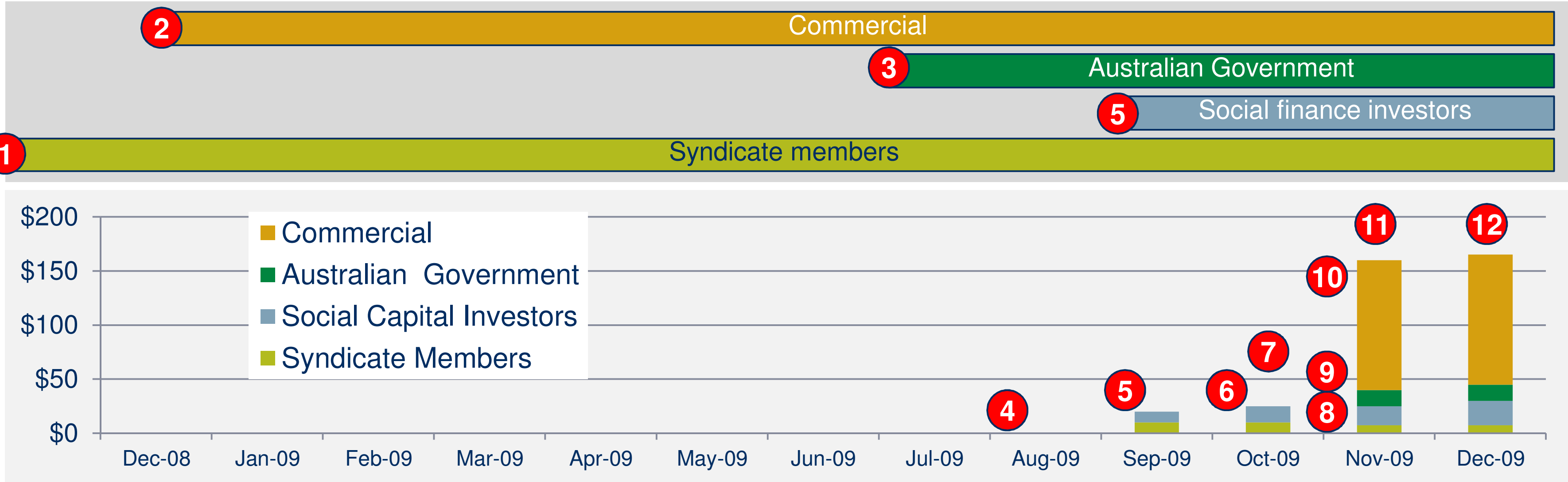
6

Raising the capital and winning the bid
Timeline

Capital timeline

Engaging the Investors

Capital raised $m (including operating finance)



1 **Nov 08**
Initial syndicate members (SVA, BenSoc, Mission) engaged

2 **Dec 08**
Syndicate approached NAB to apply for commercial senior bank debt

3 **Jul 09**
First conversations with Australian Government (DEEWR)

4 **Aug 09**
Syndicate considers mezz debt. Decides not to pursue because of high cost and lack of alignment

5 **Sep 09**
Expression of interest letter prepared and first social finance investors engaged

6 **Sep-Oct 09**
BenSoc, Mission and BSL boards approve $2.5m each for members' subordinated notes

7 **Oct 09**
GoodStart submits non-binding offer $100m for 704 centres

8 **Sep-Nov 09**
Social investors commit and underwrite a total of $22.5m for social capital notes

9 **Nov 09**
Australian Government approves $15m loan

10 **Nov 09**
NAB credit committee approves $120m senior bank debt facilities

11 **Nov 09**
GoodStart submit final binding bid of $90m for 678 ABC 1 centres

12 **9 Dec 09**
GoodStart increase final binding bid to $95m and are announced as preferred bidder

consulting

6

GoodStart secured $95m cash to purchase 678 ABC 1 centres plus $70m for operations; all investors trusted GoodStart and had aligned incentives

Investors

Capital	Provider	Terms	
Senior debt (amortising term facility)	NAB	Secured 5 years 10%	1
2nd ranking secured debt	Aust Govt	Secured 7 years ~6%*	2
Social capital notes	Social investors	Unsecured 8 years 12%	3
Members' sub-ordinated notes	Mission Ben Soc BSL	Unsecured 20 years 15%	4

$70m cash + $10m non-cash

Other #

5	NAB: Portion of above amortising term facility	1
15	NAB: Non-amortising term integration facility	1
15	NAB: Revolving working capital facility	1
35	NAB: Accommodation bond facility	1
10	Members' deeply subordinated notes at 15% (non cash – for advisory services)	5

Key points

- Ranking:
  1 Secured creditor: NAB
  2 Secured creditor: Australian Government
  3 Holders of Social Capital Notes
  4 Holders of Members' Subordinated Notes
  5 Holders of Members' Deeply Subordinated Notes
- Network: Most of the key individuals who invested in GoodStart were already well-known to at least one Syndicate member
- Motivation: Incentives were always aligned between GoodStart and each investor
- Innovation: The social capital notes were a completely new debt instrument. The members' deeply subordinated notes were unusual

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Facilities provided for operations of the new GoodStart entity. That is, not to fund the purchase of the assets from the receiver, but to fund the operations of the new business

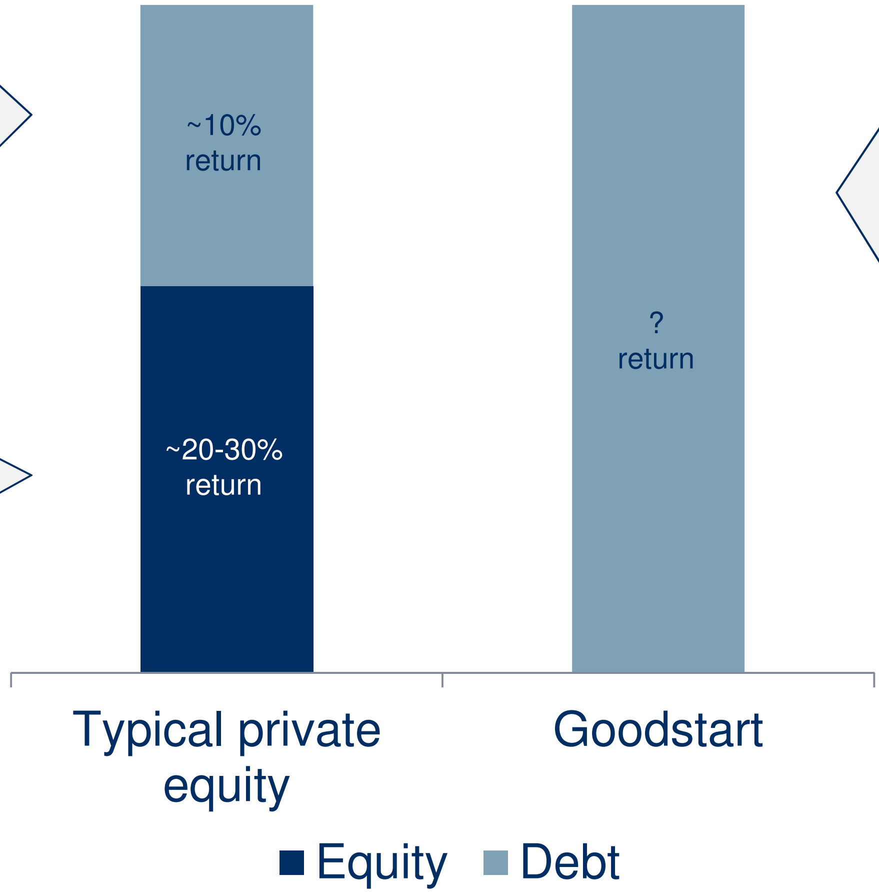
6

It is relatively straightforward for private equity to raise capital; but for GoodStart it proved to be the most challenging part of the deal

Capital Jul

Private Equity firms have good relationships with all the major banks and can secure debt relatively easily in comparison to raising social capital finance

Private Equity firms raise their equity capital in advance and call on it as needed



As a company limited by guarantee, GoodStart needed 100% debt financing

It would be challenging to find investors willing to take on the risk and willing to accept a return that GoodStart could afford

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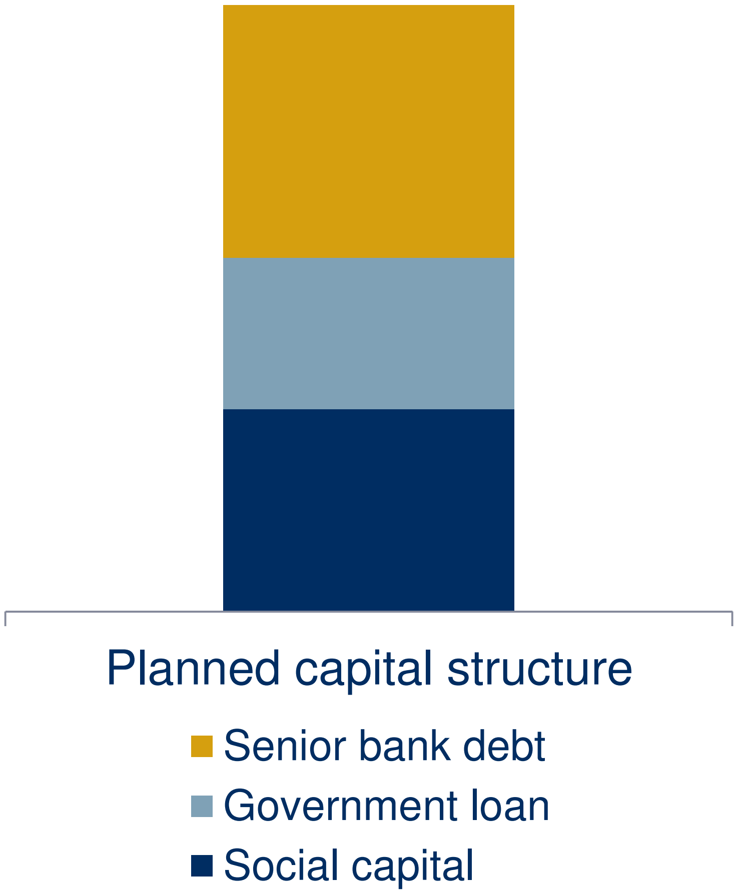
The intention from early on was to obtain normal commercial senior bank debt, then a layer from the government and then a layer of social capital



GoodStart's planned capital structure:

Senior bank debt

- Secured commercial debt with a range of facilities, including an amortising term facility and facilities for operating the business

Government loan

- Unsecured low-interest loan, preferably with a payment holiday at the beginning, on pari passu terms with social finance investors (i.e. rank equally with the other unsecured creditors)

Social capital

- Unsecured notes, with a lower return than equivalent equity in a for-profit entity

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6

The Syndicate approached Michael Ullmer, Deputy CEO NAB, in December 2008 to discuss senior bank debt with a range of facilities

Capital Dec-Nov

nab

Why the Syndicate asked NAB

- The Syndicate approached NAB initially in December 2008. They wanted a major Australian bank as they would be more likely to be able to take on the risk and because having a major bank involved would enhance their ability to raise capital
- Around July 2009 Robin Crawford progressed the conversations with NAB by contacting Michael Ullmer, Deputy CEO at NAB, whom he had known for years. He described ABC's market dominance and the importance of building high-quality early learning given its role in building the right platform for future pathways
- Ullmer has a strong belief in education as a way for people to realise their potential

NAB's decision making process

- For Ullmer personally the social issues mattered. This would address an important community need which aligned very much with the purpose that he believed in
- However, for NAB, it needed to be a legitimate commercial loan. NAB had been exposed to ABC Learning and had existing losses
- Ullmer went to Peter King, Head of Corporate Finance, and asked him to put his best team on it and to run the loan approval process in the standard way, then left them to it (a Chinese Wall, or information barrier, was implemented to separate and isolate Ullmer from the team in case of any conflicts of interest)
- The process was very iterative. King and the Corporate Finance team engaged with KPMG and were involved in discussions regarding structure and sourcing the capital. NAB performed the normal level of diligence and sought the same approval as usual

6

NAB agreed to provide senior debt to the Syndicate because of the people involved, capital structure, tax status and alignment

Capital Dec-Nov

nab

Why NAB said yes

- **PEOPLE**: Crawford, Traill and Syndicate members were trusted and highly respected within social sector and well known for experience in Corporate Finance. Proposed board were high calibre and would govern the venture on a commercial basis. Further comfort from the fact that the advisors were high calibre, including private equity
- **CAPITAL STRUCTURE**: The Australian Government, the Syndicate members and social entrepreneurs were all putting up capital
- **TAX STATUS**: Payroll tax exemption was critical in creating sustainable cash flows
- **ALIGNMENT**: The Syndicate's purpose was aligned to NAB's own social agenda, which is centred on supporting all communities in which they operate, with a focus on activities that build social and economic wellbeing both now and in the future

NAB provided a package of four senior debt facilities worth $120m; the key concession that NAB made was agreeing to a slightly lower interest rate

Capital	Amount	Provider	Secured	Term	Interest rate	Obliged to pay	Principal repayment	Comments
Senior debt (amortising term facility)	$55m	NAB	Secured	5 years	BBSY + 3.25% Paid every 6 months	Yes	31 Dec 10: $3m 30 Jun 11: $3m 31 Dec 11: $4.5m 30 Jun 12: $4.5m 31 Dec 12: $7m 30 Jun 13: $7m 31 Dec 13: $8.5m 30 Jun 14: $8.5m 31 Dec 14: $9m	• Lower interest rate than normal given risk • Low repayments at start, increasing over time • Cash flow sweep applied annually for prepayments (50% of free cash flow) • $50m used to purchase assets. Remaining $5m for operations
Non-amortising term integration facility	$15m	NAB	Secured	5 years	BBSY + 3.50% Paid every 6 months	Yes	Repayable in full on Maturity Date	• To assist with funding the integration
Revolving working capital facility	$15m	NAB	Secured	Subject to annual review	BBSY + 3.25% Paid every 6 months	Yes	Repayable in full on Maturity Date	• To assist with working capital requirements • Balance must be reduced to zero for 5 consecutive business days every 12 months
Accommodation bond facility	$35m	NAB	Secured	5 years	BBSY + 3.25% Paid every 6 months	Yes	Repayable in full on Maturity Date	• A loan to provide for accommodation bonds (being bank guarantees, letters of credit or performance bonds)

- GoodStart would pay interest on all active facilities every 6 months. It would also repay the principal for the amortising term facility over a 5 year period and repay the other principal amounts on maturity
- Concessional pricing: NAB's key concession was that they agreed to use the minimum hurdle rate that they would use for normal commercial lending, despite the transaction's higher-than-normal risk

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Capital Mar-Nov

All syndicate members with significant balance sheets (i.e. not SVA) were asked to each contribute $2.5m for members' subordinated notes

Brotherhood of St Laurence

Mission Australia

benevolent society

How the Syndicate would invest

- Syndicate planned to contribute to the new business in two ways:
  1. $2.5m cash each from members with significant balance sheets (not Social Ventures Australia) – a small part of the financing requirement
  2. Non-cash: All members would provide ideas, execution, reputation, credibility and a structure which brings ongoing tax advantages

Members' decision making process

- Each Syndicate member organisation sought authorisation from its own board in October-November to proceed and to approve a final bid
- The decision making process was relatively straight forward for the boards of Social Ventures Australia, Mission Australia and The Brotherhood of St Laurence
- The board of the Benevolent Society had some debate before approving their participation and investment

Why members said yes

- **ALIGNMENT**: Each of the Syndicate members believed first and foremost in the enormous potential for social impact that GoodStart could have. The objective of improving early childhood education and social inclusion in Australia was wholly aligned to the missions of each organisation
- **RETURN**: The Syndicate members also saw the potential for a financial return from investing. If it were successful, there was the potential for a return of $750k p.a. for BenSoc, Mission and BSL and $375k p.a. for SVA (who had deeply sub notes only)

6

3 syndicate members invested $7.5m cash in members' subordinated notes and all 4 invested $10m non-cash in members' deeply subordinated notes

Capital Mar-Nov

Capital	Amount	Provider	Secured	Term	Interest rate	Obliged to pay	Principal repayment	Comments
Member's sub-ordinated notes	$7.5m	Mission BenSoc BSL	Unsecured	20 years	15% Paid annually	No	Bullet repayment at the end of the term	• GoodStart can elect to defer payment if it has insufficient FCF after all amounts payable to secured creditors and it has deferred interest payable to other unsecured creditors
Members' deeply subordinated notes	$10m NON-CASH	Mission BenSoc BSL SVA	Unsecured	20 years	15% Paid annually	No	Bullet repayment at the end of the term	• Non-cash. For advisory input • GoodStart can elect to defer payment if it has insufficient FCF after all amounts payable to secured creditors and it has deferred interest payable to other unsecured creditors

- The two types of members' notes carried relatively high risk (ranking below the senior debt, below the Government loan and below the social capital notes) and GoodStart had no obligation to pay
- Total possible return *if GoodStart elects to pay interest on the notes*:
  - **Mission** = $750k p.a. (15%*$2.5m subordinated notes + 15%*$2.5m deeply subordinated notes)
  - **BenSoc** = $750k p.a. (15%*$2.5m subordinated notes + 15%*$2.5m deeply subordinated notes)
  - **BSL** = $750k p.a. (15%*$2.5m subordinated notes + 15%*$2.5m deeply subordinated notes)
  - **SVA** = $375k p.a. (15%*$2.5m deeply subordinated notes)

6

Capital Jul-Nov

Traill and Nicholson approached the Australian Government to ask for a loan

Australian Government
Department of Education, Employment and Workplace Relations

Why the Syndicate asked the Australian Govt

- Prior to ABC Learning going into receivership, on 24 Sep 2008 Julia Gillard, the then Federal Education Minister, established a childcare industry taskforce, lead by the DEEWR. The taskforce consisted of experts in schools, childcare, education, finance, asset failures etc.
- The Syndicate believed that the Government's objectives were aligned with their own: to ensure continuity of services and to improve quality and inclusion

The Australian Govt's decision making process

- Traill and Nicholson began talking to the Australian Government in July. By August it was clear that the partners could be brought together and attract high-quality advisory support
- Following a meeting in August 2009, DEEWR then worked directly with G+T, KPMG and their own legal advisors to perform the necessary diligence whilst engaging with other key government agencies

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6 The Australian Government provided a loan worth $15m allowing most of the principal to be repaid in later years

Capital	Amount	Provider	Secured	Term	Interest rate	Obliged to pay	Principal repayment	Comments
2nd ranking secured debt	$15m	Australian Govt	Secured	7 years	~6%* Paid annually	Yes	Yr 1: nil Yr 2: $1m Yr 3: $1m Yr 4: $2m Yr 5: $2m Yr 6: $4m Yr 7: $5m	• Low interest rate (Govt cost of capital) • Low repayments at start, increasing over time

- GoodStart would pay interest on the loan every year
- Recognising that GoodStart might take some time to turn the business around and generate surplus cash flow, the terms of the loan allowed GoodStart to repay small amounts of the principal in the early years and repay most of the principal in the later years

* Interest rate is mid-rate of the market yields for Treasury Fixed Coupon Bonds that mature after the end of the Term as published by RBA / Reuters closest to the date and time the loan agreement is entered into

6

In August the Syndicate were uncertain how they would raise enough capital to win the bid so they briefly contemplated accessing mezzanine debt

Capital Aug

Why the Syndicate sought mezzanine funding

- By August the Syndicate had no firm commitments on capital:
  - BenSoc, Mission and BSL boards had not yet approved members' capital contributions
  - The Australian Government had not yet provided any commitment around a loan
  - The Syndicate had not finalised the social capital note structure and had not approached potential investors yet
  - The NAB commercial debt application was only just being submitted
- The Syndicate therefore contemplated accessing a tranche of mezzanine debt, which would be unsecured and subordinated with a relatively high cost of capital (~18%)
- The Syndicate approached a mezzanine financier to find out terms. The financier was not prepared to give the Syndicate any discounted rates for being a NFP syndicate

Members' decision making process

- The Syndicate and the advisors weighed up two major factors
  1. Would they be able to service the debt via the free cash flow that the business would generate?
  2. Would they be able to raise sufficient capital via alternative channels?

Why members said no

- Based on the advisors' models it was uncertain whether they could service the debt
- They believed they could raise sufficient capital via government and social investors
- The Syndicate's preference was to have senior debt and then for the remainder to be provided by investors who desired a social *and* commercial return

6 From September, Traill and Crawford approached more than150 high net worth individuals, philanthropists and foundations to invest in social capital notes

Capital Sep-Nov

Why the Syndicate asked the people they did

- The Syndicate created a new debt instrument – a social capital note. After some debate about rates, they settled on 12%
- Traill and Crawford approached individual investors (philanthropists, high net worth individuals and foundations) with whom they had personal connections and high trust and whom they knew would see the huge potential for social impact if GoodStart were to win

Social investors' decision making process

- The social investors all made their decisions differently; individually, with their spouses or fellow foundation directors, quickly or over several weeks. Most asked themselves:
  - Will this business be successful?
  - Will GoodStart *also* be able to achieve the social impact it aspires to?
  - Should I forego a portion of the normal return I would typically receive for this risk level

Why 41 said yes

- **PEOPLE**: Almost all investors knew Traill and/or Crawford, trusted their business judgment and were assured by the fact Traill and Crawford had invested themselves. Crawford's significant under-writing commitment of $5m and role as Chair was pivotal
- **ALIGNMENT**: The investors believed in the aim of improving quality and inclusion

Why >100 said no

- **STRUCTURE**: Many potentials thought about commercial investments differently and separately to their philanthropic donations and the notes did not fit either criteria
- **LACK OF ALIGNMENT**: Some potentials had other causes as their priorities

6

Capital Sep-Nov

41 social investors invested a total of $22.5m in social capital notes

Capital	Amount	Provider	Secured	Term	Interest rate	Obliged to pay	Principal repayment	Comments
Social capital notes	$22.5m	Social investors	Unsecured	8 years+	12% Paid annually	No	Bullet repayment at the end of the term	• GoodStart can elect to defer payment if it has insufficient FCF after all amounts payable to secured creditors and it has deferred interest payable to other unsecured creditors

- The social capital notes carried relatively high risk and GoodStart had no obligation to pay
- Total possible return *if GoodStart elects to pay interest on the notes.* For example:
  - **For a $1m investment *** → $120k p.a. interest (12%*$1m social capital note)
  - **For a $50k investment *** → $6k p.a. interest (12%*$50k social capital note)

* Note that minimum investment was initially $100k. This was later lowered to $50k

6

The Syndicate engaged KPMG Corp Fin in July, who supported the submission of a non-binding indicative offer of $150-170m in August

Capital Jul-Aug

1 Non-binding indicative offer | 2 Non-binding offer | 3 Binding offer | 4 Final binding bid | 5 Preferred bidder announced

Bid process

- The Syndicate engaged KPMG Corporate Finance (Trevor Allen and Will O'Neill) in July in preparation for submitting an indicative offer in August

- The Syndicate and advisors considered the value of ABC 1 to an alternative bidder. A for-profit operator would not get any tax advantages that GoodStart would get, which reduced the bottom line. This payroll tax exemption was *absolutely critical* to the deal and would be make-or-break for the Syndicate
- This and a few other factors brought down the estimated value to a for-profit bidder. The Syndicate reasoned that a for-profit operator would have a bottom line of ~$30m so with typical multiples of 5-6x the maximum they would pay would be ~$150m

- The Syndicate submitted a reasonably high indicative offer of $150-170m to UBS to ensure that they proceeded to the next stage

GoodStart were invited to proceed and formal commercial due diligence began in October

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6

In October the Syndicate were invited to submit a non-binding offer; they submitted offers of $100m for 704 centres or $120m for 590 centres

Capital Oct

1 Non-binding indicative offer | 2 Non-binding offer | 3 Binding offer | 4 Final binding bid | 5 Preferred bidder announced

Bid process

- As the deal team conducted formal due diligence they began to uncover more and more issues, particularly with so-called viable centres that turned out to be unprofitable. So their estimate of the value of the business had come down
- In October the Syndicate submitted two non-binding offers to UBS:
  - $100m for 704 ABC 1 centres
  - $120m for 590 ABC 1 centres
- The business would be more valuable to the Syndicate if they could take ownership of only the 590 most profitable centres, rather than with the 704 centres that included some that were not very profitable or were even unprofitable
- The Syndicate received a response from UBS that they were through the initial round

6 In November binding offers were due to UBS and the Syndicate submitted a bid of $90m for 678 ABC 1 centres

1 Non-binding indicative offer → 2 Non-binding offer → 3 Binding offer → 4 Final binding bid → 5 Preferred bidder announced

Bid process

- Binding offers were due to UBS (who were running the sale process) in early November 2009
- The receiver had indicated that it was their preference to sell the majority of the ABC 1 centres to one bidder, rather that to sell them off in smaller parcels

- GoodStart decided to submit a bid for the majority of the ABC 1 centres
- They submitted a bid to UBS of $90m for 678 ABC 1 centres. The purchase capital was committed from the following sources:
  - $50m NAB senior debt
  - $15m Australian Government loan
  - $17.5m social capital notes
  - $7.5m members' subordinated notes

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6

GoodStart submitted the final binding offer of $95m for 678 centres in November

Capital Nov

1 Non-binding indicative offer | 2 Non-binding offer | 3 Binding offer | 4 Final binding bid | 5 Preferred bidder announced

Bid process

- In late November 2009, 2 weeks before the preferred bidder was due to be announced, UBS and the receiver came back to the Syndicate and told them that they would need to raise their final binding offer to $95m
- This would mean raising an additional $5m in 2 weeks
- The Syndicate were concerned about raising the additional money, especially Traill and Crawford, who had done most of the capital raising. NAB, the Australian Government and the Members would not be able to contribute any more capital. Therefore the extra money would all have to come from social investors
- Traill and Crawford approached more investors and secured commitments (including underwriting commitments) of the extra $5m
- GoodStart then submitted a final binding bid of $95m for 678 ABC 1 centres
- *Traill did not want to draw down on the underwriting commitments that had been made by some of the larger social finance investors. So, he continued to approach people to invest in social capital notes during Jan, Feb and Mar 2010. In the end GoodStart secured $22.5m of social capital required for the purchase*

On 9 December 2009 GoodStart were announced as the preferred bidder

1 Non-binding indicative offer → 2 Non-binding offer → 3 Binding offer → 4 Final binding bid → 5 Preferred bidder announced

Bid process

- On 9 December 2009 GoodStart were announced as preferred bidder with intent to sign contract pre-Christmas and financial close by February 2010

Completion

- Due to the complexity with the leases, there was a risk that not all centres would be transferred to GoodStart. It was likely that the transfer would take quite some time
- Therefore, GoodStart's bid outlined a completion schedule that ensured that GoodStart would not have to pay the receiver monies until the receiver had transferred ~70% of the centres, at which point it would pay ~30% of the purchase price
- This inverse transfer / payment schedule continued to provide incentive for the receiver to transfer all centres and to ensure that GoodStart did not have to pay full price without having all the centres under its control

6

The successful completion of the transaction created GoodStart, which at the time was the largest social enterprise in Australia

- In 2010, when the deal was closed, GoodStart became the largest social enterprise in Australia

- The GoodStart transaction is a case study that demonstrates how a very complex social investment deal can be done with multiple stakeholders in a relatively short period of time

- BSL Vice Chair, Mike James, believes that 'the "real deal" was to unite many very disparate sectors/interests (investment banks, financiers, deals advisors, government, NFPs, philanthropists etc.) to achieve what might be considered as the iconic "Social Enterprise" in Australia if not beyond'[1]

[1] Mike James during interview for this document, March 2012

9

Acknowledgements

Name	Organisation
Andrew Bullock	Gilbert & Tobin
Robin Crawford	GoodStart
Toby Hall	Mission Australia
Les Hems	Centre for Social Impact
Mike James	Brotherhood of St Laurence
David Jones	Better Place (Formerly CHAMP)
Jane-Frances Kelly	Grattan Institute
Peter King	National Australia Bank
Rob Koczkar	PEP
Ian Learmonth	Social Ventures Australia
Michael Manthorpe	Department of Education, Employment and Workplace Relations
Rob McLean	Formerly Social Ventures Australia
Tony Nicholson	Brotherhood of St Laurence
Will O'Neill	KPMG
Daniel Owen	Department of Education, Employment and Workplace Relations
Kevin Robbie	Social Ventures Australia
Carol Schwartz	Social Investor
Darren Smorgon	CHAMP
Richard Spencer	Formerly The Benevolent Society
Evan Thornley	Better Place (Formerly Victorian State Parliament)
Michael Traill	Social Ventures Australia
Michael Ullmer	National Australia Bank
Rowan Webb	Formerly ABC Learning management