

Curro Holdings Limited

South Africa Corporate Analysis

May 2017

Rating class	Rating scale	Rating ^o	Rating outlook	Review date
Long term	National	BBB _(ZA)	Stable	May 2018
Short term	National	A3 _(ZA)		

Financial data:

(USD 'm Comparative)

	31/12/15	31/12/16
R/USD (avg.)	12.77	14.71
R/USD (close)	15.54	13.74
Total assets	305.5	501.7
Total debt	102.3	120.1
Total capital	176.9	330.1
Cash & equiv.	14.8	51.4
Turnover	108.4	119.7
EBITDA	22.9	26.3
NPAT	7.2	11.3
Op. cash flow	12.7	27.4
Market share		n.a
Market cap.*	R18.1bn/USD1.3bn	

* As at 22/05/2016 at R13.25/USD.

Rating history:

Initial rating (May 2013)

Long-term: BBB_(ZA)

Short-term: A3_(ZA)

Rating outlook: Stable

Last rating (May 2016)

Long-term: BBB_(ZA)

Short-term: A3_(ZA)

Rating outlook: Stable

Related methodologies/research:

GCR's criteria for rating corporate entities, updated February 2017

Curro Holdings Limited ("Curro") issuer rating reports, 2013-16

Curro Secured Bond New Issuance and Surveillance Reports, 2013-2016

GCR contacts:

Primary Analyst

Sheri Few

Senior Analyst: Corporate Ratings

few@globalratings.net

Committee Chairperson

Eyal Shevel

Sector Head: Corporate Ratings

shevel@globalratings.net

Analyst location: Johannesburg, ZA

Tel: +27 11 784 – 1771

Website: <http://globalratings.net>

^o The ratings accorded herein relate to Curro's ability to service its own debt, and exclude an assessment of its ability to service legally ringfenced debt.

Summary rating rationale

- The ratings take cognisance of Curro's well entrenched brand, being a market leader in the basic private education sector. The strength of the management team and well-defined investment strategy has seen the group consistently deliver on its ambitious expansion targets, leading to it becoming the largest listed private school operator in South Africa over a relatively short period.
- Curro has successfully increased student enrolments, registering a 5-year CAGR of 31%, while simultaneously escalating tuition fees, indicating strong pricing power for its products. The rising capacity utilisation at each school is margin accretive, with the EBITDA margin trending higher YoY to reach 22% in FY16, from 15% in FY12. With additional student capacity still to be filled, as Curro has only utilised 52% of eventual capacity at present, this indicates significant potential future margin progression and cash flows.
- Debt has risen moderately over the past two years, with the large capex requirements largely funded by strong shareholder support, with a substantial R1.7bn raised in FY16 alone, bringing the cumulative total to R4.2bn over the last five years. Together with strengthening cash flows, gross gearing levels have eased notably from historic highs, and are even more conservative on standalone basis (excluding the legally ringfenced Meridian operations). With no intermediate capital injections planned, Curro is projecting a large debt draw down in FY17, although credit protection metrics are expected to trend within acceptable ranges.
- Strong cash generation has been reflective of the strong earnings trajectory over the review period. Continued growth in operating cash flows will be imperative in view of the forecast ramp up in leverage to maintain sound debt service coverage.
- Curro currently displays limited earnings diversification, as its schools division dominates overall performance and its small tertiary business (which has promising growth dynamics) is to be spun-out of the group shortly. The stratification within the school base across income brackets does, however, aid in insulating cash flows.
- Curro is well positioned to benefit from the strong and growing baseline demand for affordable quality basic private education, as its school brands are largely targeted at servicing the growing middle class. However, as new participants infiltrate the lower-fee schools segment in view of the perceived lucrative for-profit education business model, this could lead to increasing competition for students over the medium term.

Factors that could trigger a rating action may include

Positive change: Positive rating uplift is likely if Curro were to achieve its targets over the medium term. This should translate into stronger cash generation that could be available to increasingly fund growth internally.

Negative change: Negative rating action could be considered if business fundamentals deteriorate abruptly, leading to a weaker operating performance and cash flows, or if the company were to pursue significant additional borrowings beyond the current plan, which places credit protection metrics under pressure.

Business profile and recent developments

Founded in 1998 as a single school, Curro became a subsidiary of PSG Financial Services Ltd (“PSG”) in 2009 and listed on the JSE in 2011. Largely with PSG’s financial backing and strong corporate support, Curro has grown rapidly into the largest for-profit private school operator in South Africa. The group offers educational services ranging from play school to high school level, whilst its higher education subsidiary acquired in FY12, Embury Institute for Teacher Education (Pty) Ltd (“Embury”), focuses on teacher education and study courses.

Embury forms an important building block in respect of the group’s longer-term growth aspirations to expand its tertiary offering. In this regard, a new larger Durban campus is being developed to accommodate 2,600 learners in 2018 from 1,273, whilst two newly developed campuses will open in Midrand in 2018 and in Pretoria during 2017 that can enroll up to 1,600 and 1,000 students respectively. Plans are to open a further tertiary institution in the Western Cape for over 3,000 students in the next 2-3 years, whilst progress is underway in terms of developing and accrediting several new courses, diplomas and degrees (which will include BSc, BCom and BA degrees) that can be offered across the tertiary platform. While the acquisition of a 50% stake in BA Isago University in Botswana, which operates four campuses and has a student population of more than 4,000, was announced in FY16 it has subsequently been put on hold post year-end. In order to deliver on the strong growth prospects within the tertiary space and in view of the different resources and infrastructure requirements, Curro plans to unbundle its tertiary-education business and list it separately on the JSE later this year. Accordingly, school operations are currently being run separately from the higher-education business, with respective management changes undertaken to ensure the continued smooth operation of each. Most notably, Curro founder Dr Chris van der Merwe, having served as CEO since 1999, will step down effective 1st July 2017 and become a non-executive director and strategic advisor to Curro. He will also serve as the non-executive chairperson of the new tertiary entity.

Having started with just 2,059 learners in FY09, Curro reported just over 47,500 learners in January 2017, which has been supported by the rapid ramp-up in its school portfolio largely through developments, followed by several acquisitions. During FY16, Curro added seven new campuses to total 49, which included four new builds and the acquisition of Windhoek Gymnasium (Namibia), Building Blocks schools and St Conrad’s College. This is in line with management’s intent to develop roughly 7 new campuses a year, supplemented by one to two acquisitions, in order to stay on track to meet its longer term objective of 80 campuses by 2020. For FY17, R600m has been earmarked for the development of six new campuses and R800m for expansion of existing campuses, with total capital spend projected at R1.8bn. This is similar to the R1.7bn spent in

the prior year, which came in under projections of R2bn, as some land banking opportunities did not materialise and delays experienced in the extension of the Durban Embury campus. Unlike historic years of large equity backings, funding is expected to originate from internal cash and debt for FY17. Overall, Curro started FY17 with 54 campuses, which include the two new Embury campuses, two Curro Academy and one Curro campus that have opened.

	FY12	FY13	FY14	FY15	FY16	Jan-FY17
Campuses (#)	22	26	32	42	49	54
Schools (#)	61	72	80	101	115	127
Learners (#)	12,473	21,027	28,737	35,970	43,183	47,589
Teachers (#)	1,151	1,593	1,905	2,339	2,595	2,734
Capital invested (R'm)	782	1,076	1,305	1,030	1,700	n.a
- Existing campuses	223	602	651	646	571	n.a
- New campuses	237	242	482	369	649	n.a
- Acquisitions	322	232	172	15	266	n.a
- Embury	-	-	-	-	214	n.a

Corporate governance and shareholding

PSG continues to control a major stake in the business, although the dilutionary impact of the last share issues is reflected in the 56.1% shareholding at FY16, compared to 58.3% the prior year. Thembeke Market Holdings (the group’s BEE partner) continued to own the next largest stake at 5.3% (FY15: 6%), followed by a new uptake by Coronation Ltd of 5%.

Curro’s corporate governance is managed in accordance with the King Report on Corporate Governance for South Africa (King III). Since listing the group has complied with all material aspects, and where not in compliance reasons for deviation are clearly explained. As previously indicated, the board composition is set to change during FY17, with six non-executive directors (the majority still independent) and three executive directors.

Description	Findings
Number of Directors	9
Directors - executive	4
- non-executive	1
- independent	4
Separation of the chairman	Yes, Chairman is separated from CEO and is independent.
Frequency of meetings	Five meetings per year.
Board committees	2; Audit and Risk, and Remuneration.
Internal control & compliance	Yes, outsourced but reports to Audit & Risk committee.
External auditor	Deloitte & Touché

Operating and regulatory environment

The independent private school sector continues to operate with a fair amount of autonomy, but has to comply with certain mandates under government regulations. However, note is taken of the continuous engagement with the Department of Education (“DoE”) in terms of improving delivery and standards across the entire education system.

Demand for private schools remains strong in view of deteriorating public education standards coupled with

backlogs in the provision of schooling infrastructure. Other factors that may influence demand for private schooling include the facilities, location, cultural activities, student to teacher ratios, faith-based education, as well as the history and prestige associated with the schools. While many parents seek this avenue of education for their children, costs can be a hindrance. Thus, mid-fee and lower-fee private schools are well positioned to benefit from the burgeoning middle class who can afford some form of private schooling. This has been a strong catalyst behind learners converting from public schools to private schools, as well as learners already in the private system migrating to more affordable ones. Furthermore, even in an economic environment which has placed increased pressure on households' finances, private institutions continue to maintain a strong baseline of demand, as education is considered a propriety in most household budgets and the LSM's catered for are generally more resilient.

	Public	Independent
Schools		
2013	24,136	1,584
2014	24,060	1,681
2015	23,905	1,786
2016	23,719	1,855
Learners		
2013	11,975,844	513,804
2014	12,117,015	538,421
2015	12,248,279	566,194
2016	12,342,213	590,352
Educators		
2013	391,829	33,194
2014	390,608	34,482
2015	379,613	36,480
2016	381,394	37,219

Source: Department of Basic Education, School Realities 2016, 2015, 2014 and 2013.

In the context of the greater schooling education system, the private school market remains comparatively small and highly fragmented, with most schools being limited in size and predominantly not-for-profit (around 90%). This is partially a function of the high-barriers to entry in terms of the cost of acquiring or developing a school. Private schools are inherently capital intensive, requiring a significant upfront investment to acquire or develop a school and sizeable fixed operating costs. Nonetheless, competitive pressures continue to exist and increase, with new entrants utilising different delivery platforms, particularly in the online area, which require lower costs translating to lower fees charged. An increasing number of traditional private school operators are also implementing models that are scalable, which has aided in a level of cost containment.

The major for-profit private school groups in the sector include Curro, AdvTech and the unlisted Reddam House, which provide franchised brands catering to different markets in terms of the price and level of education. These players have been aggressive in their expansion plans in order to entrench their dominance in the market. Continuous evaluation and expansion of their respective product offerings will be key to take advantage of growth opportunities in the market in an effort to sustain their leadership positions.

The dynamics in the public tertiary education space point to a large gap in upskilling opportunities that private institutions can also leverage. There is rising demand for quality, higher education amidst rapid urbanisation and technological advances, deteriorating public institutions due to limited funding and oversight, as well as flight of intellectual capital from state universities. Furthermore, market statistics available show a rapidly rising number of university-eligible graduates, however, there is limited space available in government institutions. Thus, the current demand supply dynamics favour private intuitions, with only several accredited facilities operating in South Africa at present.

Operations

	FY13	FY14	FY15	FY16	Jan-FY17
Curro	22	25	33	40	41
Curro Academy	0	0	2	2	4
Meridian	3	6	6	6	6
Embury	1	1	1	1	3
Total	26	32	42	49	54

Curro delivers its core schooling services through five branded models, aimed at different sub-segments of the domestic private school market. These are listed below:

- The *Curro Select* brand is the group's premium offering, and consists of established campuses in convenient locations for high-income parents. Fees at these schools average R5,000/month, with a wide variety of academic, sport and cultural offerings.
- *Curro* schools accommodate learners from age 3 to grade 12 and offer adequate sport & cultural activities and IEB examinations at a matric level. School fees are moderately priced, averaging R3,700/month.
- The eight *Meridian* branded schools represent the most affordable offering, reporting larger class sizes (35 per class vs. a maximum of 25 for most Curro schools) and lower fees (R1,500 to R2,500 per month). It is noted that capital for this venture has been provided by Old Mutual Assurance Group South Africa (Pty) Ltd ("Old Mutual") and the Schools and Education and Investment Impact Fund of South Africa ("SEIIFSA"). As such, Meridian operations (although consolidated into Curro's results) have been ringfenced from the rest of the group through two companies, namely Campus and Property Management Company (Pty) Limited ("CAPMAC") and Meridian Operations Company NPC (RF) ("MoP"), with their funders having no recourse to other Curro operations.
- With the funding agreement with Old Mutual reaching an end, and given the popularity of the Meridian schools, the group launched a similar offering in 2015, namely the *Curro Academy* brand. Fees are also around R1,500 to R2,500 per month.
- The *Curro Castle* schools are nursery schools, accommodating learners from 3 months to 5 years. Fees average R3,200/month.

	FY13	FY14	FY15	FY16	FY17
Curro	18,826	21,548	24,361	29,112	33,158
Curro Academy	0	0	990	1,633	3,796
Meridian	1,401	6,389	9,797	10,279	9,657
Embury	800	800	822	840	978
Total	21,027	28,737	35,970	41,864	47,589

*Reflected as at start of year school year.

A granular review of past performance shows steady progression in student numbers. Going forward, enrolments are projected to grow at a compound rate of 14% p.a. to reach 80,000 at the start of 2021, supported by Curro's strong reputation in providing affordable quality education. Curro's curricula are standardised and the group operates its Curro Centre for Educational Excellence ("CCEE") to ensure high educational quality across the schools. IEB examinations are offered at all of the schools, with the exception of Meridian and Curro Academy schools, where the DoE examination for a national senior certificate ("NSC") is written.

	IEB		NSC	
	FY15	FY16	FY15	FY16
Learners	724	877	708	773
Pass rate	99%	99%	98%	93%
University exemption	82%	83.6%	89.6%	79.1%
Average > 60%	69%	70%	43%	29.6%

To further enhance the attractiveness of its campuses to learners, Curro has continuously invested in its supporting school facilities, covering areas such as sport activities, information systems, mobile device management, and business intelligence (amongst others). The pricing of its schools also caters for students from various socio-economic backgrounds, insulating cash flows from the vagaries of a weak/slowing economy.

	Campuses (#)	EBITDA margin (%)*			Capacity utilisation (%)		
		FY14	FY15	FY16	FY14	FY15	FY16
Developed	33	23	23	27	43	40	42
<=2009	3	28	28	29	78	84	88
2010	2	25	29	33	62	66	69
2011	6	19	23	26	42	45	47
2012	2	17	23	25	47	48	53
2013	4	32	38	41	45	50	59
2014	4	(32)	2	2	12	19	22
2015	8	-	(13)	13	-	20	31
2016	4	-	-	(2)	-	-	10
Acquired	16	30	33	30	72	75	73
<=2012	8	36	38	36	68	72	72
2013	2	29	30	28	74	75	71
2014	2	12	28	29	82	84	85
2015 & 2016	4	-	17	19	-	81	69
Total	49	26	28	29	50	50	52

* EBITDA is stated on a per school level and prior to head office charges.

Curro's underlying profitability is driven by capacity utilisation in its schools, which in turn is dependent on the maturity of the school. As the schools mature over time with more students attending, profit margins rise as very little additional capital investments and operating expenses are required. Furthermore, once enrolments have occurred and the school year has begun, revenue and earnings are highly predictable, as limited student attrition tends to occur during a year. As at FY16, Curro utilised 70% of its built capacity and 52% of eventual

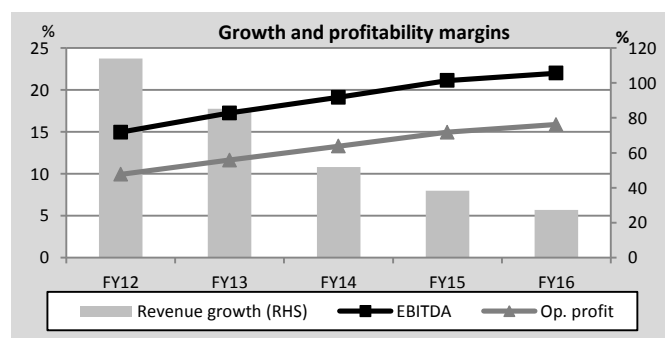
capacity, indicating significant scope to expand margins just on its existing premises. For new builds, initial profits are squeezed as depending on the pace of the student ramp-up phase, it could take as long as 3-4 years to reach break-even utilisation capacity of 20-30%. For mature schools, generally having been in operation for five to eight years, EBITDA margins can trend between the 30%-40% range if utilisation reaches at least 75%. Thus, acquisitions in particular have been important in balancing the ratio of mature and highly cash-generative schools in Curro's portfolio against newly-developed schools, adding critical mass to the business in terms of learner numbers and profitability.

Potential margin progression is further augmented by Curro's business model, which leans more towards its branded schools, which attract a higher price point and thus filter through to the bottom line. Currently, 51% of its learner base sits in the R2,200 to R4,400 fee bracket. The percentage fee increases that can be passed through each year depends on a range of factors, such as the external market environment and the target market for each brand. On an average weighted basis, Curro's school fees have escalated around 10% per annum, indicating strong pricing power. Nonetheless, Curro currently displays limited earnings diversification, as its schools division dominates revenues and overall performance.

Financial performance

A five-year financial synopsis appears at the end of this report, while brief commentary follows below.

Curro has achieved a five-year CAGR rate of 60% in respect of revenue, which underpinned the rapid advance of turnover to R1.8bn in FY16, from just R166m in FY11. Performance is backed by the unrelenting rollout of new campuses and strong growth in enrolment YoY. Tuition fees dominate the revenue base, at 85%, with ancillary fees stemming from aftercare centres, cafeterias, school transport and boarding facilities. Margins continue to strengthen on the back of economies derived from a rapidly expanding portfolio, as the group's costs are mainly fixed (with salaries comprising 70% of expenses). As such, the operating margin was reported at a higher 16% in FY16 (FY15: 15%), which saw operating profit rise from R207m in FY15 to R280m in FY16. Despite the tough economic climate, net bad debts as a percentage of revenue remained flat 1% in FY16.



The build-up in debt levels from FY12 is reflected in the upward progression in finance charges. That said, Curro's net finance charge was left relatively unchanged at R121m in FY16 (FY15: R125m), as total debt stabilised and the group benefited from interest on higher cash balances. Against robust operating profits, debt serviceability metrics improved somewhat, with gross interest cover reported at a higher 1.6x (FY15: 1.4x) and net interest cover at 2.3x (FY15: 1.7x). Curro has hedged approximately 70% of its standalone interest rate exposure (excluding Meridian), with the notional amount of the interest rate hedge amounting to an unchanged R513m. FY16 NPBT of R214m was well ahead of the previous high of R115m, with the past two financial years demonstrating sustainably higher earnings compared to historic years. As a result, the tax charge doubled to R48m, equating to a NPAT of R166m (FY15: R91m).

Table 8: Financing costs (R'm)	FY12	FY13	FY14	FY15	FY16
Gross finance costs	33.7	55.0	96.7	152.5	179.7
Finance income	(1.5)	(3.8)	(11.9)	(27.4)	(58.5)
Net finance charges	32.2	51.2	84.8	125.1	121.2
<i>Finance charges capitalised</i>	<i>17.0</i>	<i>28.8</i>	<i>29.8</i>	<i>34.7</i>	<i>52.3</i>
Gross interest cover (x)	1.1	1.4	1.4	1.4	1.6
Net interest cover (x)	1.1	1.5	1.6	1.7	2.3
Adj. net interest cover (x)*	2.3	3.4	2.4	2.3	4.1
EBITDA : net interest (x)	1.1	2.2	2.3	2.3	3.2
EBITDA : adj net interest (x)*	3.5	5.1	3.5	3.2	5.6

* After deducting capitalised interest.

Cash flow

Cash generated by operations trended closely with EBITDA over the years under review period, reflecting robust cash conversion. Cash generated by operations increased by 31% to R400m in FY16. The group typically reports working capital releases mainly related to its fee payment cycle and construction pipeline. FY15, however, registered an atypical working capital absorption of R44m, owing to a R56m reduction in payables as a result of a delayed contractor payment from F14. After accounting for reduced interest paid, Curro's operating cash inflow more than doubled to a review high of R400m in FY16.

Capex over the five years to FY16 amounted to R4.7bn, mostly attributable to expansionary activities in relation to land purchases and the construction of new schools. The group has largely relied on shareholder support to fund its investment for future growth. With a cumulative R4.2bn net cash inflow having come from equity issuances since FY12 (R1.7bn thereof in FY16 alone), moderate debt increases have been required over the past two years. Given excess cash flow over current year requirements, Curro reported a decrease in net debt for the first time over the review period of R426m, closing the year with a higher R706m in cash on balance sheet (FY15: R231m). For the present, the dividend moratorium continues, although management has indicated that a maiden distribution could be made for year-end FY18.

Funding and liquidity profile

Curro's asset base has grown steadily, and is anchored by fixed infrastructure, which accounted for 82% of the balance sheet at FY16 (FY15: 90%). Cash accounted for a higher 10% at FY16 (FY15: 5%), as equity raised overshot capex needs for the year, although will be utilised in FY17. Marked capital accumulation seen since listing has largely derived from successive rights issues YoY. For FY16, Curro raised R1.7bn in equity funding largely via a R1.1bn rights issue (fully underwritten by PSG) and two private placements, bringing shareholders funds to total R4.5bn in FY16 (FY15: R713m). According to management, further equity raises are unlikely over the short term.

Table 9: Debt profile (R'm)	FY15	FY16
DBSA	158.4	152.6
ABSA	35.9	34.1
Std. Bank	528.2	491.9
Nedbank	0.3	0.2
Sanlam	n.a.	100.0
Various	13.2	1.6
DMTN	275.0	278.9
<i>Sub-total</i>	<i>1,011.0</i>	<i>1,059.3</i>
SEIIFSA	457.5	458.3
Old Mutual	120.9	132.6
<i>Ring-fenced Meridian debt</i>	<i>578.4</i>	<i>590.9</i>
Total *	1,589.4	1,650.2

*Excludes financial swaps.

Following a moderate R61m increase in debt, total borrowings stood at a slightly higher R1.7bn at year-end FY16. Debt is largely derived through bank borrowings and the domestic medium term note ("DMTN") programme, which has a R2bn limit. Funding from both Old Mutual and SEIIFSA relates to Meridian schools only, and has no recourse to Curro Holdings or any of its subsidiaries barring for CAPMAC. At FY16, the group reported very low short term balances, with the debt maturity profile reflecting long tenors and is fairly well-spaced, barring the large concentration of R664m expiring in FY19. Nonetheless, Curro has ample time to refinance. Further comfort is derived from the R372m in undrawn debt facilities reported at FY16 (FY15: R414m).

On a consolidated basis, gearing metrics have steadily decreased over the review period. Given that the running/rolling cash balance is usually low as it is directed towards investments, gross gearing indicators are more important to the analysis. Gross debt to equity registered at a lower 36% at FY16 (FY15: 58%), with gross debt to EBITDA easing to 426% (FY15: 543%). Whilst the higher cash holdings for the year moderated net debt to equity to just 21% (FY15: 49%) and net debt to EBITDA to 244%, cognisance is taken of the transient cash position. On a standalone basis, Curro's leverage is even more conservative. That said, given that the group does not anticipate new equity in FY17, planned expansion activity will require a sizeable ramp up in debt funding, with the group targeting a 50% debt/equity ratio over the medium term. For FY17, Curro plans to draw down around R1bn in borrowings, which will see gearing

rise from the current lows, although levels are expected to remain manageable.

Table 10: Gearing and liquidity (R'm)	FY15		FY16	
	Meridian	Curro#	Meridian	Curro #
Total debt*	578.4	1,011.0	590.9	1,059.3
Equity**	(122.6)	2,811.2	(134.9)	4,610.6
Cash	45.8	184.7	26.9	678.7
EBITDA	45.1	247.3	51.2	336.1
Net interest income/(charge)	(54.2)	(70.8)	(61.1)	(60.1)
Net debt: equity (%)	(434.6)	29.4	(418.1)	8.3
Net debt : EBITDA (%)	1,182.0	334.2	1,100.5	113.4
Net interest cover (x)	0.6	2.5	0.6	4.0
Adj net interest cover (x)***	0.6	4.8	0.6	30.9
Consolidated basis				
Net debt: equity (%)		49.4		20.8
Net debt : EBITDA (%)		464.8		244.0
Net interest cover (x)		1.7		2.3
Adj net interest cover (x)***		2.3		4.1

Pro forma Curro profile, excluding CAPMAC and MoP.

*Excludes financial swaps.

**GCR excludes goodwill from equity as per the corporate ratings methodology. Equity has also been adjusted to exclude that of CAPMAC and MoP, as well as intercompany loans of R60.1m at FY16 (FY15: R59.7m).

***After deducting the capitalised portion of interest.

Operating leases were reported at a higher R523m as of FY16 (FY15: R204m), which could elevate gearing further. Curro also provided for R10m in contingent liabilities, which relates to guarantee provided by RMB for the completion of the entrance road to Curro Serengeti.

Outlook

Curro continues to demonstrate sound strategic execution, with the group having achieved its pre-listing objective of at least 40 campuses, five years ahead of its original target in FY15, and remains on track to meet its longer term objective of building 80 campuses by 2020. Strong structural demand for affordable basic education is expected to feed into continued growth in student enrolments. Leverage in this regard stems from its strong brand position, underpinned by quality qualifications and an ability to accommodate students across a range of income brackets.

Curro's earnings trajectory has sustainably increased since FY12, reflecting management's ability to scale up the business. With priority placed on filling existing schools, this is supportive of the J-curve effect and increases the chances of approximating the strong compound annual growth targets into the medium term. As such, earnings margins should continue to widen, thus augmenting operating cash flows. Moreover, the group has begun to attain a critical mass in terms of real earnings, which should help insulate credit metrics against the underperformance of any particular school. This is particularly important considering that planned capex investments are to be funded from internal sources and debt going forward. The group has been strongly capitalised for several years, on the back of sustained earnings growth and consecutive capital injections. Although plans to leverage operations further to support longer term growth are noted, debt and gearing levels are

expected to trend within acceptable ranges and to stay within budget.

Aside from the schools division, an aggressive expansion of the tertiary education business is being planned. However, given the vastly different resources and infrastructure required, management are currently in the process of spinning this unit out. This will only have a minimal impact on Curro's performance given its limited size, whilst all the debt will remain with Curro (as it primarily relates to the schools). Curro is also not expected to benefit from the proposed listing of the new entity as it will not hold a stake, although its separation is deemed positive in view of the substantial additional funding that will be required to grow the business, thus safe harbouring Curro's credit protection measures. Nevertheless, parental financial support will likely be directed towards the new entity, with Curro expected to increasingly fund itself internally.

Curro Holdings Limited

(R in millions except as noted)

Year ended : 31 December	2012	2013	2014	2015	2016
Income statement					
Turnover	355.9	659.1	1,000.7	1,383.7	1,761.1
EBITDA	53.2	113.7	191.3	292.3	387.3
Depreciation and amortisation	(17.8)	(37.0)	(58.3)	(85.5)	(107.7)
Operating income	35.4	76.7	133.0	206.8	279.6
Net finance charges	(32.2)	(51.2)	(84.8)	(125.1)	(121.2)
Finance costs capitalised	17.0	28.8	29.8	34.7	52.3
Discontinued operations and profit on disposals	0.0	0.0	(0.8)	(1.8)	3.5
Foreign exchange and fair value movements	0.0	0.0	0.0	0.0	0.0
NPBT	20.3	54.3	77.3	114.6	214.2
Taxation charge	(5.6)	(15.6)	(27.7)	(23.3)	(47.8)
NPAT	14.7	38.7	49.6	91.3	166.4
<i>Equity accounted earnings and dividends</i>	<i>0.0</i>	<i>1.0</i>	<i>1.1</i>	<i>0.7</i>	<i>1.0</i>
Attributable earnings	15.1	37.0	55.0	98.3	171.7
Cash Flow Statement					
Cash generated by operations	56.4	118.6	199.1	305.0	399.8
Utilised to increase working capital	20.6	17.5	110.6	(43.9)	81.5
Net interest paid/(received)	(15.1)	(22.4)	(54.9)	(90.4)	(68.9)
Taxation paid	(5.7)	(8.2)	(8.1)	(9.0)	(8.9)
Cash flow from operations	56.2	105.6	246.7	161.7	403.6
Maintenance capex*	(17.8)	(37.0)	(58.3)	(85.5)	(107.7)
Discretionary cash flow from operations	38.3	68.6	188.4	76.2	295.8
Dividends paid	0.0	0.0	0.0	0.0	0.0
Retained cash flow	38.3	68.6	188.4	76.2	295.8
Net expansionary capex	(433.7)	(837.4)	(1,063.3)	(932.2)	(1,091.3)
Investments and other	(309.2)	(222.0)	(136.0)	(14.1)	(508.0)
Proceeds on sale of assets/investments	0.1	4.4	1.0	1.2	6.9
Shares issued	473.9	657.0	590.0	742.1	1,722.2
Cash movement: (increase)/decrease	(18.7)	(50.4)	(116.4)	(35.2)	(475.1)
Borrowings: increase/(decrease)	249.1	379.9	536.3	162.1	49.5
Net increase/(decrease) in debt	230.5	329.5	419.9	126.9	(425.6)
Balance Sheet					
Ordinary shareholders interest	712.4	1,288.5	1,873.7	2,755.7	4,547.5
Outside shareholders interest	0.5	3.2	(1.0)	(7.4)	(11.7)
Total shareholders' interest¹	712.9	1,291.6	1,872.7	2,748.3	4,535.8
Short term debt	199.8	69.9	26.3	28.2	27.2
Long term debt	236.2	755.1	1,395.4	1,561.3	1,623.7
Total interest-bearing debt	436.1	825.0	1,421.7	1,589.4	1,650.8
Interest-free liabilities	185.9	245.3	440.8	409.3	707.0
Total liabilities	1,334.8	2,362.0	3,735.1	4,747.0	6,893.6
Fixed assets	1,209.8	2,131.8	3,338.2	4,290.7	5,635.1
Trademarks, curriculum development & learner enrolments	67.6	97.6	121.3	134.0	167.1
Investments and advances	0.0	15.0	22.0	38.8	40.0
Cash and cash equivalent	28.5	78.9	195.3	230.5	705.7
Other current assets	29.0	38.6	58.3	53.0	345.7
Total assets	1,334.8	2,362.0	3,735.1	4,747.0	6,893.6
Ratios					
Cash flow:					
Operating cash flow : total debt (%)	12.9	12.8	17.4	10.2	24.4
Discretionary cash flow : net debt (%)	9.4	9.2	15.4	5.6	31.3
Profitability:					
Turnover growth (%)	114.0	85.2	51.8	38.3	27.3
EBITDA : revenues (%)	15.0	17.2	19.1	21.1	22.0
Operating profit margin (%)	9.9	11.6	13.3	14.9	15.9
EBITDA : average total assets (%)	5.7	6.3	6.6	7.3	7.2
Return on equity (%)	2.9	3.7	3.5	4.3	4.7
Coverage:					
Operating income : gross interest (x)	1.1	1.4	1.4	1.4	1.6
Operating income : net interest (x)	1.1	1.5	1.6	1.7	2.3
EBITDA : gross interest (x)	1.6	1.4	2.0	1.9	2.2
EBITDA : net interest (x)	1.1	2.2	2.3	2.3	3.2
Activity and liquidity:					
Trading assets turnover (x)	(7.3)	(8.5)	(8.1)	(14.5)	(11.8)
Days receivable outstanding (days)	28.4	16.0	9.3	5.1	9.0
Current ratio (:1)	0.2	0.6	0.8	1.1	2.5
Capitalisation:					
Total debt : equity (%)	61.2	63.9	75.9	57.8	36.4
Net debt : equity (%)	57.2	57.8	65.5	49.4	20.8
Total debt : EBITDA (%)	819.4	725.8	743.0	543.7	426.2
Net debt : EBITDA (%)	765.9	656.4	640.9	464.8	244.0

* Depreciation used as a proxy for maintenance capex.

¹ Shareholders interest is stated net of goodwill in all years under review.

This page has intentionally been left blank

GLOSSARY OF TERMS/ACRONYMS USED IN THIS DOCUMENT AS PER GCR'S CORPORATE GLOSSARY

Bad Debt	A bad debt is an amount owed by a debtor that is unlikely to be paid due, for example, to a company going into liquidation. There are various technical definitions of what constitutes a bad debt, depending on accounting conventions, regulatory treatment, and the individual entity's own provisioning and write-off policies.
Balance Sheet	Also known as Statement of Financial Position. A statement of a company's assets and liabilities provided for the benefit of shareholders and regulators. It gives a snapshot at a specific point in time of the assets the company holds and how they have been financed.
Bond	A long term debt instrument issued by either a company, institution or the government to raise funds.
Budget	Financial plan that serves as an estimate of future cost, revenues or both.
CAGR	The compound annual growth rate is the year-on-year percentage growth rate of an investment over a given period of time.
Capital	The sum of money that is invested to generate proceeds.
Capital Intensive	A project, a business or a production process is said to be capital intensive if it uses large amounts of assets to produce goods or services. Examples are oil refineries, and airlines. Projects/businesses can be either fixed capital intensive or working capital intensive or a combination.
Cash Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
Corporate Governance	Corporate governance broadly refers to the mechanisms, processes and relations by which corporations are controlled and directed, and is used to ensure the effectiveness, accountability and transparency of an entity to its stakeholders.
Credit Rating	An opinion regarding the creditworthiness of an entity, a security or financial instrument, or an issuer of securities or financial instruments, using an established and defined ranking system of rating categories.
Credit Risk	The possibility that a bond issuer or any other borrowers (including debtors/creditors) will default and fail to pay the principal and interest when due.
Debt	An obligation to repay a sum of money. More specifically, it is funds passed from a creditor to a debtor in exchange for interest and a commitment to repay the principal in full on a specified date or over a specified period.
Diversification	Spreading risk by constructing a portfolio that contains different investments, whose returns are relatively uncorrelated. The term also refers to companies which move into markets or products that bear little relation to ones they already operate in.
Dividend	The portion of a company's after-tax earnings that is distributed to shareholders.
EBITDA	EBITDA is useful for comparing the income of companies with different asset structures. EBITDA is usually closely aligned to cash generated by operations.
Equity	Equity is the holding or stake that shareholders have in a company. Equity capital is raised by the issue of new shares or by retaining profit.
Exposure	Exposure is the amount of risk the holder of an asset or security is faced with as a consequence of holding the security or asset. For a company, its exposure may relate to a particular product class or customer grouping. Exposure may also arise from an overreliance on one source of funding.
Fair Value	The fair value of a security, an asset or a company is the rational view of its worth. It may be different from cost or market value.
Fixed Assets	Assets of a company that will be used or held for longer than a year. They include tangible assets, such as land and equipment, stake in subsidiaries and other investments, as well as intangible assets such as goodwill, information technology or a company's logo and brand.
Fixed Costs	Company costs such as rent, administrative overheads and depreciation, which do not vary with the level of production or sales.
Gearing	With regard to corporate analysis, gearing (or leverage) refers to the extent to which a company is funded by debt and can be calculated by dividing its debt by shareholders' funds or by EBITDA.
Goodwill	Arises upon the sale/acquisition of a business and is defined as an established entity's reputation, which may be regarded as a quantifiable asset and calculated as the price paid for a company over and above the net value of its assets. Negative goodwill refers to a situation when the price paid for a company is lower than the value of its assets.
Hedge	A form of insurance against financial loss or other adverse circumstances.
Intangible Assets	The non-physical assets of a company such as trademarks, patents, copyright, information systems and goodwill.
Interest	Scheduled payments made to a creditor in return for the use of borrowed money. The size of the payments will be determined by the interest rate, the amount borrowed or principal and the duration of the loan.
Interest Cover	Interest cover is a measure of a company's interest payments relative to its profits. It is calculated by dividing a company's operating profit by its interest payments for a given period.
Leverage	With regard to corporate analysis, leverage (or gearing) refers to the extent to which a company is funded by debt.
Liabilities	All financial claims, debts or potential losses incurred by an individual or an organisation.
Liquidity	The speed at which assets can be converted to cash. It can also refer to the ability of a company to service its debt obligations due to the presence of liquid assets such as cash and its equivalents. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price.
Liquidity Risk	The risk that a company may not be able to meet its financial obligations or other operational cash requirements due to an inability to timeously realise cash from its assets. Regarding securities, the risk that a financial instrument cannot be traded at its market price due to the size, structure or efficiency of the market.
Long term rating	A long term rating reflects an issuer's ability to meet its financial obligations over the following three to five year period, including interest payments and debt redemptions. This encompasses an evaluation of the organisation's current financial position, as well as how the position may change in the future with regard to meeting longer term financial obligations.
Mandate	Authorisation or instruction to proceed with an undertaking or to take a course of action. A borrower, for example, might instruct the lead manager of a bond issue to proceed on the terms agreed.
Margin	A term whose meaning depends on the context. In the widest sense, it means the difference between two values.
Maturity	The length of time between the issue of a bond or other security and the date on which it becomes payable in full.
Operating Cash Flow	A company's net cash position over a given period, i.e. money received from customers minus payments to suppliers and staff, administration expenses, interest payments and taxes.
Operating Margin	Operating margin is operating profit expressed as a percentage of a company's sales over a given period.
Operating Profit	Profits from a company's ordinary revenue-producing activities, calculated before taxes and interest costs.

Portfolio	A collection of investments held by an individual investor or financial institution. They may include stocks, bonds, futures contracts, options, real estate investments or any item that the holder believes will retain its value.
Private Placement	The sale of securities to a small number of institutional investors such as large banks, insurance companies and pension funds. Such issuances do not require a formal prospectus and are often not listed on an exchange.
Rating Outlook	A Rating outlook indicates the potential direction of a rated entity's rating over the medium term, typically one to two years. An outlook may be defined as: 'Stable' (nothing to suggest that the rating will change), 'Positive' (the rating symbol may be raised), 'Negative' (the rating symbol may be lowered) or "Evolving' (the rating symbol may be raised or lowered).
Rights Issue	One of the ways that a company can raise additional funds is to issue new shares. These must be first offered to current shareholders and a rights issue allows a shareholder to buy shares in proportion to the number already held.
Risk	The possibility that an investment or venture will make a loss or not make the returns expected. There are many different types of risk including basis risk, country risk, credit risk, currency risk, economic risk, inflation risk, liquidity risk, market or systemic risk, political risk, settlement risk and translation risk.
Shareholder	An individual, entity or financial institution that holds shares or stock in an organisation or company.
Short-Term Rating	A short term rating is an opinion of an issuer's ability to meet all financial obligations over the upcoming 12 month period, including interest payments and debt redemptions.
Tenor	The time from the value date until the expiry date of an instrument, typically a loan or option.
Turnover	The total value of goods or services sold by a company in a given period. Also known as revenue or sales. Turnover can also refer to the total volume of trades in a market during a given period.
Working Capital	Working capital usually refers to the resources that a company uses to finance day-to-day operations. Changes in working capital are assessed to explain movements in debt and cash balances.

This page has intentionally been left blank

SALIENT POINTS OF ACCORDED RATINGS

GCR affirms that a.) no part of the rating was influenced by any other business activities of the credit rating agency; b.) the ratings were based solely on the merits of the rated entity, security or financial instrument being rated; c.) such ratings were an independent evaluation of the risks and merits of the rated entity, security or financial instrument; and d.) the validity of the ratings is for a maximum of 12 months, or earlier as indicated by the applicable credit rating document.

Curro Holdings Limited participated in the rating process via face-to-face management meetings, teleconferences and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible.

The credit ratings have been disclosed to Curro Holdings Limited with no contestation of the rating.

The information received from Curro Holdings Limited and other reliable third parties to accord the credit ratings included:

- The 2016 audited annual financial statements (plus prior year of comparative numbers)
- 2017 capex and cash flow projections
- 2016 audited financial statements for CAPMAC and MOP
- Other public information

The ratings above were solicited by, or on behalf of, the rated client, and therefore, GCR has been compensated for the provision of the ratings.

ALL GCR CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS, TERMS OF USE OF SUCH RATINGS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS, TERMS OF USE AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTP://GLOBALRATINGS.NET/UNDERSTANDING-RATINGS](http://GLOBALRATINGS.NET/UNDERSTANDING-RATINGS). IN ADDITION, RATING SCALES AND DEFINITIONS ARE AVAILABLE ON GCR'S PUBLIC WEB SITE AT WWW.GLOBALRATINGS.NET/RATINGS-INFO. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. GCR'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE UNDERSTANDING RATINGS SECTION OF THIS SITE.

CREDIT RATINGS ISSUED AND RESEARCH PUBLICATIONS PUBLISHED BY GCR, ARE GCR'S OPINIONS, AS AT THE DATE OF ISSUE OR PUBLICATION THEREOF, OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. GCR DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL AND/OR FINANCIAL OBLIGATIONS AS THEY BECOME DUE. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: FRAUD, MARKET LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND GCR'S OPINIONS INCLUDED IN GCR'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. CREDIT RATINGS AND GCR'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND GCR'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL OR HOLD PARTICULAR SECURITIES. NEITHER GCR'S CREDIT RATINGS, NOR ITS PUBLICATIONS, COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. GCR ISSUES ITS CREDIT RATINGS AND PUBLISHES GCR'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING OR SALE.

Copyright © 2013 Global Credit Rating Co (Pty) Ltd. INFORMATION PUBLISHED BY GCR MAY NOT BE COPIED OR OTHERWISE REPRODUCED OR DISCLOSED, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT GCR'S PRIOR WRITTEN CONSENT. Credit ratings are solicited by, or on behalf of, the issuer of the instrument in respect of which the rating is issued, and GCR is compensated for the provision of these ratings. Information sources used to prepare the ratings are set out in each credit rating report and/or rating notification and include the following: parties involved in the ratings and public information. All information used to prepare the ratings is obtained by GCR from sources reasonably believed by it to be accurate and reliable. Although GCR will at all times use its best efforts and practices to ensure that the information it relies on is accurate at the time, GCR does not provide any warranty in respect of, nor is it otherwise responsible for, the accurateness of such information. GCR adopts all reasonable measures to ensure that the information it uses in assigning a credit rating is of sufficient quality and that such information is obtained from sources that GCR, acting reasonably, considers to be reliable, including, when appropriate, independent third-party sources. However, GCR cannot in every instance independently verify or validate information received in the rating process. Under no circumstances shall GCR have any liability to any person or entity for (a) any loss or damage suffered by such person or entity caused by, resulting from, or relating to, any error made by GCR, whether negligently (including gross negligence) or otherwise, or other circumstance or contingency outside the control of GCR or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits) suffered by such person or entity, as a result of the use of or inability to use any such information. The ratings, financial reporting analysis, projections, and other observations, if any, constituting part of the information contained in each credit rating report and/or rating notification are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. Each user of the information contained in each credit rating report and/or rating notification must make its own study and evaluation of each security it may consider purchasing, holding or selling. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY GCR IN ANY FORM OR MANNER WHATSOEVER.