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Curro Holdings Limited

South Africa Corporate Analysis **May 2016**

Rating class	Rating scale	Rating°	Rating outlook	Review date
Long term	National	$BBB_{(ZA)}$	Stable	May 2017
Short term	National	$A3_{(ZA)}$		

Financial data:

(USD'm Comparative)

	31/12/14	31/12/15
R/USD (avg.)	10.84	12.77
R/USD (close)	11.61	15.54
Total assets	321.7	305.5
Total debt	122.5	102.3
Total capital	161.3	176.9
Cash & equiv.	16.8	14.8
Turnover	92.3	108.4
EBITDA	17.7	22.9
NPAT	4.6	7.2
Op. cash flow	22.8	12.7
Market share		n.a
Market cap.*		R14.4bn/USD959m

* As at 6/05/2016 at R14.98/USD.

Rating history:

Initial rating (May 2013)
Long-term: $BBB-_{(ZA)}$
Short-term: $A3_{(ZA)}$
Rating outlook: Stable

Last rating (May 2015)
Long-term: $BBB-_{(ZA)}$
Short-term: $A3_{(ZA)}$
Rating outlook: Positive

Related methodologies/research:

GCR's criteria for rating corporate entities, updated February 2016

Curro Holdings Limited ("Curro") issuer rating reports, 2013-2015

Curro Secured Bond New Issuance and Surveillence Reports, 2013-2015

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° *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

- Curro's market strength continues to gain momentum, with the group having grown into the largest listed private school operator in South Africa over a relatively short period. The group reported a portfolio of 47 campuses (110 schools) and more than 41,000 learners as of January 2016. To this end, management has demonstrated an ability to effectively plan for and achieve targets, with progress significantly supported by ongoing financial backing by its majority shareholder (PSG Financial Services Ltd, "PSG").
- Curro continues to register strong student enrolment YoY, thus boosting school capacity utilisation at both new-builds and mature schools, and in turn revenue and earnings growth. Accordingly, revenue rose by 38% to R1.4bn in F15 (5-year CAGR: 70%), whilst the EBITDA margin strengthened to 21% in F15 (F14: 19%). Curro's low and scalable cost structure has allowed it to respond to market demand and generate strengthening cash flows over the review period.
- The group's rapid growth has been funded by consecutive capital injections, which would bring the total raised since listing to R3.8bn (including the F16 rights offer). Debt has also provided an additional source of funding, which has risen from R135m at FYE11 to R1.6bn at FYE15. Having peaked at 66% at FYE14, net gearing has since moderated to 49% at FYE15, whilst net debt to EBITDA also improved to a review period low of 465% at FYE15 (FYE14: 641%). Curro reflects more moderate gearing and stronger interest cover measures on a standalone basis (excluding legally ringfenced operations). In conjunction with the R1bn raised through the rights issue in May 2016, projections indicate a moderate ramp up in debt to achieve capex targets. While this is likely to see leverage metrics rise somewhat, these are expected to remain comfortable for the current rating level.
- Demand for independent schools as an alternative to the deteriorating public education system is expected to remain strong. This particularly holds true for the low and mid-fee schools in view of the tough economic environment. Accordingly, maintaining affordable tuition fees is likely to be a challenge in the face of rising competition and exogenous cost pressures.

Factors that could trigger a rating action may include

Positive change: As the current ratings upgrade has taken into account the strong projected earnings for F16 and F17, a further upgrade would only likely be achievable if Curro was to exceed targets over the medium term. A rating upgrade could also materialise if Curro's growth were to slow, such that cash generation could be available to redeem a meaningful portion of existing debt.

Negative change: 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, leading to net debt to EBITDA for Curro on a standalone basis in excess of 400%. An adverse change in level of support to Curro from PSG would also negatively impact the group's credit risk profile.

Business profile and recent developments

Curro has grown into the largest for-profit private educator operator in South Africa. The group offers educational services ranging from play school to high school level, as well as teacher training through the Embury Institute for Teacher Education (Pty) Ltd ("Embury"). Ancillary services include, but are not limited to, aftercare centres, cafeterias, school transport and boarding facilities. Founded in 1997 as a single school, Curro became a subsidiary of PSG Financial Services Ltd ("PSG") in 2009 and listed in 2011. With PSG's financial backing and corporate support, Curro has grown rapidly over recent years, building numerous new campuses and acquiring several schools. In addition, the group continues to bank land for future development purposes.

At FYE15, Curro reported a portfolio of 42 campuses (FYE14: 32), with learner enrolment totalling 35,970 (FYE14: 28,737). As such, Curro has achieved its pre-listing objective of at least 40 campuses, five years ahead of its original target of 2020. In light of this, management's revised target is to double this figure by 2020 in order to accommodate 100,000 learners. In this regard, underpinned by the completion of newly developed campuses coming on board (two Curro schools and three Curro Castle schools), Curro started the F16 year with 47 campuses and more than 41,000 learners. The strong growth trajectory is expected to be sustained throughout F16, given the planned development of a further nine campuses (for a total cost of R800m), which includes four Curro schools, two Curro Academy schools and three campuses for Embury. This is to be complemented by the R450m earmarked for the expansion of existing schools, whilst Curro entered its first regional acquisition, following the purchase of Windhoek Gymnasium (Namibia) with 1,700 leaners in February 2016. Overall, Curro plans to invest R2bn in authorised expansion projects in F16 (double the level for F15), with this to be largely funded via the R1bn rights offer in May 2016.

Table 1: Key operating statistics	F11	F12	F13	F14	F15	Jan-F16
Campuses (#)	12	22	26	32	42	47
Schools (#)	51	61	72	80	101	110
Learners (#)	5,557	12,473	21,027	28,737	35,970	41,864
Avg. Learners per campus (#)	463	567	809	898	856	891
Teachers (#)	446	1,151	1,593	1,905	2,339	2,637
Learner/teacher (x)	12	11	13	15	15	16
Capital invested (R'm)	*328*	*782*	*1,076*	*1,305*	*1,030*	*n.a*
- Existing campuses	80	223	602	651	646	n.a
- New campuses	175	237	242	482	369	n.a
- Acquisitions	73	322	232	172	15	n.a

Corporate governance and shareholding

Curro's corporate governance is managed in accordance with the King Report on Corporate Governance for South Africa (King III). Where the group is not in compliance with the code, reasons for deviation are clearly explained. There were no major non-compliance incidents according to the F15 AFS.

Table 2: Corporate governance checklist	
Description	**Findings**
Number of Directors	9
Directors - non-executive	5
- 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

Curro's shareholder profile has not changed substantially over the past year. To this end, PSG's shareholding in Curro amounted to 58% at FYE15 (FYE14: 57%), while Thembeka Market Holdings (the group's BEE partner) stake dipped to 6% (FYE14: 8%). No other shareholders hold stakes of more than 5%, with management controlling 2%.

Operating and regulatory environment

Growth within the private education sector remains brisk, driven by the shrinking number of public schools coupled with their deteriorating education standards. With government spend constrained by several factors, school infrastructure development has not kept up with population growth. Furthermore, schools in the public sector frequently suffer from personnel shortages and a lack of study resources. As such, there is a great amount of variation in the quality of education at public schools, with it estimated that around 80% of government-funded primary and secondary schools are under-performing in terms of pass rates and providing qualifications that eventually lead to university admission. Thus, the quality of education remains a significant demand driver for private education.

The cost of private education is probably the most critical determinant of learner enrolment. This is particularly important in the face of the tougher economic climate, where increased pressures on household disposable income levels are becoming evident. To this end, the country is characterised by low economic growth, high unemployment, a highly indebted consumer base, whilst rising inflationary pressures have been brought on by higher food costs due to the weak Rand and recent droughts. As such, with private education costs typically outstripping inflation, this may present a barrier to those seeking this avenue of education. Interestingly, the majority of private schools serve learners from the emerging middle income class, with increasing up-take reported from low-income families. This stems from more independent education providers offering quality low-fee branded schools, which has been a strong catalyst behind leaners converting from public schools to private schools, as well as learners already in the private system migrating to more affordable ones. According to available industry data, some of the mid and low-fee independent schools are cheaper than former higher-fee "Model C" public schools. Accordingly, maintaining low private fees is a challenge. However, an increasing number of operators are implementing models that are scalable, which has aided in a level of cost containment. 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.

As demand fundamentals for accessible private tuition continue to increase, so does the competitive landscape of private school providers. In the context of the greater education system, this market remains comparatively small and highly fragmented, with most schools being limited in size and predominantly being not-for-profit. The major for-profit private school groups 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 in terms of continuous student enrolment.

One of the greatest challenges facing the entire South African education system has been the chronic shortage of qualified teachers. Whilst government interventions implemented since 2007 have addressed this issue to some degree, this has come at the expense of the quality of teacher education. As such, in order to aid teacher education capacity, certain independent education providers have directly diversified into the teacher education market, whilst others have also developed a potential teacher pipeline through the provision of scholarships and bursaries for teaching degrees. Other challenges to market players include the bourgeoning costs of infrastructural maintenance of imported study materials (impacted by the weak currency), as well as rising municipal service expenses.

Table 3: Education statistics	Public	Independent
Schools		
2013	24,136	1,584
2014	24,060	1,681
2015	23,905	1,786
Learners		
2013	11,975,844	513,804
2014	12,117,015	538,421
2015	12,248,279	566,194
Educators		
2013	391,829	33,194
2014	390,608	34,482
2015	379,613	36,480

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

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.

Operations

Curro delivers its core educational services through five branded school 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 range between R4,000 to R7,500/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, ranging from R1,800 to R5,800/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 (R1,000 to R1,800 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 R1,800/month.
- The *Curro Castle* schools are nursery schools, accommodating learners from 3 months to 5 years. Fees range from R2,200 to R3,000/month.

Table 4: Campuses	F12	F13	F14	F15	Jan-F16
Curro & Select	19	21	23	29	31
Meridian & Curro Academy	3	3	6	10	10
Curro Castle	0	1	2	2	5
Embury	0	1	1	1	1
Total	**22**	**26**	**32**	**42**	**47**

Curro's educational offerings are further augmented by its higher education courses through Embury. Embury was acquired in F13 and currently offers degrees, diplomas, certificates and short course training to educators in the public and private sectors at its premises in KwaZulu-Natal. However, the group plans to expand Embury's geographic footprint during F16, which will see the conversion of a new larger site in Durban (to accommodate 2,600 leaners from 800), whilst a new campuses will be developed in Midrand and Pretoria (to accommodate 1,400 and 800 students respectively). Furthermore, Curro is in the process of developing and registering several new courses, diplomas and degrees (which will include BSc, BCom and BA degrees), as well as distance learning offerings.

Curro continues to benefit from robust student enrolment, which has aided in strengthening its competitive position. This is reflected in Table 5, with the start of F16 enrolment up 16% from FYE15. The Curro branded schools continue to display a strong growing student market (CAGR of 31% from F12 to F15), although student demand for the Meridian chain has expanded at a more rapid pace, with learner numbers at the start of F16 having increased 8.6x over FYE12. This is in recognition of the brand identity built partially around affordability. Nonetheless, Curro displays strong pricing power, with school fees escalating at a rate of just under 10% per annum. This partly follows the fact that approximately 50% of total leaners attend schools that have average schools fees of between R2,000 to R4,000/pm, whilst 30% are in schools with average fees of less than R2,000/pm.

Table 5: Learners (000's)	F12	F13	F14	F15	Jan-F16
Curro	11,273	18,826	21,548	25,373	30,683
Meridian	1,200	1,401	6,389	9,797	10,381
Embury	-	800	800	800	800
Total	**12,473**	**21,027**	**28,737**	**35,970**	**41,864**

Curro's rising reputation has continued to favourably affect enrolment demand and support geographic diversity through its national footprint (with close to 30% of students primarily drawn from Gauteng). This is partly a function of Curro's business model, which aims to offer a personalised learning experience at a comparatively low cost. In most cases, class sizes are limited to 25 learners, which compares to 30 in other private schools. 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 schools, where the DoE examination for a senior national certificate is written. This apart, management also maintains strong oversight over the schools to ensure that financial and educational standards are maintained. It also capitalises on synergies across the schools relating to the sourcing and placement of high quality educators, as well as the purchase and sale of educational materials and school clothing. To enhance recruiting and retention, Curro has continuously invested in its campus facilities to support its schools network, covering such areas as sport activities, information systems, mobile device management, and business intelligence (amongst others).

Table 6: Matric academic results	IEB		NSC*	
	F14	F15	F14	F15
Leaners	637	724	488	707
Pass rate	99%	99%	90%	98%
University exemption	82%	82%	43%	57%
Average > 60%	66%	69%	29%	43%

*Meridian and Curro Academy schools.

Whilst rising competitive pressures have begun to manifest in the market, barriers to entry exist 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. As such, schools require a minimum level of utilisation to cover their fixed costs, whereafter each additional student is almost fully profit accretive (adding limited variable costs). 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. 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 that require several years to reach maturity and targeted EBITDA margins. In this regard, a breakeven position typically correlates with utilisation capacities of 25%-35%. Up until FYE15, Curro had acquired 13 schools (including Embury), which have added critical mass to the business in terms of learner numbers and profitability as they have been in operation for at least seven years.

Table 7 highlights Curro's success in improving capacity utilisation in schools over time, with a greater 22 campuses reporting capacity utilisation above 50% (F14: 19 campuses) thus yielding higher EBITDA margins. Furthermore, the portfolio balance in terms of maturing schools (including aquistions) vs. recently developed schools remains favourable, thus offsetting earnings drag.

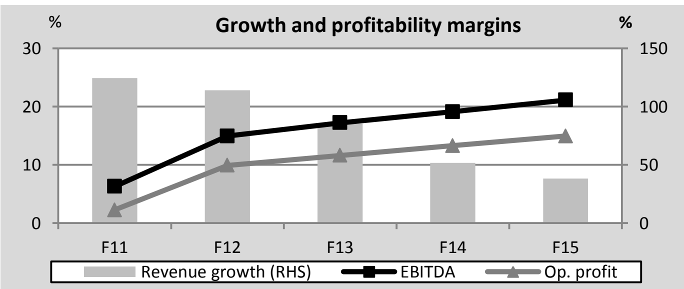
Table 7: School performance	Campuses (#)	EBITDA margin (%)*			Capacity utilisation (%)		
		F13	F14	F15	F13	F14	F15
Developed	**29**	**16**	**23**	**23**	**39**	**43**	**40**
<=2009	3	26	28	27	77	78	84
2010	2	17	25	29	51	62	66
2011	6	8	19	23	33	42	45
2012	2	7	17	23	27	47	48
2013	4	19	32	37	28	45	50
2014	4	-	(32)	2	0	12	19
2015	8	-	-	(13)	-	-	20
Acquired	**13**	**35**	**30**	**33**	**72**	**72**	**78**
<=2012	8	34	36	38	66	66	71
2013	2	38	29	30	83	83	84
2014	2	-	12	28	-	71	83
2015	1	-	-	17	-	-	81
Total	**42**	**25**	**26**	**28**	**51**	**54**	**50**

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

Financial performance

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

As the portfolio has substantially increased, top line growth rates have eased from the highs reported at the beginning of the review period. Nonetheless, Curro continues to report strong growth in revenues, registering a 38% increase to R1.4bn in F15. This follows from the addition of new campuses and higher enrolment levels for the year. Overall, revenue growth has been reported at a five-year CAGR of 70%. Tuition fees remain Curro's largest revenue source, which at R1.3bn (F14: R925m) represented 92% of the total in F15.



Following from the increasing occupancy rates at its schools, Curro's EBITDA margin continued to climb, registering at 21% in F15 (F14: 19%), compared to the review period low of 6.3% in F11. Thus EBITDA rose from R11m in F11 to R292m in F15. Similarly, operating profit rose to R207m in F15 (F14: R133m), with the operating margin reported at 15% (F14: 13%).

Curro has reported much higher net finance charges since F11, with these costs rising from R22m in F11 to R125m in F15 (F14: R85m). This has mainly been due to increased debt to fund maintenance and expansionary capex, and recently working capital outflows. This notwithstanding, against robust operating profits, debt serviceability metrics have remained largely unchanged. Gross interest cover equated to 1.4x in F15 (F14: 1.4x), with net interest cover reported at 1.7x (F14: 1.6x). Excluding capitalised interest charges of R35m, net interest cover is stronger at 2.3x. Curro has hedged approximately 70% of its standalone interest rate exposure (excluding Meridian), with the notional amount of the interest rate hedge amounting to R513m (F14: R513m). Overall, NPBT rose to R115m in F15 (F14: R77m).

Table 8: Financing costs (R'm)	F11	F12	F13	F14	F15
Gross finance costs	23.8	33.7	55.0	96.7	152.5
Finance income	(1.4)	(1.5)	(3.8)	(11.9)	(27.4)
Net finance charges	22.4	32.2	51.2	84.8	125.1
Finance charges capitalised	*9.4*	*17.0*	*28.8*	*29.8*	*34.7*
Gross interest cover (x)	0.2	1.1	1.4	1.4	1.4
Net interest cover (x)	0.2	1.1	1.5	1.6	1.7
Adj. net interest cover (x)*	0.3	2.3	3.4	2.4	2.3
EBITDA : net interest (x)	0.5	1.1	2.2	2.3	2.3
EBITDA : adj net interest (x)*	0.8	3.5	5.1	3.5	3.2

* After deducting capitalised interest.

Cash flow

Curro's low and scalable cost structure has allowed it to respond to market demand and generate strengthening cash flows over the review period. Cash generated by operations increased by 53% to R305m in F15. Owing to a R56m reduction in payables (due to a delayed contractor payment from F14), Curro reported a working capital absorption of R44m in F15, compared to prior year releases. This, combined with the higher net interest payment of R90m reported (F14: R55m), saw cash flow from operations contract by 35% to R162m in F15.

Net capex amounted to R1bn in F15 (F14: R1.1bn), bringing the cumulative outlay over the review period to R3.7bn. Expansionary capex accounted for a significant 95% of the cumulative spend, in line with the group's ambitious targets in terms of land and other acquisitions, as well as the construction of new schools. Other investing activities were reported at moderate levels in F15 compared to prior years.

Accordingly, the large investment outflows have been funded by successive equity issuances throughout the review period (cumulatively totalling R2.8bn), as well as debt drawdowns. In F15, R742m was raised through a rights issue (F14: R590m), while gross debt increased by a moderate R162m (F14: R536m). Overall, Curro reported a R127m increase in net debt in F15, which raised the cumulative increase to R1.1bn over the past five years.

Funding and liquidity profile

Curro's asset base has grown substantially over the review period due to on-going roll out of new schools. This is primarily in respect of fixed infrastructure related to the land and buildings of its schools, which at R4.3bn represented the bulk of assets at 90% at FYE15 (FYE14: 89%). Cash accounted for a further 5% at FYE15, while revenue-generating intangible assets (trademarks, curriculum development and enrolments) contributed 3% to assets of R134m.

With Curro's fixed infrastructure largely funded through new share issuances, equity has accounted for an average of 55% of funding over the review period. Accordingly, following consecutive capital injections YoY, equity has risen steadily from R331m at FYE11 to R2.7bn at FYE15 (FYE14: R1.9bn). Cognisance is taken of the further R1bn rights issue undertaken in 2Q F16 (fully underwritten by PSG), which has brought the total raised from shareholders since listing to R3.8bn.

Table 9: Debt profile (R'm)	FYE14	FYE15
DBSA	150.0	158.4
ABSA	30.4	35.9
Std. Bank	413.6	528.2
Nedbank	-	0.3
Various	27.8	13.2
DMTN	274.6	275.0
Sub-total	*896.4*	*1,011.0*
SEIIFSA	412.8	457.5
Old Mutual	109.0	120.9
Ring-fenced Meridian debt	*521.8*	*578.4*
Total *	**1,418.2**	**1,589.4**

*Excludes financial swaps.

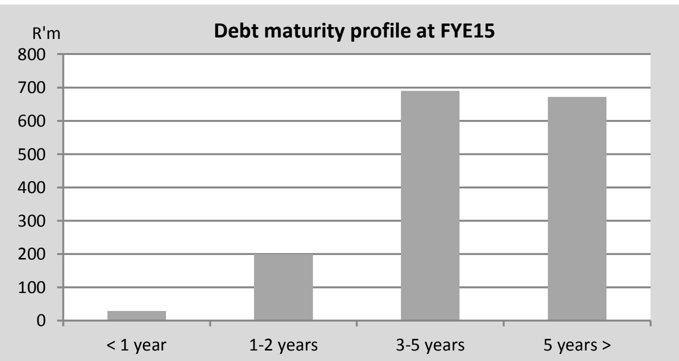
The other source of long term funding was derived from debt. During F15, R162m in new debt was raised through banking facilities, bringing total debt to R1.6bn at FYE15 (FYE11: R135m). Curro's debt largely relates to bank borrowings, with other sources including its domestic medium term note ("DMTN") programme and institutional investors. As previously explained, 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. Accordingly, adjusted gearing metrics are highlighted in table 10. On a consolidated basis, having peaked at 66% at FYE14, net gearing has since moderated to 49% at FYE15. Similarly, net debt to EBITDA improved to a review period low of 465% at FYE15 (FYE14: 641%). Curro reflects more moderate gearing on a standalone basis, with net gearing reported at 29% at FYE15 (FYE14: 38%), while net debt to EBITDA is markedly lower at 334%. Furthermore, interest cover measures are much improved when the Meridian entities are excluded. While the equity raise in F16 will support continued expansion, projections indicate a simultaneous moderate ramp up in debt, which is likely to see leverage metrics rise somewhat. Nonetheless, these are expected remain comfortable for the current rating level.

Table 10: Gearing and liquidity (R'm)	FYE14		FYE15	
	Meridian	Curro#	Meridian	Curro #
Total debt*	**521.8**	**896.4**	**578.4**	**1,011.0**
Equity**	(113.0)	1,923.2	(122.6)	2,811.2
Cash	**15.7**	**179.6**	**45.8**	**184.7**
EBITDA	32.7	158.6	45.1	247.3
Net interest income/(charge)	(36.5)	(48.3)	(54.2)	(70.8)
Net debt: equity (%)	(447.8)	37.3	(434.6)	29.4
Net debt : EBITDA (%)	1,547.9	451.8	1,182.0	334.2
Net interest cover (x)	0.6	2.3	0.6	2.5
Adj net interest cover (x)***	0.7	4.9	0.6	4.8
Consolidated basis				
Net debt: equity (%)	65.5		49.4	
Net debt : EBITDA (%)	640.9		464.8	
Net interest cover (x)	1.6		1.7	
Adj net interest cover (x)***	2.4		2.3	

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 R59.7m at FYE15 (FYE14: R62.5m).
***After deducting the capitalised portion of interest.

Modest contingent liabilities consisted of a R10m guarantee provided by RMB for the completion of the entrance road to Curro Serengeti. While the owner of the estate is responsible for the cost, Curro provided a guarantee for the financing. This is not considered significant to materially impact debt and gearing. Operating lease liabilities of R204m were also reported at FYE15 (FYE14: R85m), representing an ongoing commitment.

Curro' debt maturity profile has evolved over the review period as a result of the growth of its borrowings, as well as the initiation of the DMTN programme. Accordingly, at FYE15 the group reported very low short term balances, with the bulk of debt maturing in 3 years and beyond. The 15 year tenor on the DBSA and ring-fenced debt is especially noted as a positive in this regard. This should ensure that plans to redeem or refinance such obligations are in place well in advance. The DMTN programme provides additional funding flexibility as only R275m is in issue out of the R2bn programme limit. With R28m maturing in F16, Curro reported sound cash coverage of short term debt of 8.2x at FYE14 (FYE14: 7.4x), significantly stronger than levels of below 1x historically. Further comfort is derived from the R414m in unused debt facilities reported at FYE15 (FYE14: R249m).



Outlook

Demand for independent schools as an alternative to the public education system is expected to remain strong. This particularly holds true for the low and mid-fee schools in view of the tough economic environment. Accordingly, Curro remains well positioned to take advantage of these growth opportunities, in part, due to its desirable school locations and facilities, evolving course curriculum and brand strategy. This should see its market strength continue to gain momentum, with F16 forecasts indicating robust growth in student numbers, and consequently revenues and earnings. Apart from increasing occupancies at existing schools, Curro remains on track to meet its longer term objective of 80 campuses by 2020. In this regard, nine campuses are earmarked to commence construction during F16. Management has, however, indicated that if student enrolments do not materialise according to forecasts, the group will then re-phase its expansion plans, with emphasis to be directed on filling existing schools. Further prospects for sustained growth and revenue enhancement may manifest from the introduction of distance learning from the Embury institutions. While Curro has limited revenue diversity (with student charges comprising 92% of revenues), this is mitigated by the strong enrolment growth, relative pricing power, as well as increasing economies of scale.

With the portfolio expected to continue to lean more towards maturing schools, combined with increasing utilisation levels, cash generation is anticipated to remain robust. As such, with the bulk of investing cash flows expected to be funded from continued strong shareholder support (in particular PSG) and internal cash generation, gearing measures are not anticipated to be unduly high in F16.

Curro Holdings Limited

(R in millions except as noted)

Year ended : 31 December	2011	2012	2013	2014	2015
Income statement					
Turnover	166.3	355.9	659.1	1,000.7	1,383.7
EBITDA	**10.5**	**53.2**	**113.7**	**191.3**	**292.3**
Depreciation and amortisation	(6.7)	(17.8)	(37.0)	(58.3)	(85.5)
Operating income	**3.8**	**35.4**	**76.7**	**133.0**	**206.8**
Net finance charges	(22.4)	(32.2)	(51.2)	(84.8)	(125.1)
Finance costs capitalised	9.4	17.0	28.8	29.8	34.7
Discontinued operations and profit on disposals	0.0	0.0	0.0	(0.8)	(1.8)
Foreign exchange and fair value movements	0.0	0.0	0.0	0.0	0.0
NPBT	**(9.2)**	**20.3**	**54.3**	**77.3**	**114.6**
Taxation charge	1.8	(5.6)	(15.6)	(27.7)	(23.3)
NPAT	**(7.4)**	**14.7**	**38.7**	**49.6**	**91.3**
Equity accounted earnings and dividends	*0.0*	*0.0*	*1.0*	*1.1*	*0.7*
Attributable earnings	**(7.4)**	**15.1**	**37.0**	**55.0**	**98.3**
Cash Flow Statement					
Cash generated by operations	**11.1**	**56.4**	**118.6**	**199.1**	**305.0**
Utilised to increase working capital	14.0	20.6	17.5	110.6	(43.9)
Net interest paid/(received)	(12.9)	(15.1)	(22.4)	(54.9)	(90.4)
Taxation paid	(0.7)	(5.7)	(8.2)	(8.1)	(9.0)
Cash flow from operations	**11.5**	**56.2**	**105.6**	**246.7**	**161.7**
Maintenance capex*	(6.7)	(17.8)	(37.0)	(58.3)	(85.5)
Discretionary cash flow from operations	**4.8**	**38.3**	**68.6**	**188.4**	**76.2**
Dividends paid	0.0	0.0	0.0	0.0	0.0
Retained cash flow	**4.8**	**38.3**	**68.6**	**188.4**	**76.2**
Net expansionary capex	(244.1)	(433.7)	(837.4)	(1,063.3)	(932.2)
Investments and other	(92.8)	(309.2)	(222.0)	(136.0)	(14.1)
Proceeds on sale of assets/investments	0.1	0.1	4.4	1.0	1.2
Shares issued	318.8	473.9	657.0	590.0	742.1
Cash movement: (increase)/decrease	(5.7)	(18.7)	(50.4)	(116.4)	(35.2)
Borrowings: increase/(decrease)	18.9	249.1	379.9	536.3	162.1
Net increase/(decrease) in debt	**13.2**	**230.5**	**329.5**	**419.9**	**126.9**
Balance Sheet					
Ordinary shareholders interest	330.5	712.4	1,288.5	1,873.7	2,755.7
Outside shareholders interest	0.0	0.5	3.2	(1.0)	(7.4)
Total shareholders' interest!	**330.5**	**712.9**	**1,291.6**	**1,872.7**	**2,748.3**
Short term debt	12.3	199.8	69.9	26.3	28.2
Long term debt	122.4	236.2	755.1	1,395.4	1,561.3
Total interest-bearing debt	**134.7**	**436.1**	**825.0**	**1,421.7**	**1,589.4**
Interest-free liabilities	92.9	185.9	245.3	440.8	409.3
Total liabilities	**558.1**	**1,334.8**	**2,362.0**	**3,735.1**	**4,747.0**
Fixed assets	529.9	1,209.8	2,131.8	3,338.2	4,290.7
Trademarks, curriculum development & learner enrolments	5.4	67.6	97.6	121.3	134.0
Investments and advances	0.0	0.0	15.0	22.0	38.8
Cash and cash equivalent	9.8	28.5	78.9	195.3	230.5
Other current assets	12.9	29.0	38.6	58.3	53.0
Total assets	**558.1**	**1,334.8**	**2,362.0**	**3,735.1**	**4,747.0**
Ratios					
Cash flow:					
Operating cash flow : total debt (%)	8.5	12.9	12.8	17.4	10.2
Discretionary cash flow : net debt (%)	3.8	9.4	9.2	15.4	5.6
Profitability:					
Turnover growth (%)	124.6	114.0	85.2	51.8	38.3
EBITDA : revenues (%)	6.3	15.0	17.2	19.1	21.1
Operating profit margin (%)	2.3	9.9	11.6	13.3	14.9
EBITDA : average total assets (%)	2.7	5.7	6.3	6.6	7.3
Return on equity (%)	(3.9)	2.9	3.7	3.5	4.3
Coverage:					
Operating income : gross interest (x)	0.2	1.1	1.4	1.4	1.4
Operating income : net interest (x)	0.2	1.1	1.5	1.6	1.7
EBITDA : gross interest (x)	0.4	1.6	1.4	2.0	1.9
EBITDA : net interest (x)	0.5	1.1	2.2	2.3	2.3
Activity and liquidity:					
Trading assets turnover (x)	(7.3)	(7.3)	(8.5)	(8.1)	(14.5)
Days receivable outstanding (days)	16.6	28.4	16.0	9.3	5.1
Current ratio (:1)	0.2	0.2	0.6	0.8	1.1
Capitalisation:					
Total debt : equity (%)	40.8	61.2	63.9	75.9	57.8
Net debt : equity (%)	37.8	57.2	57.8	65.5	49.4
Total debt : EBITDA (%)	1,285.2	819.4	725.8	743.0	543.7
Net debt : EBITDA (%)	1,191.4	765.9	656.4	640.9	464.8

* Depreciation used as a proxy for maintenance capex.

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

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

Amortisation	From a liability perspective, the paying off of debt in a series of instalments over a period of time. From an asset perspective, the spreading of capital expenses for intangible assets over a specific period of time (usually over the asset's useful life).
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 Equivalent	An asset that is easily and quickly convertible to cash such that holding it is equivalent to holding cash. A Treasury Bill is considered cash equivalent.
Cash Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
Cash Flow Statement	The cash flow statement shows the cash flows associated with the operating, investing and financing activities of a company, combining to explain the net movement in cash holdings.
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.
Correlation	A term that describes the degree to which two variables move together. A correlation of 1 means that they move together exactly, while a correlation of minus 1 means that they move in exactly the opposite direction from each other.
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 Rating Agency	An entity that provides credit rating services.
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.
Debentures	Debenture is also referred to as a Bond or Note. A bond is a legal contract in which a borrower such as a government, company or institution issues a certificate by which it promises to pay a lender a specific rate of interest for a fixed duration and then redeem the contract at face value on maturity..
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.
Default	Failure to meet the payment obligation of either interest or principal on a debt or bond. Technically, a borrower does not default, the initiative comes from the lender who declares that the borrower is in default.
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.
Economic Indicators	Statistical data about country's economy, such as unemployment figures, the Consumer Price Index (CPI), Gross Domestic Product (GDP), money supply and housing statistics. This data gives information about the future direction of output and demand in an economy.
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.
Fix	The setting of a currency or commodity price for trade at a future date.
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 Capital	Fixed capital is the part of a company's total capital that is invested in fixed assets such as land, buildings and equipment that remains on the balance sheet, usually for years, but for at least one accounting period.
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.
Impairment	Reduction in the value of an asset because the asset is no longer expected to generate the same benefits, as determined by the company through periodic assessments.
Income Statement	A summary of all the expenditure and income of a company over a set period.
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.
Interest Rate	The charge or the return on an asset or debt expressed as a percentage of the price or size of the asset or debt. It is usually expressed on an annual basis.
Interest Rate Swap	An interest rate swap is an agreement in which two parties make interest payments to each other for a set period based upon a notional principal.
JIBAR	The Johannesburg Interbank Agreed Rate, or JIBAR, is the annualised interest rate at which banks obtain unsecured loans from each other. It is often used as the basis for pricing floating interest rate instruments, and is the main reference rate used in South Africa.

LC	An LC is a guarantee by a bank on behalf of a corporate customer that payment will be made if that entity cannot to meet its obligations.
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.
Option	An option gives the buyer or holder the right, but not the obligation, to buy or sell an underlying financial asset at a pre-determined price.
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.
Prime Rate	The benchmark interest rate that banks charge their customers.
Principal	The total amount borrowed or lent, e.g. the face value of a bond, excluding interest.
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.
Prospectus	A document produced by a company issuing new equity or debt, which provides detailed information about the offering and the company.
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).
Redemption	The repurchase of a bond at maturity by the issuer.
REPO	In a REPO one party sells assets or securities to another and agrees to repurchase them later at a set price on a specified date.
Return On Equity	Return on equity, or ROE, is the ratio of a company's profit to its shareholders' equity, expressed as a percentage. It is the most widely used measure of how well management uses shareholders' funds. Its main advantage is that it is a benchmark that allows investors to compare the profitability of companies in different industries.
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.
Swap	An exchange of payment streams between two parties for their mutual benefit. Swaps can involve an exchange of debt obligations, interest payments or currencies, with a commitment to re-exchange them at a specified time.
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.
Under Review	Failure to carry out a full review of a rated entity within the designated timeframe, either through lack of information or delays in finalisation, i.e. review is ongoing.
Variable Costs	A cost that varies with the volume of production or sales, such as the cost of raw materials or packaging. In contrast with fixed costs, such as rent, which stay the same regardless of the volume of production or sales.
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.

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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 rating was based solely on the merits of the rated entity, security or financial instrument being rated; c.) such rating was an independent evaluation of the risks and merits of the rated entity, security or financial instrument; and d.) the validity of the rating 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 and contested by Curro Holdings Limited and were amended following the provision of further material information by the entity.

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

- The 2015 audited annual financial statements (plus prior year of comparative numbers)
- Medium term capex and cash flow projections, plus 2016 revised forecasts
- 2015 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.