ABC sells US centres, expects loss [AU] [1]

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EXCERPTS

Embattled childcare provider ABC Learning Centres expects a loss this financial year after if finally sealed a deal to sell 60% of its US business to Morgan Stanley Private Equity. It also announced changes to its board.

The deal with Morgan Stanley gives ABC Learning's entire US business a total value of $US700 million ($743 million). That is about 10% less than the business was valued at early March.

The company's shares closed up 45.6%, or 62 cents, at $1.98, after rising as much as 50% earlier on relief that the deal first flagged in early March had been completed.

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ABC, a high-profile casualty of the credit crisis when its share price collapsed in February on concerns over high debt levels, said the transaction would reduce total net debt by $485 million. The company has a call option to buy back Morgan Stanley's interest three years after closing.

Founder and chief executive Eddy Groves, who sold nearly all his stake in the company to repay loans as directors refinanced about $1.5 billion worth of debt, said the sale "addresses concerns about the capital required to grow the US business.''

ABC will retain $US185 million of ordinary equity and $US20 million of preferred equity in the US joint venture.

"The transaction represents an excellent opportunity to crystallise the value of the US business and reduce ABC's gearing, while maintaining exposure to the upside potential of the attractive US childcare market,'' Mr Groves said. "It also allows the management team to spend more time focusing on the Australian and New Zealand operations,'' he said.

The $US700 million enterprise value is down from the $US775 million talked of when the deal was first signalled in early March, a decline ABC said was due to "the deterioration in credit markets since that time''.

The sale price implies a multiple of 12.7 times earnings before interest, tax, depreciation and amortisation (EBITDA) of the last twelve months.

After the sale, which is expected to close in 90 days and result in a book loss of around $280 million, ABC expects a net loss of $80 million to $89 million in fiscal 2008. Only two weeks ago the company had forecast a net profit of $161 million to $170 million.

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As well as the loss from deconsolidation, ABC also blamed delays in centre acquisitions and significant wage increase for its revised guidance.

Other factors included wages inefficiency due to "sub-optimal roster management'', lower-than-planned fee increases at the beginning of the second half of fiscal 2008, and "sub-optimal management'' of occupancy levels at its centre.

ABC Learning is 14.7% owned by Singapore government investment firm Temasek Holdings.

The company said chairwoman Sallyanne Atkinson will be replaced by David Ryan at the end of May and chief financial officer James Black resigned.

- reprinted from The AGE

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