



5 March 2008

**ASX ANNOUNCEMENT**

**A.B.C. LEARNING CENTRES LIMITED (ASX:ABS)**

**ABC enters Joint Venture with Morgan Stanley Private Equity**

**Sale of 60% of US business**

**Issue of Convertible Notes representing 10% of ABC**

**Reduction of syndicated bank debt of approximately A\$750 million**

**Sale process underway for UK voucher business**

A.B.C. Learning Centres Limited ("ABC") has entered into a Memorandum of Understanding ("MOU") with Morgan Stanley Private Equity for the sale of a 60% interest in its US business ("US business") reflecting a value for 100% of the US business of US\$775 million (the "Sale Transaction").

The transaction will result in cash proceeds on completion of approximately A\$750 million<sup>1</sup>, with an additional US\$30 million payable shortly after 30 June 2009.<sup>2</sup>

Eddy Groves, CEO of ABC, said, "At a multiple of 14.1x EBITDA for the preceding 12 month period ending 31 December 2007, the sale of a 60% interest allows us to realise significant value from our US business, retain a material ongoing presence in this important market, and substantially strengthen our capital structure."

"We continue to believe that the US represents a significant growth and return opportunity for ABC."

---

<sup>1</sup> Cash proceeds are derived from transaction value of US\$775 million, less US\$30 million deferred payment, less ABC's retained equity in the joint venture (depends on the ultimate capital structure of the US joint venture), plus the proceeds from the issue of the senior unsecured convertible notes (depends on the strike price).

<sup>2</sup> If certain EBITDA targets have been achieved.

"I am delighted that Morgan Stanley Private Equity will become our strategic partner in the US. Morgan Stanley Private Equity shares our vision for the business and supports the existing management team to deliver it."

A summary of the key terms of the MOU is appended to this announcement.

ABC has agreed with Morgan Stanley Private Equity to exclusively negotiate final documentation by 24 March 2008 (New York time) with completion expected to occur by the end of April 2008.

#### Convertible Notes

ABC and Morgan Stanley Private Equity have also agreed that, conditional on completion of the Sale Transaction, Morgan Stanley Private Equity, subject to market conditions, will also subscribe for senior notes, convertible at the option of Morgan Stanley into approximately 10% of the fully diluted share capital in ABC (being approximately 11% of ABC's undiluted ordinary share capital). The pricing terms of the convertible notes (including the conversion price and the coupon rate) will be agreed, having regard to ABC's pro-forma credit profile and the option value. The strike price will be determined following the execution of definitive Sale Transaction documentation. Shareholder approval will not be required to approve the issue or conversion of the convertible notes.

#### Reduction of Senior Debt

ABC will use the net proceeds from the Sale Transaction and the issue of convertible notes to partially repay its senior debt under its syndicated bank facility. The Company's existing syndicated bank debt is expected to reduce by approximately A\$750 million.

ABC requires the consent of the majority of its banks to proceed with the Sale Transaction.

At no point has the Company been in breach of its banking covenants, nor are these initiatives in response to any pressure or suggestion from its banks. If the Sale Transaction and/or convertible notes issue do not proceed, the Company will continue to be able to meet its financial covenants under its existing banking facilities.

While the Company has entered into minor bank facilities to fund its day to day working capital requirements, its only material bank facility is the syndicated bank facility.

#### Partnership for Growth and Returns

This transaction represents an excellent opportunity for ABC to realise significant value for its US business at a highly attractive price, whilst retaining a material ongoing stake in an important growth market. In addition, the transaction will significantly reduce the Company's syndicated bank debt.

Eddy Groves said "Following these transactions, we will be in a strong financial position. We will be readily able to fund our growth path and, at the same time, maintain a low-risk capital structure."

William Davis, CEO of ABC's US business, Learning Care Group, Inc., said, "This strong collaboration of ABC's strategic position in the child care industry, coupled with the financial resources of Morgan Stanley, will help to ensure that Learning Care Group attains its vision of operating the highest quality early education and child care facilities across the country."

Steve Trevor, Co-Head of Morgan Stanley Private Equity, said "We are excited to partner with ABC, a leading player in the early education and childcare space, to facilitate the Learning Care Group's continued growth and profitability. The Learning Care Group is well positioned with its strong management team to take advantage of the excellent long-term growth prospects in the education sector. We also look forward to partnering with ABC's Australian-based executive team on this opportunity going forward. ABC's recent acquisitions and new childcare centres under construction suggest rapid growth and increased profitability in the immediate and longer term."

### **Shareholder approval**

The Company does not anticipate that shareholder approval will be required for the Sale Transaction, as the US Business is not ABC's main undertaking and the sale of an interest in the US business will not amount to a significant change to the nature or scale of ABC's activities. Last financial year the US Business contributed less than 20% of ABC's EBITDA and less than 40% of ABC's revenue.

### **UK Voucher Business**

As part of ABC's commitment to focus on early childcare services, the Board has previously flagged its intention to divest property assets (see ASX announcements dated 29 May 2007, 28 November 2007, 18 December 2007 and 25 February 2008). The Company's core property assets are early childcare education centres and its office premises.

Late last year, the Board also resolved to initiate a sale process for the Company's UK vouchers business. As part of that process, a tender process will be undertaken and a confidential information memorandum prepared. The information memorandum is expected to be made available to interested parties shortly, and the transaction concluded in the first half of calendar 2008.

Whilst not material transactions the sale of the UK vouchers business, together with the previously announced intended sale of the Company's property assets, will provide ABC with further flexibility to reduce its syndicated bank debt if this is considered appropriate at the time. ABC is under no obligation to use such proceeds to reduce its syndicated bank facility.

Eddy Groves said "The transaction we have announced today in the US and the proposed sale of our UK vouchers business will have no impact on our Australian and New Zealand business, which continues to perform well. The management team and I remain, as always, passionately committed to delivering the highest possible standards of early childhood education to many thousands of Australian and New Zealand children."

ABC will be able to provide more details in relation to the transaction and its impact on the company's financial guidance following the execution of definitive documentation.

Yours faithfully

A handwritten signature in black ink, appearing to be 'Matthew Horton', with a stylized, flowing script.

Matthew Horton  
General Counsel/Company Secretary

**Contacts:****Media enquiries**

Lisa Keenan  
nightingale  
(03) 9815 2722  
0409 150 771

Kate Inverarity  
nightingale  
(03) 9815 2722  
0413 163 020

Scott Emerson  
Crook Publicity  
0401 998 181

**Analysts**

Jonathan Yellowley  
jyellowley@childcare.com.au

Notes to Editor**About Morgan Stanley Private Equity**

Morgan Stanley Private Equity, part of Morgan Stanley Investment Management's Merchant Banking Division, makes private equity and equity-related investments on a global basis. Morgan Stanley Private Equity utilizes Morgan Stanley's vast resources, including the Firm's global franchise and relationships with leading corporates, management teams and financial sponsors, to source attractive opportunities for its investment funds. Morgan Stanley's roots in private equity investing date back to 1985 with the Morgan Stanley Capital Partners private equity funds. To date, Morgan Stanley Private Equity and its predecessor funds have invested nearly \$6.5 billion of equity across a broad spectrum of industries.

**US Business**

ABC's US business comprises Learning Care Group, Inc, which is headquartered in Novi, Mich. Learning Care Group provides early education and care services to children between the ages of six weeks and 12 years under its umbrella of brands: The Children's Courtyard, Childtime Learning Centers, La Petite Academy, Montessori Unlimited and Tutor Time Child Care / Learning Centers.

Between these five brands, Learning Care Group has approximately 1,150 schools (corporate and franchise) with a system-wide capacity to serve close to 167,000 children in the U.S. and internationally. For more information on the Learning Care Group, Inc., please visit [www.learningcaregroup.com](http://www.learningcaregroup.com).

**UK Voucher Business**

The Busy Bees voucher division is one of the leading childcare voucher providers in the UK, servicing more companies than any other provider. The company provides tax efficient childcare vouchers to employers, who offer them to their employees as a benefit in an agreed salary sacrifice programme. Busy Bees Vouchers are accepted by all forms of registered childcare providers, including other nurseries, crèches and out of school clubs. Separately, and unrelated to today's announcement ABC Learning owns The Busy Bees nursery business which provides nursery places for below school aged children and offers out of school and holiday care for children up to eleven years old. It operates a network of 33 owned and 15 managed centres, together offering more than 4,000 places across the UK.

**SUMMARY OF MEMORANDUM OF UNDERSTANDING  
BETWEEN A.B.C. LEARNING CENTRES LIMITED (“ABC”)  
AND MORGAN STANLEY CAPITAL  
PARTNERS V FUNDING LP (THE “FUND”)**

***Summary of Terms***

**Proposed Transaction**

The parties shall cause their respective representatives to meet, confer and negotiate the terms of a sale to the Fund of:

- (i) A 60% equity interest in ABC’s US business for an aggregate purchase price reflecting an enterprise valuation for the business of US\$775 million. US\$30 million of the purchase price will be deferred and payable only in the event that the business achieves its EBITDA target for its fiscal year ending June 30, 2009.
- (ii) Convertible securities issued by ABC and convertible into shares of capital stock of ABC constituting approximately 10% of ABC’s fully diluted shares outstanding.

**Conditions Precedent to Signing Definitive Documents**

- o Negotiation and finalization of definitive documents
- o The Fund’s receipt of financing commitments and completion of related due diligence
- o Final approval of ABC board of directors
- o Final approval of the Fund’s investment committee
- o Receipt by ABC of consents from its lenders under its banking facilities
- o Necessary approvals from Government entities and the absence of any orders or injunctions prohibiting the transactions.

**Exclusivity**

Prior to March 25, 2008 (New York time), ABC may not solicit proposals relating to, or provide information in connection with, or enter into any discussions, negotiations, understandings or agreements relating to, any disposition of equity securities representing all or a portion of the Company’s interest in its US business or assets representing all or a portion of the total revenue or total assets of its US business.

ABC is always free to provide information in connection with, or enter into any discussions, negotiations, understandings or agreements relating to, any (i) proposal or offer with respect to a scheme of arrangement, consolidation, public bid, recapitalization, reorganization, share exchange, business combination or similar transaction involving ABC, or (ii) any proposal or offer to acquire 50% or more of any class of capital stock of ABC or consolidated total assets of ABC.