

# Solution is as simple as ABC: resign, Eddy

By RHYS HAYNES

CHILDCARE Centre giant ABC Learning fast lost its market appeal yesterday, with investors selling off the shares, and one analyst calling for founder Eddy Groves to resign.

The company's shares dived 23 per cent after soaring 45 per cent the previous day on news it had locked in the sale of 60 per cent of its US business.

Investors digested the news overnight and by late yesterday the shares ended 47c lower at \$1.51.

The stock was travelling at above \$7 a year ago before being crippled by fear the company faced debt problems.

Yesterday brokers cautioned about jumping on board ABC Learning while it was cheap.

Macquarie analysts warned that



Eddy Groves

ABC had revealed that its local first half earnings per centre had fallen 39 per cent and the underlying total centre earnings fell 27 per cent to just under \$80 million.

This was despite the average number of centres increasing by 20 per cent to 1200.

"If ABC can't increase the occupancy of these centres to targeted levels, there could be a significant fall in earnings in FY10," the analysts said.

ABC blamed the fall in earnings on below-optimal management of occu-

pancy, wages and on-costs increasing by 17 per cent, wage inefficiencies due to sub-optimal roster management and lower than expected increases in parent fees.

"It is difficult to understand why these problems were not picked up earlier in the first half and the earnings guidance adjusted to reflect these," the analysts said.

ABC said on Tuesday it had sealed the 60 per cent sale of its US business to Morgan Stanley Private Equity, valuing the entire business at \$742 million.

Macquarie now has a 12-month price target of \$1.39 per share.

"ABS remains in speculative territory. Disclosure remains inadequate and further equity raisings are a possibility," it said.

"Given the deteriorating outlook for the economy and the poor communication from ABC, we doubt investors will give ABC the benefit of the doubt over a potential rebound in FY09 earnings."

Elsewhere, ABN Amro analysts upgraded ABC from a hold to a buy.

Meanwhile, the resignation of company chairwoman Sallyanne Atkinson, two directors and the chief financial officer was not enough for some.

Sharemarket analysis firm wiseowl yesterday said the company's founder Mr Groves should have followed his colleagues.

"I think it is time for Eddy Groves to step aside," said wiseowl equities analyst Sven Restel.

"The US asset sale was a fire sale. The market does not like fire sales. A new CEO and a clear direction is sometimes needed."

Mr Groves declined to comment.



Time for a rethink ... the headquarters of ABC Learning Centres at Murarrie, in Brisbane.

Picture: DAVID SPROULE