



G8 Education^{ltd}



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G8 Education – Results Presentation Half Year Ended 30 June 2017

G8 Education Limited (ASX:GEM)

21 August 2017

Highlights

- ✓ Strong growth in underlying EBIT (excluding net LDCPDP* Funding)
 - Guidance for full year maintained
 - Solid occupancy momentum in 1H17
 - Continued disciplined wage control
- ✓ New executive leadership team in place
- ✓ Successfully entered \$200 million club bank facility with major Australian and international banks
- ✓ Strong balance sheet following institutional and strategic equity placements
- ✓ Sustainable capital management policy via establishment of a proportionate dividend policy

*LDCPDP – Long Day Care Professional Day Care Funding less P&L costs relating to the funding

Key 1H17 performance statistics

+19%

Underlying EBIT
growth ex LDCPDF

+6%

Underlying EBIT
growth

+0.7%

Improvement in
underlying EBIT margin

+1.3%

Improvement in
occupancy growth
from March to July

1.18x

Net Debt to Reported
EBITDA at 30 June a
reduction of 1.05x

Group Financial Performance



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Consolidated Income Statement	HY1 2017 \$'000	HY1 2016 \$'000	%
Revenue from continuing operations	368,341	357,951	
Other Income	372	3,200	
Total Revenue	368,713	361,151	2.1%
Total expenses	(308,298)	(300,291)	2.7%
Reported EBIT	60,415	60,859	-0.7%
Total finance costs	(16,220)	(26,172)	-38.0%
Profit before income tax	44,195	34,688	27.4%
Income tax expense	(13,714)	(9,817)	39.7%
Profit for the year	30,481	24,870	22.6%
Basic earnings per share (cents per share)	7.54	6.62	13.8%
Add/(Less) non-operating transactions			
Deferred consideration	-	(2,500)	
Borrowing costs on refinancing	1,843	7,033	
Loss on disposal of assets	691	-	
Foreign currency translation loss	358	2,652	
Other	339	(16)	
Underlying Net Profit After Tax	33,711	32,040	5.2%
Underlying EPS (cents per share)	8.33	8.53	-2.3%
Underlying Earnings Before Interest and Tax	61,075	57,447	6.3%

- Operating Revenue increased by \$10.4m (2.9%), made up of the following:
 - Revenue growth from 2016 acquisitions of \$17.5m
 - 2017 acquisitions contribution of \$3m; offset by
 - LFL centres revenue reduction of \$10.3m, driven by fee increases being more than offset by lower occupancy, increased discounts and reduced LDCPDP funding
- Underlying EBIT growth in 1H17 was 6.3%, mainly due to wage efficiency in the LFL centres, while 2016 acquisitions performed in line with expectations to deliver EBIT contributions of \$3.8m
- During 1H17 a number of centres were impacted by weather events which resulted in a loss of EBIT of \$1m
- The Group completed the divestment of 17 centres in 1H17 recording a loss on disposal of \$0.7m. The divested centres had a combined EBIT loss of \$350k pa
- Reported NPAT grew by 22.6% mainly driven by lower finance costs with 1H16 including the write off of borrowing costs associated with the refinancing of the SGD260m bonds (\$7m)
- Reported EPS growth of 13.8% was driven by reduced borrowing costs with, underlying EPS being impact by recent share issues

Centre Performance Breakdown



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	1H16	1H17	Change vs pcp	Growth
Organic Group				
Parent fees	343,500	339,772	(3,728)	
Discounts	(8,826)	(11,191)	(2,366)	
Net LDC funding	2,947	(3,875)	(6,822)	
Kindy funding	5,620	6,485	865	
Other income	1,447	1,230	(217)	
Total Organic Group Revenue	344,687	332,420	(12,267)	(3.6%)
Wages expense	196,575	186,884	(9,691)	(4.9%)
<i>Wages as % of Revenue</i>	57.3%	56.2%	1.1%	
Rent expense	40,985	41,751	766	1.9%
<i>Rent as % of Revenue</i>	11.9%	12.6%	0.7%	
Other expense	38,976	34,344	(4,632)	(11.9%)
<i>Other as % of Revenue</i>	11.4%	10.3%	(1.0%)	
Reported Organic Centre EBIT	68,152	69,441	1,289	1.9%
2016 Acquisitions	286	3,844		
2017 Acquisitions	0	595		
Support and other costs	(10,991)	(12,805)		
Underlying EBIT	57,447	61,075	3,628	6.3%

- 1H17 LFL EBIT performance was 1.9% higher than pcp with savings in Wages and Childcare costs more than offsetting the increase in Rent expense. LFL fee increase of 2.4% was offset by lower occupancy in H1 (down 3.41% vs pcp)
- 1H17 revenue and profits were significantly impacted by the timing and quantum of Net LDCPDP Funding Revenues
- Adjusting for the impact of Net LDCPDP funding (\$6.8m) results in underlying EBIT improvement of 19.2%, with organic centre EBIT growth of \$8.1m (12.4%)
- Discounts were \$2.4m higher than pcp driven by the change in holiday policy to be in line with market and an increase in early bird re-enrolment discounts
- Wage performance improved by 1.1%pts compared to pcp, as the positive impacts of roster improvements from 2H16 flowed into the current period
- Other costs are 1%pts lower than pcp, driven by good childcare cost control and savings in repairs and maintenance from a unit cost perspective
- Support and other costs increased by \$1.8m driven by higher wages and other costs relating to the new business development team (\$1.0m), increased MD costs due to transitioning which will not be repeated in H2 (\$0.4m), and increased investment in training (\$0.2m)

Like for Likes calculated based on ownership for a full year. Acquisitions made part way through the year are captured in the following years data. Acquisitions made during 2016 and subsequent to that date are excluded.



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Operational Update

Occupancy - LFL

Rolling 12 month Occupancy			
State	2017	2016	Change in pcp
ACT	77.4%	84.0%	-6.6%
NSW	79.6%	82.9%	-3.3%
QLD	77.7%	81.7%	-4.0%
SA	82.0%	84.9%	-2.9%
VIC	78.3%	81.0%	-2.8%
WA	65.6%	70.4%	-4.8%
All	77.2%	80.6%	-3.4%

Rolling 12 month occupancy includes all centres owned at the time with 12 months worth of occupancy data

- Overall national supply increased by 3.7% over the last 12 months with 7,166 LDC centres operating as at 30 June 2017. This is higher than estimated growth in market demand of 2%-2.5%
- 12 month rolling occupancy to June 2017 has decreased 3.4%pts from 1H16
- The causes of the occupancy decline are consistent with that previously reported, being:
 - Increased supply in certain areas such as inner Sydney and ACT;
 - Macroeconomic weaknesses in markets such as WA and North Queensland; and
 - Centre specific issues
- From a market perspective, affordability has been impacted by continued sluggish wage growth as well as current industry settings such as the \$7.5k rebate cap. This is expected to be mitigated by the jobs for families package in July 2018
- Momentum since February has improved relative to the previous year, with the LFL occupancy increase between March and July being 1.3%pts higher than the equivalent increase in 2016

Key stakeholders

**502
Centres**

481 Australia
21 Singapore

**37,921
Licensed
places**

**50,000+
Families**

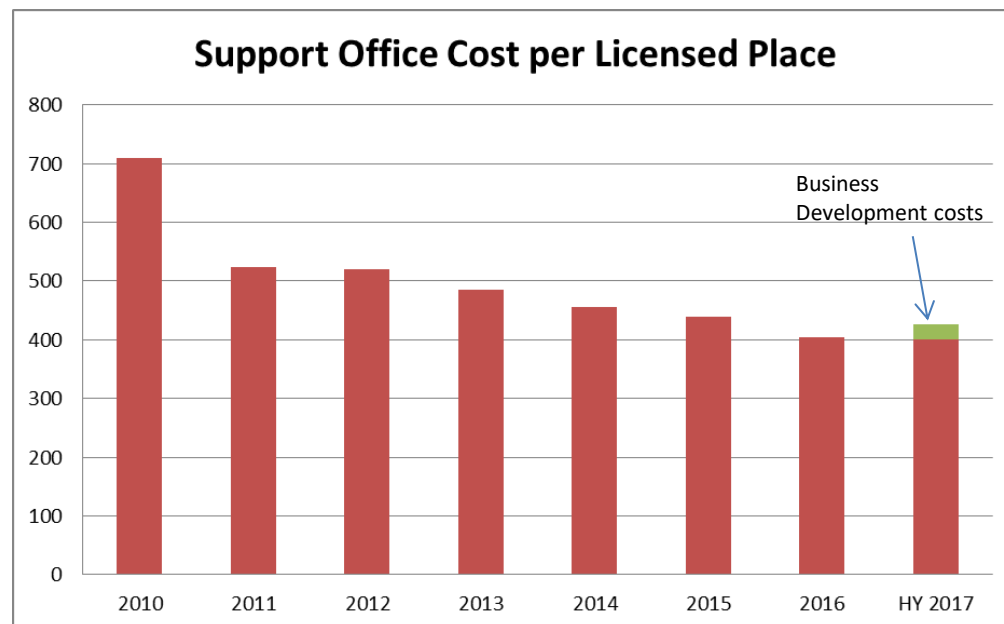
**23,000+
Shareholders**

**\$1.7bn
Market
cap**

**9,000+
Team
members**

Support Cost per Licensed Place

	2010	2011	2012	2013	2014	2015	2016	HY 2017
Number of Places	6,304	9,868	12,661	19,085	32,782	36,200	38,713	37,921
Support Office Cost per Licensed Place	\$710	\$523	\$520	\$485	\$455	\$439	\$403	\$427



The increase in support office cost per licence place (plp) resulted from the newly created Business Development (\$27 plp) team to manage the Group's acquisitions pipeline, with the EBIT and licensed place benefits to be realised in future periods

Support office cost per place includes all costs associated with the operation and execution of our centre based strategy. It does not include public company costs such as listing fees and is designed to give an indication of trends in productivity and efficiency at the Support Office level



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Financial Update

Balance Sheet

	30 June 2017 \$'000	31 December 2016 \$'000
ASSETS		
Current assets		
Cash and cash equivalents	160,729	26,467
Trade and other receivables	19,087	22,948
Other current assets	12,298	9,234
Current tax asset	8,178	2,923
Total current assets	200,292	61,572
Non-current assets		
Property, plant and equipment	54,862	54,845
Deferred tax assets	15,991	15,415
Goodwill	1,036,274	1,015,002
Other non-current assets	26,358	23,022
Derivative financial instruments	2,872	3,359
Total non-current assets	1,136,357	1,111,643
Total assets	1,336,649	1,173,216
LIABILITIES		
Current liabilities		
Trade and other payables	95,300	88,847
Borrowings	49,628	-
Provisions	27,364	25,956
Total current liabilities	172,292	114,803
Non-current liabilities		
Borrowings	320,070	410,649
Other payables	1,010	754
Provisions	4,990	4,783
Derivative financial instruments	16,120	16,351
Total non-current liabilities	342,190	432,537
Total liabilities	514,482	547,340
Net assets	822,167	625,875

- \$134.2m increase in Cash mainly relates to the equity raising (\$195m) offset by the repayment of the Bankwest facility (\$40m) and dividends (\$29.2m)
- Goodwill has increased due to acquisitions
- Other non-current assets primarily relates to deposits on centre acquisitions
- The \$6.5m increase in Trade and Other Payables is due to the recognition of contingent consideration relating to greenfield development sites (\$13m) offset by the timing of creditor payments
- The \$50m AUD bonds have been reclassified to current with repayment due in March 2018.
- Borrowings have decreased by circa \$41m with the repayment of the Bankwest facility

Cash Flow



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	30-Jun-17 \$'000	30-Jun-16 \$'000
Cash flows from Operating Activities		
Receipts from customers (net of GST)	366,175	367,704
Payments to suppliers and employees (net of GST)	(309,928)	(304,098)
Interest received	158	1,051
Interest paid	(13,123)	(11,919)
Income taxes paid	(18,536)	(19,565)
Net cash inflows from operating activities	24,746	33,173
Cash flows from Investing Activities		
Payments for property plant and equipment	(7,332)	(11,335)
Payments for divestments	(857)	-
Payments for purchase of businesses (net of cash acquired)	(8,621)	(14,593)
Net cash outflows from investing activities	(16,810)	(25,928)
Cash flows from Financing Activities		
Share issue costs	(5,048)	(18)
Proceeds from issue of shares	200,675	6,537
Corporate note transaction costs	(192)	(12,482)
Proceeds from issue of corporate note	-	269,281
Repayment of corporate note	-	(411,208)
Dividends paid	(29,200)	(30,852)
(Repayment of)/Inflows from borrowings	(40,000)	20,000
Premium paid on FX option	-	(11,028)
Proceeds from sale of FX option	-	8,281
Net cash inflows (cash outflows) from financing activities	126,235	(161,488)
Net (decrease) / increase in cash and cash equivalents	134,171	(154,243)
Cash and cash equivalents at the beginning of the financial year	26,453	193,840
Effects of exchange rate changes on cash	91	230
Cash and cash equivalents at the end of the financial year	160,715	39,827

- After adjusting for timing of CCB/CCR payments (\$5m) and a one-off increase in prepayment relating to LDCPDP activities (\$6m), underlying cash conversion was 101%, in line with previous periods
- Acquisition activity was lower in 2017 than the prior year, with 8 centres being settled versus 9 in the prior year.
- The \$200m financing cash inflow primarily relates to the institutional equity placement and CIPI share placement

Key Ratios

Key Financial Ratios	2017	2016
Fixed Charges Cover (annualised H2 16 & H1 17)	2.17	2.05
Net Debt to Reported EBITDA (historical rolling)	1.18	2.23
Net Debt : Capital	26.2%	43.0%
Post Tax Return on Equity	12.7%	12.8%

- The Group continues to have significant head room in relation to its financial covenants
- Net Leverage and Debt to Capital ratios have reduced significantly due to capital raising, providing the Group with significant financial flexibility

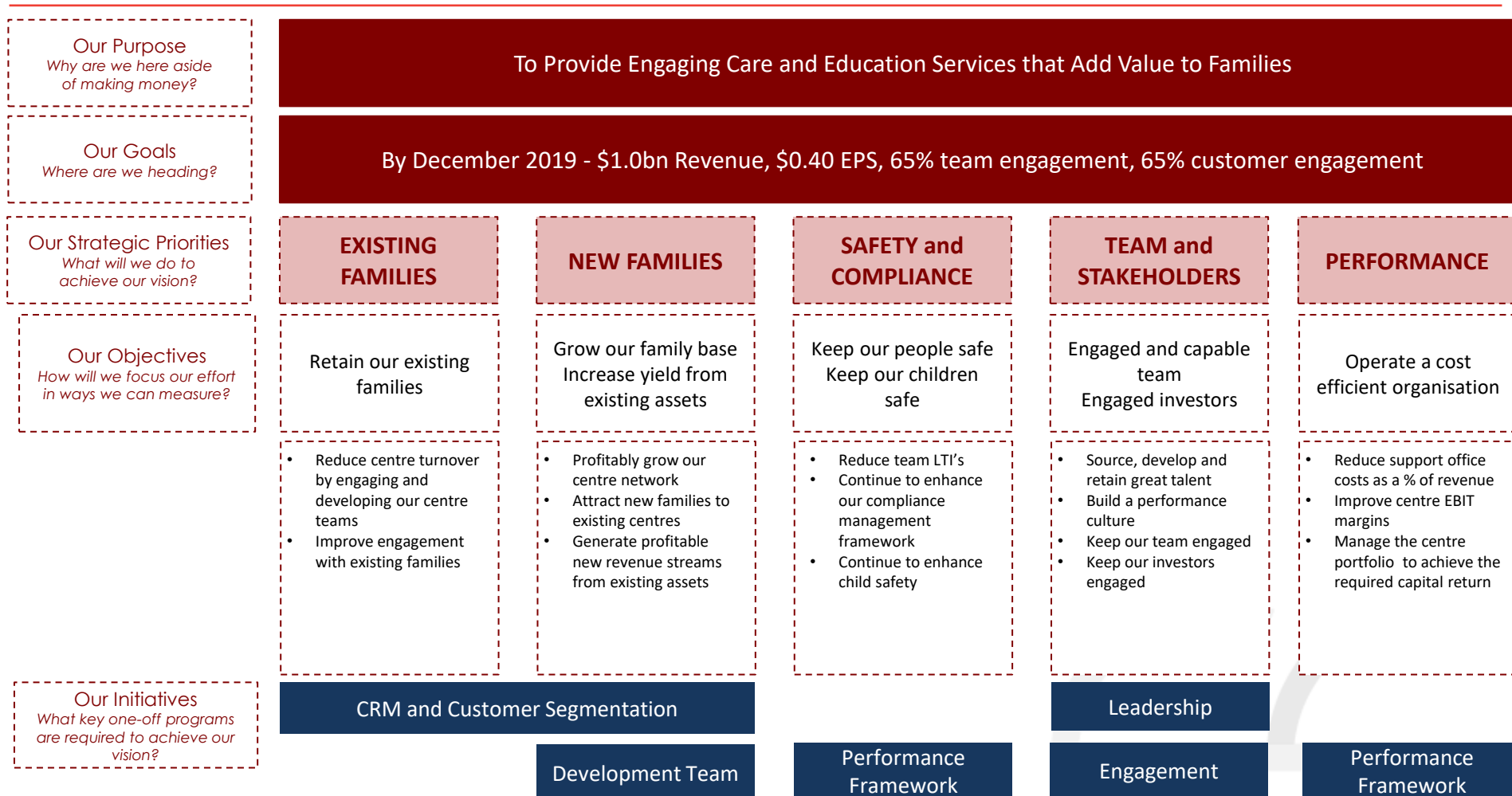
Capital Structure

G8's capital structure as at 30 June 2017 consisted of the following Debt and Equity instruments:

	Class	Maturity	Cost	HY 17 Principle/Issuance	FY 16 Principle/Issuance
Debt	Senior Unsecured Note	7-Aug-19	7.68%	A\$70m	A\$70m
	Senior Unsecured Note	19-May-19	6.54%	S\$270m	S\$270m
	Senior Unsecured Note	17-Feb-18	BBSW + 3.90%	A\$50m	A\$50m
	Secured Bank Debt Facility	31-Dec-18		A\$50m facility drawn to NIL	A\$50m drawn to \$40m
Equity	Ordinary Shares	443,321,969 on issue		\$855,343m contributed equity	\$641,848m contributed equity

- The foreign currency exposure on the S\$270m corporate notes has been fully hedged
- Since June 2017, the Group has repaid the \$70m 7.65% fixed Australian notes, saving \$5.4m in annualised interest cost
- Significant capital management activities have been undertaken, comprising:
 - Raising \$195m in equity capital through a \$100m domestic institutional placement (at \$3.20 per share) and a \$95m private placement to CFCG Investment Partners International (Australia) Pty Ltd (at \$3.88 per share)
 - Execution on 18 August of a \$200m club bank facility to refinance the existing \$50m Bankwest bank debt facility

G8 Strategic Framework



Implementation of the Group's strategic initiatives is progressing broadly in line with expectations

Trading Update

- Occupancy growth since 30 June 2017 has continued to track ahead of last year, with a number of initiatives in place to drive occupancy
- Cost performance for 2H17 to date has been in line with 1H17
- The Group is forecast to complete 8 acquisitions in 2H17, with earnings from 2017 acquisitions forecast to be circa \$3m for FY17
- Based on Q2 trend in relation to occupancy growth and wage cost efficiencies being continued for the balance of the year, the Group maintains its recent guidance of full-year underlying EBIT of mid-\$170m



Capital Management

As part of its ongoing capital management activities, the Group announces the following changes to its bank debt facilities and dividend policies

Bank Facility

- On 18 August, the Group finalised and executed a \$200m, 3-year club bank facility involving CBA, Westpac and Sumitomo Mutsui Banking Corporation
- The facility has financial covenants relating to Fixed Charges Cover, Net Leverage and Gearing, all in line with market standards
- Together with the equity capital raising that was completed in 1H17, the expanded bank debt facility provides G8 with significant financial flexibility to pursue its strategy and resulting growth activities



Capital Management (continued)

Dividend Policy

- From January 2018, G8 will pay dividends on a semi-annual basis with those dividends being declared in the full year and half year results announcements
- G8 will also transition to a proportionate dividend policy under which the Board intends to pay out 70-80% of underlying NPAT in dividends
- The Board intends to apply the new dividend policy from the interim dividend in FY19 onwards
- In FY18 the Board intends to declare dividends which have the effect of transitioning G8 towards the new policy range. As a result, in FY18 the Group is targeting to pay dividends of 10c per share in both March and September, for a total of 20c per share in 2018. This equates to a fully franked dividend yield of more than 5% based on current share price
- The new policy provides a good balance between providing flexibility for the Group to pursue its strategy and growth plans while still providing an attractive level of ongoing earnings for shareholders. The transition arrangements are also intended to mitigate any impact to shareholders as the Group builds its earnings and resulting dividends
- To provide a source of funding for potential acquisitions, the Group intends to continue the Dividend Reinvestment Plan (“DRP”) with a discount of 2% applying to the DRP. This will provide shareholders with an ongoing opportunity to re-invest their earnings into G8 at attractive prices



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THANK YOU

Questions?