ASX Announcement

G8 Education Limited
(ASX:GEM)

21 August 2017

Financial results for the half-year ended 30 June 2017, and Update on Capital Management Strategy

G8 Education Limited ("G8" or "the Group") (ASX: GEM) today announces its results for the half-year ended 30 June 2017, as well as providing updates in relation to its ongoing capital management strategy.

Half-year Results - Highlights:

19% growth in underlying EBIT (excluding the impact of net LDCPDP funding)

New executive leadership in place

Continued disciplined wage control and solid occupancy momentum in 1H17

In announcing the result, G8 Managing Director, Gary Carroll commented: "The cost efficiencies established in 2H16 has continued in the current half-year, enabling the Group to generate good levels of profit growth despite the lower occupancy levels. After a slow start to the year, occupancy has been growing ahead of last year, and we are confident that the initiatives that we have in place will continue this trend for the remainder of the year. On this basis, we maintain our guidance for full-year underlying EBIT to be mid-$170m".

Capital Management Strategy Update

During the half, the G8 Board conducted a comprehensive review of the Group's capital management strategy. The objective of the review was to the Group had access to committed debt and equity funding to enable it to implement its strategy and growth activities, while ensuring there is the right balance between financial flexibility and providing good levels of ongoing earnings for shareholders.

The key outcomes of the capital management strategy review are a reduction in current and targeted gearing levels, implementation of a new club bank facility and a transition to a proportionate dividend policy. Further details in relation to each of these changes are set out below.

Reduction in Gearing Levels
During the half, the Group raised $195m via 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). This decreased the Group's Net Leverage from 2.2x at 31 December 2016 to 1.2x at 30 June 2017. G8's target Net Leverage level has been reset from 2.0x to 1.5-1.7x, ensuring the Group has sufficient financial flexibility to execute its strategy.

Club Bank Debt Facility
On 18 August, G8 successfully executed a $200m 3-year club bank debt facility with CBA, Westpac and Sumitomo Mitsui Banking Corporation. The facility, which increases the Group's committed debt facilities by $150m, has market standard financial ratios covering Fixed Charges Cover, Net Leverage and Gearing.

The facility is available to meet the Group's working capital requirements, including the acquisition of further child care centres.

Dividend Policy

G8 today announces changes to its dividend policy which will better position G8 to continue to implement its strategic framework, including the Group's ambition to grow revenue and Earnings Per Share.

From 1 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 make dividend payments which have the effect of transitioning G8 towards the new policy. Accordingly, in FY18 the Group intends to pay dividends of 10c per share in both March and September 2018, resulting in a total dividend of 20c per share in 2018. This equates to a fully franked dividend yield of more than 5% based on current share price.

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 reinvest their earnings into G8 at attractive prices.

In announcing the results from the capital management review, G8 Chairman Mark Johnson said: "In our view, the new capital management framework provides the right balance between flexibility, investing for growth and providing attractive levels of ongoing earnings for shareholders. In addition, our transitional dividend arrangements will mitigate any potential short-term impacts for shareholders. The successful equity and club bank debt raisings in the half provide a strong endorsement of both our operating performance and capital management strategy."

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