G8 Education ltd

RESULTS PRESENTATION

YEAR ENDED 31 DECEMBER 2017

G8 Education Limited (ASX:GEM)

26 February 2018

HIGHLIGHTS

- Delivered against our 2017 strategic goals to lay the foundation for sustainable growth by:
  - reducing team turnover
  - recruiting the right leaders, starting with the executive leadership team
  - improving the quality of our centres
  - strengthening our balance sheet
- 2.2% growth in underlying EBIT (pre-LDCPDP) achieved in a challenging market environment, with final result slightly behind guidance driven by slightly higher discounts ($1m) and increased investment in resources for acquisition centres and kindergarten rooms
- FY17 Organic EBIT of $172.8m, $4.6m lower than PCP primarily driven by Q4 regulator staff ratio changes and depreciation
- Acquisitions performing in line with expectations, delivering incremental $12m in EBIT
- Continued strong cashflow generation, with underlying cash conversion of 96%
- Stable occupancy in January with committed forward bookings heading in the right direction

KEY FY17 PERFORMANCE STATISTICS

2.2%
Underlying EBIT growth ex LDCPDP

1.62X
Net Leverage

ACQUISITIONS
26
Brownfield
11
Greenfield

1%pts
Reduced team turnover

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

GROUP PERFORMANCE FY17

Consolidated Income Statement	2017 $'000	2016 $'000	Change Vs PCP %
Total Revenue	795,759	777,470	2.4%
Total Expenses	(644,881)	(616,779)	(4.6%)
Reported EBIT	**150,878**	**160,691**	**(6.1%)**
Net finance costs	(33,097)	(46,022)	28.1%
Profit before income tax	**117,781**	**114,669**	**2.7%**
Income tax expense	(37,200)	(34,404)	
Profit for the year	**80,581**	**80,265**	**0.4%**
Add/(Less) non-operating transactions	12,293	13,077	
Underlying Net Profit After Tax	**92,874**	**93,342**	**(0.5%)**
Underlying Earnings Before Interest and Tax	**156,034**	**160,660**	**(2.9%)**

Basic earnings per share (cents per share)	**18.92**	**21.22**	**(10.8%)**
Underlying EPS (cents per share)	**21.80**	**24.68**	**(11.7%)**

Revenue ▲ 2.4%

Group revenue increased by $18m with revenue growth from 2016 & 2017 acquisitions ($29m & $18m respectively) and organic fee increases being offset by:

- Lower LFL occupancy (3.2%)
- Increased discounting activity ($5m)
- Increased training investment and LDCPDP net funding impact vs PCP ($9m)
- Divested centres revenue ($15m)

Expenses ▲ 4.6%

- Continued focus on management of childcare costs and wages resulted in savings in the LFL centres offset by regulator staff ratio change
- Investment in centre capital works to improve quality increased depreciation in LFL centres of $2m vs pcp

Underlying EBIT Pre LDCPDP ▲ 2.2%

After adjusting for losses relating to trading and sale of divested centres of $2m vs pcp, underlying EBIT growth was 3.4%

Underlying EPS ▼ 11.7%

- As expected EPS is lower than PCP due to equity raised to fund future earnings growth via the development pipeline
- Finance costs reduced due to the repayment of the $70m AUD notes partially offset by the FX impact of hedging and one off redemption costs

ORGANIC CENTRE PERFORMANCE

	2017	% Revenue	2016	% Revenue	Change vs pcp	Change vs pcp
Organic Revenue	**707,011**		**716,009**		**(8,998)**	(1.3%)
Wages	380,438	53.8%	384,997	53.8%	(4,558)	(1.2%)
Rent	82,724	11.7%	79,279	11.1%	3,445	4.3%
Other Expenses	71,089	10.1%	74,331	10.4%	(3,242)	(4.4%)
Expenses	**534,250**	**75.6%**	**538,606**	**75.2%**	**(4,356)**	(0.8%)
Organic Group EBIT	**172,761**	**24.4%**	**177,402**	**24.8%**	**(4,642)**	(2.6%)
2016 Acquisitions	13,051		3,352		9,699	
2017 Acquisitions	2,369		0		2,369	
Divested Centres	(2,361)		(437)		(1,925)	
Centre EBIT	**185,819**		**180,318**		**5,501**	**3.1%**
Support Office	(23,558)		(21,549)		(2,009)	
Underlying EBIT (Pre-LDCPDP)	**162,261**		**158,769**		**3,492**	**2.2%**
Net LDCPDP Funding	**(6,227)**		**1,891**		**(8,118)**	
Underlying Group EBIT	**156,034**		**160,660**		**(4,625)**	**(2.9%)**

- Parent fees in line with PCP with occupancy decrease offset by fee increases
- Revenue $9m lower driven by circa $4m discounts and various other income items
- Benefits from continuing wage efficiency focus were offset by regulator staff ratio changes
- Other costs are $3.2m lower than PCP driven by procurement initiatives and marketing savings, with R&M broadly in line with prior year
- Rent expenses were $3.4m higher (4.3%) than PCP driven by a larger than average catch up component relating to market reviews for a number of older centres
- $2m increase in support office costs driven by one-off MD transition costs ($0.4m) and investment in team to drive the Greenfield development pipeline ($1.0m)

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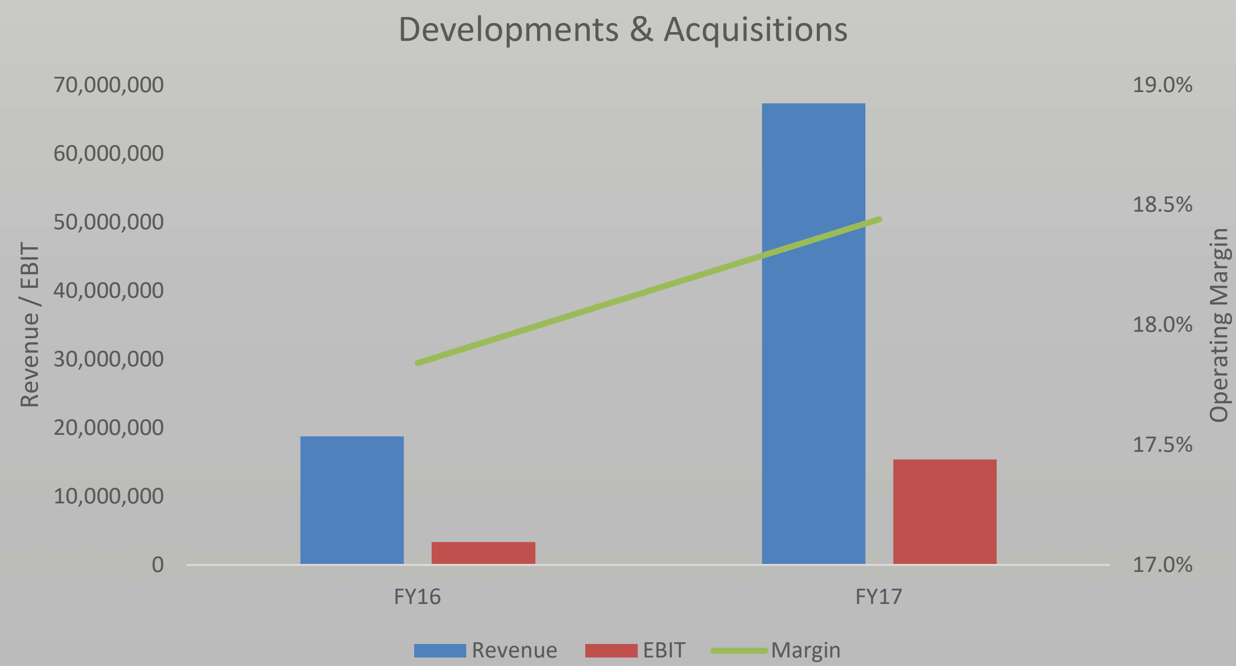
DEVELOPMENTS & ACQUISITIONS

- The FY16 cohort of centres continue to mature with revenues and operating margins both increasing on PCP. Occupancy in these centres was circa 79%.
- The FY17 cohort consisted of 26 brownfield and 11 greenfield centres. Given the timing of the brownfield acquisitions they did not make a material contribution to 2017 EBIT. As with FY16, the bulk of the greenfield developments were in H2 with occupancy and EBIT expected to grow in FY18.
- As part of our ongoing portfolio management we divested 22 underperforming centres.
- The previously announced development portfolio is on track with circa 30 centres in FY18 and 10 in FY19



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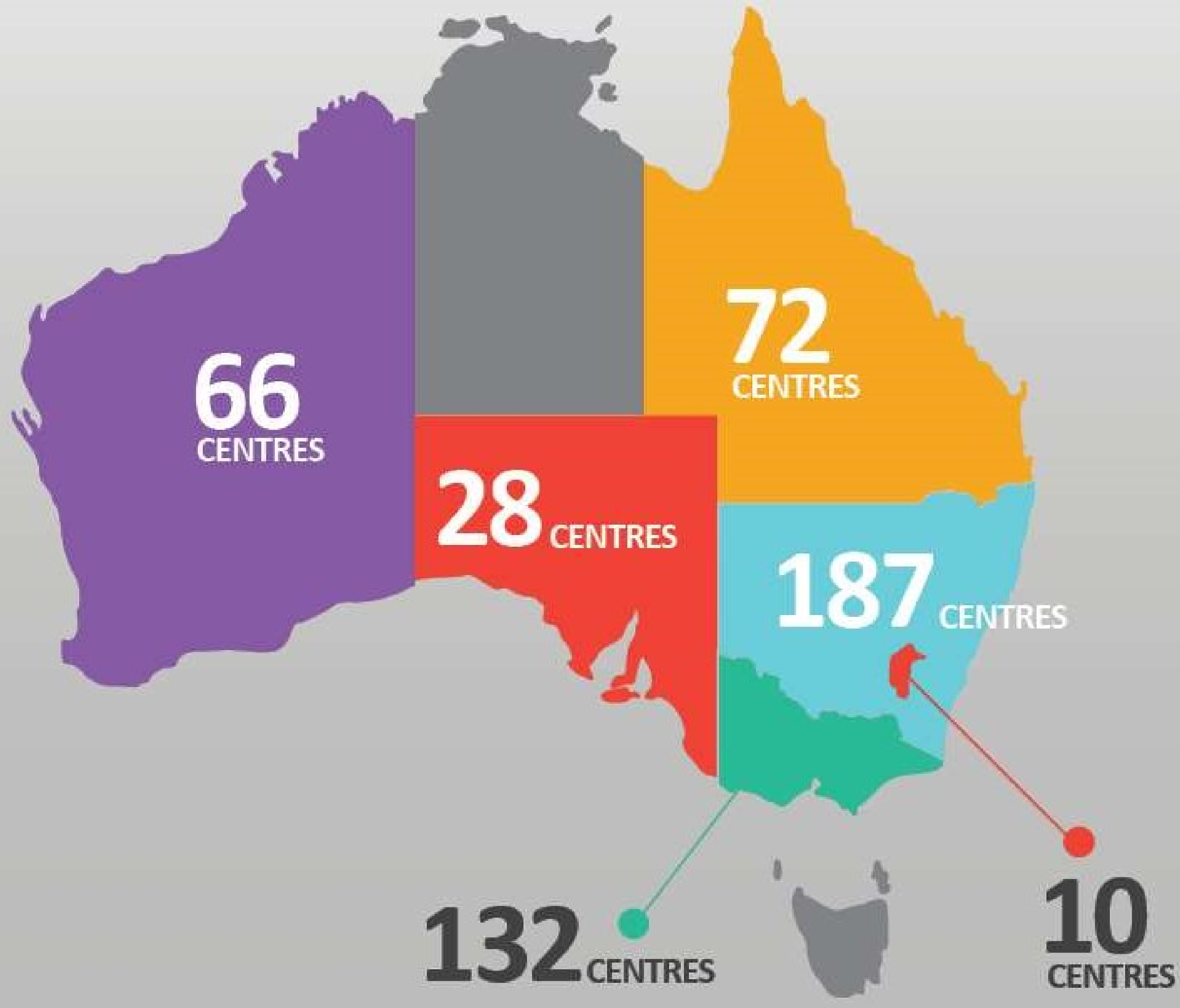
OPERATIONAL **UPDATE**

LFL OCCUPANCY
& CENTRES BY STATE

State	FY16	FY17	Change
ACT	79.6%	76.1%	(3.5%)
NSW	81.5%	77.6%	(3.9%)
Qld	81.1%	76.8%	(4.3%)
SA	83.5%	80.6%	(2.9%)
VIC	79.8%	76.3%	(3.5%)
WA	69.1%	67.2%	(1.9%)
All	79.9%	76.7%	(3.2%)



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OCCUPANCY
INSIGHTS

Demand - 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.

Supply - Overall national supply increased by 4.15% over the last 12 months with 7,300 LDC centres operating as at 31 December 2017. The rate of supply slowed throughout the year, driven by credit constraints, with further slow down being forecast in 2018.

Oversupply – particularly inner Sydney, Brisbane & Melbourne.

Undersupply – postcodes in West Sydney and regional NSW benefiting from undersupply.

Macroeconomic – weakness in employment markets in north Queensland and Western Australia.

Staff Turnover – Occupancy has been impacted by turnover in centre manager and other key staff during the year.

Other internal issues – For example, centres with lower than benchmark NPS and/or quality ratings.

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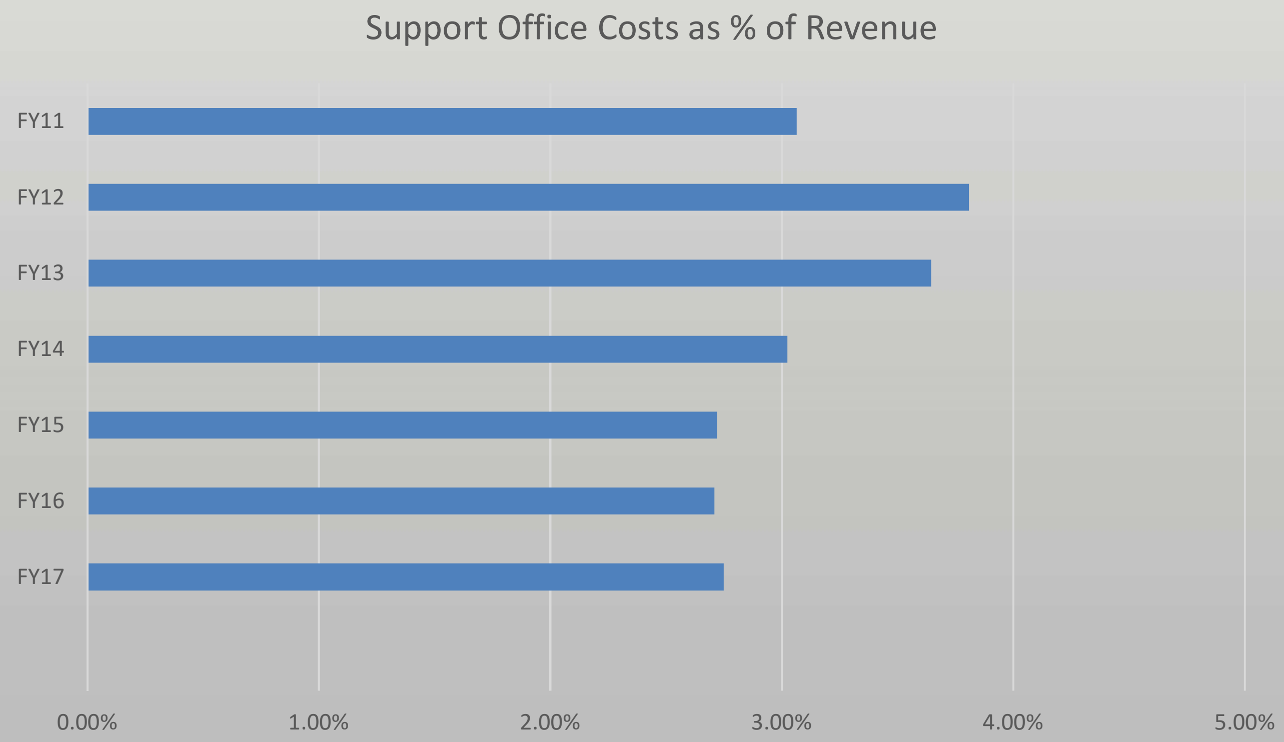
SUPPORT OFFICE **COSTS**

- Modest increase in support office costs in 2017 was driven by investment in resources to support the development pipeline with EBIT and licensed place benefits to be realised in future periods



Support office cost per place includes 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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CAPITAL EMPLOYED

$'000	FY17	FY16
Underlying EBIT	**156,034**	**160,660**
Working Capital	21,023	15,414
Property Plant and equipment	58,826	54,845
Intangible	1,087,969	1,015,002
Current & deferred tax asset	16,472	18,338
Other	(570)	(8,471)
Capital Employed	**1,183,720**	**1,095,128**
Return of capital employed (ROCE)	**13.2%**	**14.7%**

The Group achieved a 13.2% ROCE, slightly down compared to PCP but a creditable result in the current challenging market environment.

CAPEX

- $17m capex spent as at 31 December 2017
- Further $3.5m committed as at 31 December 2017 with supplier payment terms having an impact on the timing of cashflows
- 16 playground upgrades
- 17 flooring upgrades
- 101 painting upgrades
- 107 Air-conditioning upgrades

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CASHFLOW

	31-Dec-17 $'000	31-Dec-16 $'000
Cash flows from Operating Activities		
Receipts from customers (net of GST)	777,833	769,277
Payments to suppliers and employees (net of GST)	(626,525)	(601,491)
Interest received	1,004	1,198
Interest paid	(26,199)	(25,431)
Income taxes paid	(34,102)	(34,970)
Net cash inflows from operating activities	**92,011**	**108,583**
Cash flows from Investing Activities		
Payments for purchase of businesses	(67,422)	(82,140)
Payments for divestments	(358)	-
Payments for property plant and equipment	(18,432)	(25,009)
Net cash outflows from investing activities	**(86,212)**	**(107,149)**
Cash flows from Financing Activities		
Share issue costs	(5,357)	(57)
Debt issue costs	(4,357)	(12,747)
Dividends paid	(62,787)	(57,964)
Repayment of corporate note	(70,000)	(141,927)
Proceeds from issue of shares	200,675	6,537
(Outflows)/Inflows from borrowings	(41,204)	40,000
Other FX items	-	(2,747)
Net cash inflows (outflows) from financing activities	**16,970**	**(168,905)**
Net increase / (decrease) in cash	22,769	(167,471)
Cash and cash equivalents at beginning of the year	26,453	193,826
Effects of exchange rate changes on cash	(27)	98
Cash and cash equivalents at the end of the year	**49,195**	**26,453**

- Underlying cash conversion was 96% after adjusting for repayment of centre enrolment advances due to change to government funding ($2.4m) and one off increase in prepayments relating to LDCPDP activities ($4.6m).
- An additional $3.5m of investment in centres through PPE was paid post December which related to capital work completed in 2017.
- Acquisition activity was higher in 2017 settling 37 centres vs 21 in the prior year. The prior year acquisition amount includes $15m of deposits relating to acquisitions setting in future years.
- The $200m financing inflows primarily relates to the institutional equity placement and CIPI share placement
- The outflows from financing activities relates to the repayment of the $40m Bankwest facility and $70m FIIG AUD bonds

CAPITAL
STRUCTURE

G8's capital structure as at 31 December consisted of the following Debt and Equity instruments:

448m shares on issue

March 18 $50m AUD notes

May 19 $270m SGD Bonds

Dec 20 $200m Club Bank facility

- The foreign currency exposure on the $270m corporate notes has been fully hedged
- The Group repaid the $70m 7.65% fixed Australian notes, saving $5.4m in annualised interest cost. The $50m AUD notes will be paid on expiry in March 2018
- 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 and to assist in funding the Group's development pipeline

STRATEGIC PLAN

G8 AUSTRALIA SNAPSHOT

495 CENTRES
23 BRANDS
39,000+ LICENCED PLACES

10,000
STAFF

65,000+ CHILDREN/WEEK
50,000+ FAMILIES

ASX LISTED $1.4B MARKET CAP (13 FEB 18)
$800M REVENUE (2017)
$156M UNDERLYING EBIT (2017)

STRATEGIC **PLAN**

Purpose *(Why does G8 exist?)*	We create spaces that shape generations now and next
Vision *(What does G8 want to be recognised for, to build and achieve?)*	G8 will be known as the people that parents and policy-makers prefer to partner in nurturing and inspiring the next generation

2019 Strategic Goals				
2019 Strategic Goals	Revenue $1.2bn	EPS $0.40	Team Engagement >65%	NPS >65%
Strategic priorities *(What must be addressed or achieved?)*	Build a great team	Strengthen the foundation	Create sustainable differentiation	Continue profitable growth
Leading programs *(What key program of activities must be executed to deliver on the priorities?)*	Source, develop, engage and retain great talent	Deliver best in class education standards	Build a compelling customer experience	Grow centre network
	Build a performance culture	Elevate centre asset quality and IT standards	Attract new families to centres	Generate new revenue streams
		Secure safety and compliance standards		Improve EBIT margins

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TRADING UPDATE

- Occupancy for the first 5 weeks of 2018 has been stable relative to December 2017, with committed future bookings heading in the right direction
- The Group is projected to open 30 new greenfield centres in 2018 at a capital cost of $120m, with the EBIT contribution from these new centres not expected to be material given start up nature of these centres
- Incremental EBIT from 2016 and 2017 acquisitions is projected to be $15m in 2018
- Total capital expenditure (excluding acquisitions) is forecast to be $27m in 2018, with around $22m of this being spent on centre upgrade activity

JOBS FOR FAMILIES **PACKAGE UPDATE**

- From July 2018 the Government will increase funding by 20% which is expected to drive demand
- The Group is on track with its project to implement the new Jobs for Families funding package in July 2018
- As part of the project, G8 will be changing its child care management system, providing an enhanced experience for our families as well as simplifying and automating a significant number of processes for centre-based teams
- Detailed modelling is underway to identify focus areas to drive occupancy and assist families in maximising their funding entitlements

IN SUMMARY

ACHIEVEMENTS

- People strategy on track with 1%pt reduction in team turnover
- Equity of $200m raised and a bank debt facility of $200m put in place currently drawn to nil
- Repayment of $70m corporate note and $40m bank facility reducing gearing levels
- Continued selective and diciplined acquisition of brownfield centres at attractive multiples
- Improved centre quality
- Strong executive team in place and Board renewal

CHALLENGES

- Occupancy levels in a challenging market given increase supply
- Affordability challenges for our families due to sluggish wage growth and rebate cap

LOOKING FORWARD

Foundations being laid to take advantage of opportunities

Maturing development pipeline

Jobs for Families Package to stimulate demand and ease affordability for families

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THANK YOU
Questions?