ASX Announcement

G8 Education Limited
(ASX: GEM)

20 April 2018

2018 – Managing Director's Address

I would also like to extend my welcome to fellow shareholders to the 2018 Annual General Meeting for G8 Education Limited. I fully endorse Mark's view about the potential of the sector in which we operate, both in terms of its immense impact on Australia's future as well as the positive contribution it makes to the lives of Australian families every day. We take our responsibility to create environments where children can learn, develop and thrive very seriously.

I will spend the next few minutes providing you with an update in two key areas:

1. An overview of the current and projected demand and supply environment of the early education market in Australia, and the resulting implications for G8 Education's results in the 2018 year; and
2. Progress in relation to delivery of our Group strategy.

Turning firstly to the demand/supply environment, in 2017 the level of supply growth exceeded demand growth by around 2.5%. This disparity was a major driver of the reduction in occupancy that was experienced by our centres during the year. It is worth noting that our highest quality centres – those that are rated as Exceeding by the Government – managed to maintain their occupancy during the year despite the pressures of increased supply in their local market. In this sense, it was pleasing that our proportion of Exceeding centres grew during 2017 as a result of the continued investment we are making in centre quality.

Based on data from Cordells and ACECQA, new centre supply growth rate is forecast to be between 3 and 3.5% in 2018. While lower than 2017 growth levels, this supply growth remains above current demand growth of approximately 2%. The reduction in supply growth is being primarily caused by tighter lending to developers in the sector, resulting in a lower conversion rate of development approvals to completed projects.

As was the case in 2017, this increased supply environment has impacted on occupancy levels in the current year, with like-for-like occupancy being down approximately 2.5 to 3% from the prior corresponding period.

While the supply/demand imbalance is projected to persist until June, the implementation of the new Child Care Funding package is forecast to increase demand from July 2018. In conjunction with our partner, PwC, we have been assessing the impact of the new funding package on our existing family base, including reviewing historical transaction data, census information as well as a survey of our families that was conducted in March this year.

This analysis confirms that 95% of existing G8 families will be better off under the new funding package, with a significant proportion of these families having substantial reductions in their out of pocket costs, allowing for increases in days care at no or little extra personal expense. We will be working with our partners over the next couple of months to develop and deliver offers that represent increased value to our families and that drive increased demand for our services.

On the basis of the analysis done to date, the new funding package will stimulate demand in the market from July 2018, with the overall demand/supply environment being much more in balance in the first half of 2019. It also provides the group with the opportunity to grow occupancy in the second half of 2018. We note that market consensus EBIT forecasts are around $167 million for 2018. We will provide an update on our progress in relation to occupancy and resulting impact on EBIT forecast when we release our half-year results in August.

From a strategic perspective, the Group has made good progress in implementing the initiatives and capabilities required to drive sustainable growth well into the future. Our strategy contains four key pillars – building a great team, strengthening our foundations in terms of quality, building a differentiated customer offer and driving improved financial performance.

So far in 2018, we have continued to implement our people program to drive improved leadership throughout the group as well as engaging and developing all of our teams. We have restructured our remuneration framework and will soon be rolling out a benefits program for our team that provides all team members with discounted offers from hundreds of retailers including national grocery and petrol brands. This is designed to deliver real dollar savings to our team on an everyday basis. We have also rolled out our competency framework and continued our senior leadership development programs. All of these initiatives are assisting in steadily reducing our team turnover while developing higher quality leaders throughout the Group.

From a quality perspective, we have continued to implement our asset upgrade program as well as re-engineering our centre quality improvement plan framework to take account of recent changes to the national Quality Framework. The results of the audits that have been conducted for the year to date are in line with our targets.

Over the last six months we have conducted extensive quantitative and qualitative research to better understand the needs of families and to determine the customer experience that matches our various customer segments. In the second half of 2018, we will be implementing changes to centre processes and communications to ensure we provide a great experience in the moments that matter for our families. In early April, we implemented a centralized call centre for a pilot group of 17 centres to improve the conversion of enquiries to bookings. The pilot will run for a 3 month period, prior to a more substantive roll-out during the second half of the year.

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A key component of our strategy is to profitably roll out new greenfield centres and acquire existing centres in areas that are accretive for the Group, and to optimize the performance of our existing centre portfolio. In the year to date, we have opened 3 new centres and closed 3 underperforming centres, with a further 8 new centres planned for opening in the first half. The greenfield and brownfield centres that were acquired during the last 2 years continue to grow occupancy and are projected to deliver earnings in line with expectations for the year.

I have previously maintained an EPS target of 40 cents per share by 31 December 2019. Given the prevailing market environment and impact on occupancy, it is clear that this target is no longer achievable. We do, however, remain confident that the market environment will become more favourable from July 2018 and that delivery of our strategy will enable us to deliver significant growth for shareholders. We will provide a more specific 3 year EPS target when we release our half-year results in August.

In closing, I would like to thank and acknowledge the dedication, skill and effort of the team over the last 12 months and look forward to providing you with updates on our progress during the year.

Thank you

ENDS
Gary Carroll
CEO & Managing Director