ASX Announcement

G8 Education Limited
(ASX:GEM)

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G8 EDUCATION ANNOUNCES 2018 FULL YEAR RESULTS

G8 Education Limited (the “**Group**” or “**G8**“, ASX: GEM) today announces its results for the full-year ended 31 December 2018.

Highlights

- Underlying CY18 Earnings Before Interest and Tax (**EBIT**) of $136.3m, in line with management guidance, albeit below last year
- Average CY18 occupancy down 1.9%pts to 74.0% on a like-for-like basis, but higher seasonal growth rates in CY18 H2 resulted in occupancy ending the year above the prior corresponding period
- Strong CY18 H2 wage cost performance in line with expectations, delivering outcomes in CY18 Q4 that were a significant improvement on prior year levels
- Signs of moderating child care centre supply growth, including evidence of a downward trend in industry growth rates in CY18 Q4, however, prevailing conditions remain challenging
- Significant progress in executing on the Group’s transformational strategy to drive growth, including appointment of a Head of Early Learning and Education and successful implementation of the first phase of national contact centre rollout (on track for completion by April 2019)
- Acquisitions contributed net earnings of $17.5m (up 14% year-on-year) and, while incremental earnings from those made in the prior year were below expectations in H2, improvement plans are showing positive early signs in CY19 year-to-date
- Successful completion of balance sheet refinancing means the Group is well-positioned to drive its growth strategy, while remaining conservatively geared
- Continued strong cash flow generation with Reported EBITDA to cash conversion of 107% and underlying cash conversion of 98%
- In line with its proportionate dividend policy, the Board has declared a CY18 H2 dividend of 75% of Net Profit After Tax (**NPAT**) being 8.0 cents per share, payable April 2019

Trading performance

$M	CY18	CY17	% change
Total Revenue	**858.2**	**796.8**	**7.7%**
Total Operating Expenses	(721.9)	(640.8)	12.4%
Underlying EBIT	**136.3**	**156.0**	**(12.7%)**
Underlying EBIT margin	*15.9%*	*19.6%*	
Underlying NPAT	**79.5**	**92.9**	**(14.5%)**
Underlying EPS (cents per share)	17.5	21.8	(19.5%)

Commenting on the CY18 results, G8 Managing Director, Gary Carroll said, “The Group’s profit and cashflow results reflects the disciplined management of the G8 portfolio in challenging market conditions.

“Underlying EBIT for CY18 was $136.3m, in line with management guidance, reflecting the impact of improved occupancy and wage performance.

“Although average like-for-like CY18 occupancy was down 1.9%pts to 74.0%, occupancy growth built steadily through the year with like-for-like occupancy finishing the year above the prior corresponding period.

“While it is clearly still early days, it is encouraging to see this positive trend in occupancy continuing into CY19. It was also pleasing to observe the improved performance of Queensland and Western Australia, both of which had lower supply growth rates, as well as the improved performance of New South Wales and Victoria in the second half.

“Tighter cost controls implemented from CY18 Q2 resulted in a stronger H2 wage performance, in line with expectations, with a solid outperformance in Q4 wage efficiency relative to the prior year.

“While acquisitions contributed net earnings of $17.5m, up 14% year on year, the performance of prior year acquisitions was mixed and the results were below expectations in CY18 H2. Importantly, occupancy has continued to trend in the right direction and where necessary action plans that have been put in place are yielding positive early signs.

“The Group’s strong cash flows - with reported EBITDA to cash conversion of 107% and underlying cash conversion of 98% - as well as the successful completion of the balance sheet refinancing ensures G8 is well-positioned to execute on its strategic initiatives, while remaining conservatively geared.”

Strategic initiatives

“As outlined at our inaugural Investor Day in November 2018, a key focus during the period was strengthening the foundations of the business to ensure we have the right people, systems and infrastructure in place to leverage our scale advantage and position ourselves as the highest quality operator with a truly differentiated service offering.

“Although we are only half-way through our transformation, we are making strong progress and the results are encouraging. During the period, we appointed a Head of Early Learning and Education who will facilitate the roll-out of a national curriculum commencing in CY19 Q2, as well as the successful implementation of the first stage of our national contact centre rollout that is on track to be completed by April 2019.

“The Group remains focused on driving initiatives aimed at improving quality that will positively impact occupancy and long-term growth, whilst also delivering superior outcomes for our families,” said Mr Carroll.

Network growth

G8’s primary network growth focus remains its committed greenfield pipeline: 16 greenfield centres were completed in CY18 in line with expectations, with 19 centres targeted in CY19 (2 brownfield and 17 greenfield).

"The Group closed 8 centres in CY18 and continues to evaluate opportunities to optimise its portfolio. There remains scope to grow our portfolio in a disciplined manner that will not cannibalise our existing centres", said Mr Carroll.

Capital Management

G8 successfully completed its balance sheet refinancing, securing a $400m syndicated bank debt facility and $100m subordinated debt facility, achieving an interest rate saving of circa 2% pts on a like for like basis. This has provided the Group with the flexibility and capacity to invest in its network growth while maintaining balance sheet strength.

In line with its proportionate dividend policy of 70% -80% of NPAT, the Board has declared a CY18 H2 dividend of 75% of H2 NPAT being 8.0 cents per share, payable in April 2019.

Trading outlook

CY19 YTD has had an encouraging start with:

- occupancy growth of circa 2% YTD above PCP; and
- wages performing in line with expectations and ahead of last year.

Quality and capability are continuing to improve, and our initiatives are tracking to plan. We are only part way through our transformation program and the focus remains on execution.

Incremental earnings from prior year acquisitions are expected to be approximately $10m in CY19. The investment costs associated with the ramp up of CY19 greenfield centres is likely to be $2m in CY19.

The CY19 result will be affected by the cessation of annual license fee revenue of $4m following the mutually agreed termination of the broker exclusivity agreement. It is expected that this will be absorbed by the improved YoY wage performance.

In summary, the new year has started encouragingly but it is still early days. The Group looks forwards to providing a further update on trading performance at the AGM.

Ends

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