

# ASX Announcement

G8 Education Limited  
(ASX: GEM)



17 April 2019

## Chairman's Address – 2019 Annual General Meeting

Fellow shareholders, I would like to formally welcome you to the 2019 Annual General Meeting for G8 Education Limited. Let me start by saying what a privilege it is for G8 Education to be a leading player in providing quality learning and development to children. There is clear and growing evidence of the importance of brain development in the first three to five years of a child's life, covering social, cognitive and emotional development. As such, the sector we operate in has the potential to have a profound impact on Australia's future. We take this responsibility very seriously and are committed to making a difference for children and families.

2018 was a year of substantial change in the sector, with a new child care subsidy being introduced in July and significant challenges brought about by heightened supply in a large number of regions around Australia. Against this backdrop, it was pleasing to see the Group make significant progress in building solid foundations across its people, asset and capital bases to ensure sustained growth for the long-term, while continuing to grow and optimise its network of early education centres. The benefits of this work will be strongly felt in future periods. Whilst this has been a challenging period for the Company, as reflected in the 2018 results, the Group built strong momentum during the year which bodes well for our performance in 2019 and beyond as conditions improve.

In terms of network growth, in 2018 we acquired 16 early education centres and disposed of 8 underperforming centres. As at 31 December 2018, this brought our total number of centres to 502 in Australia and 17 in Singapore. These centres provide a total combined licenced capacity of approximately 41,000 places, servicing circa 52,000 children. G8 Education remains the largest for-profit provider of early education services in Australia by a significant margin.

The 2018 calendar year represented the second year of a strategic and cultural transformation for G8 Education, with the strategy being focused on harvesting the benefits of the scale advantage that had been built in the period from 2010 to 2016. In broad terms, we believe that the Group has a fantastic opportunity to use its scale to build a differentiated offer and experience for both its families and its team. It is this differentiation that will make G8 centres the centres of choice in all the markets in which we operate. To this end, I am pleased to report that capital investment in our centres was very strong with over 170 refurbishment and improvement activities being completed across the network during the year – a record result.

We also developed and rolled out new training programs in relation to national quality standards during the year. As a result of these activities, the quality of the Group's portfolio of centres exceeds national standards. This encouraging performance provides a solid foundation for continued growth in quality and occupancy in future years as the strategy continues to be implemented.

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The financial performance of the Group in 2018 reflected the impact of the changing market environment as well as implementation of the Group's strategy. EBIT decreased by 12.7% to \$136.3 million, in line with management guidance. This result was primarily driven by the first half where weaker occupancy from supply pressures combined with higher wages from regulatory changes to produce a H1 EBIT \$13 million lower than the prior year.

In the second half, a more favourable subsidy framework and improvements flowing from strategy implementation resulted in EBIT from the organic centre group being broadly in line with the prior corresponding period and \$7 million lower after investment in the support office to facilitate G8 Education's strategic plan. This second half performance provides momentum and confidence leading into 2019. Cash flow generation continued to be strong, with \$105.9 million in operating cash flows being generated and \$48.1 million being paid in dividends to shareholders.

Further improvements to the Group's capital base were made in 2018, with the successful execution of \$500 million syndicated bank debt financing during the year. This was used to refinance the Group's \$200 million bank debt facility with the remainder to be used to refinance the Group's \$270 million Singapore bond facility in May 2019. The refinance provides increased access to capital with improved tenor and pricing and ensures the Group has the capital required to deliver its current strategy.

During 2019, G8 will implement the new accounting standard for leases, AASB 16, which will bring most of the Group's leases onto the Balance Sheet. For G8, the majority of leases relate to our childcare centres. As a result, there will be changes to the income statement and balance sheet as well as additional disclosure requirements. Our facility agreement sets out a clear process in relation to reporting and covenants following changes to Accounting Standards. G8 is well progressed in its implementation of the new leasing standard and will provide further details of the outcomes for the Group prior to release of the 2019 half year results.

While we expect the supply/demand environment to continue to be challenging in 2019 as recently built centres mature, forecasts point to a gradual slow-down in the new development pipeline. When combined with the forecast increase in demand from the new government subsidy, this anticipated moderation in supply growth is supportive of more favourable market conditions in the current year.

With the encouraging progress that G8 has made in relation to the implementation of our group strategy, we feel strongly that we are well positioned to take advantage of any opportunities that may arise whilst maintaining high levels of quality and service to our families.

In closing, I would like to thank all G8 team members for their fantastic contribution throughout the whole year. Their passion, dedication and skill make us all very proud. I would also like to thank shareholders for their continued support.

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I will now hand over to our Managing Director, Gary Carroll, who will provide an update on our trading performance for the 2019 year, as well as an update on the progress of our Group strategy and resulting growth plans so far in 2019.

Mark Johnson  
Chairman

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## Managing Director's Address - Annual General Meeting

I would also like to welcome fellow shareholders to the 2019 Annual General Meeting for G8 Education Limited. I fully endorse Mark's view about the importance and potential of the sector in which we operate. We are very proud of our teams and the positive contribution they make to the lives of Australian families every day, and we are genuinely excited about the impact we can make on every child's development, which in turn can benefit our society well into the future. We take our responsibility to create environments where children can learn, develop and thrive very seriously.

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

1. An overview of current trading performance for the first part of the 2019 year; and
2. Progress in relation to delivery of our Group strategy.

Turning firstly to the current year's trading performance, at our full-year results release in February we outlined that our key expectations for 2019 were:

1. Occupancy growth of between 1% and 2% for the full year;
2. Wage efficiency to continue the performance trend established in the second half of 2018;
3. Incremental earnings from prior year acquisitions of \$10 million; and
4. Full year net investment costs of \$2 million associated with the opening of greenfield centres in 2019.

Current year trading is in line with these key assumptions. While occupancy challenges driven by supply growth are present in some areas, all States have continued the momentum that was built in the second half of 2018. We expect occupancy growth to be at the upper end of the targeted range for the full year.

Occupancy and profit growth will be weighted towards the second half of the year due to the:

1. timing of delivery of the Group's strategic initiatives;
2. \$3m of first half investment costs in CY19 centres; and
3. ramp-up of prior year greenfield centres.

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.

In the first half of 2019, we will be building a number of initiatives in our people program that will be rolled out in the second half of 2019. These include a re-engineered induction and onboarding program, standardized work routines for Centre Managers and Area Managers, a social networking and best practice sharing platform for our Group and enhanced leadership

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development programs for Centre Managers. All of these initiatives are on track and I am excited by what I have seen being built. We also launched our Group-wide engagement survey in early April, with the results from this to feed into our ongoing engagement program. In the meantime, our recent base pay increase for Early Childhood Teachers has had a positive impact on reducing turnover in this key role, with turnover of ECTs reducing by 5% pts over the last 5 months.

From a quality perspective, we have continued to implement our asset upgrade program as well as re-engineering our national quality framework training. At the start of this year we also implemented a program of ongoing quality audits of centres. All of these activities are having a positive effect, with our external audit results being in line with targets and consistent with our medium-term goal to have the highest quality centres in the market.

A critical aspect in terms of quality and overall family experience is the development of a market-leading learning framework for the Group. As announced in February, Julie Madgwick joined G8 as the Head of Early Learning & Education on 29 January. Since then, Julie has been travelling extensively throughout our network, engaging our teams and sharing her thoughts on excellence from a curriculum perspective. We are on track to have our education strategy finalised in May 2019 as planned, with roll-out occurring in the second half of the year.

From a customer perspective, there were three major initiatives scheduled for the first half of the year. The first was our national customer engagement centre, whereby all new enrolment enquiries are directed to a centralized contact centre to both provide a better experience for our families while enabling our Centres to focus more time on the children within their care. I am pleased to say that this project has been delivered on time and budget, with all 500 centres coming on line in early April. The results from the first 100 centres that were cut over on 29 January have been encouraging, with conversion of enquiries to tours being around 80%, well above the historical results that were being achieved. We expect this increased tour volume to translate to increased bookings from late April and will provide a more detailed update at the half-year results in August.

The second major initiative is the roll-out of the second phase of our child care management system platform, XPlor, with the second phase providing enhanced communications capability to parents as well as automating a number of functions for our centre teams. This project is on schedule with roll-out to be completed by June 2019.

Finally, the Group is on track to finalise its brand architecture by mid-year, including the determination of the optimal number of brands for the Group. We will then devote the second half of the year planning the roll-out of any changes, with such changes to be implemented from 2020.

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The key initiative under our fourth pillar of Continuing Profitable Growth is the implementation of a new roster system for the Group. This system will significantly improve administrative effectiveness, ensuring timely and compliant rosters which optimise care and learning ratios for our educators and children. This project is scheduled to be rolled out in Q3 and is tracking in line with this timetable. The Group has appointed a market-leading provider, Ceridian, for this project and detailed project planning is underway.

As you can see, there is a significant amount of activity currently occurring, with the benefits of such activity to be felt in the second half of 2019 and beyond.

As a reminder, G8 will be implementing the new leasing standard in 2019 and will provide further details of the outcomes for the Group prior to release of the half year results.

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.

Gary Carroll  
CEO & Managing Director

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