ASX Announcement

G8 Education Limited
(ASX:GEM)

24 February 2020

G8 EDUCATION ANNOUNCES 2019 FULL YEAR RESULTS

G8 Education Limited (the "**Group**" or "**G8**", ASX: GEM) today announces its results for the full-year ended 31 December 2019.

Summary

- Revenue of $920.1m, up 7.2% on the prior corresponding period (**pcp**)
- Underlying EBIT[1] of $132.5m, in line with November 2019 guidance
- Investments in quality and capability contributed to solid like-for-like (**LFL**) occupancy growth of 1.1% and $10.9m LFL EBIT growth
- Full year wage efficiency improvement on prior year, with a strong Q4 performance
- Continued strong cash flow generation with (lease adjusted) cash conversion of 107%
- Strong balance sheet providing flexibility with comfortable covenant headroom
- Having been impacted by supply growth in recent years, rate of growth in new supply impacting G8's network has reduced significantly
- Successful divestment of 25 centres in WA, resulting in a meaningful improvement in the quality and occupancy of the Group's portfolio
- Full-time turnaround team largely in place focused on centre turnaround opportunities and driving greenfield performance, with activities targeted for 50 centres in Q1
- Record results for Centre Manager turnover, centre quality and team and child safety
- H2 fully franked dividend of 6c, representing a full year payout of 70% of lease adjusted NPAT

$M	CY19 Pre AASB 16 Proforma	CY18	% change
Total Revenue	**920.1**	**858.2**	**7.2%**
Total Operating Expenses	(787.6)	(721.9)	9.1%
Underlying EBIT	**132.5**	**136.3**	**(2.8%)**
Underlying EBIT Margin	*14.4%*	*15.9%*	
Underlying NPAT	**76.4**	**79.5**	**(3.9%)**
Underlying EPS (cents per share)	16.7	17.5	(4.8%)

[1] Non IFRS i.e excluding AASB 16

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G8 CEO and Managing Director, Gary Carroll said:

“The Group’s 2019 full-year results reflect solid progress on operational objectives and validation of our growth strategy amid challenging industry conditions.”

“Pleasingly, the Group’s investments in quality and capability contributed to strong LFL occupancy growth which flowed through to solid LFL EBIT growth. The Group also achieved strong revenue growth of 7.2% to $920.1m, primarily attributable to occupancy, acquisition performance and fee growth.”

“Our underlying EBIT result, consistent with our November 2019 guidance, was impacted by the investment made in quality as well as the ramp-up of our greenfield portfolio. We are already seeing the benefit of these investments, both of which are expected to generate significant earnings growth in future years.”

“Occupancy improved in all states with the exception of South Australia – reflecting the positive response by families to the investment made by the Group in improving quality across all aspects of its offering, the performance of the customer engagement centre, and improved affordability from the Child Care Subsidy.”

“Pleasingly, wage efficiency improved during the period bolstered by a strong Q4 performance, and should be further supported by the roll-out of a new rostering system between March and May 2020.”

“While G8’s network has been impacted by supply in recent years, the rate of growth in supply impacting G8 centres has reduced significantly. The Group’s increased focus on its turnaround program will continue to help mitigate the impact of new supply in the areas in which G8 operates. The cost of the program will be phased and monitored to ensure it is funded out of program benefits, and a focus on cost efficiency will ensure the Group responds to prevailing market conditions.”

“Strong cash flow generation and disciplined capital management remain core strengths of the Group. The strong balance sheet, with prudent gearing levels, provides flexibility and capacity for the Group to deliver on its growth opportunity and be the first choice for families in every neighbourhood.”

Leveraging strong foundations, focusing on accelerated growth and portfolio optimisation

G8 achieved record results for Centre Manager retention, centre quality and safety in CY19.

With strong foundations in place, the Group’s focus is on accelerating EBIT growth by driving growth in turnaround and greenfield centres. A full-time team is largely in place focused on turnaround opportunities, with activities targeted for 50 centres in Q1. This acceleration program was launched following a successful pilot program which resulted in occupancy growth ahead the rest of the network, and providing a proven methodology for turnarounds.

From a portfolio optimisation perspective, G8 completed divestment of 25 WA centres, resulting in a meaningful improvement in the occupancy and quality of its portfolio. The Group also closed a further 16 centres upon their lease expiry in CY19.

The Group remains committed to evaluating opportunities to grow its network in a disciplined manner, and will provide a further update at its AGM in May 2020.

Balance sheet restructure complete, providing capital flexibility

During the period, the Group successfully completed its balance sheet restructure which included the repayment of SGD 270 million in bonds funded by new syndicated debt facilities. These facilities provide increased loan tenor at a lower average interest cost.

The Group achieved continued strong cash flow generation, with underlying (lease adjusted) EBITDA to cash conversion of 107%.

The Group's disciplined approach to balance sheet management has resulted in the Board declaring a H2 fully franked dividend of 6c per share, equating to a full year payout ratio of 70% of lease adjusted NPAT.

Trading outlook

There has been significant instability in the market to date in CY20 due to events such as bushfires and CORVID-19. This has flowed through to the Group's occupancy with year-to-date like-for-like occupancy slightly behind prior year.

Given the recent and continuing market volatility it is too early to form a clear view on the Group's underlying occupancy performance.

The impact on Group profits have been, and will continue to be, mitigated by cost management. We will continue to monitor conditions in the market and be agile in our response.

YTD wage performance is in line with expectations.

The activities associated with the Acceleration Program are on track, with costs of the Program being phased and monitored to ensure they are funded by incremental earnings from Turnaround and Greenfield centres in CY20.

The Group looks forward to providing a further update on trading performance and progress of our strategic program at the Annual General Meeting in May 2020.

ENDS

Authorised for release by G8 Education Limited's Board of Directors.

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