G8 Education ltd

G8 Education – Overview 1H2016

G8 Education Limited (ASX:GEM)
16 August 2016

Key Messages HY 2016

- Revenue up 16.2% driven by fee increases and acquisitions
- Underlying EBIT up 8.5% driven by:
  - Additional ratio related headcount impacting Q1 wages, with significantly improved performance in Q2
  - Investment in staff training and centre refurbishment, substantially offset by savings in other areas
  - Increase in support office costs, largely driven by additional board and senior executive appointments
- Acquisitions performing in line with expectations with EBIT contribution of 2015 and 2016 purchases of $8.4m in the period
- Successful refinance of SGD 2017 bonds with FX risks fully hedged
- Executive team now complete with new CFO commencing after the HY end

Key Financial Highlights	HY16	HY15	Change
Revenue	$361.2m	$310.9m	16.2%
Underlying EBITDA	$63.5m	$57.0m	11.4%
Underlying EBIT	$57.4m	$52.9m	8.5%
Underlying NPAT	$32.0m	$31.5m	1.6%
Underlying Earnings per Share Growth	8.53	8.75	(2.5%)

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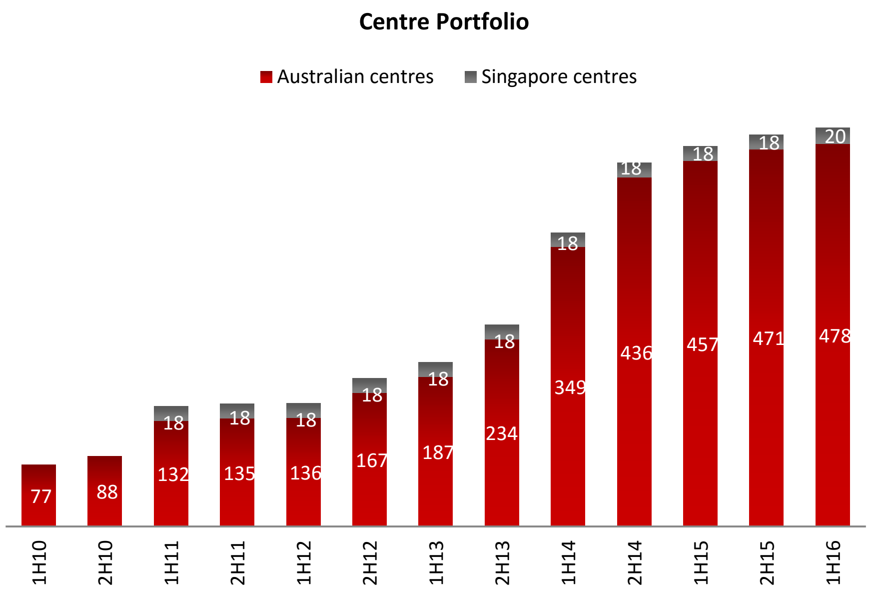
Portfolio Update

Group Centre Portfolio



- The Group settled 9 centres in the period of which 6 had been contracted in Q4 2015
- As at 30 June 2016 the Group operated 478 centres in Australia and 20 centres in Singapore bringing the total licenced places to 37,045
- The Group is expecting to settle a further 12 centres for $32.0m in H2, with these purchases being funded by internal operating cash flow

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Operational Update

HY 16 Financial Performance

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Consolidated Half Year Income Statement	HY 2016	HY 2015	%
	$'000	$'000	
Revenue from continuing operations	357,951	304,546	
Other Income	3,200	6,336	
Total Revenue	361,151	310,882	16%
Total expenses	(326,463)	(273,260)	19%
Profit before income tax	**34,688**	**37,622**	
Income tax expense	(9,817)	(9,382)	
Profit for the year	**24,871**	**28,240**	(12%)
	Cents	**Cents**	
Basic earnings per share	6.62	7.84	
Underlying Net Profit After Tax	**32,040**	**31,528**	2%
Underlying EPS (cents per share)	8.53	8.75	(3%)
Underlying Earnings Before Interest and Tax	**57,447**	**52,949**	8%

Breakdown of Underlying EBIT	Centres	HY 2011	HY 2012	HY 2013	HY 2014	HY 2015	HY 2016
Acquired pre 2011	74	6,175	6,820	8,740	8,620	9,659	9,066
Like for Like period growth		.	*10.4%*	*28.2%*	*(1.4%)*	*12.1%*	*(6.1%)*
Acquired in 2011	43		5,111	6,169	7,325	8,821	9,027
Like for Like period growth				*20.7%*	*18.7%*	*20.4%*	*2.3%*
Acquired in 2012	33			5,837	6,721	7,587	8,145
Like for Like period growth					*15.2%*	*12.9%*	*7.4%*
Acquired in 2013	74				7,816	9,606	9,699
Like for Like period growth						*22.9%*	*1.0%*
Acquired in 2014	203					23,720	24,100
Like for Like period growth							*1.6%*
Centre EBIT from 2015 settled Acquisitions							8,117
Centre EBIT from 2016 settled Acqusitions							329
Underlying EBIT adjustments							(2,516)
Support office and Corporate costs							(8,520)
Total Group Underlying EBIT							**57,447**

- Operating Revenue increased by $53.4m (17.5%) in H1 2016 with the increase being split between LFL centres ($23.1m, 8.0% increase) and centres acquired in 2015 and 2016 ($30.3m)
- EBIT growth in the period was 8.5% as higher expenses at LFL centres and increased Support Office and Public Company costs impacted margins – Please refer to next slide for detail on LFL centre performance
- Support office costs increased by $1.4m in the period due to higher wages ($0.7m driven by new executives and board member), bank charges ($0.3m relating to the bank debt facility) and an FBT charge ($0.4m)
- Acquisitions performed in line with Group expectations in the period

Like for Like Centre Performance Breakdown

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Like for Like Centre Financials	QTR 1 HY15	QTR 1 HY16	QTR 2 HY15	QTR 2 HY16
Total Revenue	137,694	147,907	149,772	162,681
Revenue Growth		***7.42%***		***8.62%***
Total Wages	79,545	88,066	81,196	88,869
Wages Growth		*10.71%*		*9.45%*
Wages as % of Revenue	*57.77%*	*59.54%*	*54.21%*	*54.63%*
Childcare expenses	10,280	10,457	10,572	10,869
Childcare expense Growth		*1.72%*		*2.81%*
Childcare expenses as % of income	*7.47%*	*7.07%*	*7.06%*	*6.68%*
Training	143	702	263	1,400
Training Growth		*390.44%*		*432.22%*
Training as % of income	*0.10%*	*0.47%*	*0.18%*	*0.86%*
Other Operating expenses	1,545	1,836	1,641	1,803
Other Operating expense Growth		*18.79%*		*9.84%*
Other operating expenses as % of income	*1.12%*	*1.24%*	*1.10%*	*1.11%*
Rent Expense	17,502	18,324	17,608	18,356
Rent Growth		*4.70%*		*4.25%*
Rent as % of Revenue	*12.71%*	*12.39%*	*11.76%*	*11.28%*
Depreciation & R&M	3,893	4,460	3,882	5,409
Depn & R&M Growth		*59.88%*		*53.57%*
Depn & R&M as % of income	*2.83%*	*3.02%*	*2.59%*	*3.33%*
Centre EBIT	24,785	24,061	34,609	35,975
Centre EBIT margin	***18.00%***	***16.27%***	***23.11%***	***22.11%***

Like for Likes calculated based on ownership for a full half year. Acquisitions made part way through the half year are captured in the following years data. Acquisitions made during 1H15 and subsequent to that date are excluded.

- Wage costs increased 10.0% in H1 driven by increased ratio related headcount (5.3%), award wage increases (3.7%) and staff mix effects (1.0%)
- Wages were 1.7%pts higher in Q1 however this fell to 0.4%pts in Q2 as ratio changes were substantially absorbed. Further improvement is expected in H2
- Savings in Rent (-0.4%pts) and Child Care Expenses (-0.4%pts) largely offset strategic investments in staff training (+0.5%pts) and centre upgrades (+0.5%pts)
- The focus of the upgrade activity in H1 has been both on refreshing older centres and improving the standards of centres acquired in 2013 and 2014

Head Office Cost per Licensed Place

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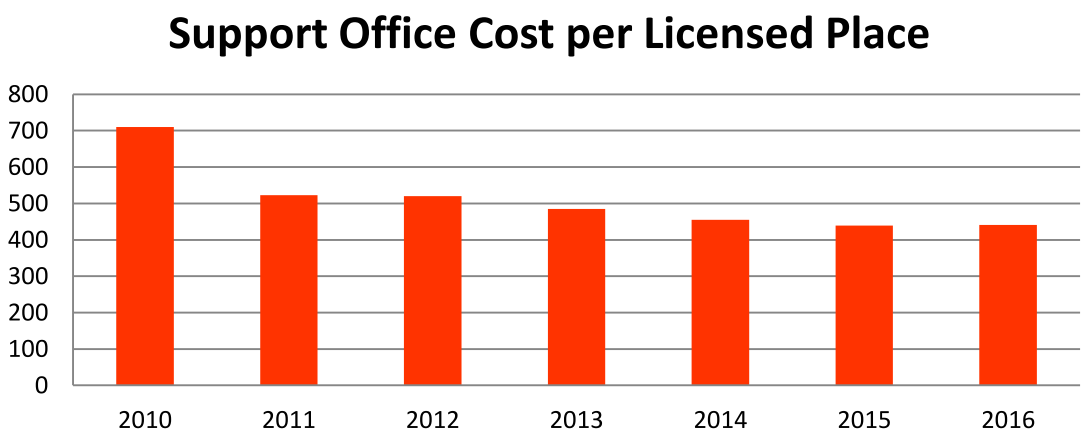
	2010	2011	2012	2013	2014	2015	HY16
Number of Places	6,304	9,868	12,661	19,085	32,782	36,200	37,045
Support Office Cost per Licensed Place	$710	$523	$520	$485	$455	$439	$440



Support office cost per place includes all costs associated with the operation and execution of our centre based strategy. It does not include public company costs such as listing fees is designed to give an indication of trends in productivity and efficiency at the SO level

- Support office costs per licensed place were $440 for the period. This performance was in line with that recorded in the same period last year

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Group Financial Update

Balance Sheet

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	30 June 2016 $'000	31 December 2015 $'000
ASSETS		
Current assets		
Cash and cash equivalents	39,827	193,840
Trade and other receivables	19,535	22,943
Other current assets	10,629	9,754
Current tax asset	16,062	-
Total current assets	**86,053**	**226,537**
Non-current assets		
Property, plant and equipment	46,640	41,370
Deferred tax assets	11,757	21,678
Goodwill	959,909	944,604
Derivative financial instruments	3,561	-
Total non-current assets	**1,021,867**	**1,007,652**
Total assets	**1,107,920**	**1,234,189**
LIABILITIES		
Current liabilities		
Trade and other payables	78,247	83,054
Borrowings	20,000	148,891
Employee entitlements	23,175	22,824
Current tax liability	-	4,400
Derivative financial instruments	-	1,184
Total current liabilities	**121,422**	**260,353**
Non-current liabilities		
Borrowings	376,233	366,270
Other payables	635	712
Employee entitlements	5,006	4,069
Derivative financial instruments	4,050	-
Total non-current liabilities	**385,920**	**371,051**
Total liabilities	**507,342**	**631,404**
Net assets	**600,578**	**602,785**

- \$154.0m reduction in Cash mainly relates to the repayment of the SGD unsecured note associated with Affinity Education acquisition
- \$3.4m reduction in Trade and other Receivables is due to timing of debtor payments and GST receipts, while Other Current Assets increased by \$16.9m as a result of an Income Tax Receivable
- P,P&E and Goodwill have increased due to acquisitions and centre-based organic capex
- The \$4.8m fall in Trade and Other Payables is due to the timing of superannuation and PAYG payments and the write-back of \$2.5m in deferred consideration not paid
- Borrowings have decreased by circa \$110m with the repayment of the SGD unsecured note facility being partially offset by a \$10m increase in SGD bond financing and drawdown of \$20m from the bank debt facility

Cash Flow

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	30 June 2016 $'000	30 June 2015 $'000
Cash flows from operating activities		
Receipts from customers	367,704	305,362
Payments to suppliers and employees	(304,098)	(241,934)
Interest received	1,051	1,537
Interest paid and borrowing costs	(11,919)	(10,101)
Income tax paid	(19,565)	(19,475)
Net cash inflows from operating activities	**33,173**	**35,389**
Cash flows from investing activities		
Payments for purchase of businesses (net of cash acquired)	(14,593)	(53,607)
Payments for property, plant and equipment	(11,335)	(6,833)
Net cash outflows from investing activities	**(25,928)**	**(60,440)**
Cash flows from financing activities		
Proceed from the issue of shares	6,537	12,889
Share and corporate note issue costs	(12,499)	(260)
Proceeds from borrowings	20,000	-
Proceeds from corporate notes	269,281	-
Repayment of corporate notes	(411,208)	-
Payments from financial assets	(2,747)	-
Dividends paid	(30,852)	(25,433)
Net cash (outflows)/inflows from financing activities	**(161,488)**	**(12,804)**
Net (decrease)/increase in cash and cash equivalents	**(154,243)**	**(37,855)**
Cash and cash equivalents at the beginning of the financial year	193,840	120,804
Effects of exchange rate	230	261
Cash and cash equivalents at the end of the financial year	**39,827**	**83,210**

- Cash conversion remained impressive at 102%, calculated as operating cash flow plus interest and tax paid divided by underlying EBITDA
- Acquisition activity was lower in H1 2016 than the prior year, with 9 centres being settled versus 21 in the prior year. Conversely, refurbishment related activity increased by around 65% in 2016, an increase of $4.5m
- The $161.5m cash outflow from financing activities related primarily to the repayment of the SGD unsecured bond facility for the Affinity Education acquisition facility

Capital Structure

G8's capital structure as at 30 June 2016 consists of the following Debt and Equity instruments:

	Issuer	Class	Maturity	Principle/Issuance	Cost
Debt	G8 Education Ltd	Senior Unsecured Note	7 August 2019	A$70,000,000	7.675%
	G8 Education Ltd	Senior Unsecured Note	19 May 2019	S$270,000,000	4.75%
	G8 Education Ltd	Senior Unsecured Note	17 February 2018	A$50,000,000	BBSW + 3.90%
	G8 Education Ltd	Secured Bank Debt Facility	31 December 2016	A$50,000,000, drawn to $20m	
Equity	G8 Education Ltd	Ordinary Shares	376,938,958 on issue	$623,600,000 contributed equity	

As at 30 June, G8 had access to $39.8m cash and $30m in committed bank debt facilities to fund its operations and growth.

Key Ratios

Key Financial Ratios	HY16	HY15
Fixed Charges Cover	1.92x	2.01x
Net Debt to Underlying EBITDA (rolling 12 months)	2.28x	2.14x
Net Debt : Capital	37.8%	33.5%
Annualised Post Tax Return on Equity	12.7%	14.5%
Underlying Earnings per Share Growth	(3%)	29%

- Reduced operating margins have flowed through to the Group's ratios
- The Group continues to have significant head room in relation to its financial covenants
- Overall debt to capital ratio remains within Group's targeted levels

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Second Half 2016 Focus Areas

Second Half 2016 Focus Areas

- Maintain positive Q2 wage momentum
- Ensure investments in training and refurbishment are offset by other cost savings
- Integrate acquisition pipeline to time and budget
- Refinance existing bank debt facilities

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THANK YOU

Questions?