

# ASX Announcement

G8 Education Limited  
(ASX: GEM)



20 April 2018

## 2018 – Chairman's Address

Fellow shareholders, I would like to formally welcome you to the 2018 Annual General Meeting for G8 Education Limited. Let me start by saying what a privilege it is for G8 Education to offer a leading early stage education curriculum to children where the foundation for lifelong learning and development is laid. This sector has the potential to have a profound impact on Australia's future, with all the research highlighting the enormous benefits of quality early education on a child's social, cognitive and educational development. We are committed to making a difference for families.

During the year, 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 well into the future, while continuing to grow and optimise its network of child care centres. The benefits of this work will be strongly felt in future periods. We were unfortunately disappointed with the Group's financial performance for the year ended 31 December 2017, which fell short of our high expectations, with challenging industry conditions weighing on occupancy, revenue and profits.

In terms of network growth, in 2017 we acquired a total of 37 early education centres and disposed of 22 underperforming centres. This brought our total number of centres as at 31 December 2017 to 495 in Australia and 21 in Singapore. These centres provide a total combined licenced capacity of approximately 40,500 places, servicing circa 65,000 children.

The Group's Vision is for G8 to be the early childhood educators that parents and policy makers prefer to partner with in nurturing and inspiring the next generation. To deliver against this vision, we need to ensure that our centres are of high quality and that our centre-based teams are appropriately resourced, trained and supported to meet the needs and demands of our children and parents. In that regard I am pleased to report that capital investment in our centres was very strong with 130 refurbishment and improvement activities being completed across the network during the year. We also continued to invest significantly in our professional and leadership development programs across both centre and support office teams. As a result of this activity, the Group had the largest improvement in quality of all major players in the sector in 2017.

G8 Education is the leading for profit early education provider in Australia, with around 65,000 children attending our services in any given week and 10,000 employees educating and caring for those children. The key to our success as an organisation is the quality, skill and commitment of our team members. 2017 saw significant activities in three key cultural areas. Firstly, there was the embedding of our core values – Passion, Integrity, Compassion, Innovation and Dedication – across the Group.

# ASX Announcement

G8 Education Limited  
(ASX: GEM)



We also conducted a formal engagement survey and implemented engagement actions plans to drive engagement across all teams. Finally, we recruited some outstanding executive leaders and established senior leadership development programs to build leadership capability throughout the Group. We are confident that building the professional skill of our teams will improve the quality of services offered to our families every day, while the development of a deep pool of quality leadership talent will assist in maintaining and building our existing leading position in the market

As noted earlier, from a financial perspective, 2017 was a challenging year with record levels of supply negatively impacting on occupancy levels across the market. This impacted the Group's Revenues, which were \$797 million, an increase of \$18 million. Despite the challenging market conditions, the Group achieved underlying EBIT of \$156m, which was 2.2% ahead of last year and reported NPAT in line with the prior corresponding period at \$81 million. Importantly, cash flow generation continued remained very strong, with cash conversion from operating activities of 96%. During the year \$77 million in fully franked dividends were returned to shareholders.

The Group significantly strengthened its Balance Sheet during 2017. As well as raising approximately \$200 million in additional equity, we finalised a \$235 million club bank facility during the year. These funds will be used primarily to repay higher-cost bond financing as well as assisting in funding the Group's pipeline of committed future acquisitions, which are forecast to contribute strongly to profit growth in the future.

The Group also amended its dividend policy during the 2017 year, moving away from a fixed quarterly 6 cents per share dividend to a semi-annual 10 cents per share dividend in 2018 before settling on a semi-annual dividend equating to 70 to 80% of Net Profits from 2019 onwards. This policy provides a better balance between retaining capital to meet growth funding requirements and returning profits to shareholders. The dividend yield remains highly attractive at various share price scenarios, and the continuation of the 2% DRP discount provides shareholders with an ongoing opportunity to acquire shares at discounted prices.

There were several changes to the Group's Board during 2017. As flagged at last year's AGM, after assisting Gary Carroll to transition to the CEO role in early 2017, Chris Scott retired as a Director in May 2017. As the founding Managing Director, Chris's vision and energy to build a business from scratch to be the leading for-profit provider in the sector was outstanding. I would like to join all team members and shareholders in thanking Chris for his outstanding contribution.

The Board underwent further change with Matthew Reynolds retiring as a Director in August 2017 and Julie Cugin and Margaret Zabel joining the Board in September 2017. I thank Matt for his excellent contribution as a director and look forward to Julie and Margaret adding their skills

# ASX Announcement

G8 Education Limited  
(ASX: GEM)



and experience to the Board as we continue to support management in delivering against the Group's strategic goals.

As we look forward to 2018, we expect the market environment to be challenging for a few months yet, as the impact of recent supply increases continues to be felt. We note that supply growth slowed towards the end of 2017 as a result of tighter lending conditions in relation to developer funding, and we expect supply growth to continue to slow during 2018. The new Government funding package is also expected to drive demand in the sector from July 2018, with the demand/supply environment to be much more in balance in 2019. With the investments that have been made over the last 2 years, we feel strongly that we are positioned well to take advantage of any opportunities that may arise whilst maintaining our high levels of service provision to Australia's communities.

Recent share price performance has been disappointing. While not something the Board and management team can control, the attitude to the sector underplays, in our view, the positive medium and longer-term industry fundamentals and the investments we have made to position well to capitalise on better times.

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 all of us very proud. I would also like to thank shareholders for their continued support during the year.

I will now hand over to our Managing Director, Gary Carroll, who will provide an update on our trading performance for the 2018 year, as well as an update on the progress of our Group strategy and resulting growth plans so far in 2018.

Thank you

ENDS  
Mark Johnson  
Chairman