G8 Education^ltd

G8 Education – Morgan Stanley Investor Conference

G8 Education Limited (ASX:GEM)

19 November 2013

Corporate Snapshot

G8 Education ltd

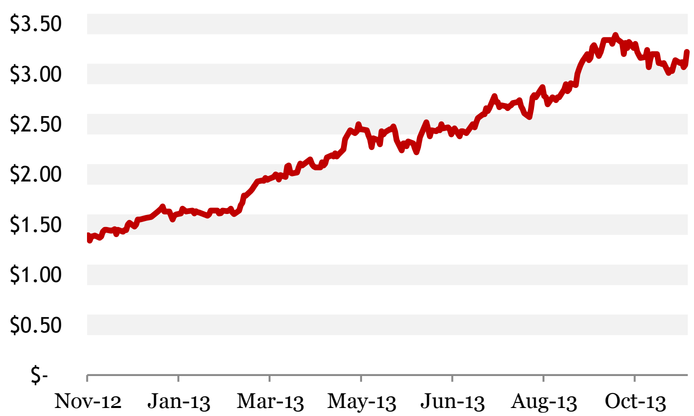
Capital Structure

Fully Paid Ordinary Shares (current)	300.3 million
Options	Nil
Shares Price (15 November 2013)	$3.22
Market Capitalisation (as at 15 November 2013)	$966.9 million
Cash (as at 18 November 13)	$133.3 million
Drawn Debt (as at 18 November 13)	$46.4 million
Senior Unsecured Note	$70.0 million

Directors & Senior Management

Jenny Hutson	Chairperson
Chris Scott	Managing Director
Andrew Kemp	Non-Executive Director
Brian Bailison	Non-Executive Director
Susan Forrester	Non-Executive Director
Chris Sacre	Chief Operating Officer | Chief Financial Officer

1 Year Share Price Chart



Centres owned in Australia	202
Centres contracted but not yet settled in Australia	23
Centres owned in Singapore	18
Franchised centres in Singapore	48

G8's Vision & Mission

G8 Education ltd

Our mission is to be Australasia's leading provider of high quality, developmental and educational child care services. We aim to achieve this through:

- A portfolio of outstanding early childhood education brands
- A focus on the importance of early childhood education
- By making good centres great through focusing on outstanding early childhood education management

Quality Education & Care

To nurture and develop children's minds, social skills and confidence in a safe and stimulating environment

Employees

To commit to employee development and a rewarding culture which will ensure an engaged and driven workforce

Community

To be responsive to local families and deliver upon community expectations

Profitability

To grow and derive value for shareholders through innovative services, systems and management

1H13 Reviewed Results

G8 Education Ltd

Consolidated Year end 31 December	1H13 ($'000)	1H12 ($'000)	Variance (%)
Revenue	118,173	78,670	↑ 51%
Expenses	(101,128)	(68,376)	↑ 48%
Earnings Before Interest and Tax	17,045	10,294	↑ 66%
Interest	(1,332)	(1,190)	
Net Profit Before Tax	**15,713**	**9,104**	↑ **72%**
Net Profit After Tax	**11,018**	**6,781**	↑ **62%**
Less non-recurring abnormal transactions (post tax effect):			
Deferred consideration not paid	(550)	(629)	
Legal expenses in relation to the Singapore court case	145	80	
Share based payment expense	93	19	
Gain on sale of non-current assets	(177)	(16)	
Loss on non-current asset held for sale	953	-	
Write off of borrowing costs on refinance	-	196	
Underlying Net Profit After Tax	**11,482**	**6,431**	↑ **78%**
Underlying EPS (cents per share)	**4.15**	**3.37**	↑ **23%**
Underlying Earnings Before Interest and Tax	**17,611**	**10,071**	↑ **74%**

Balance Sheet

G8 Education ltd

Consolidated Balance Sheet	2012 $000	1H13 $000
Current assets		
Cash and cash equivalents	21,790	30,535
Trade and other receivables	12,711	13,801
Other current assets	16,750	16,920
Assets classified as held for sale	108	615
Total current assets	**51,359**	**61,871**
Non-current assets		
Receivables	1,865	1,759
Property plant and equipment	10,646	16,138
Deferred tax assets	3,558	4,600
Intangible assets	201,814	229,350
Total non-current assets	**217,883**	**251,847**
Total assets	**269,242**	**313,718**
LIABILITIES		
Current liabilities		
Trade and other payables	23,634	31,563
Borrowings	2,720	3,608
Employee Entitlements	7,471	8,023
Derivative Liability	328	294
Current tax liabilities	5,176	6,314
Total current liabilities	**39,329**	**49,802**
Non-current liabilities		
Borrowings	46,532	44,060
Provisions	1,073	1,286
Total non-current liabilities	**47,605**	**45,346**
Total liabilities	**86,935**	**95,148**
Net assets	**182,308**	**218,570**

- Cash reserves at 30 June 2013 were $30.5m up from $21.8m at 31 Dec 2012.
- Other current assets remains constant and represents deposits on acquisitions, operating deposits and prepayments.
- PP&E has increased by $5.5m from Dec 12 to 30 June 13 due to the purchase of the new head office building for $3.5m and the remainder relates to overall centre improvements.
- Intangible assets currently sits at $229.3m and represents the purchase price of the child care centres (adjusted for fair value movements if applicable). The increase from Dec 12 to June 13 relates solely to acquisitions.
- The increase in trade and other payables of $7.9m which materially relates to an increased dividend provision of $3.2m, $1.6m increase in deferred centre consideration from acquisitions settled since Dec 12 and $2.2m increase in other payables and accruals (including payroll accruals).
- Total senior secured bank debt at 30 June 2013 sits at $48.4m drawn with the total borrowings disclosed on the balance sheet sitting at $47.7m due to the offset of borrowing costs against this liability.
- Post 30 June 2013 the Group raised $70m via the issue of senior unsecured notes. The notes have a fixed coupon rate of 7.65% per annum and mature in August 2019.

Cashflow

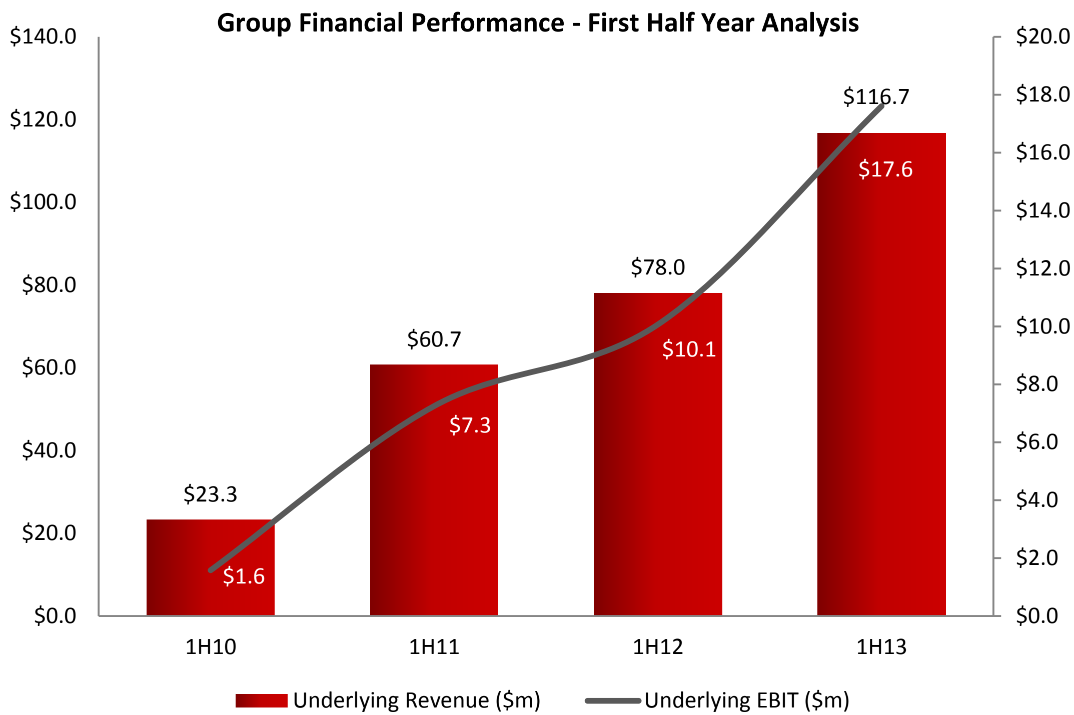
G8 Education ltd

	1H12 $000	1H13 $000
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	78,044	118,184
Payments to suppliers and employees	(68,228)	(96,327)
Interest received	289	435
Interest paid & Bank Fees	(1,180)	(1,331)
Income Taxes paid	(1,594)	(4,264)
Borrowing costs	(483)	(78)
Net cash flows from operating activities	**6,848**	**16,619**
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for property, plant and equipment	(1,959)	(6,866)
Proceeds from sale of child care centres	165	104
Payments for purchase of businesses	(4,938)	(25,549)
Proceeds from repayment of loans	455	113
Net cash flows from investing activities	**(6,277)**	**(32,198)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Share issue costs	(30)	(1,145)
Proceeds from issue of share	-	35,000
Inflow from Borrowings	37,000	-
Repayment of Borrowings	(36,686)	(1,507)
Dividends paid	(3,268)	(8,173)
Release of cash held as security for bank guarantees	2,980	-
Net cash flows from financing activities	**(4)**	**24,175**
NET INCREASE / (DECREASE) IN CASH HELD	**567**	**8,596**
Cash at the beginning of the period	**11,199**	**21,795**
Effects of exchange rate changes on cash	34	144
CASH AT THE END OF THE PERIOD	**11,800**	**30,535**

- Operating cashflow remains strong at $16.6m for 1H13 which represents 127% of underlying Earnings Before Depreciation and Amortisation of $13.1m. This favourable variance is due to timing differences between receipt of revenue and payment of wages compared to reporting dates.
- Operating cashflow increased from $6.85m in 1H12 to $16.6m in 1H13 due to strong organic growth and contribution from centre acquisitions.
- Payments for PP&E at $6.8m are high due to the $3.5m payment for the new head office building.
- Payments for business of $25.5m represent the child care centre acquisitions announced and settled during the half year.
- The proceeds from issue of shares of $35m less issue costs of $1.15m relates to the share placement settled in February 2013.
- Dividend paid represents the cash component of the Dec 12 and March 13 quarterly dividend.

Financial Performance

G8 Education ltd



- Underlying revenue increased by 50% from $78m in 1H12 to $117m in 1H13.
- Underlying EBIT increased 75% from $10.1m in 1H12 to $17.6m 1H13.
- **Like for like revenue and EBIT increased 10% and 25 % respectively from 1H12 to 1H13 across 133 centres.**

Financial Performance – ROIC & Broker Forecasts

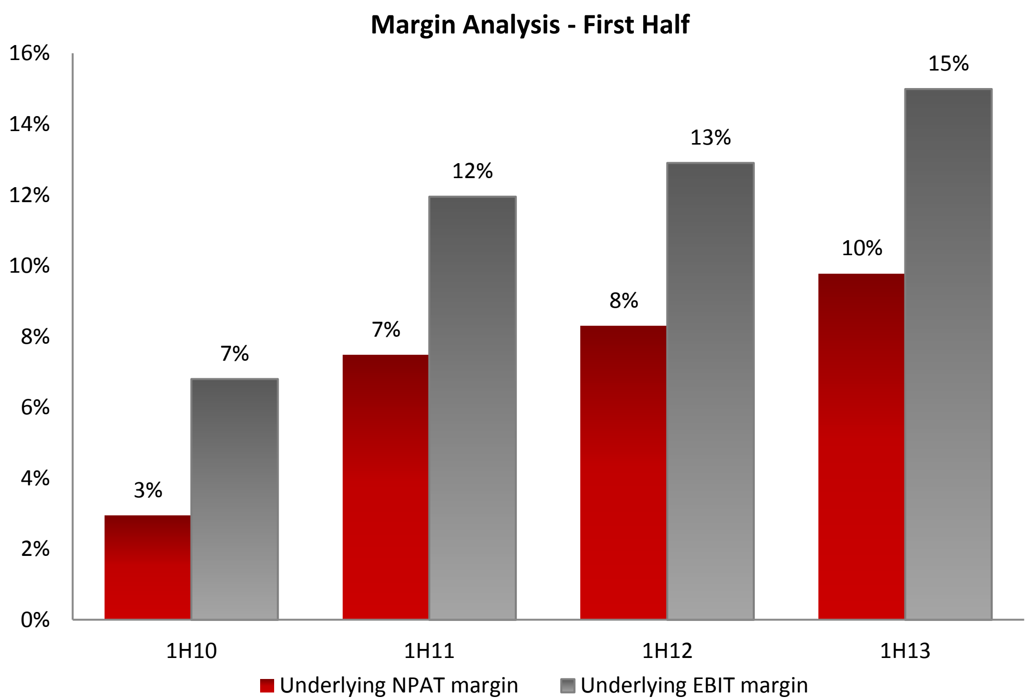
G8 Education[ltd]

Broker forecasts as at 18 November 2013	$M			
	EBIT		NPAT	
	CY13	CY14	CY13	CY14
Broker A	49.3	70.9	33.1	47.8
Broker B	52.8	75.3	36.3	50.3
Broker C	48.2	72.5	31.3	46.9
Broker D	49.0	74.6	32.5	48.5
Average	**49.8**	**73.3**	**33.3**	**48.4**

- **Return on Invested Capital** continues to increase. It is currently **27.4%** based on the adjusted equity value as at 30 June 2013.
- A summary of the Broker forecast position for G8 Education from the four broking houses for the full years ending 31 December 2013 and 2014 is set out opposite.
- **ROIC was 23.8% in CY11 and 24.8% in CY12.**

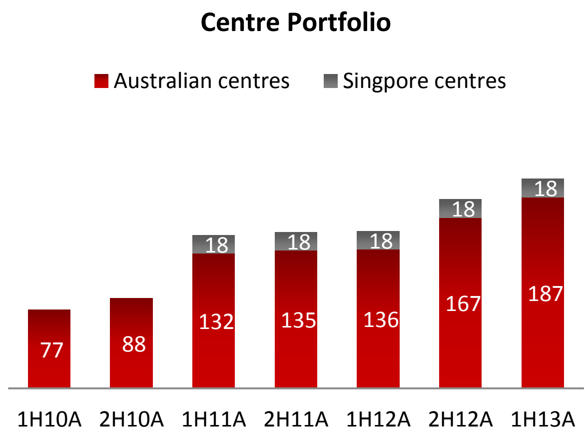
Financial Margin Analysis

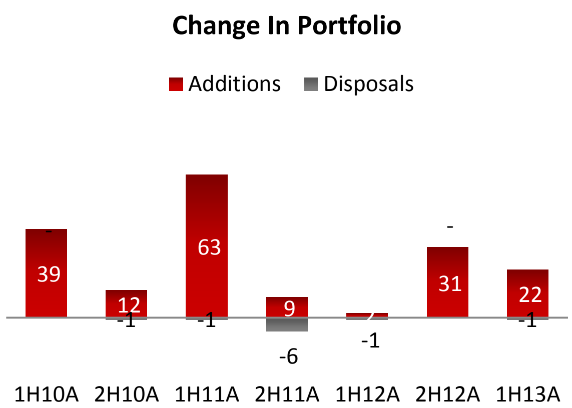
G8 Education ltd



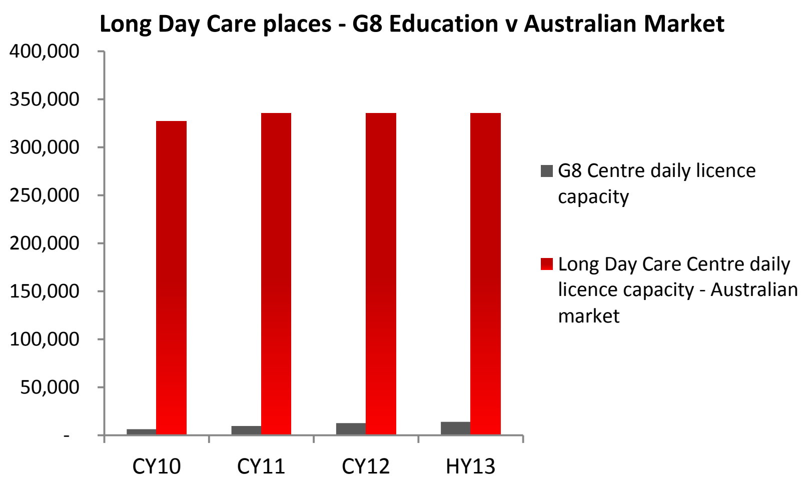
- The EBIT margin is affected by seasonal fluctuations in occupancy from January to June compared with July to December due to the transition of children from Kindergarten to primary school in January each year.
- Underlying EBIT margins have improved through a combination of organic improvements and high quality acquisitions.
- **Like for like centre EBIT margins have increased from 16% in 1H12 to 18% in 1H13 across 133 centres.**
- Underlying EBIT margins have increased from 13% in 1H12 to 15% in 1H13
- Underlying NPAT margins have increased from 8% in 1H12 to 10% in 1H13

Centre Portfolio & Long Day Care Market



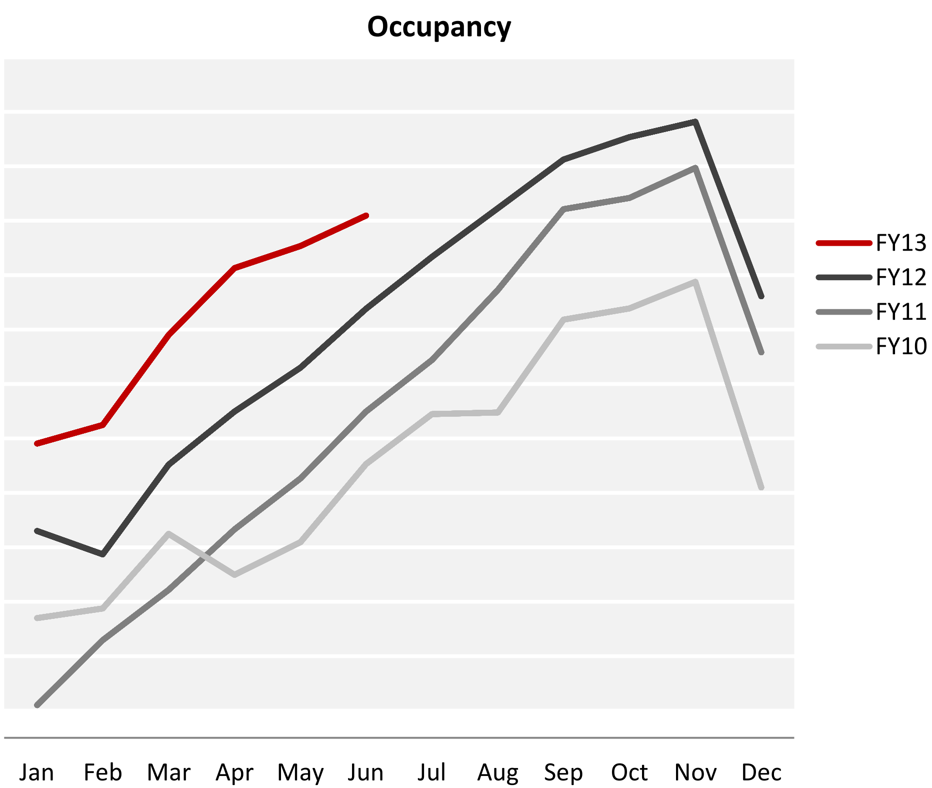


- G8 Education has continued to make earnings per share accretive acquisitions throughout the first half of 2013.
- The group acquired 22 centres during 1H13 and sold one centre.
- There are 7 other underperforming centres that the group will seek to divest in 2H13. These centres have been placed in an active divestment program and expected to sell for a total consideration of $700,000. The centres had a combined EBIT loss of $310,000 in the 12 months ended 30 June 2013.
- The long day care sector in Australia compromises of approximately 6000 long day care child care centres. G8 Education Limited represents approximately 3% of the entire market. The market includes a number of not for profits and council owned sites. If excluded, management estimates the addressable market to be approximately 4,000.



Occupancy & Operational Updates

G8 Education ltd



- The total average portfolio occupancy increased 400 basis points in 1H13 compared to 1H12. This growth is a function of organic improvement and positive centre acquisitions.
- **Like for like occupancy across 133 child care centres has increased by 230 basis points from 1H12 v 1H13.**
- At 30 June 2013 the group had 14,839 licenced places per day and employed 4,967 employees.
- The group employee turnover rate for permanent staff improved from 14.9% for 1H12 to 11.6% in 1H13. Turnover rates are well below the industry average.
- Under the National Quality Standards each Australian childcare centre must have a bachelor qualified teacher by 2014. G8 Education currently has 197 teachers across 125 centres and continues to recruit bachelor qualified teachers.

Group Structure

G8 Education[ltd]

Brian Bailison Non-Executive Director | **Andrew Kemp** Non-Executive Director | **Chris Scott** Managing Director | **Jenny Hutson** Chairperson | **Susan Forrester** Non-Executive Director

Chris Sacre
Chief Operating & Financial Officer/Company Secretary

IT Manager | GM Operations | Marketing Manager | Financial Controller | HR Manager

Senior Operations Manager | Senior Operations Manager

16 operations managers

202 centre directors

More than 4,900 centre staff
Over 14,000 licenced places

G8 Education ltd

THANK YOU

Questions?