



Investing in the future
of childcare.



G8 Education^{ltd}

G8 Education – Half Year Overview 2014

G8 Education Limited (ASX:GEM)

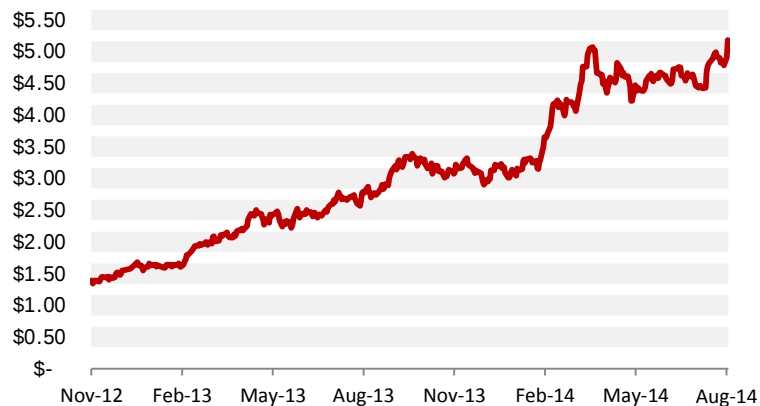
18 August 2014

Corporate Snapshot

Capital Structure

Fully Paid Ordinary Shares (current)	332.1 million
Options	Nil
Share Price (14 August 2014)	\$5.24
Market Capitalisation (as at 14 th August 2014)	\$1.7 bn
Cash (as at 30 June 2014)	\$153.9 million
Senior Debt (as at 30 June 2014)	Nil
Senior Unsecured Notes (as at 30 June 2014)	\$270.0 million

1 Year Share Price Chart



Directors & Senior Management

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

Substantial Shareholder	Shares	% Holding
NAB	18.6 million	5.6%



G8 Education^{ltd}

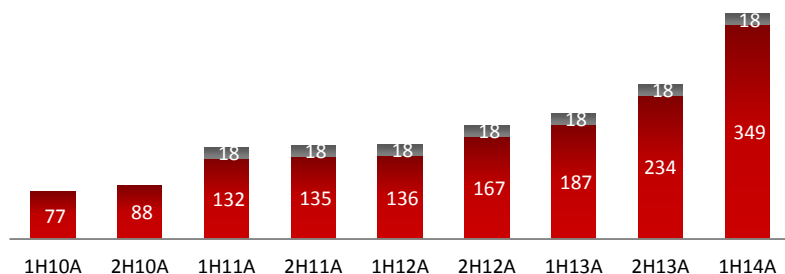


Group Operational Update

Group Centre Portfolio

Centre Portfolio

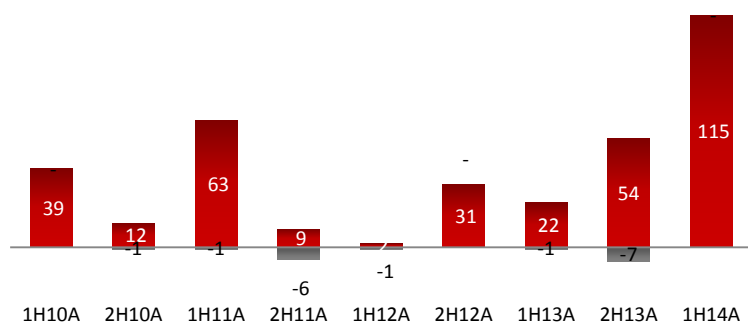
■ Australian centres ■ Singapore centres



G8 Education has continued to make earnings per share accretive acquisitions throughout H1 2014.

Change In Portfolio

■ Additions ■ Disposals



The group acquired 115 centres during H1 2014

- As at 30th June 2014 the group owned 349 centres in Australia and 18 centres in Singapore
- The group added 115 new centres in the period. These were comprised of a combination of Sterling related assets and non Sterling related assets
- The total average portfolio occupancy as at 30th June 2014 was 83.02%.
- Strong revenue growth of 6.6% combined with prudent cost management strategies realised an EBIT growth of 9.3% for the like for like centres in 1H14 vs 1H13.

Return on Invested Capital

- **Return on Invested Capital** at the period ended 30th June 2014 was **25.5%**.
- This calculation is based on analyst forecasts assuming no new acquisitions and allowing for AUD\$70,000,000 in additional debt to fund the acquisitions announced on 11 August 2014. The small decline is due to the multiple paid for the Sterling acquisition which was at 5.8 times forecast EBIT.
- **ROIC** was **23.8%** in CY11, **24.8%** in CY12 and **25.9%** in CY13.

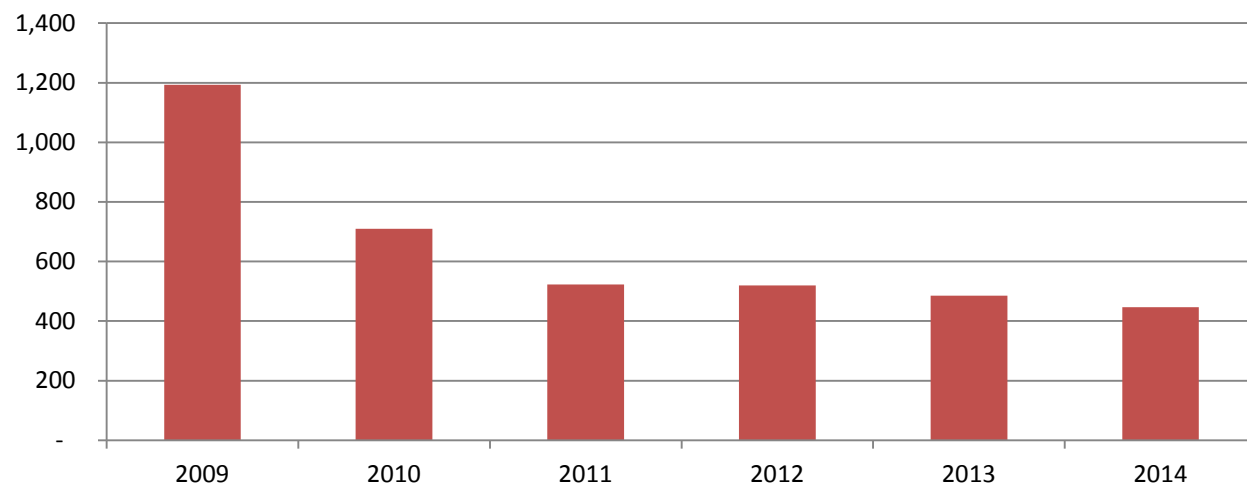
	HY14	CY13	CY12	CY11
Equity as at reporting period	431,569,000	304,786,000	182,307,582	115,164,091
Fair value adjustments to Equity due to acquisition purchase price gross up due to share price movements	24,026,790	24,026,790	24,026,790	23,835,853
Adjust equity for fair value	407,542,210	280,759,210	158,280,792	91,328,238
Add Net Debt (includes note raise on 14 August, 2014)	178,312,000	171,000	27,462,272	22,232,372
	585,854,210	280,930,210	185,743,064	113,560,610
 Return on Invested Capital (ROIC)	 25.5%	 25.9%	 24.8%	 23.8%

Head Office Cost per Licensed Place

	2009	2010	2011	2012	2013	H1 2014
Number of Places	2,547	6,304	9,868	12,661	17,597	24,816
Head office cost per licensed place	\$1,193	\$710	\$523	\$520	\$485	\$447
Employment cost per licensed place	\$786	\$503	\$377	\$364	\$348	\$331
Overhead cost per licensed place	\$413	\$207	\$145	\$156	\$138	\$118

- Effective cost management and productivity gains combine to drive head office cost per licensed place lower
- Improved efficiencies from automation initiatives and more effective use of existing resources contribute to labour cost savings
- Increased focus on purchasing and strict adherence to cost saving improve overhead consumption at head office

Fully adjusted head office costs per licensed place



Sterling Integration Update

- The Sterling acquisition integration continues to schedule – 50 of the 91 centres had settled as at 30th June, 2014
- All centres are now fully integrated into the G8 operations network and contributing to group performance
- They have been fully equipped with all educational and technological equipment, fully staffed and included in the groups marketing programs
- The remaining 41 centres are expected to settle between half year end and September as detailed in the announcement on 24th March, 2014



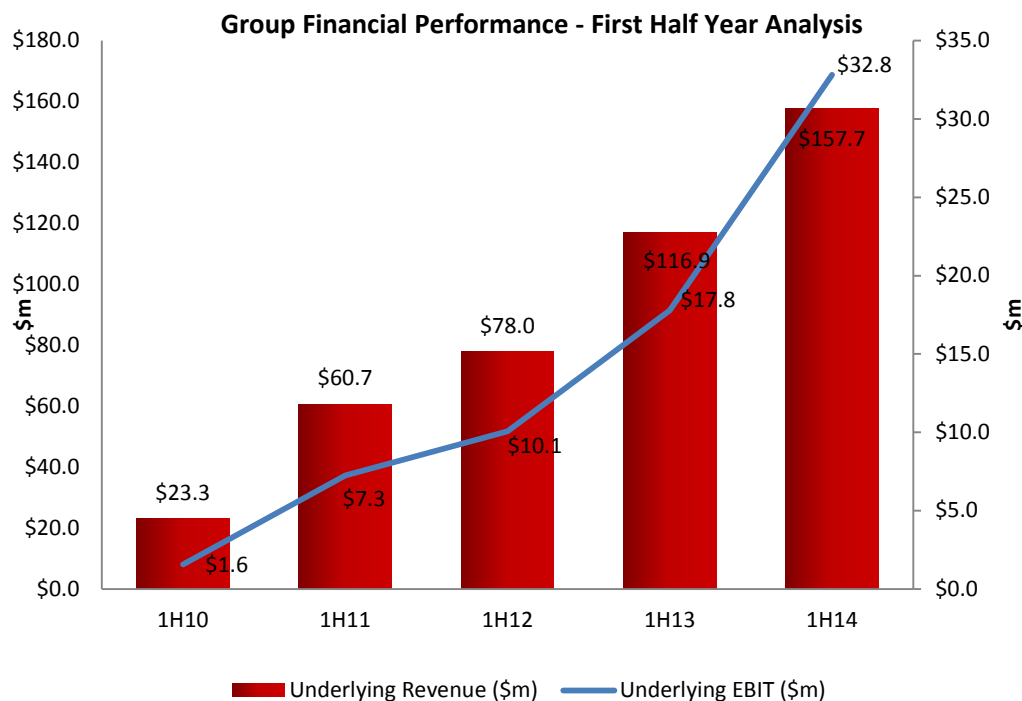


G8 Education^{ltd}



Group Financial Update

Group Revenue and EBIT



The table opposite shows the underlying group revenue and EBIT growth from 1H10 to 1H 14

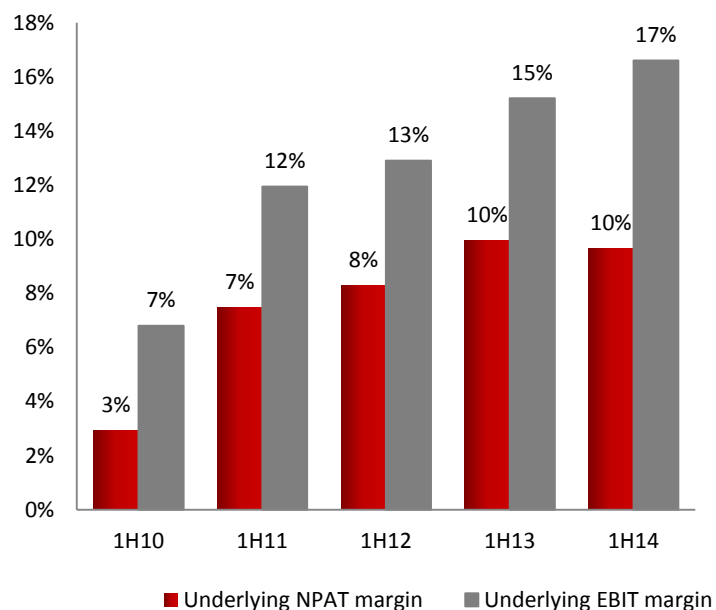
Underlying EBIT has increased by 84% from 1H13 to 1H14 due to the contributions from acquisitions and organic growth.

CAGR of 83% for underlying EBIT from 1H10 to 1H 14

**Underlying Revenue/EBIT is reported revenue/EBIT excluding non-recurring transactions as displayed in page 10 of the Annual Report.

Financial Margin Analysis

Group Margin Analysis - First Half



- 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.
- **Underlying EBIT margins** have increased from 15% in 1H13 to 17% in 1H14

HY14 Income Statement

	2014 \$'000	2013 \$'000	Variance %
Revenue	187,257	118,173	58%
Expenses	157,166	101,128	55%
Earnings Before Interest and Tax	30,091	17,045	77%
Interest	6,648	1,332	399%
Net Profit Before Tax	23,443	15,713	49%
Net Profit After Tax	16,309	11,018	48%
Less non-recurring transactions:			
Acquisition costs - legal and stamp duty	545	207	
Amortisation of facility establishment costs	808	-	
Loss on non-current assets held for sale	-	776	
Translation expense on revaluation of Notes issued in SGD	343	-	
Deferred consideration write back	-	(550)	
Reclassification of interest rate derivative	171		
Underlying Net Profit After Tax	18,036	11,349	59%
Underlying Earnings Before Interest and Tax	31,150	17,478	78%

- **Strong revenue growth** of \$69.1m was reported in 1HY14 representing a 58% increase from 1H13.
- 10% of the increase in revenue was delivered from the like for like centres whilst the remaining increase was a contribution from the 76 centres which were acquired during CY13 combined with the incremental contribution from the 115 centres acquired during 1H14.
- **Underlying EBIT margin increased** by 1.8% from 14.8% in C1H13 to 16.6% in 1H14.
- **Like for Like EBIT margin increased** by 50bps up from 19.7% to 20.2% from 1H13 to 1H14.

Balance Sheet



G8 Education^{ltd}

	30-Jun-14 \$'000	31-Dec-13 \$'000
Current assets		
Cash and cash equivalents	153,942	114,043
Trade and other receivables	16,237	9,613
Other current assets	18,488	4,424
Assets classified as held for sale	-	0
Total current assets	188,667	128,080
Non-current assets		
Receivables	-	1,640
Property plant and equipment	21,623	18,069
Deferred tax assets	8,384	7,320
Intangible assets	572,457	326,857
Total non-current assets	602,464	353,886
Total assets	791,131	481,966
Current liabilities		
Trade and other payables	74,917	39,825
Borrowings	-	3,778
Employee Entitlements	14,489	11,214
Derivative Financial Instruments	264	283
Current tax liabilities	4,113	8,910
Total current liabilities	93,783	64,010
Non-current liabilities		
Borrowings	262,254	110,436
Other payables	734	760
Provisions	2,791	1,974
Total non-current liabilities	265,779	113,170
Total liabilities	359,562	177,180
Net Assets	431,569	304,786

- Cash reserves as at 30 June 2014 were \$153.9m up from \$114m at 31 December 2013.
- Trade and other receivables increased from \$9.6m to \$16.2m during 1H14 primarily due to timing of half year cut off and the impact on debtors
- Other current assets increased from \$4.4m to \$18.5m during 1H14 due to a \$14.1m increase in deposits on acquisitions that had not yet settled at 30 June 14.
- PP&E has increased by \$3.6m from December 2013 to December 2014. This increase is additional PPE from acquisitions as well as organic capex on centre improvements
- Intangible assets are \$572m. This represents the purchase price of child care centres (adjusted for fair value adjustments) and has increased due to acquisition activity in 2014
- The increase in trade and other payables of \$35.1m is due to the following:
 - Dividend payable - \$4.4m;
 - Centre enrolment advances and fees paid in advance \$5.3m
 - Deferred centre acquisition payments - \$10.8m; and
 - \$14.6m increase in other payables and accruals
- The increase in employee entitlements over the period is due to the increase in the number of centres across the group.
- Borrowings include the gross value of the Australian and Singapore bonds less costs of issue which are amortised over the life of the notes.

Cashflow



G8 Education^{ltd}

	30-Jun-14 \$'000	30-Jun-13 \$'000
Cash flows from operating activities		
Receipts from customers	191,172	118,184
Payments to suppliers and employees	(161,728)	(96,327)
Interest received	1,731	435
Interest paid	(5,204)	(1,331)
Borrowing costs	(42)	(78)
Income taxes paid	(11,424)	(4,264)
Net cash inflows from operating activities	14,505	16,619
Cash flows from investing activities		
Payments from purchase of businesses	(218,015)	(25,549)
Repayment of loans by Key Management Personnel	1,642	113
Proceeds from sale of childcare centres	-	104
Payments for property plant and equipment	(5,620)	(6,866)
Net cash outflows from investing activities	(221,993)	(32,198)
Cash flows from financing activities		
Share issue costs	(4,155)	(1,145)
Dividends paid	(12,996)	(8,173)
Proceeds from issue of corporate note	195,091	-
Proceeds from issue of shares	116,173	35,000
Repayment of borrowings	(46,592)	(1,507)
Net cash inflows from financing activities	247,521	24,175
Net increase in cash and cash equivalents	40,033	8,596
Cash and cash equivalents at the beginning of the financial year	114,043	21,795
Effects of exchange rate changes on cash	-134	144
Cash and equivalents at the end of the financial year	153,942	30,535

- Operating cashflow remained strong at \$14.5m for the period
- The variance of Earnings before Depreciation and Amortisation to operating cashflow is 2.7%. This is calculated post adjusting for the timing impact of tax expenses and interest paid
- Payments for businesses of \$218m represent the payments for the 115 child care centre acquisitions announced and settled during the year.
- Payments for PP&E at \$5.6m relates to additional PPE obtained from acquisitions as well as organic capex on centre improvements and technology upgrades.
- Cash flow from financing activities has increased by \$247.5m during the year due to the share placement and SPP, net proceeds from the issue of AU notes of AUD\$50m and SG notes of SGDS\$175m (AUD\$150m) offset by the repayment of the Bank West senior secured debt of AUD\$46.6m.



G8 Education^{ltd}



Regulatory Update

Productivity Commission Draft Report

- Release of Productivity Commission Draft Report on 22nd July 2013
- Key draft rulings:
 - CCB and CCR to be combined – Value of benefit based on a means tested deemed cost of childcare of \$7.53 per hour with family income less than \$60k receiving 90% and more than \$300k receiving 30%
 - Payroll tax exemption to be abolished
 - National harmonisation of staff to childcare ratios and removal of ECT requirements for rooms for 36 month children and below
 - Universal application of pre-school funding across Australia
 - Simplification of NQF assessment process
- The commission has invited written responses to its draft report after which a final report will be released in October 2014



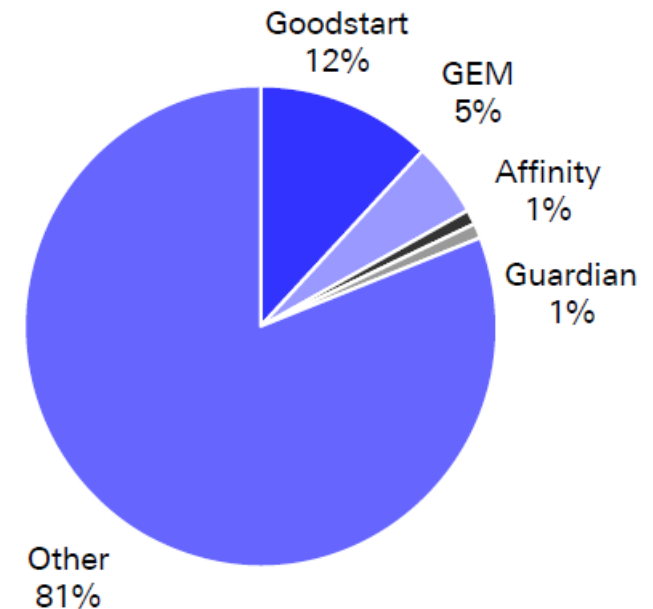
G8 Education^{ltd}



Industry update

Market Potential

- **Highly Fragmented industry**
 - Approximately 6,500 long day care centres across Australia
 - G8 Education Limited represents approximately 5% of the market
 - Goodstart Early Learning represents approximately 12% of the market
 - The addressable market is estimated at approximately 4,000 centres
- **Strong long-term demand for early childhood education services**
 - A transformation of perceptions of childcare away from that of child-minding to a crucial step to better educational outcomes
 - Ongoing drives to increase female participation rates from current level of **66%** for mothers
 - **Government funding** was to have reached **\$5.7bn in 13/14** with additional funding expected for the **14/15** period
 - **Undersupply** in metropolitan and inner city suburbs
- **Strong pipeline of acquisition opportunities**
 - Good relationships with brokers and vendors
 - Strong reputation in the sector
 - Disciplined due diligence
- **Implement best practice operating efficiencies to improve organic performance**
 - Proven results from previous acquisitions



Source: Company Data; Q8710 - Child Care Services in Australia, Feb, 2014, IBISWorld Pty Ltd

Market Potential

Australian Statistics since 2006 Baby Boom

Australia ranks
30th against
OECD
countries for
enrolment
rates

31% increase
in number of
children enrolled
in Govt. approved
childcare since
2006 baby boom

17%
increase in
number of
Long Day Care
(LDC) Places
since 2006
baby boom

Potential to increase enrolments:

- Current Government support Funding through Child Care Rebate **CCR** (not means tested, capped at \$7,500) and Child Care Benefit **CCB** (means tested)
- Room to move on educational funding – Average OECD countries pre-primary expenditure equates to 0.5% of GDP. Australia invests 0.01% of GDP. An increase of funding would significantly increase enrolments inline with fellow OECD countries
- Since 2006 the 0-5 year population increased by 183,000 (6 times the 20 year average)
- National Quality Framework introduced in 2012 increases the propensity of parents/guardians to view childcare as an educational imperative
- Since the year 2000, the proportional attendance rate of childcare services has grown from 21% to 38% in the year to June 2011.
- Sector licencing based on m² requirement inside (3.25m²) and outdoors (7m²) compared to other countries like the UK (2.5m²).



G8 Education^{ltd}



Subsequent events

Significant Events Post 30 June 2014

- On the 11th August G8 education announced it has contracts to acquire 25 childcare and education centres from a number of different vendors. G8 Education Limited has contractual arrangements with each of the vendors, conditional upon customary licensing and landlord approvals. The acquisitions will be funded from cash reserves. Subject to these conditions being satisfied the acquisitions are expected to settle before the end of January 2015. The total purchase price for the 25 centres is \$72,700,000 payable at settlement and a further \$10,000,000 conditional upon the centre based EBIT target being achieved in the 12 months post settlement. The purchase price is 4 times anticipated EBIT for the 12 months post settlement.
- On the 14th of August SGD\$85,000,000 was raised from the issue of Tranche 2 Notes, at a 4.75% per annum coupon, maturing in May 2017. The notes, which are expected to be issued on 21 August 2014, will be consolidated to form a single series with the SGD\$175,000,000 4.75 per cent fixed rate notes due 2017 issued on 19 May.





G8 Education^{ltd}

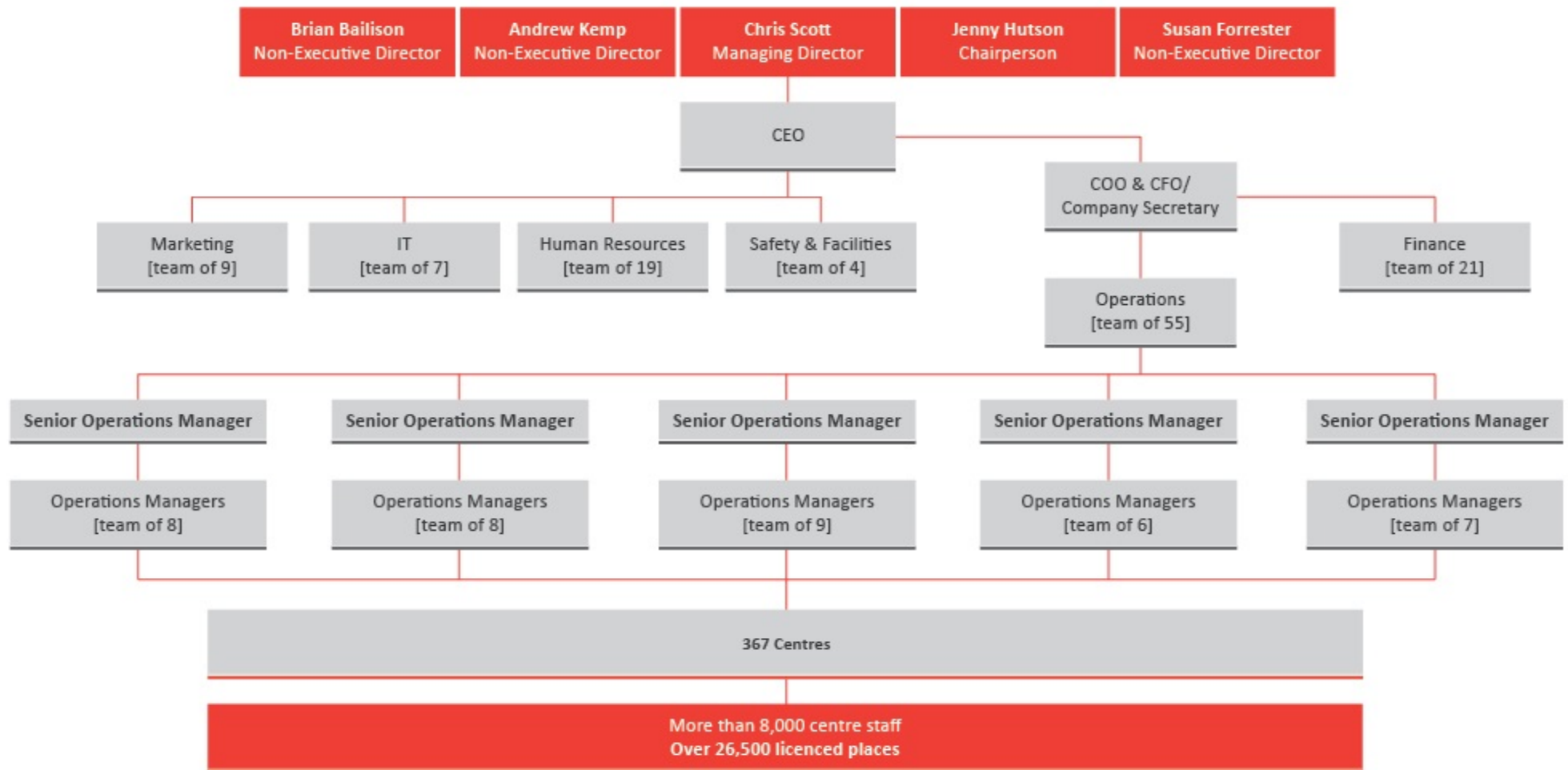


Appendices

Australian Corporate Structure



G8 Education^{ltd}



Our Brands



- G8 Education currently manages **16 branded childcare groups** as part of a diversified brand strategy
- Over H1 2014 **four new** brands have been added to the portfolio
- No two G8 brands are alike. Each carries within it the **characteristics and qualities** inherent in the **communities** within which the centres operate
- A team of **8 marketers** actively manages our group brands facilitating the provision of quality care and education to the widest range of demographics possible



G8 Education^{ltd}



THANK YOU

Questions?