



Investing in the future
of childcare.



G8 Education^{ltd}

G8 Education –Overview 2014

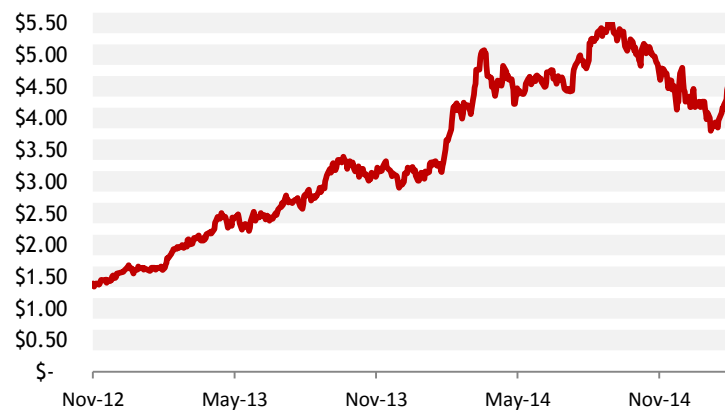
G8 Education Limited (ASX:GEM)

16 February 2015

Corporate Snapshot

Capital Structure	
Fully Paid Ordinary Shares (current)	359.1 million
Options	Nil
Share Price (as at 30 Jan 2015)	\$4.58
Market Capitalisation (as at 30 Jan 2015)	\$1.6 billion
Cash (as at 31 Dec 14)	\$120.8 million
Senior Secured Debt (as at 31 Dec 14)	Nil
SGD Senior Unsecured Notes	SGD \$260.0 million
AUD Senior Unsecured Notes	AUD \$120.0 million

Board of Directors & Key Management Personnel	Title
Jenny Hutson	Chairperson
Chris 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
Bennelong	28.3 million	7.9%
NAB	19.6 million	5.5%
UBS Group AG	19.2 million	5.3%



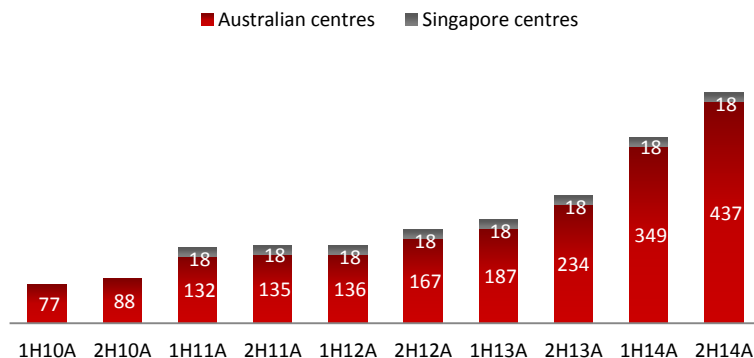
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Portfolio Update

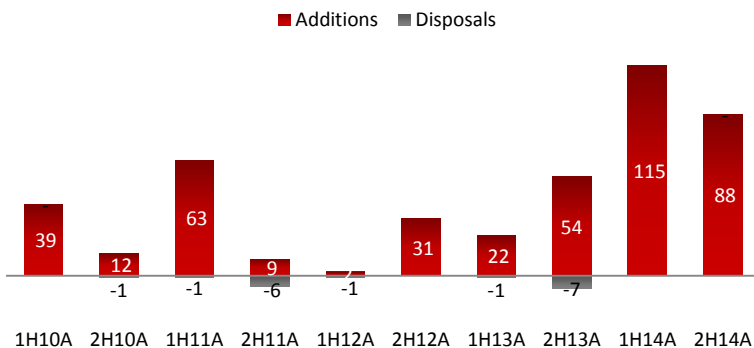
Group Centre Portfolio

Centre Portfolio



The Group has continued to make earnings per share accretive acquisitions throughout 2014

Change In Portfolio



Centre acquisitions were spread across the year with a bias to the first half

- The Group added 203 new centres and 13,697 licensed places in 2014
- Disciplined consolidation in high demand areas continues to be our focus
- As at 31 Dec 2014 the Group owned 437 centres in Australia and 18 centres in Singapore with a total of 32,782 licensed places



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Operational Update

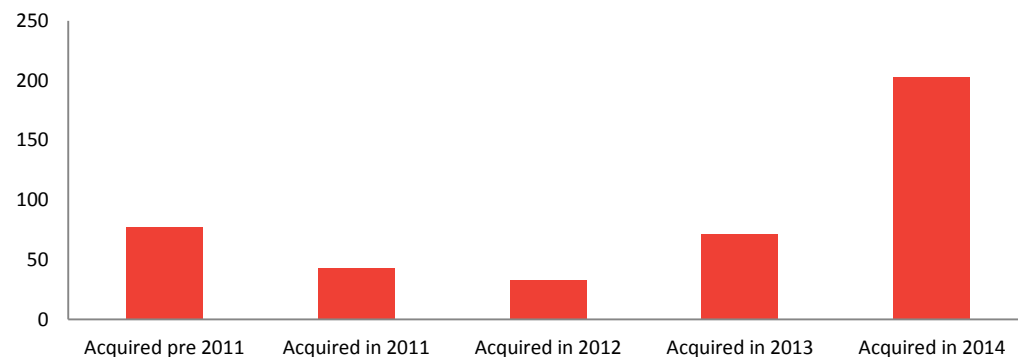
Like for Like - Occupancy

LFL occupancy

Vintage	Number of centres	2011	2012	2013	2014
Acquired pre 2011	78	77.99%	78.43%	80.16%	80.53%
Acquired in 2011	43	-	87.51%	88.18%	89.77%
Acquired in 2012	33	-	-	88.63%	88.81%

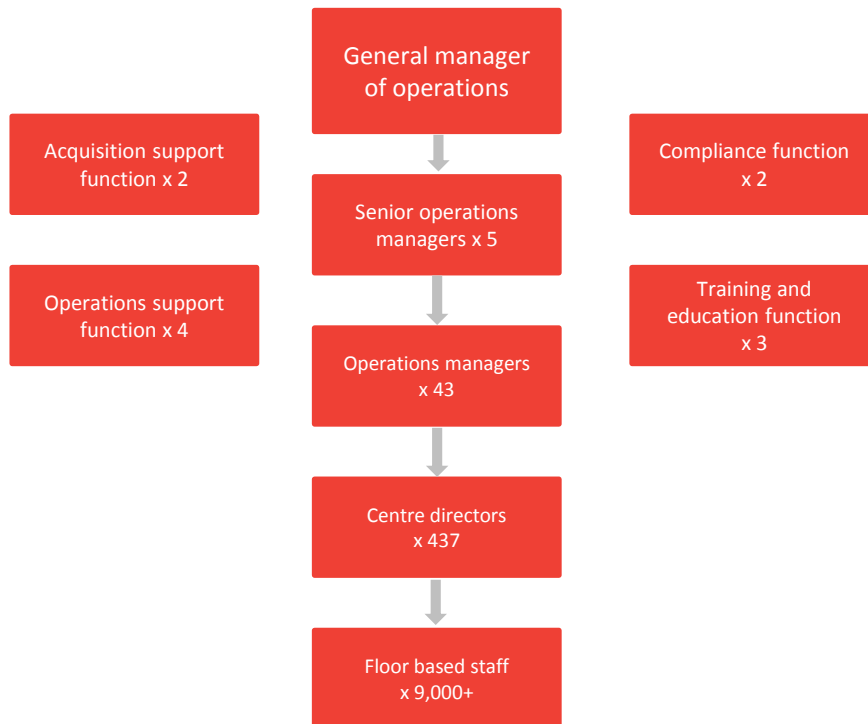
Like for Likes calculated based on ownership for a full calendar year. Acquisitions made part way through a year are captured in the following years data. Acquisitions made in 2014 are excluded.

Number of centres acquired per year

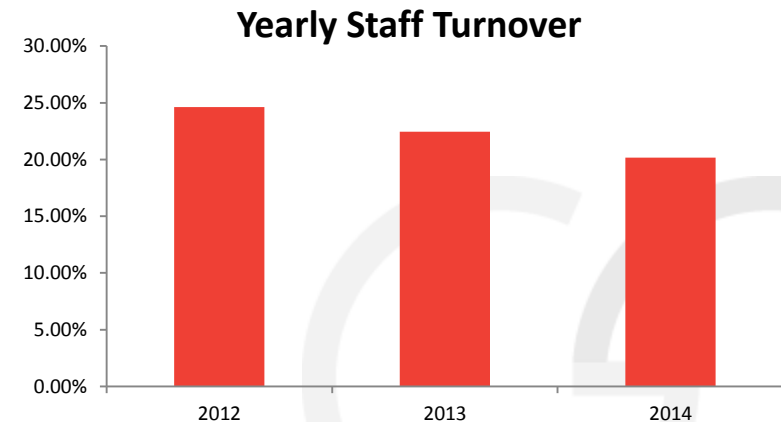


- Average like for like occupancy across the portfolio showed continued growth on a per year and total basis
- Like for like occupancy peaked at 90.60% in November 2014
- Significant organic growth opportunities will crystallise in 2015/16 from centres acquired in 2013/14

G8 Operations

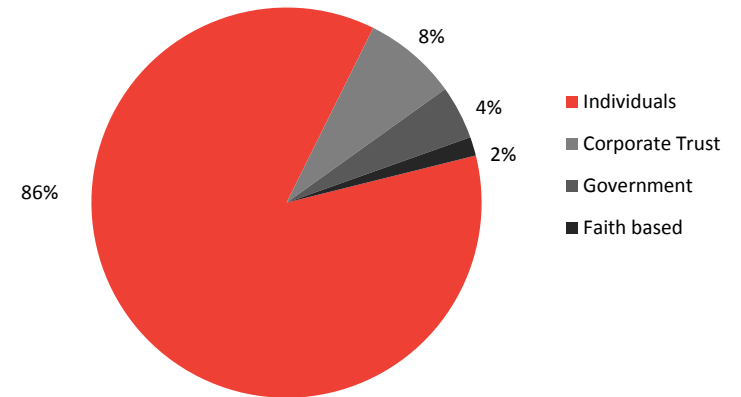


- The operations team has scaled up to manage the increase of centres joining the Group
- Staff turnover continues to show positive declines despite the high incidence of younger employees still in the midst of making lifestyle and employment direction changes



- Average lease tenure for the portfolio is 18 years
- Standard terms apply with regards contracting
- 86% of leases owned by individuals
- 43% of leases have inflation clauses linked to CPI

Distribution of landlords by type





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Key performance metrics

Like for like Revenue and EBIT generation

Like for Like Revenue

Vintage	Number	2011	2012	2013	2014
Acquired pre 2011	78	78,681,082	86,401,946	95,722,924	101,809,071
Acquired in 2011	43	-	64,468,120	70,601,868	75,432,263
Acquired in 2012	33	-	-	58,697,588	62,711,494

Like for Like EBIT

Vintage	Number	2011	2012	2013	2014
Acquired pre 2011	78	15,682,243	17,297,694	21,021,002	21,579,107
Acquired in 2011	43	-	12,932,573	15,476,162	18,210,405
Acquired in 2012	33	-	-	14,737,136	16,035,084

Like for Likes calculated based on ownership for a full calendar year. Acquisitions made part way through a year are captured in the following years data. Acquisitions made in 2014 are excluded.

- Organic revenue growth and EBIT growth is consistent and robust
- Like for Like EBIT margin increased by 0.53% from 22.69% to 23.22% from CY13 to CY14
- This margin improvement drove a \$4.64m increase in EBIT which represents a 9% growth rate on 2013

Group Pro Forma Returns on Invested Capital

Pro forma adjusted Return on Invested Capital for the period was 26.0%

	CY14	CY13	CY12	CY11
Equity as at 31 December as per the Annual Report	542,009,000	304,786,000	182,307,582	115,164,091
Fair value adjustments to Equity due to acquisition purchase price gross up from share price movements	<u>(26,449,093)</u>	<u>(24,026,790)</u>	<u>(24,026,790)</u>	<u>(23,835,853)</u>
Adjust equity for fair value	<u>515,559,907</u>	<u>280,759,210</u>	<u>158,280,792</u>	<u>91,328,238</u>
Add Net Debt	<u>213,521,223*</u>	<u>171,000</u>	<u>27,462,272</u>	<u>22,232,372</u>
	<u>729,081,130</u>	<u>280,930,210</u>	<u>185,743,064</u>	<u>113,560,610</u>
Average broker forecast EBIT for the following calendar year	170,900,000	72,800,000	46,000,000	27,000,000
Return on Invested Capital (ROIC)	23.4%	25.9%	24.8%	23.8%
Return on Invested Capital (ROIC) – Sterling adjusted	26.0%			

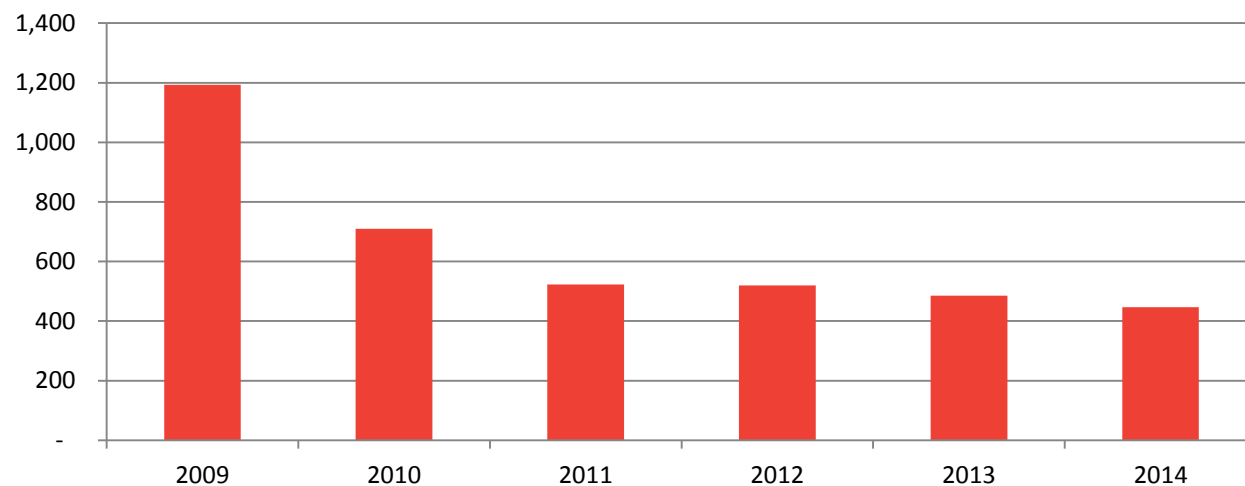
* Net debt adjusted for non cash FX loss

Adjustments reflect non cash translation impacts and rebasing of acquisition multiples to 4x EBIT

Head Office Cost per Licensed Place

	2009	2010	2011	2012	2013	2014
Number of Places	2,547	6,304	9,868	12,661	17,597	32,782
Head Office Cost per Licensed Place	\$1,193	\$710	\$523	\$520	\$485	\$455

Head Office Cost per Licensed Place



- Head office costs per licensed place fell in 2014 to \$455
- Efficiency and productivity gains from process upgrades and application of technology combined with tight cost control continues to yield benefits to the Group Head Office cost structure



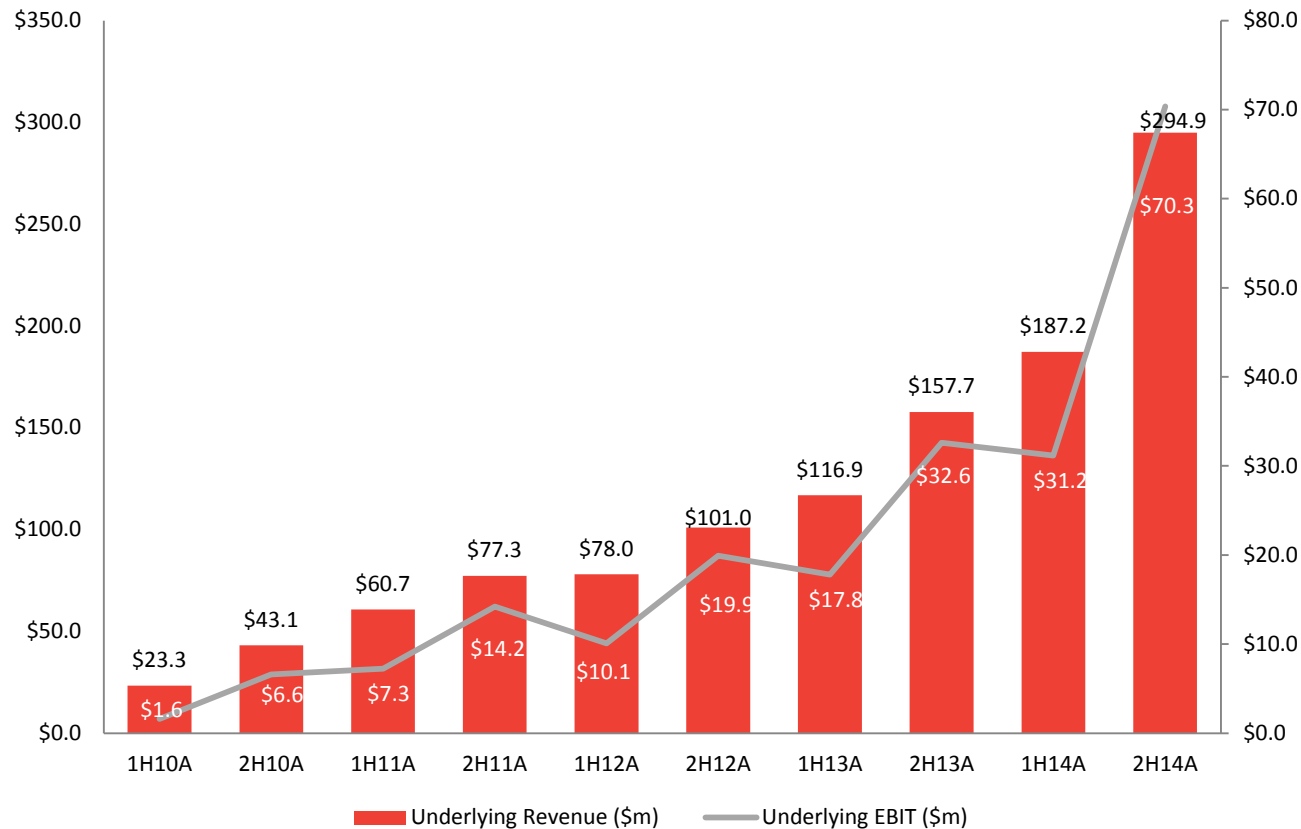
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Group Financial Update

2014 Group Revenue and EBIT

Group Financial Performance



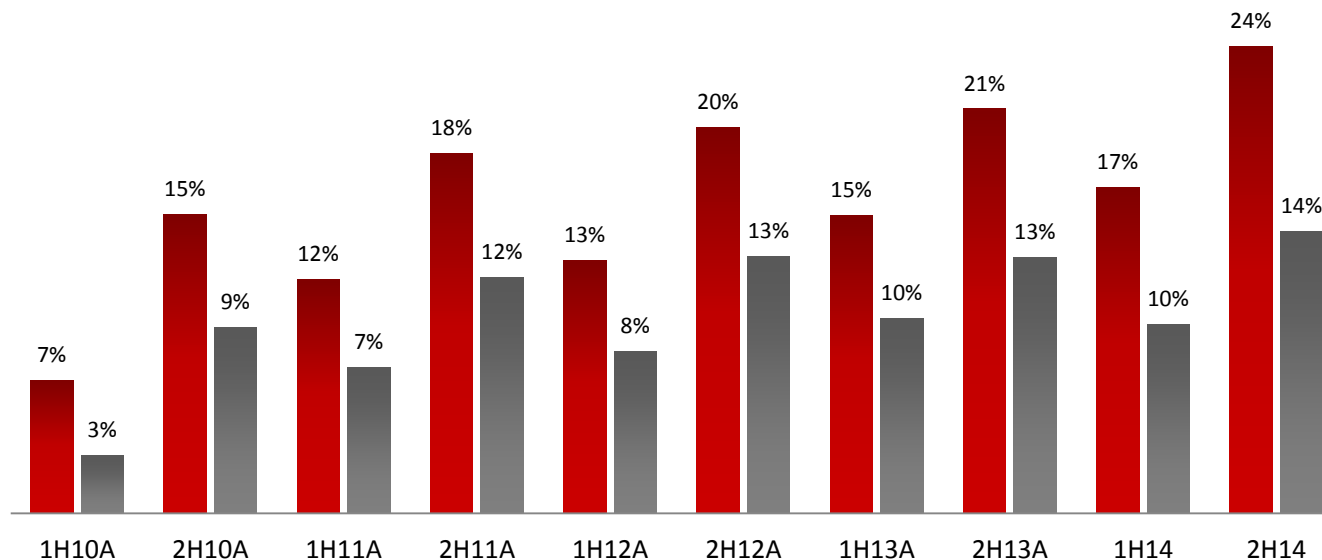
- Underlying Group Revenue and EBIT growth from 1H10 to 2H14 has continued to be strong
- Underlying EBIT has increased by 101% from CY13 to CY14 due to the contributions from acquisitions and organic growth
- CAGR of 93% for underlying NPAT from CY10 to CY14

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

2014 Financial Margin Analysis

Group Underlying Margin Performance

■ Underlying EBIT margin ■ Underlying NPAT margin



- Underlying EBIT margins have increased from 18.3% in CY13 to 21.0% in CY14. This is largely due to a combination of organic growth and contributions from high quality acquisitions
- Margins are 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

CY 14 Income Statement

Consolidated Year end 31 December	2014 \$'000	2013 \$'000	Variance
Revenue	491,288	275,165	79%
Expenses	(384,087)	(225,776)	70%
Earnings Before Interest and Tax	107,201	49,389	117%
Financing Cost	(34,640)	(4,790)	623%
Net Profit Before Tax	72,561	44,599	63%
Net Profit After Tax	52,731	31,072	70%
Less non-operating transactions:			
Deferred consideration not paid	(9,178)	(550)	
Acquisition expenses	3,354	1,546	
Share based payment expense	107	208	
Write off of borrowing costs on refinance	566	-	
Foreign currency translation loss	13,033	-	
Underlying Net Profit After Tax	60,613	32,276	88%
Underlying EPS (cents per share)	18.57	11.72	58%
Underlying Earnings Before Interest and Tax	101,484	50,593	101%

- Strong underlying Revenue growth of \$207.5m was reported in CY14, an increase of 76%
- Wages as a percent of revenue from continuing operations continued to trend favourably ending at 56% in CY14 against 58% in CY13
- Rent expense in 2014 was 11.6% of revenue from continuing operations compared to 12.1% in CY13
- Group Underlying EBIT margins increased for the fourth consecutive year to 21.0%

Deferred consideration not paid relates to the write back of centre based earnouts not achieved

Acquisition expenses includes outsourced legal and accounting due diligence fees and stamp duty

Write off of borrowing costs relates to costs capitalised associated with the repaid Bank West facility

Mark to market revaluation on the Singapore bonds is a non cash revaluation of the AUD carrying value of the Group's Singapore bonds. The foreign exchange rate at 31 Dec 2014 for AUD to SGD was 1.0851

Balance Sheet

		Consolidated	
	Notes	2014 \$'000	2013 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	9	120,804	114,043
Trade and other receivables	10	14,164	9,613
Other current assets	11	13,642	4,424
Total current assets		148,610	128,080
Non-current assets			
Receivables	24	-	1,640
Property plant and equipment	12	29,575	18,069
Deferred tax assets	13	15,448	7,320
Goodwill	14	809,162	326,857
Total non-current assets		854,185	353,886
Total assets		1,002,795	481,966
LIABILITIES			
Current liabilities			
Trade and other payables	15	75,567	39,825
Borrowings	16	-	3,778
Employee entitlements	17	18,110	11,214
Derivative financial instruments	18	230	283
Current tax liabilities		9,655	8,910
Total current liabilities		103,562	64,010
Non-current liabilities			
Borrowings	16	352,944	110,436
Other payables		652	760
Provisions	19	3,628	1,974
Total non-current liabilities		357,224	113,170
Total liabilities		460,786	177,180
Net assets		542,009	304,786

- Trade and other receivables increased from \$9.6m to \$14.2m during CY14 due to timing of year end cut off and the impact on debtors
- An increase in deposits on acquisitions raised other current assets from \$4.4m to \$13.6m during CY14
- PP&E has increased by \$11.5m from December 2013 to December 2014 from acquisitions and centre based organic Capex
- Goodwill increased by \$482.3m to \$809.2m at 31 December 2014. This represents the purchase price of child care centres acquired
- The increase in trade and other payables of \$35.7m is largely due to:
 - Dividend payable - \$10.7m;
 - Centre enrolment advances and fees paid in advance - \$3.8m
 - Income received in advance - \$4.2m
 - Deferred centre acquisition payments - \$4.8m; and
 - Other payables and accruals - \$10.0m

Cash Flow

	Notes	Consolidated 2014 \$'000	2013 \$'000
Cash flows from Operating Activities			
Receipts from customers		494,744	274,595
Payments to suppliers and employees		(383,483)	(218,783)
Interest received		2,919	1,481
Interest paid		(14,240)	(2,039)
Income taxes paid		(25,224)	(12,219)
Net cash inflows from operating activities	33	74,716	43,035
Cash flows from Investing Activities			
Payments for purchase of businesses (net of cash acquired)		(447,751)	(98,536)
Repayment of loans by Key Management Personnel		1,642	277
Proceeds from sale of property, plant and equipment		-	557
Payments for property plant and equipment		(16,508)	(10,500)
Net cash outflows from investing activities		(462,617)	(108,202)
Cash flows from Financing Activities			
Share issue costs		(7,249)	(4,440)
Debt issue costs		(7,845)	(1,495)
Dividends paid		(33,273)	(19,232)
Proceeds from issue of corporate note		272,963	70,000
Proceeds from issue of shares		216,499	115,854
Repayment of borrowings		(46,579)	(3,514)
Net cash inflows from financing activities		394,516	157,173
Net increase in cash and cash equivalents		6,615	92,006
Cash and cash equivalents at the beginning of the financial year		114,029	21,777
Effects of exchange rate changes on cash		(465)	246
Cash and cash equivalents at the end of the financial year	9	120,179	114,029

- Operating cash flow was strong at \$74.7m for the year
- Cash conversion remained impressive with the variance of underlying profit before depreciation and amortisation to operating cash flow being 1%
- Payments for businesses of \$448m represents the payments for the 203 child care centre acquisitions announced and settled during the year
- Cash flow from financing activities has increased by \$394.5m during the year due to the share placements and SPP, net proceeds from the issue of AUD and SGD denominated corporate notes, offset by the repayment of the Bank West senior secured debt of AUD\$46.6m

Capital Structure

G8's capital structure as at 31 December 2014 consists of the following Debt and Equity instruments:

	Issuer	Class	Maturity	Principle/Issuance	Cost
Borrowings	G8 Education Ltd	Senior Unsecured Note	7 August 2019	A\$70,000,000	7.675%
	G8 Education Ltd	Senior Unsecured Note	17 February 2018	A\$50,000,000	BBSW + 3.90%
	G8 Education Ltd	Senior Unsecured Note	19 May 2017	S\$175,000,000 (A\$150,000,000)	4.75%
	G8 Education Ltd	Senior Unsecured Note	19 May 2017	S\$85,000,000 (A\$70,000,000)	4.75%
Equity	G8 Education Ltd	Ordinary Shares	353,691,630 on issue	\$548,374,000 contributed equity	

Impact of Foreign Exchange Translation on Cost of Debt

The non-cash foreign currency translation loss on the SGD issued unsecured corporate notes was \$18.6m for the period. From a capital management perspective this loss will be amortised over a specific duration to determine the effective cost of capital to the group.

Time Period	3 Years	5 Years	10 Years	20 Years
Singapore bond value at 31 Dec 14 (AUD)	240,786,000			
Translation loss as at 31 Dec 14 (AUD)	(18,619,125)			
Loss per annum if spread across time period above(AUD)	(6,206,375)	(3,723,825)	(1,861,913)	(930,956)
Addition to interest yield	2.58%	1.55%	0.77%	0.39%
Fixed interest cost of Singapore bond	4.75%	4.75%	4.75%	4.75%
Total cost of Singapore bond after FX loss assuming no further movements	7.33%	6.30%	5.52%	5.14%

	2012 A	2013 A	2014 A	2015 E
Reported EPS	8.95c	11.28c	16.15c	30.00c**
Underlying EPS*	9.20c	11.72c	18.57c	n/a
*Adjusted for non cash items				
** Consensus				

The impact of normalising the FX loss increases EPS for 2014 to 18.57 cents

Key Financial Ratios

Key Financial Ratios	As at 31 December 2014
Gross Debt to Equity – Goodwill at Cost	65%
Gross Debt to Equity – Goodwill at Fair Value*	29%
Gross Debt to consensus CY15 EBITDA	1.97x
Interest Coverage	8.9x
*Assumes Goodwill at value in use based on a centre level DCF	

- The Group continued to operate well within its financial covenants
- When goodwill is adjusted to the value in use based on the Group's discounted cash flow model, the gross debt to equity falls to 29%
- Gross debt to EBITDA and interest coverage continue to highlight conservative capital management strategies



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Group Outlook

Acquisition Opportunities



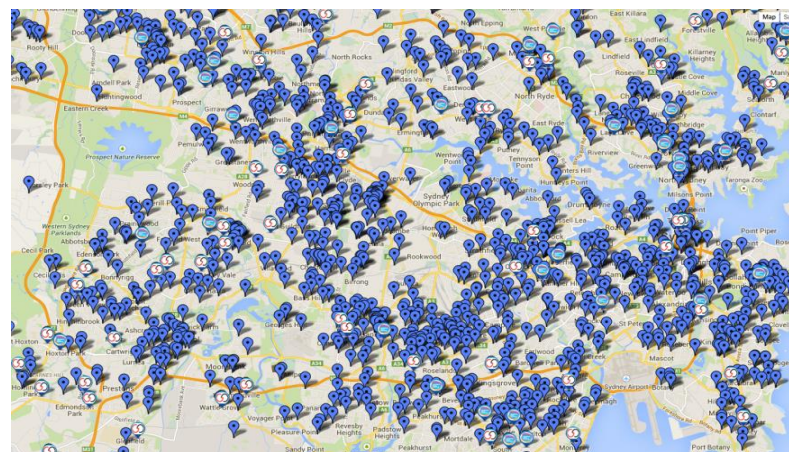
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The Australian Childcare market consists of 9,208 separate service outlets covering a range of offerings from Long Day Care to Vacation Care

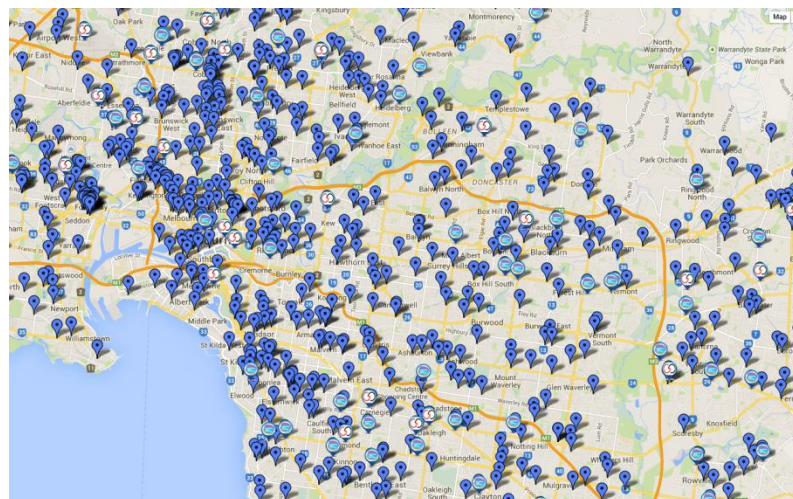
Service	Total
Long day care	6,585
Family day care	512
Occasional care	123
In home care	<u>71</u>
Day care services	7,291
Before school care	2,841
After school care	3,774
Vacation care	<u>2,594</u>
Outside school hours care	9,208

The map opposite shows total LDC centres in Sydney and Melbourne. In addition, the Group's centres and those of Goodstart, our largest competitor, are also highlighted

Sydney catchment



Melbourne catchment





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Subsequent Events

Subsequent events post 31 December 2014

- On 16th February 2015 the Group announced contracts to acquire 12 childcare centres from a number of different vendors. The Group has contractual arrangements with each of the vendors conditional on customary licensing and landlord approvals. The acquisitions will be funded from cash reserves. The total purchase price for the 12 centres is \$36.0 million with \$29.9m payable at settlement and a further payment of \$6.1 million conditional upon the centre based EBIT target being achieved in the 12 month post settlement. The purchase price is 4 times anticipated EBIT for the 12 months post settlement.



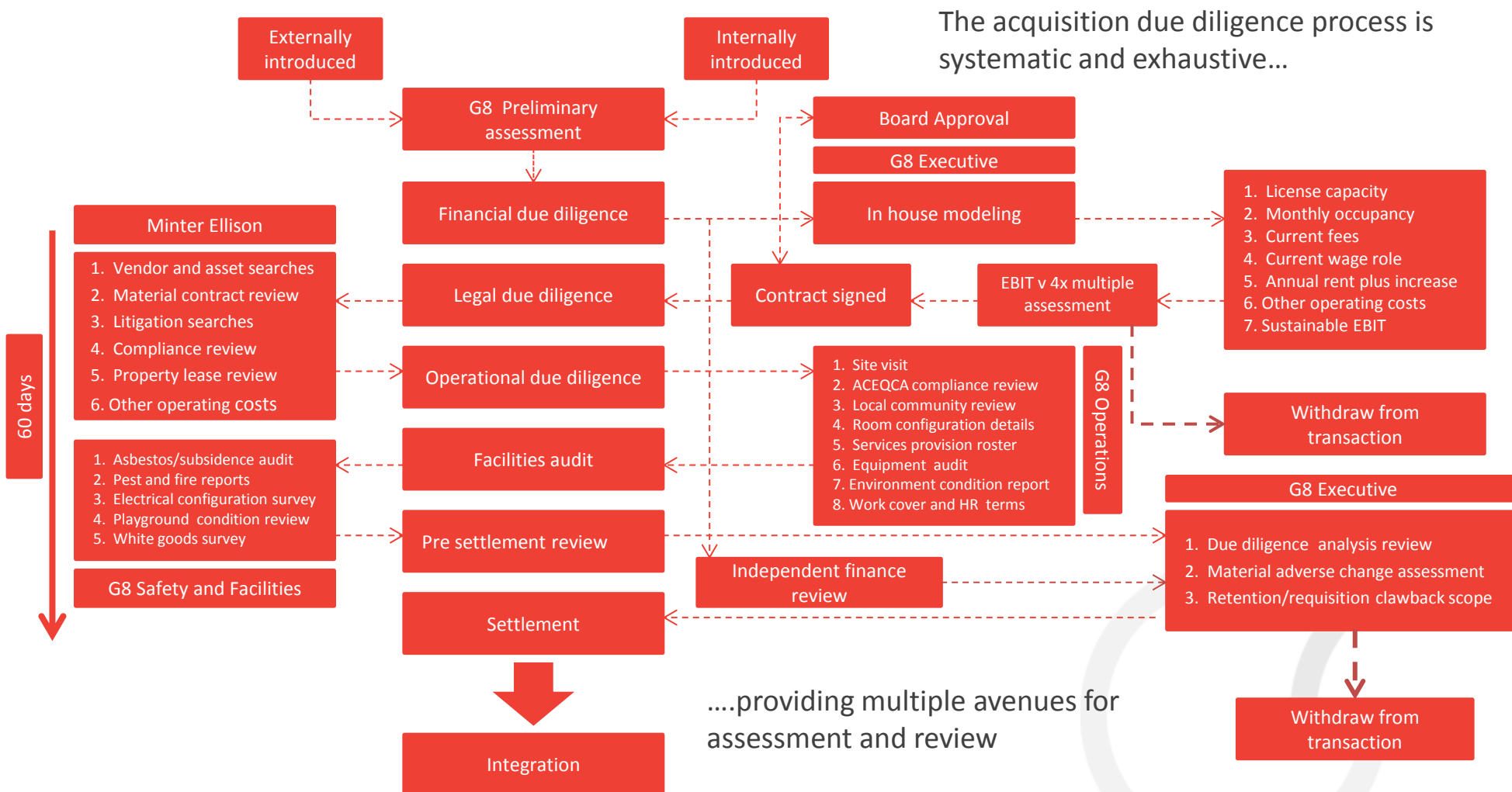


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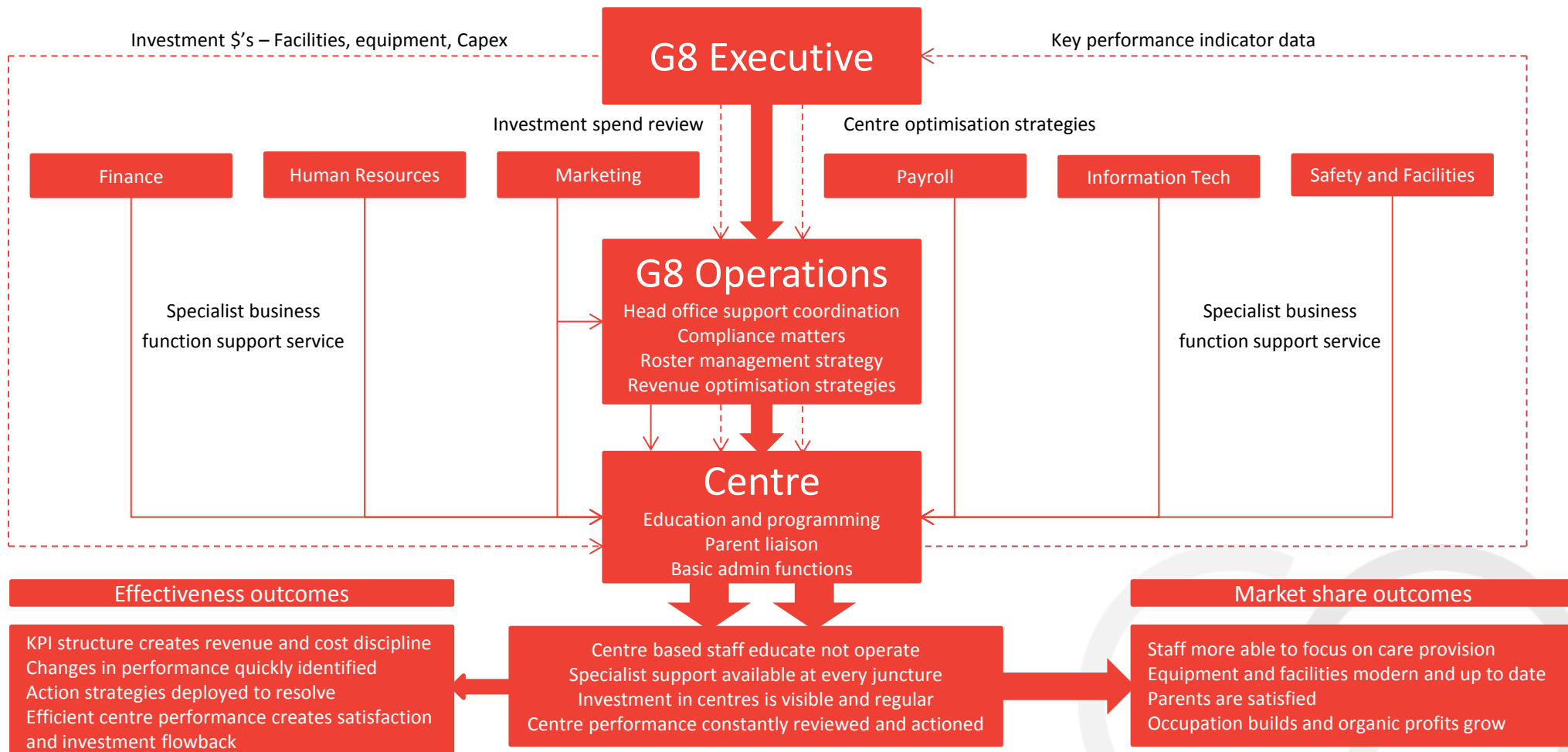


Appendices

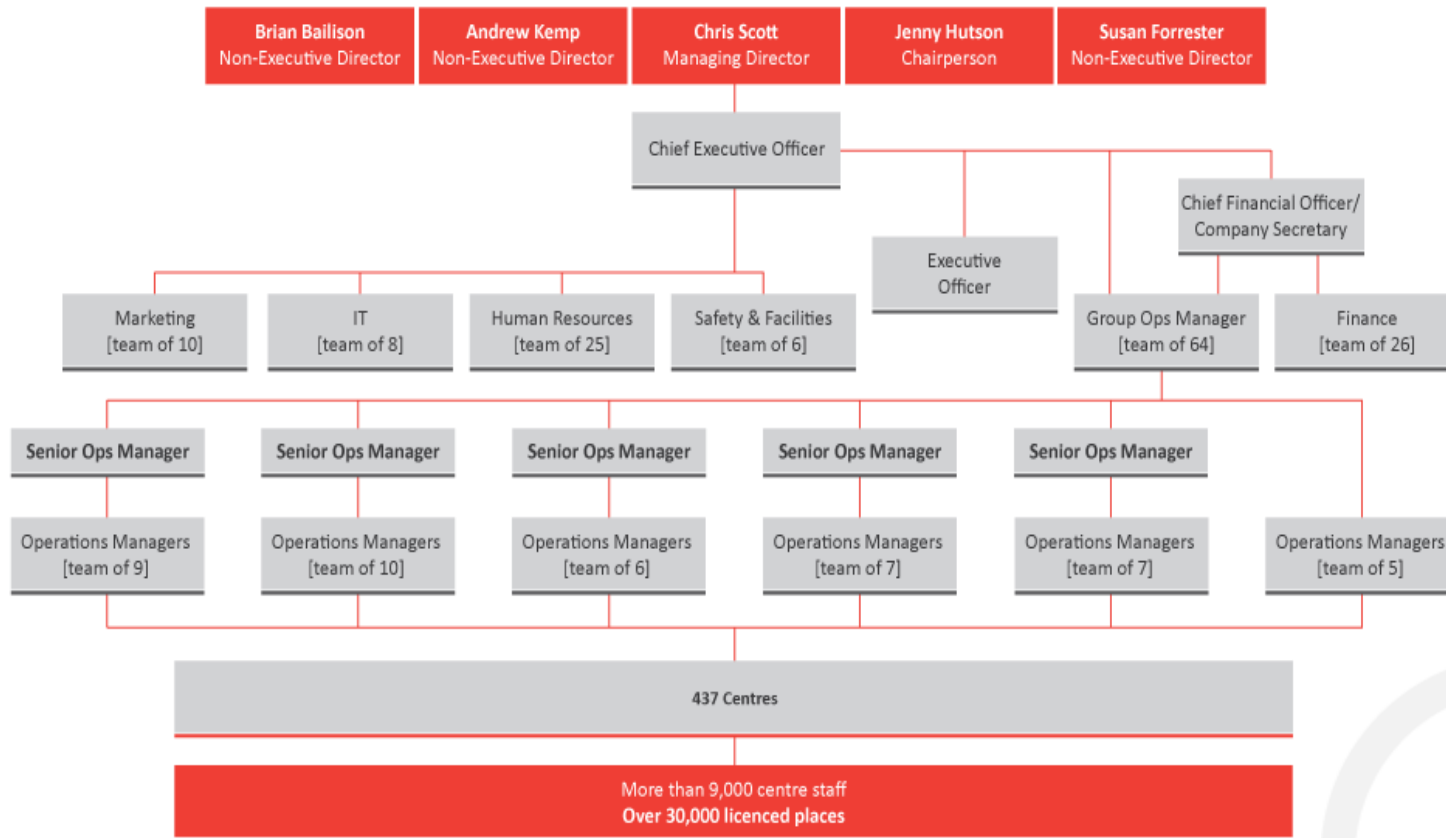
G8 Education Due Diligence Process



Operational Effectiveness Model



Business Organisation Chart



- Relatively flat organisation structure
- Clearly defined head office and operational function
- Simplicity of structure facilitates rapid scaling
- Large resource pool in excess of 9,000 employees aids recruitment and succession planning



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THANK YOU

Questions?