



Investing in the future
of childcare.



G8 Education^{ltd}

G8 Education –Overview 1H2015

G8 Education Limited (ASX:GEM)

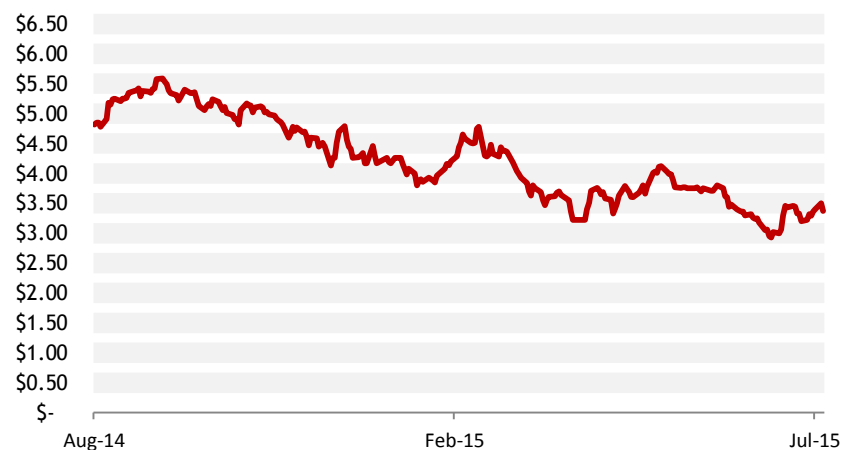
10 August 2015

Corporate Snapshot

Capital Structure	
Fully Paid Ordinary Shares (current)	367.8 million
Options	Nil
Share Price (as at 3 Aug 2015)	\$3.50
Market Capitalisation (as at 3 Aug 2015)	\$1.3 billion

Board of Directors & Key Management Personnel	Title
Jenny Hutson	Chairperson
Chris Scott	Managing Director
Matthew Reynolds	Non-Executive Director
Brian Bailison	Non-Executive Director
Susan Forrester	Non-Executive Director
Jason Roberts	Chief Executive Officer
Chris Sacre	Chief Financial Officer & Company Secretary

1 Year Share Price Chart



Substantial Shareholder	Shares	% Holding
UBS Group AG	31.9 million	8.67%
Greencape Capital Pty Ltd	23.11 million	6.28%
National Australia Bank	22.98 million	6.25%
Challenger Limited	22.17 million	6.03%



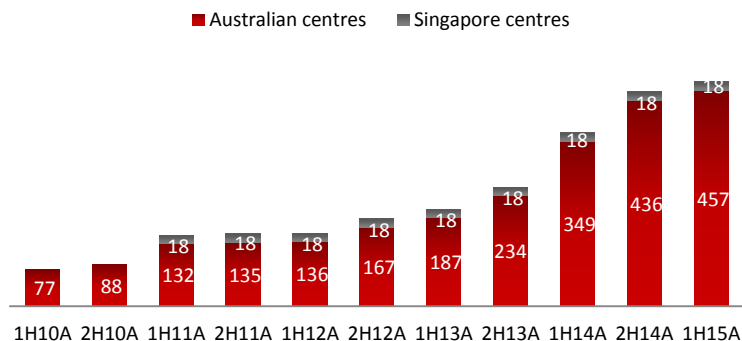
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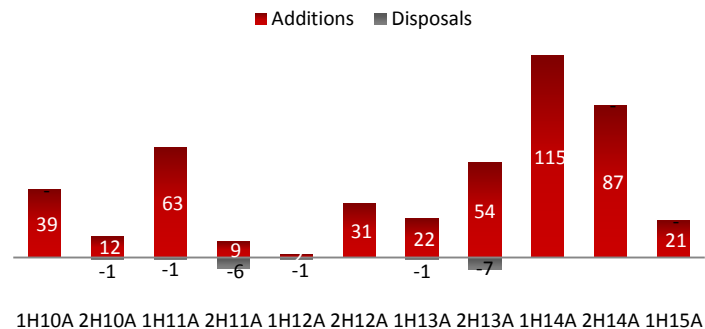
Portfolio Update

Group Centre Portfolio

Centre Portfolio



Change In Portfolio



- As at 30 June 2015 the Group owned 457 centres in Australia and 18 centres in Singapore.
- The Group added 21 new centres during 1H2015 and 17 centres have been contracted but not yet settled as at 30 June 2015. Once all the announced centres have been completed the Group will have 35,125 licensed places in Australia.
- Disciplined consolidation in high demand areas continues to be our focus.



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Key performance metrics

Like for Like Centre EBIT – HY14 on HY15

Like for Like Centre Financials	1H14	1H15
Total revenue	157,742,998	166,540,511
Revenue growth		5.6%
Total wages	91,250,484	92,972,976
Wages growth		1.9%
Wages as % of revenue	57.8%	55.8%
Rent expense	17,550,347	18,110,609
Rent growth		3.2%
Rent as % of revenue	11.1%	10.9%
Other operating expenses	18,415,810	19,745,285
Other operating expense growth		7.2%
Other operating expenses as % of revenue	11.7%	11.9%
Centre EBIT	30,526,358	35,711,642
Centre EBIT growth		17.0%
Centre EBIT margin	19.4%	21.4%

- The group had 229 centres which it owned for the full half period in 2014 and 2015.
- Revenue growth across those assets was 5.6%.
- Wages were managed efficiently with an increase of only 1.9% despite the modern award increasing by 3.0%.
- Rent expense growth was in line with expectations with an increase of 3.2%.
- Centre EBIT growth of 17% was achieved in 1H15 vs 1H14 and EBIT margin improvement of 200bps up to 21.4%.

Like for Like centres are 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 1H14 and subsequent to that date are excluded.



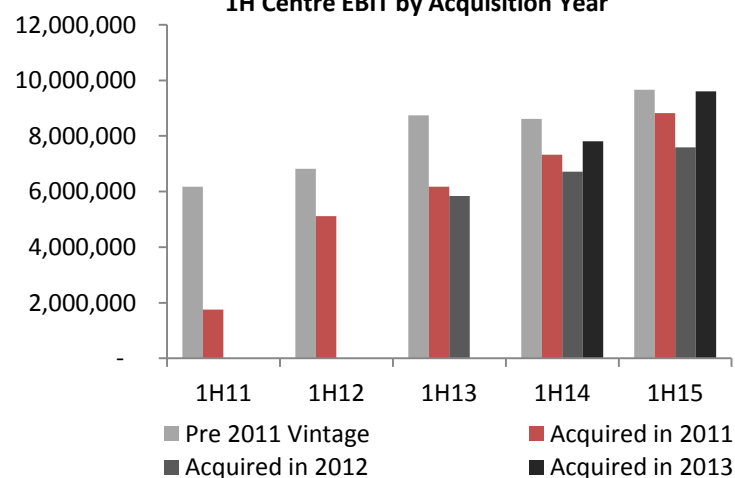
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Like for Like Centre EBIT Growth – By Year of Acquisitions

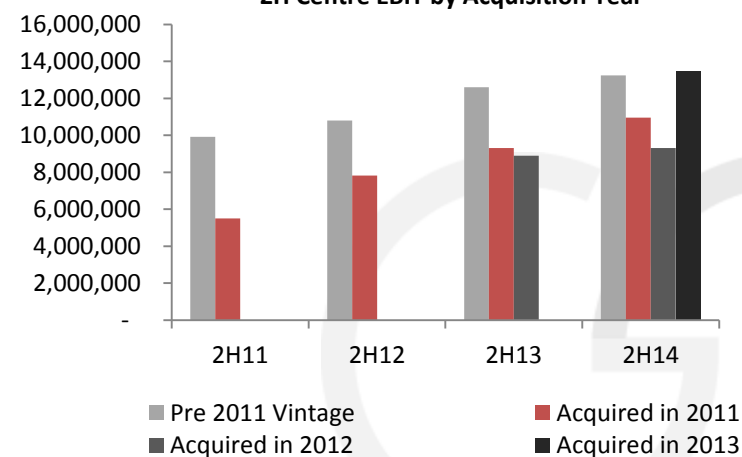
Like for Like EBIT

Vintage	Centres	2011		2012		2013		2014		2015
		Jan - Jun	Jul - Dec	Jan - Jun	Jul - Dec	Jan - Jun	Jul - Dec	Jan - Jun	Jul - Dec	Jan - Jun
Acquired pre 2011	78	6,174,909	9,911,786	6,820,012	10,794,517	8,740,394	12,602,484	8,620,302	13,244,334	9,661,406
Like for Like period growth				10.4%	8.9%	28.2%	16.7%	-1.4%	5.1%	12.1%
Acquired in 2011	43	1,755,079	5,496,938	5,111,331	7,821,242	6,169,468	9,306,694	7,325,315	10,962,290	8,819,334
Like for Like period growth						20.7%	19.0%	18.7%	17.8%	20.4%
Acquired in 2012	33					5,836,538	8,900,598	6,720,973	9,318,872	7,587,320
Like for Like period growth								15.2%	4.7%	12.9%
Acquired in 2013	73							7,809,159	13,442,272	9,606,558
Like for Like period growth										23.0%

1H Centre EBIT by Acquisition Year



2H Centre EBIT by Acquisition Year



Group Pro Forma Returns on Invested Capital

- Pro forma adjusted Return on Invested Capital for the period was 26.0% in line with CY14.

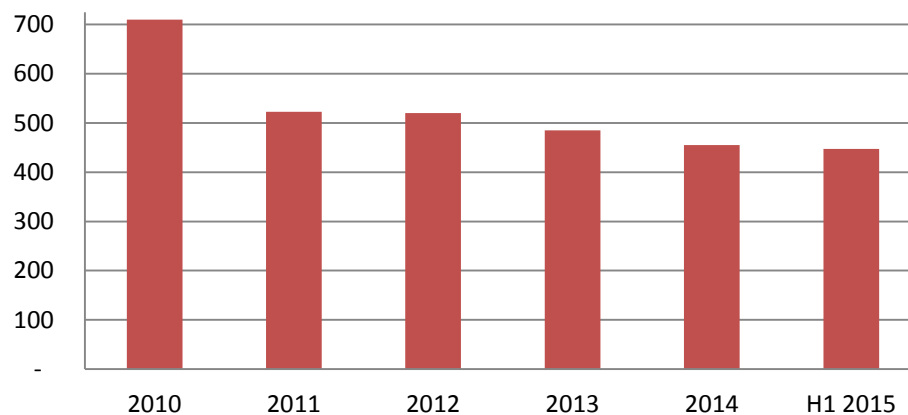
	HY CY15	CY14	HY CY14	CY13	CY12	CY11
Equity as at 31 December as per the Annual/half year Report	558,550,000	542,009,000	431,638,000	304,786,000	182,307,582	115,164,091
Fair value adjustments to Equity due to acquisition purchase price gross up due to share price movements	26,449,093	26,449,093	24,026,790	24,026,790	24,026,790	23,835,853
Adjust equity for fair value	532,100,907	515,559,907	407,611,210	280,759,210	158,280,792	91,328,238
Add Net Debt*	252,409,000	213,520,824	108,311,861	171,000	27,462,272	22,232,372
	784,509,907	729,080,731	515,923,071	280,930,210	185,743,064	113,560,610
Average Broker forecast EBIT - CY16	185,600,000	170,900,000	130,600,000	72,800,000	46,000,000	27,000,000
Return on Invested Capital (ROIC) - No adjustments	23.7%	23.4%	25.3%	25.9%	24.8%	23.8%
Return on Invested Capital (ROIC) – Sterling adjusted	26.0%	26.0%				

*net debt adjusted for non cash FX loss

Head Office Cost per Licensed Place

	2010	2011	2012	2013	2014	HY 2015
Number of Places	6,304	9,868	12,661	17,597	32,782	33,402
Head Office Cost per Licensed Place	\$710	\$523	\$520	\$485	\$455	\$447

Head Office Cost per Licensed Place



- Head office costs per licensed place decreased to \$447 in the period.
- The Group continues to extract efficiency and productivity gains via process upgrades, new technology application and tight cost control.



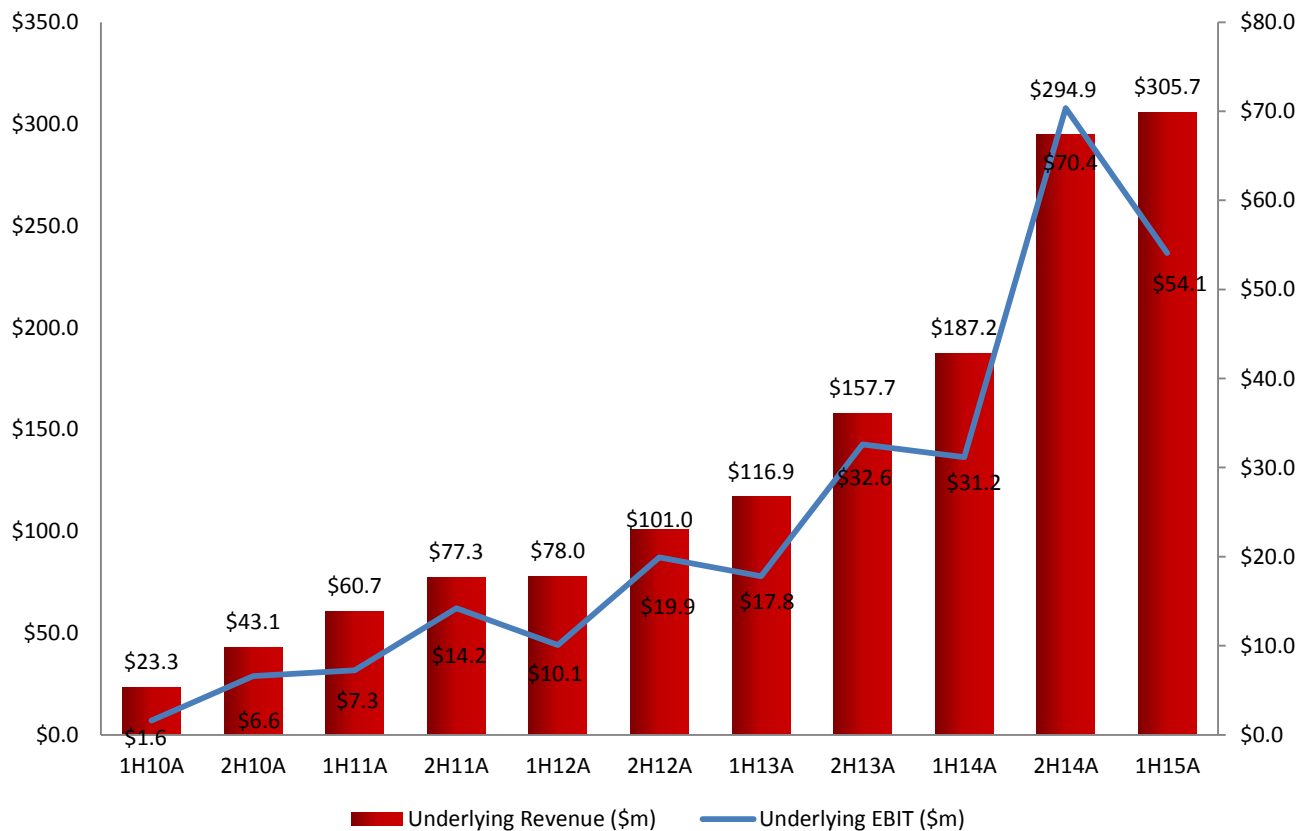
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Group Financial Update

Group Revenue and EBIT – 1H on 2H

Group Financial Performance



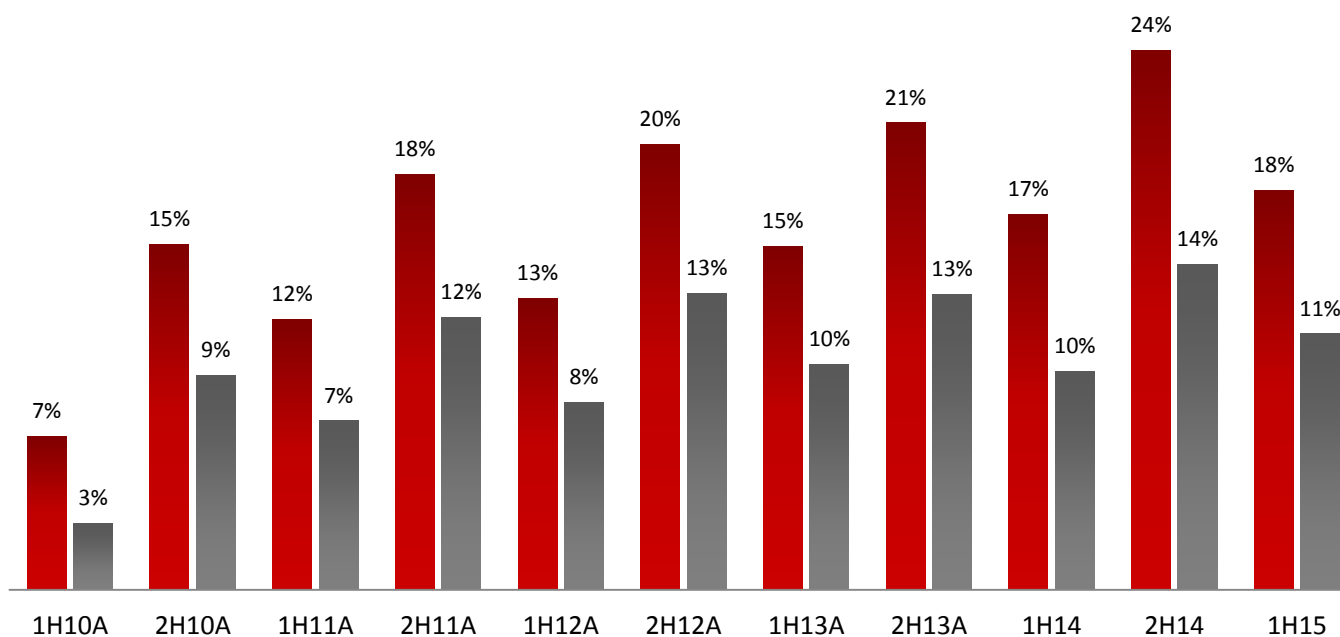
- Underlying Group Revenue and EBIT growth from 1H10 to 1H15 has continued to be strong.
- Underlying EBIT has increased by 73% from 1H14 to 1H15 due to the contributions from acquisitions and organic growth.

**Underlying Revenue/EBIT is defined as reported Revenue/EBIT excluding non-recurring transactions as displayed in the annual and half year report

2014 Financial Margin Analysis

Group Underlying Margins

■ Underlying EBIT margin ■ Underlying NPAT margin



- Underlying EBIT margins have increased from 16.6% in 1H14 to 17.7% in 1H15. 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

	30 June 2015	30 June 2014
Consolidated Half Year 30 June 2015	\$'000	\$'000
Revenue from continuing operations	305,700	187,245
Other Income	5,182	12
Total revenue	310,882	187,257
Expenses		
Employee benefits	(175,833)	(110,645)
Occupancy	(37,549)	(23,395)
Direct costs of providing services	(23,784)	(15,688)
Amortisation	(1,335)	(326)
Depreciation	(4,018)	(2,029)
Other expenses	(10,219)	(5,083)
Finance costs	(20,522)	(6,648)
Total expenses	(273,260)	(163,814)
Profit before income tax	37,622	23,443
Income tax expense	(9,382)	(7,134)
Profit for the year	28,240	16,309
	Cents	Cents
Basic earnings per share	7.84	5.21
Less non operating transactions		
Acquisition related costs ¹	513	545
Deferred consideration not paid ²	(4,591)	-
Share based payment expense	37	67
Foreign currency translation loss ³	7,329	240
Underlying Net Profit After Tax	31,528	17,161
Underlying EPS (cents per share)	8.75	5.48
Underlying Earnings Before Interest and Tax	54,103	30,946

- Strong underlying Revenue growth of \$118.5m was reported in 1HY15, an increase of 63%.
- Wages as a percent of revenue from continuing operations continued to trend favourably ending at 57.5% in 1H15 against 59.1% in 1H14.
- Rent expense in 1H15 was 12.3% of revenue from continuing operations compared to 12.5% in 1H14.
- Group underlying EBIT margins continue to increase as the Group delivers strong organic growth and delivery of the acquisition strategy. The EBIT Margins in 1H15 increased to 17.7% from 16.5% in 1H14.
- Underlying EPS has grown 60% from 1H14 to 1H15.

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

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

3. Non cash mark to market revaluation on the Singapore bonds

Balance Sheet



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	30 June 2015	31 Dec 2014
Consolidated	\$000	\$000
ASSETS		
Current assets		
Cash and cash equivalents	83,210	120,804
Trade and other receivables	13,457	14,164
Other current assets	23,601	13,642
Current tax assets	3,830	-
Total current assets	124,098	148,610
Non-current assets		
Property plant and equipment	32,558	29,575
Deferred tax assets	17,805	15,448
Goodwill	856,516	809,162
Total non-current assets	906,879	854,185
Total assets	1,030,977	1,002,795
LIABILITIES		
Current Liabilities		
Trade and other payables	84,245	75,567
Borrowings	-	-
Employee entitlements	19,107	18,110
Derivative financial instruments	173	230
Current tax liabilities	-	9,655
Total current liabilities	103,525	103,562
Non-current liabilities		
Borrowings	364,708	352,944
Other payables	742	652
Provisions	3,452	3,628
Total non-current liabilities	368,902	357,224
Total liabilities	472,427	460,786
NET ASSETS	558,550	542,009

- Trade and other receivables remains consistent at \$13.5m as at 30 June 2015 compared to \$14.1m at 31 Dec 14.
- An increase in other current assets is a function of increased deposits on acquisitions of \$10.2m.
- PP&E has increased by \$3m from December 2014 to June 2015 from acquisitions and centre based organic capex.
- Goodwill increased from \$809.2m to \$856.5m at 30 June 2015. This represents the purchase price of child care centres acquired.
- The increase in trade and other payables of \$8.7m is largely due to the Long Day Care Professional Development Funding received in advance plus an increase in parent fees paid in advance.
- Increase in borrowings is the result of amortisation of facility fees plus the foreign currency translation loss of \$10.47m.

Cash Flow

	30 June 2015 \$000	30 June 2014 \$000
Cash flows from operating activities		
Receipts from customers	305,362	191,172
Payments to suppliers and employees	(241,934)	(161,728)
Interest received	1,537	1,731
Interest paid	(10,101)	(5,246)
Income taxes paid	(19,475)	(11,424)
Net cash inflows from operating activities	35,389	14,505
Cash flows from investing activities		
Payments for purchase of businesses	(53,607)	(218,056)
Cash balances acquired as part of purchase of businesses	-	41
Payments for property, plant and equipment	(6,833)	(5,620)
Proceeds from repayment of loans	-	1,642
Net cash outflows from investing activities	(60,440)	(221,993)
Cash flows from financing activities		
Proceeds from issue of shares	12,889	116,173
Share and corporate note issue costs	(260)	(4,155)
Proceeds from issue of corporate notes	-	195,091
Repayment of borrowings	-	(46,592)
Dividends paid	(25,433)	(12,996)
Net cash inflows from financing activities	(12,804)	247,521
Net increase in cash and cash equivalents	(37,855)	40,033
Cash and cash equivalents at the beginning of the financial year	120,803	114,043
Effects of exchange rate changes on cash	262	(134)
Cash and cash equivalents at the end of the financial year	83,210	153,942

- Operating cash flow was strong at \$35.4m for the half year.
- Cash conversion remained impressive with the variance of underlying profit before depreciation and amortisation to operating cash flow after factoring in the variance in tax paid from a cash perspective against tax expense being 93%.
- Payments for businesses of \$53.6m represents the payments for the 21 child care centre acquisitions announced and settled during the half as well as the increased deposits on acquisitions.
- Cash flow from financing activities has decreased by \$12.8m during the half year due to the net impact of the underwritten DRP in January 2015 and the dividends paid during the period.

Capital Structure

G8's current capital structure consists of the following Debt and Equity instruments:

	Issuer	Class	Maturity	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	4.75%
	G8 Education Ltd	Senior Unsecured Note	19 May 2017	S\$85,000,000	4.75%
	G8 Education Ltd	Senior Unsecured Note	3 August 2016	S\$155,000,000	3.50%
Equity	G8 Education Ltd	Ordinary Shares	367,825,477 on issue	\$578,650,000 contributed equity	



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Subsequent Events

Subsequent events post 30 June 2015

The following material events have taken place subsequent to 30 June 2015:

- Subsequent to 30 June 2015 the Group announced it had acquired 46,051,790 (19.89%) fully paid ordinary shares in Affinity Education Group Limited (Affinity Education) at \$0.70 per share and that it is offering to acquire all of the shares in Affinity Education that it does not already own via an all share offer of 1 fully paid ordinary share in G8 Education for every 4.25 fully paid ordinary shares in Affinity Education.
- On 3 August 2015 the Group announced a variation of its existing finance arrangements with Bank of Western Australia which includes a new \$50m undrawn senior debt facility, available for the purpose of refinancing Affinity Education's existing debt arrangements with the Commonwealth Bank of Australia and that it had undertaken a debt issuance under its Multicurrency Debt Issuance Program of SGD \$155 million.
- The Group also announced on 3 August 2015 an unconditional on market cash offer of \$0.80 per fully paid ordinary share of Affinity Education that it does not already own. The Group will fund the cash offer from the proceeds of the debt issue.

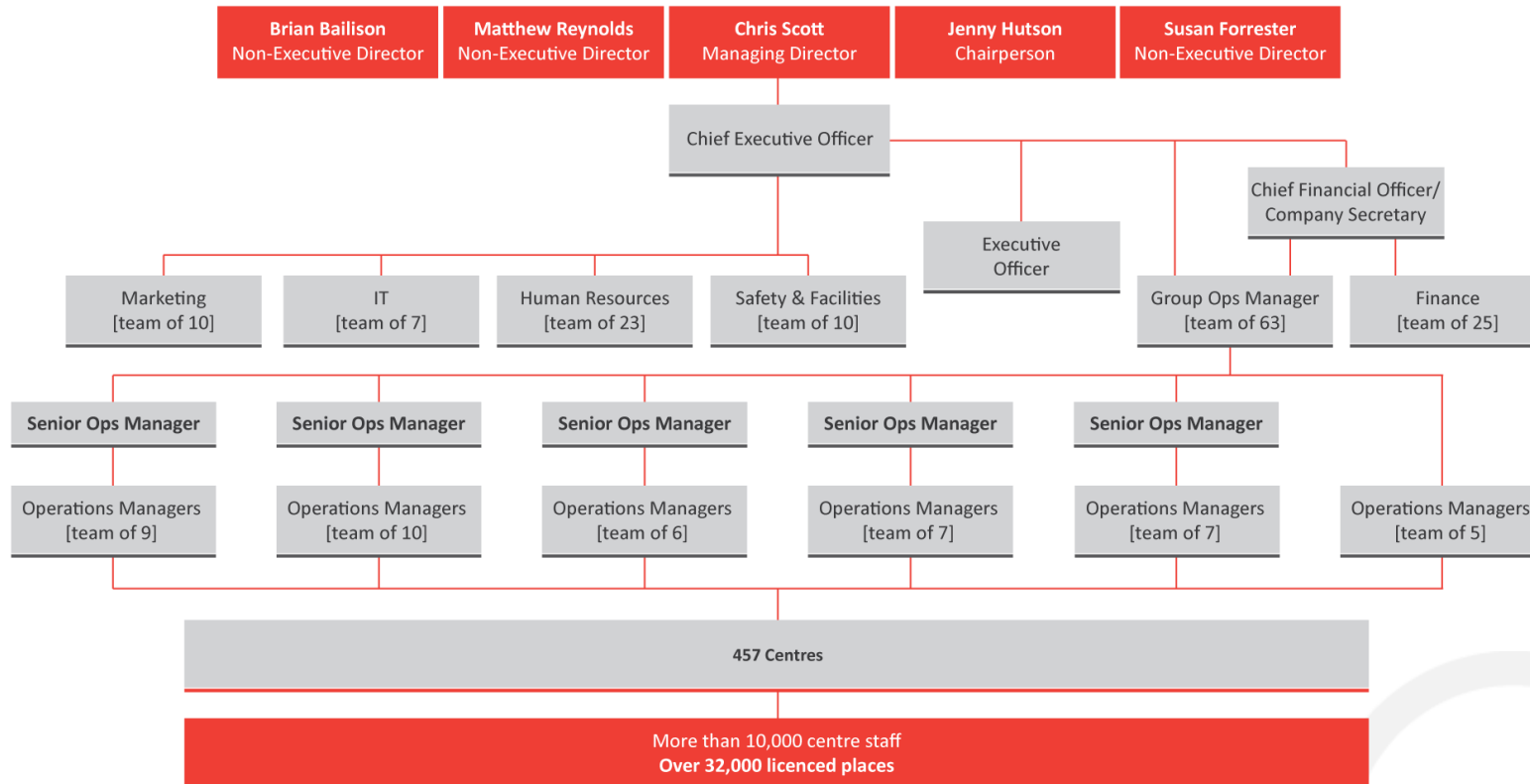


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Appendices

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 10,000 employees aids recruitment and succession planning



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THANK YOU

Questions?