

2019 INVESTOR DAY



G8 Education^{ltd}

14 November 2019

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AGENDA

G8 EDUCATION LIMITED

ASX: GEM

TRADING UPDATE

Gary Carroll

SUPPLY UPDATE

Gary Carroll

STRATEGIC UPDATE

Gary Carroll

ACCELERATING PERFORMANCE

Sharyn Williams & Jason Ball

SUMMARY

Gary Carroll

Q&A

Gary Carroll, Sharyn Williams and Jason Ball

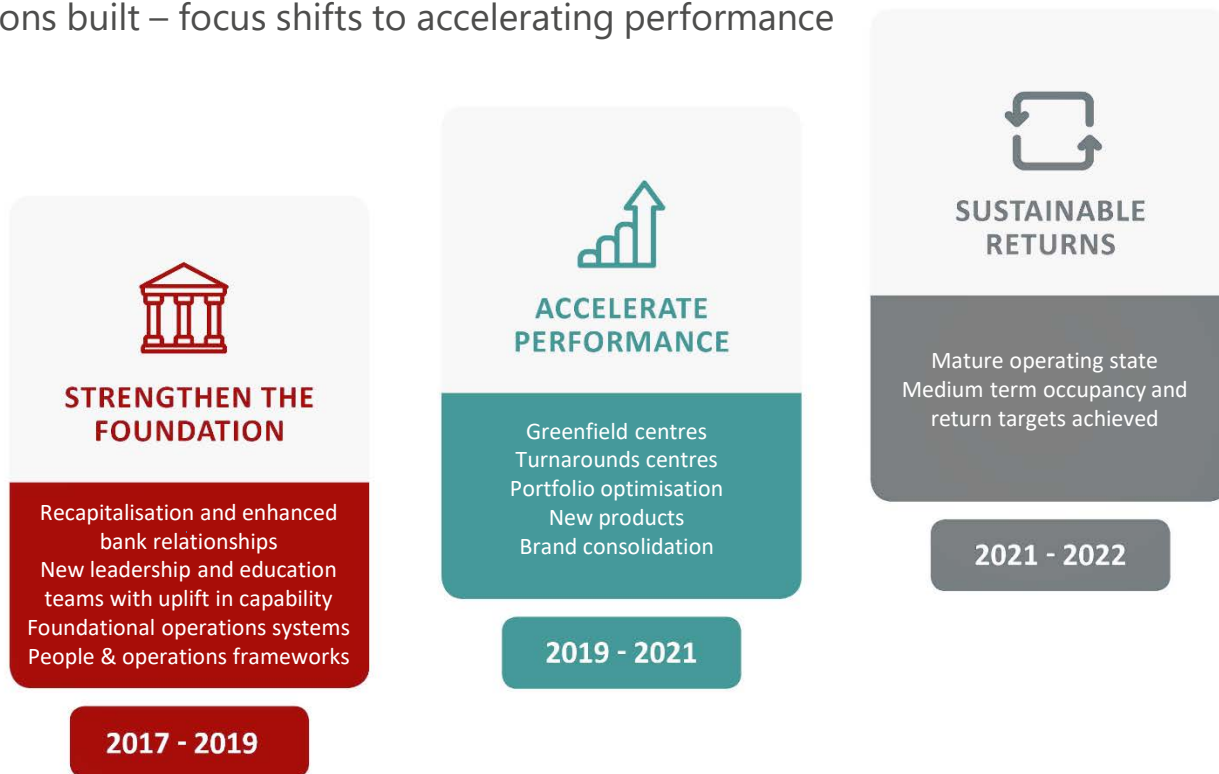


TRADING UPDATE

Gary Carroll

PATHWAY TO SUSTAINABLE RETURNS

Strong foundations built – focus shifts to accelerating performance



SUPPLY

55% of G8 centres have been impacted by supply since 2017

SHIFTING GEARS TO ACCELERATE PERFORMANCE

Near term occupancy headwinds remain, foundations in place to drive growth

Foundational performance

- Foundational strategy is on track and delivering results
 - ✓ Centre Manager and Early Childhood Teacher turnover improved by >2.5% pts and 3% pts respectively since January 2019
 - ✓ 82% of centres meeting or exceeding national standards, up from 79% last year
- This is flowing through to occupancy
 - ✓ 224 centres growing occupancy by more than 1.5% pts on the prior corresponding period (pcp)
 - ✓ 141 centres growing occupancy by more than 5% pts on the pcp

Earnings headwinds

- CY19 occupancy growth is now expected to be circa 1% on prior year, with impact of Child Care Subsidy (CCS) in the pcp and cumulative impact of supply being greater than forecast
- Occupancy headwinds flowed through to wage performance and this, coupled with delayed realisation of efficiencies, resulted in Q3 wage costs being higher than forecast. Wage efficiencies are now back on track



SHIFTING GEARS TO ACCELERATE PERFORMANCE (cont.)

Near term occupancy headwinds remain, foundations in place to drive growth

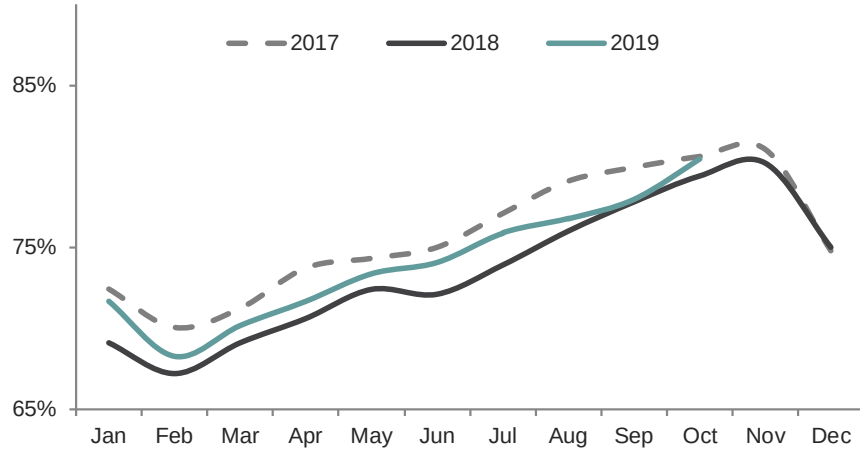
Acceleration

- Encouraging results from turnaround centre pilot
 - ✓ Occupancy growth is well ahead of the balance of the network, with further improvements expected as property works are completed
 - Portfolio optimisation underway
 - ✓ 25 WA centres being divested, resulting in a meaningful uplift in quality and performance of WA portfolio
- Acceleration of EBIT growth in CY20
 - centre turnaround program using tried and tested methodology to be applied to 80 centres in CY20
 - portfolio optimisation to maximise network capital allocation and returns
 - ramp up of Greenfield occupancy and EBIT
 - \$10m of non-recurring costs (covering additional team members, consultant fees and restructure costs) to drive growth, with costs fully funded by program benefits in CY20. No additional capex spend over prior disclosed capex amounts



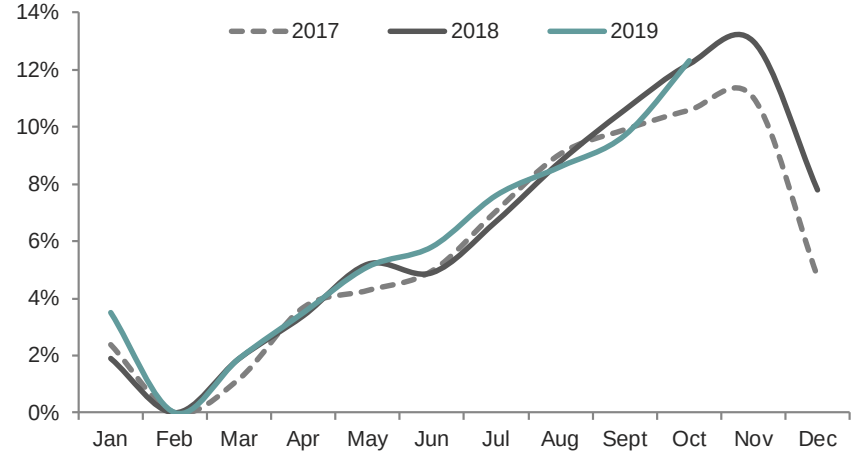
OCCUPANCY – RECENT TRENDS

Average Monthly Occupancy* (%)



- CY19 like-for-like (YTD) occupancy is currently 1.2% pts ahead of prior year
- Occupancy building initiatives, such as contact centre and various marketing campaigns have meaningfully offset the impact of historical supply

Occupancy* improvement from February base (%)

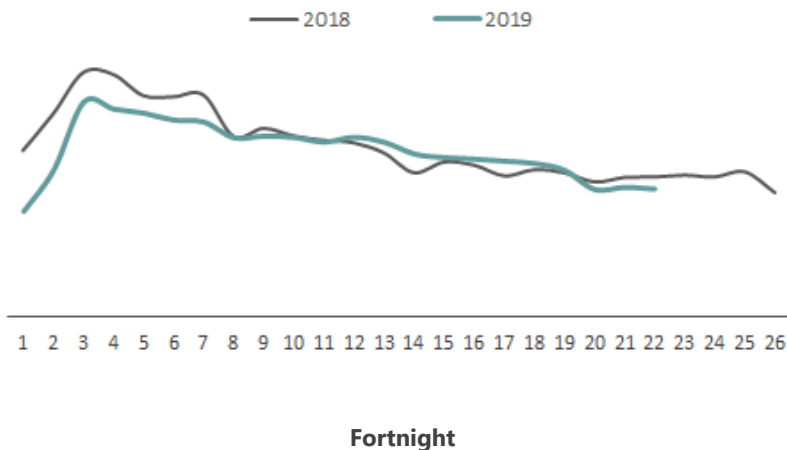


- CCS impact is evident in the pace of growth in H2 2018

WAGE PERFORMANCE

Trending in the right direction

Fortnightly Wages hours per booking (CY19 vs CY18)



- Occupancy headwinds flowed through to wage performance and this, coupled with delayed realisation of efficiencies, resulted in Q3 wage costs being higher than forecast
- Wage performance improving in Q4, with recent efficiency gains driving wage performance below prior year
- New rostering platform on track to be implemented in May 2020 which will bring further wage efficiencies



CURRENT TRADING & OUTLOOK

- Guidance provided in August 2019 was predicated upon occupancy growth of mid 1% pts and wage efficiencies
- Occupancy growth of circa 1% pts translates to a \$7m revenue shortfall to this target and has a significant flow-on effect to EBIT due to our seasonal earnings profile
- This revenue shortfall is compounded by wages being circa \$3m above forecast
- Incremental earnings from Greenfield acquisitions are broadly in line with previous guidance
- As a result, full-year underlying EBIT* forecast is now expected to be \$131-\$134m for the year
- The impact of AASB16 will increase this EBIT range by circa \$30m for the year

* pre-AASB16





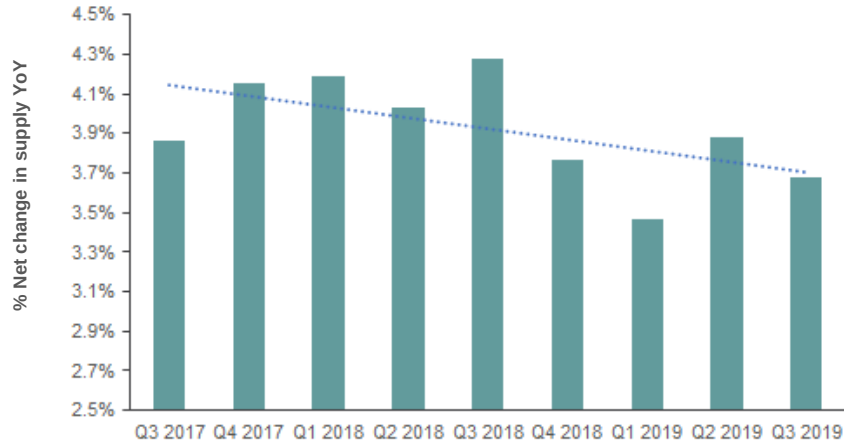
SUPPLY UPDATE

Gary Carroll

SUPPLY DYNAMICS - MACRO

At a macro level, supply growth is moderating

National Long Day Care (LDC) Net Supply Growth % change yoy

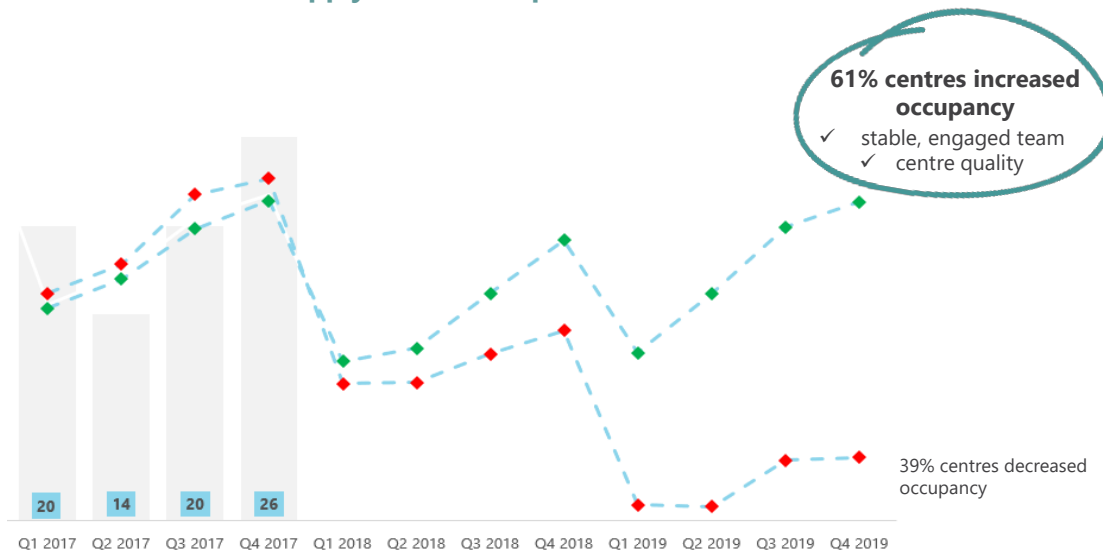


- CY19 YTD net supply growth decreased to 3.7% vs 4.3% in the PCP, in line with previous forecast

SUPPLY DYNAMICS - MICRO

Stable engaged team & centre quality key to growing occupancy despite new supply

Cumulative Effect of Supply – centres impacted since 2017*



- Since January 2017, circa 270 centres or almost 55% of the portfolio have faced new supply
- Of the centres impacted by supply in 2017 and 2018:
 - 61% have increased occupancy and are performing in line with centres not impacted by supply
- The centres that have grown occupancy have more stable and engaged teams and quality learning environments
- This reinforces our strategy of focusing on centre quality and team engagement, with significant upside to be realised as we accelerate our turnaround program

* Graph reflects organic centres impacted by supply in 2017

SUPPLY IMPACT EXAMPLES

Opportunities exist despite supply headwinds

Kindy Patch Manly

No New Supply 2017/2018/2019

High Occupancy

Low Turnover

Good Supply Demand Dynamics

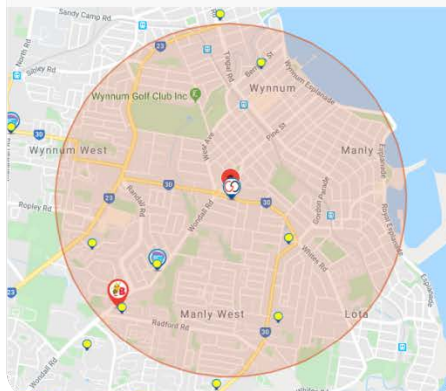
Protect – market in balance

99%

Occupancy

3.3

Supply/Demand



Vattana Early Learning Centre

No New Supply 2017/2018/2019

High Occupancy

Low Turnover

Really Good Supply Demand Dynamics

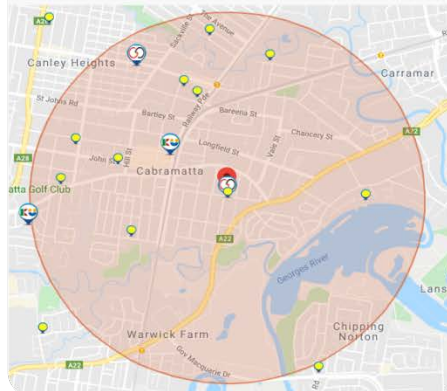
Growth opportunity – via new supply

100%

Occupancy

6.1

Supply/Demand



St Marina Early Learning Centre

New Supply 2017 and 2018

High Occupancy

Low Turnover

Challenging Supply Demand Dynamics

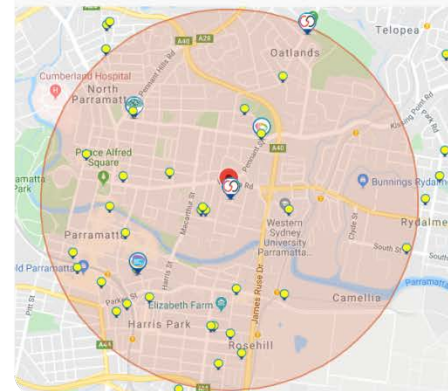
Defending ground well

92%

Occupancy

2.2

Supply/Demand





STRATEGY UPDATE

Gary Carroll



STRENGTHEN THE FOUNDATION

Balance Sheet

- ✓ Recapitalised and enhanced bank relationships

Quality

- ✓ Refresh and refurbish – 70 centres
- ✓ Training program
- ✓ Work routines – Area Managers
- ✓ Induction and Onboarding

Product

- ✓ Education team and education strategy
- ✓ Customer research
- ✓ Best practice framework and hub

Foundational

- ✓ CRM
- ✓ Xplor Core/CMS and Xplor P2 (parent & educator apps)
- ✓ Leadership development
- ✓ Centralised enquiry to enrolment process (CET)





BUILD A GREAT TEAM

Leadership

- ✓ Increased capability of leadership team

Foundational HR

- ✓ ECT base pay
- ✓ Induction and onboarding
- ✓ HR business partners
- ✓ Performance and potential framework

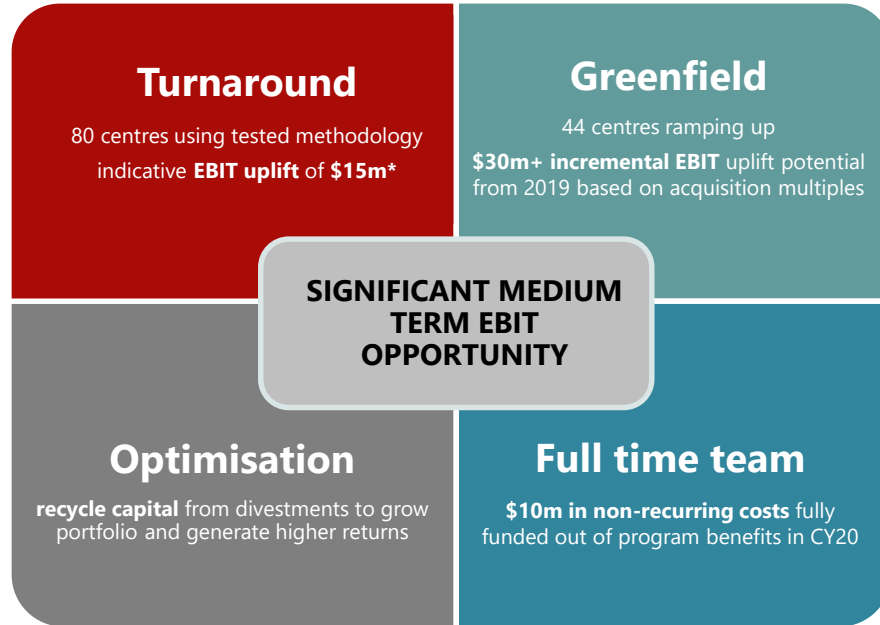
Retention

- ✓ Team member benefits
- ✓ Leadership training



ACCELERATING EBIT GROWTH

Capitalising on our foundation and learnings to drive portfolio performance



* If the 80 centre cohort achieve benchmark occupancy and wage levels

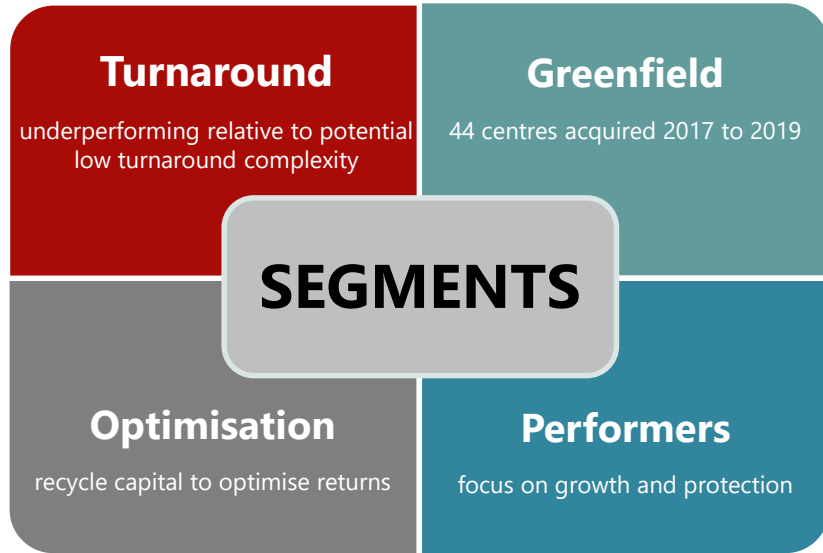


ACCELERATING PERFORMANCE

Sharyn Williams & Jason Ball

PORTFOLIO OPTIMISATION

Segmentation to drive focus and returns



- A strategic portfolio optimisation process has been developed to assess and optimise portfolio potential
 - Current performance and future potential
 - Complexity of improving performance (across 9 performance drivers)
- Quarterly process to update segments and proactively address potential future underperformance

PORTFOLIO OPTIMISATION

Active portfolio management to optimise returns

Centre Portfolio



* CY19 H1 total includes the merger of 1 service approvals into one location, reducing the regulatory burden and associated costs

- While the current focus is on accelerating EBIT growth of existing centres, there is significant potential to recycle capital from divestments into acquisitions to grow the portfolio and generate higher returns
- 25 WA centres to be sold to Sparrow Early Learning
 - ~\$6.4 million, which equates to 4.1x CY19f EBIT
 - targeting December 2019 completion
 - substantial capex savings over 3 years and cost savings of \$330k pa
 - expected portfolio occupancy uplift of >1% pts
 - expected occupancy uplift in WA of 10% pts
- 8 centres closed to date in CY19 H2 taking total CY19 YTD closures to 16
- G8's committed greenfield pipeline remains its primary network growth driver in the short term
 - 12 centres opened/to open in CY19
 - 10 centres to be opened in CY20 H1
- The Group continues to evaluate acquisition opportunities to optimise the portfolio in a disciplined manner

GREENFIELD CENTRE PORTFOLIO SNAPSHOT

Mature centres performing well, bulk of portfolio in early ramp up

	2017 COHORT	2018 COHORT	2019 COHORT
CENTRES	12	10	22 (12 opened CY19)
CAPITAL	\$33m	\$29m	\$93m
STATUS	8 above 80% occupancy, including 2 which have met 25% ROC 2 in new residential estates 2 in challenging locations	4 above 80% occupancy, including 3 that have met 25% ROC 3 occupancy on right trajectory albeit slower 3 in challenging locations	5 reached or are on track to reach 50% after operating for 5 months 10 opening early CY20 1 in new residential estate 3 x large LP's 3 in challenging locations
CONCLUSION	Target occupancy levels achieved as a cohort - the focus now is on optimising EBIT	Building momentum in line with the 2017 cohort - the focus remains on building occupancy to targeted levels	Given the 2019 centres have only recently opened, it is too early to confidently assess occupancy momentum

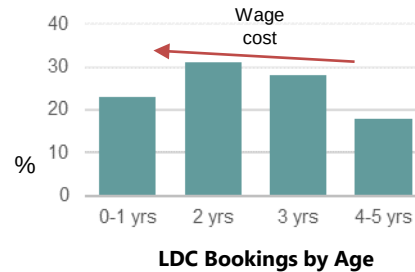
GREENFIELD EBIT OPTIMISATION

EBIT matures with changes in room mix and scale cost efficiencies

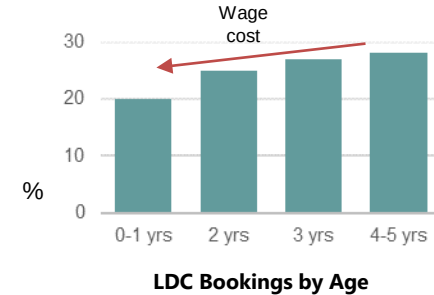
Greenfield – 2018 Cohort



Greenfield – 2017 Cohort



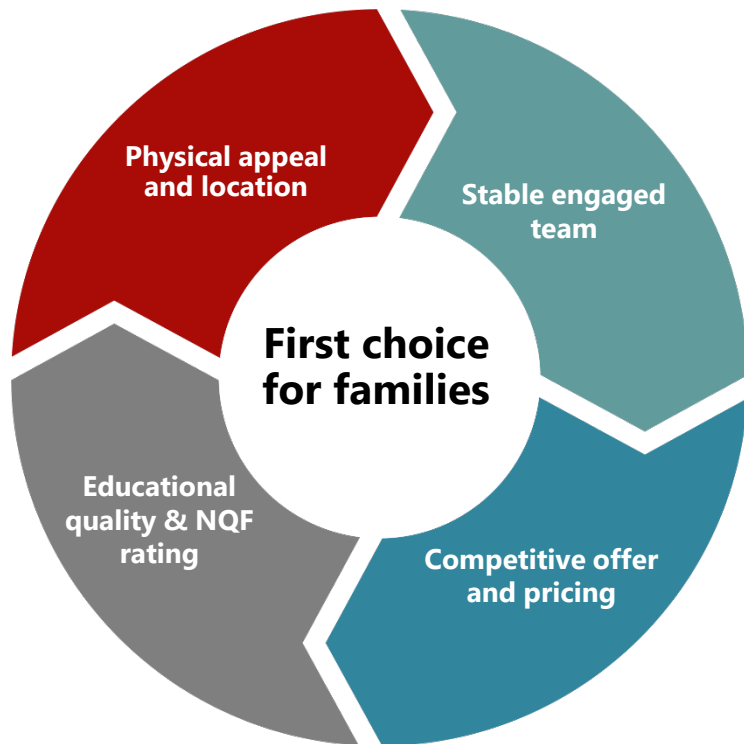
Organic centres



- In addition to wage improvements, overall costs improve as occupancy builds and matures e.g. marketing, occupancy attraction initiatives, wastage, funding opportunities etc

TURNAROUND CENTRES

Becoming the first choice in every neighbourhood



- The turnaround centres previously operated at a high level and continue to have positive market characteristics
- The pilot program tested actions to improve each of the four areas with encouraging results, providing confidence that we can scale these actions across a broader portfolio of centres
- By being a highly appealing centre the turnaround centres will be able to sustain elevated performance

TURNAROUND CENTRES

Building the centre of first choice in the neighbourhood

Process For Turnaround Program

Audit of centres across the
four areas to drive plan

2 WEEKS

Development and
delivery of people plan

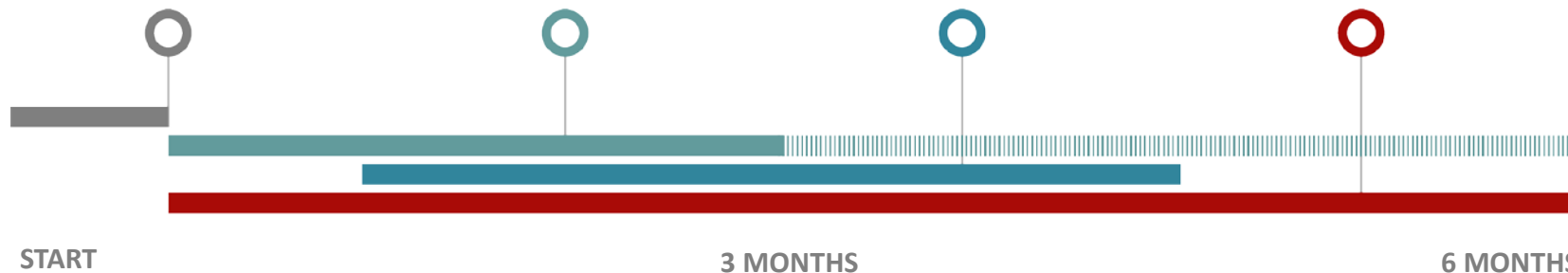
3 TO 6 MONTHS

Upgrade learning
environments

3 MONTHS

Upgrade physical
appeal

UP TO 6 MONTHS

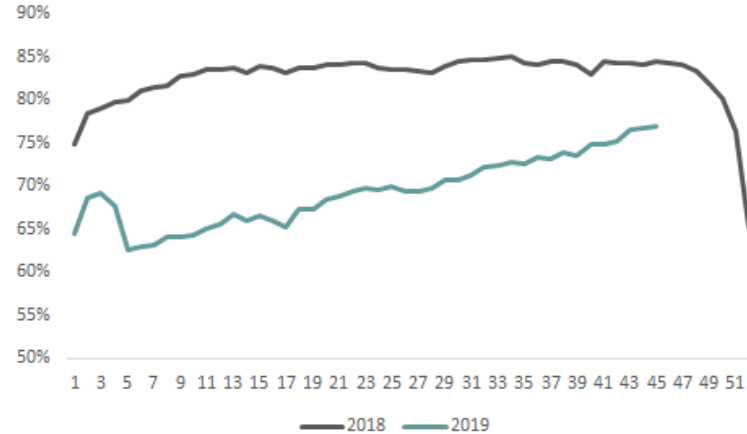


TURNAROUND CENTRES

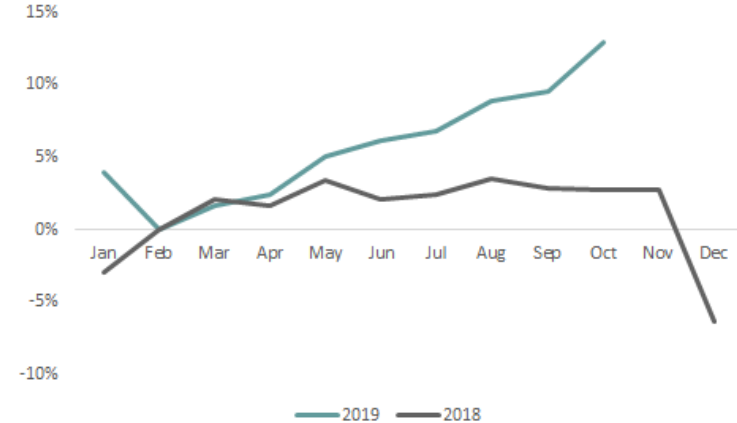
Early wins

Turnaround

Turnaround Pilot – Weekly Occupancy



Turnaround Pilot – Occupancy Growth From Feb Base



- Results of the 13 pilot centres that commenced in May/June have been encouraging with occupancy growing well ahead of the network
- The pilot has been conducted using a part time team and with a reallocation of existing capex budget

Leadership

✓ New leadership team

SUMMARY

Gary Carroll

SUMMARY

Strong foundations built – focus shifts to accelerating performance



STRENGTHEN THE FOUNDATION

Foundational people, product and quality building blocks in place

Underlying business performing well

2017 - 2019



ACCELERATE PERFORMANCE

Proactive portfolio management underway
Proven methodology for turnarounds
Full-time team to deliver \$45m+ EBIT growth
Non-recurring costs funded in year one

2019 - 2021



SUSTAINABLE RETURNS

Mature operating state
Medium term occupancy and return targets achieved

2021 - 2022



Q&A



REFERENCE MATERIALS

QUALITY DRIVES OCCUPANCY

National Quality Scheme – G8 Ratings

G8 NQS Ratings:
Where we were



EXCEEDING NQS*:

22% → 21%

MEETING NQS:

57% → 61%

WORKING
TOWARDS NQS:

21% → 18%

G8 NQS Ratings:
Where we are

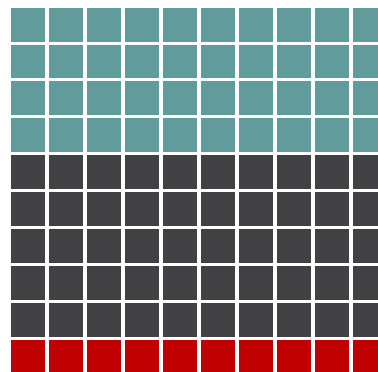


→ 40%

→ 50%

→ 10%

G8 NQS Ratings:
Where we need to be



+2%

POINTS TO
GROUP
OCCUPANCY

* In February 2018 changes in the NQS ratings have made the achievement of an "Exceeding" rating more onerous

THE JOURNEY

INTEGRATION

- CRM
- Xplor Core/CCMS
- Leadership development
- Xplor P2 (parent & educator apps)
- Centralised enquiry to enrolment process (CET)

RECAPITALISATION OF BALANCE SHEET

2017

NEW LEADERSHIP TEAM



Achieved

- Refocused strategy to harvest scale benefits based on quality and innovation
- Centralised decision making
- Integrated systems on time for CCS
- Standardised training, reporting and processes
- Restructured and executed Greenfield portfolio

QUALITY

- Refresh & Refurb – 70 centres
- Training program
- Work routines – Area Mgrs
- Induction & On Boarding

PRODUCT

- Education team & strategy
- Best practice framework & hub
- Staff benefits
- Customer research
- Pilots

PEOPLE

- Team member benefits
- ECT base pay
- Induction and on-boarding
- HR Business Partners
- Performance and potential framework

SUPPLY

- Circa 65% G8 centres impacted by supply since Jan1, 2017

TURNAROUND PILOT

- 13 centres

DIVESTMENT

- 25 centres sold to Sparrow

ACCELERATE PORTFOLIO OPTIMISATION

ACQUISITIONS

- Greenfields maturing
- Brownfields

TURNAROUNDS

- 80 centres completed



Next 12-18 months

- Execute segmentation and optimisation strategy
- Scaleable, efficient platform – rosters, work routine, call centre
- Industry leading curriculum
- Differentiated innovative offer and experience
- Embedded performance culture

DIVESTMENTS

INTEGRATION

- Rostering, Time and Attendance and HR Information System
- Procure-to-Pay

PRODUCT

- New products
- Roll out curriculum and customer offer

PEOPLE

- Management and leadership training
- Work routines - CMS

QUALITY

- Refresh and refurb program
- Embed work routines
- Training program
- Child Safety & Protection program
- ECT scholarship program