G8 Education - Overview

G8 Education Limited (ASX:GEM)
23 May 2012

Investing in the future of childcare
Overview

Following the acquisition of five separate child care groups over the past 22 months G8 Education’s child care portfolio comprises:

- **Australia**
  - 142 owned and contracted child care centres
  - Eight brands:
    - Early Learning Services
    - World of Learning
    - Bourne Learning
    - Community Kids
    - Holiday Club
    - Kindy Patch
    - Headstart
    - Ed-U-Care

- **Singapore**
  - 20 owned/operated* child care centres
  - 51 franchised child care centres
Significant events in FY11

- Reported a 115% increase in revenue to $142.9m through a mixture of organic and acquisition growth.

- Reported a profit after tax of $17.25m in FY11 compared to $3.48m in FY10 which translated into an 80% increase in EPS.

- Acquired an additional 53 child care centres and sold 7 underperforming child care centres in Australia.

- Acquired 6 child care centres in Singapore (outside of the Cherie Hearts Group International acquisition).

- In March 2012 Damien Peters joined G8 Education. Damien is an experienced Chief Financial Officer with more than 15 years’ experience in senior accounting and finance roles, most recently, as CFO of Retail Food Group, an ASX listed company with a market capitalisation in excess of $290 million.
G8’s Vision & Mission

- A portfolio of outstanding early childhood education brands
- Focus on the importance of early childhood education
- Make good centres great through focusing on outstanding early childhood education management

Our mission is to be Australasia’s leading provider of high quality, developmental and educational child care services, and to achieve this through growth and sustainability.

**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
Price chart

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G8 2011 Audited Results

Financial year ended 31 December 2011
### 2011 Audited Results

#### Consolidated Year end 31 December ($’000)

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td>66,549</td>
<td>142,899</td>
<td>115%</td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td>(59,682)</td>
<td>(118,017)</td>
<td>98%</td>
</tr>
<tr>
<td><strong>Earnings Before Interest and Tax</strong></td>
<td>6,867</td>
<td>24,882</td>
<td>262%</td>
</tr>
<tr>
<td><strong>Interest</strong></td>
<td>(1,318)</td>
<td>(2,188)</td>
<td>66%</td>
</tr>
<tr>
<td><strong>Net Profit Before Tax</strong></td>
<td>5,549</td>
<td>22,694</td>
<td>309%</td>
</tr>
<tr>
<td><strong>Net Profit After Tax</strong></td>
<td>3,480</td>
<td>17,250</td>
<td>396%</td>
</tr>
</tbody>
</table>

Less non-recurring abnormal transactions:

- Write back of Headstart deferred consideration to revenue: - (4,299)
- Singapore court case legal expenses (post tax effect): - 956
- Share based payment expense: 1,040 -

**Underlying Net Profit After Tax**

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Underlying EPS (cents per share)</strong></td>
<td>4.15</td>
<td>7.48</td>
<td>80%</td>
</tr>
<tr>
<td><strong>Gearing ratio</strong></td>
<td>20%</td>
<td>32%</td>
<td>80%</td>
</tr>
<tr>
<td><strong>Adjusted Gearing ratio (refer Note 22(f))</strong></td>
<td>20%</td>
<td>25%</td>
<td>80%</td>
</tr>
</tbody>
</table>

- Operating cash flow for 2011 was lower than NPAT. This was due to a full week of revenue being received in January 2012 because 31 December 2011 was a Saturday. The cashflow shortfall was a timing issue which corrected itself in January 2012.

Source: Annual Report Lodged 27 February 2012
## Return on Invested Capital

<table>
<thead>
<tr>
<th></th>
<th>$AUD million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Equity as at 31 Dec 2011</td>
<td>115.2</td>
</tr>
<tr>
<td>Less: Fair Value adj to Equity due to AASB 3: Business Combinations (see note below*)</td>
<td>20.6</td>
</tr>
<tr>
<td>Adjusted Equity as at 31 Dec 2011</td>
<td>94.6</td>
</tr>
<tr>
<td>Add Net Debt</td>
<td>22.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>116.9</strong></td>
</tr>
<tr>
<td>Assumed EBIT for CY12 as per broker estimates</td>
<td>27.3</td>
</tr>
<tr>
<td><strong>RETURN ON INVESTED CAPITAL</strong></td>
<td><strong>23.4%</strong></td>
</tr>
</tbody>
</table>

Note - Table excludes the acquisition of six centres announced on 26 April 2012

*Where G8 Education Limited issues shares to vendors as part of the consideration of childcare centres to be acquired, then the value of those shares is taken up in the balance sheet of GEM at the share price upon settlement, rather than the agreed price in the contract. This is required under AASB 3 Business Combinations. This fair value adjustment should be removed from equity to accurately assess Return on Invested Capital.
Australia
### Australian Centres - owned and contracted

| State                          | Total centres |
|动 |  |
| Queensland                     | 60            |
| New South Wales                | 47            |
| Victoria                       | 16            |
| Australian Capital Territory   | 6             |
| South Australia                | 13            |
| **Total centres**              | **142**       |
| **Total licence Capacity per day** | **10,578**   |
Australian Group Structure

Board of Directors
- Brian Beilison
  Non-Executive Director
- Andrew Kemp
  Non-Executive Director
- Chris Scott
  Managing Director
- Jenny Hutson
  Chairperson
- Susan Forrester
  Non-Executive Director
- Matthew Reynolds
  Non-Executive Director

Senior Executives
- Chris Sacre
  Chief Operating Officer/Company Secretary
- Chris Scott
  Managing Director
- Damien Peters
  Chief Financial Officer

Management
- Jae Fraser
  GM Operations
- Melanie Excell
  Senior Operations Manager
- Angela Karzon
  Marketing Manager
- Emily MacDonald
  Group Accountant
- Jessica Battersby
  HR Manager

Operations Managers
- 12 operations managers

Centre Directors
- 142 centre directors

Childcare Personnel
- More than 2,900 centre staff
- Over 10,578 Licenced places
Australian operations

• The trading environment continues to be buoyant with average 2012 occupancy across centres currently exceeding 2011 levels.

• The demand drivers for childcare remain strong:
  ▫ The 0-5 year old population has grown by 183,000 since 2006, this increase is 6x the rate experienced over the prior 20 years
  ▫ 38% of 0-5 year olds attending some form of childcare in 2011 against 33% in 2006 and 21% in 2000.
  ▫ Since 2008 there has been a 32% increase in the number of children using childcare, which is almost twice the rate that Long Day Care (LDC) places are being created.
  ▫ There has been a sharp decline in the rate of expansion of the LDC industry, measuring by the number of places in LDC centres, the industry’s CAGR from 2002 – 2008 was 9.5%, since 2008 the rate has slowed to just 3.2%
  ▫ Government subsidies have been supportive, with the means tested child care benefit having increased 35% over the last 7 years and non means tested child care rebate having increased 88%. This compares to a 22% increase in CPI.

Source: Petra Capital paper on G8 Education Limited – The boom continues April 2012
## Acquisition Improvements - FY11

<table>
<thead>
<tr>
<th></th>
<th>Revenue ($’000)</th>
<th>EBIT ($’000)</th>
<th>EBIT margin (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ELS (settled Dec 2007)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY10</td>
<td>34,173</td>
<td>5,826</td>
<td>17.05%</td>
</tr>
<tr>
<td>FY11</td>
<td>35,574</td>
<td>6,828</td>
<td>19.19%</td>
</tr>
<tr>
<td><strong>Variance (%)</strong></td>
<td>$\uparrow$ 4.10%</td>
<td>$\uparrow$ 17.20%</td>
<td>$\uparrow$ 12.58%</td>
</tr>
<tr>
<td><strong>Payce (settled 25 March 2010)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY10</td>
<td>23,249</td>
<td>3,585</td>
<td>15.42%</td>
</tr>
<tr>
<td>FY11</td>
<td>25,362</td>
<td>5,067</td>
<td>19.98%</td>
</tr>
<tr>
<td><strong>Variance (%)</strong></td>
<td>$\uparrow$ 9.09%</td>
<td>$\uparrow$ 41.34%</td>
<td>$\uparrow$ 29.56%</td>
</tr>
<tr>
<td><strong>Kindy Patch (settled 14 March 2011)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY10</td>
<td>24,852</td>
<td>3,190</td>
<td>12.84%</td>
</tr>
<tr>
<td>FY11</td>
<td>28,711</td>
<td>4,563</td>
<td>15.89%</td>
</tr>
<tr>
<td><strong>Variance (%)</strong></td>
<td>$\uparrow$ 15.53%</td>
<td>$\uparrow$ 43.04%</td>
<td>$\uparrow$ 23.81%</td>
</tr>
<tr>
<td><strong>Local Kids (settled 28 June and 10 September 2010)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2H10</td>
<td>10,233</td>
<td>1,679</td>
<td>16.40%</td>
</tr>
<tr>
<td>2H11</td>
<td>11,662</td>
<td>2,260</td>
<td>19.40%</td>
</tr>
<tr>
<td><strong>Variance (%)</strong></td>
<td>$\uparrow$ 14.00%</td>
<td>$\uparrow$ 34.60%</td>
<td>$\uparrow$ 18.10%</td>
</tr>
</tbody>
</table>

Note - Due to the seasonality of the Australian Child care industry the EBIT margin is stronger in the second half of the calendar year as centre occupancy grows.
Singapore
## Singapore Centres

<table>
<thead>
<tr>
<th>State</th>
<th>Total centres</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owned centres</td>
<td>8</td>
</tr>
<tr>
<td>Operated centres</td>
<td>12</td>
</tr>
<tr>
<td>Franchised centres</td>
<td>51</td>
</tr>
<tr>
<td>Franchisees seeking premises</td>
<td>10</td>
</tr>
<tr>
<td><strong>Total centres</strong></td>
<td><strong>81</strong></td>
</tr>
<tr>
<td><strong>Total licence capacity per day for owned centres</strong></td>
<td><strong>618</strong></td>
</tr>
</tbody>
</table>
Singapore Operations

Chief Operating Officer

- General Manager, Operations
  - Operations Managers (Centre based) (7)
  - Curriculum Training HR (5)
- General Manager, Finance
  - Account Payable
- General Manager, Franchise & Marketing
  - Senior Manager, Franchise & Marketing
- General Manager, IT
  - Senior Manager, Franchise
Cherie Hearts Update

• The legal proceedings between G8 Education Limited and the Cherie Hearts Group, Sam Yap and Gurchran Singh in relation to various issues involving the contractual arrangements between the parties has been heard in Singapore.

• Judgment was handed down on 12 April 2012 and was found in favour of G8 Education Limited. The application brought by Cherie Hearts Group, Sam Yap and Gurchran Singh was dismissed.

• In the judgment, it was noted that, at the relevant time, Cherie Hearts Group was in breach of conditions precedents in several respects, and that ‘Cherie Hearts Group acted wrongly in purporting to terminate the Business Acquisition Contract’ with G8 Education and the Contract is ‘still in effect and enforceable between the parties’.

• Accordingly, Justice Prakash has ordered specific performance of the contract, pursuant to which G8 Education acquires the Cherie Hearts child care businesses in Singapore under the original Business Acquisition Contract.

• The plaintiff has lodged a Notice of Appeal.
Looking forward
Looking forward

G8 Education continues to perform strongly and is well positioned for further growth and additional acquisitions.

- An increase in the proposed annual dividend of 50% to 6 cents per share (fully franked), payable quarterly, has been announced.
- Strong acquisition pipeline of over 70 centres with over 5,400 licenced places are being considered.
- After funding the acquisitions announced on 26 April 2012, the group is expected to have $30m in funding available for acquisitions, consisting of cash reserves and current (and potential) bank facilities.
- Financial metrics are as follows:
  - At 31 December 2011:
    - LVR - 26%
    - Gearing - 16%
  - Post acquisitions announced on 26 April 2012:
    - LVR - 32%
    - Gearing - 24%
    - Interest Cover - 7.6x
  - Post completion of a further $30m in acquisitions:
    - LVR - 37%
    - Gearing - 36%
    - Interest Cover – 6.9x

The above calculations for LVR and Interest cover are based on broker estimates for Australian operations only in CY12 plus estimated full year contributions from the acquired businesses noted above.
# Capital structure

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shares on issue</td>
<td>201,627,416</td>
</tr>
<tr>
<td>Current Net Debt – National Australia Bank</td>
<td>$23.1 million</td>
</tr>
<tr>
<td>Replacement debt facility with BankWest</td>
<td>$50.0 million</td>
</tr>
</tbody>
</table>

**Dividend Policy**

- Quarterly dividends to 65% cash payout ratio
- Dividend at 1.5 cents per share per quarter fully franked
# Substantial shareholders

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Number of Shares</th>
<th>Percentage holding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Perpetual Nominees Limited and subsidiaries</td>
<td>28.2 million</td>
<td>14.1%</td>
</tr>
<tr>
<td>Wallace Infrastructure Pty Ltd</td>
<td>24.0 million</td>
<td>12.0%</td>
</tr>
<tr>
<td>Northcape Capital Pty Ltd</td>
<td>16.7 million</td>
<td>8.34%</td>
</tr>
<tr>
<td>Paradice Investment Management Pty Ltd</td>
<td>14.8 million</td>
<td>7.4%</td>
</tr>
<tr>
<td>Greencape Capital Pty Ltd</td>
<td>9.8 million</td>
<td>4.9%</td>
</tr>
</tbody>
</table>
Board of Directors

Jenny Hutson, B.Com, LLB, FAIM, Chairperson
Merchant banker and fund manager
Experienced corporate adviser and company director
Over 20 years experience in capital markets involving listed companies
Member of the G8 Education Audit Committee.

Chris Scott, B.Econ(Hons), Managing Director
Over 25 years experience in senior management positions including as founder and managing director of ASX listed S8 Limited which was an integrated travel company that made 36 acquisitions over 5 years and was capitalised at $700 million.
More than 20 years business in Singapore where he was involved in a number of successful businesses
Exceptional operational, analytical and strategic skills critical in selection of potential acquisition.

Susan Forrester BA(Hons), LLB(Hons), EMBA, FAICD, FAIM, Non-Executive Director
Experienced company director with diverse portfolio career
Keen focus on strategic development, corporate governance, brand and reputation management and strategic human resources
Currently a director of Ergon Energy and a senior consultant to Board Matters Pty Ltd which provides expert advice to listed and unlisted boards on governance.
Board of Directors

Brian Bailison B.Com, B.Acc (Cum Laude), ACA, Non-Executive Director
Over 15 years experience in finance, corporate finance and operations from senior roles in South Africa and Australia including senior positions at Rand Merchant Bank Limited and the Ivany Investment Group.
Former director of Payce Child Care Pty Ltd which operated 59 child care centres prior to them becoming part of the G8 Education Group.
Member of the G8 Education Audit Committee

Andrew Kemp, B.Com, CA, Non-Executive Director
Managing director of Huntington Group, a Queensland based advisory firm that has operated for over 25 years
Has structured and implemented the ASX listing of over 10 companies in addition to other corporate advisory and investment activities.
Mr Kemp joined AIFC, the merchant banking affiliate of the ANZ Banking Group in Sydney prior to establishing Huntington Group
Member of the G8 Education Audit Committee

Matthew Reynolds, BSc(Hons), LLB(Hons), MQLS, Non-Executive Director
Extensive experience in ASX listings, management buy-outs and mergers and acquisitions.
Expert in providing high level advice in a stringently regulated and highly technical market
Mr Reynolds is a director of the Thailand based conglomerate Minor International and its subsidiary Delicious Food Holdings. The group recently acquired the Oaks Hotel group in Australia. He has held a number of board positions on emerging companies in the energy and resources and technology sectors.
Questions?