2018 HALF YEAR RESULTS

INVESTOR PRESENTATION

27 AUGUST 2018

G8 Education ltd

DISCLAIMER

The material in this presentation has been prepared by G8 Education Limited (**G8**) and is general background information about G8's activities current as at the date of this presentation. The presentation does not purport to be complete and should be read in conjunction with G8's other periodic and continuous disclosure announcements which are available via www.asx.com.au

This presentation is for information purposes only and is not financial product or investment advice or a recommendation to acquire G8 securities and has been prepared without taking into account the objectives, financial situation or needs of individuals. Before making an investment decision, prospective investors should consider the appropriateness of the information having regard to their own objectives, financial situation and needs and seek legal and taxation advice appropriate to their jurisdiction.

This presentation contains certain "forward-looking statements". The words "expect", "should", "could", "may", "predict", "plan" and other similar expressions are intended to identify forward-looking statements. Indications of, and guidance on, future earnings and financial position and performance are also forward-looking statements.

Forward-looking statements, opinions and estimates provided in this presentation are based on assumptions and contingencies which are subject to change without notice, as are statements about market and industry trends, which are based on interpretations of current market conditions. Forward-looking statements including projections, guidance on future earnings and estimates are provided as a general guide only and should not be relied upon as an indication or guarantee of future performance. Actual results, performance or achievements may vary materially for many projections because events and actual circumstances frequently do not occur as forecast and these differences can be material. This presentation contains such statements that are subject to risk factors associated with the industry in which G8 operates which may materially impact on future performance. Investors should form their own views as to these matters and the assumptions on which any forward-looking statements are based. G8 assumes no obligation to update or revise such information to reflect any change in expectations or assumptions. The inclusion of forward-looking statements in this presentation should not be regarded as a representation, warranty or guarantee with respect to its accuracy or the accuracy of the underlying assumptions or that G8 will achieve, or is likely to achieve, any particular results.

Neither G8, not its related bodies corporate, directors, officers, employees, agents, contractors, consultants or advisers makes or gives any representation, warranty or guarantee, whether express or implied, that the information contained in this presentation is complete, reliable or accurate or that it has been or will be independently verified, or that reasonable care has been or will be taken by them in compiling, preparing or furnishing this presentation and its context.

AGENDA

G8 EDUCATION LIMITED

ASX: GEM

OVERVIEW & CEO COMMENTARY
Gary Carroll

GROUP FINANCIALS
Sharyn Williams

STRATEGY UPDATE
Gary Carroll

CURRENT TRADING & OUTLOOK
Gary Carroll

Q&A
Gary Carroll and Sharyn Williams

APPENDIX

G8 Education[ltd]

OVERVIEW & CEO COMMENTARY

GARY CARROLL

G8 Education

"The first 6 months of 2018 were a period of significant change and challenge in the early education sector in Australia, with the implementation of a new subsidy framework coming into effect on 2 July and continued pressure on sector occupancies from heightened levels of supply growth.

Against this backdrop, G8 made strong progress in improving the foundations of its business, successfully navigated the transition to the new subsidy regime and delivered profit and cashflow results that were in line with consensus and demonstrate the resilience of the Group. With a strong balance sheet and cashflows, as well as enhanced management capability G8 is well positioned to take advantage of strategic growth opportunities and cyclical improvements in the sector."

Gary Carroll - CEO

G8 Education

CY18 H1 SNAPSHOT

Strong progress in strengthening the foundation

- Centre upgrade and training program on track
- Child Care Management System changeover project completed including electronic check in/out

Successful transition to new Jobs for families childcare regime

- $1.2 million in training costs to support implementation
- 5.5% fee increase and rollout of flexible hours options for families both commenced in July
- Transition was in line with expectations with encouraging occupancy trends in July and August

H1 Financial Results

- Underlying EBIT of $48 million, in line with half year consensus, down 21% on prior period
- Wage costs increase of $7.2 million due to regulatory changes to staff ratios - in line with expectations. Wage ratios back to prior period levels in Q2 due to operational efficiencies, setting up for improved H2 performance
- Incremental investment in network growth and quality improvements were $4.6m in the half

Continued strong cash flow generation

- EBITDA to cash conversion of 99%

Balance sheet refinancing on track

- $400 million credit approved, underwriting commitment to refinance SGD Notes and existing debt facilities with extended tenure and improved terms
- Additional $100 million junior debt facility well progressed

Early adoption of proportionate dividend policy

- Dividend of 4.5cps reflecting the early adoption of the previously announced proportionate dividend policy

$M	CY18 H1	CY17 H1	% change
Total Revenue	**396.4**	**368.3**	**7.6%**
Employee expenses	(242.8)	(212.9)	14.0%
Occupancy	(52.5)	(47.6)	10.2%
Direct costs	(29.9)	(28.5)	5.1%
Other costs	(15.5)	(12.7)	21.7%
Total Expenses	(340.7)	(301.7)	12.9%
EBITDA	**55.7**	**66.6**	**(16.3%)**
Depreciation & amortisation	(8.0)	(6.6)	22.6%
Reported EBIT	**47.7**	**60.0**	**(20.6%)**
Net finance costs	(13.5)	(15.8)	(14.3%)
Profit before income tax	**34.2**	**44.2**	**(22.7%)**
Income tax expense	10.4	13.7	(24.0%)
Profit for the half year	**23.7**	**30.5**	**(22.1%)**
Add/(Less) non-operating transactions	1.9	3.2	(41.3%)
Underlying NPAT	**25.6**	**33.7**	**(23.9%)**
Underlying EBIT	**48.1**	**61.1**	**(21.2%)**
Basic earnings per share (cents per share)	5.3	7.5	(30.2%)
Underlying EPS (cents per share)	5.7	8.3	(31.6%)

G8 Education™

SECTOR DYNAMICS

Resilient with good long term fundamentals

HIGHLY FRAGMENTED WITH STRUCTURAL GROWTH DRIVERS

- Top 5 players have only circa 20% market share. Approximately 70% of centres are small operators
- Government and business leaders committed to increasing participation rates of women in the workforce
- Supportive government framework
- Continued strong population growth from births and migration

CHALLENGED BY OVERSUPPLY

- Oversupply is being driven by individual developers, however, tightening of bank funding to developers has started to moderate new supply
- Based on development approval data, the market is expected to be more in balance by mid to late 2019

DEMAND SHIFT FAVOURS QUALITY AND SCALE

- Increased supply has provided parents with choice, driving a “flight to quality”
- Scale operators are better positioned to provide differentiated offerings & higher quality centres

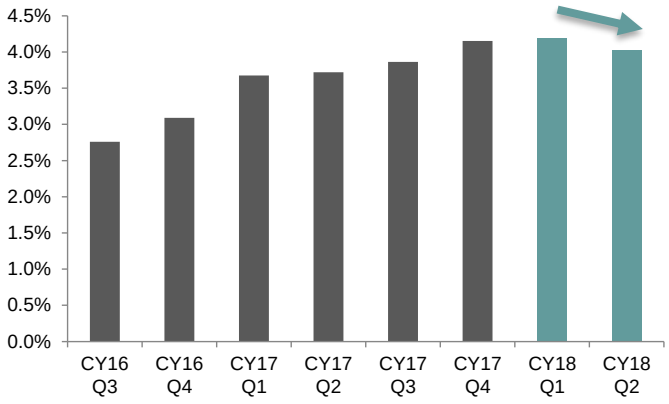
BENEFITS AND IMPROVED AFFORDABILITY TO BOLSTER OCCUPANCY

- Research shows that attendance at early childhood education has benefits across a range of dimensions (e.g. social, emotional, physical, language, cognitive)
- Jobs for Families package has added $2.5 billion in funding over 4 years targeted at low and middle income families
- New package is not a “silver bullet” but is expected to stimulate consistent medium term demand

SUPPLY/DEMAND DYNAMICS

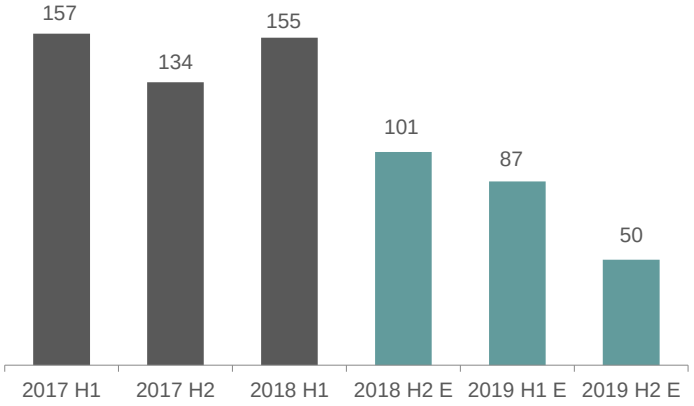
Signs of moderating supply evident

National Long Day Care Supply (% change YoY)



- Sector supply growth accelerated through 2016 and 2017
- Slowdown in rate of growth in CY18 Q2, with further reduction expected as marginal operators leave the sector

Long Day Care Centres Opened / Firm & Commenced DAs



- Pipeline of firm/commenced development applications (DAs) forecast to reduce
- Demand forecast to increase over time as benefits of the new Child Care Subsidy improve affordability

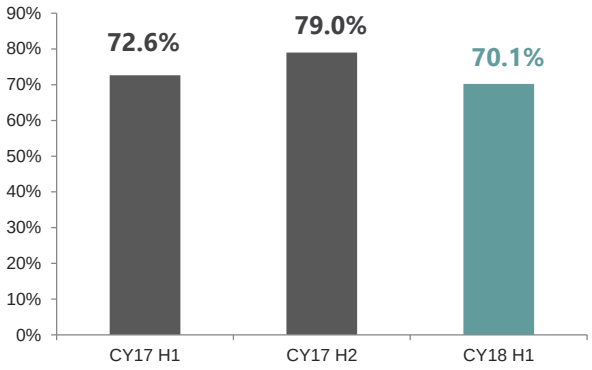
G8 Education

Source: ACECQA/Cordells

OCCUPANCY

- Average like-for-like CY18 H1 occupancy* of 70.1%, down 2.5%pt vs. CY17 H1 of 72.6%
- Oversupply continuing to impact occupancy, as evidenced by the State by State performance
- Pilot of call centre in H1 performed in line with expectations, with conversion rates double those of the network. Full scale roll out of call centre to occur in CY19
- Three product / innovation pilots (covering reading program, allied health and preschool play environment) to be conducted in H2, with roll out to the network expected in CY19

Average Half-Yearly Occupancy* (%)



State by State Occupancy vs Supply Growth

	Occupancy			Supply growth YoY
State	CY17 H1	CY18 H1	%pt change	CY18 Q2
ACT	73.4%	69.4%	-4.1%	4.2%
NSW	75.3%	71.8%	-3.5%	3.2%
QLD	72.8%	72.2%	-0.6%	2.1%
SA	77.7%	74.6%	-3.0%	7.2%
VIC	72.5%	70.1%	-2.4%	8.0%
WA	63.2%	61.8%	-1.5%	2.3%
National	**72.6%**	**70.1%**	**-2.5%**	**4.0%**

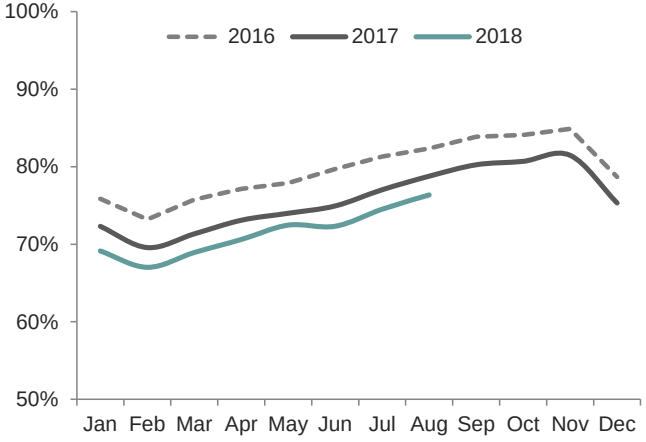
* Average like-for-like occupancy includes all brownfield centres owned for at least 12 months and greenfield centres owned for at least 15 months. Divested centres are excluded from the data.

G8 Education

OCCUPANCY – RECENT TRENDS

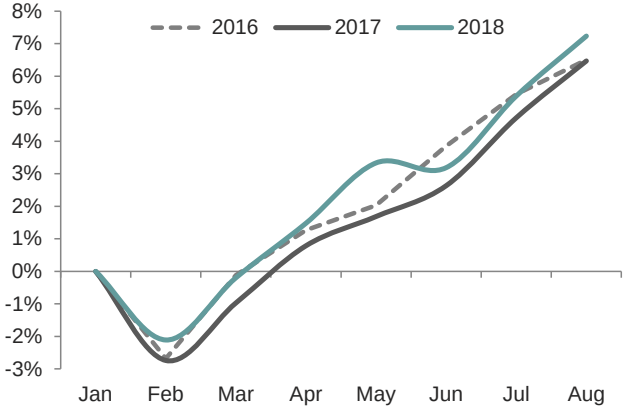
Steady improvement since February

Average Monthly Occupancy (%)



- Occupancy levels in July and August have continued to show above trend seasonal improvement

Occupancy improvement from January base (%)



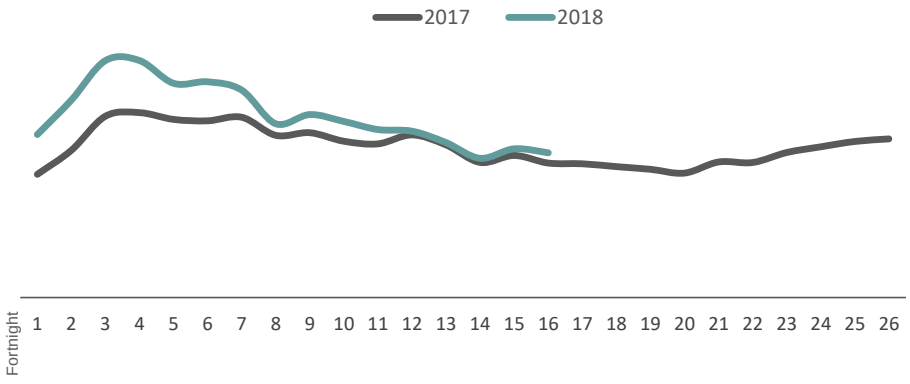
- 2018 occupancy growth from January/February's seasonal low is running ahead of the prior year
- This trend has been continuing notwithstanding a 5.5% fee increase in July 2018

G8 Education

WAGE PERFORMANCE

Improving outlook for H2

Fortnightly hours per booking (2018 YTD vs 2017)



- The implementation of roster changes to accommodate regulatory change impacted wage costs by $7.2 million in CY18 H1, predominantly in CY18 Q1
- Improved performance in CY18 Q2 resulted in Wage Hours Per Booking being in line with prior year by May 2018, setting up for a better wage outcome in H2
- The slight uplift in July was due to the one off decision to deploy team members during the implementation of the new Child Care Subsidy to support our families through the change

G8 Education

OPERATING PERFORMANCE

- Organic Centre revenue was broadly flat on pcp as prior year fee increases were offset by the decline in occupancy, with discounts in line with prior period
- Underlying EBIT decreased by $13.0m (21%) to $48.1m with incremental earnings from acquisitions $2.9m being more than offset by:
  - $10.6m increase in centre wages primarily reflecting the impact of regulatory staff ratio changes ($7.2m) and award wage increase ($6.4m) offset by wage efficiencies
  - $4.6m increase in 'Other' expenses and support office costs, primarily driven by network growth and investment in quality (training, IT, R&M)
  - $1.1m increase in depreciation due to asset refurbishment activity
- Management of wages from regulatory change improved materially in Q2 and is therefore expected to have a modest impact in CY18 H2
- CY16 and CY18 acquisitions were in line with expectations; CY17 acquisitions started more slowly but built momentum during CY18 H1

$M	CY18 H1	CY17 H1*	% change
Total Organic Revenue	**331.0**	**329.4**	**0.5%**
Wages	192.7	182.1	5.8%
Rent	41.2	40.0	2.9%
Depreciation	6.7	5.6	19.6%
Other	34.2	30.9	10.5%
Centre Expenses	274.7	258.6	6.2%
Organic Centre EBIT	**56.2**	**70.8**	**(20.6%)**
Underlying Organic Centre EBIT margin	*17%*	*21%*	
2016 Acquisitions	5.5	3.8	
2017 Acquisitions	1.3	0.6	
2018 Acquisitions	(0.5)	0.0	
Divested Centres	(0.2)	(1.3)	
Total Acquisition EBIT	6.0	3.1	
Total Centre EBIT	**62.2**	**73.9**	**(15.8%)**
Underlying Centre EBIT margin	*16%*	*20%*	
Support Office Costs	(14.1)	(12.8)	10.3%
Underlying Group EBIT	**48.1**	**61.1**	**(21.2%)**
EBIT margin	*12%*	*17%*	
Organic Costs as % Organic Revenue			
Wages	58.2%	55.3%	
Rent	12.4%	12.1%	
Depreciation	2.0%	1.7%	
Other	10.3%	9.4%	
Support Office	4.3%	3.9%	

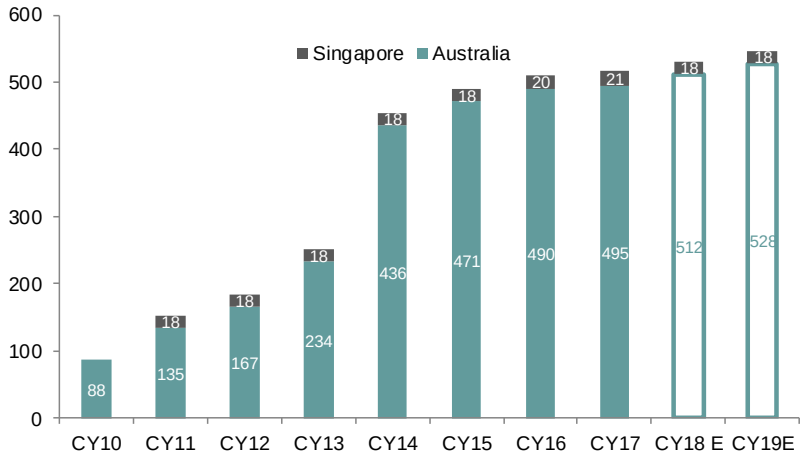
* CY17 H1 restated for divestments

G8 Education

NETWORK GROWTH STRATEGY

Underpinned by detailed network modelling

Centre Portfolio



- Network growth strategy is based on detailed network modelling encompassing forecast supply/demand, competitive environment and demographic profiling
- There is financial capacity and potential to significantly grow the centre network without cannibalisation
- Any network growth opportunities will be undertaken in a disciplined way
- G8's primary network growth remains its committed greenfield pipeline:
  - 7 completed in CY18 H1
  - 12 centres targeted in CY18 H2
  - 16 centres targeted in CY19
- The Group closed 5 centres in CY18 H1 and continues to evaluate opportunities to optimise the portfolio

G8 Education

GROUP FINANCIALS

SHARYN WILLIAMS

G8 Education

CASHFLOW

- Group cashflow generation continued to be strong, with cash conversion of 99% in CY18 H1
- Net cashflows from operating activities of $30 million increased 23% YoY
- Property, Plant, Equipment payments of $17million reflect investment in centre upgrades and resources, the new Child Care Management System and improved IT infrastructure
- Purchase of businesses of $29 million reflect the acquisition of 7 centres and deposits for centres to be delivered in CY18 and CY19
- Net increase in borrowings of $30 million after repayment of $50 million corporate note

$M	CY18 H1	CY17 H1
Cash flows from Operating Activities		
Receipts from customers (net of GST)	391.6	366.2
Payments to suppliers and employees (net of GST)	(336.6)	(309.9)
Interest received	0.2	0.2
Interest paid	(11.1)	(13.1)
Income taxes paid	(13.8)	(18.5)
Net cash inflows from operating activities	**30.3**	**24.7**
Cash flows from Investing Activities		
Payments for property plant and equipment	(17.0)	(7.3)
Payments for divestments	(0.1)	(0.9)
Payments for purchase of businesses (net of cash acquired)	(28.9)	(8.6)
Net cash outflows from investing activities	**(46.1)**	**(16.8)**
Cash flows from Financing Activities		
Share issue costs	(0.0)	(5.0)
Debt issue costs	(0.2)	(0.2)
Proceeds from issue of shares	(0.0)	200.7
Repayment of corporate note	(50.0)	-
Dividends paid	(31.3)	(29.2)
Inflows from Borrowings	80.0	-
Outflows of Borrowings	(0.5)	(40.0)
Net cash (outflows) / inflows from financing activities	**(2.1)**	**126.2**
Net (decrease) / increase in cash and cash equivalents	(17.8)	134.2
Cash and cash equivalents at the beginning of the financial ye	49.2	26.5
Effects of exchange rate changes on cash	0.1	0.1
Cash and cash equivalents at the end of the financial ye	**31.5**	**160.7**

G8 Education

CAPEX COMMITMENTS

Supported by robust cashflow conversion

EBITDA to Cashflow conversion

$M	CY18 H1	CY17 H1
Operating cash flow	30.3	24.7
+ Net interest	10.9	13.0
+ Tax paid	13.8	18.5
Gross operating cash flow	**55.0**	**56.2**
EBITDA	55.7	66.6
EBITDA/cash flow conversion	**99%**	**84%***

* After adjusting for timing of CCB/CCR payments ($5m) and a one-off increase in prepayment relating to LDCPDP activities ($6m), underlying cash conversion in CY17 H1 was 101%

- CY18 total Capex expected to be $30 million
- C18 H2 acquisition activity is expected to include settling 12 centres with a total cash outflow of ~$40 million and the remaining 16 centres of ~$60m in CY19
- Following reviews of the development pipeline, the total spend is expected to be $165m for 46 centres. The re-negotiated cost provides savings, certainty and improved timing to G8 while providing acceptable returns for our development partners

G8 Education

DEBT RATIOS AND CAPITAL RETURNS

Debt Ratios

$M	CY18 H1	CY17
Current borrowings	268.9	49.9
Non-current borrowings	79.0	267.4
Cash and cash equivalents	(31.5)	(49.2)
Net Debt	**316.4**	**268.1**
Underlying EBITDA (last 12 months)	158.4	170.3
Net Debt/EBITDA (x)	**2.00**	**1.57**
Net interest (last 12 months)	28.0	30.3
EBITDA/Net Interest (x)	**5.66**	**5.62**
Fixed charge cover (x)	**1.96**	**1.97**
Gearing ratio (%)*	**29%**	**25%**

- During current growth phase, debt metrics (Net Debt/EBITDA) reflect lag between capital invested and earnings
- As earnings are realised the ratio is forecast to be within the target range of 1.5x-1.7x
- Fixed charge cover ratio remains strong and the Group remains conservatively geared

Return on Capital Employed

$M	CY18 H1	CY17 H1
Underlying EBIT (last 12 months)	142.9	164.3
Shareholders' equity (average last 12 months)	840.7	711.4
Debt liabilities (average last 12 months)	357.0	383.0
Capital Employed	**1197.8**	**1094.3**
Return on Capital Employed (ROCE) %	**11.9%**	**15.0%**

- Return on capital employed of 11.9% has reduced YoY reflecting:
  - Current earnings profile
  - Investment in network growth with earnings from these investments to be realised in future periods
- The Group continues to maintain significant headroom in relation to its goodwill valuation

G8 Education

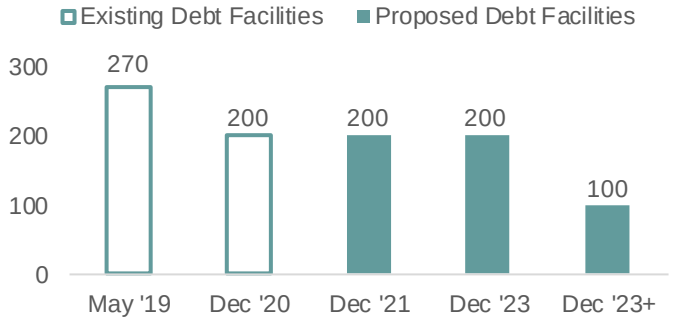
* Net debt/net debt plus equity

CAPITAL MANAGEMENT

Reinforcing balance sheet strength

Refinancing update

- Secured credit approved underwritten commitments for a $400 million syndicated bank debt facility on more favourable terms to refinance:
  - $270 million SGD bonds
  - $200 million Club facility (drawn to $80 million at June 2018)
- Additional subordinated debt facility of $100 million well progressed



Move to Proportionate Dividend Policy

- In 2017 the Board announced a proportionate dividend policy from 2019, being a 70-80% payout of reported NPAT. The Board has made the decision to apply the policy six months earlier - from the CY18H1 dividend
- This approach will yield the right balance between flexibility, investment in network growth and balance sheet strength while still providing attractive, fully franked returns for shareholders
- CY18 H1 dividend of 4.5 cents will be 100% franked
- This will result in total cash dividends of 14.5 cents in 2018, representing a fully franked yield of 8.3% at a share price of $2.50 and 5.9% at a share price of $3.50
- Future dividends are expected to be declared every 6 months, with the next dividend payment in early April 2019 based on the seasonally higher second half NPAT

G8 Education

STRATEGY UPDATE

GARY CARROLL

G8 Education

G8 IS A MARKET LEADER

With significant competitive advantages

AUSTRALIA'S LARGEST

Listed Early Childhood Education & Care (ECEC) provider

41K+

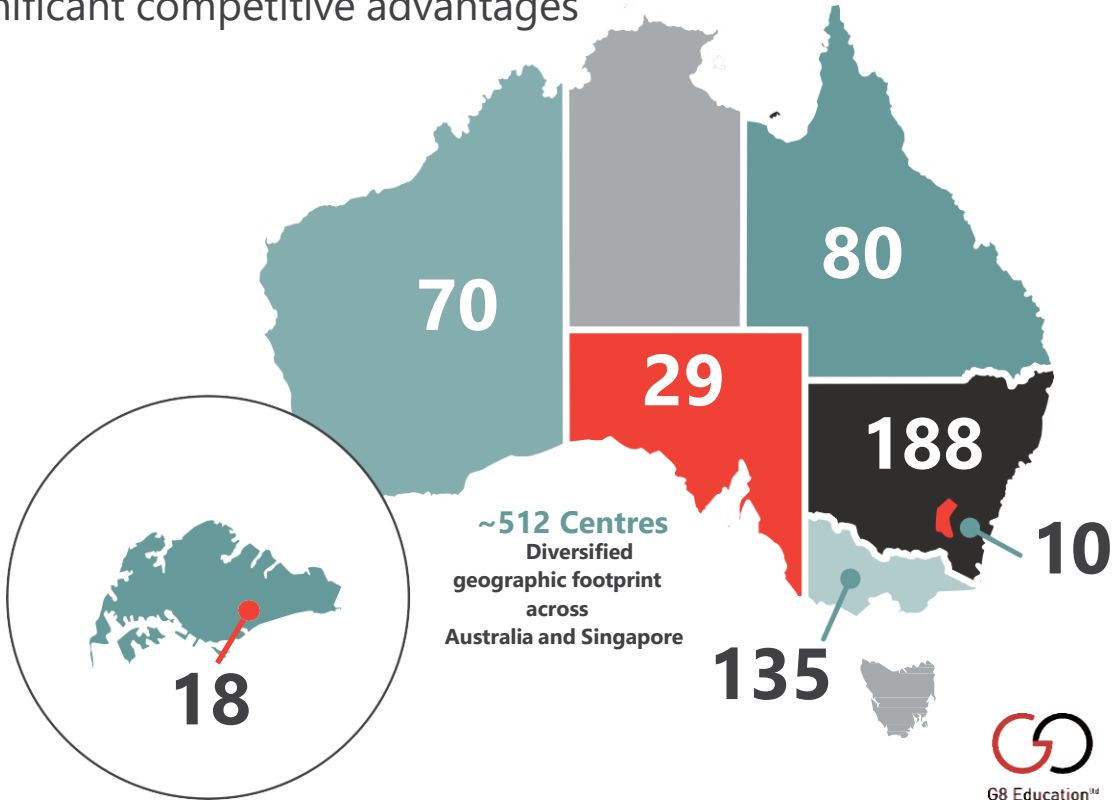
Licensed places across Australia and Singapore

9K+

Early Childhood Educators

52K

Children per week



G8 Education™

STRATEGIC PRIORITIES

To reinforce leading market position

	BUILD A GREAT TEAM	STRENGTHEN THE FOUNDATION	CREATE SUSTAINABLE DIFFERENTIATION	CONTINUE PROFITABLE GROWTH
STRATEGIC PRIORITIES				
KEY OBJECTIVES	• Source, develop, engage and retain great talent through scale-driven differentiation • Drive a high performance culture	• Elevate centre asset quality • Continue to improve NQS results • Platform digitisation • Build market leading curriculum	• Use scale to provide innovative, broad-based service offering that can not be matched by single operators • Provide market leading and differentiated family experience	• Disciplined network growth • Generate new revenue streams • Extract scale-driven operational efficiencies
GOAL	**50% REDUCTION IN TEAM TURNOVER**	**2%pt LIFT IN OCCUPANCY LIFT NPS RATING TO 65**		**REACH TARGET ROCE**

G8 Education

STRENGTHENING COMPETITIVE POSITION

STRATEGIC PRIORITIES

CY18 PROGRESS

BUILD A GREAT TEAM

- Rolled out team member benefits program
- Implemented communications framework
- Centre manager turnover improved 3%pts vs prior year
- Full executive leadership team in place

STRENGTHEN THE FOUNDATION

- Rolled out stage 1 of CCMS
- Asset upgrade on track
- Increased training investment including in relation to the new Child Care Subsidy

CREATE SUSTAINABLE DIFFERENTIATION

- Completed Call Centre Pilot – conversion rates doubled
- Progressed Value-Added Services with pilots to be rolled out in CY18 H2

CONTINUE PROFITABLE GROWTH

- Managed greenfield construction timetable to reflect market environment
- Divested underperforming centres
- Laid foundations for rollout of labour rostering in CY19

G8 Education

CURRENT TRADING & OUTLOOK

GARY CARROLL

CURRENT TRADING & OUTLOOK

- While occupancy growth in July and August is encouraging, and demand is forecast to improve as a result of the new Child Care Subsidy, the combination of supply conditions and regulatory change is unprecedented. Notwithstanding continued improvement in quality and capability, we are not forecasting a material improvement in market conditions until mid to late 2019 and are adopting a conservative approach in relation to occupancy growth forecasts in CY18 H2.

- Our base assumptions are for similar YoY trends in occupancy growth to continue for the balance of the year. Fee increases of 5.5% were implemented from 1 July 2018 and wage increases of 3.5% occurred on 1 July 2018. Incremental earnings from prior year acquisitions are forecast to be $7m in CY18 H2. The Group will continue to invest in improving quality and driving initiatives that will positively impact occupancy in CY19. The incremental cost of those investments is forecast to be $5m in CY18 H2, while the drag on earnings from set up costs relating to CY18 greenfield centres is expected to be $2m in CY18 H2.

- Under these assumptions, the H1/H2 earnings split is forecast to be similar to prior years, being approximately 34 : 66.

- Given the significant change underway in the sector, the Group is intending to provide a further update on trading performance as part of an investor day in late October / early November. This will provide the opportunity to update medium term targets after reviewing trading performance and the market environment.

"In summary, against a challenging sector backdrop, G8 made strong progress in delivering against its strategic growth agenda while delivering profit and cashflow results that demonstrate the resilience of the Group.

We remain confident that our strategy, when combined with a strong financial capacity, has us well positioned to take advantage of strategic growth opportunities and cyclical improvements in the sector."

Gary Carroll - CEO

G8 Education[ltd]

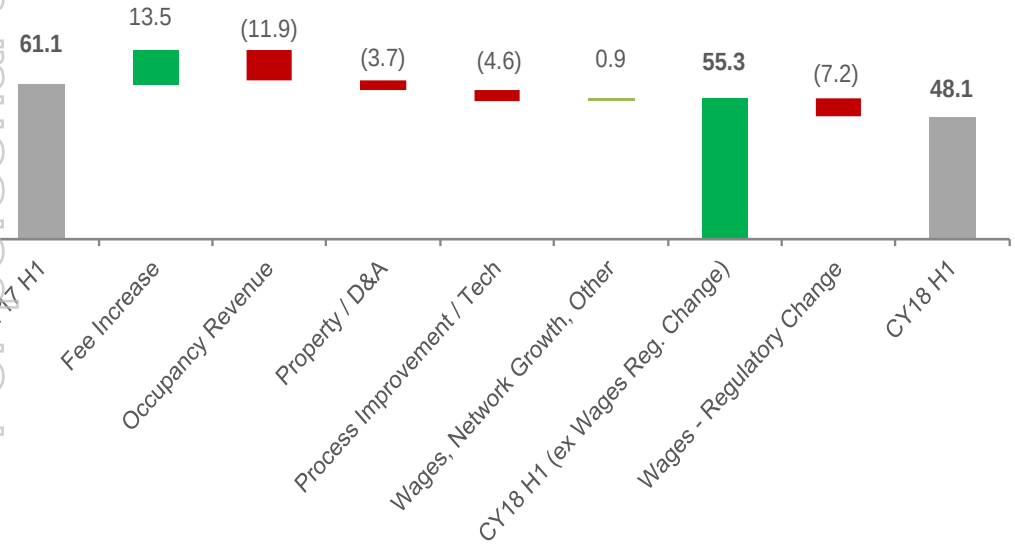
Q&A

G8 Education

APPENDIX

KEY PROFIT & LOSS DRIVERS

Earnings Bridge from CY17 H1 to CY18 H1



- Revenue from organic centres neutral as occupancy reduction offset by fee increases.
- CY18 H1 EBIT reduction is less than 10%, excluding incremental wage costs from regulatory change.
- Expensed investment of $4.6m in improvements to processes, technology advances, support office costs as network expands and investment in training and development.
- Continued investment in improving the foundation will be made in CY18 H2.

G8 Education

THANK YOU

G8 Education