

ASX Announcement

G8 Education Limited
(ASX:GEM)



G8 Education^{ltd}

26 August 2019

FINANCIAL RESULTS FOR THE HALF-YEAR ENDED 30 JUNE 2019

G8 Education Limited (the “Group” or “G8”, ASX: GEM) today announces its results for the half-year ended 30 June 2019.¹

Highlights

- Revenue of \$430.6m, an increase of 9% above prior corresponding period (pcp), driven by occupancy, fee growth and acquired centres
- Net Profit After Tax (NPAT) reduced 20% on pcp to \$19m, impacted by the implementation of the new Accounting Standard AASB 16 Leases Standard
- Underlying EBIT of \$51.6m for the half, in line with consensus forecasts and 7% above pcp
- Average like-for-like occupancy grew 1.5% points over the pcp, driven by the implementation of the customer engagement centre, group-specific initiatives and the Child Care Subsidy (‘CCS’) which has improved affordability for families
- Improved wage performance on prior year as efficiencies were realised
- Net supply growth for the half is lower than the pcp, reflecting signs of moderating supply growth although prevailing conditions are likely to remain challenging
- Solid progress on delivery of the Group’s strategic program in line with expectations, including successful rollout of Customer Engagement Centre to all 500 centres and development of national curriculum and education program
- Successful balance sheet refinancing and EBITDA to cashflow conversion over 100% leaving the Group well-positioned to drive its growth strategy, while remaining conservatively geared
- CY19 H1 fully franked dividend declared of 4.75 cents per share, being a 0.25 cents per share increase on the prior year H1 dividend

	CY19 H1 Statutory	AASB 16 Adjustment	CY19 H1 Proforma	CY18 H1 Statutory	% change
\$M					
Total Revenue	430.6	-	430.6	396.4	8.6%
Total Operating Expenses	(318.3)	(53.6)	(371.9)	(340.7)	9.2%
Underlying EBIT			51.6	48.1	7.3%
Underlying EBIT margin			12.0%	12.1%	
Underlying NPAT			26.2	25.6	2.3%
Underlying EPS (cents per share)			5.7	5.7	- %

¹ Underlying non-IFRS (pre-AASB 16 Leases Standard and non-operating transactions)

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G8 Managing Director, Gary Carroll said:

“G8 has achieved a solid result for the first half of 2019, in line with expectations, while making pleasing progress on the Group’s strategic program to ensure sustainable long-term value.”

“The Group achieved underlying EBIT of \$51.6m, in line with half year consensus forecasts, and representing a 7% increase on the prior corresponding period, driven by strong performance in our organic centres with underlying EBIT for those centres up 14% on the prior corresponding period”.

“Average like-for-like occupancy for the half was up 1.5% points over prior year, driven in part by the CCS as well as Group-specific initiatives such as the Customer Engagement Centre.”

“It was positive to see net supply growth in the half being lower than the prior corresponding period, notwithstanding an increase in Q2 driven by a lower number of closures.”

“While our acquisition performance was mixed, we are confident that these centres are on the right trajectory with CY17 cohort delivering both incremental EBIT and occupancy improvements year on year, and the CY18 cohort growing occupancy despite the ramp up being slower than anticipated.”

“The long-term fundamentals of the sector are very attractive, and we are committed to providing a high-quality differentiated service offering to our families”.

Network growth strategy

The Group’s primary focus is completing its existing committed greenfield pipeline. As previously outlined, G8’s network modelling suggests there is capacity to continue to grow the centre network without cannibalisation.

The Group will continue to evaluate opportunities to rationalise underperforming centres, with 8 centres closed during the period and a further 5 identified for closure at lease expiry in the second half of the 2019 year. We maintain a rigorous approach to portfolio analysis as part of our commitment to providing the best quality experience for our families.

Strong cash flow conversion and balance sheet flexibility

During the half, the Group completed its balance sheet refinancing, utilising its syndicated debt facilities to repay its S\$270m Singapore bond facility at maturity, providing interest rate savings, increased loan tenor and sufficient headroom.

Cashflow generation remains a key strength of the Group, with EBITDA to cash underlying conversion of 108%. The Group remains conservatively geared and importantly, has the flexibility to continue to execute on the strategic plan.

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The Group's strong balance sheet and active capital management has resulted in the Board declaring a half-year fully franked dividend of 4.75 cents per share, being a 0.25 cents per share increase on the prior year H1 dividend.

On track and continuing to execute on our strategic program

The Group is on track with delivery of its strategic growth program designed to achieve a high-quality, differentiated offering to families. Achievements over the period included:

- Reduction in team turnover, in line with expectations, as a result of enhanced professional development, training and induction and standardised work routines
- Development of a national market-leading curriculum program, with roll out commencing in August
- On track to complete refurbishment of 80 centres in 2019
- Customer engagement centre extended to all 500 centres, with around 85% of enquiries being converted into tours
- Launch of Parent and Educator apps for the XPlor child care management system
- Working group established to focus on turnaround of a selected cohort of centres, on track to complete 25 centres in 2019

Trading performance and outlook

Organic centre performance continues to track solidly. It is noted that:

- the second half growth rate will not have the benefit of the CCS stimulus that commenced on 1 July 2018; and
- although occupancy-building initiatives are performing in line with expectations and gaining momentum, we remain cautious about the impact of near-term supply.

For these reasons CY19 like-for-like occupancy growth is expected to be in the mid 1%pts.

Wage performance YTD is tracking to expectations and further efficiency gains are expected in H2.

While the success of the 2017 acquisitions gives cause for confidence in the medium-term potential of the greenfield portfolio, the ramp-up of the 2018 and 2019 centres is taking more time resulting in an \$8m forecast reduction in CY19 EBIT contribution from these centres.

Balancing the performance of the organic centres with our caution in relation to the market environment, the forecast underlying EBIT range for CY19 is \$140m - \$145m.

The strategy of driving quality, capability and team engagement is on track and producing results even in the face of increased supply. We are only part way through our transformation program and the focus remains on execution.

The Group looks forwards to providing a further update on trading performance at the Investor Day in November 2019.

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Ends

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