



The new centres will contribute annualised earnings before interest and tax of \$39.4 million in FY 2015. PHOTO: VIRGINIA STAR

# G8 Education to buy 91 centres

Jessica Gardner

Childcare operator **G8 Education** has broken its own rules on how much it is willing to pay for new centres, buying 91 from **Sterling Early Education** for \$228 million, just a week after Sterling's float was pulled.

The deal takes the number of new centres bought by G8 Education in 2014 to 154, more than double the 70 purchased in the 2013 calendar year.

Investors keen to cash in on strong demand in the sector due to the growing population of children and the rising rate of women in the workforce have pumped up the market darling's value by 137 per cent over the past year.

The Brisbane-based company has previously said it would not pay more than 4-times earnings before interest and tax as for new centres.

But the latest deal prices the 91 centres at 5.79-times annualised EBIT of \$39.4 million forecast for the 2015 financial year.

Montgomery Investment Management portfolio manager **Russell Muldoon** said management has assured him the deal was a one-off and in future the company would return to paying about 4-times EBIT.

"[G8 Education] has taken a bit of a defensive, as well as an offensive, move," Mr Muldoon said.

The company, helmed by managing

director **Chris Scott** and chair **Jenny Hutson**, declined to comment.

A proposed float of childcare roll-up Sterling was pulled just over one week ago by Macquarie Capital after it failed to raise \$200 million from institutional investors. Fund managers had balked at earnings forecasts, which had been revised down just prior to a book-build.

It is understood Macquarie Capital had been shopping the opportunity to

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private equity funds as well as rival operators as its plan B.

Mr Muldoon said the transaction allowed G8 Education to stop a new large competitor entering the market.

The 91 new "premium" centres, which include 76 long-day care centres and 15 centres for outside school hours care, increase G8 Education's student places by 28 per cent to 27,995.

The latest acquisition comes just over a month after G8 Education spent \$105 million on 63 new centres and marks a period of enhanced cor-

porate activity in the fragmented sector.

There are about 6000 centres in Australia and more than 80 per cent are owned by independent operators, which has allowed G8 Education and its smaller rival **Affinity Education** to grow by buying established centres. Affinity, which has a market value of \$122 million, has increased in value by 35 per cent since its December listing.

The ramp up in corporate activity, along with the company's willingness to pay more than normal could spark memories of **Eddy Groves**.

The entrepreneur led **ABC Learning** from the mantle of largest childcare operator in the world to collapse in 2009 after paying too much for centres in his quest to grow the business.

In the year before its collapse ABC had debt of \$2.2 billion

G8 Education entered a trading halt on Monday morning, as its brokers Canaccord Genuity and Petra Capital went about raising \$100 million to help fund the deal.

The company was seeking to raise \$100 million in a two-tranche placement at \$4.60 a share.

The offer was priced at a 3.4 per cent discount to the last close and a 2.5 per cent premium to the 10-day volume-weighted average price. The stock closed at \$4.76 on Friday.

The advisers are calling for bids by midday on Tuesday.