

ASX Announcement

G8 Education Limited
(ASX:GEM)



23 February 2021

G8 EDUCATION ANNOUNCES 2020 FULL YEAR RESULTS

G8 Education Limited (the “Group” or “G8”, ASX: GEM) today announces its results for the full year ended 31 December 2020.

Highlights

- 2020 occupancy and attendance better than expected, having recovered well from COVID-19 related lows in April, with this positive trend continuing into 2021
- Revenue and costs were underpinned by government support with underlying EBIT¹ of \$105.2m, ahead of consensus
- Statutory loss after tax of \$187m, driven by previously disclosed \$237m non-cash impairment expense
- Rostering efficiency benefits captured, with lower wage hours per booking in CY20 relative to the same occupancy level in CY19
- Q4 relief package reinvested in centre quality, including educational resources, as well as delivering on the employment guarantee
- Centre Quality improved with 85% of centres ‘meeting’ or ‘exceeding’ National Quality Framework standards
- Strong balance sheet with net cash of \$21.8m, reflecting \$301m equity raise and prudent capital management
- Dividend remains temporarily suspended, with the policy to be reviewed in August 2021
- Refinance completed in February 2021 to deliver lower interest costs, increased flexibility and increased tenor
- The Group expects CY21 to be a recovery year and is focused the ongoing management of COVID-19, in particular planning for further impacts on centre occupancy

Trading Performance

\$M	CY20 Proforma	CY19 Proforma	% change
Total Revenue	788.1	920.6	(14.4%)
Total Operating Expenses	(682.9)	(801.2)	(14.8%)
Underlying EBIT¹	105.2	119.4	(11.9%)
<i>Underlying EBIT Margin¹</i>	13.3%	13.0%	
Underlying NPAT¹	60.0	67.7	(11.3%)
Underlying EPS ¹ (cents per share)	8.1	13.0	(38.1%)

¹Non-IFRS financials (pre AASB 16 lease standard, acquisition, establishment and divestment costs; and excluding impairment)

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G8 CEO and Managing Director Gary Carroll said: "This year the Group's absolute priority has been to ensure the health, safety and wellbeing of our team members, children and families as we navigate the ongoing impact of COVID-19. In addition, we have been firmly focused on safeguarding the business through prudent financial management and cash preservation and by drawing on the Commonwealth Government's welcome support for the sector during the pandemic.

"These efforts have been reflected in the Group's 2020 full-year results, which show a strong recovery in occupancy and attendance in a challenging COVID-19 related environment. Throughout this period, the Group has not lost sight of its strategic priorities, with the optimisation of its portfolio continuing through the divestment of underperforming centres, the ongoing improvement program and the opening of greenfield sites. Our strong balance sheet, with net cash of \$21.8 million, gives us the capacity to continue this momentum and to explore other sensible growth opportunities."

Strong recovery in occupancy and attendance

G8 finished the year with stronger than expected occupancy, which continued its recovery from the COVID-19 related lows in April, and is re-establishing its seasonal trend as movement restrictions are lifted around the country.

The occupancy gap relative to CY19 narrowed significantly, with December just 1.5 percentage points below the prior year as children remained in care longer in the lead up to the holiday break. CY20 like-for-like occupancy was 69.2%, with state-based occupancy trends broadly consistent, with the exception of Victoria and the ACT. Victoria was affected by the extended period of mobility restrictions, although occupancy and attendance trends normalised by year-end to be in line with the national average. Occupancy in the ACT has been affected by centre manager and team turnover across G8's nine centres in that territory.

Revenue and underlying CY20 EBIT reflect a combination of COVID-19 impacts, including various government support packages². The Group reported revenue of \$788.1 million, down 14.4% on the prior year and underlying EBIT of \$105.2m, down 11.9% on the prior year. Underlying EBIT includes CY20 employment costs of \$12m relating to the employee payment remediation program announced in December 2020.

The Group posted a Statutory Loss after Tax of \$187m, which was materially affected by a non-cash impairment expense of \$237m (post tax), initially flagged in the 11 June 2020 announcement. The impairment has no impact on the Company's debt facilities.

Strong balance sheet and disciplined capital management

A range of initiatives were successfully implemented during the year to strengthen the balance sheet, preserve capital, reduce costs and support selective investment in quality. These initiatives enabled the Group to finish the year with a net cash position of \$21.8 million.

² Outlined in slide 29 of the CY20 investor presentation

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The Company's \$301m equity raising in April 2020 significantly reduced the Group's leverage and delivered a strong balance sheet that enabled it to successfully navigate the COVID-19 impacted period. The refinancing completed in February this year and is expected to reduce borrowing costs by \$6m to approximately \$14m in CY21.

The Group maintained its focus on cost management throughout the year in response to the "capped" revenue period, the fluctuations in occupancy and attendance levels and periods of free childcare and mobility restrictions, while also balancing the regulatory requirements and employment guarantee. The unwavering cost focus supported selective, incremental investment in centre quality in Q4 CY20.

G8 has delivered improved wage efficiencies in line with its targets with the benefits already reflected in the CY20 results. Relative efficiency improvements have not been affected by the employee remediation program. The new rostering program represents a step change in the management of the complex range of awards across the G8 team, with rollout across the entire network expected in CY21.

Dividends, including the dividend reinvestment program, were temporarily suspended in response to COVID-19, with the policy due to be reviewed in August 2021.

Employee Remediation Program

The employee payments remediation program announced in December 2020 remains on track, with payments to impacted team members³ expected to be substantially completed by 31 July 2021 and the overall remediation program, covering training, reporting and system enhancements, to achieve the targeted controls, is also tracking to plan.

As announced in December, total program costs were estimated at between \$50-\$80m. Analysis and validation work is ongoing and the Group has recognised a provision of \$80m pre-tax (\$57m after tax) in its CY20 financial statements.

Strategic and operational areas of focus

G8 remains focused on its strategic and operational goals, with the Group continuing to make strong progress in its portfolio optimisation activities, with the divestment program for the 52 underperforming centres on track and the sale of the Singapore business completed in the second half.

The improvement program has progressed in line with expectations, with approximately 94 centres receiving learning environment training and work routine improvements in CY20.

The strategy is focused on building a scalable foundation for the Group. This includes driving quality standards in centres, retaining the team and centre managers to become the centre of choice in every neighbourhood.

Approximately 10 new greenfield centres, in attractive locations at a significantly lower capital cost, are scheduled to open in CY21.

³ For whom G8 has current contact information and bank details

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Current Trading

The Group expects CY21 to be a recovery year given the absence of additional government subsidies and the continued impact of COVID-19, particularly on occupancy - either directly through movement restrictions or indirectly through economic impacts such as higher unemployment.

COVID-19 related movement restrictions continue to impact revenue and EBIT with \$0.8m of fees waived YTD CY21 to support families. The current position is the provider funds these fee waivers; Victorian Government COVID-19 support measures ceased on 31 January 2021. Sector-level discussions continue with the Federal Government relating to subsidies being paid to providers where movement restrictions are in place.

The occupancy gap relative to 2019 levels has continued to narrow, with the circa 4.5% pts gap that was present in November 2020, reducing to circa 4.0% pts in February 2021, in line with expectations.

Year to date wage performance is tracking to expectations.

Strategic earnings growth priorities in CY21 remain the Improvement Program, network growth and exiting impaired centres. The Improvement Program is expected to gain momentum in CY21, based on positive results to date and the medium-term earnings potential of this program. The costs of this increased activity will be managed to ensure they are funded by the benefits of the strategic programs.

The circa 10 new greenfield centres expected to open in CY21 involve a capital outlay of circa \$4m. Start-up trading losses in CY21 are expected to be circa \$4m based on current centre opening dates, with strong returns expected over the medium term as the centres mature.

Capex deferred from CY20 of \$10m will be released in CY21, taking the expected total to \$50m to \$65m.

Mr Carroll said: "The strategic direction over the medium-term is focused on further lifting quality and continuing to build a great team, to support delivering a world class differentiated education and care offering to G8's families. The commitment and resilience demonstrated by our team members, particularly during this last challenging year, is absolutely critical to our success. They have and continue to provide the best learning foundations for our children and support for our families."

Authorised for release by G8 Education Limited's Board of Directors.

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