ASX Announcement

G8 Education Limited
(ASX:GEM)

G8 Education ltd

23 August 2021

G8 EDUCATION ANNOUNCES RESULTS FOR THE HALF-YEAR ENDED 30 JUNE 2021 INCLUDING A TRADING UPDATE & OUTLOOK

G8 Education Limited (the "**Group**" or "**G8**", ASX: GEM) today announces its results for the half-year ended 30 June 2021.

HIGHLIGHTS

Note: CY21 H1 figures compared with COVID-19-impacted CY20 H1 and pre-COVID-19 CY19 H1

- Strategic programs deliver strong momentum and tangible results, with the CY19 & CY20 Improvement Program centres delivering $1.5m higher EBIT on CY19 H1 and portfolio optimisation on track
- Strong balance sheet and conservative leverage provides resilience to short term challenges
- Recovery in "Core[1]" occupancy, with the usual seasonal uplift being re-established (national Core average occupancy of 68.0% v 65.1% in CY20 H1 and 70.4% in CY19 H1). In early July 2021 the gap to CY19 narrowed to be 1%pt down
- Revenue of $421.5m (v $308.2m in CY20 H1 and $429.9m in CY19 H1), reflecting recovery in occupancy and impacts of greenfield growth, Victorian Government COVID-19 payments and February fee review, offset by divestments. COVID-related movement restrictions impacted revenue with $1.9m of fees discounted in H1 to support families in lockdowns and retain enrolments. Net earnings impact was not material in July 2021, with downside risk to August onwards in light of tightening restrictions
- Statutory NPAT of $25.1m (v.Net Loss After Tax of $244.1m in CY20 H1 and $13.7m in CY19 H1)
- Operating EBIT (after lease interest) of $38.9m (v $19.7m in CY20 H1 restated and $38.8m in CY19 H1 restated) in line with pre-COVID-19 CY19 H1, with benefits of the Improvement Program, February fee review and greenfield growth being invested in increased network support and quality
- While occupancy trends in H1 were encouraging, recent lockdowns, particularly in the eastern states, have begun to impact the seasonal trend in H2
- Given progress made, investment is being made in the Group's future position, particularly in families and team, while responding effectively and adapting our operations to the impacts of the prevailing environment
- The Board expects dividend payments to recommence with a full-year CY21 dividend intended to be paid in CY22

1. "Core" occupancy includes all centres excluding the 15 centres in the greenfield portfolio

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TRADING PERFORMANCE

$M	CY21 H1	CY20 H1Restated[2]	CY19 H1 Restated[2]	CY21 H1 vs. CY19 H1
Metrics				
Occupancy (Core)	68.0%	65.1%	70.4%	(2.4%) pts
Operating Revenue	421.5	308.2	429.9	(2.0%)
Statutory NPAT	25.1	(244.1)	13.7	83.2%
Basic earnings / (loss) (cps)	2.96	(37.94)	2.65	11.7%
Net Cash / (Debt)	6.5	(62.5)	(359.8)	nm
Excluding non-operating items				
Operating EBITDA	102.4	88.9	109.0	(6.1%)
Operating EBIT (after lease interest)	38.9	19.7	38.8	0.3%

G8 Chief Executive Officer and Managing Director Gary Carroll said:

“Our top priority during this period has been looking after our families and teams and ensuring we provide a safe and trusted environment for our community.

“During the half, our operating performance continued to recover, with occupancy in the first half narrowing the gap on CY19, driven by our strategic change programs and a particularly strong performance from our regional centres. Costs were well managed, and we remain concentrated on maintaining our balance sheet strength and flexibility. This has allowed us to support our families by implementing COVID affordability measures for our families by offering fee reductions for those in lockdown areas.

“After an encouraging first half, since June, we have started to see some impact of COVID-19 lockdowns on occupancy in the eastern states. We have the right settings and systems in place, and are well-capitalised to weather this period and emerge in a strong position. While our focus remains on our internal growth initiatives, we remain ready to take advantage of any sensible growth opportunities that may arise.

“We made good progress on our strategy of being the centre of choice for every family. The investment in our Improvement Program and portfolio optimisation strategy delivered – and continues to deliver – strong results. We achieved our highest National Quality Standards result, became the first Australian childcare provider to execute a Sustainability-Linked Loan and expanded our Study Pathways program, providing Bachelor Scholarship and traineeship opportunities to more than 1,000 team members.”

FINANCIAL PERFORMANCE

G8 delivered a strong financial performance in CY21 H1, with national Core occupancy of 68%, 2.9% points higher than CY20 H1 and 2.4% lower than CY19 H1. This result shows occupancy continuing to recover, driven by our strategic programs, and a return to the usual seasonal trend. However, since June this has been disrupted in certain areas as a result of COVID-19 movement restrictions. G8, along with the Early Childhood Education & Care sector, engaged – and will continue to engage – with the Federal Government around appropriate COVID-19 related measures to best support our families and teams.

2. Note all references to CY19 H1 and CY20 H1 financials are restated to include wage remediation

The Group's geographic portfolio diversification, with limited CBD exposure, mitigated against the impact of localised lockdowns. Regional centres (191 in total) performed particularly strongly, with occupancy 4.4% points higher than COVID-impacted CY20 H1 and 1.9% higher than CY19 H1.

Revenue was $421.5m (compared with $308.2m in CY20 H1 and $429.9m in CY19 H1), reflecting the continued recovery in occupancy and the impacts of greenfield growth, the Victorian Government COVID-19 subsidy and February fee review, but partially offset by the Group's divestments.

Operating EBIT (after lease interest) of $38.9m for the half (compared with $19.7m in CY20 H1 and $38.8m CY19 H1) was in line with the pre-COVID-19 impacted CY19 H1, underpinned by lower lease depreciation relating to the impaired centres. Network support and corporate costs were up $5.6m (after adjusting for prior year items), reflecting the investment in its team and centre improvement program. 118 centres were completed in the half given clear evidence of the program's benefits to date, including improvements in occupancy.

Wages as a percentage of revenue were in line with CY20 due to wage optimisation and the February fee increase. While the Group did not review fees in CY20, the increase in February 2021 mitigated the impact of inflation in CY21 H1.

BALANCE SHEET STRENGTH

The Group's refinancing in February has provided lower interest costs, increased tenor and additional flexibility. This, coupled with G8's strong balance sheet (with a net cash position), means the Group is well-positioned to manage this period and capitalise on sensible growth opportunities that may arise. The Group's strong balance sheet enabled COVID affordability measures to be implemented for impacted families (via fee reductions) as well as ongoing investment in team attraction and retention.

The Board expects dividend payments to recommence with a full-year CY21 dividend intended to be paid in CY22.

EMPLOYEE REMEDIATION UPDATE

The employee remediation program is well-progressed, with initial payments to current team members substantially completed in July 2021, with a second payment to be made in the coming months. Communication with former impacted team members has commenced to progress payments to those individuals. The implementation of enhanced controls, training and systems are on track and are well advanced.

As announced in December 2020, total program costs were estimated at between $50m and $80m. While certain payments have been made, validation work in respect of some matters and engagement with the Fair Work Ombudsman following G8's self-reporting continues. Accordingly, the Group maintains a provision of $80m pre-tax ($57m after tax), less costs incurred to date.

BEING THE CENTRE OF CHOICE FOR FAMILIES

Performance of the centres covered by the Group's Improvement Program is tracking ahead of expectations, including targeted occupancy levels, with those centres delivering a $1.5m higher EBIT on CY19 H1. During the half, G8 completed improvements on a further 118 centres, with the program on track to be completed by early CY23.

The investment in quality has been recognised through G8 achieving its highest National Quality Standards result, with more than 98% of G8 centres being assessed in the first half as 'Meeting' or 'Exceeding' the National Quality Framework.

The Group continues to make strong progress on portfolio optimisation and disciplined growth, with two greenfield centres expected to open in CY21 H2 and agreements for lease executed for a further 8 greenfield centres (expected to be operational in CY22). In addition, half of the impaired centres have been exited or conditional agreements reached to divest them.

G8 is focused on investing in its team to drive well-being and retention, including expanding its Study Pathways program, offering Bachelor scholarship and traineeship opportunities to prospective and current team members, and launching its augural Team Service Recognition program.

TRADING UPDATE & OUTLOOK

Occupancy recovery was on an encouraging trajectory in H1. Recent lockdowns have impacted the seasonal trend in H2 with the progressively stricter lockdowns expected to weigh on attendances in several states. The gap on CY19 core occupancy narrowed to 1% pt in early July but widened again to be 2.6% pts lower (at 72.6% on 15 August), driven by the lockdown states. Attendance levels in recent lockdowns have ranged from 15% - 80%.

The net earnings impact was not material in July 2021, with downside risk to earnings from August onwards, in light of tightening restrictions. Earnings impact for the remainder of H2 is dependent on multiple variables, including attendance levels in response to evolving lockdown scenarios, any further Government support and how we adapt our operations. For states unaffected by lockdown, wages as a percentage of revenue and margins[3] are forecast to be flat on H1.

Despite short term challenges presented by government mandated movement restrictions, the Group remains committed to investing in team, families and quality. The Group's focus is on retaining and attracting families to maximise the anticipated uplift in occupancy that was experienced following cessation of prior lockdowns. Strategic programs (including the Improvement Program, network growth and exiting impaired centres) are expected to support and drive this recovery. Attracting and retaining talent remains the greatest challenge facing the sector. The Group has formulated a coordinated response plan addressing remuneration, benefits, work environment and engagement activities.

The Group has demonstrated an ability to effectively respond and adapt operations to the impacts of the prevailing environment. The strong balance sheet with conservative leverage provides increased resilience to short term challenges.

ENDS

This document has been authorised for release by the Board of Directors.

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3. Operating EBIT after lease interest