ASX Announcement

G8 Education Limited
(ASX:GEM)

G8 Education ltd

13 December 2021

The Manager
Market Announcements Office
Australian Securities Exchange

TRADING UPDATE & ANALYST CALL

G8 Education Limited (ASX: GEM) is pleased to provide the enclosed Trading Update.

An analyst call will be held at 10am AEST, Monday 13 December 2021.

Webcast Details: The webcast can be viewed by navigating to https://ccmediaframe.com/?id=xJv1UKjD.

Teleconference Details: Participants can register for the teleconference by navigating to https://s1.c-conf.com/diamondpass/10018449-ms7322.html. Please note that registered participants will receive their dial in number upon registration.

Yours faithfully

TWood

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

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G8 Education

TRADING UPDATE

Investor Presentation

13 December 2021

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AGENDA

G8 Education

G8 EDUCATION LIMITED
ASX: GEM

Gary Carroll (CEO) and Sharyn Williams (CFO)

TRADING UPDATE

COVID-19 ENVIRONMENT

STRATEGIC PROGRAM UPDATE

Q&A

EXECUTIVE SUMMARY

G8 Education[ltd]

Trading positive despite continued COVID-19 disruptions

- CY21 YTD (to 30/11/21) Operating EBIT[2] of $76m and Operating NPAT of $43m, ahead of consensus estimates
- Occupancy in CY21 H1 closed the gap on CY19, from July onwards, COVID-19 disrupted the usual seasonal uplift in various states
- Core occupancy (for the week ended 5/12/21) is 76.5%, 1.7%pts above CY20 and 2.1%pts below CY19 - Regional centres tracking above and Metro/CBD tracking below CY19
- Strong balance sheet, net debt of $17m after impact of wage remediation payments of $38m

Continued progress being made on Strategic Priorities

- The Improvement Program (IP) has rolled-out across 223 centres and a further 137 new centres were recently inducted into the program. Financial and quality improvement performance continues to exceed expectations
- Ongoing targeted initiatives underway to retain educators in a sector experiencing shortages and elevated turnover
- Greenfield portfolio performing to expectations and there is a strong pipeline of attractive new centres to be opened during 2022
- Good progress being made to exit impaired centres

Transitioning to a COVID-19 normal Environment

- As an essential service, the long-term fundamentals of the sector remain strong with ongoing bi-partisan support
- Government support continued in CY21 (with $21m of support[3] received). Support is currently provided in the form of Gap Fee Waivers and Allowable Absences
- The extended COVID-19 impacts in the largest states of NSW and Victoria, and continuing COVID-19 uncertainty, makes forecasting opening occupancy levels in CY22 very challenging
- Whilst the number of potential closures in CY22 and the corresponding revenue impact is uncertain, we are closely monitoring the impact of COVID-19 restrictions as they continue to ease and the transition towards a COVID-19 normal environment

1. Core includes all centres excluding the 16 centres in the greenfield portfolio 2. Operating EBIT = EBIT less lease interest and before non-operating items (e.g. gains on sales and Software as a Service development costs); Operating NPAT = Operating EBIT less finance charges less tax @ 30%. 3. Victorian Recovery Payment and Business Continuity Payment

TRADING UPDATE

Statutory, unaudited financials

Financials

- YTD Operating EBIT (after lease interest)[1] of $76m and Operating NPAT [1] $43m, above consensus estimates
- Current core occupancy[2] of 76.5%, 1.7%pts above CY20 and 2.1%pts below CY19
- Revenue impacted by parent gap fee waivers (where children did not attend due to COVID-19) combined with the seasonal uplift trend not occurring for COVID-19 affected states
- Software as a service (SaaS) development costs to be reassessed following an IFRIC[3] agenda decision
  - SaaS development costs that were previously treated as capex will be reflected in the P&L
  - This is an accounting treatment change and there is no change to cashflows

Capital Management

- CY21 capex program delivered in non-COVID-19 impacted states with movement restrictions inhibiting some works in NSW and Victoria
- Net debt currently $17m following $38m of wage remediation payments to circa 70% of the team members to be paid
- Dividend policy expected to recommence with full year CY21 dividend intended to be paid in CY22

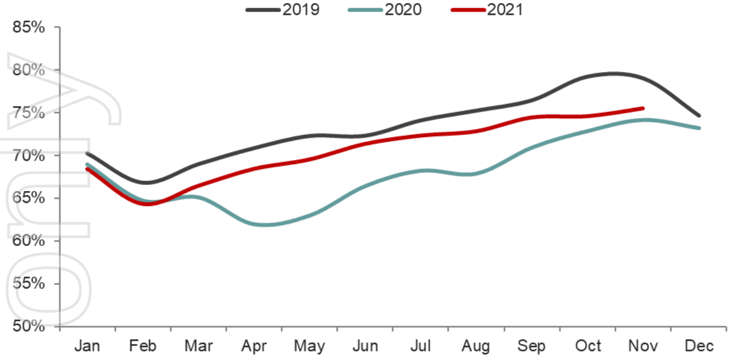
1. EBIT after lease interest (of c. $37m for 11 months) before non-operating items (e.g. gains on sales, SaaS development costs); Operating NPAT = Operating EBIT less finance charges (of c. $12.5m for 11 months) and tax **2.** For the week ended 5 December 2021

3. International Financial Reporting Interpretations Committee

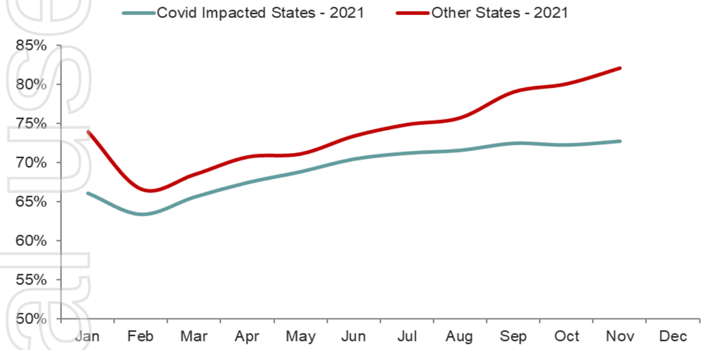
OCCUPANCY TRENDS

Seasonal growth trend disrupted

Monthly Core Occupancy (%) - average



Monthly Core Occupancy - States (%)



- Occupancy in CY21 H1 closed the gap on CY19 levels with COVID-19 disrupting the usual seasonal uplift in NSW and Victoria from July
- Current core occupancy is 2.1%pts below CY19
  - Regional is 3.1% pts above;
  - Metro and CBD below CY19; 5.7% pts and 29.6% pts respectively
- The lack of seasonal occupancy build in the largest states of NSW and Victoria may impact CY22 opening occupancy levels

Occupancy by State - current

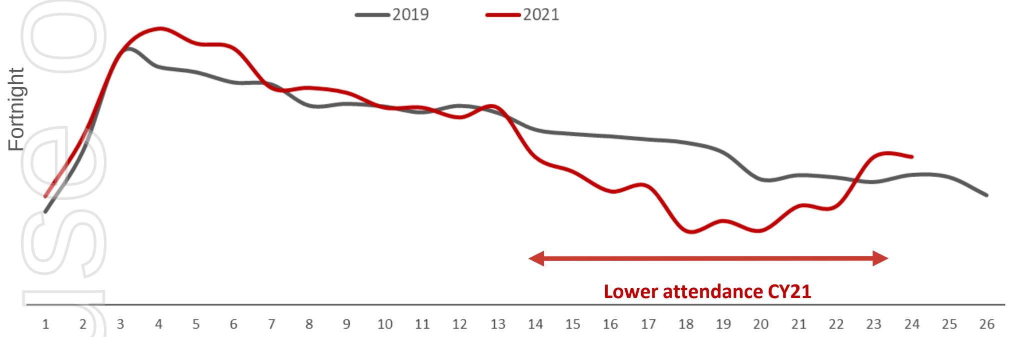
	Current Core Occupancy – W/E 5 December				
State	**CY21**	**CY20**	**CY21 v CY20**	**CY19**	**CY21 v CY19**
ACT	58.7%	67.1%	(8.4%)pts	82.2%	(23.4%)pts
NSW	76.1%	75.7%	0.4%pts	79.1%	(3.0%)pts
QLD	83.5%	81.0%	2.5%pts	83.0%	0.5%pts
SA	80.9%	79.5%	1.3%pts	81.8%	(0.9%)pts
VIC	73.1%	69.6%	3.5%pts	77.0%	(4.0%)pts
WA	82.6%	81.2%	1.5%pts	73.8%	8.9%pts
National	**76.5%**	**74.8%**	**1.7%pts**	**78.6%**	**(2.1%)pts**

1. "Core" includes all centres excluding the 16 centres in the greenfield portfolio

WAGE EFFICIENCY

Attendances impact rostering

Wage hours per booking by fortnight



- Investments in workforce planning support resources and systems have resulted in rosters being managed well to attendance levels
- From fortnight 23, increased wage hours per booking reflects normalisation of attendance levels
- The “inefficiency” relative to CY19 is driven by lower occupancy and is reflected in the higher wage hours per booking in fortnight 23 onwards

COVID-19 ENVIRONMENT

Impact of closures and cost considerations

Impact of closures

- In the 5 months July to November 2021, there have been 119 centre closures for an average of 7 days per closure
- Average lost revenue per day of closure per centre has been c. $3.3k, dependent on state-based isolation requirements for children and team. This flows to earnings given wages continue to be paid to centre team members
- Operational processes are in place to expedite contact tracing to minimise closure duration
- The potential number of CY22 closures is clearly uncertain, although they should progressively reduce as the transition to a COVID-19 normal environment is completed, with a corresponding positive impact on overall occupancy levels

Government Support and Requirements

- Governments have proven their willingness to support the sector with various packages contributing $21m in CY21
- The Government continues to support the sector through Gap Fee Waivers (where a centre is closed or a child or a member of their immediate family is required to isolate due to COVID-19). The CCS component represents c. 57% of fees
- Families also have access to 10 additional allowable absence days, for a total of 52 days
- State-based isolation requirements currently range from:
    - the period it takes to receive a negative PCR test for close contact team and children in Victoria
    - up to 14 days for children and team in ECEC settings in other states
- The government of each state and territory that G8 operates in has announced a requirement for ECEC workers to be vaccinated for COVID-19

Managing Cost Considerations

- The proposed CY22 fee increase will balance the necessary increase in the cost base with the necessity of managing parent affordability
- The necessary increase in the cost base stems from the:
    - Improvement in the employment proposition for educators to improve retention, including increasing wage rates for Early Childhood Teachers and engaging external cleaners for all centres
    - Continuing impact of COVID-19 on the cost base, extending to increased consumables (e.g. gloves), a dedicated COVID-19 support team and an increase in agency costs primarily due to the inability to share team members across centres in COVID-19 impacted areas

STRATEGIC PROGRAM UPDATE

G8 Education

Quality & experience improvement

- The Improvement Program (IP) has rolled out across 223 centres and recently a further 137 new centres were inducted into the program
- Financial performance of prior cohorts continues to exceed target and all assessed CY21 cohort centres rated as either meeting or exceeding NQS
- Investment in centre physical quality will continue targeting benefits in NQS ratings and team and family engagement
- Sector turnover of educators remains elevated and retention activities remain a focus - remuneration increases, service awards recognition program, G8 Study Pathways program (now over 1,000 active participants)

Network optimisation & growth

- Average occupancy of the 16 greenfield centres is nearing the maturity hurdle of 80%. CY21 YTD EBIT[1] earnings for the portfolio is $1.7m. Approximately 6 greenfield centres will be transferred to the Core from January 2022
- 1 new centre opened during CY21 with COVID-19 resulting in a number of deferrals. 13 new centres expected to open during CY22. Upon reaching targeted occupancy level, they are expected to generate strong earnings growth, under the refreshed capital light approach. During CY22, effectively the first year of the revised Greenfield program, the greenfield centres are expected to create negative CY22 EBIT[1] of $5.5m as they gradually ramp-up attendance and mature greenfield centres are moved to the Core
- Steady progress to exit the impaired centres continues with 21 now completed
- Leor is trading in line with expectations although CY21 earnings contribution will be minimal. Focus since completion has been on planning and securing resources to best support Leor to pursue its CY22 growth strategy

Systems & platforms

- The HRIS & rostering system build and testing has been completed. The roll-out across the support office was successful and included the progression to a weekly pay cycle. The roll-out to the first regional cohort of centres is on track and expected to occur during December 2021
- The testing phase of the financial management system is nearing completion with launch confirmed for early CY22

[1] EBIT = Statutory EBIT after lease interest

Q&A