

ASX Announcement

G8 Education Limited
(ASX:GEM)



G8 Education^{ltd}

22 February 2022

RESULTS FOR THE FULL YEAR ENDED 31 DECEMBER 2021 DIVIDEND AND ON-MARKET SHARE BUYBACK

G8 Education Limited (the “Group” or “G8”, ASX: GEM), a leading provider of quality early education and care with 448 centres across Australia, today announces its results for the full year ended 31 December 2021.

Highlights

Note: CY21 figures compared with COVID-19-impacted CY20¹ and pre-COVID-19 CY19

- Occupancy of 70.9% (v 67.8% in CY20 and 73% in CY19), reflecting strong H1 occupancy performance, followed by H2 being heavily impacted by COVID-19 movement restrictions and isolation requirements
- Operating revenue² of \$866.3m (v \$777.1m in CY20 and \$918.9m in CY19), reflecting impact of parent gap fee waivers during COVID-19 and seasonal trend being disrupted in states heavily impacted by COVID-19, partially offset by government support
- Operating EBIT (after lease interest) of \$80.1m (v \$101.4m in CY20 and \$107m in CY19), ahead of consensus, benefiting from lower lease depreciation
- Statutory NPAT of \$45.7m, (v Net Loss After Tax of \$189m in CY20 and \$52m in CY19)
- Strong balance sheet, net debt of \$25.9m at 31 December 2021
- Strategic programs, in particular the Improvement Program, delivering strong momentum in key lead indicators of occupancy
- Expansion of family offering, including through acquisition of Leor, an in-home and specialised care business (as announced on 20 September 2021)
- CY21 fully franked dividend of 3.0 cents per share declared, to be paid in April 2022
- On-market share buyback to be implemented as part of the Group's capital management strategy, reflecting commitment to deliver shareholder value and capital efficiency

TRADING PERFORMANCE

\$M	CY21	CY20 Restated ¹	CY19	CY21 vs CY19
Metrics				
Occupancy (Core ³)	70.9%	67.8%	73.0%	(2.1%)
Operating Revenue ²	866.3	777.1	918.9	(5.7%)
Statutory NPAT	45.7	(189.0)	52.0	(12.1%)
Basic earnings / (loss) (cps)	5.4	(25.4)	10.0	(46.1%)
Net Cash / (Debt)	(25.9)	21.8	(347.1)	n.m.
Excluding non-operating items				
Operating EBITDA ² (after lease interest and depreciation)	101.2	122.2	129.1	(21.6%)
Operating EBIT ² (after lease interest)	80.1	101.4	107.0	(25.1%)

¹ Note all references to CY20 financials are restated to include software development expenses, previously capitalised, to align with the change in accounting policy.

² “Operating” excludes non-operating items.

³ “Core” includes all centres excluding the 16 centres in the greenfield portfolio.

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G8 Chief Executive Officer and Managing Director Gary Carroll said:

"Given the challenges presented by COVID-19 throughout the year, I am pleased with the result we have been able to achieve. Occupancy has been impacted right across the sector, and this was particularly felt in the second half as a result of an escalating COVID-19 environment. It has been encouraging to see our enquiry pipeline is strong, and great momentum in the lead indicators for occupancy – quality, family and team engagement – positioning G8 well in the COVID-19 recovery period. The strength of our balance sheet provided us with resilience during this period."

"Throughout the year, we have continued to execute our strategic programs, which are focused on quality, community and sustainability. Our Improvement Program has continued to deliver strong financial and quality performance results, reinforcing our investment in the program. Our network optimisation program is progressing, and we have put in place a comprehensive program to attract, retain and develop our people in what has been a difficult people market across the sector. I am hugely grateful to our exceptional team who, despite the challenges posed by the pandemic, have been adaptable and consistent in delivering a great experience for our families."

FINANCIAL PERFORMANCE

The Group's strong occupancy performance in H1, driven by the impact of the strategic change programs and re-establishment of the seasonal uplift trend, was disrupted in H2 as a result of COVID-19 movement restrictions and isolation requirements.

Strong occupancy growth, in line with the seasonal trend, was recorded in those states not materially impacted by COVID-19, namely Western Australia, South Australia and Queensland. The geographical diversity of G8's centre network also helped mitigate against the more acute impacts of COVID-19 in specific locations. Regional centres (186 centres) continued to outperform, with occupancy 5%pts higher than CY20 and 2.5%pts higher than CY19.

Operating revenue of \$866.3m (compared to \$777.1 in CY20 and \$918.9m in CY19, was affected by parent gap fee waivers to support families (where children did not attend centres due to COVID-19 conditions) and the seasonal uplift trend being disrupted in H2 in states heavily impacted by COVID-19 (NSW, Victoria, ACT). These impacts were partially offset by government support. Operating EBIT (after lease interest) of \$80.1m was underpinned by effective cost control and lower lease depreciation.

Wages continued to be managed well in response to changing occupancy and due to rostering efficiencies achieved. Educator shortages have continued to be a key challenge for the sector, and this has been exacerbated during COVID-19 where vacancies across the sector have doubled. G8 Education has instituted a number of initiatives to attract and retain team members through increased remuneration, training, study and professional development programs and providing a quality workplace environment through its centre improvement program.

The Group is continuing to invest in quality, with forecast CY22 capital expenditure of \$65 million (including software as a service) – up from a comparable \$55 million in CY21 – including \$10 million in property works carried over from CY21 that could not be completed due to COVID-19.

The Group has paid remediation program costs totalling approximately \$37.9 million to 18,677 active and former team members as at 31 January 2022, with circa 7,400 team members remaining to be paid. Engagement with the Fair Work Ombudsman is ongoing following G8's self-reporting of the employee underpayments announced in December 2020.

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STRONG BALANCE SHEET AND PROACTIVE CAPITAL MANAGEMENT

A successful refinancing in February 2021 and a strong balance sheet meant the Group was able to remain resilient and flexible through changing conditions. G8 had net debt of \$25.9m at 31 December 2021.

The Board has declared a CY21 fully franked dividend of 3.0 cents per share, which will be paid in April 2022. This represents a 56% payout of CY21 NPAT, in line with the Group's dividend policy of 50-70% of NPAT.

An on-market buyback of up to 10% of issued capital is to be implemented, as part of the Group's balanced capital management strategy. The volume of the buyback will be determined by appropriately balancing:

- Shareholder returns and leverage levels
- Uncertain earnings recovery outlook driven by COVID-19
- Funding strategic priorities including the Improvement Program (IP) and property investment program
- Other funding needs, including for wage remediation and network optimisation.

STRATEGIC PROGRAMS DELIVERING POSITIVE RESULTS IN KEY LEAD INDICATORS FOR OCCUPANCY

G8 remains focused on executing its strategy for sustainable long-term growth and to be the first choice for families. Achievements during the year included:

- **Quality improvements to 118 centres through the Improvement Program (IP)**, with 92% of the centres (and 100% of IP centres⁴) assessed in 2021 being rated as 'Meeting' or 'Exceeding' the National Quality Standards
- **Improvement in Family net promoter score (NPS)**, an improvement of 6 points to 52 in CY21 from CY20 and an improvement of 8 points for IP centres
- **Expanding G8's unique offering to cater for changing family and workforce patterns**, including through the acquisition of Leor, an in-home and specialised care business, and 20% investment in Kiddo, an on-demand booking app connecting parents with carers
- **Significant focus on attracting, retaining and developing the best people**, through remuneration, benefits, training and development, engagement and appealing work environment through high quality centres
- **Strong progress on portfolio optimisation**, with 21 of the 52 impaired centres exited to date, one new greenfield centre successfully opened and 9 new centres expected in CY22

COMMITMENT TO IMPROVING SECTOR OUTCOMES FOR FAMILIES

COVID-19 has highlighted how critical Australia's early childhood education and care sector is in supporting the economy and enabling parents to participate in the workforce and contribute to economic recovery and growth.

There is strong bipartisan support for the sector and recognition of its longer-term economic and social contribution. Along with others in the sector, G8 has been actively engaging with state and federal governments to ensure the right support measures are in place on issues of affordability, boosting female workforce participation, appropriate support for children with complex needs, and

⁴ CY19 and CY20 Improvement Program Centres assessed in CY21

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ensuring the right conditions to attract and retain quality educators. This remains a continued focus for the Group.



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TRADING OUTLOOK

Strong sector fundamentals remain with ongoing government support, increasing female workforce participation and a growing awareness of the benefits of early learning and education on life outcomes for children.

Across the sector however, there are near-term COVID-19 headwinds including:

- unprecedented increase in closures during January 2022 without corresponding Business Continuity Payment support;
- isolation requirements causing lower attendances or centre closures - both resulting in gap fee waivers as G8 continues to support its families;
- delayed enrolments, resulting in softer occupancy levels; and
- team member shortages resulting in attraction and retention challenges.

The resulting impact on current core occupancy⁵ for the Group is 3.6%pts lower than CY19 and 1.9%pts lower than CY21.

This subdued occupancy level is expected to be temporary as the impacts of COVID-19 moderate and businesses normalise.

The enquiry pipeline is strong, in line with January 2021, positioning the Group well to translate this into occupancy as demonstrated in H1 CY21.

Strong underlying momentum in the portfolio, particularly in occupancy lead indicators, despite the challenging environment, positions the Group well for a COVID-19 normal environment.

Focus in the near-term is on driving occupancy by converting enquiries and deferrals and continued investment in attracting and retaining talent.

The Group's balance sheet is strong providing support for short term challenges. On-market buyback to be implemented as part of the Group's capital management strategy.

ENDS

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

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⁵ For the week ended 20 February 2022.