ASX Announcement

G8 Education Limited
(ASX:GEM)

G8 Education ltd

12 April 2022

2022 FIRST QUARTER TRADING UPDATE & INVESTOR CALL

G8 Education Limited (the "**Group**" or "**G8**", ASX: GEM) today provides a trading update for Q1 CY22.

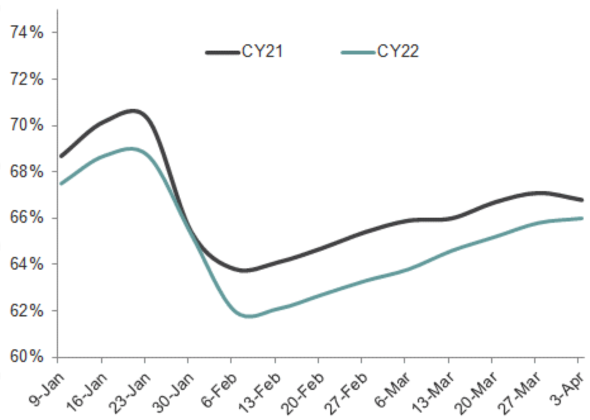
Q1 CY22 trading update

As flagged at the Group's CY21 results, the high volume of omicron cases in all markets materially impacted G8's revenue, occupancy performance and employment costs in January and February as a result of centre closures and isolation requirements. These impacts continued to flow into the early weeks of March and coincided with the devastating flooding in parts of Queensland and New South Wales.

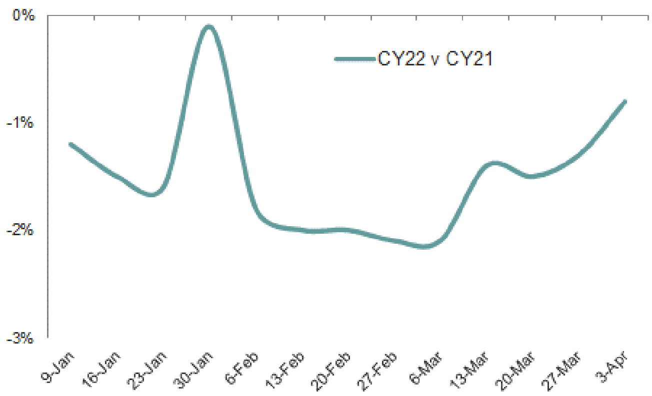
This resulted in occupancy falling to 2.1% behind 2021 levels in early March, before recovering over the following weeks to be 0.8% behind the prior corresponding period ("**pcp**") as at 3 April. This recovery in occupancy provides confidence that, as flagged in the CY21 results presentation, the impact on occupancy is expected to be temporary.

While G8 continues to see some level of delayed enrolments, there has been an increase in conversions in the last three weeks and there remains an encouraging pipeline of enquiries to drive the occupancy recovery.

Occupancy by week (Group)



Occupancy variance to PCP by week (Group)



A subsequent effect of COVID-19 isolations and flood impacts relates to employment costs, with team member shortages and sick leave increasing the usage of agency team members.

As a result of these factors, the Group recorded a Q1 Operating EBIT[1] (after lease interest) profit of $1 million versus $17 million in the pcp, driven broadly by:

- $6 million in incremental discounting versus the pcp – predominantly gap fee waivers to support families during COVID-19 and where flooding either closed or impacted access to a centre. These gap fee waivers have reduced in recent weeks from an average of $500k per week to $125k per week;
- the absence of $5 million in COVID-19 government subsidy that was received in the pcp;
- an incremental $2 million in employment costs driven by additional agency costs and sick leave as a result of COVID-19 and flood-related team member shortages; and
- delays in the lead pipeline, omicron case numbers, and widespread weather events, impacting enrolments.

[1] 'Operating' excludes non-operating items such as Software as a Service Development expenses and gains and losses and results are unaudited and based on management accounts

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Please note, interest expense (excluding lease interest) for the CY22 is expected to be c. $13.5 million with a review of lending facilities to be undertaken in the second half.

The group continued its momentum in relation to its Improvement Program ("**IP**"), with the current cohort of c. 140 centres due to be completed by mid- 2022. The approach to the remaining 15% of centres provides the opportunity to embed the practices and capabilities using the business-as-usual structure in response to feedback from the program. This provides the opportunity to improve effectiveness and efficiency, while reducing costs.

While the Q1 impacts are largely expected to be temporary, the COVID-19 operating environment remains uncertain, including the potential continuation of the impacts seen in Q1 CY22, particularly in the absence of additional government support.

To respond to the challenging environment, the savings achieved through transitioning the IP project structure into an integrated business-as-usual model have been augmented by an additional cost reduction program, including reprioritising discretionary spending and programs. Total cost reductions are targeted at $13 million - $15 million for the remainder of CY22, predominantly realised in H2.

These actions will reduce our cost base, particularly in the support office, channelling resources to our centre network, while continuing to enhance the resilience and performance of the business in both the short and longer term.

The centre network will continue to be well supported to deliver the best quality service to children and families, including continuing to spend on provision of in-centre resources, pedagogy and practice support and the announced property spend aimed at further improving the quality of the centre network.

G8 CEO Gary Carroll said: *"The combination of rising omicron cases and the devastating floods made for a very difficult first quarter. We recognise the need to remain disciplined, robust and resilient as an organisation and believe the measures we are implementing are prudent and will deliver short and long-term benefits to the Company. These actions are appropriate in the current environment and at this stage of our transformation program, enabling us to continue delivering the best quality outcomes for families with a more sustainable cost base."*

G8 will provide a further update at its Annual General Meeting on 27 April.

ENDS

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

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