ASX Announcement

G8 Education Limited
(ASX:GEM)

13 December 2022

The Manager
Market Announcements Office
ASX Limited
20 Bridge Street
Sydney NSW 2000

Dear Sir / Madam

Attached is a Trading Update Presentation for G8 Education Limited.

Yours sincerely

Tracey Wood
Chief Legal, Quality & Risk Officer
G8 Education Limited

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

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G8 Education™

TRADING UPDATE

Investor Presentation

13 December 2022

Acknowledgement of country

We would like to acknowledge the traditional owners of the land on which we meet and also acknowledge the elders past, present and emerging. We ask all people that walk, work and live on traditional Aboriginal lands, to be respectful of culture and traditions and work, learn and grow as a united community.

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G8 Education Ltd

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AGENDA

G8 EDUCATION LIMITED
ASX: GEM

Gary Carroll (CEO) and Sharyn Williams (CFO)

TRADING UPDATE

OPERATIONAL UPDATE

CAPITAL MANAGEMENT

MACRO OUTLOOK

Q&A

TRADING UPDATE

Management financials, unaudited - YTD 30 November 2022

- YTD Operating EBIT (after lease interest)[1] of $71m and Operating NPAT[4] of $41m
- Current 'spot' core occupancy[2] of 77.3%, 1%pts above CY21 and 1.3%pts below CY19
- Revenue and earnings significantly improved from quarter 2 onwards reflecting the recovery in occupancy and cost control
  - Wages effectively managed to mitigate elevated agency usage
  - Cost out program on target to mitigate inflationary impacts
- Net debt remained flat vs H1 at $87m
  - Operating cashflows[5] July to November generated c.$53m, funding capex c.$26m, dividends c.$8m and buyback c.$18m
  - Conservative leverage of 0.9x Net Debt/EBITDA[3]

Key YTD metrics – CY22 vs. CY21

$M	CY22 Nov	CY21 Nov	Change
Management unaudited financials, excluding non operating items			
YTD Operating EBIT[1] (after lease interest)	71	76	(7%)
CY22 H1 - reported	*21*	*39*	*(46%)*
CY22 H2 - 5 months to 30 Nov	*50*	*37*	*35%*
YTD Operating NPAT[4]	41	43	(5%)
YTD Net Debt (excluding leases)	87	17	n.m

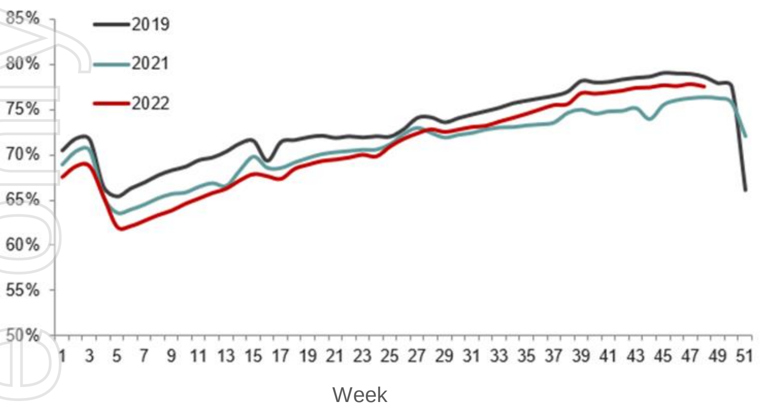
Occupancy	CY22	CY21	Change
Average Core occupancy - YTD 30 Nov	70.8%	70.7%	0.1%pt
'Spot' Core occupancy - week ending 4 Dec	77.3%	76.3%	1%pt

1. EBIT after lease interest (of c. $33m for 11 months) before non-operating items (e.g. gains on sales, SaaS development costs, restructuring costs); **2.** For the week ended 4 December 2022; **3.** Rolling 12 mth EBITDA after lease interest (of c. $37m for 12 months) and lease depreciation (of c. $69m for 12 months) and before non-operating items (e.g., gains on sales, SaaS development costs and restructuring costs); **4.** Operating NPAT = Operating EBIT less finance charges (of c. $12m for 11 months) and tax rate assumed 30%; **5.** Operating cashflows less principal portion of lease payments.

OCCUPANCY

Aligning more closely to historical seasonal trend

Weekly Core Occupancy (%)



'Spot' Occupancy by State - week ending 4 December

State	# Centres	CY22	CY21	CY22 v CY21	CY19	CY22 v CY19
ACT	8	61.8%	58.5%	3.3%pts	82.2%	(20.4%)pts
NSW	153	78.6%	75.9%	2.7%pts	79.1%	(0.5%)pts
QLD	57	84.7%	83.4%	1.3%pts	83.0%	1.7%pts
SA	25	74.6%	80.7%	(6.1%)pts	81.8%	(7.2%)pts
VIC	133	74.7%	73.0%	1.8%pts	77.0%	(2.3%)pts
WA	37	78.0%	82.4%	(4.4%)pts	73.8%	4.2%pts
National	**413**	**77.3%**	**76.3%**	**1.0%pts**	**78.6%**	**(1.3%)pts**

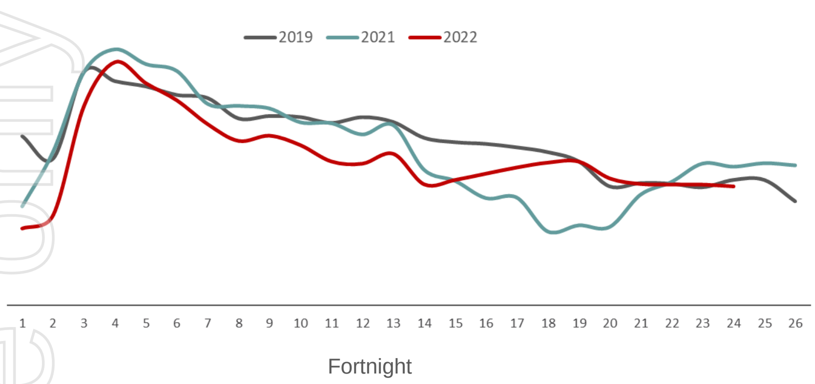
- Occupancy of 77.3% continued to narrow the gap on CY19, driven by increased days per child, the strategic change programs and a closer alignment with the historical seasonal trend
- Sector workforce shortages continue to impact occupancy and conversion rates with a portion of the network constrained by team member availability

1. "Core" includes all centres except the 16 centres within the greenfield portfolio

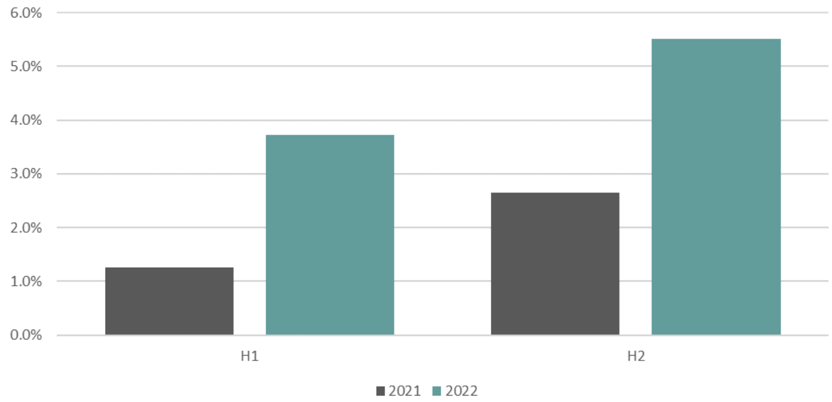
WAGE EFFICIENCY

Wage management mitigating elevated agency

Wage hours per booking by fortnight



Agency hours as a % of total hours



- Implementation of the HRIS system, coupled with enhanced training and processes, have resulted in positive wage performance
- Efficiencies are reflected in wage hours per booking being at CY19 levels despite lower occupancy levels (which causes inefficiencies in a regulated ratio wage environment)
- Total wage rate increase of 8.0% (YTD 30 November 2022 vs pcp), comprised of internal wage rate of 4.7% and increased agency usage

OPERATIONAL UPDATE

Focus remains on Workforce and Quality

G8 Education Ltd

Workforce

- Team retention is holding reasonably steady and outperforming the sector, with sector vacancies up more than 30% across CMs and ECTs over 7 months from February to September 2022[1]
- G8's approach to address workforce shortages is multi-faceted:
  - **Centre Managers (CMs)** – well supported by additional "Field Support" roles and continued above award remuneration
  - **Early Childhood Teachers (ECTs)** - continue to improve competitiveness with additional paid leave, dedicated Teacher Registration resources and above award remuneration
  - **Educators** – focus on increased flexibility leveraging the newly implemented HRIS system, development opportunities and service recognition
- Continued investment in development of the G8 team via the Study Pathways Program with c. 1,000 enrolments in the Certificate III and Diploma programs and 450 enrolments in Bachelor study programs

Quality & Improvement Program

- The centralised Improvement Program is complete with the program rolled out across the network including refreshed educational resources in each centre
- The 'Business As Usual' approach is focused on sustaining and continuously improving centre quality, supported by the efforts of the around centre "Field Support" teams
- YTD results are c. 85% assessed, and c. 89% whole of network, achieved 'Meeting' or 'Exceeding' NQS rating

Other

- The Group continues to work constructively with the Fair Work Ombudsmen in relation to the Wage Remediation Program. Payments have been made to c. 80% of the impacted team members totaling c. $37.8m[2]
- G8 continues to defend the shareholder class action filed in December 2020

1. National Skills Commission
2. Includes wages, superannuation and interest

CAPITAL MANAGEMENT

Ongoing focus on active capital management

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On-market share buyback

- Circa 31m shares, totalling $32m, repurchased via an on-market share buyback to 9 December 2022
- G8 has determined it will spend up to $40m on the buyback which is expected to conclude during Q1 CY23
- This quantum supports a conservative leverage level and enhances shareholder returns, while preserving an appropriate level of funding reserves

Debt

- Net debt[1] position of $87m and current leverage of 0.9 Net Debt/EBITDA[2]
- Net debt increased during 1H22, funding the full year CY21 dividend, buyback and capex during the seasonally lower earnings period
- Operating cashflows[5] July to November funded capex, dividends and buyback requirements with debt levels remaining flat since 1H
- Debt refinance process on track including extending existing October 2023 expiry to increase tenor with a staggered debt profile and facilities, with sustainability-linked performance targets

1. Net Debt excludes lease liabilities. **2.** Rolling 12 mth EBITDA after lease interest (of c. $37m for 12 months) and lease depreciation (of c. $69m for 12 months) and before non-operating items (e.g., gains on sales, SaaS development costs and restructuring costs)

MACRO OUTLOOK

Improved affordability via increased government support to drive demand

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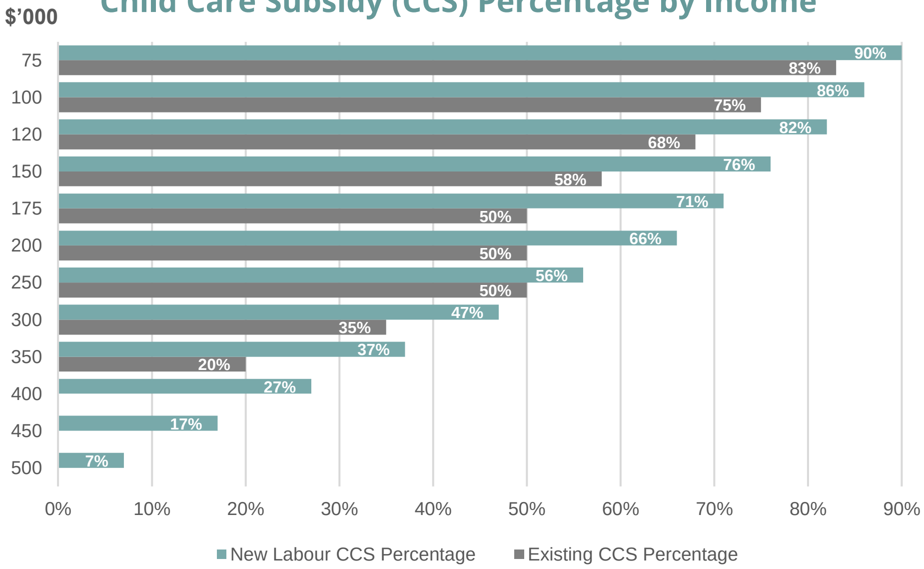
CCS changes
via new Bill

- Federal government's **'Cheaper Child Care Bill[1]'** passed both houses in November 2022
- **The Bill is aimed at improving**
  - Affordability
  - Accessibility
  - Transparency
  - Integrity and reducing fraud risk
- **Affordability measures are expected to elevate demand** by increasing the maximum CCS percentage available to families and simplifying the calculation of this applicable percentage

Child Care Subsidy (CCS) Percentage by Income



1. Family Assistance Legislation Amendment (Cheaper Child Care) Bill 2022

MACRO OUTLOOK

LDC supply improving but Workforce shortages a constraint

G8 Education[ltd]

Supply abating

- LDC net supply annualised growth was 2.8% for the year ended 30 September 2022 (vs 3.3% pcp)
- Lower growth was driven by the COVID-19 environment, increased construction and funding costs and labour shortages

Workforce challenges remain

- To respond to the ongoing workforce sector challenges, the Federal Government as well as State and Territory Governments have recently implemented a number of workforce initiatives, including increased fee-free vocational education places and State funded scholarship programs
- Multi-employer bargaining discussions have commenced - the sector and unions are aligned that a pre-condition of entering such a process is that the Government will fund any relevant wage increase
- Despite lobbying individually and via peak bodies, no change as yet to priority visas for the sector

ACCC Enquiry to focus on cost drivers

- Terms of reference is consistent with Government narrative to **better understand the cost drivers in the sector**
- In undertaking the inquiry, the ACCC's consideration will include:
  - **costs incurred** by providers and services, including labour, land, finance, regulatory compliance and consumables
  - **prices charged** since 1 January 2018, including price changes following specific Commonwealth policy changes
  - **how costs and prices differ by provider** characteristics, types of care and other factors
  - **factors that affect supply, demand and competition** in the child care services market
  - the impact of the above factors on child care provider viability, quality and profits
  - **the impact and effectiveness of existing price regulation** mechanisms and any impediments to these mechanisms
- **The presence of significant variability in cost drivers mitigates the potential risk of pricing regulation** in the sector. This variability was acknowledged in the previous Productivity Commission into the sector, with no action being taken in relation to pricing regulation at that time
- The ACCC is expected to provide an interim report by 30 June 2023, with a final report due by 31 December 2023

Q&A