ASX Announcement

G8 Education Limited
(ASX:GEM)

G8 Education^{ltd}

22 August 2023

G8 EDUCATION ANNOUNCES RESULTS FOR THE HALF-YEAR ENDED 30 JUNE 2023 INCLUDING TRADING UPDATE AND OUTLOOK

G8 Education Limited (the "**Group**" or "**G8**", ASX: GEM), a leading provider of quality early education and care with 434 centres across Australia, today announces its results for the half-year ended 30 June 2023 (**H1 CY23**).

HIGHLIGHTS

- Group occupancy[1] up 0.6ppt to 67.4% but remains constrained in some areas of the network by sector-wide workforce shortages
- Reported revenue up 9.3% to $455.3 million on the back of improved operational performance compared to COVID and flood-impacted pcp
- Operating EBIT (after lease expense)[2] up 55.7% to $32.7 million, driven by higher revenues and disciplined cost management
- Statutory NPAT up 76.5% to $15.0 million, reflecting improved operational performance, reduced support office costs and lower finance costs
- Strong cash generation and balance sheet, with conservative leverage of 0.9x Net Debt/Operating EBITDA[2]
- Interim fully franked dividend of 1.5 cents per share, representing 81% of NPAT
- Team retention rates up 0.7ppts and vacancies down 24%, ahead of sector averages, significantly reducing 'caps' on centre occupancy
- Improving sector outlook expected to be further stimulated by the recent government changes to childcare subsidies (CCS)

TRADING PERFORMANCE

Operating Excludes non-trading items and Kiddo and includes lease expense	CY23H1	CY22H1	% change
Revenue	456.1	416.7	9.5%
EBIT	32.7	21.0	55.7%
NPAT	19.6	9.3	110.8%
EPS	2.4	1.1	118.2%

Reported In accordance with IFRS	CY23H1	CY22H1	% change
Revenue	455.3	416.4	9.3%
EBIT	46.6	38.1	22.2%
NPAT	15.0	8.5	76.5%
EPS	1.9	1.0	83.2%

[1] Group average occupancy includes Greenfield centres. Comparable Core occupancy is 67.5%, 0.4%pts above the pcp, and 2.5% below CY19 H1.
[2] Excludes non-trading items and Kiddo and includes lease expense. Refer to Note 2(b) of G8 Interim Financial Report for non-trading items.

G8 Chief Executive Officer and Managing Director Pejman Okhovat said:

"G8 Education's performance in the first months of CY23 demonstrates the improvements we are making across the business and the success we are having in our response to industry-wide issues, including rising costs and significant workforce shortages.

"After the challenging first half of CY22, which was disrupted by COVID-19 and flooding on the East Coast, we were pleased to deliver a modest increase in core occupancy in H1 CY23, which together with higher average fees and disciplined cost management in an inflationary environment, translated into stronger revenue, margins and earnings.

"Our cash generation and balance sheet remain strong following the completion of our buyback program in January, which underscored our commitment to delivering shareholder value and capital efficiency. We are pleased to declare an interim dividend of 1.5c per share, representing 81% of NPAT.

"The sector-wide workforce shortages remain the biggest issue facing our industry. While they continue to constrain occupancy rates, the impact is not uniform across our portfolio. In fact, over 80% of the Group's centres, as a cohort, have an average occupancy of circa 80%.

"Despite the inflationary pressure on families, overall demand for childcare is improving. We are already seeing some early positive signs following the Government's changes to the CCS, with improved affordability translating into a small increase in average bookings per child.

"While the long-term demand fundamentals of our sector remain attractive, our focus in the near-term remains on addressing the workforce shortages by attracting and retaining the team to support seasonal occupancy growth through the crucial CY23 enrolment and transition period."

FINANCIAL PERFORMANCE

The Group's financial performance improved against a prior first half that was impacted by flooding on the East Coast and the effects of COVID-19 on families and the team.

Group occupancy increased 0.6ppt to 67.4% compared to the pcp but remains constrained due to sector-wide workforce shortages in some parts of the network. Occupancy at the end of the period was 2.1ppts below CY19 levels, before the impact of COVID-19, although the gap narrowed to 1.6ppts based on spot occupancy of 73% at 20 August.

While there are encouraging trends in occupancy, performance across the portfolio remains varied, with momentum building in NSW and Queensland, a mixed performance in Victoria and more challenging conditions in Western Australia, South Australia and the ACT. Currently, over 80% of the Group's centres, as a cohort, have an average occupancy of circa 80%.

Unfortunately, centres with 'caps' on bookings due to workforce shortages peaked during the crucial enrolment and transition period in the December quarter of CY22, negatively impacting occupancy by approximately 1.3ppts. The 50 'capped' centres that were not able to accept enrolments since October 2022 currently have on average 8.3ppt lower occupancy.

As the Group approaches the CY23 enrolment and transition period, the number of capped centres is down to just 7 as management successfully focuses on addressing vacancies.

Revenue increased 9.3% to $455.3 million driven by improved operational performance, increased occupancy levels, higher average fees to mitigate inflation, as well as rises in frequency, or the average bookings per child per week.

Centre EBIT margin[3] increased 1.4ppts to 14.3%, reflecting disciplined management of costs to occupancy levels and the full half impact of the CY22 cost out program. In particular, wages as a percentage of revenue reduced by 0.2%pts, primarily reflecting lower usage of agency labour.

Operating EBIT (after lease expense)[4] increased 55.7% to $32.7 million driven by higher revenues and disciplined cost-based management.

Statutory NPAT increased 76.5% to $15.0 million and included a net non-trading expense of $4.6 million driven by a SaaS expense relating to the roll out of a procurement, finance and HR system.

In response to the inflationary cost environment and the legislated 5.75% increase in award wages, an average fee increase of 3.8% was implemented in July 2023 to help offset the impacts.

FOCUS ON HIGH IMPACT AREAS

In response to chronic workforce shortages across the sector, a significant focus has been attracting and retaining the best people. To this end, the group has in recent years strengthened remuneration, benefits and study offerings and continues to closely engage with the government and others in the sector to get the settings right. This has translated to strong retention levels of 70.2%, up slightly, and a 24% reduction in vacancies compared to pcp. This compares to an average increase in vacancies across the sector of 4%.

As part of G8's focus on continuously improving centre quality, 'Around Centre' structures such as field support teams have been embedded to support centre teams. Work routines continued to be simplified across network to improve consistency. Pleasingly, the group maintained 89% of its centres being rated as 'exceeding' or 'meeting' the National Quality Standard.

G8 continued to exit underperforming centres, with a further five exits in H1 CY23 and three since 30 June. The Group has now exited 25 of its 52 impaired centres with the remaining centres now part of the BAU network optimisation having improved their overall performance. One greenfield centre opened in H1 CY23, with two more due to open in H2 CY23 and the pipeline remaining subject to robust commercial review.

G8 continues to be committed to getting closer to, and enhancing, the families' journey. The Group has undertaken a deliberate shift in focus to higher quality enquires which has translated to higher conversion rates and improving cost per enquiry. The family support team has been brought in-house to enhance the family experience and lower acquisition costs, and an 'always on' family survey approach has been introduced to gain better insights of the ongoing family experience.

Approximately 81% of G8 families are better off as a result of the Federal Government's CCS changes, with an average reduction in gap fees of circa 17%. G8 is working with its families to ensure they get the full benefit of the changes, with greater affordability already translating into a small increase in average bookings per child.

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[3] Adjusted for leases.

[4] Excludes non-trading items and Kiddo and includes lease expense. Refer to Note 2(b) of G8 Interim Financial Report for non-trading items.

STRONG BALANCE SHEET AND CAPITAL MANAGEMENT

Net debt increased from $90.1 million to $103.4 million reflecting the final buyback outflow and payment of the final dividend during a seasonally weaker H1 CY23. The balance sheet remains strong with a conservative leverage of 0.9x Net Debt/Operating EBITDA[5] and gearing at 11%. Liquidity remains strong at $165 million, comprising $42 million in cash and $123 million in undrawn facilities.

As part of the capital management strategy, an on-market buyback was completed in January 2023, with 37.9 million shares repurchased totalling $40 million.

The Board is committed to driving long-term sustainable value for its shareholders and has declared a H1 CY23 fully franked dividend of 1.5 cents per share, an increase of 50% over the pcp, which will be paid in October 2023. The dividend represents a payout ratio of 81% of NPAT.

TRADING OUTLOOK

Trading Update

- Group 'spot' occupancy[6] is 73%, 0.3ppts lower than CY22 and 1.6ppts lower than CY19.
    - Steady progress towards CY19 occupancy levels with 46% of centres performing above CY19
    - More than 80% of centres, as a cohort, have an average occupancy of circa 80%
- A fee increase of 3.8% was implemented in July to mitigate cost inflation, including a record Child Services Award rate increase of 5.75% on 1 July 2023.
- Frequency showing early signs of parents benefitting from the new CCS changes, into H2 CY23.
- Cash flow to remain robust in seasonally stronger H2 CY23.
    - Capex reduced to an estimated $50 million - $55 million
    - Network optimisation ongoing with a further 3 centres exited post 30 June
- Group balance sheet remains strong following the completion of the $40m on-market buyback as part of the Group's capital management strategy.

Medium term Outlook

- Demand outlook for the ECEC sector is improving, with momentum slowly building due to the recent changes to the CCS.
- Net centre supply growth increased in H1 CY23 with second quarter growth at 3.5%, the largest increase since H1 CY21.
- Workforce shortages remain a sector challenge, however our staff retention and attraction places G8 in an improved position.
- Inflation will continue to play a role in our families' affordability, partially offset by the CCS changes and G8's continued cost base management.
- Regulatory focus on the sector will continue through CY23 and CY24. G8 will continue to play a role by advocating for the sector and our team.

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[5] Excludes non-trading items and Kiddo and includes lease expense. Refer to Note 2(b) of G8 Interim Financial Report for non-trading items.
[6] Group spot occupancy for week ending 20 August 2023

- G8's near term focus on 'high impact areas'
  - **Team**: attracting and retaining team to support seasonal occupancy growth
  - **Families**: assisting families in benefiting from the CCS changes and improving their experience
  - **Quality**: delivering high quality education and care
  - **Operational Execution**: consistent operational execution to further support occupancy through the critical enrolment and transition period
  - **Cost Management**: prudent approach to variable costs and procurement savings
  - **Property**: Network optimisation discipline and capabilities
  - **Capability**: onboarding new COO and CIO into our executive team

ENDS

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

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