ASX Announcement

G8 Education Limited
(ASX:GEM)

22 August 2024

G8 EDUCATION ANNOUNCES RESULTS FOR THE HALF-YEAR ENDED 30 JUNE 2024 INCLUDING DIVIDEND PAYMENT AND ONMARKET SHARE BUYBACK

G8 Education Limited (the "**Group**" or "**G8**", ASX: GEM), a leading provider of quality early education and care with more than 400 centres across Australia, today announces its results for the half-year ended 30 June 2024 (**CY24 H1**).

HIGHLIGHTS

- Reported Group revenue up 5.5% on the prior comparative period (**pcp**) to $480.4 million underpinned by improved occupancy performance and operational efficiencies
- Statutory NPAT of $20.0 million up 33.6% on pcp
- Operating EBIT[1] up 20.5% on pcp to $39.4 million reflecting a positive start to occupancy in CY24, strategic procurement activity and continued portfolio optimisation
- Group occupancy of 68.2% up 0.8% pts on pcp driven by solid opening occupancy and improved family retention rate
- Team retention rates up by 6% pts on pcp to 76% with vacancy and time to fill rates continuing to trend down
- Quality ratings remain above sector with 91% of G8 centres now rated as 'Exceeding' or 'Meeting' the National Quality Standard achieved by an ongoing focus on improving quality
- During the half network optimisation program progressed with 15 centres divested and three centres surrendered during CY24 H1
- Fully franked interim dividend of 2.0 cents per share, representing 81% of reported CY24 H1 NPAT
- Optimising shareholders returns through an on market buy-back of up to 5% of issued capital

TRADING PERFORMANCE

$M	**CY24 H1**	**CY23 H1**	**% Change** vs pcp
Operating			
Revenue	481.7	456.1	5.6
EBIT[1]	39.4	32.7	20.5
NPAT[2]	23.9	19.6	21.8
Reported			
Revenue	480.4	455.3	5.5
EBIT	55.4	46.6	18.9
NPAT	20.0	15.0	33.6
EPS	2.5	1.9	33.5
Occupancy			
Group Occupancy	68.2%	67.4%	0.8

[1] Operating excludes non-operating items and is adjusted for lease interest and depreciation. Refer to Note 2b of G8 Interim Financial Report for non-trading items.
[2] Excludes non-operating items.

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G8 Education Managing Director and Chief Executive Officer Pejman Okhovat said:

“G8 Education’s performance during the first half of CY24 demonstrates our progress on delivering a 'fit core' with a key focus on operational imperatives and delivering earnings growth in a challenging environment.

“Our families and our team members are at the heart of everything we do and, underpinned by our purpose of ‘creating the foundations for learning for life’, this has guided our strategic progress during the period.

“A key strategic focus for the Group has been building team member capability which has resulted in improved team, family and occupancy results, all of which have contributed to a positive trend on our balanced scorecard compared with the prior corresponding period. This focus on continuing to improve the experience of our families, children and team resulted in better team retention and team vacancy results, an uplift in the quality ratings of our services and improved experiences for our families reflected in a higher NPS result of 48.

“Our team’s strategic cost management and conservative balance sheet approach coupled with achieving operational efficiencies and positive occupancy results have contributed to the Group’s solid CY24 H1 financial performance.

“Our program of network optimisation to improve Group performance is now well progressed with the completed divestment of 15 centres and three centres surrendered during CY24 H1. We are also pleased to report the opening of two new centres during the half that we are confident have the underlying fundamentals to perform.

“While our first half result demonstrates our progress against G8 Education’s strategy, the Group’s strategic focus to build a stronger and more sustainable business continues as we recognise there is more to do. However, we are encouraged by the Federal Government’s recent announcement to fund wage increases for Early Childhood Educators that will support the Early Childhood Education sector.

“Against the macro-economic environment, lower enquiries, consistent with the broader sector, have resulted in occupancy growth softening in Q2. This demands that we maintain our disciplined focus on our team engagement position, improve our family experience including our enrolments and transition, continue to maintain capital and cost disciplines and implement our ‘fit core' strategic plan initiatives leading into 2025.

“Pleasingly, we can declare a fully franked interim dividend of 2.0c up 33% on pcp reflecting solid earnings, representing 81% of reported CY24 H1 NPAT. We also have plans to return capital to investors through an on market buy back of up to 5% of issued capital.”

FINANCIAL PERFORMANCE

The Group’s financial performance has delivered solid earnings driven by operational efficiencies, focused execution and improvement in occupancy.

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CY24 H1 operating NPAT was up 21.8% on the pcp to $23.9 million and statutory NPAT up 33.6% on the pcp to $20.0 million achieved by improved centre performance coupled with well managed Support Office costs.

Operating revenue increased 5.6% on the pcp to $481.7 million (CY23 H1: $456.1 million) driven by solid enrolment and transition period that led to a positive start to occupancy in CY24 combined with portfolio optimisation.

Operating costs were up 4.5% on the pcp to $442.3 million driven by inflation and property related costs offset by procurement savings and reduced agency usage.

Operating EBIT increased 20.5% on the pcp to $39.4 million reflecting growth of 11.9% in centre earnings offset in part by an increase in Network support costs.

Network optimisation, as a result of divestments, has contributed to positive EBIT and margin outcomes which will continue in CY24 H2.

From a statutory perspective, NPAT increased by 33.6% to $20.0m with non-trading items including loss on centre exits, net restructuring, regulatory and legals costs and net impairment expenses.

OPERATING MODEL AND CENTRE EXPERIENCE

Occupancy remains a key focus for the Group resulting in a positive CY24 opening occupancy and improved retention rates contributing to favourable occupancy outcomes for CY24 H1 of 68.2%, 0.8% pt increase vs pcp.

In-housing of G8's family call centre has improved family experience resulting in higher family conversions year-on-year noting enquiries are down year-on-year consistent with the broader sector. NPS is 48, 16 pts higher than pcp, driving improved family retention.

Strong employer brand continues to attract new team, resulting in lower vacancies. Team engagement initiatives drive improved team retention rates of 76%, 6% pts higher than pcp. We continue to strengthen our educator capability through our study pathways and Teach@G8 programs, along with leveraging government professional development opportunities.

Across G8's network, 91% of centres are rated as 'Exceeding' or 'Meeting' the National Quality Standard and 94% of centres are 'meeting' or 'exceeding' NQS Quality Area 1 – Educational program and practice. G8 continues to focus on education and quality, developing our program and innovation for an inclusive environment. Additionally, the Group's Reconciliation Action Plan has been launched, embedding practices alongside the updated national curriculum.

STRONG BALANCE SHEET PROVIDING OPTIONALITY

The Group continued to maintain a strong balance sheet underpinned by strong operating cashflow (before impact of tax timing) and earnings growth.

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A conservative capital management approach continued as reflected in leverage and gearing ratios, with leverage of 0.5X Net Debt[3]/Operating EBITDA[4] in CY24 H1 on trend with CY23 (0.4X).

In CY24 H1 net debt increased vs CY23 due to typical first half seasonal lower earnings and a higher final CY23 dividend payment.

The Board is committed to driving long-term sustainable value for its shareholders and has declared a CY24 H1 fully franked interim dividend of 2.0 cents per share, up 33% on pcp. This represents 81% of reported CY24 H1 NPAT and is payable in September 2024.

The Company announced the commencement of an on market buy-back of up to 5% of issued capital as part of the Group's capital management strategy. The volume of the buyback will be determined by appropriately balancing:

- Shareholder returns and leverage levels
- Funding strategic priorities
- Other funding needs, including network optimisation and dividend payments.

TRADING UPDATE AND OUTLOOK

Trading update

Maintaining our rigor on execution and family experience.

- Group '**spot**' occupancy 72.7%, 0.1% pts lower than pcp and 69.0% **YTD** 0.7% pts higher than pcp[5]
    - Family experience measured by NPS continues to improve
    - Optimising our conversion and turnover in a lower enquiry environment
- Fee increase of 2.4% implemented at mid-year mitigating inflationary impacts
- Operationalising our capital allocation framework:
    - Capex for 2024 estimate remains circa $40m - $45m, contingent on construction capacity, timing and cost
    - Network optimisation ongoing, with 3 centres divested and 1 centre exited post 30 June, totalling 22 YTD
- Currently net debt is $90m, maintaining a conservative leverage position to support the commencement of an on market buy-back up to 5%
- The volume of the buyback will be determined by appropriately balancing:
    - Shareholder returns and leverage levels
    - Funding strategic priorities
    - Other funding needs, including network optimisation and dividend payments

[3] Net Debt excludes lease liabilities and current borrowings for insurance premium funding.
[4] Operating EBITDA is rolling 12 months and excludes non-operating items and is adjusted for lease interest and depreciation. Refer to Note 2b of CY24 Interim Financial Report for non-operating items.
[5] For week ending 16 August 2024.

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Outlook

CY24 H2 sector conditions are anticipated to be more challenging:
- Sector enquiries remain lower than pcp
- Net supply growth remains steady at 3.3% yoy
- Cost of living pressures continue to be a key factor for our families, resulting in lower occupancy expectations

Government and regulatory environment is evolving slowly:
- The Federal Government announcement to fund a 15% wage increase for ECEC over two years with the condition of capping fee increase at 4.4% for 12 months from 8 August 2024
- Productivity Commission final report and Multi-employer Bargaining details are still to be released

Our near-term focuses are:
- **Team:** Maintaining our team engagement momentum
- **Family**: Improving our family experience and delivering an improved "Enrolment & Transition" programme
- **Operational execution:** Targeted focus on underperforming centres
- **Cost Management**: Maintaining capital and cost disciplines
- **Strategy**: Implementing 'fit core' strategic plan initiatives leading into 2025

We remain focused on delivering full year outcomes.

ENDS

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

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