

ASX Announcement

G8 Education Limited
(ASX:GEM)



9 April 2020

Impact of Federal and State Government support packages in relation to COVID-19 and Equity Capital Raising

G8 Education Limited (the “**Group**” or “**G8**”, ASX: GEM) provides the following update in relation to Federal and State Government support packages and announces a fully underwritten¹ Equity Capital Raising of \$301 million to provide additional liquidity and financial flexibility in relation to current market uncertainties and future growth opportunities.

Key points

- **Federal and State Governments have committed to support the essential service of early childhood education through the Early Childhood Education and Care Relief Package, the JobKeeper Package and State based packages. These measures will enable centres to remain open and keep team members employed**
- **G8 will undertake a fully underwritten Equity Capital Raising of approximately \$301 million to provide additional liquidity to support the continuation of the Group’s operations through the period impacted by COVID-19, while also strengthening the Balance Sheet to position the Group for further growth opportunities during the recovery phase**
- **G8’s lending syndicates have reaffirmed their continued support of the Group and agreed amendments to the Group’s debt facilities to provide covenant relief for the next two testing periods, being June 2020 and December 2020**
- **G8 has enacted a number of initiatives designed to preserve cash and improve efficiency through the period impacted by COVID-19, while continuing to prioritise the safety and health of children and team members**

Equity Raising

G8 has today announced a fully underwritten equity raising of approximately \$301 million (“**Equity Raising**” or “**Offer**”) comprising:

- an institutional Placement of \$134 million; and
- a 1 for 2.2 pro-rata accelerated non-renounceable entitlement offer of approximately \$167 million, comprising an Institutional Entitlement Offer of approximately \$89 million and a Retail Entitlement Offer of approximately \$79 million.

¹ Excluding the circumstances described on slide 34 of G8’s Investor Presentation released to ASX on 9 April 2020 (“**Investor Presentation**”) under the heading “Shortfall”. Refer to the “Key Terms of the Underwriting Agreement” summary starting on slide 31 of the Investor Presentation for a description of the terms and conditions of the underwriting arrangements.

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The Equity Raising will result in the issue of approximately 377 million new fully paid ordinary shares in G8 ("**New Shares**"), representing approximately 82% of existing G8 shares on issue. Each New Share issued under the Equity Raising will rank equally with existing shares on issue.

All shares under the Placement and Entitlement Offer will be issued at a fixed price of \$0.80 per New Share ("**Offer Price**").

The Offer Price represents a 25.9% discount to the last traded price of \$1.08 on 2 April 2020 and a 16.1% discount to the theoretical ex-rights price ("**TERP**"²) of \$0.95.

Proceeds from the Equity Raising will be used to repay debt, increase cash on hand and pay transaction costs. This will reduce leverage from 2.3x to 0.4x EBITDA³ on an adjusted CY19 basis. This will provide G8 with increased financial flexibility and a strengthened Balance Sheet, positioning the Group for further growth opportunities during and beyond the recovery phase.

In the context of the Equity Raising and in order not to disadvantage shareholders who had elected to take up the Dividend Reinvestment Plan ("**DRP**") for the CY19 final dividend, G8 has determined to vary the issue price of the shares under the DRP to the Offer Price under the Equity Raising. No action is required by G8 shareholders who have already elected to participate in the DRP as a result of this change.

Royal Bank of Canada (trading as RBC Capital Markets) and UBS AG, Australia Branch have been appointed as joint lead managers and underwriters to the Equity Raising.

Institutional Entitlement Offer and Placement

The Placement and Institutional Entitlement Offer will be conducted by way of a bookbuild process on Thursday 9 April 2020.

Entitlements under the Institutional Entitlement Offer that are not taken up and entitlements of ineligible institutional shareholders under the Entitlement Offer will be offered for sale in the bookbuild.

Retail Entitlement Offer

The Retail Entitlement Offer will open on Monday 20 April 2020 and close on Friday 1 May 2020.

Eligible retail shareholders who take up their entitlement in full can also apply for additional shares in excess of their entitlement up to a maximum of 25% of their entitlement under a 'top up' facility.

² Theoretical ex-rights price ("TERP") includes the shares issued under the Placement, Institutional Entitlement Offer and the Retail Entitlement Offer. TERP is the theoretical price at which Shares should trade immediately after the ex-date for the Entitlement Offer. TERP is a theoretical calculation only and the actual price at which Shares trade on ASX immediately after the ex-date for the Entitlement Offer will depend on many factors and may not be equal to TERP. TERP is calculated by reference to the closing price of G8's Shares as traded on ASX on 2 April 2020, being the last trading day prior to the announcement of the Entitlement Offer.

³ CY19 Underlying EBITDA of \$154.6 million (Non-IFRS measure, pre-AASB 16 Leases. Calculated as underlying EBIT of \$132.5 million plus Depreciation of \$22.1 million. See pages 34 and 37 of G8's CY19 Annual Report)

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Entitlements cannot be traded on the ASX or transferred. Eligible shareholders who do not take up their Entitlement under the Entitlement Offer in full or in part, will not receive any value in respect to those Entitlements not taken up.

Further details about the Retail Entitlement Offer will be set out in the retail offer booklet, which G8 expects to lodge with the ASX and despatch on Monday 20 April 2020.

Please refer to the investor presentation, slide 20, for further timetable information.

Commitment from Existing Lenders and Covenant Waivers

G8 has agreed amendments to the Group's debt facilities with its banking syndicates to provide covenant relief for the next two testing periods, being June 2020 and December 2020⁴.

This reflects strong support from the Group's banking syndicate and provides G8 with greater flexibility to navigate the COVID-19 impacted trading conditions.

Government funding and support packages

The Federal Government has continued to highlight the importance of the Early Childhood Education and Care (ECEC) sector, including the need for team members to remain employed and centres to remain open during the pandemic to support Australian families. The Federal and State Governments will support the sector through the following packages:

Early Childhood Education and Care Relief Package (ECECRP)

On 2 April 2020, the Australian Federal Government announced the Early Childhood Education and Care Relief Package ("ECECRP").

Under the plan, from Monday 6 April 2020, the Federal Government will make weekly payments directly to ECEC providers in lieu of the Child Care Subsidy and the Additional Child Care Subsidy. The ECECRP payments will represent 50% of each centre's fee levels⁵ prior to the impacts of COVID-19 (calculated based on fees received by G8 in the fortnight prior to 2 March 2020).

Payments will be made until 28 June 2020 (the end of the 2019-20 financial year, with an extension to be considered thereafter) and families will not be charged fees during this time. These payments will complement the JobKeeper Payment announced by the Prime Minister on 30 March 2020.

Early Childhood Education and Care services do not need to apply for the payments as they will be paid automatically.

⁴ Subject to certain conditions being satisfied, including completion of the equity raising

⁵ The Government's ECECRP payment of 50% of average centre revenues for the fortnight leading into 2 March 2020 is further subject to the existing hourly rate cap and relates to a point in time before parents started withdrawing their children from care in large numbers

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Until the payments arrive, ECEC services will be allowed to waive gap fees for families who keep their children home (backdated to 23 March 2020).

JobKeeper wage subsidy package

We refer to our previous announcement on 31 March 2020 regarding the details of the JobKeeper payment scheme.

The Group will be eligible for the JobKeeper payment for all full time, part time and long-term casual centre and support office team members employed as at 1 March 2020, for as long as those team members remain employed by the Group. Based on current policy the JobKeeper payments will be maintained for a period of six months.

State-Based Support

The State Governments of Queensland, South Australia and New South Wales have announced Payroll Tax deferral schemes to assist businesses in managing expenses throughout the period. The Group intends to utilise these measures in order to defer payments for up to 6 months in NSW and SA, and up to the end of 2020 in Queensland. The Group intends to explore eligibility for other State-based support schemes should they become available.

G8 Chief Executive Officer and Managing Director Gary Carroll commented:

“The strong fundamentals underpinning the early childhood education and care sector and the essential nature of our services have been validated by recent Federal Government announcements. The support measures that have been introduced provide stability for the sector and, importantly, increased security to our families and teams during a period of heightened uncertainty.

In addition to those measures, the Board considers it prudent to take further steps to preserve cash, improve efficiency and ensure Balance Sheet flexibility and liquidity during this unprecedented period. The equity raising we have announced today, along with other capital structure and operational initiatives, will ensure G8 is well-positioned to navigate the current period and emerge from it in a strong position capable of delivering the high-quality services that Australian families expect of us.

We will continue to prioritise the health and safety of the children in our care, families and team members and are committed to working with Government, industry and other stakeholders to ensure the right settings are in place.”

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Earnings impact of Government support packages and Group cash preservation measures

G8 has undertaken a number of initiatives in conjunction with the Government support packages in order to minimise the earnings impact of COVID-19:

- **Revenue:** Under the ECECRP, fee revenue will be funded by the Government, paid weekly, at a fixed rate of 50% of fee levels⁴ prior to the impacts of COVID-19 (calculated based on fees received by G8 in the fortnight prior to 2 March).
- **Wages:** Wage cash costs incurred by G8 will be reduced through the JobKeeper program, with an estimated \$23 million average monthly reduction over the course of the COVID-19 disruption period, based on current workforce eligibility. Senior management is working together with centre-based and support office teams to manage wage costs through the optimisation of team rostering, an increase in flexible working arrangements and initiatives to encourage the taking of accrued annual leave (noting utilisation of accrued leave has a P&L impact but not a cash impact).
- **Rent:** G8 has initiated discussions regarding the temporary relief of rental costs and expects to receive a level of commercial support from its landlords through this period of disruption. As negotiations have not been concluded, the extent of commercial support is currently unknown.
- **Capex and other Opex:** G8 will defer all non-essential Capex and pursue reductions in various overhead costs. It is expected that annual Capex will reduce from \$40 million to \$25 million, while Opex will be restricted to critical operational items.
- **Directors fees:** The G8 Directors have resolved to reduce Directors' fees by 20% through to 30 September 2020.

Balance Sheet management and capital management initiatives

The Federal Government's ECECRP provides a level of revenue that, coupled with the JobKeeper package, cost reduction measures and cash preservation activities, provides comfort in relation to the Group's liquidity and ability to withstand the impacts of COVID-19 during both closure and reduced demand scenarios.

As per the Group's separate announcement today, G8 has temporarily suspended dividends, with the exception of the deferred CY19 final dividend which will be paid in October 2020. G8 does not expect to declare or pay a dividend in respect of CY20. A dividend may, subject to financial performance, be paid in respect of the CY21 half year.

The Group currently has \$135 million in cash and available facilities, which will increase by \$289 million following the Offer. As a result of the Offer leverage ratio will reduce from 2.3x to 0.4x EBITDA² on a CY19 adjusted basis.

While trading conditions will impact near-term operations, the Group believes the initiatives outlined above will provide significant additional liquidity and position G8 strongly for further growth opportunities during and beyond the COVID-19 recovery phase.

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

For further information, contact:

Investors

Gary Carroll, CEO
+61 7 5581 5313
gary.carroll@g8education.edu.au

Media

Chloe Rees
Cato & Clive
0417 665 416 / chloe@catoandclive.com

Sharyn Williams, Chief Financial Officer
+61 7 5581 5404
Sharyn.Williams@g8education.edu.au