ASX Announcement

G8 Education Limited
(ASX:GEM)

8 December 2020

Trading Update

Highlights

- Occupancy and attendance recovering well with current LFL occupancy of 75.5%
- Costs well managed, supporting selective investment in resources and R&M in Q4
- Revenue and costs underpinned by government support
- CY20 YTD (30 November 2020) underlying EBIT of $98 million, including current year wage costs relating to employee payment remediation program
- Total one-off costs of the employee payment remediation program are presently estimated to be $50 million to $80 million pre-tax (see separate ASX Announcement)
- Improvement program on track (despite COVID-19) covering c. 100 centres
- Divestment of previously impaired centres progressing in line with plan, and sale of Singapore business completed
- Strong balance sheet, broadly cash neutral

Trading update

G8 Education Limited (the "**Group**" or "**G8**", ASX: GEM) has continued the recovery in occupancy highlighted in our half-year results presentation in August, with like-for-like occupancy currently at 75.5%. The occupancy gap to last year is currently 4.5 percentage points ("**%pts**"), narrowing by approximately 5.5%pts since the April low.

G8 has delivered wage efficiencies in line with its targets for the year as a result of utilising the technology platform that forms part of G8's new rostering system. A year-on-year comparison based on the same occupancy levels shows clear improvements, with the relative efficiency improvements not impacted by the employee payment remediation program currently underway. Wage efficiency is also impacted by occupancy levels, with wage hours per booking currently higher than prior corresponding period due to lower occupancy levels.

The Group's continued focus on cost management, together with significant Government support[1], allowed increased investment in key areas, such as in-centre resources and repairs and maintenance in the fourth quarter.

The resulting November CY20 YTD underlying EBIT of $98 million includes current year employment costs relating to the employee payment remediation program. Remediation program costs with respect to prior financial years will be addressed via a prior-period restatement.

Our re-engineered improvement program – in which all activities except for major asset refurbishments were continued despite the COVID-19-related environment – progressed in line with expectations, with approximately 100 centres being covered by the program in CY20.

Capital expenditure for CY20 is expected be approximately $31 million, in line with previous guidance, while our trading results and cash flows have enabled the Group to be in a broadly cash neutral position.

The Group continues to enjoy strong support from our lenders, with amendments to bank covenants in place until December 2021 and the refinance process on track to be completed in early CY21.

[1] Refer to Investor Presentation appendix for details of Government subsidies

159 Varsity Parade
Varsity Lakes QLD 4227
PO Box 515, Varsity Lakes QLD 4227
t. +61 7 5581 5300
f. +61 7 5581 5311
reception@g8education.edu.au
www.g8education.edu.au

Outlook

The Group will continue to focus on three main areas in CY21:

- the optimisation of the portfolio involving the divestment of previously impaired centres;
- the continuation of the improvement program; and
- the measured roll-out of new greenfield centres using the revised investment model.

The Group expects CY21 to be a recovery year given the absence of additional government subsidies and the ongoing impacts of COVID-19, particularly on occupancy – either directly through movement restrictions or indirectly through economic impacts such as higher unemployment. The absence of a CY20 fee increase (as stipulated by the government COVID-19 subsidiary arrangements) coupled with lower occupancy sees wages increase as a percentage of revenue.

To drive earnings growth in the medium-term, the Group will be increasing the pace of its improvement program. This increased activity is justified by the positive results flowing from the program to date. Any increased costs relating to the program will be managed so that they are fully funded by benefits flowing from the Group's strategic focus areas.

In CY21, approximately 10 new greenfield centres are expected to open with a capital outlay of approximately $4 million. Start-up trading losses in CY21 are expected to be $4 million based on current centre opening dates with strong returns expected over the medium term as the centres mature.

Approximately $10 million in capital expenditure deferred from CY20 will be released in CY21, taking estimated CY21 capital expenditure to at least $50 million, with further incremental spending based on return hurdles.

Gary Carroll, Chief Executive Officer, said, "Progress in our strategic focus areas has been pleasing. Together with our significantly strengthened balance sheet, this provides the group with confidence to increase the pace in our strategic focus areas as they will deliver significant benefits in the medium term. The program costs in 2021 will be carefully managed to ensure they do not result in a material drag to earnings in the near term."

ENDS

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

For further information, contact:

Investors

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

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

Media

Clive Mathieson
Cato & Clive
0411 888 425 / clive@catoandclive.com