G8 Education

TRADING UPDATE & EMPLOYEE PAYMENTS REMEDIATION PROGRAM

Investor Presentation

8 December 2020

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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

NEAR TERM STRATEGIC PRIORITIES & OUTLOOK

Q&A

APPENDIX

EXECUTIVE SUMMARY

G8 Education Ltd

Trading Update

- Occupancy and attendance is recovering well with current LFL occupancy of 75.5%
- Revenue and costs have been underpinned by government support. This coupled with good cost management allowed increased investment in R&M and resources in Q4
- YTD (30 November 2020) underlying EBIT[1] of $98m, including current year employment costs relating to the employee payment remediation program
- Strong balance sheet, broadly cash neutral

Strategy Update

- Good progress on portfolio optimisation with the divestment process for previously impaired centres on track and the Singapore sale completed
- Improvement program continued during COVID-19 covering circa 100 centres and included all activities except large scale asset refurbishments
- Review of award and legislative requirements as part of the new rostering system identified inadvertent award non-compliance. A remediation program has commenced (total costs currently estimated to be $50m-$80m pre-tax)

2021 Outlook

- In 2021, the focus will continue to be portfolio optimisation, the improvement program and greenfield pipeline
- Given the positive results to date, the pace of the improvement program will increase in 2021. Program costs will be managed to ensure they are funded by benefits from the overall strategic program
- CY21 expected to be impacted by COVID-19 and the subsequent economic recovery

1. unaudited pre-AASB16 management accounts YTD 30 November 2020

TRADING UPDATE

TRADING UPDATE

Pre-AASB16, unaudited financials

G8 Education Ltd

Financials

- YTD underlying EBIT[1] of $98m
- Current LFL occupancy[2] of 75.5%, 4.5%pts below prior year
- Revenue and costs underpinned by government support, allowing increased investment in R&M ($7.4m) and resources ($1.1m) in Q4[3]
- March 2020 fee increase not implemented due to Government subsidy arrangements
- Wage efficiencies achieved

Capex

- CY20 capex of circa $31m

Debt Facilities

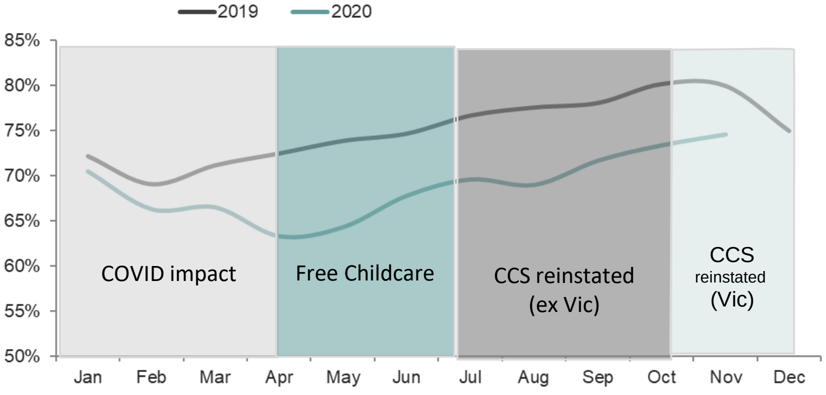
- Net debt reduced to a broadly cash neutral position
- Refinance process on track for October 2021 tranche (currently undrawn) and restructure of term debt - expected to be completed by early 2021
- Strong lender support with amendments of bank covenants in place until December 2021

1. unaudited pre-AASB16 management accounts YTD 30 November 2020
2. week ended 6 December 2020
3. refer appendix

OCCUPANCY TRENDS

Seasonal growth trend reinstated

Monthly Like-for-Like Occupancy (%)



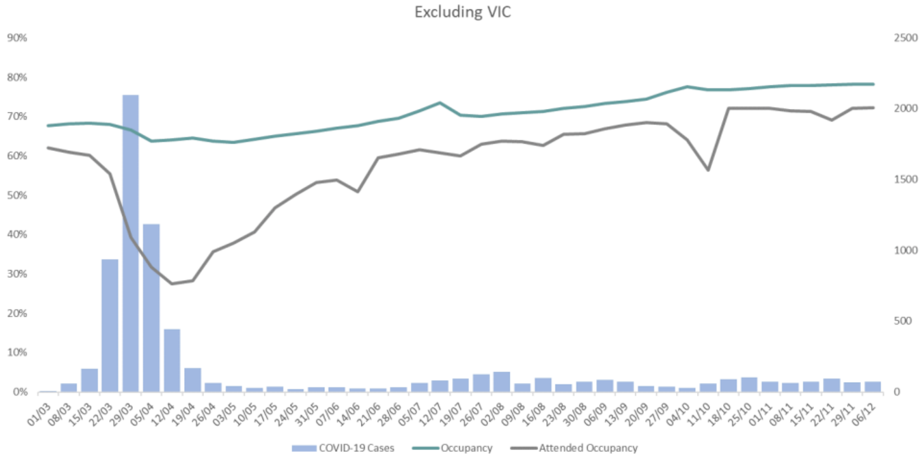
- Occupancy recovering well, reducing the gap on prior year by around 5.5%pts from the April low
- Occupancy has continued to grow even after parent co-payments returned
- COVID disrupted the usual seasonal uplift that occurs during February to July
- The seasonal occupancy build that usually occurs has been re-established

ATTENDANCE TRENDS

Closely correlated to COVID case numbers

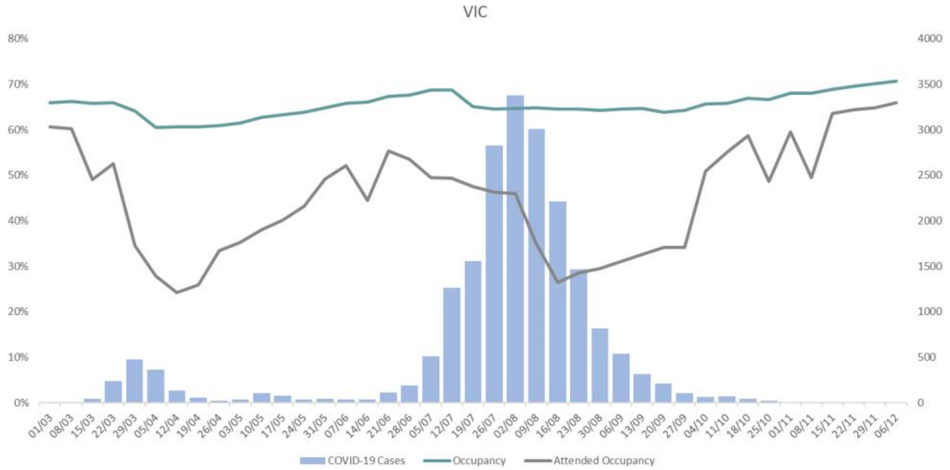
G8 Education Ltd

Booked weekly occupancy, attendance (%) and reported new COVID cases – National excluding Victoria



- Gap between occupancy and attendances has normalised

Booked weekly occupancy, attendance (%) and reported new COVID cases – Victoria Only

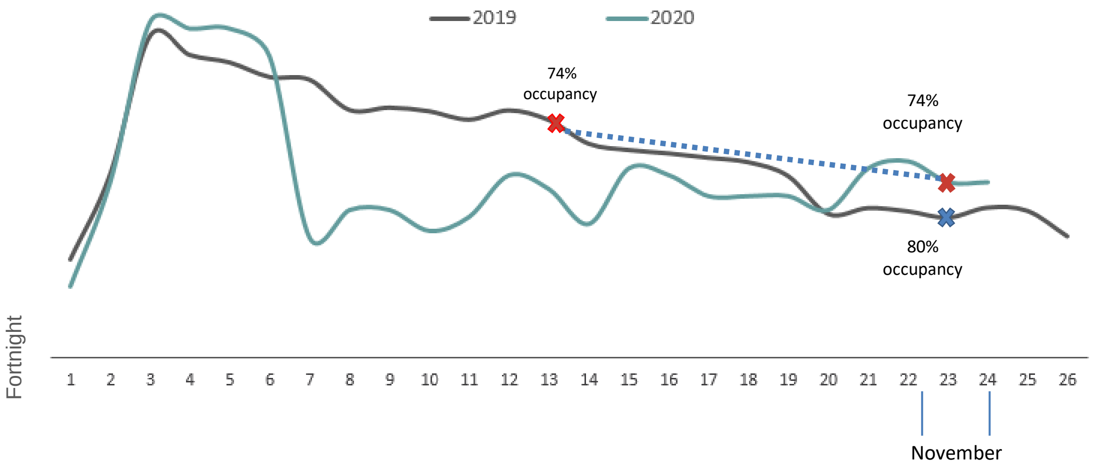


- Victorian recovery is following the national trend

WAGE EFFICIENCY

Effective rostering reflected in improved efficiency

Wage hours per booking by fortnight



- Expected rostering benefits captured during CY20
  - Efficiency improvements reflected in lower wage hours per booking in CY20 relative to the same occupancy level in CY19 (refer to red crosses)
  - Relative efficiency improvements not impacted by the employee payment remediation program
- From October, increased wage hours per booking reflects normalisation of attendance levels
- The “inefficiency” driven by lower occupancy is reflected in the higher wage hours per booking in November relative to prior year

EMPLOYEE PAYMENTS REMEDIATION PROGRAM

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- Our team is critically important to providing the best learning foundations for our children and support for our families
- A proactive review of award and legislative requirements was undertaken as part of new rostering system implementation
- Inadvertent non-compliance with relevant awards was identified covering a 6.5-year period (1 July 2014 to present). These issues primarily relate to payment for overtime, minimum engagement periods and agreed hours of work and allowances. In many cases, the issues arose due to insufficient documentation of agreed hours. G8 has voluntarily self-reported to, and is engaging with, the Fair Work Ombudsman
- The total one-off remediation costs of these issues is presently estimated to be \$50m to \$80m pre-tax. This includes estimated direct wage costs of approximately \$38m to \$60m, wage oncosts, interest and remediation program costs. This estimate is based on preliminary analysis and assumptions
- These costs, net of tax (approximately \$35m to \$56m), will be funded from existing cash reserves
- A remediation program is underway, and the Group is committed to ensuring that all team members are paid correctly moving forward. The remediation program is expected to be completed by 31 July 2021
- The new rostering system, designed to automate certain award compliance and improve visibility, is scheduled to be fully implemented across G8's network by the end of H1 CY21. In the interim, the Group will be utilising the centralised processes designed as part of the new HRIS to mitigate the impact of these issues. Accordingly, G8 does not expect any material impact to wage costs in future years as a result of these issues

NEAR TERM STRATEGIC PRIORITIES & OUTLOOK

G8 Education

NEAR TERM STRATEGIC PRIORITIES

G8 Education[Ltd]

New Rostering System

- Pilot group rollout on track with initial pilot utilising end to end processes
- Second larger pilot group is about to commence
- Progressive, full roll-out across the centre network planned for early CY21

Improvement Program

- Continuing 2020 improvement program covering 100 centres
- 2019 pilot centres tracking in line with expectations in terms of occupancy improvement and other key metrics (quality, team engagement etc.)
- Planning, scoping and resourcing underway for 2021 cohort

Network Optimisation

- Active negotiations progressing to exit 27 underperforming centres that were impaired in August 2020
- Focus is on minimising exit costs

Network Growth

- Revised approach to identifying attractive Greenfield opportunities based on location and market appeal
- Reduced capital outlay per centre, driving higher return on capital

OUTLOOK

G8 Education Ltd

- The Group expects CY21 to be a recovery year given the absence of additional government subsidies and the continued impact of COVID-19, particularly on occupancy - either directly through movement restrictions or indirectly through economic impacts such as higher unemployment
- Lower occupancy levels (in a regulated wage environment) impact wage efficiency. This, compounded by the absence of a CY20 fee increase, increases wages as a percentage of revenue
- Near-term strategic earnings growth priorities in CY21 remain executing the divestment of previously impaired centres, the improvement program and network growth
- The improvement program is expected to gain momentum in CY21, based on positive results to date and the medium-term earnings potential of this program. The costs of this increased activity will be managed to ensure they are funded by the benefits of the strategic programs
- Approximately 10 new greenfield centres are expected to open in CY21 for a capital outlay of circa $4m. Start-up trading losses in CY21 are expected to be circa $4m based on current centre opening dates, with strong returns expected over the medium term as the centres mature
- Capex deferred from CY20 of $10m will be released in CY21 (taking total to at least $50m), with further incremental spend based on return hurdles

Q&A

APPENDIX

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SUPPLY / DEMAND DYNAMICS
New centre opening increase, offsetting H1 reduced growth

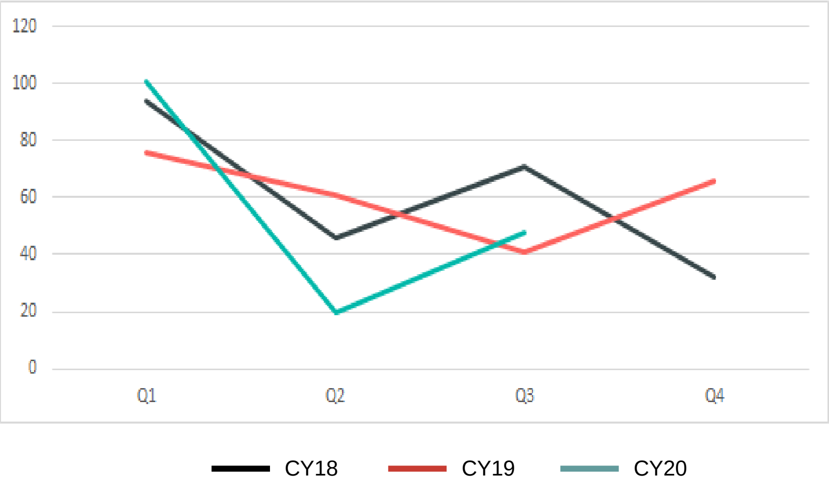
Macro

- LDC net supply annualised growth increased to 3.8% (vs 3.7% in CY19), the decrease in net new centres in Q2 offset in Q3
- Unemployment levels have decreased from 7.5% to 7.0% from July 2020 to October 2020[1]

Micro

- G8 centres impacted by supply within 2km up to Q3 CY20 decreased by 15% YoY
- Since January 2017, 297 G8 centres have been impacted by supply within 2km, however, the rate of growth has reduced significantly
- Countering the impact of this supply growth is a key focus of the Improvement Program; the evidence continues to demonstrate that high quality centres can successfully mitigate the impact of new supply

Supply – Net New Centre Openings[2]



[1] https://tradingeconomics.com/australia/unemployment-rate

[2] Net new centre openings is the net result of the new centres opened and closed during the period

GOVERNMENT SUPPORT

Strong support keeps sector viable and retains employees

G8 Education Ltd

Phase 1	Phase 2	Victorian Lockdown	Phase 3
(6 Apr to 12 July)	(13 Jul – 27 Sep)	(13 July – 31 Dec)	(28 Sep – 31 Jan)

Relief Package

- Revenue capped at 50% of revenue (CCS and Gap Fee) during the Reference Period[1] in lieu of Child Care Subsidy (CCS) and Additional Child Care Subsidy (ACCS)
- Families not permitted to be charged gap fees
- Package equated to **$100.8m** for G8
- Ceased 12 July 2020

JobKeeper Package

- G8 eligible for the JobKeeper payment for average 8,577 team members
- Subsidy received $86.4m, net of top-up payments $71m
- Ceased 20 July 2020

Transition Package

- Transition Payment of 25% of revenue (CCS and Gap Fee) during the Reference Period[1] in addition to CCS and ACCS
- Not eligible for JobKeeper from 20 July 2020
- Families Gap Fees recommence along with normal CCS arrangements
- Gap Fees not permitted to be increased and no CY20 fee increase implemented
- Activity test requirements eased until 4 April 2021
- Employment guarantee (Centres to maintain employment levels)
- Transition Package and Transition Payment Plus equated to **$42.8m** in support for G8

Transition Payment Plus

Stage 3 & 4 Restricted Areas – From 13 July to 31 Dec

- Where a child does not attend for a Covid-19 related reason until 9 November 2020 or a Centre is closed on public health advice until 31 December 2020, Gap Fees can be waived whilst CCS and ACCS continue.
- Additional 30 days allowable absences (a total of 72 allowance absences)

Stage 4 Restricted Areas – from 5 August

- Transition Payment increased to 30% for Metro Melbourne Centres, plus further top up payments for Centres with low CCS payments until 27 September
- Only children of permitted workers and vulnerable children can attend until 26 October

Recovery Package - Victoria

- Recovery Payment of 25% of revenue (CCS and Gap Fee) during the Reference Period1 in addition to CCS and ACCS for Victorian Centres on similar conditions to Phase 2 Transition Package.
- Package likely to equate to **$22.0m** in support for G8

1. During Phase 1 and Phase 2 weekly payments of 50% and 25% respectively of average centre revenues for the fortnight leading into 2 March 2020 subject to the existing hourly rate cap. This Reference Period relates to a point in time before parents started withdrawing their children in large numbers

COVID-19 FINANCIAL IMPACTS

Subsidies and financial management

Revenue	• **Phase 1** - Early Childhood Education & Care Relief Package revenue - $100.8m CY20 • **Phase 2 and 3** - Transition Payment revenue - $59.5m expected in CY20 ($5.3m expected in CY21)
Wages	• Optimised rostering to take account of changing attendance levels and JobKeeper • JobKeeper program contributed net $70.8m in H1, and $15.1m in H2 • Employment guarantee in place until 31 January 2021 in Victoria (condition of receipt of the Transition Payment)
Rental Concessions	• Arrangements for rental waivers or deferrals in place with 301 landlords totaling $8.2m • Waivers of $5.0m and deferrals of $3.2m for predominantly 3 to 6 month rent concessions • $2.5m of deferrals will be repaid by December 2021 with the remainder in future years • Negotiations resulted in extensions or exercise of existing options on c. 65 centres