ASX Announcement

G8 Education Limited (ASX:GEM)

G8 Education ltd

24 August 2022

G8 EDUCATION ANNOUNCES RESULTS FOR THE HALF-YEAR ENDED 30 JUNE 2022 INCLUDING A TRADING UPDATE & OUTLOOK

G8 Education Limited (the "**Group**" or "**G8**", ASX: GEM), a leading provider of quality early childhood education with 448 centres across Australia, announces its results for the half-year ended 30 June 2022.

HIGHLIGHTS

- Operating EBIT (after lease expense) of $21.0 million (vs $38.9m million in H1 CY21 restated) was significantly impacted in Q1 by COVID-19 and floods but recovered in Q2 with 'core' centres delivering higher EBIT than pcp
- Statutory NPAT of $8.5 million (vs $23.5 million in H1 CY21 restated)
- Execution of the Group's strategic Improvement Program, combined with disciplined responses to the external environment, drove solid performance in quality, occupancy and profitability once the temporary impacts of COVID and floods subsided
- H1 occupancy of 67.1% (down 0.9%pts vs pcp) recovered strongly from the low in early March (down 2.1%pts vs the pcp)
- This momentum has continued with 'spot' occupancy at 73.8% as at 21 August 2022 up 0.8%pts vs the pcp
- Network optimisation activities continued in the first half of CY22, as well as a lift in the financial performance of a number of the impaired centres
- Cost reduction program implemented in Q2, with $2.8 million in costs removed in H1 and on track to deliver targeted $13 million - $15 million cost reduction to streamline the business and mitigate inflationary impacts by end of H2
- Group balance sheet remains strong, with net debt at $86.3 million at 30 June, in line with expectations and reflecting the capital management initiatives and seasonal cash flow profile.

TRADING PERFORMANCE

$M	CY22 H1	CY21 H1 Restated[1]	% Change
Metrics			
Occupancy (Core)[2]	67.1%	68.0%	(0.9%pts)
Operating Revenue[3]	416.7	421.5	(1.1%)
Statutory NPAT	8.5	23.5	(63.8%)
Basic Earnings (cps)	1.01	2.77	(63.5%)
Net (Debt)[4] / Cash	(86.3)	6.5	n.m
Leverage (Net Debt/EBITDA)	1.0	0.2	n.m
Excluding non-operating items			
Operating EBITDA[3] (after lease interest and depreciation)	32.8	49.6	(33.9%)
Operating EBIT[3] (after lease interest)	21.0	38.9	(46.0%)
Quarter 1	1.0	16.9	(94%)
Quarter 2	20.0	22.0	(8%)

1. CY21 financials restated to include software development expenses, previously capitalised, to align with the change in accounting policy in CY21 H2
2. "Core" includes all centres excluding the 14 centres in the Greenfield portfolio
3. "Operating" excludes non-trading items, refer to note 2 of the 2022 Interim Report
4. Excludes premium funding loan, which is offset by prepaid insurance

ASX Announcement

G8 Education Limited (ASX:GEM)

G8 Education[ltd]

G8 Chief Executive Officer and Managing Director Gary Carroll said:

"Financial performance for the half was a tale of two quarters, with the first quarter being significantly impacted by COVID-19 and floods before occupancy and earnings recovered strongly in the second quarter. The occupancy gap of 2.1% pts in March has been turned around such that occupancy finished in July 0.7% pts ahead of the prior corresponding period. This occupancy recovery translated well into earnings performance, with core centre EBIT being ahead of pcp in Q2.

"Momentum built in the second quarter, driven by the execution of the Group's strategic Improvement Program, which, combined with disciplined responses to the challenging external environment, drove solid performance in quality, occupancy and profitability once the temporary impacts of COVID and floods subsided.

"Network optimisation activities continued in the first half of 2022, as well as a lift in the financial performance of a number of the impaired centres. During the half, the Group initiated an on-market share buyback, utilising its strong balance sheet to balance network investment and shareholder returns.

"Cost reduction program implemented in Q2 with $2.8 million in costs removed in H1 and on track to deliver targeted $13 million-$15 million cost reduction to mitigate inflationary impacts by end of H2.

"Looking forward, the long-term demand fundamentals for the sector are positive, including enhanced subsidy arrangements that will improve affordability for families in 2023."

FINANCIAL PERFORMANCE

Financial performance remained resilient in H1 CY22, with core occupancy of 67.1% down 0.9% pts on H1 CY21 as Q1 occupancy was impacted by COVID-19 and floods. Q2 experienced a significant recovery to H1 CY21 levels.

Core centre revenues remained flat at $403.5 million (vs $403.5 million in H1 CY21 restated) driven by higher net fees (+$17.5 million) offset by lower bookings from lower occupancy (-$7.1 million), divestments (-$5.6 million) and roll-off of government subsidies (-$5.1 million).

Operating EBIT (after lease expense) of $21.0 million (vs $38.9 million in H1 CY21 restated) was significantly impacted in Q1 by COVID-19 and floods but recovered in Q2 with 'core' centres delivering higher EBIT than Q2 CY21.

Disciplined cost management partially offset increased spending on cleaning and property maintenance in response to flood events, while positive wage performance reflects increased efficiency as a result of improved systems, training and processes and an effective response to the challenging environment relating to absenteeism and labour market headwinds.

The cost reduction program implemented in Q2 resulted in the removal of $2.8 million in costs in H1, with further cost savings to be realised in H2.

Statutory NPAT of $8.5m (vs $23.5 million in H1 CY21 restated), with depreciation increasing in line with increase capex investment into educational resources and centre improvements.

ASX Announcement

G8 Education Limited (ASX:GEM)

G8 Education ltd

TRANSITION TO BUSINESS-AS-USUAL IMPROVEMENT PROGRAM

In line with target and expectations, 361 centres have completed the transition to the business-as-usual program at the end of June, with those centres delivering EBIT growth 1.2% pts above the rest of the network, a pleasing result given the challenging operating environment.

The two key changes as part of the move to a business-as-usual model were the handover of operational management and development from project Operations Coaches to Area Managers, and the transition from a project plan for each centre to a Centre Support Plan. Centre Support Plans are in place for each centre and owned by the regional leadership teams (covering and prioritising the four key areas of Operations, Practice, People and Quality), helping to optimise the centre field support teams and capital investment activities.

The refresh of our centre learning environments and practices as part of the Group's Improvement Program helped drive 95% of our centres achieving a meeting or exceeding result in educational program and practice, while the property capex program ensured 100% of centres delivered meeting or exceeding results in terms of their physical environments. These initiatives drove an overall 92% quality result in H1, ahead of the national LDC average.

BALANCE SHEET AND CAPITAL MANAGEMENT

The Group balance sheet is strong, with net debt at $86.3 million as at 30 June, in line with expectations and reflecting the capital management initiatives and seasonal cash flow profile. The subordinated facility was repaid using a lower-cost senior facility. An on-market buyback program was implemented as part of a balance capital management strategy, with 12 million shares repurchased to date totaling $13 million at 30 June 2022.

Leverage remains conservative at 1.0x net debt/EBITDA. Liquidity remains strong with $42 million cash on balance sheet and $170 million in undrawn facilities.

The Board has declared a H1 CY22 fully franked interim dividend of 1.0 cents per share, which will be paid in October 2022.

IMPAIRED CENTRES DIVESTMENT PROGRAM

Potential exit process for remaining impaired centres continued during the period, with completion of the divestments expected to drive improvement in operating cash flows. A commercial approach, guided by return on capital will continue to be employed when assessing exit alternatives, taking into consideration the lease tail and the trading performance of the impaired centres. The company will continue to update the market as progress is made.

ASX Announcement

G8 Education Limited (ASX:GEM)

TRADING UPDATE & OUTLOOK

Solid occupancy momentum was built in the half, supported by additional Child Care Subsidy (CCS) for siblings, low unemployment, growth in female workforce participation rates, improvement program outcomes and a strong enquiry pipeline.

The occupancy seasonal trend has been reinstated with 'Core' occupancy currently at 73.8%[5], 0.8%pts above pcp and 1.4%pts below the comparative week in CY19.

A 3.5% mid-year fee increase was implemented in response to the inflationary environment and the cost out program is on-track. Workforce shortages and absenteeism levels will continue to be challenging from an occupancy perspective.

Continuing occupancy trend coupled with strong cost and wage management is expected to drive a stronger H2 performance. The near-term focus is on improving conversions from the enquiry pipeline and execution of the Group's key strategic initiatives aimed at building on the credible team retention outcomes.

The Group's balance sheet is strong with the on-market buyback continuing in line with capital management strategy.

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

5. For week ended 21 August 2022