ASX Announcement

G8 Education Limited
(ASX:GEM)

21 February 2023

G8 EDUCATION ANNOUNCES RESULTS FOR THE FULL-YEAR ENDED 31 DECEMBER 2022

G8 Education Limited (the "**Group**" or "**G8**", ASX: GEM), a leading provider of quality early education and care with 438 centres across Australia, today announces its results for the 12 months ended 31 December 2022.

HIGHLIGHTS

- Core[1] occupancy of 71.0% (vs 70.9% in CY21) was impacted in H1 by COVID-19 and floods but recovered strongly in H2
- Operating EBIT[2] of $80.3 million (versus $80.1 million in CY21), driven by higher revenues and disciplined cost management
- Statutory NPAT of $36.6million (vs $45.7 million in CY21), which includes a net non-trading expense of $9.1 million relating to SaaS, restructuring costs and non-operating gains/losses
- Successful completion of the Group's cost-reduction program, with $14 million in costs removed to streamline the business and offset inflationary pressures
- Strong balance sheet with conservative leverage of 0.8x Net Debt/Operating EBITDA[2]
- 89% of G8 centres rated as 'Exceeding' or 'Meeting' the National Quality Standard, a 3%pts increase year-on-year
- CY22 fully franked dividend of 2.0c per share declared, taking full-year dividend to 3.0c
- $40 million on-market buyback completed in January 2023

TRADING PERFORMANCE

$M	CY22	CY21	Change
Revenue	901.3	866.3	4.0%
Statutory NPAT	36.6	45.7	(19.9%)
Basic earnings (cps)	4.4	5.4	(18.7%)
Net Debt (excluding leases)	(90.1)	(22.0)	(68.1m)
Excluding non-operating items			
Operating EBIT[2]	80.3	80.1	0.2%
CY22 H1	*21.0*	*39.0*	*(46.2%)*
CY22 H2	*59.3*	*41.1*	*44.3%*
Operating EBITDA[2]	106.5	101.2	5.2%
Average Core[1] occupancy	**CY22**	**CY21**	**Change**
Average Core occupancy	71.0%	70.9%	0.1%pt
'Spot' Core[1] occupancy	**CY23**	**CY22**	**CY19**
Fortnight ending 19 Feb	64.3%	62.5%	65.8%

1. "Core" excludes greenfields. 2. "Operating" excludes non-operating items and Kiddo and is after lease interest and depreciation. Refer to Note 7 of 2022 Annual Report for non-operating items.

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G8 Chief Executive Officer and Managing Director Pejman Okhovat said:

"In my first seven weeks at G8, it has been an absolute pleasure to tour our centres, meet our team and see first-hand their unwavering commitment to delivering on our purpose, which is creating the foundations for learning for life. I would like to extend my thanks to the team for their warm welcome and their contribution to this solid set of results.

"After a challenging first half disrupted by COVID-19 and flooding, the second half delivered a strong recovery in occupancy that narrowed the gap to pre-COVID levels and translated into an improved earnings performance. Effective costs controls and wage management were a key focus for the Group, with G8 successfully delivering $14 million in savings through its cost-out program.

"The Group's strong balance sheet and capital management – including the completion of the Group's buyback in January – underscore G8's commitment to delivering shareholder value and capital efficiency.

"G8 continued to focus on quality and embed sustainable practices across the organisation, including completing its centralised improvement program. Our approach now is focused on sustaining and continuously improving centre quality, supported by the efforts of the centre "Field Support" teams. It was terrific to see G8 end the year with 89% of our centres being rated as 'exceeding' or 'meeting' the National Quality Standard, a 3%pts increase year on year.

"The long-term demand fundamentals of our sector remain strong, supported by the positive changes to the Child Care Subsidy coming in July this year, which are expected to increase demand. However, workplace shortages remain a significant issue. G8 has put in place a mutli-faceted response to attract and retain a quality team and will continue to work with government and other stakeholders to get the policy settings right."

FINANCIAL PERFORMANCE

As discussed at the half-year results the impacts of COVID-19 and severe flooding on the east coast of Australia impacted occupancy in H1 CY22. However, occupancy recovered through H2 CY22 and finished the year at average Core[1] occupancy of 71% – in line with CY21 and narrowing the gap to pre-COVID CY19 levels to 2.0%pts (from 2.8%pts at HI CY22). This recovery, coupled with disciplined cost management, translated well into earnings performance.

Group revenue grew 4.0% to $901.3 million (vs $866.3 million in CY21) driven by higher average fees and the recovery in occupancy experienced in H2 CY22.

Through disciplined cost management, we delivered a 0.2% increase in Operating EBIT[2] (after lease interest) of $80.3 million (vs $80.1 million in CY21). Operating EBITDA[2] rose 5.2% to $106.5 million (vs $101.2 million in CY21).

As foreshadowed in April 2022, the Group implemented a cost reduction program, which augments the savings generated from transitioning from the Improvement Program to an integrated 'business-as-usual' model. As a result, gross savings of $14 million were delivered, in line with targets. The costs were largely taken out of support office functions, allowing resources to be channelled into the centre network, driving a more resilient business in both the short and long-term.

Statutory NPAT of $36.6m, (vs $45.7 million in CY21) reflected non-operating items such as software development costs, restructuring costs, and non-operating gains and losses.

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QUALITY AND SUSTAINABLE PRACTICES

The Group completed its centralised Improvement Program, including refreshing educational resources in all centres and successfully transitioned to a business-as-usual approach (as announced on 12 April 2022). G8's investment in quality has contributed to 89% of our centres being rated as 'exceeding' or 'meeting' the National Quality Standard, a 3% increase year on year, as we work towards our medium-term target of 95%.

The Group continued its disciplined approach to portfolio optimisation, with 16 centres closed or divested and 6 new centres opened in attractive locations.

A significant focus for G8 has been on attracting and retaining the best people. In response to the chronic workforce shortages across the sector, G8 has strengthened its remuneration, benefits, professional development offerings and workforce planning support which have resulted in a 38% reduction in our team vacancies.

G8 continues to closely engage with government and others in the sector to get the policy settings right. The Government recently increased fee-free vocational education places and state-funded scholarships and G8 continues to work alongside the sector to advocate for priority visas for ECEC workers.

G8 is actively engaging with the Australian Competition and Consumer Commission Child Care Inquiry and the Productivity Commission Review and is supportive of initiatives that seek to improve sector outcomes including quality, affordability and accessibility.

STRONG BALANCE SHEET AND PROACTIVE CAPITAL MANAGEMENT

The Group maintains a strong balance sheet and conservative leverage of 0.8x Net Debt/Operating EBITDA[2].

As part of the G8's capital management strategy, an on-market buyback was completed in January 2023, with 37.9 million shares repurchased totalling $40 million.

The Board is committed to driving long-term sustainable value for its shareholders and has declared a CY22 fully franked dividend of 2.0 cents per share, payable in April 2023. This takes the full-year dividend payment to 3.0 cents per share, representing 68% of NPAT, in line with the stated dividend policy of 50-70% of NPAT.

TRADING OUTLOOK

Trading update

Current Core[1] occupancy for the last two weeks is 1.8%pts higher than CY22 and 1.5%pts lower than CY19, broadly in line with the December trading update.

Fee increase of c. 6% implemented in January in response to the current inflationary environment.

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Wage management disciplines continue this year. Further wage inflation is expected in CY23 due to agency usage remaining as one of the staffing shortage solutions combined with general increases to sector wages.

The Group's balance sheet remains strong following the completion of the c.$40m on-market buyback as part of the Group's capital management strategy.

Outlook

Demand outlook for the ECEC sector is improving,and expected to be further stimulated by the "Cheaper Childcare Bill" scheduled for July 2023. New centre supply response is still unknown; supply in CY22 was subdued but approval requests increased in January 2023.

Chronic workforce shortages remain the sector's key challenge, constraining occupancy, conversion and sustained improvements. Inflation will continue to play a role in our families' affordability and our cost base management.

Regulatory focus on the sector will potentially have significant reforms ahead, which will require careful navigation.

G8's focus in the near-term is attracting and retaining the team to support seasonal occupancy growth and assist families in benefiting from the upcoming CCS changes.

ENDS

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

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