TRANSCRIPTION

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[START OF TRANSCRIPT]

Operator: Thank you for standing by, and welcome to the G8 Education Limited FY '24 Results. All participants are in a listen-only mode. There will be a presentation, followed by a question-and-answer session. If you wish to ask a question, you will need to press the star key followed by the number one on your telephone keypad.

I would now like to hand the conference over to Mr. Pejman Okhovat, CEO and Managing Director. Please go ahead.

Pejman Okhovat: Good morning, and welcome to the 2024 full year results call for G8 Education Limited. My name is Pejman Okhovat, and I'm the Managing Director and CEO of G8 Education. I'm joined today on the line by the Group's Chief Financial Officer, Steven Becker.

Steven Becker: Good morning.

Pejman Okhovat: Steven and I will take you through the investor presentation that was released to the ASX this morning. Following the presentation, we will open the lines for Q&A.

I'd like to begin by acknowledging the Gadigal people of Eora Nation, who are the traditional custodians of the land on which we are conducting this presentation today. We respect their spiritual relationship with the country, and we pay respects to their Elders past and present and emerging. I extend that respect to any Aboriginal and Torres Strait Islander people joining us today.

I would also like to acknowledge the G8 Education team who consistently and tirelessly nurture children's outcomes and support our society and local communities with the important role they play.

This morning, we will cover a summary of the 12 months ending 31st of December 2024, provide an update on our progress, outlining operational and financial performances for this period, and we'll conduct a brief current trading and outlook.

Beginning on Slide 6. We are incredibly proud to be the provider to more than 46,000 children across our network of over 400 centers and are dedicated to our purpose of creating the foundations for learning for life while placing the child at the heart of everything we do. This underpins our values and our commitment to delivering strong results in the six key strategic focus areas, which we'll elaborate on a little bit later.

Turning to Slide 7. Throughout 2024, we focused on building a fit core, improving our operational execution, maintaining clear focus on our families and team to deliver high-quality education and care for our children. The sector experienced challenges across the period with high inflation, families experiencing cost of living pressure and lower inquiries in parts of the year.

We have, however, remained committed to delivering strong financial and operational performance, targeting high-impact areas, including increasing team retention and engagement, focusing on safety and educational outcomes for children, improving our family engagement and ensuring we maintain a strong discipline in managing costs and capital.

Our strong team results are delivering stability in our workforce with vacancies significantly reducing, resulting in reduction of agency usage. Family engagement has made considerable strides in the period with continued focus on our family journey, driving improved Net Promoter Score results.

In a landmark achievement for the ECEC sector, we were involved in successfully bargaining for a sector-wide multi-employer agreement, securing a federal government funding 10% pay rise in December 2024 with a further 5% increase in December 2025.

The Group's financial results reflect a strong revenue and earnings growth compared to the prior comparative period driven by improved center performance and well-managed network support costs. This reflects our strategic focus on portfolio optimisation, exiting underperforming centers and procurement activities delivering improved value to our cost base.

Occupancy performed well in a challenging environment, delivering a 0.3 percentage points uplift on the prior comparative period. Occupancy was supported by the increase in frequency in the period and continued government investment in the three- to five-year-old kindergarten programs. However, affordability has continued to impact our families.

Solid operational performance resulted in a strong operating cash flow and lower leverage throughout the period. The share buyback progressed well in the period, and we successfully refinanced our debt facilities with a club bank facility providing us with greater liquidity optionality.

Now turning to Slide 8 that outlines the strong financial management of our activity result in a positive operating financial performance versus CY '23 of circa 14% growth in both operating EBIT and NPAT. This is a result of a combination of revenue growth, portfolio optimisation and a strong cost management discipline, particularly in center-based costs and network support costs.

From a statutory perspective, net profit after tax and earnings per share both increased by 20.8% and 21.1%, respectively. Pleasingly, this resulted in a fully franked final dividend of $0.035 per share being declared, taking the CY '24 fully franked total dividends to $0.055 per share, representing 65% of reported CY '24 NPAT.

Reported occupancy for the period was 70.7%, 0.3 percentage points above prior comparative year in an incredibly tough market conditions. Across the sector during the period, we believe our performance was competitive.

From a spot perspective, later than usual return of families has resulted in a slow start to 2025 occupancy. Our spot occupancy as of 16th of February of 61.8% is 3.5 percentage points below pcp, and year-to-date of 65% is 1.9 percentage point lower than pcp. We will discuss this further at the trading update.

Slide 9 reflects our commitment to shaping a resilient, inclusive and sustainable future for all our stakeholders across the four pillars of our governance, service quality, our people and environment. We'll cover the first pillars in the next slide as part of our balanced scorecard result.

In our environment pillar, from an emissions perspective, we achieved a 14% reduction in Scope 1 and 2 emissions and transitioned 89% of our vehicle fleet to hybrid vehicles. The first phase of solar installation has delivered more than 9.5% reduction in grid electricity usage with 6.8% of total energy usage generated by solar. Our recent debt refinancing is a sustainably linked loan, which allows interest rate reduction based on achieving reduced emission levels.

Moving to Slide 10, our balanced scorecard. Our ongoing focus on our key strategic areas are driving strong results across all six areas. Our commitment to delivering a fit core has resulted in solid operational execution with continued improvement in team outcomes and enriched family journey, increased number of centers, meeting or exceeding the national quality standards in our quality and education ratings and improved performance across our portfolio with ongoing network optimisation.

Occupancy, as mentioned before, was ahead of prior comparative period. However, this is in the backdrop of the sector has been experiencing challenges, particularly with a slowing of demand as a result of cost of living pressures on our families.

Team retention outcomes saw a positive result, up 3 percentage points on prior comparative period to 77%. Strong recruitment initiatives have provided workers stability with agency usage reducing to 0.2% of total hours.

Quality assessment ratings of meeting or exceeding have increased to 93%, 2 percentage points ahead of the long day care sector average. Our enriched family journey is resulting in improved NPS being 6 points ahead of PCP.

Turning to Slide 11. Our team outcomes continue to trend favorably with our strong attraction and retention initiatives, delivering stability of our workforce. We made significant headway in reducing our vacancies, 42% lower than prior comparative period, along with decreased time to fill rate. Our employee engagement improved 2 percentage points to 78% that is above the sector average.

We were involved in the successful bargaining of the multi-employer agreement, securing improved pay conditions for our team members and the sector. The introduction of a new capability framework and continued focus on investing in professional development shows our ongoing commitment to strengthening our workforce.

Over 2,300 team members engaged in our Study Pathways program in the period. Improving our employee brand is showing result in the uplift of key center roles and center managers and early education teachers retention both performing above prior comparative period.

Turning now to Slide 12. Our family experience remains a top priority for us with an always on NPS allowing us to focus on the key drivers and respond quickly to family needs. This has resulted in peers improvement year-on-year. Our ease of enrollment has improved with our call center and web unification projects.

Frequency trended up above prior comparative period and supported occupancy. However, there's been some flattening in this growth. State governments have assisted in affordability with subsidised care for three to five-year-old kindergarten programs in some states.

Looking at inquiries, the lead indicators of occupancy, we experienced a slowing going into the Half 2, in line with the broader sector. However, we gained momentum in November and December, coming back in line with the prior period. Our conversion was up year-on-year due to the improved customer journey initiatives.

Turning now to Slide 13. We remain committed to safety, child protection, quality and delivering improved and differentiated educational programs to our children. Our focus in this area has resulted in a number of centers achieving, meeting or exceeding the national quality standard, increasing to 93%, which is 3 percentage points above prior comparative period and now 2 percentage points above the sector average.

We've been working on increasing the number of teachers within our network to support the delivery of educational programs, including the state-funded programs for three and four-year olds. And we continue to strengthen our workforce through ongoing professional development, supporting team members who are studying to become teachers.

We have 94% of our network who have commenced or published a reconciliation action plan, embedding practices aligned to the updated national curriculum. We have extended programs focused on children's social and emotional well-being as well as child protection. Additionally, we have strengthened our partnership with inclusion support providers to enhance our inclusive programs across their centers.

Turning to Slide 14. Despite the challenges in the sector, group occupancy performed well in '24, finishing 0.3 percentage points above prior comparative period. Occupancy did slow in the second half as anticipated with the softening of inquiries versus prior comparative period and affordability impacting families.

Our operating model focused on delivering a number of key digital projects to drive efficiency across the network. We are fostering a culture of accountability through our center network playbook and have introduced performance dashboards to drive performance through improved insights. Our website unification project has better placed us to improve the customer journey and capture more inquiries.

Now moving to Slide 15, our financial sustainability. We continue to maintain a conservative balance sheet with a strong operating cash flow and cash conversion as a result of our solid earnings. Our capital allocation framework continues to balance investment in capex and shareholder returns. Capex in CY '24 was circa $34 million with an additional $7 million of underspend from CY '24 being rolled over in CY '25.

Pleasingly, we declared a fully-franked final dividend of $0.035, totaling a $0.055 per share fully-franked dividend in CY '24. Our share buyback progresses strongly with $18.4 million of shares purchased in CY '24 at an average share price of $1.35.

Cost management and procurement activities have provided continued benefits to our cost base along with wage optimisation and reduction of agency usage. Our active approach to network optimisation resulted in divesting 18 underperforming centers, surrendering 19 leases and opening in three new locations.

We are committed to focus on sustainability of our network, profit and continually assess our portfolio against key operating metrics to measure our performance. Of note, we have divested 18 of the 31 centers announced in CY

'23, and we continue to pursue other divestment opportunities for the remaining 13 centers as part of our BAU activity.

I will now hand over to Steven Becker to take us through the financial performance.

Steven Becker: Good morning, and thanks, Pejman. Focusing on our financial performance and turning to Slide 17. Pejman's covered off a few of these things along the way, but just to go through some highlights. Increased revenue and continuing cost discipline resulted in operating and statutory NPAT growth and margin expansion for the year. Group operating revenue grew by 3.3%, and statutory NPAT grew by 21% to nearly $68 million for the year.

The combination of stronger center performance and prudent network support cost management resulted in a 14.3% increase in group operating EBIT and an increase in operating margin of 1.1%. We have successfully delivered strong operating EBIT and NPAT growth year-on-year for the past two years, even in a challenging environment.

Benefits of our strategic procurement initiatives continue to assist margin growth. And our support costs were well managed with inflation largely driving the increase year-on-year and headcount remaining stable. In terms of our non-trading items, software development costs reduced significantly as previously flagged. The key driver of our non-operating costs were losses on the divestment of underperforming centers and the impairment of right-of-use assets. Total net non-trading expenses were 35% below the prior year.

Turning to Slide 18, where we discuss center performance in a bit more detail. The center network delivered higher revenue, earnings and margin expansion for the year. Our revenue increased by 3.4% driven largely by inflationary fee increases and higher occupancy. Employment costs continue to benefit from the positive outcomes of increased team retention and a reduction in agency usage of 1.6% over the previous year.

Rent expenses increased by 3.5% for the year as a result of CPI and fixed annual increases. Depreciation increased slightly for the year but remained flat as a percentage of revenue. Pleasingly, other costs decreased by 2.7% overall and decreased as a percentage of revenue. Overall center EBIT increased

10.2% to $179.3 million for the year with margins improving by 1.1 percentage points.

Turning now briefly to our balance sheet and capital allocation. As mentioned previously, the group continues to have a strong balance sheet with conservative leverage levels and access to ample additional liquidity. Cash flow generation was strong with cash conversion over 100% and operating cash flow after interest and tax of $133 million. We invested over $30 million in capex and paid out $40.5 million in dividends, resulting in free cash flow for the year of $60 million.

Net debt for the group ended at $66.3 million, representing a conservative gearing ratio of 7%. In addition, the group has access to a further $86 million of committed bank debt facility as and if required. As Pejman mentioned earlier, our share buyback continues well with over $18 million worth of shares bought back to December at an average price of $1.35. Prudent capital and cost management disciplines will continue to be a key focus for the group going forward.

I'll now hand back to Pejman, who will talk through current trading conditions and outlook. Thank you.

Pejman Okhovat: Thanks, Steven. Turning our minds to the current -- our current trading. As mentioned earlier, due to some changes in the school holiday periods and states slightly moving their return back to school dates and families taking longer time off, we experienced a slightly changing seasonal occupancy trend than our normal seasonal patterns. Group spot occupancy as of 16th of February was 61.8%, which is 3.5 percentage points lower than prior comparative period. And our year-to-date occupancy of 65% is 1.9% lower than comparative period.

We're optimising our call centers to deliver improved response time to families, targeting marketing activity to drive inquiries and focus on conversion and family retention. A fee increase of 4.3% was implemented in January '25, mitigating inflationary impacts.

Our capital allocation framework aims to deliver capex in CY '25 of circa $45 million, including a rollover of $7 million from CY '24 unspent funds due to timing and availability of construction partners. Ongoing network optimisation with 2 centers divested post 31 December 2024; and the share buyback continuing in CY '25 with purchases totaling circa $25 million at an average share price of $1.35.

Now to the outlook. We are confident in our operational execution in a challenging environment as we have demonstrated that over the last two years. Along with anticipated improving macro factors, we remain cautiously optimistic for a more positive 2025. We have seen momentum in inquiries and tours being booked, building in the last few weeks following a slow start.

The outlook on macro factors impacting our sector is anticipated to be more favorable, including increased female workforce participation, easing inflation, a lower interest rate environment, and unemployment will start to improve child care participation.

Cost of living pressures, whilst, continue to be top of mind for our families. However, the recent interest rate cut is showing families' outlook for 2025 is becoming more positive. The access to three days a week of guaranteed subsidies, subsidized child care, removing the activity test for families passed through the parliament, and we will see the benefit of that from 2026 and also not forgetting the annual CCS review, that's the Child Care Subsidy review in midyear will also improve family affordability.

We do not see workforce challenges being a critical issue for G8 any longer in CY '25. Our near-term focuses are: from a team perspective, maintaining our team engagement and building capability; from a family point of view, continuing to provide great experience and drive inquiries. From an operational point of view, our main focus is driving occupancy and performance across our network.

Delivering safe and high-quality services every day will be, of course, top of mind from a quality and safety point of view, maintaining a disciplined approach to capital and cost management as we've demonstrated that across the last two years and from a strategic point of view, executing our next horizon of enhancing the core that we've built over the last 12 to 18 months of our strategic plan, enabling the consideration for future growth strategy, which we'll discuss with our Board and partners in the coming year.

That concludes the formal part of the presentation. I will now hand back to the moderator for Q&A.

Operator: Thank you. If you wish to ask a question, you will need to press the star key followed by the number one on your telephone keypad. If you wish to cancel your request, please press star two. If you're on a speakerphone, please pick up the handset to ask your question. We ask today that you please keep to one question per person, after which you may then rejoin the queue.

Your first question comes from Tim Plumbe with UBS. Please go ahead.

Tim Plumbe: Hi guys. My one question is around the government-funded pay rise, if possible, please. So Pejman, 10% funded by the government, another 5% to come in December 2025. Originally, there were some question marks around who would fund associated costs like payroll tax, etcetera, with that 10% pay increase. Could you just walk us through the final outcome and where that's landed with the government, please?

Pejman Okhovat: Good morning, Tim. Yes, of course. The government has provided on cost support, too. Of course, as we live this life over the next few months and when we do start to reconcile our numbers with the government numbers, we'll get more detail. But certainly from the numbers that we can see for our own business, we can't talk about anybody else's, the cost that the government is providing is covering the appropriate on cost, too. We don't have any issues at this stage.

Tim Plumbe: Great. Thank you.

Operator: The next question comes from Wei-Weng Chen with RBC Capital Markets. Please go ahead.

Wei-Weng Chen: Hi, there. So just looking at consensus for '25, look, without maybe providing outright guidance, are you able to comment on any factors that we can kind of annualise from calendar year '24 that will provide either benefits or potentially impacts when we think about bridging from your 115 million of EBIT to your comments that calendar year '25 will be more positive?

Pejman Okhovat: No, what we're saying is we -- again, good morning, Wei-Weng, coming out of last year, if you're looking at economic reports, family sentiments and what we're seeing in the marketplace, families, by and large, are hoping and anticipating a more positive 2025, the reason for that being, as you've seen, inflation is starting to moderate.

It's not -- has come down, which is good news. There are elements of cost relief that's been introduced parts of last year coming into this year. And with the interest rate seeing its first cut for many months only a couple of weeks ago, I'd say the family sentiments and economic factors are deemed to be more positive.

So we are anticipating -- by nature, if the families are more positive, discretionary spends or budgets are being managed better for them, their participation in the sector improves. And that's what we are citing as that improvement for '25. We, of course, cannot reflect on our own performance, too. One thing that I mentioned earlier, we are incredibly, one, proud, and two, confident about our own operational execution, having worked 2 years on delivering that fit core.

And as you've seen last year, when the sector was facing probably one of its toughest years in operation, we maintained a very competitive stance in the marketplace. We maintained market share, even though we divested a number of centers, and we managed to grow our occupancy, as I mentioned, in a very tough year, too. So we'll be fighting as good a fighters that we can in the year. We can't control all the macro factors, but we are optimistic -- cautiously optimistic going into the rest of the year.

Wei-Weng Chen: Okay, thanks. I'll rejoin the queue.

Pejman Okhovat: Thank you.

Operator: The next question comes from Sophia Mulligan with Macquarie. Please go ahead.

Sophia Mulligan: Hi, team. Thanks for taking my question. Just one for me quickly on occupancy. So I'm wondering if you could give us any color on how you're expecting occupancy to trend over the year. Obviously, with a normal seasonal trend, but I know you called out the start of the year being a bit different to seasonal typical trends. So are you expecting an improvement from here? Or how should we be thinking about that?

Pejman Okhovat: Good morning, Sophia. Look, our typical annual seasonal curve, certainly from my experience and looking at the last even 4 or 5 years, the shape of that curve typically does not change irrespective of what the macro conditions are. Macro conditions impact the slight change in the shape of the curve, but not overall.

So we anticipate our seasonal curve to remain. What we are citing is the slower start to the year fundamentally from families and some of the school return dates being different year-on-year and states doing slightly different things has meant that we're almost 3 weeks -- the curve is 3 weeks misaligned to the previous year. We're behind in effect, if that's what the right thing is.

What we have noticed in the last 4 weeks and particularly more pronounced in the last 2 weeks, our inquiries have improved. And actually, the last 2 weeks, our average inquiries are circa 9% better than same time last year.

As a result of that, tours that are being scheduled, booked and families attending has also increased, and we're starting to get our tours -- scheduled tours and tours being attended to same as last year. So we anticipate that the curve will start to normalise, be it still a little bit behind last year as we progress to March and April.

Sophia Mulligan: Great, thanks, I'll rejoin the queue.

Pejman Okhovat: Thank you.

Operator: Once again, if you wish to ask a question, please press star one on your telephone.

Your next question comes from Tim Plumbe with UBS. Please go ahead.

Tim Plumbe: Hi, guys. Sorry, it's a bit of a follow-up for my first question, but I didn't want to be cheeky and ask two subcomponents. So government funding, the wage increase, that represents 70-odd percent of your opex, excluding depreciation. So with that in mind, how should we be broadly thinking about your opex line going into calendar year '25? Are there any significant uplifts that we need to take into consideration and how is rent tracking, etcetera?

Steven Becker: Just trying to -- just to clarify your question, Tim, I don't think so. I think things like our rent and things like that are largely linked to things like CPI and market increases and those sorts of things. Our wage increase is, obviously, linked to general wage rises and those sorts of things, other operating costs largely around inflationary-type increases. So nothing really linked to government funding per se, I think, if I'm answering -- if I'm understanding your question correctly.

Tim Plumbe: Yes. It was more just are there other -- like when you're thinking year-on-year growth in terms of labor costs for G8 outside of that government-funded increase, are there things we need to factor in like you're planning on taking on a significant amount of incremental heads or early childhood teachers or something like that? Or is it pretty much the whole of that labor line should be funded by the government?

Pejman Okhovat: Two things, Tim. The 10% pay rise, that is government funded and, of course, on top of that, they're covering the on cost too, as your first question. It's something that is -- fundamentally, all of it is passed on to our team members. There will be the annual wage review by the Fair Work Commission in May, June of this year.

That doesn't change because of this funding. The impact of that, we need to wait and see. Typically, the Fair Work assesses that based on December quarter, previous year's inflation rate, which thankfully have come down a bit.

But in the mix of all the different agreements with the government, the government has allowed the providers who participated in this, let's call it, wage subsidy or worker retention payment, what is termed formally, with a 4.4% fee increase, which we enacted on in January as part of our annual cycle.

But we will have to wait and see what the wage increase from Fair Work looks like in May going into June. We are not going to increase headcount out of line with either last year or with our occupancy growth.

Tim Plumbe: Great. Thanks. I'll join the queue again.

Pejman Okhovat: Thanks.

Operator: Your next question comes from Wei-Weng Chen with RBC Capital Markets. Please go ahead.

Wei-Weng Chen: Hi guys. It's me again. So just the EBIT uplift from divested centers in calendar year '24, can you maybe give some colour on that? And then how do we think about the remaining centers?

Steven Becker: Yes. Look, we obviously don't give a full breakdown of the impact. But we can say that our margin growth grew regardless of the divestment of the centers. So we had margin growth anyway. I think we're still looking, obviously, to divest the other centers as Pejman outlined in the presentation, and that's sort of continuing. It's hard to judge the timing of that. But certainly, that's certainly on the books for divestment as per previous times.

Wei-Weng Chen: Okay, cool. All right, I will rejoin the queue. Thanks.

Operator: Your next question comes from Cameron Bell with Canaccord Genuity. Please go ahead.

Cameron Bell: Good day, guys. A few questions. I'll just stick with one for now. Just that other expenses line falling, could you just maybe step us through what gains you made there?

Steven Becker: Other expenses is, look, all the other network support costs that -- everything that supports the network and the rent and all those sorts of things. I mean we've made just general gains in that just through anything from our procurement efficiencies, those sorts of things, just -- our continuing focus on that strategic procurement side.

And that's where we've sort of gained that economies of scale. Various things have just added into that. The other lines obviously are largely driven around wages and things that go outside of that, which tend to be more CPI type driven. But in that other line, we have been able to drive some efficiencies from scale and procurement.

Cameron Bell: Thanks.

Operator: Your next question comes from Sophia Mulligan with Macquarie. Please go ahead.

Sophia Mulligan: Thanks, guys. Just quickly on capital management, if you could talk through how you're thinking about that internally. I know you flagged in the deck that you expect to continue the buyback. I'm not sure if you have any expectations of when or if you'll complete the total announced buyback.

Steven Becker: Look, I think we've obviously got that buyback program in place. We're probably -- that will continue. That's the aim at the moment to continue. It's probably about roughly 50% probably through in broad terms. We're still looking -- so that will continue prudently. In terms of dividend and other capital management, that will still be around that aiming for that target sort of range as profits permit. So no real change in sort of that capital allocation side of things.

Sophia Mulligan: And sorry, just what are the target ranges for dividends?

Steven Becker: We've basically got -- at the moment, we're paying out 65%. I think the Board has got a range somewhere around that. We don't expect that to change materially in the future.

Sophia Mulligan: Great, thank you.

Operator: Your next question comes from Tim Plumbe with UBS. Please go ahead.

Tim Plumbe: Hi guys. Just one from me on supply, if possible, please. So it reaccelerated a little bit into the fourth quarter of '24 at 3.7%. Given all of the favourable rates, three days covered, increased female participation, so you've got multiple tailwinds, how are you thinking about demand growth as it stands now relative to that 3.7% supply growth, please?

Pejman Okhovat: Yes. Good question, Tim. I think if I look back at every -- last four or five quarters, the average of them is in that kind of 3.3%, 3.4%. You are correct, the last quarters did go from a 3.3% to a 3.7%. It does appear from the stats, some of that is actually in Victoria. And I think what we're hearing is the reason for that is, obviously, Victoria had a longer period of lockdown. So some of that latency in the building and releasing has come into it.

We -- from all our, let's call it, connections and dock points, people are anticipating that the shape of supply will materially change going forward. If I'm honest, there's still some people who are noting that actually, supply may continue to even go down a bit more over the next year or two, fundamentally due to cost of construction being astronomically high.

And many providers, including us, we've surrendered leases and we've surrendered some greenfields that were on the books, which the developers cannot build. So it's more steady as it is, but that's what we read into the sector numbers.

Tim Plumbe: Got it. And just in regards to the demand tailwinds that you're seeing coming through?

Pejman Okhovat: The tailwinds probably, if you want to call it -- certainly, if you're talking about what current inquiries and those kind of things -- is that what you're asking about, Tim?

Tim Plumbe: I guess the tailwinds that should be coming through, I mean, the rate cuts only just happened, right? So that should be a positive tailwind that you would think would continue to accelerate, the three days, the activity tests, etcetera. So when you look at all of those packaged up for the remainder of the year, do you see that as sufficient to kind of offset an uplift in supply?

Pejman Okhovat: Yes. Look, it actually -- I think if you think about it, it should be, in effect, bit of a more net positive for the families, in my humble opinion, compared to, let's say, a year or so ago. Why do I say that? One, because of the wage subsidy, which means the providers aren't allowed to put the fees up more than x percentage, which is good for the families.

So at least they've got the security of knowing the fees, certainly, for example, for ourselves, the fees will not go up anymore for the remainder of the year. So they've got that security.

Number two, the CCS will change and CCS will go up again, which by midyear will help the families affordability again. I don't know exactly how much the CCS will go up by, but it will go up fundamentally as -- probably the lowest will be via the inflationary rate.

But they are working to see what is - what they call an ECEC index will look like that may be more reflective of the cost of delivering better services. Certainly, the current government has rapidly pushed through that bill before closing down and getting ready for perhaps election campaigns, which again is positive. That doesn't come into effect until '26.

But again, that's again a net positive over the next 12 months to 18 months and if the anticipation of unemployment either being where it is or continuing to go lower means more people back at work requiring more child care spaces as we go forward. So those are the tailwinds that I think you probably talked to a few of them, but those are the ones that we're encouraged to see coming through.

Tim Plumbe: All right. Thanks guys.

Operator: Your next question comes from Wei-Weng Chen with RBC Capital Markets. Please go ahead.

Wei-Weng Chen: Hi guys. Apologies if I kind of missed this earlier, but is there a way to understand the spot occupancy being worse than the year-to-date? Does that mean it's decelerating or because I'm just trying to think about the timing comments. I mean that should really just shift the shape of the curve to the right?

Pejman Okhovat: It's a shape of the curve -- yes, Wei-Weng, it's more shape of the curve is at the lowest point in Feb for us now compared to where the lowest point last year was probably about two to three weeks ago. And some of that, as I said, explained earlier on is due to different timings almost by state when the families and the schools went back.

Like in New South Wales and WA, they went back almost a week later. And that subsequently has an impact. Families definitely took longer holidays. A lot of families didn't come back. Typically, we see families back from leave and starting to engage with the sector in the second week of Jan. It was almost towards end of Jan before we started to see.

So those dock points and also linking that back to, Wei-Weng, as I explained a bit earlier about where we've seen our inquiries, particularly the last two weeks, as I said our inquiries roughly on average are about 8% to 9% better than last year. It's kind of telling us that families are back.

They're starting to think about the older kids have gone back to school and what does that mean with the ones that -- they want to look for us or providers to look after their children in child care settings.

Wei-Weng Chen: Yes. Okay. So I guess my takeaway from what you just said then is that you're not necessarily concerned about what you're seeing in the numbers that you kind of just reported with the year-to-date trading. Your forward-looking indicators would suggest that we're kind of looking at an up year, not a down year from an occupancy perspective.

Pejman Okhovat: Well, I can't give a full forecast for the year, Wei-Weng, but I can just say that what we've seen is the curve is slightly later than last year. So we anticipate the same shape to the curve. I can't predict months and months ahead. But all we're saying is there's definitely positive sentiment. As we explained through questions from Tim, there are definitely macro tailwinds that are coming throughout the year going into next year.

And we'll be doing our absolute most like we did last year in any tough environment, one, running the business better, making sure that we are very competitive and maximise our opportunity within the macro climates and the sector settings that we face.

Wei-Weng Chen: Cool. All right. Thanks so much.

Pejman Okhovat: Thank you.

Operator: Your next question comes from Cameron Bell with Canaccord Genuity. Please go ahead.

Cameron Bell: Guys just following on from those last couple of questions. I guess taking it another way, you mentioned earlier that inquiries are plus 9% versus PCP at the moment. Can you maybe -- I was hoping you could just expand on that. And maybe could you give us an idea of typically how occupancy responds when inquiries are up that much?

Pejman Okhovat: Look, there's usually between -- when the inquiries come through, when families have got time to come and look at the center, look at the settings, go for a tour. And by the time they then book and bring the kids, there's always a lag, Cam.

Year-on-year, does that lag significantly change? Probably not. But I do think certainly this year, the families are waiting to see and feel the impact of the interest rate cuts in their budgets. We are seeing some of that inquiries being put in there for March and April with our families.

And in certain locations where we think we can, we're actually trying to drive some tactical marketing activities to bring those families forward and starting them, if we can in February and early March rather than for them wait. So we're looking at some -- putting some incentive in front of those families in very, very targeted and specific areas to drive that and test the market with that, too.

Cameron Bell: So I guess another way like plus 9% inquiries typically will mean positive versus PCP occupancy, but you just can't tell the timing?

Pejman Okhovat: I can't tell the timing. The other thing that's positive, Cam, for us is our conversion -- that's one of the key things, from inquiries to tours being conducted and then converting families into an enrollment. It was positive for us last year. Our team are doing a really great job of improving that family experience.

So we anticipate our conversion to remain in the similar levels of last year, which means, hopefully, we'll do a good job of converting those inquiries to best of our ability, be it potentially a little bit later, but that's what we're working towards.

Cameron Bell: Yes. Thanks.

Operator: Your next question comes from Sophia Mulligan with Macquarie. Please go ahead.

Sophia Mulligan: Thanks guys. I was just wondering how you're thinking about a potential change in government mid this year and how that could impact some of the regulation in the sector?

Pejman Okhovat: Maybe, Sophia, you can tell us. We -- genuinely, we've got as much information as you have. I think the -- both sides of the government, they typically have looked after the early childhood settings relatively well. Even if you look at the last 10 to 12 years, which has been a mix of government in place, the funding for the sector has fundamentally just increased.

The state government's funding, again, irrespective of which political factions are running them, they've continued to increase. Passing of the bill, which is legislated now, it will just come into effect on its own. So we don't see -- at this point in time, generally, from every dock points that we have, I think they've kind of shared with all the different changes they want to.

Never say never. If -- close to election, if one of the parties share something significant, then of course, we'll deal with it. But we remain optimistic about the future of early childhood in Australia, irrespective of political factions. And we, certainly as G8, are very bipartisan in terms of our outlook and how we work with each of the different political settings.

Sophia Mulligan: And sorry, just one more clarification question on the divestments. How many divestments are still in the pipeline? And is there any new centers that could potentially be opened as well?

Pejman Okhovat: Look, we don't disclose the divestments outrightly. As we mentioned, the only time we talked about a specific number was in October 23, if I remember the date correctly, which we said we'd identified 31 centers to divest through an agreed sale and purchase agreement.

We divested 18 of those 31, which means there are 13 further left. We are now dealing with those 13 and any other that we deem appropriate for divestment this year through our business as usual activity.

Sophie, we will continue to look at our portfolio optimisation in '26, '27, '28, and '29 and beyond. And every year, there will be some element of optimising that portfolio through divestment. And more and more, now that we have built the fit core, our operational cadences and how we're managing the organisation is fundamentally where we need it to be.

We'll start to think about very appropriately where we think growth is needed, and we'll ensue that again, as part of business as usual. We're not going to be going after significant projects of M&A at this stage.

Sophia Mulligan: Right. Thanks very much.

Operator: Your next question comes from Tim Plumbe with UBS. Please go ahead.

Tim Plumbe: Hi guys, my question is around agency costs, if possible, please. You guys had a very, very low percentage of revenue in the first half. Are you able to help us out in terms of what that was as a percentage of revenue in the second half? And then thinking forward to calendar year '25, are we now at a stable level? That was a big driver of cost efficiencies in FY '24. So are there further initiatives that you can undertake? Or are you kind of where you need to be?

Steven Becker: So maybe -- as we said, Tim, we've reduced our agency costs by about 1.6 percentage points year-on-year. And that was largely as -- obviously, that was a big focus for the group because it's obviously very costly labor, and that was largely driven by increased team retention.

And then obviously, you're always probably always going to have a little bit of that through just normal -- you probably won't be able to reduce it totally. But obviously, that's been a big focus, and I think it has improved significantly and has reduced that cost.

In terms of going forward, as I said, you probably won't eliminate it absolutely totally, but I think we believe we've got it to a manageable and sustainable level going forward.

Tim Plumbe: Sorry, my going forward was more just like cost efficiency initiatives -- it doesn't need to be for agency, but just in general?

Pejman Okhovat: No, look, we still have some elements of procurement initiatives that are in the pipeline, Tim. And the other thing that we will be doing across the group, we'll start to pay our attention to some end-to-end process reviews across the organisation, which we believe will have a level of efficiency gain across our organisation, be it in support office and how that will then filter through.

But in terms of just pure center-based labor, I think as Steven said, we've done an amazing job, and I do genuinely believe we are sector leading in terms of agency usage. We anticipate that to remain pretty similar to the tail end of last year.

We don't anticipate it to go higher. And the great work, again, the team did around re-rostering and workforce optimisation work, that will continue again, but it's not going to be a significant gain that year -- this year. It will be more procurement initiatives and process, let's call it, process optimisation.

Tim Plumbe: Understood. Thank you.

Operator: Your next question comes from Cameron Bell with Canaccord Genuity. Please go ahead.

Cameron Bell: Thanks. I was just hoping we could talk about your earnings per license place, so I guess how you think about it, particularly with the second half cost outlook. I guess how much can your EBIT per place still go up even with occupancy down a touch?

Pejman Okhovat: I'm not sure we've shared that specific number. But if I talk about the overall, kind of how we managed earnings last year. In a tough market with a moderate year-on-year occupancy growth, Cam, we demonstrated our ability at cost management, capital management, driving value out of our cost base. We've done a good job.

We believe there's more this year that we can do on that one. But ultimately, there's going to be a certain point in time where there won't be much more efficiency in the organsation left. As we believe, there's more that we can exercise our muscles on in '25.

But then coming -- from '25 going to '26, we will definitely start paying attention to growth strategies, by which we'll discuss with our Board, and then trying to ensue those moving towards more '26. I don't know whether that's answered your question or not.

Cameron Bell: No, no, I knew I was being shady. That's okay. Thanks.

Operator: There are no further questions at this time. I'll now hand back to Mr. Okhovat for closing remarks.

Pejman Okhovat: Thank you very much to everyone for your questions and being patient on this. In closing, I would just like to once again thank our G8 Education team for genuinely an outstanding year of work that has delivered great results across all our 6 strategic focus areas.

Our team's passion and their dedication to work has resulted supporting, again, thousands of families and children across the country in a high-quality education and care settings.

Personally, I just want to thank them for their hard work and also bringing to life what we really care for, which is our purpose and values and, of course, delivering outcomes for children, families and all our stakeholders, including our shareholders and investors. That's end of the conference call.

Operator: Thank you. That concludes the conference for today. Thank you for participating. You may now disconnect.

[END OF TRANSCRIPT]