TRANSCRIPTION

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[START OF TRANSCRIPT]

Operator: Thank you for standing by. Welcome to the G8 Education Limited Financial Year 2019 Annual 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. Gary Carroll, CEO. Please go ahead.

Gary Carroll: Thanks, Travis. So good morning everyone and welcome to the 2019 full-year results presentation for G8 Education Limited. As Travis said, my name's Gary Carroll. I'm the CEO and managing director of G8. I'm joined on today's call by the group CFO, Sharyn Williams. What we'll do is we'll walk through the investor presentation that was posted on the ASX earlier this morning and then provide time at the end for any questions.

Starting with slide five, which sets out the key highlights for the year from both an operating and a strategic perspective. In 2019, the group made solid progress despite a challenging environment. Over the last two years, we've been investing in quality and capability to be the centre of choice for families in every neighbourhood, and these investments started to bear fruit in 2019. During the year, we delivered solid like-for-like occupancy growth, the first growth in four years, with this growth translating to good like-for-like EBIT growth.

While the overall group earnings result was impacted by our investments in quality and the ramp-up of our greenfield centres, the consistent occupancy growth trend across our 2017 and 2018 cohorts provide us with confidence in the future earnings profile for our Greenfield portfolio. The group continued to demonstrate strong cash flow conversion and maintains the balance sheet capacity to execute its strategy.

From a strategic perspective, 2019 delivered record results in terms of centre manager turnover, centre quality and safety. As flagged in our November update, the

focus is very much on leveraging these enhanced capabilities to convert the people and quality results into earnings growth in both our organic and Greenfield portfolios. In the latter part of 2019, we made good progress with respect to portfolio optimization, completing the sale of 25 centres in Western Australia to lift group quality and occupancy without materially impacting profitability. We also have a full-time team largely in place to drive earnings growth at pace in our network, with clear actions in place for around 50 centres in the first quarter of 2020. We recognise it's taken longer than forecast to translate improvements in quality to earnings growth and our focus in 2020 is accelerating the pace of earnings growth. This includes a strong focus on driving cost efficiencies to respond to market conditions and help fund the acceleration programme.

Slide six sets out a summary of the 2019 EBIT result and Sharyn will unpack the line-by-line detail later in the presentation. Underlying EBIT was 132 and a half million in line with guidance provided in November. The result was driven by the performance of our like-for-like portfolio, which turned its 1.1 percentage point occupancy growth into $10.9 million EBIT growth, even after accounting for $4 million in licence fee revenue in the prior corresponding period. This like-for-like growth came from both our organic portfolio as well as growth in the 2017 and 2018 centre cohorts. Now, this strong growth was offset by start-up losses of $6 million relating to the 2019 Greenfield centres as well as an additional 6.4 million investment in support office to drive quality and capability. Both of these investments are forecast to drive earnings growth in future years.

Turning to the drivers of financial performance, starting with occupancy, the group's occupancy performance is outlined on slide seven and eight. Please note that when I'm referring to occupancy, it's the reference to like-for-like occupancy. The occupancy growth result was driven by both the market environment in the form of the new government subsidy, as well as group-specific initiatives. From a market perspective, the new subsidy has improved affordability, with the impact being felt both in terms of new families entering the sector and existing families taking additional days. From a G8 perspective, the group's investment in quality from an education, physical assets, and in-centre resources point of view, has driven a strong improvement in the group's portfolio quality. The customer engagement centre performs in line with expectations to drive inquiries for tours, and our investment in leadership and team engagement has had a positive impact on team retention. From a geographic perspective, all states grew occupancy except South Australia, which is continuing to absorb the impact of new supply.

Slide eight provides some more detailed trend data in relation to occupancy. In 2019, occupancy tracked above the prior year before ending in line with the prior year, as growth slowed in the fourth quarter. Occupancy grew in both halves, 1.6% in half one, 0.6% in half two, with the second half result being achieved despite cycling the introduction of the new childcare subsidy in the prior corresponding period.

Turning to wages. Slide nine provides an overview of wage performance for the year. Wage efficiency improved in 2019, with the group rebounding from a disappointing performance in the third quarter to record a strong result in quarter four. Wage performance varies across the network with key variables being the occupancy levels, the age mix of the centre, as well as the relevant regulatory requirements and these vary by jurisdiction. The group's new rostering system is on track to be rolled out between March and May, with resulting improvements in roster performance from improved visibility and increased automation. Note that the cost benefit of the new system will not be material in 2020, given the rollout timing and the need to absorb increased ECT wage costs flowing from the change in regulations to ECT levels in most States.

Slides 10 and 11 set out the performance of the group's Greenfield acquisition portfolio. Starting with the occupancy of the more mature 2017 and 2018 cohorts, which is on slide 10, the key takeout from this slide is the consistency in occupancy performance of both cohorts. This provides confidence in the future earnings potential of these cohorts, as the occupancy growth is translated into EBIT growth over time.

An overall view of the Greenfield centres is provided in slide 11. The first point worth noting is that half that portfolio is still in the early stages of development and growth, with ramp up of these immature centres being closely monitored. While each cohort has a mix of locations, the returns of the more mature cohorts are trending in line with our medium-term return on capital targets. The 2019 cohort has a small number of larger centres, with these centres having the potential to produce higher financial returns if they achieve the targeted level of occupancy. These centres are a key focus of the dedicated team that has been established as part of the group's acceleration programme. The group's opened five new centres thus far in 2020, with a further three centres being forecast to open in the first quarter and the last remaining centres to be open in quarter two.

As stated earlier, the group incurred $6.4 million in additional support costs in 2019. There were four areas that drove the incremental spend with these being set out on slide 12. Firstly, safety, both in terms of child safety and team member safety. This is a critical area and it's really pleasing to see the strong early results from this investment. Secondly, it was clear that the central plank of our strategy to leverage our scale advantage is the development of market-leading, engaging learning environments in each of our centres. The recruitment of a dedicated early learning and education team in 2019 has already had an impact on centre practises and programmes and further improvements are expected in the coming months. Thirdly, to leverage our scale advantage in terms of both employer of choice and operating efficiencies, we needed to provide additional support for centre managers in terms of centralising some activities as well as in relation to enhanced HR practises, training and induction, and compliance. This is good practise for a company of our scale and complexity. Lastly, we needed to future proof our business in terms of our technology platforms, systems and support.

It's worth noting that by the end of 2020, we are forecast to have replaced and upgraded every key operating technology platform for the group, providing for greater efficiencies and security. This investment in our support platform provides the capabilities for the group's medium-term growth objectives. With the scalable platform in place, the focus in 2020 is on driving cost efficiencies to support the EBIT acceleration programme and respond to prevailing market conditions.

I'll now handover to Sharyn to provide a detailed overview of 2019 financial performance in relation to profitability, cash flows, capital expenditure, and capital management.

Sharyn Williams: Thank you, Gary. I will now talk through the financial drivers for the group. From a P and L perspective, both our underlying EBIT result and earnings from acquisitions were in line with guidance previously provided. The group continued to produce strong cash flows and following the refinance of the Singapore notes, has increased debt tenor at a lower average cost of debt, with more flexible covenant arrangements.

Slide 15 sets out the statutory result for the year. Like a number of other companies with a significant lease footprint, the group's reported results have been materially impacted by the introduction of the new lease accounting standard. The impact of the standard on the group was as outlined in August. Under the lease adoption method selected, the prior year financial statements are not restated for AASD 16, so adjusted numbers for the current year have been provided to allow comparability.

Turning to the calendar year 2019 snapshot on slide 16, we have outlined the profit and loss, both from a statutory and a lease-adjusted perspective. The group grew revenue by 7% during the year through occupancy growth, expansion of our centre network and fee growth. At an EBITDA level, the $149 million result was flat year-on-year, reflecting the investments in both Greenfield ramp-ups and support office. After depreciation is taken into account, underlying EBIT was 132 and a half million, in line with November guidance. I know the prior year included a non-recurring licence fee of 4 million. After backing this out, EBIT was flat compared to the prior year. Finance costs were slightly lower this year, with the first half expenses being $17 million, reducing in H2 to 12 million, reflecting the restructured debt facilities. Cash conversion remained strong with EBITDA to lease-adjusted cash conversion of 97%, and 107% after adjusting for a 27th payroll payment on the last day of the year. A fully-franked final dividend of 6 cents per share has been declared, taking the calendar year 19 dividend to 10.75 cents. This represents a full-year payout ratio of 70% of lease-adjusted impact outlined on slide 16.

Turning to a more detailed overview of operating performance, which is contained on slide 17, the group translated the 1.1% like-for-like occupancy growth into a 6.6% increase in like-for-like centre EBIT. Organic centre EBIT grew 3% year-on-year, after absorbing increased investments in quality and capability, such as the customer engagement team, repairs and maintenance, and in-centre resources. Property-related costs grew by 4.4% year-on-year. This above-inflation growth rate was driven mainly by increases in outgoings and on-costs, such as rates and land tax, while annual rent reviews increased by a lower rate of 3.5%. The EBIT result also includes the impact of increasing depreciation charges associated with refurbishment activity. The strong like-for-like EBIT result of circa 7% was partially offset by losses from Greenfield centres open during the year. After factoring in these losses, total centre EBIT grew by 1.6% over the prior year. The incremental investment in support office of 6.4 million during the year, resulted in a bottom line underlying EBIT of 132.5 million, 2.8% lower than prior year.

Turning now to slide 18 which outlines the cash conversion of the business measured on a lease adjusted basis. The strength of the business continues to be the generation of strong operational cash flows with over 100% of this period's lease adjusted EBITDA converting to lease adjusted operating cash flows. A continued focus on working capital is a driver of this year's high conversion, particularly after the implementation of the new childcare subsidy. Where additional account support has been provided for both parents and our centre based teams during the first 12 months of the new subsidy.

Slide 19 outlines the cash flow statement of the group. As a reminder, the double ASB 16 leases implementation has no impact on the net cash flows generated by GA. To assist investors we have again provided pre-double ASB 16 numbers to allow comparability. There is a presentation impact of the standard which is to increase operating cash flows with an offsetting outflow in financing activities.

Effectively, the rental payments include a principal repayment on the lease liability. Similar to a mortgage where the repayment comprises of interest and principal. The principal portion during the year of 63.7 million can be seen in the table, moving from operating to financing cash flows, with net cash flows remaining unchanged. During the year operating cash flows of 90 million were sufficient to fund maintenance CapEx to 40 and the dividend payments of 45 million. The 50 million of acquisitions during the year comprising to Brownfield inserting Springfield centres. Were funded by the WA divestment proceeds the six million, cash reserves and borrowing. In terms of cash flows relating to financing costs. During the year the lower cost syndicated facility was drawn to repay the $270 million of Singapore bonds. With the other key financing outflow being the 45 million of dividends that were paid to shareholders. Looking ahead for the calendar year 20 the Greenfield funding requirement is expected to be $10 million for the remaining four centres.

Taking the entire spend to circa $155 million, the 44 centres and concluding the committed development pot bond. Outlined on slide 20 is a breakdown of the $40 million of capital invested during the year in the CapEx. We've also outlined the CapEx investments for the coming year. These investments deport a number of our target areas, particularly the acceleration programme. By continuing to build the quality of centres as well as building the foundational systems and infrastructure to ensure our platform is scalable, efficient, and customer focus. The centre refresh and refurbish programme continues with $21 million invested during the year. This CapEx specifically relates to investment made in the physical centres. Such as playground and yard upgrades, painting, flooring, air conditioning and kitchens. In so doing, we improve the physical appeal of our same network as well as enhanced the everyday experience for both families and our teams. Within centres. The remaining investment was invested in technology, educational equipment and furniture, used incentives as well as continued investment in our foundational systems.

Predominantly the system investments related to the rostering and workforce management system and further expansion about childcare management system to provide enhanced communication to families. The wifi infrastructure upgrades at the centres continues this year. This investment supports the delivery of the customer facing elements of our childcare management system and the workforce management project forecast 2020 Tepic is estimated at 40 million as we continue to strengthen the quality of Santa's portfolios, particularly incentives that are part of the acceleration programme. Sending natural capital metrics on slide 21. The Burt's key financial ratios, our net debt to EBITDA leverage six charge Kaaba and hearing Nick debt levels ended the year at $350 million in line with the level at the end of June, resulting in $150 million of available debt facilities in cash. The leverage of 2.25 times that end of the year, well this flagged at the half-year and with the final full development centres to be delivered in first half 20 leverage is still expected to be at or below two and a half times at the half.

As the development pipeline is completed and learnings from the Springfield centres continue to grow. Leverage is expected to reduce through the second half of 2020 the current leverage levels of above two times reflects the growth phase of the company as we execute on the brain field development pipeline with these earnings lagging the initial capital investment. The fixed charge cover ratio remains stable during the year and continues to reflect the timing variance between rental commitments from the Greenfield pipeline coming online and the earnings being realised the group remains conservatively deed. We continue to be comfortable with our capital position based on having sufficient head room available, relevant relative to our covenant levels, strong relationships with our lenders, and approximately $100 million in committed debt facilities and cash available even at peak debt levels from a return perspective. On slide 22 return on capital employed has reduced during the calendar year 19 reflecting the increasing capital as the Greenfield pipeline is delivered and for the Catholics he's invested in.

The quality of the network. Return on capital employed is expected to train higher as the core portfolio, organic growth and the Greenfield centres mature. Turning to page 23 in terms of capital management as indicated previously, $270 million of foreign denominated Singapore bonds were repaid. This repayment completed the transition of the group to lower cost of debt, improved covenant arrangements and a staggered debt maturity profile. The second half reflected the lower cost of debt with finance costs reducing as expected borrowing costs. The calendar year 20 are expected to be circa 25 million. The board declared a fully franked dividend of six cents per share resulting in a full year dividend of 10.75 cents and a pay out ratio at the lower end of the 70 to 80% of lease adjusted impact dividend pie at range. I'll now hand back to Gary for the strategy update.

Gary Carroll: Thanks Sharyn. We'll now tune to an update on implementation of the group strategic plan before, during sides with providing an overall view of the market supply demand environment with an upside on spy environment being set out on slide 25. From a macro perspective after reducing steadily for the first three quarters supply growth picked up in the fourth quarter and brought the full year annualised growth rate to 4.2% as stated in previous presentation. While the macro results are useful, the key indicator of the impact of competition in our sector is the movement in supplying each local area. The best proxy for this is the number of centres that have opened within a two kilometre radius of an existing centre. Well, GI network has been significantly impacted by supply with 270 centres is impacted by new competitors over the last three years. This supply growth moderated during 2019 the number of GI changes impacted on new supply increased by 1% during 2019 well below the macro growth level.

Capturing the impact of supply growth is a key focus of our acceleration programme. As the evidence continues to demonstrate that high quality centres can successfully mitigate the impact of new supply as that line unit. November 2019 investor day presentation. The focus in the next 12 to 18 months is firmly on utilising the group's enhanced capabilities to accelerate earnings growth. Slide 26 outlines our pathway to accelerated Abid growth with the focus and priorities being into areas. Firstly, driving growth in our turnaround and Greenfield centres primarily for the establishment of a full time team that will utilise the methodology established in the pilot programme that was conducted in 2019. The team is largely implies and activities have been targeted for around 50 centres in the first quarter of 2020 and an update on progress as such, activities will be provided at the group's AGM in knife. Secondly, optimising the centre network by actively reviewing and taking action in relation to underperforming centres as well as continuing to evaluate acquisition opportunities in a discipline manner.

Costs are also a focus in terms of optimization and we'll be driving cost efficiencies to support EBITDA acceleration and to respond to providing market conditions. The cost of the full time team forms part of the overall $10 million cost of the acceleration programme. Would these costs being outlined in slide 27 the $10 million costs that broadly evenly splitting the three areas. Firstly, the full time turn around team, which consists of temporarily succoured resources as well as consultants, as the succoured team members will return to operational roles within 12 to 18 months. The incremental costs are considered to be one off. Secondly, $3 million in increased training costs related to major system changes such as the new rostering system on the basis that might just system related changes will be completed in the next 12 to 18 months.

These incremental costs are also considered to be temporary and in thirdly, the cost of incentive resources to accelerate quality improvements to our centres is such as repairs and maintenance cost and learning environments. Once these environments are up to standard, the level of ongoing investment reduces significantly. The cost of the programme will be phased and monitored to ensure all except acceleration programme costs a funded what benefits or cost efficiencies that clove from our optimization activities.

Turning to the group's current trading and outlook for 2020 which you set out on slide 29 there has been significant instability in the market to date in County 20 due to events such as Bush fires and a current of ours. This is flowed through to the group talks, PNC with year to date like for like occupancy slightly behind prior year. Given the recent and continuing market volatility, it is too early to form a clear view on the group's underlying occupancy performance.

The impact on group profits have been and we'll continue to be medicated by cost management. We will continue to monitor conditions in the marketplace and be agile in our response. Yeah. Each performance is in line with the expectations and the activities associated with the acceleration programme are on track with costs of the programme being phased and monitored to ensure they're funded by incremental earnings from turnaround and Greenfield centres in calendar year 20. The group look forward to providing a further update on trading performance and progress of our strategic programme at the annual general meeting in May 2020. Travis, that concludes the formal part of the presentation. I'll now hand back to you to start the Q and a session.

Operator: Thank you. If you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star then two if you are using a speaker phone, please pick up the handset to ask your question. Once again to ask a question, please press star one on your phone. The first question today comes from Scott Hudson from MST. Please go ahead.

Scott Hudson: Their insurance to a couple of questions. Firstly, in relation to the Syntheses for support costs, and freshen in 19 what sorts of carrier full year impact is that going to have on calendar year 20?

Gary Carroll: So we're not expecting significant annulisation increases off that cost. Scott, most of the costs were incurred in the early part of the year, so 2019 will be a good proxy for 2020

Scott Hudson: Then just in relation to the $10 million cost associated acceleration programmes that just existing staff being reallocated into different roles for the years. That how we think of that?

Gary Carroll: Yeah. So we've succoured people from their normal operational roles into a full time project team and back filled them in their operations roles. Once the project is finished, they then step back in as operational roles. And those backfield people who are contracted resource then disappear.

Scott Hudson: Then lastly, integration to the commentary around the volatility through early calendar year 20 I mean, is that very regionally focused or is it quite full price depending on, in terms of impact?

Gary Carroll: So about a quarter of our centres were impacted by bush fires over a number of months out there in communities that were impacted by Bush fires.

That was reasonably widespread, albeit, temporarily impact for the centres in question from a closure point of view. In terms of coronavirus, today has been predominantly along the Eastern seaboard and more in Sydney, Melbourne. I guess like everyone, we've got a bit of a wait-and-see approach as to how that develops.

Scott Hudson: So then, ongoing impacts?

Gary Carroll: I guess, sitting here today I'm unable to predict exactly how it's going to go, so I can't be more definitive than that at this point unfortunately.

Scott Hudson: And then lastly, in terms of identifying underperforming centres, what sort of percentage or how many of the number of centres have you identified as sort of under-performing and under review?

Gary Carroll: Yeah, so we talked in our November presentation of our turnaround programme being around the 80 centres. We're pretty comfortable with that number.

Scott Hudson: In terms of your portfolio optimization, any potential closures come within that 80 centres?

Gary Carroll: There's turnarounds where we're confident that we can improve the level of profitability back to their historical levels. In terms of loss-making centres, our WA sale took a fairly sizable portion out of our total loss-making portfolio. You would've noted that we closed 16 centres at lease expiries during the year, so we think we've gone a fairly long way in terms of cleaning up our portfolio of loss makers.

Scott Hudson: That's all for me for now. Thank you.

Operator: Thank you. The next question comes from Peter Drew from Carter Bar Securities. Please go ahead.

Peter Drew: Morning Gary and Sharon. Just a couple of questions. Firstly, with that 10 million investment, where will that be reflected in terms of, I guess how you disclose the results. Will that be included in support costs?

Gary Carroll: Yes. Yeah, predominantly Pete. We'll take it as within EBIT for the start. We'll give people a separate breakdown, but it'll come through as support.

Peter Drew: Yep. Okay. And how should we think about, will it be fairly evenly weighted through calendar 20 in terms of first half, second half, or will it be more front end?

Gary Carroll: It'll be pretty evenly weighted. Although as we'd called out in the presentation, we're going to be quite agile in how we manage that because we want to make sure that we're getting the balance between benefits and costs.

Peter Drew: Yep. Okay. And in terms of, I guess, the expectations of how you'll see the positive impact to EBIT come through, can you give us a sort of guide as to what you're thinking the improvement will be relative to that $10 million spend maybe this year and next year?

Gary Carroll: Certainly. For this year we're quite clear that the benefits from the programme need to cover the cost of the programme, so we're not going backwards from an EBIT perspective this year. When we achieve that, that sets up good momentum leading into next year.

Peter Drew: Okay. And then just in terms of Capex, can I just clarify, is there still the 31 million of Capex for those 10 centres to be paid, effectively, in first half 20 or is there some component of that that's already been prepaid?

Sharyn Williams: For our Greenfield pipeline Peter, we've got around 10 million left for this first half.

Peter Drew: Okay. So that means that 21's already been paid.

Sharyn Williams: Correct.

Peter Drew: In calendar 19.

Gary Carroll: In calendar 19, all we've got left of that 155 million is around 10 million, in terms of cash flow.

Peter Drew: Yep. Okay. And then I guess just the last one, just in terms of trade performance, I mean you said that occupancy is tracking slightly below the PCP, but you're talking about having mitigated some of the impact in terms of better cost management. Can you provide any sort of guide in terms of how you're tracking from an EBIT perspective so far in the year, relative to the same period last year?

Gary Carroll: Pretty comfortable we've done an effective job of managing costs to absorb the impact to date Peter.

Peter Drew: Okay. So I should just assume that you're tracking fairly flat from an EBIT perspective.

Gary Carroll: Assume we're tracking in line with our internal forecast to date, yeah.

Peter Drew: Okay, great. Thanks very much.

Operator: Thank you. The next question comes from Aaron Muller from Canaccord Genuity. Please go ahead.

Aaron Muller: Hi Gary. Hi Sharon.

Gary Carroll: Hey Aaron.

Sharyn Williams: Hey.

Aaron Muller: So guys, just in terms of price increases, how are you sort of thinking about it this year? Obviously brought it forward a little bit in May. What are the plans this year, do you think?

Gary Carroll: So we have communicated with our families Aaron. Our costs, our fee increase will be effective at the beginning of March. We are looking to, as I've flagged in previous presentations, bring it forward to the beginning of the year. And that enables people to have a budget in place for the full year. It was slightly behind our initial target date for this year, given the impacts that happened throughout our market from a bush fires, et cetera perspective. We didn't think the timing was right to do it right at the beginning of the year. But we have moved effective early March.

Aaron Muller: And what percentage could we assume for this year?

Gary Carroll: It's around the mid fours.

Aaron Muller: Is that across the board or is this centre by centre?

Gary Carroll: As we've done for a while now, it varies by centre, but the overall average adds up to around the mid fours.

Aaron Muller: And any feedback from parents?

Gary Carroll: So if we take it based off the number of emails into our inbox, it's actually been slightly lower than prior years.

Aaron Muller: Okay. And just in terms of network expansion now that the committed pipeline's complete, how should we think about that going forward?

Gary Carroll: Yeah, so we continue to look at acquisitions and we've said no to lots of things at the moment, Aaron. Certainly from a brownfield point of view, Greenfield, we continue to look at acquisitions and we have fundamentally changed our model in relation to Greenfield to significantly reduce the upfront investment. Discussions with a number of developers in the market, that's being pretty well received. So we'd think over time in a sensible way, we'll start adding to our network.

Aaron Muller: Just you haven't made a comment on the 29 in cohort this year in terms of how they're performing. I assume you expect the 60 mill loss to be a bit less in calendar year 20?

Gary Carroll: We do and they have been building occupancy steadily start of the year, so they're going in line with where we'd like them to be at this point.

Aaron Muller: Got it. All right. Thanks very much, that's it for me.

Operator: Thank you once again to ask a question, please press star one on your phone. The next question comes from Gareth James from Morningstar. Please go ahead.

Gareth James: Oh, hi guys. Just on Arena's call the other day, they talked about their portfolio experiencing a five percentage point increase in occupancy. You guys seem to be below that. I'm just kind of wondering how to reconcile that. Are you guys improving at a slower rate than the industry?

Gary Carroll: So I think care needs to be had with those numbers Gareth, because if we report occupancy growth for the Greenfield centre, it is quite substantial in the first year. So we report like for like, and certainly as at the first half we're outpacing our listed peers from an occupancy growth perspective by a fair way. One of them has released already this results season and they are below our number. And feedback I get from a number of market participants is we're not below market in terms of like for like occupancy growth.

Gareth James: Sure. Also I think you said that your NQS rating is kind of a KPI for the firm. And I was just wondering what proportion of centres are working towards rating currently?

Gary Carroll: So as of 31 December, 19% were working towards, 81% were meeting or exceeding. That's up from 74 about three years ago.

Gareth James: Sure. Okay. And just one final one for me. I think at the investor day in kind of late 2018 I think it was, you talked about a kind of national brand strategy, brand consolidation, that kind of thing. I was just wondering if you had an update on that?

Gary Carroll: Actually not at this point. Our strategy for 2020 is very much focused on turning around and accelerating our EBIT growth. So work is happening in the background in terms of brand, but it's not a priority for us in the next 12 months.

Gareth James: Oh, sorry, just one more if I can squeeze it in. Just on the supply growth figure, the 4.2% growth. Is that the growth in LDC centres? I'm just wondering how that compares to the growth in the number of places.

Gary Carroll: Yeah, it's growth in the number of LDC centres. I don't have the exact stat on the number of places, but if anything it would be slightly higher because the centres that have opened in the last two years tend to be slightly larger than historical. That wouldn't be massively different. Might be a touch higher.

Gareth James: Sure. Okay. Thanks guys.

Operator: Thank you once again to ask a question, please press star one on your phone. The next question comes from Jason Roberts from Sector Publishing. Please go ahead.

Jason Roberts: Hi Gary. Hi Sharon. Just a quick one here. In terms of the operational metrics of centre manager turnover, centre quality and team and child safety. I know we've [inaudible]. Now could you provide a bit of colour on how turnover has improved to record levels, and if possible any metrics you could share on team and child safety?

Gary Carroll: So hey Jason. So centre manager turnover reduced from 18% at the start of the year to 15.8 by the end of the year. LTIFR, which is our preferred measure of team member safety, reduced by around 50%, it's now around 10. Child safety, we've measured by accidental harm, and that came down significantly during the period. I don't normally release that one because we work with parents on that. And centre quality, as we called out, 81% of centres meeting or exceeding, which is a record result for us and puts us in line to achieve our medium term target of at least 90.

Jason Roberts: All right. That's terrific. Thank you very much. Thank you.

Operator: Thank you. At this time, we're showing no further questions. I'll hand the conference back to Mr. Carroll for closing remarks.

Gary Carroll: Thanks Travis. Well, thanks everyone for joining us today. No doubt we'll catch up with a number of you over the next coming days, and thanks for your time. See you later.

Sharyn Williams: Thank you.

[END OF TRANSCRIPT]