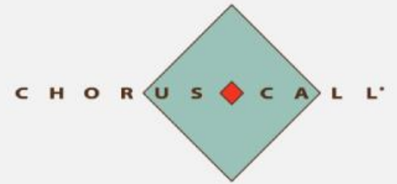


TRANSCRIPTION

Company: **G8 Education Limited**

Date: **24 August 2020**

Time: **9:00am (AEST)**

Duration: **50 minutes 53 seconds**

Reservation Number: **10008687**

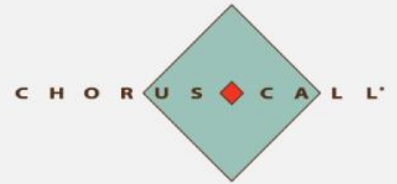
[START OF TRANSCRIPT]

Gary Carroll: Thanks Kelly. Good morning, everyone and welcome to the 2020 half-year results for G8 Education Limited. My name's Gary Carroll and I'm the CEO and managing Director for G8 Education, and I'm joined on today's call by the group CFO, Sharon Williams. As, we've done in the past, we'll walk through the investor presentation that was posted on the ASX earlier this morning and then provide time for any questions. But before I start the formal presentation; I'd like to acknowledge the entire G8 Education team for their outstanding courage and efforts during what's been an incredibly challenging period.

Slides, four, five, and six provide a summary of key events and achievements during the half; covering the impact of COVID-19, our financial results, as well as an update on current trading, strategic implementation and outlook.

Starting with the COVID-19 impacts on slide four. The initial stages of the pandemic led to large withdrawals of children from care across the sector. Due to health and safety concerns, changes in working arrangements and unemployment. Recognising this, the government responded to provide a series of relief packages to ensure sector viability, allowing centres to remain open and fulfil their role as an essential service to the economy. Pleasingly, occupancy and attendance levels recovered from the April lows, due to infection rates being contained and the government relief package easing the financial burden for families. In July, the government relief package was amended; reinstating fees to families that attended centres, while continuing to provide funding support for operators and waiving fees for families that were not attending centres. The impact of removing free childcare was better than expected, and occupancy has been growing steadily since, in all states except Victoria. As a group, we are very aware that our operating environment will remain subject changes in infection levels and lockdown responses. So we continue to be agile in our response; both in terms of health and safety and cost management.

Slide five sets out the key financial results for the half-year. As a result of the $237 million non-cash impairment expense, that was announced to the market on the 11th of June. The group recorded a statutory loss of $239 million for the hub. Our underline EBIT was 29 million, reflecting the net effect of COVID-19 impacts and the government support packages. We'll unpack the key components to this result later in the presentation.



G8 achieved its aggregate cash preservation and cost saving targets that were set at the April equity raising. This performance together with the $301 million equity raising has enabled the group to finish the half with net debt of $57 million. During the half, the group also completed the settlement of its committed Greenfield pipeline with the final 10 centres being opened. Turning to slide six, the group's current occupancy is 69% with attendances running at 50%; all states except Victoria have normal attendance levels relative to occupancy. In this sense, G8's national footprint provides a degree of portfolio diversification protection. Given the varying impacts of COVID by region or state.

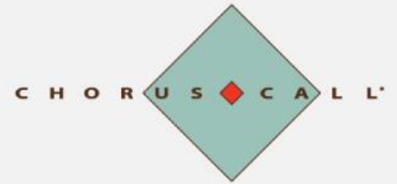
From a strategy perspective, we'd maintained our acceleration programme to turn around the quality and performance of selected centres with the focus being on ensuring a consistent high quality education programme and family experience in the relevant centres. This work was undertaken across 108 centres in the first half.

Looking forward to the balance of 2020, government funding mechanisms are in place until the end of September, with the government demonstrating a really good track record of responding swiftly to COVID-19 driven changes such as lockdowns.Given the ongoing uncertainty and market volatility, G8 is not in a position to provide guidance, unexpected underlying occupancy, or financial performance. What we do know is that as a result of the changes implemented over the past few months, we have the financial flexibility, disciplines, processes, and people in place to ensure we can emerge from the COVID-19 environment as a stronger business.

Given that summary, I'll now provide a more detailed review of operations for the half. Starting with our operational response to COVID-19, which is set out in slide eight; a number one priority during this time has been the safety and well-being of our children and team members. To ensure this, we undertook a series of actions from increased infection control measures and amended centre routines through to mental wellness support for our team members and tool kits for families on how to talk to children about COVID-19. During the period up to 19th of August; we temporarily closed 10 centres for short periods of time. In each case, working closely with and following the relevant advice and directions of the government. From the initial stages of the pandemic; G8 has maintained a dedicated COVID support and case management team providing supporting communication to our teams and families as we navigate the crisis together.

It's heartening to report that we have substantially maintained our centre based teams throughout the period; positioning us well as we recover from the pandemic. Finally, we ensured that families that were not attending our centres remained engaged with the centre community by the provision of at home learning support and a content hub.

The financial impacts of COVID-19 has set out on slide nine. In the half, the group received $89.3 million in funding. In the form of the initial early childhood education and care relief package. With this funding being kept and replacing all other forms of fee revenue during the funding period. In mid July, the funding package was amended with $51 million in government funding revenue expected in half. Augmenting the CTS and parent fee revenues



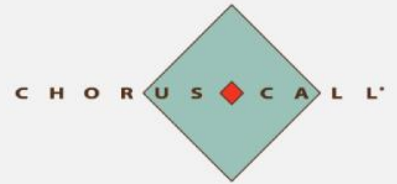
that were reinstated from the 13th of July. The group also received $70.8 million in net job kicker funding in half one, with $14.1 million expected in the second half of the year. As part of the government funding arrangements; all employers such as, G8 are required to maintain employment levels based on the July reference period up until the end of September.

From a cost saving and cost preservation perspective the group achieved its aggregate targets.Title rental waivers or deferrals $8.2 million versus an original target of $12 million with the variance being driven primarily by the relief period being around three months, rather than the expected six months.This variance was offset by wage efficiencies throughout the period.60% of the rental relief was in the form of waivers with the remaining taking the form of deferrals. Other cost savings was slightly better than forecast during the half. A number of capital structure initiatives are undertaken during the period positioning the group's balance sheet withstands any prolonged downturn.

Now I'll steal Sharon's thunder on this aspect; other than to note that the payment of the deferred dividend will be made in October 2020. And the strong support we've received from our banking group including the extension of covenant relief and deck facilities until December 2021. The story of the groups occupancy during first half is contained on slide 10 and we split the year to date in the three phases. Firstly, quarter one where occupancy reduced as parents went through their children from care or reduced bookings due to COVID-19; until the government support package in early April removed parents fees. Secondly, the rebound in occupancy in quarter two is COVID-19 infection rates reduced and childcare was free. And lastly, the period from 13 July following re-introduction of parent fees. It's been pleasing to see occupancy, continuing to grow even after parent co-payments have been reestablished. At an overall level, occupancy is behind last year due to the seasonal uplift that historically curves; in quarter two being impacted by COVID-19.

Slide 11 provides a further breakdown of occupancy highlighting ; the movement in bookings and attendance during the half. The three key takeouts from this slide are firstly, the recovery and attendances in all States except Victoria; since the April low. Secondly, the smaller than expected drop three percentage points in bookings following the re-introduction of parents fees. And thirdly, the significant impact on attendances of the stage three and stage four lock downs, in Victoria. The period from April to July presented significant challenges to the sector with revenues being kept and attendance is growing, placing pressure on costs.

G8 responded well during this period as highlighted on slide 12. As part of our COVID response, we increased the frequency and scope of our wage management activities. And we utilise some of the technology that we'll be rolling out at scale, as part of our roster project. The outcome of this work was weight performance exceeded the target set in April driven by roster management, including annual leave utilisation and job keep subsidy relief. I'll now hand over to Sharon to talk through the group's financial performance for the half in more detail.



Sharyn Williams: Thank you, Gary.

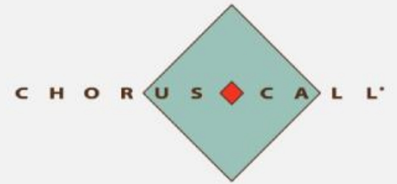
I will now walk through the financial drivers of the group's results; including the statutory result, the pre AA SB 16 results and the underlying performance of the business over the past six months. Turning to the half year 2020 snapshot on slide 14, this slide sets out the statutory and pre WSB 16 results of the group. Revenue of 309 million, 28% lower than prior comparative period reflects the impact of COVID-19 and the government support packages for the sector with the decreasing revenues isolated to quarter two. During the second quarter, the government funding model effectively cap revenue for the group, irrespective of occupancy levels based on the reference period in late February coinciding with the seasonal low point of the year. This subsidy package protected the group's revenue from parents withdrawing children from care in the early stages of COVID-19 restrictions. However, it also removed parent gap fees. As a result, cost management was a key focus of this period.

From a statutory loss point of view; the key driver was the previously announced impairment, which is non nature and reflects the reduction in carrying value of assets on the balance sheet.This impairment was flagged to the market on 11 June 2020, and the material items making up this amount are twofold. Firstly, an impairment of Goodwill of 150 million driven by the COVID-19 impact on the future cash flows of the group. Particularly the near term cash flows and the resulting impact on the group's Goodwill carrying value. Also within, this adjustment is an adjustment to the carrying value of the Singapore business. The second material driver of the non trading items was the strategic review of the portfolio; which resulted in a number of centres being identified, as underperforming.

This resulted in 90 million of WSB16 right of use assets and PP E assets being paired. You will recall that this right of use asset was brought onto the balance sheet due to WSP16, in January 2019. And now phones is an additional asset that must be tested for impairment. From a pre WSP16 perspective, the performer columns reflect

...key changes to the P&L from the changed leasing standard, which can be seen in the reduced occupancy cost line, offset by increases to the depreciation and finance cost lines. In terms of the cash flow and balance sheet impacts, we committed to providing two years or pre- and post-AASB 16 financials to show the impacts of this new accounting standard. These financial statements have been outlined in the Investor Presentation Appendix and the final year results will also be provided on a pre-AASB 16 basis.

Adjusting for the impairment and non-cash items outlined in the notes to the financial statements, the Group achieved an operating profit with an underlying EBIT result of $29 million and an NPAT of $12 million. Although EBIT was down 44% on PCP, it was pleasing that each of the six months during the period produced a positive EBIT performance, driven by effective cost management. At an EBITDA level, the underlying $40 million result was a $36 million reduction on PCP. However, the EBITDA margin held up well, reflected in the 12.9% margin, a 1.5 percentage point reduction from PCP. From a net profit perspective, reduced finance costs reflect the benefits of the refinance of the Singapore notes. Cash



conversion remained strong at 98% during the half and the dividend deferred from April will be paid to shareholders on October 30, 2020.

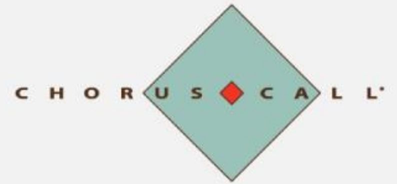
Turning now to a more detailed overview of operating performance on slide 15. Reductions in the cost base are evident, with an organic EBIT margin of 18.5% being achieved, despite significantly lower revenues. As mentioned by Gary earlier, quarter two in particular presented a challenge to the sector as cost pressures increased under the government's capped revenue model, while attendances grew with free child care and the easing of COVID-19 restrictions. In April, we outlined in our Equity Raise Presentation that we expected to be cash flow breakeven during the COVID-19 period. Costs were managed well, with organic wages before the benefit of JobKeeper subsidies, reducing by 7% and annual rental increases offset by COVID-19 rental abatement negotiations, resulting in flat rental amounts year-on-year.

This resulted in a better-than-expected quarter two result, which is broadly 40% of the half-year earnings, the drivers of this out performance being better wage optimization, $2 million of rental concessions being recognised in the P&L and usage of a new lease. Other costs reduced by 14% compared to the prior comparative period, driven by costs being restricted to critical spend and attendance levels reducing variable costs. In addition to managing wages to attendance levels, the JobKeeper subsidy provided a further variable to wage management. The combination of a sector gross to management, maximising the JobKeeper subsidy and utilisation of annual leave results in a wage outcome that exceeded the targets we set in April.

The 2017 to 2020 acquisition cohorts are also outlined, although it is difficult to infer the performance of these recently acquired centres, given the COVID-19 and government subsidy impacts. From support office cost point of view, these were flat on prior comparative period. The planned March 2020 fee increase was not implemented due to the government subsidy arrangements, with fees remaining at the level they were during the February reference period.

Turning now to slide 16, which outlines the cash conversion of the business, measured on a lease-adjusted basis, that is before AASB-16. Cash flow conversion was 98% of underlying EBITDA, driven by cost control and cash preservation. During the period of free child care, a focus on working capital assisted this strong cash conversion result. During the period, four centres were settled for $11 million, with operating cash flows funding capital commitments and lease acquisitions. This now completes the greenfield pipeline.

Slide 17 outlines the capital management of the Group. During the period, the Group raised $301 million in equity. The net proceeds of these funds are reflected in net debt, as the operational cash flows have supported the business requirements. There has been no requirement to draw upon these equity funds. The cash raise significantly reduced the group's leverage, with net debt at June 30 of $57 million. This provides the Group with significant liquidity and cash reserves to buffer a sustained period of COVID-19 impacts. The dividend policy of the group remains temporarily suspended in light of heightened



uncertainty still being presented by the current COVID-19 situation. The Board may consider dividend payments in the 2021 year, subject to financial performance.

The forecast 2020 CapEx is estimated at $25 million to $30 million and CapEx requirements for the first half were funded from operating cash flows. The debt facilities of the Group are currently drawn to $300 million, with a staggered profile of expiries out to October 2025. Cash on hand of circa $240 million results in a net debt position of circa $60 million, better than anticipated at the April Equity Raise, due to better quarter two results, better reductions and COVID-19-related cash management opportunities. The Group's net debt facility expiry is over 12 months away, in October 2021, and relates to the undrawn, $200 million revolving facility. The Company has experienced strong lender support, with covenant relaxations being applied through to December 31, 2021. This extension takes into account the COVID-19 impact and the rolling nature of covenant measures as they roll through the 2021 metrics.

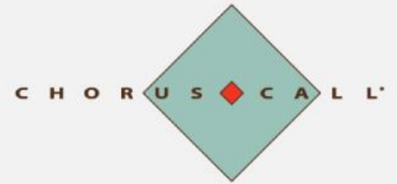
Turning now to our capital metrics on slide 18, the Group's key financial ratios and net debt to EBITDA leverage, fixed charge cover and gearing. Net debt levels ended the period at $57 million, in line with the pro forma balance sheet provided in the April Equity Raise document. Leverage was 0.4 times at June 30, 2020 based on the last 12 months underlying EBITDA, reducing from 2.3 times at December 31, 2019. The fixed charge cover ratio reduced during the period to 1.6 times due to the COVID-19 impact on EBIT. Gearing ratios are expected to be impacted by the rolling nature of these measures and the COVID-19 impacted performance.

However, the Group remains conservatively geared. The Group has a strong capital position based on the recent equity raise and the covenant extension, which positions the Group to withstand a sustained COVID-19 impacted period. From a return perspective on slide 19, return on capital employed has reduced during the period, reflecting decrease in earnings and the increase in capital from the equity raise.

I will now hand back to Gary for strategy update.

Gary Carroll: Thanks, Sharyn. We'll now turn to an update on implementation of the Group's Strategic Plan. As outlined in our Investor Day in November 2019, the Group's priorities as part of its Acceleration Programme are the turnaround of selected centres and the optimization of the Group's centre network and cost base. Slide 21 provides an update in each of these areas. We have maintained the dedicated turnaround team during the first half, with the team being focused on driving improvements in learning environments and people capability as we know that driving quality in these areas drives improved occupancy and operating performance. Progress has been good with the team undertaking improvement activities in 108 centres in half one.

The focus in half two will be on embedding these improvements, as well as rolling out an enhanced website platform for number of brands and launching our job protection programme in partnership with Bravehearts. From a network and cost base perspective, the



implementation of the new rostering system is on track to be completed by the end of the year. This system will improve visibility, optimise rostering and automate award compliance, with a review of award and legislative requirements being undertaken as part of project implementation.

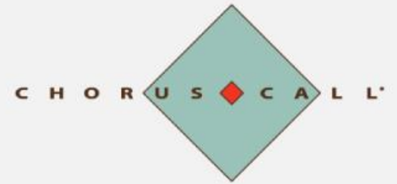
The greenfield pipeline was completed in half one, with a new approach involving high-quality partners and lower capital investments to be adopted to secure attractive future site locations. Any such greenfield acquisition activity will be measured and considered within the backdrop of the prevailing operating environment. As announced on the 11th of June and as Sharyn alluded to, the Group's completed its strategic portfolio review, with this review culminating in an $82 million non-cash impairment of right of use assets and PP&E of 52 centres as highlighted on Slide 22. Over the coming periods, we'll be working to exit these underperforming centres. Doing so will improve the occupancy, quality and earnings of our core portfolio, with the relevant uplifts being set out in the slide.

We have also entered an agreement to divest our Singaporean business and we expect to finalise this divestment in half two, subject to various regulatory approvals and the satisfaction of certain conditions precedent. The other key activity that's been undertaken in relation to portfolio optimization has been the re-engineering of our greenfield acquisition model. This model, which is set out in Slide 23, features two key changes: the establishment of relationships with high-quality, national development partners and a much lower level of upfront capital investment. These changes are expected to provide the Group with access to better quality site locations and improved financial returns and will continue to keep the market updated as opportunities progress in this space.

Before turning to our trading update and outlook, we've set out the snapshot of the supply-demand profile for the market on Slide 24. From a macro point of view, net supply growth slowed substantially in quarter two, being 68% lower than the prior corresponding period. While closures were actually down slightly year-on-year, the impact of COVID-19 on new centre openings was clearly evident in quarter two, driving the overall reduction. At a micro level, the number of G8 centres impacted by supply within 2 km of an existing centre decreased by 33% year-on-year. As discussed previously, the focus of our Acceleration Programme is on countering this supply threat, while improving the quality of our centres, as this continues to be an effective way of mitigating the impacts of new supply.

Turning to the current trading and outlook, which is set out on Slide 25. COVID-19 impacted trading conditions are expected to continue and given this backdrop, the Group will continue its disciplined approach to cost and cash management. The Acceleration Programme has continued despite COVID-19, focused on consistent high-quality education programmes and family experience.

Government funding mechanisms are in place until the end of September, with a track record of swiftly responding to COVID-19 driven lockdowns. The national footprint of G8's centres provides a degree of portfolio diversification protection, with COVID-19 impacts varying by region and state. The removal of JobKeeper and government stimulus is expected



to impact unemployment levels. The level of restrictions will also impact bookings moving forward as will government support for the sector, for example, the waiving of parent fees.

The deferred CY19 final dividend will be paid on October 30, 2020. A combination of the Group's net debt position, lender support and covenant relaxations until December 2021 provides the Group with substantial financial flexibility to withstand a prolonged downturn. While current occupancy levels of 69% are solid, given the ongoing uncertainty and market volatility, G8 is not in a position to provide guidance on expected occupancy or financial operating performance.

With the changes implemented over the past few months, G8 now has people, balance sheet and

... processes in place to emerge from the COVID-19 environment as a stronger business. That concludes the formal part of the presentation. I'll now hand back to our host to start the Q and A session.

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

Tim Plumbe: Hi guys. Can you hear me?

Gary Carroll: Yep.

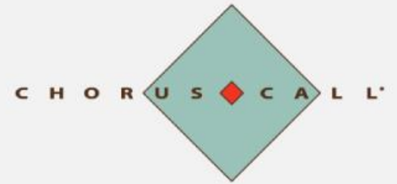
Operator: Sure.

Tim Plumbe: Hi, how're you doing? Just two questions from me, if that's all right. Firstly, maybe just around the current occupancy level sitting at 69%, probably a lot higher than most of us were expecting it at the moment. When you take into consideration that occupancy level plus the temporary payment that you've got appreciate that it only last until the end of September, but can you maybe talk about how you guys are tracking in terms of monthly cash performance at the moment?

Gary Carroll: Yeah, so we won't provide detailed numbers as I'm sure you'll understand Tim, but certainly we are tracking ahead of our internal forecast and it's pleasing to hear we're tracking data market expectations. So that would generate a pretty solid result in quarter three, where the focus will then turn to what's going to happen in quarter four if and when the subsidy arrangements expire.

Tim Plumbe: Yep, and just the other question-

Gary Carroll: Sorry, just to complete that, Tim, we did try and help people by providing some very specific numbers in the presentation about the amount of government funding revenue that we're going to get into quarter three, 14 million Jobkeeper in 51 million government funding, and



we're hopeful that'll enable people to do a pretty good forecast off the back of our current occupancy levels in terms of quarter three performance.

Tim Plumbe: Got it. Just the second question, thinking about the acceleration programme, can you maybe touch on some of the initiatives that you've been focusing on over the last kind of three months and more importantly, what's in focus for the next six months, how we should think about that in terms of the flow through impact to the business they do in terms of proved occupancy or dollar of cost saved.

Gary Carroll: Yeah. Yeah, so we did clearly need to make adjustments to the programme given COVID because the more capital intensive asset refurbishment programmes were deferred when COVID hit. What we continue to focus on was rolling out our re-engineered learning environments and practises as well as centre work routines and helping our centre managers from a leadership and operating capability perspective. We made really good progress around the 108 centres in the first half in that sense, Tim, so not capital, but lots of focus on improving operational effectiveness particularly around learning environments.

What we're looking to do is embed those over the second half of the year, so I'm sure you'll appreciate building that capability that requires a bedding down period. About 70 of those centres were located in Victoria with the remainder of being in New South Wales and ACT. We're also very aware of what's happening in Victoria at the moment and not wanting to push the envelope too much for those centres during this period.

We'll also be rolling out an enhanced web platform for a number of those brands, a number of our brands [inaudible]. In terms of what that plays out from an occupancy and operating performance really is subject to the overarching impact of COVID on our operating environment. We're certainly hopeful that those centres will present much more favourably for the key enrollment and transition period at the end of the year, so we're certainly very hopeful of generating improved occupancy levels leading into 2021 in those centres.

Tim Plumbe: Got it. Sorry, I might've missed it on the call, but in terms of the electronic wage rostering or the new rostering software, where are we at with that?

Gary Carroll: That's due to be rolled out by the end of November across all of our centres. Well actually, we're in the midst of UAT, et cetera, and training of the team and we'll be doing staged roll outs for that first pilot group coming up in a number of weeks. So that project is absolutely nearing completion.

Tim Plumbe: Fantastic. Thanks, guys.

Operator: Next question comes from John Hynd with Wilsons. Please go ahead.

John Hynd: Good morning, Carrie and Sharon. Thanks for taking the question. Perhaps some more colour on Victoria, if you could. Are you able to give us some colour on maybe revenue per

month in the region and is it harder to take those assets at break even, how are families responding the longer we're in the lockdown period?

Gary Carroll: Thanks, John. What I can give you is our current enrollment and attendance levels in Victoria and then I might do a wrap up of the funding arrangements that are in place to enable you to get a sense of what that means. If we look at our Stage Three lockdown areas, their enrollment is broadly equivalent to the rest of Australia attendances, they're in the low to mid 50%. Our Stage Four lockdown area enrollments are reasonably consistent, attendances are in the low twenties. In terms of the revenue that we get relative to those centres, for parents that are attending, we get a full fee. So we get the parent gap fee and CCS. For parents that are not attending, we get CCS, which is circa 60% of our full fee. We also, for Stage Four lockdown centres, and we've got about 116 of those, we get a 30% government transition payment and that's 30% of the February reference period for Victoria. For Stage Three lockdown centres, we get 25% transition payment.

If you add all those numbers up, the total subsidy for Victoria is around about four or $5 million a month to augment the reduction in attendances. I'm not going to give you whether that means breakeven, but we're certainly, that subsidy closes the gap substantially, bearing in mind that we maintain our employment levels during that period as a requirement of the government funding package. But we're feeling pretty okay that Victoria won't be a significant drain on our cash flows if we keep up those current levels of performance.

John Hynd: Okay, thanks. Sort of lead into the next question around if it being quite a, sounds like it was quite a good second quarter. It's hard to tell in the pack that were there, I guess, did the portfolio benefit from occupancy bit being below the, I guess the previous breakeven level? Were there any tyre wins there or is this, has this come down to just good cash and cost management?

Gary Carroll: Yeah, so I mean, revenue was capped for the quarter, so there's no way to drive revenue to get an improved result.

John Hynd: Yeah..

Gary Carroll: So it was really down to two things, John. One was they come in funding package. Like everyone in the sector, we were the beneficiaries, both from the early childhood education and care relief package, which wins a prize for the longest title but it was very helpful to maintain viability, and Jobkeeper during that period. From a G8 perspective, it was all down to how well we manage our cost and cash and we did slightly better than what we'd forecast in that respect.

John Hynd: Okay. Thanks. Can we touch on the new, I guess the divestments as well. Surprised to see Singapore being divested. Can you give us some colour around that part of your portfolio? We don't talk about it often. How should we think about valuations? I mean, what's the invested capital and what were that purchased for originally, please?

Gary Carroll: Yep. Singapore, we've got 17 owned centres, 18 franchise centres at that level and we've done a detailed review of our portfolio and the market and we formed a pretty clear view that we have a subscale business in that market and with that, we would need to invest significant capital and change our business model quite materially if we wanted to change the trajectory of that business. We formed the view that we'd be better off getting out and allowing another player to come in and take those assets and we'll focus on Australia. We think we've got great opportunities to optimise our portfolio in Australia. In the accounts, now carrying those assets at the expected consideration value for those results in an impairment of circa $5 million. Original purchase price for those businesses and bare in mind it was a while ago, was circa $30 million.

John Hynd: Great, thanks. That metrics similar to that of an Australian centre in terms of places in revenue or is it a different equation?

Gary Carroll: That business hasn't been performing as well as Australia in terms of operating profitability. The size of the centres and the revenues are slightly lower and the profit performance has been significantly lower.

John Hynd: Right. Do we read into that that it's potentially loss making?

Gary Carroll: No, it hasn't been loss making but it hasn't been a material contributor to profit. Although it's done better in 2020, but yeah, it's not at a level that excites us in terms of continuing your invest, which is why we've made the decision we have.

John Hynd: Okay. Just last one from me, the debt net was meant to be a hundred mil by June following a raise, but you've obviously come in materially below that, which is a good result. What were the key drivers there and can you perhaps explain why the second half interest guidance is, it looks like it's unchanged at that 20 million. Can we expect some movement in '21 as a result of the pay down or reduction?

Sharyn Williams: Yeah, John, so the interest split for the year, you'll see the second half is lower, around circa nine mil. We did have that forecast in when we spoke at the equity raise, so nothing changed since then. Going forward to 2021, you'd then be looking at circa 70 mil for interest, all else being equal, but we are seeing that reduction in interest in the second half.

Gary Carroll: The better debt performance was driven primarily from better quarter two. We also did a good job managing our debtors' position during quarter two when it was free, we encouraged our families to clear any debts they had and they just had the variables so that was appreciated. Lastly, there was some COVID related cash flow benefits that we hadn't originally passed. Various governments have instituted additional funding pieces, which aren't massive, but they've certainly been helpful along the way, whether that's temporary relief to payroll tax, cleaning funds, there's a whole bunch of stuff.

John Hynd: Great. Thanks, Gary. Sharon, could you just clarify the comment about around '21? I missed that. About ...

Sharyn Williams: You'd be able to take the second half and double it for 2021, all else being equal, so around that 70 mil.

John Hynd: Right. Thanks very much, guys.

Operator: Your next question comes from Aaron Muller with Canaccord Genuity. Please go ahead.

Aaron Muller: Hey, Gary. Hi, Sharon. Well, obviously the EBIT number of 28.7 million has been normalised for the write down. But there's also about 10 million of non-trading expenses, or other non-trading expenses. Could you just run through those, please?

Sharyn Williams: Sure. So at the half year, Aaron, we had a thorough review of the balance sheet and at that time we took up some provisions for items such as debtors. These are all outlined in note four. So there's a number of items there that we took the opportunity to review at the half year.

Things like taking into consideration specifically the COVID impact, affordability for parents did play into specifically that data piece, and also some items that we wanted to ensure we had coverage of, such as some inventory items that were slow moving.

Aaron Muller: Yeah, okay. Thank you. And then just on ... obviously, there's no price increases that are going through this year, but how are you thinking of price increases and how should we be thinking about them for CY21.

Gary Caroll: Yeah, good question, Aaron. So like everything in the COVID world, we'll be pretty agile as it relates to pricing. Very clearly we will not be doing anything during the government funding period. It's a specific requirement of all operators. There's no fee increase between now and the end of September. We will then survey the market from that point, and work out the best time in relation to a price increase, balancing our occupancy levels, our family feedback and their requirements, and what it means in terms of maintaining a competitive pricing position in the market.

Gary Caroll: So if you're interpreting all that to be we haven't fixed the timing of price increase at this point; we haven't. We'll continue to surveil.

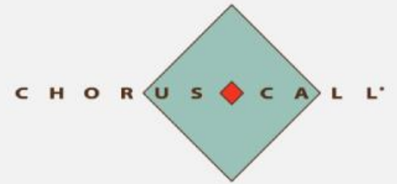
Aaron Muller: Yeah, okay, great. Thanks, Gary; thanks, Sharon.

Gary Caroll: Thanks.

Operator: Your next question comes from Gareth James with Morningstar. Please go ahead. Gareth James, your line is open.

Gareth James: Hi, guys. Sorry, I was on mute. Just would like to ask about-

Sharyn Williams: Said things during COVID ...



Gary Caroll: The number one phrase, you're on mute.

Gareth James: Yeah. Yeah, sorry about that. So firstly on the acceleration programme, just wondering if you were able to quantify how much is being spent, how much you expect to spend going forward, and also the same for expected savings?

Gary Caroll: Yeah. So year to date our expenses have been tied to teamcost, so it'd like one million dollars. We haven't invested the capital that we originally flagged in that programme, so costs are well down.

Moving forward, if we assume a return to a more normal operating environment, we would look to pick up the refurbishment activities. That clearly won't be happening abouts 2020. May happen in '21 as well as some resources for our centres, which we've kept pretty tightly controlled to now. We may start to increase that. But that's all subject to operating environment.

We flagged in the investor day a cost for that programme of circa 10 million dollars on an annualised basis. We certainly wouldn't be looking at getting anywhere close to that in the next six to 12 months.

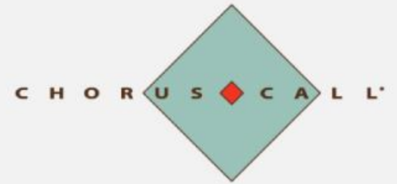
Gareth James: Okay, thanks. And then are you also able to kind of make similar comments for the rostering system?

Gary Caroll: Yeah, so roster system capex will be somewhere five million dollars from an implementation point of view. We still maintain our target cost savings to be in the high single digit millions from a wage efficiency point of view. And we actually in some respects, started harvesting a little bit of that already because we've utilised the technology that we'd be rolling out at scale period and we've seen some good results in that, which gives us some increased confidence around being able to generate those sort of cost saving targets.

Gareth James: Okay, thank you. Just on that rostering system implementation: Could I just clarify is that purely an IT system implementation as opposed to a change in kind of working practises?

Gary Caroll: No, it's both. We're moving all of our people processes onto one platform. From a technology point of view we're changing our roster system, we're changing our HR information system, so that covers all aspects of people process from recruitment, onboarding, forms management, etc. We're changing our recruitment system as part of that.

We're taking the opportunity to review all of our policies, processes and procedures around that, including the centralization of a number of tasks that are currently being done at the centre. One of the benefits of the project is we take a lot of the people related admin burden away from our centre managers, whether that's in recruitment, whether that's in onboarding, etc. So we get benefits not only in terms of centre admin time, but also pure roster savings.



But it's a whole process redesign of our people process.

Gareth James: Okay. And just one final one if I may ... are you able to just clarify the figures for centres opened and closed in the first half, and then the same expectations for the second half, including the divestments?

Sharyn Williams: I think they're outlined in the details in the pack. I think it was around four that were closed with one that's been closed-

Gary Caroll: Since then, and we-

Sharyn Williams: Since then. Okay. And we are finished, and that's correct.

Gareth James: Sure. And then in the second half?

Sharyn Williams: In terms of closures, at the moment we've had one today and there may be another handful. No new settlements in the second half.

Gareth James: All right, so-

Sharyn Williams: Should be a slide in the back of that pack there that'll walk you through those numbers.

Gareth James: Right. Okay. So ... okay, but the comments around the right of use assets impairment ... isn't that relating to centres that are going to be closed or divested?

Gary Caroll: Over the coming periods we'll be doing that, but timing is very uncertain at this point, Gareth, so we've done the work to identify where we need to focus, we'll then start in earnest on how we go about doing that; clearly our needs and priorities to improve the performance of those centres. We'll then look at what potential exit options there are. So we haven't flagged a specific number of closures by period at this point.

Gareth James: Sure. And are you able to quantify how many centres are involved, total?

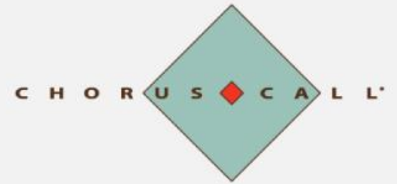
Gary Caroll: The total, subject to the review, is 52.

Gareth James: Okay. Thanks very much, guys.

Gary Caroll: Thank you.

Operator: Your next question comes from James Bales with Morgan Stanley. Please go ahead.

James Bales: Oh hi, guys. Thanks for taking my question. I just wanted to try to understand a bit better the trend that you expect to see in the business between the third quarter and the fourth quarter onward. So maybe if we start with the trend in attendance versus occupancy. Have you done any surveys of the customer base, and have you got any view on where paid occupancy is likely the trend past September 30?



Gary Caroll: We haven't done an updated survey yet, James. Actually, as you know, we're a member of a couple of peak bodies. No one is really doing them right now. The key ... because there's an upcoming budget that will influence a lot of people's attitudes surrounding employment, etc. So in the lead up to that budget, a number of us will look to update our surveys but we haven't as yet. We don't want to really spook the horses in terms of asking them under scenarios if subsidies drop away, etc.

So our preferred way forward is we get clarity on what the government subsidy package is, then we'll survey families, and as part of those peak bodies, they are working with governments very actively surveying movements in the market and discussing various iterations around funding packages or not, and hoping to have announcements in place before the end of this current funding period. We'll then flow that through to surveying families from there.

James Bales: And in the absence of any major outbreaks, shouldn't the government want to return the industry to being self-sufficient on a sustainable trajectory? Is that a valid assumption in terms of the interactions that you've had with regulators?

Sharyn Williams: Yes. So the number one priority is how do they keep operators in the sector viable ... not underwriting profits, but viable. So they continually, they're working with the centre to continually assess enrollment levels and forming a view as to whether they're at a level that it's sustainable and on a self-sufficient basis. And once they get that trigger, then I imagine they will be looking to withdraw funding and let the sector stand on its feet.

James Bales: Right. And then finally on rent ... have you got a view in terms of when you go back to paying full freight on rent?

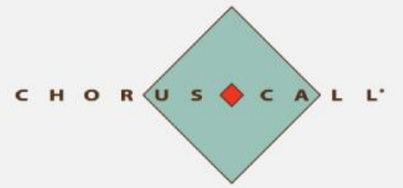
Sharyn Williams: We've got arrangements in place with 300 of our vendors for various waivers or deferrals. Most of them were in that three to six month period. So I'd say our rental payments in 2021 will be broadly indicative of our ongoing kind of level of rent, noting that we do have some deferrals, about two and a half million dollars that were negotiated that will flow through into 2021. You would say late in 2020 our run rate would be getting back to very much close to normal.

James Bales: Okay, great. Thanks, guys. I appreciate the help.

Operator: If you wish to ask a question, please press star then one on your telephone and wait for your name to be announced.

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

Gary Caroll: Thanks, Kelly and thanks everyone for your participation this morning. No doubt we'll be catching up with a lot of you in the coming days and I hope everyone has a great day. Thank you.



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