TRANSCRIPTION

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[START OF TRANSCRIPT]

Operator: Thank you for standing by, and welcome to the G8 Education Limited trading update conference call. 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 via the phone, you will need to press the star key followed by the number one on your telephone keypad.

Operator: I would now like to hand the conference over to Mr. Gary Carroll, CEO and managing director. Please go ahead.

Gary Carroll: Thanks Lexi. And thanks everyone for joining us.

Gary Carroll: As we'd flagged in our year end results presentation, the sector has certainly been significantly impacted through Omicron and flood impacts, and we thought it'd be worthwhile to provide our shareholders with an update and translate that into impacts on financial results year to date, as well as the actions being taken to respond.

Gary Carroll: If I start with an overview of what's been happening, as we flagged in our CY21 results, we had a very high volume of Omicron cases in all markets, and they materially impacted our revenue, our occupancy performance and employment costs in both January and February, as a result of both centre closures and isolation requirements. These impacts actually continued to flow into the early weeks of March and coincided with what were really devastating flooding in parts of Queensland and New South Wales. The net result of that in terms of occupancy was that occupancy fell to 2.1 percentage points behind 2021 levels in early March, before pleasingly recovering over the following weeks to be 0.8 of a percentage point behind the prior corresponding period as at the 3rd of April. And this recovery in occupancy provides confidence that as flagged in our CY21 results presentation, the impact on occupancy is expected to be temporary.

Gary Carroll: While we continue to see some level of delayed enrolments, there has been an increase in conversion in the last three weeks, and there remains an encouraging pipeline of inquiries to drive the occupancy recovery. And for those of you who've got access to the announcement, we've included a couple of graphs in terms of occupancy movements, so you can see visually what's been happening across our centres. It's also worth noting that another effect of the isolations and flood impacts actually relates to employment costs, with team member shortages and sick leave increasing the usage of agency team members. Converting all of those into financial results, the group recorded a quarter one operating EBIT after lease interest, profit of $1 million versus $17 million in the prior corresponding period, driven broadly by four things.

Gary Carroll: Firstly, $6 million in incremental discounting versus PCP, which are predominantly gap fee waivers to support families during COVID or where flooding either closed or impacted access to a centre. The gap fee waivers have reduced in recent weeks from an average of $500,000 per week to $125,000 per week. We've also had the absence of $5 million in COVID-19 government subsidy that was received in the PCP. Thirdly, an incremental $2 million in employment cost driven by additional agency costs and sick leave as a result of COVID-19 and flood related team member shortages. And fourthly, delays in the lead pipeline as we'd called out in the full year results, as well as Omicron case numbers and weather events impacting enrolments.

Gary Carroll: While we're on the subject of financials, also wanted to note that our interest expense, excluding lease interest, for the 2022 year is expected to be circa 13 and half million dollars, and we'll be undertaking a review of lending facilities in the second half.

Gary Carroll: Pleasingly, from an operating perspective, the group continued its momentum in relation to its improvement programme with the current cohort of approximately 140 centres due to be completed by mid 2022. That leaves us with about 15% of centres remaining to be completed, and that therefore provides the opportunity to embed the practises and capabilities using a more business as usual structure for the programme, which in turn provides the opportunity to improve effectiveness, efficiency, and also reduce cost.

Gary Carroll: We do believe that the Q1 impacts are largely expected to be temporary. However, we remain cautious about the COVID operating environment. It still remains uncertain. Potential effects may include the continuation of the impacts that we have seen in quarter one, particularly in the absence of additional government support. So to respond to that challenging environment, the savings that we will achieve through transitioning the improvement programme, project structure into a more business as usual model have been augmented by an additional cost reduction programme, including reprioritizing discretionary spending and programmes, and also reducing our support office team member numbers. Total cost reductions are targeted at between 13 and $15 million for the remainder of CY22 with costs being predominantly realised in half two. These actions will reduce our cost base, particularly in the support office, and we'll be channelling resources to our centre network. All of these changes will improve and enhance the resilience and performance of the business, both in the short and longer term.

Gary Carroll: Our key focus is around supporting our centre network to ensure it's well supported to deliver the best quality service to children and families. It's worth noting, we will be continuing to spend at our current levels on the provision of in centre resources, pedagogy and practise support, and the previously announced property spend, which are all aimed at further improving the quality of the centre network.

Gary Carroll: So that provides a summary of performance for the first quarter and the actions being undertaken. I'm now, happy to open it up for questions.

Operator: Thank you. If you wish to ask a question via the phone, 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 speaker phone, please pick up the handset to ask your question. Your first question comes from Tim Plumbe, from UBS. Please go ahead.

Tim Plumbe: Hi guys. Can you hear me?

Gary Carroll: Yes, Tim. How are you?

Tim Plumbe: I'm good. Thanks. Good. Just three questions for me, if possible, please. Just Gary, if we think about overall occupancy being 0.8% behind, if we were to split up your portfolio from the ones that have had the improvement programme changes, those that have not, is there a noticeable difference in terms of the occupancy lag?

Gary Carroll: Not a material difference, given what's happened in the first couple of months of the year, Tim. And it's also worth noting that the focus of our improvement programme for this year to date has been in Western Australia and South Australia, a fair chunk of those. And WA has had its own recent challenges around omicron cases, so it's too early to tell in terms of meaningful impact of improvement programme from a CY22 perspective.

Tim Plumbe: Got it. Second question, is just about the inquiry pipeline. Are you able to talk to that at all, please?

Gary Carroll: Yeah, so we're actually continuing to see really strong levels of inquiry pushing through to elevated levels of tours. We had seen an improvement in the conversion from tours to enrolments, although they're still not at prior year levels, they are certainly improving. So Tim, the combination of elevated inquiries and tours and an improvement in that conversion gives us some confidence around occupancy, continuing to improve, although clearly, we're wary of the operating environment and we are closely monitoring that.

Tim Plumbe: Great. And then just the last one in terms of that cost out target, and apologies if I heard this thing correctly, but 13 to 15 mil targeted calendar year '22, how do we think about the annualised benefits and how do you think about sustainable, long-term cost out as a result from this initiative, please?

Gary Carroll: Yeah, so, of the 13 to 15, Tim, around six to seven relate to reduction in employment costs. So the annualised effect of those would be closer to $10 million. The rest are more, not indexable from a annualization point of view. So you're probably looking at a ongoing cost out somewhere in that 15 to 18.

Tim Plumbe: Great. Thanks guys.

Operator: Thank you. Once again, if you wish to ask a question, you'll need to press the star key followed by the number one on your telephone keypad. We'll now pause for a moment for questions to register.

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

Aaron Muller: Yeah. Hi, Gary. Hi, Sharon. Gary, could you just comment on the use of agency staff? Has that started to subside?

Gary Carroll: It still remains at elevated levels compared to prior year, Aaron. We've mitigated the impact of agency well through continuing improvement in wage hours per booking. While we've had a bit of an improvement in team turnover year to date, you wouldn't say that we've cracked the back of agency at this point in time.

Aaron Muller: Okay. Thanks, Gary.

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

Peter Drew: Oh, hi, Gary. Just a question. I guess, of those factors that you listed that impacted the first quarter in terms of the costs, if we look into the second quarter, is it really only that reduction in gap fee waivers, that's materially different, and obviously the improvement in occupancy?

Gary Carroll: Yeah. So thanks, Peter. I hope you're feeling okay. You do sound like you might be suffering a little bit, so I appreciate you joining the call. So discounting, we do expect to continue, albeit at lower levels, because closures and isolations are reducing, which is pleasing. Building on Aaron's question, the key watch out area for us is around agency and that will be dependent on labour markets, which have slowly started to improve, continuing to open up and enable us to attract permanent or part-time team members to replace agency. But it's still a pretty tough employment market out there. Yeah.

Peter Drew: Yeah. Okay. And just one other question. Could you just unpack, I guess, that 15 to $18 million worth of cost savings. I know it's probably a bit sensitive, but as much as you can in terms of maybe not really the labour component, but maybe the other piece, just what they actually relate to?

Gary Carroll: Yeah. So there's three buckets that make that up, Peter. There is the labour piece which I called out in terms of quantum. The remaining two buckets, we have paused some of our discretionary change programmes, and a number of those costs were flowing through to P&L. We've also looked a bit harder at our discretionary spend items, and they're your usual suspects, whether that's consulting fees, marketing costs, et cetera.

Peter Drew: Yep. Okay, great. Thanks, Gary.

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

Gary Carroll: Thanks Lexi, and thanks everyone for joining us at reasonably short notice. As it flagged in the release, we'll look forward to giving everyone an update at the AGM on the 27th of April.

Operator: That does conclude our conference for today.

Gary Carroll: Oh, sorry. I think we've actually got one more question, Lexi.

Operator: Yes. It looks like Tim Plumbe has a follow up question from UBS. Please go ahead, Tim.

Tim Plumbe: Hi guys. Sorry. Just one other question from me, Gary, and following on from Aaron's question. Just in terms of labour cost headwinds, are we seeing any increase in terms of the underlying cost of labour, is part one, and then part two, if we think about agency cost versus permanent staffing cost, how do we think about percentage hire per head? And then what sort of percentage of your workforce is agency now, compared to a business as usual situation?

Gary Carroll: Okay, so I got three questions out of that, Tim. So, I think in terms of normal award rate increases, we're not seeing any movement. They get reset on an annual basis. The impact of agency costs are probably between one and two percentage points in terms of wage cost at the moment. And in a normal, steady state point of view, they're probably at about half the level of what they currently are now.

Tim Plumbe: Got it. And, you're not having to offer above, I mean, historically you paid above award wage [crosstalk].

Gary Carroll: Yeah. So for educators, no. ECTs and centre managers, pleased to say we've had some small wins in terms of reduction in turnover in both of those cohorts. And at this stage, we haven't had to do that by elevating, beyond what we currently do in terms of paying above award.

Tim Plumbe: Got it. Great. Thanks guys.

Gary Carroll: Okay. So thanks everyone for joining us. As I said, look forward to giving you a further update on trading as part of our annual general meeting, which takes place on the 27th of April. Thank you.

Operator: That does conclude our conference for today. Thank you for participating. You may now disconnect.

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