TRANSCRIPTION

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Operator: Thank you for standing by and welcome to the G8 Education Limited CY22 half year investor presentation. 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, please 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 and managing director. Please go ahead.

Gary Carroll: Thanks Melanie. So good morning, everyone. And welcome to the 2022 half year results presentation for G8 Education Limited. As Melanie said, my name's Gary Carroll, I'm the CEO and managing director of G8 Education. And I'm joined today by the group CFO, Sharyn Williams.

I'd like to begin by acknowledging the traditional owners of the land from where we are conducting today's presentation. We're in Sydney today, so that's the Gadigal people of the Eora Nation. We'd like to pay our respects to Gadigal elders past present and emerging. And I extend those respects to any Aboriginal or Torres Strait Islander, people joining us on the call today.

So Sharyn and I will now walk through the investor presentation that was posted on the ASX only a few minutes ago. Hopefully everyone's had an opportunity to have it in front of their screen. So we'll walk through that presentation and then provide time for any questions.

Starting with slide five, which provides a summary of financial performance for the half. It really was a tale of two quarters with the first quarter being significantly impacted by COVID and floods, before occupancy and earnings recovered strongly in the second quarter. The occupancy gap of 2.1 percentage points in March has been turned around with spot occupancy currently at 73.8%, which is 0.8 of a percentage point higher than the prior corresponding period. This occupancy recovery translated well into earnings performance with core centre EBIT being ahead of PCP in quarter two.

The cost reduction programme that was announced in April in response to the first quarter challenges delivered 2.8 million dollars in cost savings, this half. With the remainder of the targeted cost savings to be delivered in the second half of the year. The statutory NPAT of eight and a half million dollars for half one includes non-operating expenses of 1.2 million. The group's balance sheet remains strong with net debt at 86.3 million as at 30 June, in line with expectations and reflecting the capital management initiatives and seasonal cash flow profile.

Turning to slide six, the momentum built in the second quarter was driven by the execution of the group's strategic improvement programme, which when combined with discipline responses to the challenging external environment, drove solid performance in quality, occupancy, and profitability, once the temporary impacts of COVID and flood subsided. Network optimization activities continued in the first half of 2022, as well as a lift in the financial performance of a number of our impaired centres. During the half the group initiated an on market share buyback, utilising its strong balance sheet to balance network investment and shareholder returns. Looking forward, the long term demand fundamentals for the sector are positive, including enhanced subsidy arrangements that will improve affordability for families in 2023.

Slide seven unpacks the drivers of the first half result in more detail. As stated in previous presentations, we know that a stable engaged team providing high quality learning leads to happy engaged children and families, and ultimately drives higher occupancy and earnings. Using this framework, the refresh of our centre learning environments and practises as part of the group's improvement programme helped drive 95% of our centres achieving a meeting-or-exceeding result in educational programme and practise, while the property CapEx programme ensured 100% of centres delivered meeting-or-exceeding results in terms of the physical environments. These initiatives drove an overall 92% quality result to centres assessed in half one, which is ahead of the national LDC average.

Team retention remains the biggest challenge facing the sector, with vacancies continuing to be elevated, and these vacancies impacting on the centre occupancy levels. G8's overall team retention fell slightly from 72% to 71% and a half. Pleasingly, the retention rates of two critical cohorts, our centre managers and early childhood teachers, or ECTs, increased as a result of the initiatives undertaken during the period. Of particular notice the success of the induction programme for new centre managers, which has led to significantly improved retention rates for centre managers in their first 12 months. During the half, we also undertook a number of tactical recruitment activities resulting in a 55% reduction in the number of centres with multiple vacancies, as well as a circa 50% increase in the number of roles filled compared to PCP.

From a family engagement point of view, the deferral of pipeline conversion that was flagged in our April trading update has continued during the winter flu season, with growth and inquiries being offset by deferred starts and team resourcing constraints, resulting in a 56% growth in our wait lists. The introduction of the sibling subsidy in March drove a 3.8% increase in days in care. And we've had a very promising initial response to G8's family loyalty programme, Childcare Saver, which we launched at the end of 2021. With over eight and a half thousand families joining the programme, generating $150,000 in programme transactions to date.

In our April trading update, we outlined the transition of our improvement programme from a project resourcing model to a business as usual model. Slide eight, depicts this transition as well as providing an overview of the program's key results. In line with target and expectations 361 centres have completed the programme as at the end of June, with EBIT margin growth being 1.2 percentage points above the core network in the half. A very credible result, given the challenging operating environment. As demonstrated in the right hand section of the slide, the two key changes to move to a BAU model were firstly, the handover of operational management and development from project operations coaches to our area managers, and the transition from a project plan for each centre to a centre support plan. Centre support plans are in place for each centre in the network, and owned by the regional leadership teams covering our four key areas of operations, practise, people, and quality, helping to optimise the centre field support teams and our capital investment activities.

Slide nine sets out the progress of the group's ESG plan. This has been a strong area of focus for the group, and we're really pleased the programme has tracked in line with expectations. From a quality education perspective, in addition to the NQS results I referred to earlier, the group has grown enrollments in its Study Pathways professional development programmes, by further 5% in half one of 2022, bringing the total increase to 45% since 2019. Our child safety and protection training has been completed by approximately 90% of team members, while each of our centres' educational programmes cover climate change and ways to reduce impacts to the environment. The standard contract terms for the group have been updated to include modern slavery provisions. And we are developing a supplier code of conduct and procurement policy. Our senior leaders in the group are covered by our ESG plan with executive remuneration being linked to key sustainability focus areas. While our gender diversity at executive and board level is very good, with female membership of these teams at 62 and a half percent and 66.7% respectively.

Finally, the group provides reporting in relation to scope 1 and scope 2 emissions with broader scope 3 disclosures being planned for later in 2022. Looking forward, the group will embark on a group wide reconciliation action plan in the second half of the year. While a pilot for an in centre allied health hub utilising our B Corp subsidiary, Leor's inclusion expertise is currently underway. Environmental activities include an expansion of recycling initiatives as part of an overall programme to set and achieve targeted reductions in scope 1 and scope 2 emissions by 2025.

I'll now hand over to Sharyn to talk through the group's financial performance for the half in more detail.

Sharyn Williams: Thank you, Gary.

Turning to slide 11, I will walk through the key elements of the group's operating and financial performance for the half. The first half earnings, quantum and margin were behind the first half of the prior year, although this reflects two very disparate quarters. As outlined in the April trading update, the first quarter was disrupted by the Omicron resurgence and floods impacting occupancy, average fee, and wages. Resulting in earnings being materially lower than first quarter 2021. The second quarter recovered to be broadly in line with the PCP, following the reinstatement of the seasonal occupancy trend, and the cessation of GAP fee waivers. However elevated agency team member usage, persisted. I will walk through each quarter in the following slide, but firstly, I will discuss the half year comparisons to prior year as outlined in the financial summary set out on slide 12.

Firstly, the core performance. Revenues from the core portfolio were in line with the prior year. The key drivers of revenue include occupancy being 0.9 percentage points lower than 2021 equating to $7 million. The absence of 5 million in revenues from the centres divested since 2021. And the absence of 5 million in temporary government COVID 19 support provided in 2021. The higher average net fee contributed 17 and a half million, following a 6% fee increase in early 2022. A further 3.5% fee increase was implemented in July resulting in a current net average fee of circa $131 per day. This mid-year fee increase is to mitigate cost inflation. It is not expected to contribute to margin growth. From cost perspective, wages, rent and direct cost to provide services, were effectively managed in response to attendance levels and the environment.

Taking each cost area one at a time, firstly, the largest component of the cost base being wages. Roster, and compliance activities partially mitigated the impact of higher rate of agency costs. Wages in absolute dollars and as a percentage of revenue were slightly above the prior period. Wages comprised wage rate and wage hours. Focusing on the wage rate, a number of initiatives were implemented in the second half of the prior year to improve attraction and retention for centre managers and early childhood teachers. These included increasing centre manager salaries and increasing wage rates for ECTs to be above the award. These two initiatives coupled with the July, 2021, 2.5% annual award increase, plus the usual increases to qualification brackets, drove a circa 3.3% year-on-year wage rate increase for our team members. The 2022 annual award increase of 4.6% came into effect in July. As flagged in the April trading update, agency hours are elevated, representing 3.7% of total wage hours in the half, up from 1.3% in the prior comparative period.

When the agency team hours are taken into account for the half, the wage rate increase year-on-year was 5.45%. In terms of wage hours, the increase in agency hours has been offset by a greater reduction in internal team hours, resulting in better wage efficiency, this improved wage hours per booking result, partially offset the higher rate paid for agency team members. A key variable in the cost based moving forward is the level of agency use, which is a consequence of the sector wide workforce shortages and team retention challenges. Typically, agency usage is about 1.5%, significantly lower than the current usage rate of 5.3% in July. The rent proxy is a combination of lease depreciation, lease interest, and outgoings. The absolute quantum was flat on the PCP as market and CPI increases of 4.1% were offset by reduction in centre numbers. Rent as a percentage of revenue was flat on the PCP.

The increase in other costs was predominantly driven by the annualization of professional cleaning for our centres, of 2 million dollars, and an increase of 4 million in property maintenance. The property maintenance was driven by increased volume in reactive works in response to flood events, reinstating property schedules post COVID 19, along with general inflation. Green field portfolio earnings reflect the transition on one January, 2022 of six profit making mature centres to the core portfolio. They contributed 700,000 in the prior period. Also reflected in these earnings are the net earnings from 10 green field centres opened in prior periods and the ramp up losses of four new centres. Network support costs, capture compliance costs, and the around centre teams and programmes designed to support centres across pedagogy, operations, compliance and safety and quality. The increase on the prior period is largely the annualization of the cost base from the prior year.

The full year network support costs were initially expected to be 65 million for 2022. Following the cost out programme support office costs are now expected to be 60 million. The benefits of these programmes and support teams are reflected in improved wage compliance and efficiency levels despite lower occupancy, our growing trainee base to grow our own talent, and our improvement in our key occupancy lead indicators of quality and team retention. In both of these areas results were positive, with 92% exceeding-and-meeting ratings for centres assessed in the half, and improved retention outcomes for our CM and ECT roles. The resulting financial outcome is operating EBIT after lease interest, of 21 million dollars.

Turning to slide 13, the composition of these earnings between quarter one and quarter two shows a material variation in performance. The first quarter earnings were 1 million dollars, 16 million lower than the prior corresponding period, impacted by the Omicron resurgence and flooding in Queensland and New South Wales. The second quarter improved materially, as occupancy began to close the gap on the prior corresponding period, GAP fee waivers ceased, and the cost reduction programme was implemented.

Core centre earnings were higher in quarter two versus the same quarter in 2021, reflecting improved occupancy and wages as a percentage of revenue. The interaction between wage efficiency, increased agency usage, and the fee increase can be seen in the second quarter. As occupancy recovers in the second quarter, and the fee increase has a full quarter impact, core wages as a percentage of revenue is lower, compared to the prior year. The impact of the cost reduction on support office costs can be seen in the 2.6 million quarter on quarter reduction, noting that some of the cost reductions will be offset by a continued level of inflation.

The group's occupancy performance during the year is contained on slide 14. The occupancy gap widen in the first quarter to be 2.1 percentage points below the PCP in March, but closed the gap to be only 0.5 percentage points lower at the end of quarter two, thereby narrowing the gap on the 2019 pre COVID levels. The seasonal growth trend has been reestablished and the strategic change programmes along with improved subsidy arrangements have contributed to an increasing number of days per child, from 2.9 days to above 3 days. Inquiry levels were stronger for the half. However, we're still seeing deferred enrollments and delayed commencement dates, which have reduced conversion rates. This along with workforce shortages, placing constraints, and occupancy, has resulted in the number of families entering the wait list during the half increasing by 56%.

Turning to slide 15, which compares the occupancy of Metro, regional, and CBD centres, as well as state by state performance. The group's occupancy for the half was 0.9 percentage points lower than PCP. And 2.8 percentage points behind half one of 2019. Occupancy is further recovered, and for last week, was 0.8 percentage points ahead of 2021 and 1.4 percentage points behind 2019. The benefit of the group's geographic diversification is evidenced here. G8 regional centres continue to be the standout performers in the half, materially outperforming Metro and CD centres with average occupancy, 4.6 percentage points higher than 2019 and over 14 percentage points higher than Metro centres. This reflects the strong net migration trend to the regions during the pandemic.

The state by state view highlights a cumulative effect of movement restrictions in Victoria, with occupancy growth and the absolute occupancy number being lower than other states. Occupancy in Victoria has closed the gap on 2021 levels, however remains behind 2019. Queensland, New South Wales and Western Australia had a strong growth through the half. All of these states ending the half higher than both 2021 and 2019, with COVID 19 impacts mitigated by the improvement programme and lower supply, excluding Western Australia. The recovery in south Australia has been slower and impacted by market factors, particularly team shortages. And ACT, which is only a handful of centres for G8, continues to have operational specific challenges.

Wage performance for 2022 is illustrated on slide 16. The wage hours per booking for the current year is lower than prior years, driven by an effective response to the challenging environment, despite lower occupancy levels that cause inefficiencies in our regulated ratio wage environment. Remuneration for centre managers and early childhood teachers remains above the award. And a 4.6% increase in the child services award was effective in July 22.

Slide 17 sets out the performance of the group's green field portfolio. The portfolio's 14 centres had an average occupancy of 55% lower than the prior year due to six centres maturing to the core portfolio, on the 1st of January. The portfolio contributed loss of 1.5 million for the half, with a more subdued quarter one, similar to the broader group. With two more green field centres expected to open in the second half, the impact on the full year after funding employment and set up costs of centres yet to open, remains at 3 million. The COVID 19 environment, which is increasing construction and funding costs and causing labour shortages, continues to disrupt the green field pipeline, with only four new centres open during first half '22, and a number of plan new centres being deferred. As a result, six new centres are expected to be handed over during 2022.

The impaired centre divestment programme continues to progress as set out on slide 18. 23 of the impaired centres have been exited representing 3.3 million of the impaired portfolios, 2019 EBIT losses. The group incurred immaterial cash outflows relating to divestments and surrenders during the half. And we will continue to employ a commercial approach, guided by return on capital, when assessing our exit alternatives, taking into account length of lease tails and trading performance.

As outlined on slide 19, the group's cash conversion was 117% with a decrease in overall operating cash flows driven by lower EBIDA. A driver of the higher than PCP cash conversion is the prior year insurance premiums were prepaid. Whereas in the current period, they will be paid monthly. The remediation programme progressed with 3.1 million of payments made in the half totaling 41 million paid to date, to circa 20,000 current and former employees. There remain 6,000 former employees to be located and paid.

During the half, CapEx was 19 million as outlined on slide 20. This figure excludes software-as-a-service costs of 2.3 million that are now treated as OPEX, following a change in accounting interpretation. If the CapEx is proforma-ed to include software-as-a-service, the overall spend was 21 million. This is lower than expected due to COVID 19 driven delays, particularly in our property improvement area. Equipment and resources include the investment in educational resources in the improvement programme. And technology includes the elements of the HRIS and finance systems that can be capitalised, along with IT equipment in centres and support office. The investment in property CapEx has driven positive outcomes in our quality results, with 100% of centres achieving meeting for the QA three property. The target total CapEx, including SAS is circa 60 million to 65 million for the full year. However, this is subject to supply chain constraints. This CapEx will focus on continued investment in centre quality in both the physical environment and resources, both contributing to improved team engagement and family retention over the past 12 months.

Turning to slide 21. The group's balance sheet is well positioned with conservative leverage of one times. The subordinated 100 million debt facility repaid during the half results in lower relative interest costs and a reduction in total borrowing facility size. The prepayment costs from this facility were funded in full by the gains in the cross currency swap, and the 1.4 million of capitalised borrowing costs written off relating to extinguishing [inaudible 00:24:25] facility are included in the first half interest expense of 7.5 million. The interest expense forecast is expected to be circa 13 million for the full year, reflecting a reduction from the 7.5 in the first half to circa 5.5 in the second half. Despite potentially increasing interest rates on the senior debt in the second half, given the inflationary environment, the group is in a superior position, having repaid the junior debt, given the relatively higher interest rates on this facility. The senior finance facilities are planned to be refinanced in the second half of 2022 to extend the expiry further out from the existing October, 2023 expiry.

During the next half G8 proposes to make a non-cash reduction in share capital. This transaction will be wholly contained with equity, and involves no reduction to net equity for the number of shares on issue. The purpose and effect of this transaction is simply to improve balance sheet presentation through the offset of historical losses with recorded capital contributions, in order to more closely reflect the net equity of G8. Net debt at June was 86 million, an increase since the end of 2021 due to the seasonally lower first half cash flows, elevated accruals paid in January, given the finance system implementation, CapEx investments, the full year dividend payment paid in April, and our ongoing share buyback.

A fully franked dividend of 1 cent per share has been declared and is payable in October. The dividend reinvestment plan remains suspended. And an on market share buyback is ongoing as part of a balanced capital management strategy, with the volume to be determined by appropriately balancing shareholder returns and leverage levels, the earnings recovery outlook driven by COVID 19, funding strategic priorities including the property investment programme, and other funding needs, including wage remediation and network optimization. I'll now hand back to Gary for the medium term outlook and strategy update.

Gary Carroll: Thanks Sharyn. So we'll now turn to the medium term outlook for G8 and the broader market, as well as our current trading update and outlook for the balance of the year. In our full year results presentation in February, we undertook to provide shareholders with a roadmap of how we'll achieve a sustainable medium term occupancy target of 81%, as well as the likely margin that flows from that. And this is set out on slide 23. Broadly speaking, the building blocks of occupancy growth are firstly, market growth, that is growth in overall market demand and resulting occupancy due to macroeconomic, government policy, and other drivers. And I'll talk about the fundamentals driving market demand shortly.

Secondly, portfolio optimization, which is the continuation of G8's portfolio divestment and green field activities to improve the locational quality of our centres in the local markets in which we operate. And thirdly, improving individual centre performance through improved retention and engagement, and driving high quality early learning.

And to make such occupancy gain sustainable we must be continuously focused on strong operational execution, covering areas, such as inquiry, pipeline performance, family engagement and communication, leadership capability, and ongoing field support activities. All of the G8 specific elements form part of the group's strategic plan and priorities, including the centre support plans and the various strategic initiatives targeted at enhancing team capability, retention, and engagement.

To provide a high level view of the profit impact of achieving a meaningful uplift in occupancy, slide 23 also compares the performance of our 90% plus occupancy centres with the balance of the network. And as you can see, the 90% plus occupancy centres, which currently comprise approximately 20% of G8's network, perform consistently higher in lead indicator areas such as educational practise, team retention, and engagement. This is consistent with the narrative I provided at the start of the presentation, that stable engaged teams providing high quality learning lead to engaged children and families, and ultimately occupancy and profitability. In terms of profitability, it translates to an earnings per licence place that are 40% higher than comparative centres.

The medium to long term demand outlook is set out on slide 24, with strong fundamentals in place that support long term demand growth. The sector has historically benefited from bipartisan government support, which was particularly evidenced during the COVID pandemic. Government funding levels have grown steadily at around 9% compound annual growth since 2010, with increased subsidy levels for families with more than one child coming into effect over the last 12 months, and further subsidy increases to improve affordability scheduled to be implemented in mid 2023. Additional factors we anticipate, will support demand growth over the long term, include the expected growth in female workforce participation rates and the reestablishment of positive net migration.

On the supply side of the equation is set out on slide 25. Like other sectors, and has called out by Sharyn, the early childhood sector has definitely been impacted by increased workforce vacancy rates. In the case of early childhood teachers, the workforce challenge has been exacerbated by increased demand due to new regulations in New South Wales and Victoria, as well as the pausing of immigration over the last two plus years. these factors have resulted in ECT vacancies increasing by 31% over the last three years. Governments have responded by introducing funding and scholarship programmes to reduce the cost of both vocational and tertiary qualifications, while also providing accelerated degrees to fast track ECT qualifications. G8 has also responded with various initiatives, including increased remuneration and benefits, scholarships, funding, and enhanced professional development programmes. The results have been heartening with retention levels improving against PTP for both centre managers and ECTs. Although we absolutely acknowledge there's still much work to do.

The current trading and outlook is summarised on slide 27, with solid occupancy momentum built in the half supported by the additional childcare subsidy for siblings, low unemployment, growth in female workforce participation rates, our improvement programme outcomes, and a strong inquiry pipeline. As Sharyn noted, the occupancy seasonal trend has been reinstated, with core occupancy currently it's 73.8%, which is 0.8 of a percentage point above PCP and 1.4 percentage points below the comparative period in 2019. We implemented a three and half percent midyear fee increase in July in response to the inflationary environment and our cost out programme is on track. Workforce shortages and absentee levels will continue to be challenging from an occupancy perspective. Continuing this occupancy trend coupled with strong cost and wage management is expected to drive a stronger half, two performance. The near term focus is on improving conversions from the inquiry pipeline and the execution of the group's strategic initiatives aimed at building on the credible team retention outcomes.

Sharyn noted the group's balance sheet is strong with the on market by back, continuing in line with capital management strategy. So that concludes the formal part of the presentation, I'll now hand back to Melanie to start the Q and a session.

Operator: Thank you. If you wish to ask a question, please press star one on your phone and wait for your name to be announced. If you wish to cancel your request, please press star two. If you're on a speaker phone, please pick up the handset to ask your question. Your first question comes from Tim Plum with UBS. Please go ahead.

Tim Plumbe: Hi guys. Just two questions from me, if that's all right. Gary, first one, just in terms of the improvement programme. Looks like you're making some good traction there. You mentioned that EBIT margins were 1.2% above core in the first half 22, but obviously first half 22 was not a business as usual environment. Are you able to give us any colour in terms of how we should think about the EBIT margin uplift once we're in business as usual? And if we looked at the second quarter, which should be a little bit more normalised without those absentee and disruptions, or the same extent of absentee and disruptions, are you seeing any improvement in terms of the occupancy levels within that cohort, compared to the broader group?

Gary Carroll: Yeah, really interesting question, Tim, because so much depends on the location of the improvement programme outcomes relative to the rest of the network. The reason I was pleased for the outcome is they're achieved in more of our Metro centres rather than our regional centres. To break down your question, we do think the go forward EBIT margin uplift is higher than the 1.2. Part of the rationale for putting in a bit of a visual on the 90% plus occupancy centres, is to give you some feel for, it's quite a meaningful uplift when we get all the measures right. But we'd certainly be targeting BAU. In a return to more normal environment, we'd be getting a better than 1.2% margin uplift. So that result was impacted a lot by location. And also, the specific centre impact, whether it was Omicron, floods, or other, that was quite a messy result in half one. Given all of that, we're pretty happy.

We do think that the improvement programme has absolutely been successful in driving good levels of improved team engagement, good levels of quality uplift. They're all the lead indicators that we track to go over time, that'll translate into occupancy and margin. For me, being 85% of the way through the programme and also converting it into a BAU model, and we absolutely have a focus in the remainder of the year to really nail down that region operating model, so we can embed those improvements and continue to grow margins. I expect when we come back to the market in February, we'll be able to give you a bit more of an update, how the second half looked for those remaining improvement programme centres. Because that will be more of a normal operating environment.

Tim Plumbe: Got it. Thanks. And just the second question in terms of the targeted cost reduction of 13 to 15 million. And apologies if you went through this, I've jumped on a little bit late. The 2.8 mill that was realised in the first half, is that the dollar saving that you achieved? And if so, what was the exit run rate and how do you think about the dollar saving in the second half?

Gary Carroll: Yeah, the 2.8 was gross, Tim. Hopefully we've been clear in the pack that, I wouldn't expect people to be able to just do a complete look through and go "Year on year 2022 is 13 to 15 mil lower than 2021. There's absolutely the impact of inflation coming through, that means that you won't get a 100% flow through. What I can say is, against our cost target, which is 13 to 15 of gross savings, where bang on target for that. So feeling pretty satisfied with the progress we're making. Where you'll see it come through will be in a fair chunk in support office areas as well as some of our other cost items, both in centre and around centre.

Tim Plumbe: Got it. But sorry, my question was more about 2.8. Was that the gross savings in a dollar basis that you achieved in the first half? Or is that the run? And if so, should we be thinking like 60% of 15 mil benefit in the second half? Or...

Gary Carroll: Yeah, I think if I'm following what you're saying, because having pulled the trigger on the cost restructure in April, our exit run rate would mean that we'd need to be getting... Given that they are wages, Tim, they are reasonably uniform in how they're being realised. So I think your assumption that mid 60% of the dollars will flow through in a reasonably uniform way in the second half of the year, I'm comfortable with that.

Tim Plumbe: Okay. Thanks guys.

Operator: Thank you. Once again, if you wish to ask a question, please press star one on your telephone and wait for your name to be announced. We'll now pause a moment to allow for any final questioners to register. Your next question comes from Peter drew with Carter Bar Securities. Please go ahead.

Peter Drew: Morning Gary, morning Sharyn. Just a question on the occupancy. So I'm just trying to understand how we should interpret the comparisons to the second half of 21, given the waters are a bit muddied with the COVID situation then.

Gary Carroll: Yeah. Well first point, Pete, is we're happy that we've gone through 2021 on a spot basis. Given the ground we've made up, the shape of the curve currently, or certainly over the last number of months, has been a bit steeper than 2021. That would imply that we should continue to open up a gap between this year and prior year for the balance of the year. That said, our primary focus is on getting back to pre COVID. Really pleased that we closed what was a very material gap at the end of March, relative to 2019, to tick over 1% currently. I'd certainly be hoping that we would close that gap even further in the balance of the year.

Peter Drew: Yeah. Right. That's good. Thanks Gary. And just another, I guess, follow up, maybe just to try to clarify that the cost out. So if it's 13 to 15 million gross, you've basically flagged a five mill reduction in support costs, in cash costs this year. And then you've got maybe another couple of million coming through outside of that. So I guess you put that together, sort of circa a 7 million cash cost reduction this year, above and beyond inflation.

Gary Carroll: I'd say you won't be too far off the mark with that yeah.

Peter Drew: Yeah. Great. Okay. Thanks Gary. Thanks Sharyn.

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 Melanie. And thanks everyone for joining us today. No doubt, we'll catch up with a number of you over the next couple of days. But that wraps it up for today. Hope everyone has a great day. Thank you.

Sharyn Williams: Thank you.

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

[END OF TRANSCRIPT]