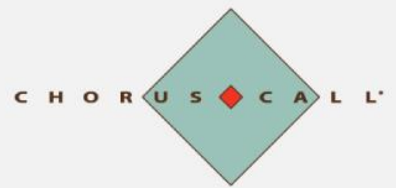


TRANSCRIPTION

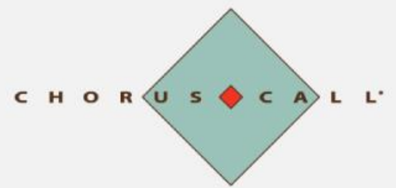
Company:	**G8 Education Limited**
Date:	**21 February 2023**
Time:	**9:00am, AEDT**
Duration:	**47m 51s**
Reservation Number:	**10027876**

[START OF TRANSCRIPT]

Operator: Thank you for standing by and welcome to the G8 Education Limited CY '22 Full Year Investor 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, you will need to press the star key followed by the number one on your telephone keypad. I would now like to hand the conference over to Mr. Pejman Okhovat, CEO. Please go ahead.

Pejman Okhovat: Good morning, everyone and welcome to the 2022 Full Year results presentation for G8 Education Limited. My name is Pejman Okhovat, and I'm the CEO and managing director of G8 Education. I'm joined today by our group CFO, Sharyn Williams, and Tracey Wood, our chief legal, quality and risk officer. Sharyn and I will have the pleasure of walking you through the investor presentation that was posted on the ASX earlier this morning and then provide time for questions. I'd like to begin this meeting by acknowledging the Gadigal of Eora Nation who are the traditional custodians of the land on which we are conducting this presentation today. We respect the spiritual relationship with the country, and we pay our respects to the Elders past, present and imagine. I extend our respect to any Aboriginal and Torres Islander people joining us today. I would also like to acknowledge the dedication, skill and commitment of the entire G8 Education team for their outstanding efforts during the year.

We continue to respond to a highly challenging and rapidly changing operating environment while continuing to deliver on our purpose every day, which is creating the foundations for learning for life. This morning we will cover the financial performance for the CY '22, an overview of how our strategies flowing through to operating results, and finally, the macro environment and our view of the medium term outlook and current trading. I joined the group at the beginning of January, so I would like to take a very short couple of moments to provide some context on my background and my first seven weeks. I joined the G8 on the background of 29 years in the retail sector working across UK, New Zealand and Australia within large and well-known organisations. Since 2012, I've held several MD and CEO roles in large distributed network and complex organisations and led them through turnaround



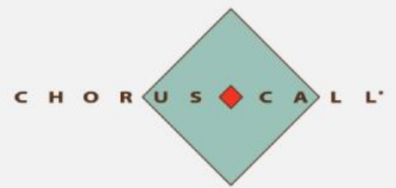
growth through M&A, consolidations, business and agile transformations, which all have led to adding value to all the stakeholders.

I've had an incredibly warm and fastest start and I'm very grateful to our G8 team and wider stakeholders in assisting my immersion and learning journey into our organisation and early childhood sector. I will be continuing on this journey for the next couple of months until I am completed my immersion programme. Turning into a slide seven, an overview of the calendar year '22. To start with some key highlights, in our core occupancy are 71%, quality improvement of 3% compared to previous year at 89%, inquiries of 10%, and operating EBIT of 80.3 million were a very pleasing and solid set of results that we achieved in '22. The year was a tailored two halves with a first half impacted by omicron and flood resulting enclosures, capacity issues, team shortages, and higher agency usage. The operating environment was challenging and had a significant impact on occupancy and earnings. To respond to these challenges, the group implemented a cost draught programme to augment the savings generated by transitioning from the improvement programme to an integrated business as usual model.

During the second half, we saw a solid rebound in occupancy resulting in the gap to see why levels being closed further and see why levels being exceeded. This occupancy recovery translated into earnings performance as operational disciplines in workforce planning and intentional investment in centralised support for our teams, mitigate the impact of higher agency usage. We know this performance was present, was in an environment of continuing sector team challenges, so we are cautious in our optimism for the coming year. Execution of the group's strategy priorities progress well during the year with quality across the G8 1240 are not in line with the broader sector results. You may recall last year we were slightly behind, so this improvement is pleasing to see and reflects on the dedication and the focus of our team in delivering quality services to our children and their families. A significant amount of resources and focus has being directed towards navigating the great challenge facing our sector regarding the workforce shortages.

We are working hard on team attraction, retention and workers planning and metrics, particularly in our vacancy profile relative to the broader sector and are encouraging and suggestive that these efforts are yielding results. At the same time, we continue to work on optimising our own network. The group has a strong balance sheet that facilitated capital management initiatives total in 68.5 million through an unmarket buyback and fully franked dividends. Whilst the long-term fundamentals of the sector continue to be encouraging, from both the demand and somewhat supply perspective will remain cautious given the significant challenges relating to team shortages, inflationary pressures on the economy overall and the significant amount of regulatory activities relating to sector over the next 12 to 24 months whilst early to understand the full impact of the inquiries and how significant they may be. We will expand on these later in the presentation.

As outlined on slide eight, despite occupancy for the year being flat on prior year, revenues grew and cost management with discipline, with cost management and



discipline, allowing these revenues to flow through to operating EBIT. From a strategy perspective, non-operating items such as non-cash gains and losses, restructuring costs and software development costs resulted in impact reducing compared to prior year. Slide nine and 10 outlined the drivers of occupancy including quality team and portfolio optimization, strong operational execution and broader growth in demand. The simple rule of thumb for us is that the stable, engaged teams provide high quality learning and care drive high levels of family engagement that in turn it's a sustainably higher levels of occupancy. We are showing some promising signs across these areas, particularly in the current environment of the sector-wide team shortages. However, we remain cautious that we are not where we need to be. At particular occupancy, so we have a journey ahead of us to convert initial green shoots into occupancy and continued earning growth.

Quality continued to improve for the group to now be in line with the sector quality levels for centres meeting and exceeding, reflecting the investment made in around centre support and increased training and development as we continue to walk towards our goal of achieving 95%. Moving now to our most pressing and urgent short and medium term challenge team, we are currently in an acute workforce shortage, which has been [inaudible]. Across our team, we see engagement in the mid-70s and mid-80s for centre managers. Although retention as a group reduced versus CY '19, it was present to see our CMs improved slightly to 79%. In a year where there was a step change in sector vacancies, G8 recruited more roles than the prior year and reduced its number of vacancies. This outcome was driven by our centralised recruitment team and additional HR business partners supporting our centre network. Similar to rest of the sector navigating these shortages remain G8's key focus in CY '23 and beyond, and we expect this challenge to continue to constrain occupancy growth to some degree.

During the year, to improve our team experience, we increased support for our centre managers, provided dedicated teacher registration support for early childhood teachers and continue to tweak our REM and benefits in both of these key roles. From a broader educator perspective, leveraging our system to provide enhanced flexibility and increasing development opportunities has been a focus. Given our scale, G8 has the opportunity to build a pipeline by growing our own talent. It is pleasing to see that circa 1,100 team members enrolled in certificate three and diploma courses and over 200 enrolled in the bachelor's study programmes. From a sector in G8 demand perspective, we continue to see a strong demand reflect in the relative elevated higher inquiry levels. However, large portion of these inquiries relate to centres that have higher occupancy already, and therefore, limited as well as centres where team shortages are a constraint or occupancy. The upcoming CCS changes will improve affordability, and we expect consistent with the recent subsidy changes like the sibling subsidy will increase demand.

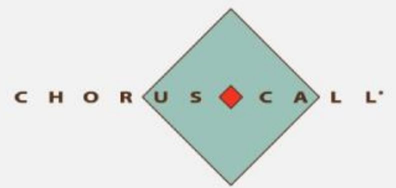
This will likely manifest through increased frequency of bookings and through new families entering the sector. This reinforces G8's focus on team as the government changes the stimulate demand, the critical factor that will dictate whether families can access. Extra days will be the ability for operators to establish demand. G8 is

continuing around the journey of optimising the location of our services with a number of centres closed, six centres opened and are waiting to CBD centres continuing to reduce. The progress of greenfield pipeline has remarkably slowed with developers been impacted by inflation and supply chain challenges as well as their own staffing shortages. On the supply side of question, supply growth remains subdued compared to prior year in CY '22 driven predominantly by increased construction and funding costs and longer construction timelines due to labour shortages. It is uncertain if this is a sustainable decrease in supply as recent Department of Education flagged they are receiving an increased number of service approval applications, so we are cautious in how supply might look as we go forward.

The final driver occupancy is operational excellence. G8 continues to focus on execution, and we are seen more early positive results in rostering disciplines and our in-centre work routines in particular. Given the reliance on a stable team in a service business in the current environment consistent and sustainable operational performance requires more focus and oversight. It was pleasing to see our progress along our ESG journey with key achievement in CY '22 being the quality of improvements across the portfolio, the sustainability linked loan being renewed and an emission target being set and largely driven by installation of solar in a number of our centres during '23 and revision of our vehicle fleet. The group also has a commitment to implement a reconciliation action plan to foster a community shared value those and common language when it comes to reconciliation and continue to pilot Allied Health Services to broaden our support for children's outcome. I will now hand over to Sharyn to provide the detailed overview of the group's operating and financial performance.

Sharyn Williams: Thank you, Pejman. Turning to slide 14, the group's performance was solid on the back of the strongest second half result ending broadly in line with CY '21 in terms of occupancy, operating earnings and margins. The core centres delivered higher earnings than the prior year and a stable margin. This is a pleasing result, particularly in light of the very weak first quarter that was impacted by omicron and floods while occupancy was flat year-on-year revenue increased driven by fee reviews in both January and July, the latter, a necessary response to inflation. Our largest cost base area wages was managed well in a year where inflation and agency usage impacted the wage rate. This reflects our increased investment to centrally support our teams to manage rosters and share our valuable team resources across locations. Rent is another material cost base for our business rental rate increases for the year were 5.4% including market reviews of 6.6%.

However, noting our continual focus on the locations of our centres, the non-renewal of a number of leases resulted in rent payments being flat on prior year and an improvement in the quality of our portfolio. Greenfield centres performed in line with expectations noting importantly, the comparison to prior year does not reflect the same group of 16 centres with the current year including six new centres, where startup costs are higher. Significant achievement for the year was support office cost being flat on the prior year despite significant inflationary pressure across insurance, wages and other cost areas. You may recall during our prior year results, we outlined



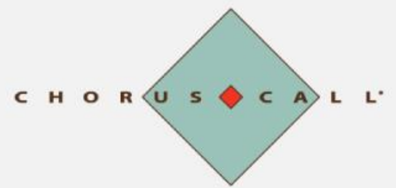
a temporary government funding stream relating to apprentice wages. This funding was put in place by the government to aid the economic recovery from COVID-19 in both CY '21 and CY '22.

G8 used $5 million and seven million respectively to increase trainees as part of our workforce shortage response. This subsidy will not repeat in CY '23 and support office costs should be adjusted due to the absence of that temporary subsidy. Our group margins being broadly stable year-on-year demonstrated the effectiveness of cost disciplines and our active management of inflation while still continuing to deliver quality care and value for our families. We will maintain our focus and disciplines as the expectation for the coming year is inflationary pressures will continue not only for GHS cost base but also for our families who are also feeling inflationary pressures. Moving on to occupancy performance, what is really interesting about slide 15 is the trend of occupancy through the year. The overall occupancy was flat year-on-year at 71%, but there was a steady trend of improvement with occupancy closing the gap on CY '19 and slightly exceeding the CY '21 occupancy levels by year-end.

This occupancy outcome was driven by our strategic change programmes and the reestablishment of the seasonal uplift trend. In addition, we have seen a further increase in days in care in response to increase childcare subsidies to improve affordability. The recent change improved affordability for families with multiple children and also removed the annual subsidy cap. It would be remiss of me not to mention that sector workforce shortages continue to impact occupancy levels with a portion of the network remaining constrained by team member availability. From a state-by-state perspective, Queensland is our best overall performing state and regional centres continue to outperform metropolitan and CBD. To provide further context on nuances by state, New South Wales, Western Australia and the ACT have been relatively more impacted by workforce challenges. Our metropolitan centres in Victoria, Queensland, and South Australia are predominantly driving the reduction compared to CY '19.

With these states having material variances between regional and metro areas, particularly those centres that are within approximately 30 kilometres of cities. We're finding that families in those areas potentially commuting to a city for work are likely choosing a centre closer to home rather than commuting to work each day. Our final call out on location variances is our CBD locations. We continually to proactively rationalise these locations given the structural changes in demand in relation to wages, we've controlled the controllables. A highlight of the year was our response to increased agency usage and wage inflation, active management and our HRIS system, which facilitates improved analytics in rostering and compliance activities partially mitigated the higher impact of agency costs. Labour inflation for the year was 7.8%, slightly higher than the 7% we'd anticipated at the half year. The internal wage rate increase was 4.7%. Agency usage comprise the remainder given the higher cost to access this temporary labour.

Agency costs continue to be elevated at 4.7% of total wage hours up from 2.7 in the prior year. However, this increase has been offset by internal team hours resulting in



better wage efficiency. From a practical perspective, we've achieved this through flexible rostering, recruiting more part-time and casual team members and sharing our resources across our network to better utilise the people. We have a benefit of operating multiple centres. It's improved wage per booking partially offsets the higher rate paid for agency team members. Slide 17 reflects the continual active management of the portfolio where 16 centres were exited during the period and six new centres were opened. The impaired cohort of centres have improved performance since CY '19 through not only the divestment programme we've undertaken but also improved operational performances. These losses ignoring any impairment benefits, so apples with apples, are now reduced from $12 million from the 2019 year to $4 million, a significant improvement.

The group's greenfield portfolio has slowed due to developer challenges with supply chain and inflation. We'll continue to take a very commercial lens on this pipeline, particularly in the current environment. Changing tech now to the group's cash conversion which was 94%. The variation to prior year is largely driven by timing where we carried additional creditors into early CY '22 due to the cut over to our new financial system and these unwind in CY '22. During the year and outlined on slide 19, CapEx and SaaS costs were 65 million in line with expectations. This investment in property CapEx in particular has driven positive momentum in quality with 96% of centres achieving meeting for QA3 area property. We've also seen improvements in family satisfaction relating specifically to physical facilities and resources. The targeted total CapEx in staff for the coming year is circa 65 million, predominantly focused on property improvements, information technology and systems and educational resources.

All investments are to improve team engagement, family retention and child outcomes. The group's balance sheet is well-positioned as outlined on slide 20 with conservative leverage of 0.8 times and net debt being flat on half due to stronger seasonal second half cash flows. A fully frank dividend of two cents per share has been declared and is payable in April taking the total dividends for the year to three cents. This is a 68% payout ratio within our target payout ratio range of 50 to 70% of net profit after tax. We continue on our journey to optimise our finance costs with the benefits of the refinance evident in reduced interest cash outflows. These reduced from 11 million in CY '21 to nine million in CY '22. We do note that interest expense of 13.8 recorded in the accounts for CY '22 includes 2.7 million of non-cash capitalised borrowing costs written off relating to the junior facility, refinance and extending our senior facility.

The remaining finance costs comprised commitment fees, drawn interest costs and borrowing costs expense. The combination of these are expected to be circa $13 million in CY '23 based on current BBSW rates. However, we are mindful that interest rates may continue to increase. Therefore, we've reduced our facility size in our recent refinance from 350 million to 306 million to reduce commitment fees on unused facilities. As announced today and flagged at the half, we've completed a non-cash reduction of our share capital. This transaction involves no reduction to net equity and no change in the number of shares on issue. It purely simplifies our

balance sheet presentation to more closely reflect our net equity pleasingly. The 40 million on market buyback is complete with 38 million of shares purchased and our buyback objectives to support conservative leverage while enhancing shareholder returns and preserving funding reserves have been achieved. Pejman will now walk through the strategy update.

Pejman Okhovat: Thanks, Sharyn. We will now turn to the medium term outlook for G8 and the broader market as well as the current trading update and outlook for the balance of the year, so turning to slide 22. With the strong fundamentals in place that support long-term demand growth, the sector has historically benefited from bipartisan government support. Would this support increase in further in July 24? We have also seen the number of days our G8 families are using childcare increasing over the past years and this trend has continued into early January reflecting the positive impact of subsidy changes on days in care. The further changes being made to CCS percentages by incoming potentially also support increased days and our internal analysis suggests that these changes will make a difference to some of our families.

In this current inflation environment where families could be looking to take an take on extra hours of work to help fund rising cost of living, the ability for this extra day of work to not to be spent on childcare fees will aid affordability. However, some families, they will choose to retain the savings and the current days in care to restore family budgets. This is reinforced in the chart on the left-hand side that shows the net out of pocket costs for families over time and the government affordability measures to assist out of pocket costs for families. In the December quarter though, there has been a material increase in these out of pockets or for the sector terms gap fees, the changes to subsidies in July '23 will help with these out-of-pocket fees. Importantly, these extra costs can only be realised if we have the team to support the growth. The trend in female workforce participation rate and the reestablishment of positive net migration will also provide a meaningful tailwind as this normalises to historical values.

Turning to labour supply side of the equation and our greatest sector challenge, workforce shortages, which we discuss in more detail on a slide 24. Like other parts of the economy, the early childhood sector has been impacted by increased workforce vacancy rate. In the case of ECTs, the workforce challenges has been exasperated by increased demand due to new regulations in New South Wales and Victoria as well as the posing of the immigration over the last two years due to COVID, these factors have resulted in ECT vacancies increasing by over 30% over the last three years. Government have responded by introducing funding and scholarship programmes to reduce the cost of both vocational and tertiary qualifications while also providing accelerated decrease to fast track ECT qualifications. We are seeing some very early signs that the enrollment numbers are increasing in response to these programmes which are really pleasing to see.

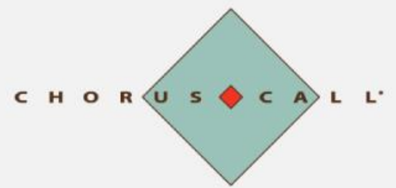
G8 has also responded with various initiatives including remuneration and benefits, the scholarships, funding and enhanced professional development programmes. The results for centre managers have been heartening retention levels improving against

prior period. However, in the ECT and educators, we've seen a retention reduced. We continue to improve the attractiveness of G8 in this ECT area leveraging of the state-based kinder funding for three and four-year-olds, given these rules are hardly contested by primary schools and early education providers. We are seeing more regulatory activities in the sector with a number of government reviews and inquiries having commenced or are due to commence in this calendar year. The HFOC inquiry has commenced with a draught report due by June and final report by December focusing on the drivers of costs and the variability of these costs by provider and how these relate to fees within the sector.

The productivity commissioner's review, which commences in March 2023 is expected to leverage after the findings of the HFOC inquiry. The terms of reference have been released and are focused on support and affordability, accessible, equitable and high quality early childhood education and care. They are all commissioned in South Australia into early childhood is releasing its interim report in April with a final paper due in August, and also the New South Wales IPOCT inquiry again in '23. A more broader regulatory change across Australia is the multi-employer bargaining with one of the stated aims of these reforms being to address the undervalued work in the care sector and address the gender gap. G8 looks forward to working collaboratively with unions, peak bodies and government to commence the planning process in relation to multi-employer bargaining and advocating for government funding in relation to wage increases. Now, 10 means to current trading an outlook as per slide 26.

Current core occupancy week ending 19th of February is 1.8% higher than CY '22 and 1.5% lower than CY '19, and broadly in line with our December trading update. Fee increases of circa 6% implemented in January in response to the current inflationary environment, wage management disciplines continue this year. Further wage inflation is expected in CY '23 due to agency usage remaining as one of the staff insured resolutions combined with general increase to sector wages anticipated with the war changes media. The group balance sheet remains strong following the completion of the circa 14 million on market buyback as part of the group's capital management strategy. With regards to outlook, demand outlook for the early childcare sector is improving and is expected to be fairly stimulated by the cheaper childcare bill scheduled for July '23. New centre supply response is still unknown. Supply in CY '22 was subdued but the approval request have increased in January '23.

Current workforce shortages remained a sector's key challenge constrain and occupancy conversion and sustain improvements. Inflation will continue to play a role for our families affordability and our cost-based management. Regulatory focus on the sector will potentially have significant reforms ahead, which will require careful navigation and significant resource and time and attention from us. G8 focus on in the near term is attracting and retaining the team to support the seasonal occupancy growth and assist families in benefiting from the upcoming CCS changes. I'm going to pause here and hand back to the moderator to start the Q&A session, and at the end, I will come back with some final remarks.



Operator: Thank you. If you wish to ask a question, you'll need to press the star key followed by the number one on your telephone keypad. If you wish to cancel your request, please press star two. If you're on a speakerphone, please pick up the handset to ask your question. We ask that you please limit yourself to one question per person, after which you may then rejoin the queue. Your first question comes from Tim Plumbe with UBS. Please go ahead.

Tim Plumbe: Hi, guys. My question is just about labour constraints. Pejman, I know you've spoken about it in a fair amount of detail during the presentation, but can you maybe just touch on industry discussions that are currently being held with the government in particular around ECTs? I mean, it's positive seeing those numbers coming through from university admissions, but realistically that takes four years for them to work their way through the pipeline, so importing that talent is probably going to be critical and just further to that, maybe broadly how you're thinking about labour inflation in calendar year '23 given those constraints.

Pejman Okhovat: Thank you. Great start to the questions in terms of how we working and what are you observing from the sector and other providers. As you know, we are a member of the ELACCA. We've been having regular conversations with ELACCA particularly on this topic, and we are all in a similar way united in the fact that we are facing the same shortage challenges. To give you a data point, when we had our ELACCA meeting in January. The CEO of ELACCA mentioned that within the ELACCA members, which are roughly about 25 to 30% representation of the sector, we ended the year in December and coming to January roughly about 5,000 vacancies.

So if you can kind of multiply that out within the sectors anything between, I would say, 18,000 to 20,000 vacancies currently out there, everyone's in the same boat. We're all trying our best to deploy tactical activities and strategies that we feel right and is appropriate for each of our own businesses and organisations, at the same time will also really advocating for government to really look at this really critical workforce and recognise the importance of early childhood services that we provide for the families, the children and of course subsequently the economy.

Myself and the ELACCA members are actually in Canberra next Monday and having a conversation about that with the government to see what are the potential opportunities in terms of recognising the sector and partially also about more employee bargaining. We have increased our own focus and attention on how do we navigate these workforce shortages because they're just not going to go away. In short to your point, it takes time to educate people. We have increased our recruitment support both from our central support, and of course, our centralised programmes. We have deployed HR field partners that are actually buddying up geographically to making sure we are recruiting and attracting talent as much as we can.

We have looked into our REM and benefits. We improved our holiday pay by two weeks for our ECTs last year to six weeks, which is we feel incredibly pleased about being able to offer that and working towards bachelor can continue to be in some

states which is really, really important for us. The other things that we are also looking at is flexibility of hours, provisioning to that and also working within geographical areas to pool talent because as I said, we're going to have to find some new ways of addressing some of these challenges.

Operator: Your next question comes from Marni Lysaght with Macquarie Capital. Please go ahead.

Marni Lysaght: Good morning, team. Just a quick one from me just on I think December, the kind of P&L contribution. I'd just like to understand it seems to have come in a bit stronger than what, say, of December calendar year '21 did. I just like to understand the drivers of that.

Pejman Okhovat: Thank you. Yes, you are right. We are pleased with that December performance. I think, at a high level, we continue the momentum from H2. Our occupancy was higher, average fees were higher and better wage, particularly around agency cost management for the key contributing factors. I now also hand to Sharyn in case she's got any other further colours to add.

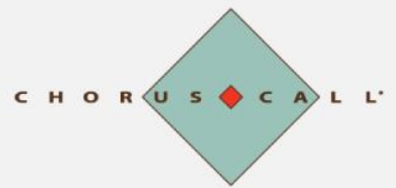
Sharyn Williams: Yeah, only thing I'd add, Marni, is each year we do do a reconciliation of our kindergarten funding from our state governments, so in December, we did have around a million dollar contribution where we'd been a bit conservative during the year on that number.

Marni Lysaght: And just to follow up on that kind of the kindergarten funding reconciliation, is there anything to expect that could be different next December or next year? Oh, sorry, calendar year '23.

Sharyn Williams: Certainly state governments, particularly Victoria, Queensland, New South Wales are investing more in the three and four-year-olds. Now, of course, that funding needs to be 100% invested through our cost-based. So in terms of ECTs, we're focusing a lot of that spend on our kindergarten teachers. As Pejman mentioned, increasing believe in particular, so you will see kinder funding lift, but of course, that will flow through our cost-based and not a net benefit for the group, although it will help us with our team challenges.

Pejman Okhovat: Moderator, before we go to the next question, I omitted in answering Tim's final part of the question, which was about what do we anticipate that the wage increase this year might be? To be honest with you, Tim, we don't know. Last year was over 5% when the award was reviewed in midyear, we don't know. So one thing we are guaranteed, it will be reviewed, and I think we can probably say that it will be an increase, but the quantum of it, we don't know, and we had no indication. Moderator, back to yourself.

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



Wei-Weng Chen: Hi, guys. Just first question from me just on your medium term targets, just quantitatively speaking, can you maybe share how we should think about when you guys get to the point of that 80% off, you can see what might that mean for profitability? What should post-tax EBIT kind of... I'm sorry, [inaudible] EBIT look like at that point.

Sharyn Williams: Wei-Weng, you might recall at the half year, we did give a bit of colour around the earnings opportunity when centres are at higher level of sort occupancy, and you will see it is a material uplift once they're particularly over 90%. At this stage, we won't be confirming an earnings equivalent for an 80% occupancy, but we are confident that those building blocks we've outlined there around quality team getting our locations right and being operationally excellent is our building blocks towards 80% and when we get to that stage, you would certainly see margin being more positive, although we won't be putting a number on it today.

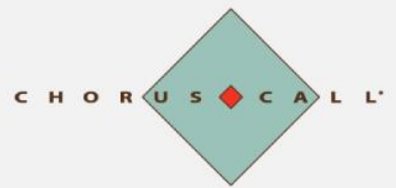
Wei-Weng Chen: All right, thanks.

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

Cameron Bell: Sorry about that. Yeah, sorry about that. Got stuck on mute. Guys, I just wanted to ask about... I saw you made those comments about lack of occupancy, but just maybe some broader commentary about the re-enrollment process, how you've seen the first seven or eight weeks of this year particularly, possibly if you could flesh out where you think occupancy might be if you didn't have these issues around labour.

Pejman Okhovat: Couple of high level comments, Cameron. The pattern of occupancy coming into January has followed the same lines of the last couple years, although with some positives and downsides as I explained, we've seen occupancy grow against CY '22. Our occupancy gap to CY '19 has broadly stayed similar to what we said in December, which was around 1.3, and we currently about 1.5% gap to CY '19. There are a couple of positives in terms of where we are. If I look back in December or that last part of quarter four, we had circa 80 plus of our centres that had cap on occupancy due to team member, significant team member shortages, Right here, right now, we started January with around the 40s and 50s and right now we're actually under 30 centres with a cap put in place due to that.

The other pattern that we are seeing from our own team members is the increase actually against the last two years probably on the level of leave taken and also unpaid leave. I think partly, again, this is our own view is that over the last two, two and a half years, not many people due to COVID were able to take extended leave and go see families and we've seen definitely this year as their travelling situation has stabilised a bit more, and it's not been disrupted. People have taken longer leave and also some of our... You got to remember some of our own team members are parents themselves, and they're balancing the cost of coming to work and also putting their children in care and some of them have probably decided to stay a little bit longer in January and spend more quality time at home with the kids. So the



patterns are the same. We are better than of '22 or have still got a gap that we working and focusing on against CY '19.

Wei-Weng Chen: Thanks.

Operator: Once again, if you wish to ask a question, please press star one on your telephone keypad. Your next question comes from Wei-Weng Chen with RBC Capital Markets. Please go ahead.

Wei-Weng Chen: Hi there. My next question, just on the non-trading income and expenses, just wondering if you could bridge us from I guess the first half to the full year, looking at the accounts you appeared to have sort of stepped up software spending in the second half and also sort of in the first half you had 2.7 million of income, but at the full year, that number's now up. So just how do we go from sort of first up, stepping up and also first what we're spending... How should we think about that going into '23?

Sharyn Williams: Sure. Those non-trading expenses fall into a couple of buckets, restructuring costs, which were part of our restructure. They were more heavily weighted to the second half there. The material amounts though really relate to where we're exiting centres, and they relate to non-cash gains and losses on the lease assets and liabilities. So since the introduction of AASB 16, we are seeing a lot of movement in that space when you do make changes to your centre portfolio, so we make sure that we do carve them out so that the operating numbers aren't impacted by the noise around those leases. When we have a gain on a lease, it's not a cash gain in terms of a profit as such on sale that realises in cash, it's purely around the carrying value of those leases and property plant, and equipment.

Wei-Weng Chen: Yeah. Okay, can you just confirm of that? Was it 13 million of non-trading items? How much of that was cash?

Sharyn Williams: In terms of cash?

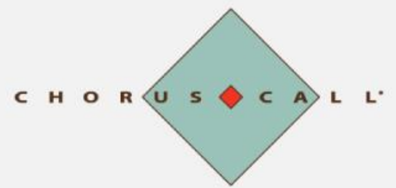
Wei-Weng Chen: Yeah.

Sharyn Williams: No, you're better off to refer to the cash flow statement in terms of cost to look at exiting centres. The large majority of those non-operating items around leases would be non-cash. The restructuring costs around three million, they would be cash. So they relate to some of our team changes we've made during the year.

Wei-Weng Chen: Yeah, yeah. Okay, thanks.

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

Tim Plumbe: Hi, guys. So just to follow up from me if possible please, just in relation to the greenfield, you guys got a pipeline of 12 sensors, presumably that's for the next 12 months, for calendar year '23, and if not, like how should we be thinking about ongoing annualised within that greenfield space please?



Pejman Okhovat: Thanks, Tim. Number one, clarifying the time period, those 12 in the pipeline or across a longer period than CY '23, I believe there are over the next three years. There's specific timing of those. We are working very closely with all our developers and landlords. As I explained earlier, most of our landlords and developers have had challenges for all the obvious reasons and we are working with them to see when there's a possibility of them coming to fruition, so that's the first one. What was, sorry, the second part of your question? Just remind me.

Tim Plumbe: I think you've just answered, but how we should be thinking about kind of annualised run rate. And apologies if you've already answered this, I was doing two results at the one time.

Sharyn Williams: Yeah, no problem, Tim. So in terms of the greenfields in the coming year, we'd certainly be looking for the newly open greenfield to continue increasing occupancy, and we have seen that in the early stages of the year. Now, as that occupancy increases, you would understand better than most, given you follow the company sometime that those earnings will improve from that group of centres. The unknown portion is how many of those 12 will open in this year. We will know more in terms of the half year around the 12 new centres that might be coming. So we can't really give a full year number at this stage, but in terms of the ones that are open, we would look to be reducing some of those losses that are currently there.

Tim Plumbe: Got it. Thanks, guys.

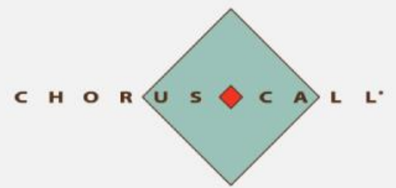
Operator: Your next question comes from Peter Drew with Carter Bar Securities. Please go ahead.

Peter Drew: Oh, good morning. Just a question on support costs, so I think the annualised second half run rate is about 54 million, and Sharyn, you made some comments about that apprentice funding not being in '23. I'm just wondering if you can give us some guidance around what support costs might be, I guess, at this stage, at least for '23, please.

Sharyn Williams: Sure, Peter, so you are right in terms of the apprentice subsidy being added back onto that annualised number you have. You'd be working then from a base of around the low 60s to add CPI, et cetera. Now, the main drivers of CPI, we have been seeing the hardening of the insurance markets. We're continuing to see costs coming through insurance. We're doing a bit more in the IT cyberspace as other companies are doing, and then wage inflation for the coming year. There will be a little bit of annualization in wages as well, but I'd certainly be working from the number you were referring to in the low 60s and then adding some inflation to that.

Peter Drew: Okay, thanks.

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



Pejman Okhovat: Thank you for all your questions. In concluding the presentation, I'd like to just confirm that G8, we are incredibly committed to live in our purpose, which is creating the foundation for learning for life. Our key strategic programmes continue to be centred in terms of better outcomes and experience for our children and their families. With our focus on our team and continuing to drive quality across the G8 network, our operational disciplines and execution will ensure sustainability in our progress for all our stakeholders, executing our strategic imperatives remain our key focus to ensure medium to long-term progress. We do remain optimistic about the next horizon in terms of certainly as the demand continues to grow, but we do have a cautious lens on the macro challenges, that concludes our presentation today and thank you again for your interest and attending.

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

[END OF TRANSCRIPT]