TRANSCRIPTION

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[START OF TRANSCRIPT]

Operator: Thank you for standing by, and welcome to the G8 Education 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 via the phones, you will need to press the star key followed by the number one on your telephone keypad. If you wish to ask a question via the webcast, please type your question into the Ask a Question box on the bottom right corner of your screen. I would now like to hand the conference over to Mr. Gary Carroll, CEO. Please go ahead.

Gary Carroll: Thank you, and thanks everyone for joining us this morning. I'm virtually joined on the call by Sharon Williams, the group CFO for G8 Education. And for the purposes of this call we'll be using the investor presentation that was posted on the ASX a bit earlier this morning, and the slide numbers correspond to that presentation. So if we start on slide eight, which really frames the flow of the presentation for today, what we'll be outlining for you is firstly, the impact of COVID-19 on the trading performance of G8 Education, as well as details in relation to the government funding and relief packages that apply to the sector and to G8. We'll also be going through the various cost saving and cash preservation initiatives, both from an operating and capital perspective, that we've undertaken to mitigate the impact of COVID-19.

In terms of an outlook, it is incredibly difficult, as you can imagine, to forecast the exact tenor and time and impact of COVID-19, and what we'll talk through is the various scenarios that we've modelled and how that plays into the equity raising today. From a guiding principles perspective, we are clear on our intention to retain our highly qualified sensor teams. And when we combine those with the initiatives that have been underway for some time, we feel that that the retention of our team has us well placed to rebound from COVID-19 in future months. And then the final thing that we'll be going through are the various capital structure initiatives we've undertaken, from a dividend, a debt, and an equity point of view.

If I start with the impact on G8 of the COVID-19, and turning to slide nine. The major impact across the sector of COVID-19 has been a material reduction in occupancy, both in a physical attendance point of view, and also from a booking point of view. And this has resulted from the escalating containment measures that the government have implemented, which have limited the people movements. And I don't feel I need to go into any great detail. Also, the shutting down of various industries has clearly resulted in employment losses across many sectors.

The net impact of that has been that across the sector, in the last two to three weeks of March, we saw non-attendance rates, which are historically around 8% on any given day, as children are sick or on holidays, et cetera, increasing to approximately 50% towards the end of March. And that was really felt across the sector, including ourselves, as people kept children at home through health or economic reasons.

We also saw a significant increase in cessation of care requests of parents. To wrap some quantum around that, and there will always be a delay between physical attendance and paid occupancy, either by virtue of the allowable absences regime by which parents withhold the child from attending but continue to pay the fee to preserve their spots, or via notice periods relating to cessation of care.

Our paid occupancy as at the end of the first week of April was circa 9.7% below our prior corresponding period, and that was at a level of around 60%. And given the non-attendance that I talked to of around 50, we actually had a physical attendance during that week in the low 30%. and our understanding is that's very consistent with what other operators are experiencing.

In response to that, and as outlined on slide nine, the government came up with a sector-specific relief package, as well as confirming that the sector could take advantage of the broader JobKeeper wage subsidy package. And the first point worth noting here, is that for us it was very comforting the government chose to have a specific relief package for our sector. For us that highlights the essential part that we play in the economy, and highlights the importance that we provide in terms of providing care and education and enabling people to go to work, which in these trying times I think is even more important. It was very comforting to see.

In terms of the details around the relief package, it operates by taking the average fee revenue for all operators in the last two weeks of February, and halving that average fee. The government will pay that weekly amount to all operators in the week beginning the 6th of April for the period of the package. I'll note that the official expiry date of the package at the moment is the end of June. However, in a number of discussions between sector peak bodies and the minister, he has confirmed that the intention of the government is to match the period of the relief package with the period of the JobKeeper package. And the June expiry is more around reviewing how the package is going, and I'll go into that in a little bit more detail rather than having a hard expiry.

So for our planning purposes, we have assumed that the period of the relief package will match the period of the JobKeeper package. The net effect of that relief package is that our revenues will be approximately $33 million per month for the duration.

Turning to the wage subsidy, which legislation got passed yesterday, the results of that subsidy is that all employers will be eligible to receive a wage subsidy equivalent to $1,500 per fortnight, for all eligible employees, and that subsidy runs for six months. And later in the presentation I'll talk about what that means from a dollar quantum point of view for G8 on a monthly basis.

We turn to slide 10, which outlines the operational initiatives that we're undertaking to mitigate the impact of COVID-19. I think it's very important to point out, the first and most important operational initiative for us is to ensure the safety and wellbeing of our children and team. As a result of that we have set up a dedicated COVID-19 support team, and we've implemented a number of additional infection control measures, hygiene practises. We've rolled out a new sanitising product, Zono, which has been tested to be highly effective against the sorts of viruses we're encountering.

We are working closely with relevant health authorities, and monitoring and responding to their advices to ensure that we keep our children and team as safe as possible. That does include relevant social distancing practises, which in our sector, the sorts of changed processes we've got are around separating our age cohorts. Historically at the start and end of each day we may have combined those cohorts into family groupings. We are not doing that at the moment. We are staggering meal times, and we're increasing time outside where obviously there is a little bit more space, and allows for better social distancing.

In terms of cost reduction activities, there are a few focuses here. One of our primary focuses is on how we maintain agile rostering so that our matching of team member numbers closely matches our physical attendance levels. And we have got a full-time team dedicated to ensuring that we're working with our centres to achieve optimal results, not only from a financial perspective, but also from a team member perspective.

As part of our operational initiatives, we'll also be encouraging our team to utilise annual leave. That is primarily from a health and wellbeing perspective. It does have benefits from a EBITDA perspective, but clearly no impact from a cash perspective. We have undertaken a number of cost saving initiatives in both operating expenditure and capital expenditure, and it would be safe to say that we really honed in and ensured that we're focusing on critical items, both from an operating and capital perspective.

A call out that we currently undertake on a regular basis, our review of our asset base and our portfolio, we will continue to do so. It may be that in the coming months, that review may highlight opportunities to exit underperforming assets. And certainly the ability to use capital from this equity raising may assist in a timely exit of those underperforming assets. I will note, however, that we haven't undertaken detailed modelling in relation to those assets at this point, neither have we started any negotiation. So there's probably no more detail I can share on that particular line right at this point in time.

Our final key cost area that we were looking at is our property costs. At the start of this week we commenced the process to have formal discussions with our landlords in relation to getting rental relief, and I'll expand on that process in the quantum a little bit later. And finally, as a show of leadership and support for what we're doing, our directors have undertaken to reduce their director's fees by 20% for the next six months.

Turning to our capital initiatives, which are set out on slide nine, I'm actually going to reverse the order of what's contained on the slide, because that was really the order in which they are undertaken. The first thing that G8 did was to temporarily suspend our dividends with the exception of our deferred 2019 final dividend, which will get paid in October. We think our suspension of dividends is a prudent thing to do to preserve cash in this kind of environment, and we are not expecting to declare or pay any dividend in relation to 2020. A dividend may, subject to performance, be paid in respect of the first half year for CY21.

The second thing we resolved to do was, we were keen not to disadvantage shareholders who had elected to take up the dividend reinvestment plan, and so what we've determined to do is adjust the issue price of the shares under the DRP to match the offer price under the current equity raising. There's no action required by G8 shareholders who've already elected to participate in the DRP, but we feel that's a fair result.

The second key step that we undertook was to work with our banks, who have been very supportive this whole time, to agree amendments to our banking facilities to provide covenant relief for our next two testing periods, being June 20, and December 20. So the banks will not be testing our fixed charge cover ratio and leverage ratios during the following two periods. And I just want to call out that we continue to be very pleased with the support we've been receiving from our banking syndicate during this time. It's been very much appreciated.

The final step that we've undertaken in relation to capital structure is the raising that we're talking about today, where we're looking to raise $301 million to provide us with an additional liquidity buffer, so that we can continue to operate through not only the next few months, but the next quite extended period. And we feel this allows us an appropriate liquidity buffer to cope with any sort of downside scenario testing that may come in the coming months, and really enables us to strengthen our balance sheet by significantly reducing our leverage. And Sharon will go into that in a bit of detail. And depending on the overall macro environment and what happens over the next 12 to 18 months, it may afford opportunities for growth. However, I'm at pains to point out that the primary purpose of this raising is to provide a liquidity buffer to support our current operations, as we all navigate COVID-19 and the subsequent recovery.

In terms of the structure of the raising, it's a combination of a placement and an entitlement offer. Institutional placement totalled $134 million, while the entitlement offer will be the one for 2.2, accelerated, non-renounceable entitlement offer, split between $89 million dollars for institutional portion, and a retail component of $79 million, with the full issue being underwritten. The impact of the raising is... Primary impact is it reduces our leverage from 2.3 times to 0.4 times on an adjusted CY19 basis.

I can then take people to slide 16. This really provides a quantification of the financial impact of COVID-19 and the government funding packages on G8. And I'll take a little bit of time to go through this slide. The intent of the slide is to provide you with a snapshot of the cashflow impact, pre and post COVID-19, both from a revenue and a cost point of view. If I start with the revenue which is on the left hand part of the slide, you'll see that prior to COVID-19 our average monthly revenue for the first half of 2019 was $72 million. As a result of the government relief package that has been reduced to $33 million a month.

You'll note that the $33 million government contribution is lower than the relevant CCS portion of $42 million in the prior corresponding period. The primary driver for that is that in the $33 million number, there is not the benefit of seasonal growth that typically occurs in the sector and for G8, between the March and June period. It has really cut off a seasonal low. The last two weeks of February are a seasonal low in childcare sector, and that period was used because it was the period just prior to where COVID-19 started having a material occupancy impact. But it clearly does have a financial impact on an ongoing basis.

Turning to expenses, the initiatives that we're undertaking when combined with the wage subsidy package, results in a $32 million reduction in average expenses for average cash costs for G8 on a monthly basis. And turning through each of these in order, clearly the major cost reduction activities in the wages line, where wages are forecast to reduce from $43 million a month to $16 million a month. And that $27 million reduction is primarily made up of the $23 million JobKeeper subsidy that G8 will be receiving. We had built up that subsidy on an employee-by-employee basis to consume eligibility in quantum, so our confidence level around that number is fine.

The remaining $4 million of wage savings are through rostering activities, where we're matching team member numbers to physical attendance numbers. And as outlined previously, we have a dedicated team looking at how we ensure that we deliver those results. We have certainly increased the cadence of those activities from being typically a weekly or fortnightly process, to being very much a daily process. And that is progressing very well. As a result, our confidence around realising that number is very high.

There are $5 million in remaining cash savings on a monthly basis, leading to three areas. The first is around rental, where we're assuming a $2 million or a 20% reduction in rental costs. We commenced our formal engagement with landlords at the beginning of this week. We deliberately held off engaging landlords until we could ascertain the details of the relief package because for us, that provides a very public and quantifiable impact of the revenue impact of COVID-19 on our operations. Noting that a 50% fee struck off seasonal lows actually more than a 50% revenue reduction on an annualised basis.

We also were aware that the government was contemplating a principles framework around negotiations between landlords and tenants when that has just been released and while it doesn't strictly apply to GA because we had sent over more than $50 million, we are certainly looking to incorporate the concepts and principles from that framework into our negotiations with landlords.

We do have a significant number of landlords. We have 377 landlords with our top rates based landlords, only accounting for 47 of our census. So just below 10%. So there are a lot of discussions that need to be had. Our ask of them is in line with the principles framework that I've just articulated, which is clearly North of the 20% reduction that we've assumed. We wanted to adopt a conservative position given the number of landlords and the results in leakage that may occur. But given that buffer we're very confident around achieving at least that result.

We are forecasting to achieve $2 million in operating cost savings in a number of areas. We've already started this activity and our run rate is very much indicative of the run rate you see there. These are centrally controlled, non-critical items such as marketing, training, et cetera. And it said their actions have already been undertaken, levers pulled there. So confidence around that number is very high.

And finally where we have reduced our annual capex from $40 million a year to $25 million a year. And in so doing, we are focusing only on critical capex items only. For the asset refurbishment programme that we had called out in previous presentations, has been deferred. We are focusing on critical items only and that equates they're broadly $1 million a month. What you'll see a result of that is GAs cashflow is essentially breakeven during the period of the subsidy, which interestingly was what the government was actually hoping for in its design of the relief package that we're trying to achieve viability, but that we're very clear that it wasn't about underwriting people's profit margins.

And you would say that if that was their intention, they certainly achieved it in our case. I break even cash flow scenarios, certainly much better than a significant number of other sectors that are suffering significant cash leakage on a weekly/monthly basis. So as a result of ... Sorry. Once we determined that we're breakeven on a monthly cash flow basis after implementation of those activities, we turned our mind to how do we then provide an appropriate liquidity buffer to cope with the period post the subsidy under various downside scenarios.

For example, if we as the subsidy expires, if occupancy across the sector including GA starts off at very low levels and continues at those levels to do a very challenging employment environment, we wanted to position ourselves to be able to withstand that sort of harsh operating environment, which led to our decision to undertake the capital raising and the details of which to set out on slide 18. The call outs in this slide that the issue price of the rising is at 80 cents per share, which is a 25.9%

discount to our last traded price of a dollar, a 16.1% discount to our theoretical rights price. And that's broadly in long with recent issues that have happened in the market.

Like to take the opportunity to thank our joint underwriters, UBS and RBC, who've done a fantastic job in a very short time period to get this issue away and for their under riding of this issue. So that's very much appreciated. We'll be using the proceeds from the offer to strengthen our balance sheet flexibility and provide a strong liquidity buffer to manage through what may be a prolonged period of recovery. And to expand on what that means from a financials and balance sheet perspective, I'll hand it over to Sharyn to walk you through the capital structure.

Sharyn Williams: Thank you Gary. 5, 19, and 20 outline the capital structure and balance sheet of the group at December 2019 adjusted for the equity rights, less transaction costs. The balance sheet is materially strengthened as a result with the net debt of 354 million reducing by 299 to 65 nodes. Using December 2019 balances as the basis, the strengthening can be seen in the reduction of the net debt to underlying EBITDAR leverage ratio, which was 2.3 times with December 19. This number adjust down to 0.4 times. I do know net debt is expected to be circle 100 million at the half June to reflect first half movements of $10 million of committed acquisitions, which are the final centres in our development pipeline, interest of $10 million with the remaining increase due to the $23 million job keeper monthly payments being tied monthly in a raise.

To reinforce Gary's comments, our immediate focus with these funds is to stabilise the business and cash flows and ensure liquidity buffer both during this period, any preparation for coming out of this COVID-19 period with a strong balance sheet. I'll now hand it back to Gary to conclude.

Gary Carroll: Thanks Sharon. So in conclusion and which is summed up on slide 23. For us, very big positive commitment from the government, really confirming our status as an essential service as far as the relief package and I will commend the government in their design in that package because in our case, it's certainly achieved their overall intention. I think, I forget to mention that the other key component of their package was to make childcare free for parents during the period of the package. The intent behind that was to encourage parents to keep bringing their children into care and inside during if that sets up the sector to emerge in a stronger position from an occupancy perspective after the health crisis is finished and I think that's a really good outcome.

We are clearly taking a number of actions to improve our operating and ongoing cash position both in terms of rostering, in terms of deferral of all non-critical OPEX and CAPEX. We will be undertaking a review of underperforming assets and we had suspended the payment of our dividends. They are subject to payment all of the 2019 final dividend in October. Considering once again the great support we're getting from our banking syndicate and allowing us to not undertake covenant testing during the remainder of 2020, which really buys us a lot of space given the earnings profile we've just walked through. And we are undertaking a process and it's fully expecting to get a significant level of support from our landlords in relation to rental costs during this period.

And wrapping up, we think the Capitol rising certainly achieved our objective of providing us with significantly strengths and balance sheet and an appropriate liquidity buffer to handle any typical downside scenario and prolonged recovery from COVID-19. That finishes the formal part of the presentation, noting that there is a fairly extensive list of key risks contained in the balance of the presentation, which formed part of our overall off the document and encouraged people to work their way through that and happy to take questions on those at any time. What I might do now is open up the floor for questions.

Operator: Thank you. If you wish to ask a question via the phone, please press star one. If you wish to ask a question via the webcast, please type your question into the ask a question box. The first phone question comes from Tim Plumbe with UBS. Please go ahead.

Tim Plumbe: Hi guys. Just a couple of questions from me if that's all right. The first one, Gary, is just a clarification. When you mentioned the government setting the limit at the two last two weeks of Feb, that's the feeling point right? As in you need to get your occupancy back up to that level to get paid that amount?

Gary Carroll: Hi. It's a fixed amount Tim. So once it says, and in our case it's $33 million a month, we get paid that amount for the balance of the subsidy period regardless of occupancy.

Tim Plumbe: Okay. And so if occupancy remains materially lower than it was at the end of February, do you adjust your staffing accordingly and does that mean that the cash burn is actually lower than what you've got in the slides?

Gary Carroll: Yes. So to expand on that, we called out that drawstring is one of our cost saving opportunities and we have assumed a 50% physical attendance level during the period of the subsidy. And that is a bit higher than the physical attendance level that we entered the subsidy period with. And what we're saying is we will adjust our rosters so that our team member levels match the physical attendance levels as well as any related regulatory or staff to child ratio requirements. So we'll clearly continue to be in compliance with all of our operating requirements. But yeah, there is an opportunity around rightsizing the same on a daily basis to ensure that it matches physical attendance.

I will also point out that we ... I'll come back to our guiding principles to start that we want to retain our centre based teams during this period and we think there are a number of other productive opportunities that can have the team doing in a lower occupancy period. And by optimising those activities relative to the job keep a subsidy, we achieve both our desired financial outcomes as well as our desired employment outcomes for our team.

Tim Plumbe: Got it. And you guys had previously spoken about cost initiatives that had already been put in place. So for example, the electronic rostering system. Can you talk about how much of the cost saves that you've identified here can be retained once we get out of this Corona environment? How much of those can remain?

Gary Carroll: That's a good call out on the roster system because we mentioned that we'd reduced our capital expenditure to be only focused on critical items. Our roster and HRS system is a critical item for us. So we are pushing forward to complete that project. Clearly with everything that is going on right now, we haven't rolled out that project.

We haven't rolled out the new roster system and we will finally roll out of it to coincide with the sensible time given COVID-19. What it means for us in terms of capability, Tim, is that the processes that we've set up now can feed nicely into and be all mentored by that roster system. So that these sorts of agility that we're exhibiting now can be maintained in the future or a combination of the new system and the enhanced processes we're rolling out.

Tim Plumbe: Great. So those cost reductions don't incorporate any benefit from that. And then just lastly in terms of supply, it's been an issue in the sector for a number of years. How are you guys thinking about supply within the industry post COVID-19 and how should we think about that in an environment where unemployment potentially picks up a little bit?

Gary Carroll: Yeah, so I think predicting exactly what will happen to come out of COVID-19 will be ... Is very challenging at the moment. Our base case though is that we think that supply growth will certainly reduce significantly over the next 6 to 18 months. Primarily true reduced access to capital and also I think people are having a much more circumspect view on occupancy will lead to a reduction in new centres being developed.

Tim Plumbe: Great. Thanks guys.

Operator: Thank you. The next question comes from Gary Sherrif with RBC. Please go ahead.

Gary Sherrif: Thank you Gary and Sharon. Plenty of detail provided. Just a handful of questions here. Firstly, I just wanted to clarify that government package timeframe and your internal assumptions. So on the revenue side, that relief package goes to the end of June and the job keeper cost support package goes up until the end of September. I just wanted to clarify, are you assuming both are going to go through to the end of September?

Gary Carroll: Yes we are. And that's off the back of discussions between the peak bodies and the relevant government departments. Gary, because they've been quite consistent in their communication to say that they appreciate that the package has actually worked together and they coincide. So it's certainly their intention to build into the legislation a rollover mechanism such that at the end of June, it will be rolled over to match the period of the wage subsidy. And on that basis, we've made our operating assumption that they'll continue to coincide.

Gary Sheriff: Okay. Yes, that's clear. And I guess the next question goes to occupancy post September. Have you got a base case occupancy range for Q4? I mean I know Q4 is typically your highest occupancy period. Just trying to get a rough sense from a base case what you think that might look like.

Gary Carroll: I mean really tough. Trying to predict what the recovery out of COVID-19 is. We've run a number of scenarios. As I'd said, our scenario for the next few months is that our physical attendance and occupancy will be around the 50% mark for this period. It'll Be safe to say that would be our base case assumption moving out of the subsidy period.

Gary Sherrif: Thank you. Fees. I just want to review your thinking here. I mean I know in February, you'd flagged the 4-4.5% fee increase. Clearly life has changed since then. I just wanted to clarify thoughts on fees.

Gary Carroll: Yeah. So it's somewhat of a moot point in our revenue's fix for the next number of months based on our fee revenues for all operators in the last two weeks of February. And we hadn't implemented a fee increase during that period, of '20, near one of January and into February. So really our fixed revenue is based off a non-fee increase number and we certainly had no intention or plans whatsoever to be implementing fee increases for the balance of 2020. The government has been quite clear in their dealings with the sector that they would not be expecting any operators to be doing fee increases during 2020 given the prevailing economic environment.

Gary Sherrif: Thank you. That's clear. Occupancy. Another big cost for you guys. Can you provide some colour on the strategy here? I know you've got an illustrative 20% reduction in cash rent costs. I understand you've got about 50 centres between the two big listed operators, charter hall and arena. But outside of those two big players, how many landlords in total do you need to negotiate with? And do you have a rough sense on quantum cost reduction occupancy for calendar year '20?

Gary Carroll: Yes. So we've got 377 landlords and we've got a team of people that are working to get in contact with all of those. We are targeting to have all of those negotiations completed and by end of April. So from May, we start harvesting the benefits from a cashflow point of view as I'd outlined when talking about rent. We are falling back on the principles framework that is in place right now for SMEs, which said that

The level of rental relief should be proportionate with the level of revenue reduction. On that basis we'd be asking for relief that's in line with the sort of fee reduction we're seeing right now. Our assumption in terms of cash savings is clearly benchmarked at a lower level, and that provides some buffer in terms of the sheer number of landlords et cetera, et cetera. So, we're very comfortable with the conservatism built into those numbers.

Gary Sherrif: Last two questions. First one, you noted in that pack about the review and possible exit of underperforming assets. Could you give us a sense on assets you currently see as underperforming and any sense on what that might look like from an asset impairment point of view, given you've got a sizable intangible asset on your balance sheet?

Gary Carroll: No, so as I've outlined, we haven't undertaken detailed modelling at this point on those assets or on our portfolio. It is also tricky to try and estimate impact of occupancy during this period. So I can't really give you any more details on that at this point Gary. As they emerge, we will continue to keep the market updated.

Gary Sherrif: No problem. Last one on payroll tax relief. Any sense on what that could look like, given I believe there is some form of payroll tax relief that you guys are targeting?

Gary Carroll: I might hand over to Sharon, because she's been leading the charge on all of the tax related cash saving measures.

Sharyn Williams: Sure. So there's a number of national and state initiatives that are providing either permanent reductions to payroll tax and the like, or deferral of cash payments. So we're working through those as they're announced. But there's certainly the relief being given there.

Gary Sherrif: Thank you. No-

Operator: Thank you. The next question comes from James Bales of Morgan Stanley. Please go ahead.

James Bales: Thanks guys. Thanks for taking my questions. I wanted to understand some of the wage costs assumptions. Could you just run through your flexibility in terms of the mix of permanent and casual staff, and are there any impacts from adjusting those wage costs in terms of impacting the Jobkeeper payment from the government?

Gary Carroll: Yeah so, our mix of casuals James, is about 11% of our total team. That provides us with a certain degree of flexibility in terms of managing the hours of those teams to meet relevant occupancy level. The remainder of our workforce is broadly evenly split between full-time and part-time. We'd certainly be looking to work with our part-time team, in particular, to agree on the relevant hours and productive activities that can be undertaken, and as part of that, matching it to the subsidy levels that we're going to be receiving from Jobkeeper. The intent of that is, how we can limit our incremental spend on top of Jobkeeper and by balancing hours and activities, to really harvest the full benefit of the Jobkeeper wage subsidy.

: It really does boil down to a centre by centre, physical attendance, team member attendance, kind of framework. We've got a really good process in place now to work with the teams on balancing those needs. Because, the other factor that comes into play James, is our centre based teams are also potentially required to be at home to take care of school aged children, for health concerns, et cetera, et cetera. So, actually quite a complex puzzle that we need to be implementing on a daily basis, where we're getting forecast views of child attendance, team attendance, putting together the roster to optimise hours, and then overlaying Jobkeeper subsidy to ensure that we're being as efficient as we can from a financial perspective.

We've done a number of modelling scenarios and are confident around the number that we've got there, in terms of the opportunity available for us, noting that casual usage also delivers a reasonable portion of that overall sum.

James Bales: Great, and then just to follow up, you mentioned that when running some of these scenarios you'd run some cash burn scenarios post the expiry of any government support. Could you give us a flavour of what that cash burn rate might look like?

Gary Carroll: No. No, we're not really talking in terms of guidance or forecast numbers at this point in time. What we've run and we've got a good sense of what may occur, but what we want to do James is, as we get closer to emerging out of the subsidy period and we have a much better understanding of how long the health crisis will last, and then we move into economic recovery, we'll then be able to fine tune those models, and look to re-engage with the market and what that means at that point in time.

James Bales: Okay, great. Thanks for your help guys.

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

Peter Drew: Oh morning Gary and Sharon. Just a few questions, if I can please. I guess firstly, just that $23 million assumption in terms of Jobkeeper benefit. It looks like when I've back calculated it's about 7,000 employees. I thought that head count was a fair bit higher than that. Just wondering what the assumption is there please?

Gary Carroll: Yeah so, do you want to take that Shaz?

Sharyn Williams: Sure. Hey Peter, we've worked on, as Gary said, eligibility requirements. There's a number of nuances there in terms of people with under 12 months service for casuals, non-resident status. So we've worked on that basis through the eligibility.

Peter Drew: Right. Okay. Then, just I guess to get a bit of a feel. What sort of level of inquiry have you had this week, post the government's announcement that it's making child care free for this period. What have you seen across the portfolio in terms of inquiries for, I guess from existing families for more days, and from new families?

Gary Carroll: Yeah, we've had a pretty fair number of inquiries, Peter, both in terms of... Well three real buckets. People that had recently ceased care looking to re-engage. Secondly, existing families wanting to take additional days, and then thirdly new families entering the sector. So we've had all three. We've been very careful about managing those inquiries. As I've alluded to in the presentation, across the sector, including ourselves, we've needed to amend our capacity to take account of social distancing and other health and safety requirements. What that has meant is, the practical occupancy capacity is lower than our licenced occupancy capacity. That does vary by centre, but it's a fair bit lower. The government was also clear to say, in terms of priorities, it's people that have ceased and existing families well ahead of new families into the sector.

Part of the intent of government doing a one month and three month review is, they can assess all of these sorts of activities and go, do we need to tweak the subsidy to take account of growing occupancy? Because, at the moment in our fee revenue we don't get rewarded for any additional occupancy over and above our starting occupancy level so to speak. So at the moment, we're utilising wait lists to try and enable us to take the time to plan those additional children coming into our centres, so that they can be accommodated safely and that we can appropriately resource the teams to handle those, and then in about three weeks time we'll be sitting down sharing that sort of data with the government and going, "How do we work this?" Because, we need to then manage the balance from a financial and a safety perspective, if across the sector we're starting to see increases in occupancy demand.

It's a nice problem to have. Prior to the relief package, I don't think any of us would be thinking that we'd be getting inbound inquiries for increased occupancy any time soon. So it's a nice problem but we need to be really careful about how we manage it primarily from a safety point of view.

Peter Drew: Gary, how do you manage it from a, I guess, existing families that were on two days, that now want five? Then are probably going to switch straight back to two when they go back to having to pay. How do you manage that, because that's kind of unproductive occupancy?

Gary Carroll: So, that's the intent of having the one month review with the government to go, here's some of the scenarios we want to model out with you. Not only for now in terms of potential to tweak the subsidy amounts to accommodate. We've also started the discussion with them at a sector peak body level around, what's the transition out of the subsidy look like? Is it a light switch? Do we just go from free to being paying full fees, because we think that might have an outcome, or do we do it on a managed basis? They're taking all of that feedback and starting to work on their models. They don't have the answers right now. The pleasing thing is, they're engaging with the sector to try and jointly develop what those look like. So, I can't answer that for you right now Peter, but what I do know is that we're working on it jointly to see what the potential models could be.

Peter Drew: Okay, and then just on the ramp up centres that you've got, are they going to be closed given that I'm guessing that there's a portion of the portfolio that was at very low levels of occupancy and that obviously 50% of not much is not going to be viable. Do they get put on ice? What's the strategy there?

Then a broader question is, what do you see more broadly across the sector in terms of other centres that are pretty new that are ramping up? Do they close and the occupancy flows to your portfolio?

Gary Carroll: So, there's a couple of things in there Peter in that, if you're shut then you don't get the benefit of the subsidy. The sector had already provided feedback to the government that the ramp up centres, or the recently opened were going to be particularly challenged based off their fee revenue, and there is a mechanism in the funding package around exceptional circumstances. The department's confirmed that those recently opened centres fit that criteria, in which case we'll be sitting down on a centre by centre basis with the department, and agreeing an appropriate level of fee revenue, which is likely to be struck on a mature centre level, which will greatly assist those kind of ramp up centres.

The second point around centres that are about to open. Yeah, we clearly won't be rushing out the doors to open them in this kind of environment. We would be looking to delay. We've got a couple. We've only got a couple left, but we're not in any rush to open them.

Peter Drew: Okay, and then just the head office support costs. What are you doing there specifically? Last year it was about $38 mil. What can you reduce that to on an annualised basis?

Gary Carroll: So, part of those $2 million in operating costs per month that I've called out, incorporate savings in our support areas. So, we've applied the same methodology to support office as we've done throughout the entire business, which is reducing back to critical spends. So a fair chunk of that saving actually comes out of the support office. I will say it's largely deferral though. It's not a permanent reduction. As things pick up you would, for example, expect to start increasing your marketing spend, as an example.

From a support office team member perspective, same methodology as the centres actually, which is, how do we manage the hours worked and annual leave et cetera for teams, so that we optimise the benefit of Jobkeeper, we're being fair to people. We enable them to take time off to refresh, and we take account of, in some areas, we've got reduced activity because of Covid-19. So we're applying the same methodology throughout our group, whether it's centres or support office.

Peter Drew: Okay, and just a last one, maybe for Sharon. How should we think about interest costs for this year? It looks like you're still going to have the drawn debt, and the cash sitting in the bank. Is that right? So will interest costs be $20-$25 million?

Sharyn Williams: It should be reduced down to 20. We'll look to reduce our revolving facility with some of those funds, Pete, as they roll off.

Peter Drew: Yep, and what's the DRP participation rate for the final?

Sharyn Williams: I believe it's around 30%, so the cash outflow will be around $19 mil.

Peter Drew: Okay, great. Look, thanks a lot Gary and Sharon.

Operator: Thank you. The next question comes from Scott Hudson with MST. Please go ahead.

Scott Hudson: Yeah morning Gary, morning Sharon. Maybe just a follow up to that last question Sharon. So longer term do you think you'll be utilising that cash to pay down debts, and is the near term just a, I guess, a liquidity requirement to keep that cash in the bank?

Sharyn Williams: Near term, certainly liquidity requirement. We will manage our interest expense though at the same time. Our next expiry on our facility is 18 months away in October 2021, so our intention is to engage with bankers in the third quarter on that one.

Scott Hudson: Okay. Just in terms of the covenant relief. So you achieved that covenant relief prior to deciding on the characterising, is that correct?

Gary Carroll: So what we actually did there Scott was, we wanted to undertake a capital raising, so we then engaged with our bank and said to really assist in the saleability of the equity raise, we'd like for you guys to waive your covenants for the June and December period. So in effect they were kind of concurrent processes while we were working up the structure of the equity raise, we were working with the banks on the covenants.

Scott Hudson: Okay, so the covenant relief was subject to a capital raise?

Gary Carroll: No, the covenant relief assisted in the capital raise.

Scott Hudson: Yeah, but I guess they weren't going to give you the covenant relief in the absence of the capital raise.

Gary Carroll: I think it certainly assisted in getting the covenant relief, yes I'd agree with that.

Scott Hudson: Okay. Just in relation to the... sorry the cash components of the Greenfield Cohort in this half, what sort of cash spend have you had through the half?

Gary Carroll: Sharon did you want to take that?

Sharyn Williams: Sure. So that final $10 million Scott, of the development pipeline, around seven and a half has gone out with another two and a half to go out prior to June.

Scott Hudson: That's excluded. That's not in the $25 million capital cost, or included in the $25 million?

Sharyn Williams: Correct, that's in addition.

Scott Hudson: In addition, yeah. Then engagements into the EBIT acceleration programme that you are undertaking, what impact on that through this current period?

Gary Carroll: Just before I answer that, I'm conscious that the... from a covenant relief perspective, I just went and checked out the final waver letter, it was a condition of covenant relief that we completed the equity raise. So I just wanted to confirm that with you Scott.

In terms of the EBIT acceleration programme, the asset refurbishment piece is on hold. So we're not doing the asset refurb. We have retained the core project team, and it is a critical project for us. So the two critical projects in additional to Covid-19 for the group, are our roster and HRIS and our EBIT acceleration team. What we've asked the team to do is focus on the operating elements of that turnaround, which is improving learning environments, improving foyers, websites, there's a number of activities that we can undertake in a cost effective, capital light way, to still improve the quality of our centres, so that as we emerge out of, and into the recovery, we'll present our centres in the best possible light and hopefully that translates into good occupancy growth in the recovery period.

Scott Hudson: Thanks, and just the last one from me. I understand you're running at sort of 50% attendance levels. What sort of enrollment occupancy do you have? I'd understand there's probably a number of parents that are enrolled but not taking advantage of the care. Do you have any sense of what that number is?

Gary Carroll: So our bookings, for people on the books are in the low 60s. Our physical attendance at the moment is in the low 30s. We've made an assumption that that will slowly

Over the coming months as we learn to handle the increase in people with the safety requirements and people being free, there's a little bit more demand from our existing families to reengage back in. But exactly how it will go is really anyone's guess at this point in time. I did come back to one of the benefits of the subsidy is that our revenue is fixed regardless of occupancy, and then it's down to how well and how efficiently we manage rosters with the benefits of job keeper subsidy to ensure we optimise benefits there.

Scott Hudson: That's helpful. Thanks.

Operator: Thank you. The next question comes from Glenn Hoffman with Renaissance. Please go ahead.

Glen Hoffman: Hi guys, just want to clarify the covenant testing. So you've got released for June 20 and this December 20 so your next covenant test being June 21. Just clarifying, in terms of is that a historic trailing covenant test and therefore you're still potentially coming out of a difficult period and just how you see that playing out in terms of your tests that you have to be applied at June 21?

Gary Carroll: Sharon, do you want to take that one? You've been leading the charge with the banks.

Sharyn Williams: You're correct. They are rolling covenants. So on the last 12 months basis, so obviously depends on the duration and severity of the COVID-19 impact. Our banks are conscious of this because that applies to most businesses, so we will be engaging with them in the third quarter, both on our October 21 expiry but also on what that June 21 testing looks like.

Gary Carroll: And by then Glenn, we think we'd have a good handle on what the starting occupancy is out of the subsidy package. We'll then recut our scenarios and go forward, engage in those discussions with a bit more accuracy around what that's going to look like.

Glen Hoffman: Yeah, it's fair to say that might be an issue at that point. Yeah, I mean in terms of if it's you've got your ramp up out of the post COVID sort of setting still playing out in that historic trailing number.

Gary Carroll: So I think in many respects that my answer will come back to why we're doing what we're doing today. What we're doing is buying ourselves a significant buffer in terms of balance sheet liquidity and covenants and in a relative sense, I'd say that positions us pretty well to have those discussions compared to many others in the market in which we operate. As in if we're coming out of it low and slow, it is likely the sector will be coming out of it low and slow, and people's ability to then compensate for that in their operating environment. I think we feel that we're in a much better position off the back of this equity race.

Glen Hoffman: Good? Okay. Thanks guys.

Operator: Thank you. The next question comes from Gareth James with Morningstar. Please go ahead.

Gareth James: Oh, hi guys. Thanks for taking my questions. Could I just firstly clarify what you're assuming in terms of occupancy and physical attendance in the next few months?

Gary Carroll: So where our base case at the moment, Gareth, is an occupancy of around 50% for a number of months.

Gareth James: Okay. Because I'm just thinking that if you're currently at 60%, are you?

Gary Carroll: Our physical attendance is in the low 30s. Our bookings are in the 60s, yeah.

Gareth James: Yeah. So, so you're assuming that occupancy is going to continue to fall. I'm just thinking that with the childcare being free now, wouldn't that be going in the other direction?

Gary Carroll: So what we've assumed Gareth, is, and it builds on a bit of Peter Drew's point from before is at the moment it's free. So it's very easy for people to continue. When it stops being free at the post subsidy period, then we may get some leakage as people go, Oh, okay, I might have to rethink what I'm doing. And it really is dependent on the overall macro economic and employment market. So we have in our base case assumed some softening of occupancy coming out of the subsidy period.

Gareth James: Okay. But what kind of rebound have you seen so far in the occupancy rate since it was converted to the new system?

Gary Carroll: So we've certainly seen some good levels of inbound inquiries. We actually haven't materially increased our physical attendance just right now as we're working our ways through ensuring that we can do that on a safe basis. So we have seen a little pickup, but it is really too early for us to call what that trend will look like, Gareth.

Gareth James: Okay. And have you seen much or do you expect much of a benefit from the impacts on the council run centres?

Gary Carroll: No, I mean I was actually pleased to see the New South Wales government come in and support the council centres so that they'll continue to be funded and remain open. We think that's a good thing for the sector. So as a result they're really in the same situation as other operators like ourselves. They get the benefit of the job, keep the subsidy.

Gareth James: Okay. Are you able to provide some guidance with regards to likely one-off costs relating to the current period? So things such as one-off capsule rates, fees, and any other one-off costs.

Gary Carroll: So we've got the costs for the raising are in slide 20. I'm not aware, and Sharon, correct me if I'm wrong, of any other significant other one-off costs at this point.

Sharyn Williams: No, correct.

Gareth James: Okay. And when you return to a more normal environment, what target leverage ratio are you thinking that you'll be aiming for?

Gary Carroll: Well our medium term leverage target is 1.5 to 1.7.

Gareth James: Okay. And I'm just thinking that this could potentially result in a situation where you have significant surplus liquidity, and you could be in a very strong, strong position. Do you have any thoughts with regards to that, with regards to would you prefer organic developments or acquisitions or it's everything on the table?

Gary Carroll: So our immediate and strong focus is on ensuring the stability and efficient operation of our current business and more importantly the health and safety of our children and teams. And I don't mean to belittle that. I mean that is our number one priority right now is how do we keep our team safe. We'd like to think that the capital raising helps from a job security point of view of our existing teams, and that's really, really important to us. Our focus remains on our existing centres and coming out of this recovery with good growing levels of occupancy and harnessing the organic growth opportunities that are ahead of us. That is by far and away our biggest priority. And that's all we're really focused on right now.

If it so emerges that the combination of the macro environment and what we do generates opportunities to look further, then we'll do that. But not before, we're very comfortable, we're on the right trajectory, and that we're out of this thing. I'd love to see a situation where we have that capital to invest, but right now we're not even thinking about it.

Gareth James: Just one final one quickly. Just with regards to the rental cost, I'm assuming that will be a deferral of those costs rather than a waiver.

Gary Carroll: Yes. We're adopting a position, Gareth, that we expect based on the principles framework that our landlords will assist us in reducing our rental costs during what is a very difficult revenue period.

Gareth James: Okay. Thanks very much guys.

Operator: Thank you. Once again if you wish to ask a telephone question, please press *1. The next question comes from Tim Plumbe, UBS. Please go ahead.

Tim Plumbe: Hi, Gary. Sorry, just one follow up question from me if that's all right. If in a couple of months you get a whole bunch of parents that decide that they do want to send their kids back and you go from that 50% physical attendance to 60% physical attendance, so back up to the max of where your funding takes you to, what would the cash costs look like in that situation?

Gary Carroll: So I wouldn't be able to estimate that right now, Tim. And the thing I like about the government model around the one month review is we'll be sitting down with the government ahead of that scenario and then talking to them about what it means from a revenue versus cost point of view. But it's very hard for us to predict right now how that's going to play out. All I can say is we'd be working actively with the government to point out the clear mismatch in us being able to do that in an efficient way. And the government have shown that they're very open to accommodating people so that they remain viable because incurring a significant level of cost increase, because it will because of ratios et cetera without getting consequent revenue would be a challenge.

I do note there's the existing mechanism around exceptional circumstances so we could today go and if there's a centre where we've got that kind of arrangement, Tim, and then talk to the government about compensating subsidy changes to alleviate that. My preference is they do it on a sector wide level but it's always an option available to us. It is a bit moot right now because really our occupancy cap is guided more by health and safety and social distancing rather than parents' desires.

Tim Plumbe: Yeah, yeah. But just so that I'm clear, if there was demand you would have to take it up to the 60% level?

Gary Carroll: We will operate our centres to be safe and to be viable so we would be looking at all of our options from a safety and viability perspective before we pull the trigger on that increased amount.

Tim Plumbe: Got it. Thanks Gary.

Operator: Thank you. The next question comes from John Hynd with Wilson's. Please go ahead.

John Hynd: Hello. Good morning Gary and Sharyn. Thanks for taking my question. Noting the potential scenario where you're essentially break-even for the rest of the year, I'm wondering if you can put some colour on what the first quarter looked like in terms of profitability. And then the second part of that question is the $33 million of revenue that you're talking to per month, can we maybe work back from that number to see how we get there as well? I guess with the actuals you're assuming in that number please.

Gary Carroll: Your first question John. Can you repeat that?

John Hynd: Yep. Given that it looks like you could be break-even for the remainder of the year-

Gary Carroll: Yeah, no, sorry. I remember that. We're not giving guidance on what the start of 21's going to look like. So as we emerge out of the subsidy period, and we know what our starting point occupancy will be, we'll then be able to form a more accurate view of what 2021 will look like, and we'll reengage then. But who knows what this thing is going to look like over the coming months so we're not releasing any guidance figures around that at the moment.

John Hynd: Sorry. I can appreciate that Gary. I was just wondering more about the first quarter this year. How do we look there from a profitability perspective?

Gary Carroll: Okay, yeah. Sorry, apologies. Quarter one, as we'd flagged in our February investor preso, occupancy was down slightly up to the end of February. And we think actually there's a little bit of early COVID impact on that. From a profitability point of view we were able to mitigate the impacts of the occupancy using cost efficiencies. So we're satisfied with our proper results for the first quarter.

In terms of your second question around the $33 million, the high level inputs to that were our actual occupancy, which is around 65% for those two weeks of February multiplied by our average fees over that period divided by two.

John Hynd: Thanks. So forgive me, does that include, so that's gross or net of the gap? I'm just wondering how the gap-

Gary Carroll: Yes so it's your gross fees. So it's combination of CCS and parent gap fees except centres where the gross fee is above the maximum hourly CCS rate cap of $11.98 an hour, about $140 a day. For those centres it's kept at 50% of the maximum hourly rate cap.

John Hynd: Right. So of your apparent revenue this is more than 50% less of what your parent revenue was in February.

Gary Carroll: It'd be slightly low. We have about 20% of our centres that are over the cap. So yeah, it is slightly lower than 50% of our gross revenues.

John Hynd: Yeah. Perfect. Thanks very much, Gary. Thanks Sharon.

Gary Carroll: Thanks.

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

Gary Carroll: Thank you. And thanks everyone for your time today. We look forward to providing you an update in the coming months. Thanks everyone. Bye.

[END OF TRANSCRIPT]