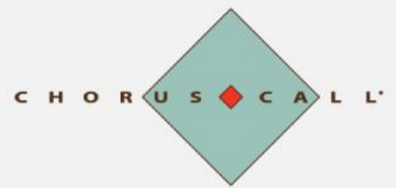


TRANSCRIPTION

Company: **G8 Education Limited**

Date: **22 August 2023**

Time: **9:00am, AEST**

Duration: **58min**

Reservation Number: **10031436**

[START OF TRANSCRIPT]

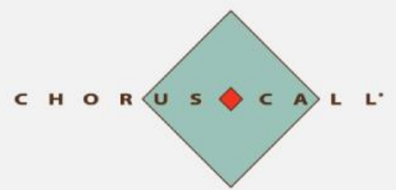
Operator: Thank you for standing by and welcome to the G8 Education Limited 2023 Half Year Results conference call. All participants are in a listen-only mode. There will be a presentation followed by a question and answer session. If you wish to ask a question, you will need to press the star key followed by the number 1 on your telephone keypad. I would now like to hand the conference over to Mr. Pejman Okhovat, CEO and Managing Director. Please go ahead.

Pejman Okhovat: Good morning and welcome to the 2023 half year results call for G8 Education Limited. My name is Pejman Okhovat and I'm the CEO and managing director of G8 Education. I'm joined today on the lined by the group's chief financial officer, Sharyn Williams. Sharyn and I will take you through the investor presentation that was released to the ASX earlier this morning. I'll concentrate my remarks on this call to the opening pages of the presentation and then hand over to Sharyn who will take you through the financials outcomes of the half one. Following the presentation, we will then open the lines and provide some time for Q&A.

I will briefly guide us as we go through the slides as well so you can navigate with us. We are on to slide three. I would like to begin by acknowledging the Gadigal of Eora Nation people 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 respects to the elders past, present and emerging. I extend that respect to any Aboriginal and Torres Strait Islander people joining us today. I would also like to acknowledge the passion, capability, and expertise of the entire G8 Education team for their ongoing commitment to children's outcomes. This morning, we will cover a summary of half one and progress made today, the operating and financial performances for the half and conclude with a brief current trading update and an outlook for medium term. Turning on to slide six which sets out the key messages, I'd like to talk through three key takeaways from the results and the progress we've made in the half from refocusing the group's activities. Firstly, the group's financial results reflect a solid earnings recovery compared to the previous comparable period driven by higher revenues and margins.

Pleasingly the first and second quarters delivered growth versus PCP, which is reflective of a continuous focus on wage and other cost managements. Workforce remains a constraint in some areas of the network, but encouragingly occupancy continues to be supported by the positive trend in frequency, which measures the



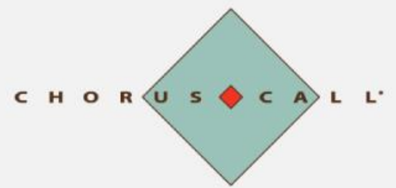
average number of days per week that a child attends G8 centres. During the half, we narrowed our focus on double down our efforts on the highest impact areas of team and family. We are committed to enhancing our team members' experience, so it was pleasing to see improvements in both team retention and team vacancies. These results are all the more credible when contrasted with the sector that's continuing to see growth in vacancy rates. As a consequence of these improved team outcomes, agency usage was lower and the number of centres that experienced constraints due to workforce was reduced.

Progress has also been made towards improving the experience of G8 families. The introduction of the always on customer survey were implemented providing G8 with a regular and highly valuable feedback loop with our families. The external call centre was moved in-house and has been an instrumental part of G8's support of families as they navigated recent CCS affordability improvements. Post CCS changes we are seeing some encouraging early signs and we will touch on this a little bit more in detail later on. Strong cashflow was a feature of the result and these results have been used to enhance shareholder value through a share buyback, dividend payments and further optimization of the network. The approach to CapEx is also more targeted. We continue to invest in centre resources IT and property, but have reduced the full year CapEx forecast by 10 million to a range of 50 to $55 million. As a group we have responded to the continued challenging environment with agility and resilience while continuing to deliver on our purpose to create the foundations for learning for life.

Turning out to slide seven, which clearly I outlines the stronger operating performance versus a COVID and flood impacted PCP. Occupancy for the first half of 67.4% was a slightly higher than the prior year and is a steady narrowing the gap versus CY19. Higher occupancy combined with higher fees delivered almost 10% revenue growth. Solid cost management, particularly in labour related areas such as agency usage, demonstrating our focus on managing variable costs based on our performance. From a strategic perspective, net profit after tax increased 76.5% after including non-operating items as outlined on slide 17. This improved earnings profile coupled with a buyback program, resulted in an 83% increase in earnings per share and facilitates a payment of an interim dividend of 1.5% per share representing 81% of the reported impact.

Moving to slide eight, as touched on earlier, we have narrow our focus on the highest impact areas to improve operational execution and drive occupancy. These areas relate to team particularly with respect to retaining and vacancy rate improvement, further enhancing the quality of the network and services that G8 provides and also improving family experience. We are particularly encouraged by the improved team retention outcomes of not 0.7% to 70.2% and a 24% reduction in vacancy rows across G8 network compared with CY22. Consequently, we are able to reduce the usage of high cost agency fees and also remove many of the occupancy caps that results from centres being unable to fulfil the required wage to child ratio due to team shortages. Quality and assessment ratings have remained flat since CY22 year-end and G8 results remain in line with the sector average.

From a family perspective, we have reassessed the approach to attracting new families. Firstly, the use of aggregators has been reduced because of these poor quality leads produced on acceptably low conversion rates. This purposeful change is reflected in the drop in inquiries and is not reflected in the underlying demand for G8 services. The marketing investment was reallocated to better conversion opportunities. Consequently conversion increased two percentage points in the half.



To further enhance the ownership of our family experience, we made a strategic decision to bring our call centre in-house. The external call centre was transitioned to an in-house team in July and August. In doing so, this change has provided G8 with more control over the family experience at a lower cost. This change was executed with minimal disruption and will be completed by end of August. As a part of improving the family incent experience we have implemented an always on NPS and feedback survey. These surveys provide us with regular feedback centre by centre, thereby providing realtime visibility on the performance of our centres.

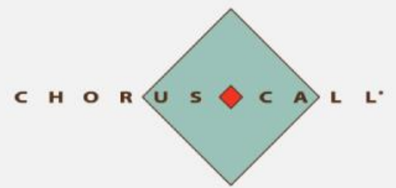
Now moving to slide nine. We continue to progress our ESG journey. G8's half on target for score one and two emissions was achieved and the first phase of solar installation in our network has commenced covering 10% of our centres. In the early child sector, G8 has the opportunity to make a meaningful difference in the lives of our team and families, particularly in the areas of child protection, allied health, wellbeing and reconciliation. In these areas, G8 key milestones were achieved. I'll Reconciliation Action Plan draught was submitted for review. G8 education advisory committee commences and extensive ongoing training on child protection and mandatory reporting obligation is currently being embedded across the network. In terms of improving flexibility for the G8 team 14% of agreements now have flexibility, supporting our team's wellbeing and life balance as well as an improved retention.

Slide 10 now. Group occupancy for the first half was a slightly above PCP and we made the steady progress against CY19 lowering the gap to 2.1% compared to 2.5% at quarter one. Occupancy remains variable across the network and in some centres mainly due to key factors such as workforce shortages, location dynamics and operational execution. As I explained earlier, we have done a lot of work to improve our retention and vacancy. However, workforce challenges remain a big issue with over a hundred of our centres on priority recruitment. Cap centres have had a large impact on occupancy. A real positive is a reduction of cap centres over the last six months now to seven centres only.

Across the states, we are seeing marked different levels of occupancy, but pleasingly the larger states are showing improving momentum. Queensland and New South Wales are our best overall performing states. A big parts of Victoria are exhibiting positive momentum, but performance is not uniform and absolute occupancy levels remain subdued. WA pleasingly performing above CY19, however, the environment does remain challenging. ACT and SA continue to operate in a tough environment. Vacation care year-on-year is different, which is based on a decision we made last year to significantly reduce this offer. We continue to see a further increase in days in care following the recent government improvement to CCS aimed at improving affordability for our families.

Turning to slide 11, which further demonstrates the impact of cap centres have had on our CY23 occupancy. The chart on the left shows a spike in centres that were subject to occupancy caps due to workforce shortages. These numbers are spiked during a crucial enrollment transition in late CY22. We estimate that the impact of those 50 centres being capped between October and December reduced our CY23 half one average occupancy by circa 1.3 percentage points. This reinforces a continued focus on team retention and vacancy and pleasing that this focus has been rewarded by a meaningful reduction in the number of cap centres in recent month from 35 roughly in January to about seven now.

Turning now to slide 12. A welcome initiative from the government was higher funding for the sector aimed at improving affordability for families. These changes to



the childcare subsidy as part of cheaper childcare bill came into effect from 10th of July, 2023. The G8 team has worked hard in preparing for these changes so that we can assist families in benefiting from these upcoming reforms. A family-friendly category that was developed information workshops were held in every centre across the country and individual conversations with our families were held where possible. Our data shows that over 80% of G8's total families are better off and 17% reduction in gap fees were observed. From a frequency of booking perspective as evidence in the first half, the average number of days children are in care continues to increase and we have seen some encouraging early signs of further increase in frequency after CCS changes by circa 2%. The G8 team remains focused on providing ongoing support to families to maximise their CCS benefits.

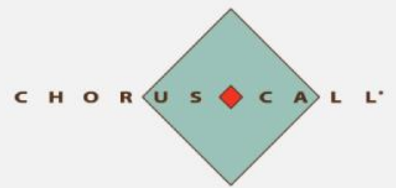
Turning to slide 13. Like many parts of the economy, the early charter sector has been impacted by increased workforce vacancy rates. Navigating these shortages remain G8's key focus for CY23 and beyond, and it's our expectation that these challenges will remain as a headwind within the sector. G8 effort to attract and retain great talent is a multi-year strategy, which includes advocating and participating in sector level conversations with government offering above award remuneration for key roles, competitive team recognition, flexibility benefits, professional development and incentive programs, and incremental recruitment resources initiatives.

G8 talent strategy is yielding encouraging results. We are particularly pleased that an environment where sector vacancies continues to increase G8's vacancies have reduced during the half by over 20%, help introduce agency usage and reduce the number of cap centres during the half.

From a broader educated perspective, we are now leveraging the system we have in place to improve workforce planning. This has not only optimises our rosters but also allows for greater flexibility and mobility of our team. In addition, increased development opportunities have been provided to the team, particularly in terms of leadership. These initiatives have been linked to improve retention outcomes, achieving a 7% uplift in ECT retention and a stable centre manager reserve versus CY22 was particularly pleasing against the sector where ECT and centre manager vacancies are up 26% and 33% respectively over the last 12 months.

Given our scale, G8 has the opportunity to mitigate some of the sector work for shortages by growing our own talent. We are proud to support circa 1,400 team members to further their education by endowments in certificate three, diploma courses as well as bachelor study programs. In the case of ECTs their work with challenges has been exasperated by increased demand due to higher regulated ratio requirements in New South Wales and Victoria, as well as the pausing of immigration over the last two plus years.

These factors have resulted in ECT vacancies increase in material over the last few years. Governments both federal and the state have responded by introducing funding and the scholarships programs to reduce the cost of both vocational and tertiary educations. We also provide accelerated degrees to fast track ECT qualifications. While by no means of a silver bullet, G8 remains committed to building a talent pipeline from a grassroots address, future projected needs. Significant progress has been made by attracting quality team reflecting step change in the vacancies as mentioned 24% down year-on-year. The centralised recruitment team and additional HR business partners support the centre network leading to a more efficient recruitment process, evidence in time to fill improving 16% on the previous



comparable period. Increased focus on internal referral programs is also yielding benefit and lowering recruitment costs.

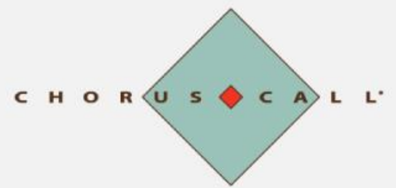
Turning to slide 14. There are multiple inquiries and reviews underway in the sector. G8 along with the sector remains focused on engaging constructively with government and regulators to ensure the sector operates within improved settings for families, educators, and sector participants. It is worth to note that these inquiries require significant attention and consume resources. ACCC inquiries is focused on drivers of cost and variability of these costs by providers and how this relates to fees in the sector. An interim report was released in July and the final report is due in December '23. The productivity commission reviews underway with the draught report expected in November. More to employee bargaining is a broader regulatory changes across Australia with one of the stated aims of this reform being to address on devalued work in the care sector and address the gender gap. Progress has been made with application hearing occurring in August and G8 was a party to this application.

These reforms remain a significant focus for the group and will require careful navigation. G8 welcomes these changes and the growing recognition that investing in the sector is an investment in our future generations and our economy. The group was also pleased to see recent measures that provided accessibility, affordability, and inclusion for all families, and we look forward to working collaboratively with unions, peak bodies and governments during the process in relation to multi-employer bargaining and advocating for government funding in relation to wage increases.

Now moving to slide 15, which reflects our more proactive management of our portfolio. Optimising the centre network remains an important element of group strategy and is a fundamental basis for creating a profitable portfolio for G8, the principle of optimization will be anchored in investing and growing G8's grade centres, improving underperforming centres and divesting poor performing centres in poor locations. A range of options will be explored to deliver the most prudent financial outcomes for the group, which is a common practice across all distributed networks.

We are very focused on ensuring we have a continual eye on our portfolio performance and we optimise this as we go. As the external environment evolve, it is critical we stay responsive to any changes that we assess. To this end five centres were exited in half one, one centre was opened in half one and since 30th of June, a further three centres have been exited. 25 of the 52 CY20 impaired centres to date have been exited and the remaining as an overall cohort have improved performance and will now be formed part of a network optimization. We deployed a small but focused team on our existing 10 greenfield centres. I'm pleased to see that over the last six months have performed in line with our expectation with occupancy of 65% and $1.4 million in the first half.

Now these centres have robust occupancy. The focus tends to realise a sustainable earnings growth for this cohort. The approach to the greenfield pipeline will be measured and will continue to assess the reduced pipeline of seven centres to be delivered over the next two years. This pipeline continues to progress slowly due to developer challenges with supply chain and inflation and we continue to take a very commercial lens on this pipeline, particularly in current environment. I'll now hand over to Sharyn to provide a detail overview of group's operating and financial performance.



Sharyn Williams: Thanks Pejman. Our group performance for growth in revenue, EBIT and impact as outlined on slide 17. The group's first quarter profit performance was substantially stronger compared to the PCP as we cycle the impact of omicron and flooding and pleasingly the second quarter also showed growth in earnings over the PCP. Support costs were lower than the prior even after inflationary impacts reflecting the benefit of the cost out program from 2022, it also reflected procurement benefits and cost disciplines. We do note included in this period was circa $1 million in costs relating to the resources to support the multiple regulatory reviews facing the sector. As flagged in February the temporary government funding stream relating to apprentice wages reduced during the period by just over 1 million. The combination of stronger centre performance and lower network support costs resulted in a 56% increase in operating EBIT and some recovery of margin.

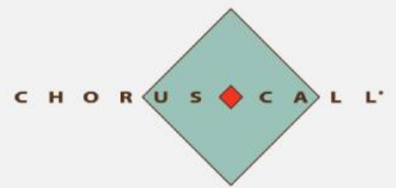
Net finance costs were circa 5 million, a reduction on the PCP due to the absence of costs relating to the subordinated facility and a smaller facility size. Our total facilities partially drawn remain at 306 million in total, finance costs, which are comprised of commitment fees on undrawn facilities, interest costs on drawn facilities expense, borrowing costs offset by interest received are expected to be circa 11 mil to 12 mil in CY23. This estimate is based on the current BBSW, so where conscious interest rates may continue to increase. Software development costs during the half reflected costs for cloud-based software as a service programs. These are now expensed not following a recent accounting interpretation clarification. These costs predominantly relate to the implementation of our procurement system, which is already providing benefits in terms of visibility and unit cost optimization. These software development costs will reduce in the second half. The other non-trading items relate to non-cash gains and losses on leases relating to AASB 16 modifications.

Turning to slide 18, we'll be focused on centre performance. You will note this is now recorded on a total centre basis including greenfields, reflecting the smaller number of greenfield centres we have. The prior period has been restated to allow for like to like comparison and core performance for those looking for it has been included in footnotes. The centre network delivered higher revenue and earnings than the PCP and experienced some recovery margin. While occupancy was up modestly revenue increased circa 9%, largely reflecting the January and July fee reviews, a necessary response to considerable inflation within our cost base.

The impact of this inflation is most evident in our employment expense where we saw an increase on PCP of circa 9%. This uplift reflects the annual award increase of 4.6% effective in July, 2022. Increases in pay rates as our team worked their way through improved qualifications and additional on costs such as the superannuation rate increase of half a percent and state-based payroll tax increases such as the Queensland wellbeing levy. We also continue to invest in professional development for our team.

A highlight of the period was the reduction of agency usage to 2.1%, a 1.6 percentage point decrease offsetting some of the internal wage rate increases. This result also reflects a range of factors including those Pejman touched on earlier relating to improved team retention and lower team vacancies. Other factors driving the lower agency outcome were the central roster management support team and the new HRIS system. We also pulled our team resources to create local efficiencies and implemented for our team flexible working arrangements.

Rent is another material cost for our business. Rent expenses increased 6.7% on PCP reflecting the composition of our network where two thirds of our portfolio



currently have annual increases linked to CPI. Depreciation increased as expected reflecting CapEx investment in the prior year where the spend was above depreciation. Other costs such as direct costs of servicing our bookings were managed well and in line with occupancy levels while lower expenditure in property utilities and maintenance reflected procurement initiatives and volume reductions.

With overall centre expenses increasing 7.5% centre network margin recovered to 14.3. Overall, the result demonstrated the benefits of reduced external labour usage, effective cost disciplines, and an active response to inflation. The group will maintain our cost focus and disciplines, particularly given that inflationary pressures are expected to continue not only for G8's cost base but also for our families who are feeling these pressures.

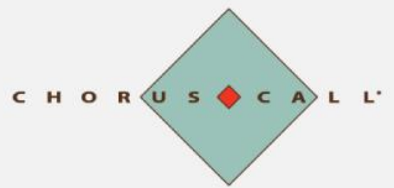
Turning now to slide 19, cash flow generation was strong for the half with cash conversion of 102% and 43 million in operating cash flows generated. The lower cash conversion number in the prior comparative period was largely driven by a timing impact relating to the carryover of additional creditors into early CY22 due to the cut over to our new financial system. The cash generated in the period was utilised for CapEx, the final tranche of the share buyback, lease surrenders and dividends. The first half is our seasonally lower earnings period and consequently we drew down debt to fund the CY22 final dividend.

During the half, CapEx and software as a service costs was 17.7 mil, circa 3 mil lower than the prior comparative. The targeted total CapEx and SaaS for CY23 has been reduced by $10 million and is expected to be between 50 and 55 million. This spend will be predominantly focused on property improvements, IT resources and educational resources to improve team engagement, family retention and child outcomes. All else being equal positive net cashflow is expected in the second half as well as a reduction in net debt compared to the level at the half year.

Turning the funding and capital management on slide 20, the group declared a 50% increase in the dividend to one and a half cents. The group has a strong balance sheet with a conservative leverage level of less than one times and ample liquidity. We maintain a strong balance sheet with net debt of circa 100 million at June 23 and access to a further 123 million of committed bank debt facilities. Our capital and cost management discipline will continue to be a focus as the group build capabilities towards a more consistent and efficient operating model. Pejman will now talk through the current trading and outlook.

Pejman Okhovat: Thanks, Sharyn. We will now turn to current trading and outlook. On the slide 22, briefly looking at the microdynamics, our belief is that the long-term fundamentals of the sector continues to be encouraging from a demand perspective with a positive trend in female workforce participation rates and continued positive momentum in net migration. At the same time, we remain cautious given a significant challenge relating to team shortages, inflationary pressures on the economy overall and the significant amount of regulatory activity relating to sector over the next 12 to 24 months. On the supply side of the equation, the supply growth has gained some momentum in the recent quarter within net supply 3.5% in the most recent quarter.

Now turning to current trading update and outlook on slide 23. Firstly, our current trading groups for occupancy is at 73% with gap to CY19 remaining around 1.6%. As we continue to improve our operational execution, we are seeing steady improvements across our network. With over 46% of our centres now operating above CY19 levels and with over 80% of our centres operating at an average



occupancy above 80%. We've implemented a small media fee increase in response to a record child service award rate increase of 5.75% in July and other inflationary challenges. We are very mindful of the impact of the cost of living on our families, hence we exercise diligence in ensuring any fee increase was kept to a minimum.

Our cashflow remains a strong through our more prudent approach to capital investment and better cost management. Since June, we have exited another three underperforming centres and our buyback strategy is now complete, resulting in a strong balance sheet, paying our attention to outlook will remain cautiously optimistic with the strong fundamentals in place that supports long-term demand growth.

We have also seen early signs of affordability measures supporting families with a number of days our G8 families are using childcare increasing slightly in the past few weeks reflecting the positive impact of their CCS changes since July. The net centre supply growth in the sector increased in half one with quarter two growth at 3.5% the largest since CY21 half one. Workforce shortages remain a sector challenge and there are many government initiatives being considered at both federal and a state level, the potential future impact. Meanwhile, our staff retention attraction places G8 in an improved position.

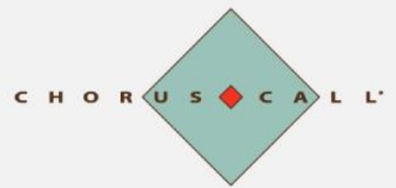
Inflation will continue to play a role in both our family's affordability and cost challenges of operating businesses. For our family the affordability is partially offset by the CCS changes and we will continue to focus on cost-based management. Regulatory focus on the sector will continue through CY23 and CY24. G8 will continue to play a role by advocating for the sector and our team.

Our near term focus remains on critical areas that have higher impact, starting with team, attracting and retaining team to support seasonal occupancy growth and a better start to CY24. For our families, assisting families in benefiting from CCS changes and improving their experiences across the journey that they take with us. From a quality point of view, we remain committed in delivering high quality education and our ambitions remains to improving our QMA ratings.

Operational execution. Consistent operational execution is a critical focus area to deliver quality every day, which in turn will support occupancy growth as we move into this critical failure of enrollment and transition between '23 and '24. Cost management continues to be prudent and manage variable costs well and also deliver procurement savings. On property embedding network optimization capability and disciplines in our organisation will be our focus and from capability point of view we'll continue to grow our capability across the organisation.

Of note, we are also delighted to be onboarding two new executive team members to our organisation. Our new COO, Shane Dann starts in September. Shane joins us with years of experience in the sector with Affinity Group and Evolve. Our new CIO, Calvin Goulding started in July with experience in customer facing organisations such as Flight Centre. We have also hired experienced senior property leaders and established our own call centre capability reflecting on focus on ensuring we set G8 up for future success. We also look forward to providing a strategy update at an investor day sometime in Q3, probably more towards late October. I'm now going to hand back to the moderator for Q&As.

Operator: Thank you. If you wish to ask a question, you will need to press the star key followed by the number 1 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. Your first question comes from Marni Lysaght with Macquarie. Please go ahead.

Marni Lysaght: Hi Pejman and Sharyn, thanks for taking my questions. Just the first one with me, I just want to go into the weeds a bit more with just some of those cap centres. Look, I understand you've improved retention and staff incentives across the network, but can you talk to how much those centres being capped is more of a sector thing versus say a central location thing or potentially a reputational thing?

Pejman Okhovat: Good morning money. Yes. We will kind of try to break that down a bit for you. The cap centres is not just for G8, it happens across the sector wide and particularly with the staff shortages that the sector has been facing over the last two or three years, so it is a phenomenon that well know. Majority of those capped centres that we have highlighted in the pack, a big lot of them were actually due to the cap centres that we had in quarter four of CY22. And when you have a cap centre in place as you know, what it means is we are not able to on onboard new families as a result lower occupancy because we cannot meet the regulatory ratio requirements. So when you're in that situation, the families unfortunately have to take the children somewhere else. So it is in reality a permanent loss of those families until we find new ones to replace when we have more staff back in those centres that have what we call a formal cap.

If we look back at those, what we've highlighted since quarter four of last year, there were 72 centres that overall have been impacted by what we call formal caps, which means limitation upon their ability to onboard families. 50 of those 72 centres, they were the ones that had really tough staffing issues in Q4 and those centres in CY23 have got an occupancy circa 8% lower than the rest of the organisation. It just shows that when you are faced with that real challenge of not having people in the centre, you can't onboard people and unfortunately people go away.

The positive side of this is as we have reduced our vacancy rate by 24%, we have been able to reduce our capped centres significantly coming out of those highs of 45s and 46s in Q4 of CY23 to about 35 in January and we've now got about seven.

Marni Lysaght: Okay. Okay, and just to bridge some of that into maybe current trading, you're saying core occupancy as at the 20th of August is down 80 basis points versus last year, so the 20th of August, 2022, I think you're saying it's down about 200 basis points versus the first half of calendar year 19. Is that a typo in the presentation or why are you comparing August occupancy to the first half of calendar year 19?

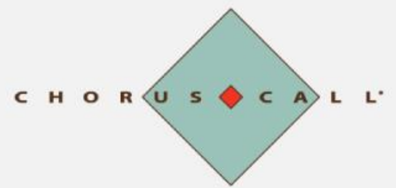
Pejman Okhovat: So just to confirm our numbers, we're talking about the group occupancy of 73% as a spot rate on the 20th of August. This 73% group occupancy, it is a spot as I said, and it is versus the spot at CY22 and that's no 0.3 points lower than that is spotting-

Marni Lysaght: At the group. Yep.

Pejman Okhovat: At the group level. Yes.

Marni Lysaght: Yep.

Pejman Okhovat: But what's pleasing for us is the gap to CY19 has continued to reduce. If you remember in quarter one at the AGM, our gap was 2.5 and then half was 2.1 and now the spot rate is 1.6.



Marni Lysaght: Okay, okay. Because when I've gone to the slide deck it's comparing it to the first half of calendar year '19, so that was the confusion. Perhaps we take this one offline.

Pejman Okhovat: Maybe we can take that offline with you because we don't see that one. Let's pick that up just separately because [inaudible] so we got in the deck.

Marni Lysaght: All right, and then just to maybe tie in, so I know that you're calling out sector staffing shortages being an issue, but is it the cap centres that's driving that disparity versus last calendar year?

Pejman Okhovat: Predominantly as I said, the cap centres have played a major role in occupancy overall. As we said in half one, the approximate impact was about 1.3% of occupancy for us. So the good thing is we are working incredibly hard to reduce that and be very pleased with our progress in terms of our own reduction of agency rates and retention being more improved than the sector has been.

Now we do have other challenges, money, is not everything in our world. Its purely down to workforce shortages as it is one of the critical issues. As I highlighted earlier, our centres, the ones that are not where they need to be from an occupancy point of view, there are two other factors at play, one of them being location dynamics, particularly around what the supply demand ratios are currently compared to what they have been before. So the level of competition in our environment and the third bucket is being a large provider with a 434 large number of services across the country, there'll always be centres that require better execution and operational performance, which is down to us to improve to.

Marni Lysaght: Okay. Okay, and just another question from me. You highlighted some of the regulatory focus being a regulatory-

Pejman Okhovat: Marni, I need to be fair to the other callers. You can come back to the queue.

Marni Lysaght: Okay, just one more question. Yeah.

Pejman Okhovat: We'll answer this last one but we need to go to the others.

Marni Lysaght: Totally. Just regulatory environment being in focus. Can you detail more about multi-employer bargaining and how are you thinking that might impact you further out? I know it's still preliminary discussions, but trying to understand the quantum of potential government funding and what you think you guys will land on as you negotiate this outcomes.

Pejman Okhovat: Marni, I wish I had a answer to any of those questions. This is a very new legislation as you know. The legislation came into effect only in May this year and we are the first sector to go through this, so there's been no other sector that's gone through this. We are very much currently in the procedural state. The negotiations have not even started yet. What that means is interested parties, which we are a voluntary party to this multi employee bargaining alongside three unions and a number of other providers is we have an application has been submitted to Fair Work Commission to grant authorization for the negotiations to begin.

There was a hearing last week at Fair Work Commission to ensure that the interested parties have what's termed commonality of purpose and that's being currently considered by fair commission. Again, we are hoping and I think we'll be

positive that the fair commission hopefully will grant that authorization and sometime perhaps in September the negotiation will begin. And there're basically three groups of parties to the negotiation, if I'm trying to make it as simple as possible. One group will be the providers, one group or the unions and the third party to the table will ultimately be the government who will be the fundamental funder.

Now the unions have publicly asked for a 25% pay rise for the government to fund. Where that ends up, Marni, I've got a big crystal ball as you have. But rest assured we will be advocating very hard for government funding.

Marni Lysaght: That's all clear. I'll jump back in the queue. Thanks for answering my questions.

Pejman Okhovat: Talk to you soon.

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

Tim Plumbe: Hi guys. Can you hear me?

Pejman Okhovat: Yes, we can. Yes.

Tim Plumbe: Great. I'll ask two and then jump back into the queue as well. The first one is a little bit of a further question from Marni's initial question around those seven cap centres. As the second half progresses, typically your occupancy increases, so do you need to hire incremental ECTs in the second half to remain at that seven capped rate or do you expect that to be sufficient to be at that level or better during the rest of the second half if you don't make materially incremental hires?

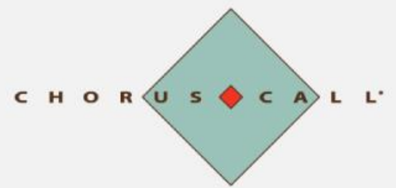
Sharyn Williams: Yeah, Tim, so if we look at our cohorts, our ECTs are a relatively fixed number because they're our bachelor qualified and each centre needs a certain number. It does change a smidge in New South Wales as occupancy goes up, but your point around the broader educator groups are correct that as seasonality grows up goes, you do need more FTE basically to satisfy that and that's where we're very focused on this quarter in making sure that we continue our work on vacancies, etc. to make sure that we don't have that same seasonality that you saw in the prior year.

Tim Plumbe: Got you. The second one, a follow on from the ACCC review that is going on in the industry at the moment, the initial report was put out, just so that I understand correctly, is the current phase that the ACCC is looking or dealing with the large players to look at their cost base over the course of the period that they've reviewed the pricing increases.

Pejman Okhovat: Yeah, so Tim, I think if I understand you correct, the initial review that ACCC conducted was across the whole of the sector, so large, medium and small providers. So the interim report was based on all of them. They have now asked for further information in let's call it phase two, by which they want to complete that sometime in September and they've asked, our understanding also is predominantly the large providers. I think they're going to ask some medium providers too for information particularly relating to cost and fee increases and decisions in this year, so January to July.

Tim Plumbe: Sure. Okay, great. I'll jump back into the queue. Thanks guys.

Pejman Okhovat: Thanks Tim.



Operator: Once again, if you wish to ask a question, please press star 1 on your telephone. Your next question comes from Wei-Weng Chen with RBC Capital Markets. Please go ahead.

Wei-Weng Chen: Hi guys. Sorry I joined halfway through and I'm sorry if I missed it, but just the CapEx reduction, just wondering if you could speak to the rationale for the reduction. Is it like a permanent reduction or is it one that we're shifting into maybe next calendar year, some of the spend?

Pejman Okhovat: I'll give you a high level view and then if Sharyn can jump in and probably break it down for you. We've been very purposeful about this choice. It hasn't just happened. We are going to exercise what I call a bit more rigour around what we spend. The good thing also is we've also spent quite a lot of capital if you recall over the last few years in upgrades our centre resources, which we don't believe we need to be at the same rate hopefully going forward. In terms of major capital works in our centres, I have been particularly focused in making sure where we invest our money, there are good returns that come back. As a result, as I said, we have purposely slowed down that capital investment in our centres until we have a model by which we are more comfortable about the returns on those improvements or upgrades.

Sharyn, do you want to add anything because capital investment in our centres is a big part of it, but there are other things that we consider?

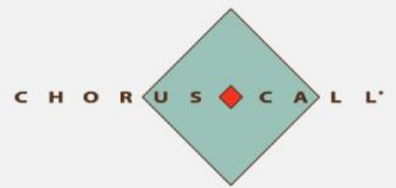
Sharyn Williams: Yeah, certainly. So just to build, as Pejman said, the prior improvement program did refresh equipment resources in all centres. So we are seeing a dramatic increase from prior year, particularly in that space. And then we have replaced a number of our systems with enterprise systems so that SaaS cost will also come off.

Pejman Okhovat: And to your last question which will be answered. You did also ask, "Will this continue?" We are hoping to reduce the indicated capital of 60 to 65 million at the beginning of the year by 10 million to 50 to 55 million raised by end of this year. And look, Sharyn and I are pretty focused on this and we are hoping that we can retain a reduced rate going forward. What number that's going to be? We can probably talk to you guys more about it either in Q3 or Q4.

Wei-Weng Chen: Yeah, and then just a follow-up question I guess on that CapEx spending, so I guess you've spent a bit last year. In terms of your centre quality that was flat at 89%. Are you expecting this reduced spend to have any impact on that number and that quality rating or are you confident that you can keep that 89% flat or even grow it from here?

Sharyn Williams: Yeah, in terms of the quality rating Wei-Weng, it's a number of quality areas. So QA one through to QA seven and properties are sub part of one of those areas. So we have been very mindful to be keeping an eye on that to make sure that we're not seeing any negative implications in that and we haven't to date, those quality ratings are very much around educational practises, relationships with children, engagement with the community, health and safety. So pretty happy with the work we did today to get our centres up to that QA 3 rating, but it is something we're mindful of and comfortable that they won't have that impact.

Wei-Weng Chen: Okay, cool. And then just the last one for me was just on inquiries I think. I know that you guys were saying you in-house some of the call centre stuff. Just wondering one, what does that mean I guess for headcount and costs, and two, I see the actual inquiry volumes have come down, conversion is up, but I guess maybe how you



thinking about or, yeah, how you thinking about that going forward and how's that tracking at the moment?

Pejman Okhovat: Again, we'll play a bit of a tag here. The key reason why we have decided on bringing the call centre to an in-house team is predominantly based on our family's experience. My observation was that the customer journey that our families were going through was not the most ideal, especially where we had, as I said, we were working with an external party. Our system integration, to be honest was not that good. So we were basically handing the customer or the families over many times during that journey and it wasn't something up to also, we couldn't really assess the real impact of that journey for our customers. So this should be a capability that G8 really owns. Our family experience is the most important one. If the families feel really engaged with us, they stay with us for five years.

So the reason for the decision to bring it in-house was to improve the family experience. Will we have cost savings? Yes. And Sharyn can probably talk about where we are now in terms of the phasing. So we've still got a little bit more work to do in terms of potential cost savings that they may come with it.

Sharyn Williams: Sure. So we've brought 75% of centres across at the moment and the last tranche will come across at the end of August. So in that transition we do have a little bit of duplication of cost while we're phasing in and out of the current arrangement. But what we're pleased to see is that we will be able to realise some cost savings next year. We want to get our arms around at first, Wei-Weng, before we can assess that. But certainly being closer to the processes, closer to the journey, it gives us a better opportunity to realise both a better experience and also any efficiencies we can get.

Wei-Weng Chen: Okay. I was on mute, sorry. Thanks, that's all from me.

Pejman Okhovat: Thanks, Wei-Weng.

Sharyn Williams: Thanks, Wei-Weng.

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

Tim Plumbe: Hi guys, just two more from me if that's all right. And they're both kind of-

Pejman Okhovat: Sorry, Tim, you're very faint.

Tim Plumbe: Sorry. Is that better?

Pejman Okhovat: That's much better, thank you.

Tim Plumbe: Okay, sorry about that guys. So the first question, just some of your peers or competitors have put through wage increases circa 8% across the industry. So just wondering, and apologies if you touched on this, I came in a little bit late, but just wondering if you could touch on what sort of wage pressure you are seeing across the industry. I recognise there was a 5.75% government increase, but is the actual labour cost increasing more than that?

Pejman Okhovat: So you are correct in couple of those dot points, Tim, the award increase in July was a record 5.75 for our sector. That's obviously gone across the educators. We are in a very competitive market there Tim, there are providers out there who pay above-

award and some of them pay above-award more than us already, and the sector does remain competitive. So does the sector just pay 5.75? So the answer is some do and some don't. We put through a media increase again of 3.8, which brought our total for the year, if you remember, we had a 6% in Jan to a 9.8.

Our observation was that this sector predominantly the medium and large players, they were between 8% and 11% and 12%, but there were quite a large number that were above 10%. So we were kind of in the middle of the pack. Not only we had to reflect those cost increases just on wage increase that we observed, but there were many other things that the cost throughout the half, one going into half two were far more than what we anticipated. Lots of consumers including food, nappies, which is a very big cost for us, double-digit growth, cost of maintenance, repairs, anything to do with property management, a significant increase. So that's what we put through.

Tim Plumbe: Got you. And just the last question. Around the ECTs, how is the industry dealing with the shortages? Are you managing to find ECTs from other countries and bring them over, or how do you see the shortage being addressed?

Pejman Okhovat: The shortage, I think, in a systemic there Tim, is probably going to be a little bit more medium to long term. Governments they are, as I said, state governments and federal government, they've got what they've termed workforce task forces looking at particularly around shortage of educators and ECTs. Has anything fundamentally come out of those? Not yet. We have been advocating for improvement, I wouldn't like to call a relaxation of the visa programs for the early childhood sector. Again, nothing has come out, but the governments are genuinely, they are listening and they're trying to see what impacts they can make.

The biggest thing that we can do is two things. Obviously we can recruit from the market, which I do believe we've done a relatively good job in the six months and my word when I'm talking, Tim, we have been fighting a pretty good fight in our recruitment and the other one is grow our own. That's one of the big impacts that we can have because once we grow our own and we put our own team through our own study pathways and support them financially with their professional developments, their tenureship with us does increase quite a lot and they stay with us two to three years. On average the tenureship of our team increases by about 20%. So both recruiting and developing our own and working with the governments to try and improve the situation too. Great. Thanks guys. Appreciate the questions.

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

Pejman Okhovat: Thanks very much. In closing, I would like to once again thank the G8 Education team for the continued professionalism and dedication and for making G8 a truly purpose-led organisation.

I'd like to thank our team for the support they provide to our children and our families each and every day. It's a privilege to work with you and create the foundations for learning for life for the next generation of Australian children.

I'd like to also thank our shareholders for their ongoing commitment and support and also thank all of you guys today for listening and also your questions. This concludes our presentation of our G8 half one 2023 results.

Sharyn Williams: Thanks everyone.

Pejman Okhovat: Bye.

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

[END OF TRANSCRIPT]