TRANSCRIPTION

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[START OF TRANSCRIPT]

Operator: Thank you for standing by, and welcome to the G8 Education Limited Analyst Call. All participants are in a listen-only mode. There will be a presentation followed by a question-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. I would now like to hand the conference over to Mr. Gary Carroll, CEO. Please go ahead.

Gary Carroll: Thanks Bernadette, and welcome everyone to this annual call. I'm joined on the call today by the group's CFO, Sharyn Williams. What we'll do is run through the presentation that was posted on the ASX this morning, and allow time for any questions at the end.

Gary Carroll: Starting with slide four, which is the executive summary, the three key messages out of this slide are that performance for the group continue to be very good in what has been a challenging operating environment. And by very good, I mean, we've continued to outperform in terms of financial results relative to consensus, and continue to make really good progress on our strategic priorities, and I'll go through those in more detail along the way. And then the third key point is that the environment remains uncertain in the coming months. However, we are confident that we've had a lot of practise at dealing with a dynamic changing environment and we are confident we can continue to firstly, keep our children, team, and families safe, which is the most important, and secondly, manage the business well, even in most challenging times.

Gary Carroll: So if we go into the executive summary in a little bit of detail, from an earnings perspective, as at the end of November, operating EBIT, which is defined as statutory EBIT less lease interest, before any non-operating items like gains or losses on sale and software as a service development cost, was $76 million at the end of November, and operating net profit after tax, which is operating EBIT, less finance charges, less tax at 30% of $43 million, pleasingly. Both of those numbers are ahead of consensus estimates.

Gary Carroll: As flag in our August half year release, we had closed the occupancy gap significantly on 2019, whether that momentum was impacted by the lockdowns that occurred from July onwards, such with core occupancy as that, the week ended 5th of December was 76.5 %, 1.7 percentage points above 2020 levels, and 2.1 percentage points below 2019 ,as was the case of the half regional centres have continued to track above 2019, and Metro and CBD centres are tracking below.

Gary Carroll: The groups continue to generate strong levels of cash flow and maintain a very strong balance sheet. Net debt is currently at $17 million after accounting for $38 million of wage remediation payments.

Gary Carroll: In terms of our strategic priorities, we've made really good progress. Our improvement programme has rolled out to 223 centres, and we've got a further 137 recently inducted into the programme, and we continue to exceed our expectations both from a financial and quality perspective as we work our way through that programme.

Gary Carroll: There is no doubt that retention of educators is a real issue across the sector, and we have been implementing a number of targeted initiatives to ensure that we retain our educators, and really try and manage our turnover levels to counter that challenge. I'll go through those details a bit further on.

Gary Carroll: Our Greenfield portfolio continues to perform to expectations, and we've got a strong pipeline of attractive new centres to be opened in 2022, and we continue to really good progress in exiting our impaired centres.

Gary Carroll: Looking forward, the positive is that the government has continued to support the sector as an essential service, and we continue to enjoy ongoing bipartisan support, including some recent budget announcements that were positive for the sector, and the long term fundamentals of the sector remain very positive. We did continue to enjoy specific government support to handle COVID closures that approximated to $21 million of support received. That is in the form of gap fee waivers and additional allowable absences for families.

Gary Carroll: Clearly the sector, including G8, was significantly impacted by extended lockdowns in both New South Wales and Victoria in the second half of the year. That, combined with continuing uncertainty about what impact COVID will have with the new Omicron strain, as an example, makes the job of forecasting opening occupancy for the start of 2022 extremely challenging.

Gary Carroll: So while the operating environment is uncertain, we are unable to predict how many closures will take place in the sector M with G8, and, as a result, what the revenue impacts, uncertain. We are continuing to adapt and monitor the environment, adapt accordingly, and I think do a really good job of continuing to generate great results in that environment. We have further details in the pack to allow people to estimate the impact on revenue of closures to allow you to do some forecasting as we move into the new year.

Gary Carroll: We turn to slide five, as I said, solid EBIT and NPAT results, and core occupancy very much to speed, and I'll go through that in a little bit of detail. Revenue for the year will look reasonably messy due to the impact of parent gap fee waivers on our revenue line, as well as the normal seasonal uplift trend not being present in New South Wales and Victoria. That does make year on year comparisons quite challenging. I also wanted to call out that, following an International Financial Reporting Interpretations Committee decision, we are looking at reassessing how we treat software as a service development cost. As a reminder, the group predominantly employs software as a service for its key operating platforms. Those softwares and service development costs that were previously treated as CapEx will now actually be reflected in the P&L. It is an accounting treatment change only. There is no change cash flows.

Gary Carroll: From a capital management point of view, our CY21 CapEx programme delivered in line in the non COVID-19 impacted states, however movement restrictions did inhibit some works in New South Wales and Victoria. As previously stated, our net debt's currently 17 million following the 38 million of wage remediation payments. They cover approximately 70% of the team members to be paid.

Gary Carroll: Our dividend policy's expected to re-commence with full year CY21 dividend intended to be paid in CY 2022. Turning to slide six, which unpacks the occupancy trends in more detail. Key callouts here is that regional continues to perform extremely well, 3.1 percentage points above 2019 levels, Metro and CBD locations are 5.7 percentage points and 29.6 percentage points, respectively, below 2019 levels. As a reminder, the group's exposure to CBD is extremely limited. We have around 10 centres in CBD locations, and it is anyone's guess in terms of impact of lockdowns, et cetera, on what our starting occupancy position will be, particularly in New South Wales and Victoria.

Gary Carroll: The table at the bottom of slide six highlights the two-speed nature of occupancy growth during the year where you can see the positive benefits of not being in lockdown, as well as our portfolio optimization activities in states like WA and South Australia, and offsetting this, New South Wales and Victoria being three and four percentage points below 2019, respectively.

Gary Carroll: Turning to slide seven from a bit [inaudible] continue to be very pleased with the group's performance in relation to wage efficiency, the investments that we've made over the last 18 months or so in workforce planning support resources and systems that mean that Ross has continued to be managed very well in relation to attendance levels.

Gary Carroll: You will see in the graph that wage hours per booking from fortnight 23 onwards has increased. That is a reflection of the higher attendance levels as states are merged out of lockdown, and

Gary Carroll: Our occupancy level is lower than 2019. That flows through in terms of a somewhat less efficient wage hours per booking number. Although certainly against our internal benchmarks, we're very pleased with performance. And the slide eight, which gives quite a detailed overview of the COVID-19 environment in which the group operates.

We thought it was important to give people a sense of what's occurred in our network over the last number of months, what it means from a revenue impact perspective, what the current government support requirements are. And then, what we can do about that moving forward. So if we look at the impact of closures, in the five months from July to November, 2021, there have been 119 centre closures throughout the G8 network, for an average of seven days. The average lost revenue per day while the center's been closed has been around $3,300. That does depend somewhat on state-based isolation requirements for children and team. We have continued to pay the wages of our team throughout any of those closure periods. So that revenue impact does flow through to earnings.

Gary Carroll: We have really solid operational processes in place to expedite contact tracing so that we can minimise the closure duration. The potential number of closures in CY '22 is clearly uncertain. Although we are very hopeful that they should progressively reduce as the transition to a COVID-19 normal environment is completed. And we then expect a corresponding positive impact on overall occupancy levels.

Gary Carroll: In terms of government support, I'll continue to applaud the government for their willingness to support the sector with specific packages of support. They translated to about a $21 million support package during CY '21. That support takes the form of gap fee waivers. So when a center's closed or a child or member of their family is required to isolate due to COVID-19, we get the CCS component, which is about 57% of fees, and the remaining fee is waived, so parents are not getting a financial burden due to their inability to attend the centre.

Gary Carroll: The government's also provided access to ten additional allowable absence days, taking the total of fifty-two days. That clock started counting on those from the 1st of July. We do, being a national provider, have quite a range of state based isolation requirements that we need to be aware of and implement. And they currently range from the period it takes to get a negative PCR test for a close contact team and children in Victoria, up to fourteen days for children and team in early childhood settings in other states. So as you can appreciate, that's quite a range of outcomes.

Gary Carroll: The other point worth noting, in terms of government involvement, is the government for each state and territory that we operate in has announced a requirement for early childhood education and care workers to be vaccinated for COVID-19. In terms of flowing that through from a cost and fees perspective, we will be, as part of implementing our CY '22 fee increase, looking to balance the funding of increases in our cost base with the need to manage affordability for families.

Gary Carroll: The increases in the cost base come from two main areas. Firstly, we are seeking to improve the employee value proposition for our educators to drive retention. That included wage rate increases for our early childhood teachers. And we also implemented external cleaning for all centres in the network. Previously, we had external cleaners for only a portion of our network. And the second cost impact is actually the impact of COVID itself. That includes items, such as increased consumables, such as gloves, our dedicated COVID-19 support team. And then thirdly, an increase in agency costs, primarily due to the inability to actually share team members across centres in COVID-19 impacted areas.

Gary Carroll: And finally, in terms of an update on our strategic programmes, as I called out, we have rolled out our improvement programme to 223 centres and recently inducted another 137 centres into that programme. That leaves us well on track to get through the vast bulk of our network by the end of 2022.

Gary Carroll: The financial performance of the prior cohorts continues to exceed target and all of our assessed CY '21 cohort centres have done well from a quality perspective, achieved at least a meeting rating. We will continue our investment in centre physical quality, targeting benefits in our interest ratings, as well as team and family engagement as a result of those activities.

Gary Carroll: Turnover in the sector does remain elevated. And so we are very focused on how we can retain our team. And we've made a number of initiatives from the remuneration increases that I've called out. We've rolled out a much enhanced service awards recognition programme. And we continue to implement, develop and drive our G8 Study Pathways programme, which now has over a thousand active participants covering certificate three diploma, as well as degree participants.

Gary Carroll: From a network optimization and growth perspective, our Greenfield cohort is performing well. The average occupancy of the sixteen Greenfield centres is nearing our maturity hurdle of 80%. And the CY '21 year to date EBIT earnings for that portfolio is $1.7 million. Approximately six Greenfield centres will be transferred to the core from January, 2022. During 2021, as a result of COVID, we had quite a significant number of deferrals in terms of new centre openings. We've only opened one centre during the year, with thirteen centres expected to open during CY 2022.

Gary Carroll: We are very confident that after these centres reach their targeted occupancy levels, they will generate strong earnings and returns growth, using our refresh capital light approach that we'd announced to the market earlier in the year. As part of that earlier year presentation, we did call out that year one of the programme would incur an EBIT drag, as a significant number of centres are in year one of their operation. That impact will occur during CY '22, which really does reflect the first year of our programme. To provide some content to that, we think those thirteen Greenfield centres expected to create a negative five and a half million dollar EBIT drag on the CY '22 results as they gradually ramp up attendance, and as our mature Greenfield centres move to the core.

Gary Carroll: We continue to make steady progress, exit hour impaired centres with twenty-one completed. We have called out along the way, that the last half of the portfolio will be more challenging given that they're larger with longer lease tiles. We make good progress on those, but we don't expect anything. We expect that the programme will continue to be rolled out for the balance of the first half of CY '22.

Gary Carroll: Our recent acquisition, Leall, is trading in line expectations. Although the earnings impact on CY '21 will be minimal. The focus that we've had since completing the acquisition has been on planning and securing the resources to best support Leall to deliver on it's CY '22 growth strategy.

Gary Carroll: And finally, turning to our systems and platforms stream, our HRIS and rostering system, build and testing's been completed. We've rolled it out to our support office. That was successful, included a move to weekly pay cycle. It's been very well received by the team. We are in the midst of rolling out to the first regional cohort of centres in our operating network. That's due to be completed before this calendar year. And our second material system implementation is the upgrade of our financial management system. Testing phase is nearing completion on that and with launch confirmed for early CY'22. That wraps up the formal part of the presentation. I'm now happy to hand it over to the floor for any questions.

Operator: Thank you. 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 cancel your request, please

Operator: Press star, two. If you're on a speaker phone, please pick up the handset to ask your question. Your first question comes from Tim Plumbe of UBS. Please go ahead.

Tim Plumbe: Hi Gary, just two questions for me, and then I'll jump back into the queue. Just the first question. Can you maybe talk about some of the biggest drivers to improved operational efficiency from your self-help initiatives going into calendar year 22? How should we think about the incremental earnings that can come through from those initiatives? And then the second part to that question, I guess, separately, when we're thinking about the blended fee increase versus the blended increase in some of those costs from increased staffing costs and cleaning costs, all else equal, how should we think about the sort of margin pressure that those movements make on the business going into 22, please?

Gary Carroll: Yeah. So firstly, from an improvement programme perspective, the drivers remain the same came in that we firmly believe that improving the quality of our learning environments, improving our centre leadership team closer in terms of team engagement, family engagement, ultimately occupancy, and the EBIT target associated with that as we work our way through the network is that mid teams EBIT uplift. And we're certainly on track to achieve that by the completion of the programme. So, the half we're on we'd generated a result consistent with that, and that momentum's been maintained even with the challenges of COVID as we track through impact on quality and engagement. So feeling pretty comfortable with that programme. In terms of the fee increase and margins, I won't be nominating a percentage increase in terms of fee, but we are certainly targeting that we won't be going backwards from a margin perspective off the back of a fee increase in early 2022.

Tim Plumbe: Great. Thanks guys.

Operator: Thank you once again, if you wish to ask a question, please press star, one on your telephone keypad. We will now pause for a moment to allow for question registration.

Operator: Your next question comes from Cameron Bell of Mechanical Ingenuity, please go ahead.

Cameron Bell: Hi guys. Actually a couple of questions and I'll just run through them. So firstly, on the wage or mediation, you said 38 million bucks and you said 70% of the team. Does that directly translate to 38 million bucks is 70% of the total and will the remainder that paid the first half calendar year 22.

Gary Carroll: Yeah. So it's broadly comparable, Cameron. I'd say would be the answer. Yes. The timing is dependent on our ability to contact, because the people that are left are no longer employed with the organisation, and we have to go through the search process to contact them and then get bank account details, et cetera, et cetera. As you can appreciate, we're going back six and a half years. Some of those people are pretty hard to contact. So, hard to draw a line in the sand in terms of how long that will take. And the second variable, clearly, is we remain engaged with the fair work commission on that whole process and will be guided by their requirements in terms of how much effort and time is required to be undertaken to contact those prior team members. So I'd love to give you a timing. Would we continue to make good progress in first half of 2022? Yeah. Will we be through it? I don't know.

Cameron Bell: Yep. Okay. Then just on the staff developmental costs for coming change. So typically how much is your staff developmental costs?

Sharyn Williams: So in terms of our spend on IT, if you go to the half year, you'll see we spent around six and a half million that area. Now a couple of million of that is hardware, et cetera. So that gives you a bit of a ballpark, what we spent in the first half, but Cameron, we're still working through those numbers so much better placed at February to let people know what the impact of our HRS and financial system will be.

Cameron Bell: Yep. Okay. Sure. And then just on the occupancy numbers by state, just that ATT performance, I know it's not a big state for you, but I was curious as to what drove that?

Gary Carroll: Centre manager turnover, primarily, Cameron. It's a very tough market to recruit and retain good centre managers.

Cameron Bell: Okay. And then finally I...

Gary Carroll: And, sorry, and the second impact clearly was COVID because they had lockdown periods as well. So yeah.

Cameron Bell: Yeah, sure. And then I suspect you don't really want to answer this, but, and I understand the difficulty around opening occupancy and potential COVID closures, et cetera, but I was hoping to get some indications with how you feel re-enrollments are going for calendar year 22, maybe how they've compared to previous years, for example.

Gary Carroll: Yeah. Previous years are tricky as well, because we've had an interesting couple of years in the sector. Am I happy with the process? Yep. Am I happy that we tweaked the process to engage with families earlier in a more meaningful way? Yeah. And so we are doing, I think, a better job than we had done in prior years. The key unknown we have, Cameron, is it's almost impossible to predict people's attitudes to putting their children into care when things like Omicron come along. Prior to that, there might have been something a bit more confident we could say, but will parents hold off putting their children into care until they form a viewers to getting on top of the latest variant? I that's the stuff it's really hard to predict. So they might have committed and said, "Yeah, we'll be there." And they get nervous as the D-Day approaches.

Cameron Bell: Yeah. Fair enough. And just one final question just on the percentage of staff that you've had to let go due to the vaccine mandate.

Gary Carroll: Yeah, no, we've been really happy with that. It's well, south of 1% of our team have chosen not to be vaccinated and didn't qualify for medical contraindication exemptions. And that was probably a better result than what we thought would happen. I think it's been assisted by every state government mandating it across to sector. So if you want to remain in the sector, you needed to get vaccinated and that's certainly assisted.

Cameron Bell: Okay. Thanks guys.

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

Peter Drew: Yeah. Hi Gary. Excuse me. Just a question on just the earnings. So, when we think about December's contribution to earnings, what has that typically been as a percentage?

Gary Carroll: Yeah, I think what, and Sharyn will probably step in and give her view as well, but I don't think we can actually use prior years as a reasonable guide Peter because two years ago it would've been a much more material impact. We've had a couple years of COVID related impacts. So makes it hard to just look at history and say, "Here's what we think December's going to be." Sharyn if you want to [crosstalk] yeah.

Sharyn Williams: Yeah, sure. Peter, it's usually a more subdued month, a lot of moving parts such as when children leave earlier. So they're taking holiday discounts, et cetera, use of annual leave. But if you just treat it as a fairly subdued month, that's probably the way to do it.

Peter Drew: Yeah. So the average EBIT contribution over the 11 months is around 7 million. So it's some number below that.

Gary Carroll:	Yeah.
Sharyn Williams:	Yeah. I think that would be a fair way to look at it.
Peter Drew:	And then you highlighted the impact of the closures. And if you do the math it comes out at about circuit 3 million dollars revenue impact, which I'm assuming pretty much all falls to the bottom line, is that accurate that those closures impacted earnings by say circuit three mil?
Sharyn Williams:	Yeah. I think that's a fair way to look at it for the five month period. Obviously when you take that into next year, there'd be a bit of annualization, et cetera. You'd factor in depending on your view of course, of how closures might play out variance, et cetera.
Peter Drew:	Yep. Okay. And then I guess one thing I noticed the tone around challenges of attracting and retaining staff a bit purely challenging right now. There's a lot of talk about labour availability. I used to [inaudible] bad,
Peter Drew:	Issue for the industry. So I'm just keen to history of where that, and then just will be additional wage perspective. How [inaudible] are you that the theme piece that you put through will cover them and that you don't kind of need [inaudible].
Gary Carroll:	I struggled with a bit of that, Sharyn. I don't know if you [inaudible].
Sharyn Williams:	Yeah, I got the gist of it, but-
Gary Carroll:	Yeah. So I'll lead with this the one Sharyn, cause that was the one I struggled a bit more, but in terms of staffing and resourcing levels across the sector, there's been probably three impacts that have heard. One, not having any migration, particularly of teachers. The sector has historically relied to some extent on overseas teachers coming into supplement. Clearly the background context that is, people continue to open centres. So demand for educators has continued to grow. The second is that graduates from universities have been reducing year on year for the last three or four years. So supply is nowhere near keeping up with demand particularly from a teacher perspective. And then the third one is in terms of educators, it has been an incredibly stressful time for the sector.
Gary Carroll:	We've been open every day. And our team have been at the front line of COVID and the number of people have chosen to exit the sector. This isn't just a GA issue, because they're reasonably lowly paid and they do have other career options. For example, the big four banks have dramatically increased their need for contact centre people. And we do know a number of educators leaving the sector and they work from home at a CBA contact centre getting paid 10 or 15 grand more. So the relative attractiveness of the sector, given the impacts of COVID has also made life challenging for all sector players. Hence why we've been devoting a lot of time on how we can try and retain our team. Peter, we've started to make some little inroads, but certainly not enough for us to call it as a trend at this point in time. But there's been a little bit of promise in some of the things we've been doing. And I think the

	cost one Sharyn is more around our confidence level on that the fee increase will cover the wage increase. Is that right?
Sharyn Williams:	Yeah that's right, so the way we broadly look at wage rate is in the sector that the annual fair work increase, which can over the last few years, it's ranged from 1.75 to say three percent, then you'll recall we've got another 1% as people move up their levels. On top of that, we have moved on the ECTs to make sure we're keeping our incremental competitiveness in the market, and that's probably another 1%. So of those moving parts, Peter give you a feel for it's fair work plus another couple percent. So that's something a fee increase could cope with.
Operator:	Thank you. Once again if you wish to ask a question, please press star one on your telephone keypad and wait for your name to be announced. Your next question comes from Chami Ratnapala of RBC capital markets. Please go ahead.
Chami Ratnapala:	Hi Gary and Sharyn, thanks for taking my question. Just quick two questions, heading into sort of mid-December how is the inquiry pipeline looking like any sort of commentary that you can provide on there?
Gary Carroll:	Inquiry pipelines really solid Chami ahead of prior years. So that's been a positive.
Chami Ratnapala:	Great. Thanks for that and just on the staff turnover, just to quantify it, before you provided one figure, just wondering whether you can quantify it at all or at this stage?
Gary Carroll:	So ECT turnover, which had been tracking down from the mid 30s is around 40%. Centre manager regrettable turnover is in the mid teens. Our target, there is somewhere 10 to 12. So centre managers aren't the main issues, ECTs are a key concern because that turnover has increased and overall team turnover has gone from the low 20s to the mid 20s.
Chami Ratnapala:	Thanks for that. And if I may just one more question, are any of the centres seeing pressure on just on the ECCP teacher front, where new enrollments have to be pushed or are there any centres in the portfolio, anything this sort of pressure at the moment?
Gary Carroll:	No, we're not seeing that at this point in time, no.
Chami Ratnapala:	Thanks for that. Appreciate it.
Operator:	Thank you. Once again, if you wish to ask a question, please press star one on your telephone keypad and wait for your name to be announced. Your next question is a follow up from Tim Plumbe of UBS. Please go ahead.
Tim Plumbe:	Hi guys. Just two quick follow ups from me. If possible, Gary, you touched on it briefly, but can you maybe talk about the incremental supply that you've seen into the industry in the last five months? I think at the first half we've seen about a 3.7% year on year increase in supply. Has that accelerated in the last five months or maintained at the same sort of level. And then just the second question Queensland, you saw

probably the biggest improvement across the portfolio. I think that was tracking it at down 3.3 percentage points as at the first half and has now turned positive. Can you talk to any changes or anything different that's been done in that part of the portfolio versus the rest?

Gary Carroll: We had been rolling out our improvement programme in Queensland as part of the cohort. We do think that's had a positive impact, done some slight tweaking around our portfolio team as well. So that's probably had an impact and it's felt a lot more sort of normal because it hasn't had the impact of COVID. But I think the predominant driver, we think of the improvement is that we've rolled out our improvement programme.

Gary Carroll: Entering your supply question, year to date supplies actually below last year. So the third quarter was lower than prior year, which is not unexpected given COVID lockdown. And so as that end of November, there were 252 new centres versus 316 from the prior year terms of GA impacts, down slightly more pleasingly was the occupancy impact of that supply close to us, continues to be diluted. And we think that's one of the benefits out of the improvement programme we can defend out to better. And we are certainly seeing that come through in the numbers, the number of centres, that get an occupancy hit and particularly as well as the quantum of that hit have been steadily reducing as we've counted that with our improvement programme.

Tim Plumbe: Got it. Thanks Gary.

Operator: Thank you once again, if you wish to ask a question, please press star one on your telephone keypad and wait for your name to be announced. We will now pause for a moment to allow for question registration. There are no further questions at this time. I'll now hand back to Mr. Carol for closing remarks.

Gary Carroll: Thanks Operator. And thanks everyone for making the time available. We look forward to catching up with the number of you in the days ahead. And if I don't speak to you beforehand, I hope everyone has a fantastic Christmas. Thank you.

Sharyn Williams: Thanks everyone

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

[END OF TRANSCRIPT]