TRANSCRIPTION

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[START OF TRANSCRIPT]

Operator: Thank you for standing by, and welcome to the G8 Education Limited, CY21 Half Year Investor Call. All participants are in a listen only mode. There'll be a presentation followed by a question and answer session. If you wish to ask a question via the phones, you'll need to press the star key followed by the number one on your telephone keypad.

Operator: I would now like to hand the conference over to Mr. Gary Carroll, CEO. Please go ahead.

Gary Carroll: Thanks Harmony, and good morning, everyone, and welcome to the 2021 half year results presentation for G8 Education Limited. My name's Gary Carroll, and I'm the CEO and Managing Director of G8 Education. I'm joined today by the group CFO, Sharyn Williams.

Gary Carroll: We'll walk through the investor presentation that was posted on the ASX earlier this morning, and then provide time for any questions, but before I start the formal part of the presentation, I wanted to do two things.

Gary Carroll: Firstly, I wanted to acknowledge the traditional owners of the land upon which we're meeting today. Sharyn and I are based at the Gold Coast today, so we wanted to acknowledge the Yugambeh people and pay our respects to their elders past, present, and emerging, and we'd also like to acknowledge any Aboriginal or Torres Strait Islander person that's on the call today.

Gary Carroll: I'd also like to acknowledge the entire G8 Education team, for their outstanding efforts during what continues to be a very challenging period.

Gary Carroll: So, kicking into the presentation, slides five, six, and seven, provide a summary of key events and achievements during the half, covering the key operating and financial results, and progress in relation to delivery of the group strategic programmes and outcomes.

Gary Carroll: Slide five provides an overall framing for assessing the current position of the group. The momentum and strong results flowing from execution of the group's key strategic

programmes, has G8 well-positioned to deliver good earnings growth over the medium term. In addition, I've been really pleased with our ability to manage the operating levers of the business, to mitigate the impacts of a very uncertain operating environment and this, went combined with the group's balance sheet strength, provides the confidence to keep investing in our teams and families through the current short-term challenges posed by COVID-19, to further enable a sustainable growth trajectory for the group.

Gary Carroll: Slide six sets out some of the key highlights in the first half, both from an operating and a strategic perspective. The occupancy momentum that was highlighted at the group's AGM in May, continued for the balance of the half, with the gap for 2019 occupancy continuing to narrow in line with our expectations. Operating EBIT after lease interest was 38.9 million, in line with the first half of 2019, while the group finished the half with a net cash balance six and a half million dollars.

Gary Carroll: 98% of our centres assessed during the first six months of 2021, achieved a meeting or exceeding standard, which is a record result for G8 and reflects the investment we've been making in quality. Performance in relation to the key strategic programmes is very good in half one, with all of our key programmes delivering inline with, or ahead of our expectations. Our rostering and wage optimization programme delivered wage efficiency outcomes that enabled the group to absorb any ongoing cost impact of the group's wage remediation and compliance programme. Our improvement programme delivered outcomes that were slightly ahead of expectations, including an EBIT outcome for our 2019 and 2020 centre cohort that was one and a half million dollars higher than 2019, while our Greenfield portfolio is performing well. The group's divestment programme remains on track, and we've also delivered a number of initiatives to drive team experience and engagement throughout the network.

Gary Carroll: The group's half one achievements in relation to quality, community and sustainability, is set out in slide seven. For G8, these are fundamental to our future success, maintaining high quality early education centres that are safe, and provide best practise early learning and development for children, produces great outcomes for all stakeholders, children, team members, families, communities, and shareholders. Investing in our educators to build their capability, including via study pathway programmes, reinforces such quality, and also helps retain our educators in what is a really competitive employment market. Having diverse leadership teams ensures we make better decisions.

Gary Carroll: Finally, we have a societal opportunity and responsibility to educate our future generations on how to live sustainably, and we've developed targets across each of those areas, and as set out in slide seven, we've made really good progress in each area in the first half of 2021.

Gary Carroll: We also executed a sustainability-linked loan, the first of its kind in our sector, which focuses on the achievement of safety and quality targets.

Gary Carroll: The financial summary for half one is set out in slide eight. For the purposes of this summary, I'll focus on the comparison of the first half of 2021 with the corresponding pre-COVID period of 2019. Revenue in half one of 2021 was 2% lower than 2019, with a number of factors driving this result.

Gary Carroll: Occupancy has continued its recovery in 2021, with average occupancy during half one of '21 at 68%, being 2.4 percentage points lower than 2019 levels.

Gary Carroll: Other factors influencing revenue were the February fee review in 2021, Victorian government COVID-19 payments of 5.3 million, growth in Greenfield centre revenues, offset by revenue reductions as a result of the group's impaired centre divestment programme.

Gary Carroll: Operating EBITDAR of 102.4 million, was 6.1% below 2019, underpinned by good wage performance, while operating EBIT, after lease interest of 38.8 million was flat on 2019, driven by impairment-related reductions in lease depreciation.

Gary Carroll: As Sharyn will outline later in the presentation, the group's cash conversion remains strong, and we finished the half with a net cash position of six and a half million dollars.

Gary Carroll: The story of the group's occupancy performance during the first half is contained in slide nine. Occupancy in the first half continued to narrow the gap on CY19, and it performed in line with our expectations. This growth was driven by our strategic change programmes, as well as the reestablishment of the seasonal trend, that had been disrupted by COVID-19 in CY20. Now we have seen a disruption to the seasonal trends since June, as a result of COVID-19 related movement restrictions, and we'll provide further detail on these later in the presentation.

Gary Carroll: G8 teams have done a great job to support families during lockdown disruptions, successfully retaining enrollments, and positioning centres to rebuild attendance post-lockdown.

Gary Carroll: Slide 10 provides a further breakdown of occupancy covering perspectives by region, then Metro, regional, and CBD, as well as state by state. The group's geographic diversification, with limited CBD exposure, provides insulation against specific location or state-based lockdowns. Our regional centres were the stand-out performers in half one, with average occupancy 1.9 percentage points higher than the corresponding period in CY19. The state by state view highlights the cumulative effect of movement restrictions in Victoria, with the gaps to CY19 being greater than other states, while the ACT result is more specific to G8, and driven by centre manager turnover. An improvement plan is in place for our nine centres in the ACT, with occupancy expected to recover over time.

Gary Carroll: Finally, the divestment programme that was undertaken in late 2019 in WA, has delivered good occupancy benefits in the first half of CY21.

Gary Carroll: Wage performance for half one is illustrated on slide 11. The continued investment in wage systems, training and processes, has resulted in wage efficiencies being achieved relative to CY19, despite lower occupancy levels. This has, in turn, enabled the group to effectively mitigate the impact of wage remediation and compliance costs in the first half.

Gary Carroll: The impacts of the recent lockdown, are very clear to see in fortnights 14 and 15, and from a wage rate perspective, the award increase of two and a half percent was implemented across the G8 workforce in July.

Gary Carroll: Turning to slide 12, which sets out what has been a really pleasing performance for the group's Greenfield portfolio. The portfolio, covering 15 centres, had an average occupancy of 71% in half one, with most centres being above the ramp up trend line. The good occupancy growth enabled the portfolio to grow net profit before tax by $3 million, from a $2.3 million loss in 2022, to a $700,000 profit in CY21.

Gary Carroll: Peaks of the current Greenfield centres are expected to mature to the core portfolio at the end of 2021. With no centres being added to the Greenfield portfolio in half one, we do expect two Greenfield centres open by December, 2021.

Gary Carroll: Our impaired centre divestment programme remains on track, as set out on slide 13. Half of the 52 impaired centres have either been divested, had leases surrendered, or have conditional indicative agreements in place. 15 divestments have been completed to date, with 12 occurring in half one. The relevant CY19 EBIT attached to the 15 completed centres is $2.4 million, and the group incurred cash outflows of 1.3 million related to divestments and surrenders during the half.

Gary Carroll: We'll continue to employ our commercial approach, guided by return on capital, when assessing our exit alternatives, taking into account the lease tail and trading performance.

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

Sharyn Williams: Thanks Gary. The key financial drivers of the results are outlined on slide 15, and include recovering operating performance, driven by improving occupancy and strong wage performance and compliance, supported by the 5.3 million Victorian government COVID-19 subsidy.

Sharyn Williams: Reduce borrowing costs and lower depreciation, following the impairment in 2020, combined to produce a relatively stronger net profit result than comparative CY20 and CY19 periods.

Sharyn Williams: Before I get into the detail of the first half results, I would like to walk through certain changes made to some of the expense lines in the income statement. The transition

Sharyn Williams: To the AASB 16 leases standard, means that the historical occupancy category is now less relevant. With rental expenses largely relocated to depreciation and

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interest, in line with the new accounting standards. As a result, we reviewed our categorizations to ensure they appropriately reflect our largest cost drivers and consequently made the following reclassifications. Employment costs now also include team training and development costs. Portfolio costs such as repairs, maintenance, rates, cleaning and utilities are reflected in the new line items, property, utilities and maintenance. This also includes some minimal variable rent. However, the bulk of the rent is represented in depreciation and interest. Direct costs now largely reflects variable items, such as nappies, food and consumables used in centres. In other expenses captures the remainder of expenses, including IT, compliance costs and marketing related activities. This change in classification has no effect on the total expenses recorded, or the profit or loss before income tax before is either period. We have provided in the appendix, the reclassified CY20 and CY19 comparative financial information for full year modelling purposes.

Sharyn Williams: Turning now to the financial overview on slide 16. Given the degree to which COVID-19 impacted operating performance of the prior year, we have provided comparisons against both COVID-19 impacted CY20 and pre-COVID-19, CY19. I note that the variances I will detail are relative to the first half of CY19, pre-COVID. As we believe this comparison better reflects the operational and financial performance of the business. Revenue of 421 million was 2% lower, driven by a number of revenue movements, including, core average occupancy levels being 2.4 percentage points lower, and lower revenues relating to the 40 centres that have been divested. Offsetting this was the growth in Greenfield revenues, receipt of the 5.3 million Victorian Government COVID-19 subsidy, and higher revenues from the February fee increase. I would like to spend some time on the fee increase elements. The mid 4% fee increase was disclosed at the time of our CY20 full year results, and took out average fee from $113 set in May, 2019, to approximately 118 in February, 2021.

Sharyn Williams: As a result of the government COVID-19 relief packages, there was no March 2020 fee increase. Given the average fee increase has only increased by mid 4% since May, 2019 to the current year, it will only partially cover the cost inflation experienced over that same two year period. There will be no further fee increase in CY21, therefore the majority of this margin pressure will be felt in the second half, at the 2021 annual award wage increase, was effective on one July, representing the third annual wage increase since May, 2019. Sending that to EBITDAR, those revenues were 2% lower than the comparative period. EBITDAR was 6% lower. Reflecting the lower revenue predominantly flowing through to the EBITDAR line. This was due to total cost remaining flat, at broadly 319 million, with reductions from wage optimization and a lower number of centres being offset by two years of cost inflation and investment in network support. Savings in direct costs were reallocated to maintaining the physical environments of the centres. During the half, there was an increase in other expenses, reflecting higher activity levels relating to the customer engagement team.

Sharyn Williams: This was driven by higher inquiries from families which helps close the gap further to 2019 levels, and also an expanded scope aimed at providing a consistent experience for new families, and relieving further administrative burden from our centre

managers. We also saw the insurance market harden, resulting in higher premiums, and we have continued to invest in IT across areas such as cyber security, websites, and internet capacity for centres. Costs related to software, transitioning to software as a service systems have moved over time from the depreciation line to other costs. Turning now to EBITAR, which on a statutory basis excludes the portion of the rental costs allocated to lease interest. To allow for the total cost of rental expenses, the key metric to focus on is operating EBITAR after least interest. Given it is effectively a proxy for pre AASB 16 EBITAR. Even after lease interest of 38.9 million, was flat on the CY19 half of 38.8 million.

Sharyn Williams: This is driven predominantly by the EBITDAR reduction of 6.5 million, being offset by lower lease expenses of 5.4, partly from a reduced number of centres, and is outlined on slide 13 for CY2010. From an overall group view, it is this reduction in depreciation that allows the group net profit from a pre and post AASB 16 perspective, to be broadly similar in CY21. Pleasingly, the non-lease component of finance costs has reduced substantially, following the refinance earlier this year, and the repayment of borrowing using funds from the CY20 fee raise. This resulted in an overall net profit before tax 35% above CY19, page one.

Sharyn Williams: The operational numbers excludes net gains on sales, surrenders and lease modifications. And these items are outlined in note two of the interim financial statements. When these gains are included from a statutory result perspective, the group produced a net profit after tax of 25.1 million. Turning to a more detailed overview of operating performance on slide 17, the new reporting format of core and Greenfield centre performance outlines the market in June has now been adopted. Firstly, the core performance. Revenues from the core portfolio reduced by circa 4%, driven by occupancy being 2.4 percentage points lower, and the absence of the revenues from the 40 divested centres. Expenses over this same period reduced by almost 6%, resulting in an increased core net profit and margin. This improvement in earnings and margin from the core portfolio is driven by several items, from a wages perspective, an expanded team to support centres to manage rosters and wage compliance have yielded positive results in both optimization and compliance activities.

Sharyn Williams: These improvements were achieved to a combination of improved systems, training and processes, and when coupled with reduced wages from lower bookings in divested centres, resulted in a reduction in absolute wage dollars that was broadly similar to the drop in revenue. These activities mitigated the potential circa 6 million that may have been realised from the remediation findings, and also two years of wage inflation since the CY19 went up. The other driver of the improved profit margin is the timing of the fee increase in February, instead of mid-year. As flagged earlier, this partially mitigated margin compression in the first half, with the fuller extent of margin compression to be felt in the second half, particularly from one July when the annual wage increase was implemented. In terms of rent, we've used a proxy, which has comprised of least appreciation and interest, plus outgoing. Since the first half of CY19, this quantum has reduced by circa 9 million.

Sharyn Williams: Half of this reduction relates to the 40 divested centres, and the remaining half is the lower depreciation. Other costs were managed well, with the 5% increase largely reflective of inflation over a two year period. Greenfield's portfolio has being covered by Gary earlier in the presentation. It's pleasing to see both occupancy and earnings maturing with the expectation in the second half that newly opened centres will absorb some of these earnings. After incorporating network support and corporate costs ,operating EBIT after lease interest was broadly flat, from an earnings and margin perspective. Turning now to the final point on this slide regarding wages. Wages as a percentage of revenue in the first half of CY21 and CY19 were flat at 62%, using the groups total employment costs divided by operating revenue on the prior slide. Historically, in the second half of the year as seasonal occupancy increases, wage efficiency improves, resulting in wages as a percentage of revenue decreasing, as can be seen on slide 11.

Sharyn Williams: This is due to the mid-year wage rate increase being typically offset by corresponding mid-year fee increase. Given there will not be a corresponding fee increase mid-year, the fund mis-increase, any efficiency created by occupancy increases will be absorbed by wage rate increases. Particularly the recent increase on one July. Therefore, for those areas not impacted by lockdown, wages are the percentage of revenue is expected to be flat as the seasonally higher occupancy is absorbed by this wage rate increase. Turning now to slide 18, which outlines network support costs. This captures compliance costs, the programmes of work that are coordinated essentially to support centres, and what is terms of the above centres support, which refers to the network of team members based in the field and our support office.

Sharyn Williams: The headline increase includes a number of items from the prior year that related to COVID-19, such as job keeper, cash conservation activity, including reduced wages for support office roles, and COVID-19 subsidies in Singapore, which increased earnings. When these items are taken into account, the increase on the prior year is 5.6 million. 75% of which is related to programmes such as the study pathways and team service recognition programmes, and the above centre roles referenced earlier. These team members work closely with the centres such as the practise partners, operations and people coaches in the improvement programme, our quality assurance partners, wage optimization and compliance teams, and HR business partners working directly with centres. Pleasingly the benefits of these programmes and teams are flowing through.

Sharyn Williams: The improved EBIT, improved wage compliance and efficiency levels despite lower occupancy, a growing trainee base to grow our own, and maximised training subsidies, an excellent achievement of 98% exceeding and meeting ratings, for centres assessed in the first half. The remaining 25% of increase costs relate to corporate costs such as insurance cost escalation, and investment in IT systems as cyber sent. As outlined on slide 19 and 20, the group is well positioned from a balance sheet perspective, with the recent debt refinance providing the group with strong liquidity, greater flexibility and lower funding costs. During the period, CAPEX was 20 million, with a broadly even split between centre improvements, equipment

	and resources and technology, including IT resources for centres, rostering and HR systems, and the finance management system.
Sharyn Williams:	The full year CY20 CAPEX is estimated to be around 65 million.
Sharyn Williams:	Prefaced on continued investment in centre quality, in both the physical environment and resources for centres. Both of these items contribute to team engagement and family retention, noting also that circa $10 million in centre capex was carried over from CY20. As announced at the AGM, dividend payments are expected to recommence for the full year CY21 dividends intended to be paid in early 2022, based on a proportional payout ratio of between 50% and 70% of net profit after tax. The recent wage remediation payment of circa $70 million in July, put the Group in a circa $10 million net debt position. However, the Group retains significant liquidity and cash reserves to buffer sustained periods of COVID-19 impact, with $300 million of debt facilities undrawn. Slide 21 outlines the cashflow statement of the Group. Operating cash flows decreased by 23%, however when taking into account the 2020 accruals, reflecting the quarter four $10 million investment of the Victorian Government subsidy, and excluding the $9 million benefit of lower interest, the reduction was 6%. This reduction aligns to the operating EBITDA reduction of 6%.
Sharyn Williams:	COVID-19 related rent deferrals impacts both the principal payments in 2021 and 2020 with the prior year cash flows lower by $3.1 million, reflecting the rent relief from landlords and the current period higher by $1.5 million as repayments of deferrals are made. From a rental perspective, the rental cash flows of $55 million for the half broadly aligned to the lease expenses of $53 million. This reinforces that the CY21 numbers after the impact of the impairment, are better reflectors of the pre AAFC16 rental profiles. Cash flows before tax and interest, non leases, were a positive $10 million cash generated, and after tax and interest payments are incorporated $9 million was funded from cash reserves.
Sharyn Williams:	Turning to slide 22. The cash conversion of the business, which is measured on a lease adjusted basis. Cash flows were managed well, however appear weaker than historical levels. Lastly, reflecting timing differences relating to a prepayment of insurance and the timing reversal of the exceptionally strong second half CY20, which was driven by timing of accruals for expenses and cash preservation. In the first half, we are seeing that late quarter four activity within the cash outflows as those accruals are settled. I'll now hand back to Gary for a strategy update.
Gary Carroll:	Thanks Sharyn. So we'll now turn to an update on the progress of the Group's key strategic programmes, starting with the improvement programme on slide 24. As a reminder, the goals of this programme are to build best practise learning environments and educational practises, consistent and efficient centre operating routines and high calibre centre leaders. This increased capability and support will in turn drive higher engagement in our centre-based teams, which will flow into more engaged children and families. And ultimately that leads to improved occupancy and financial outcomes.

Gary Carroll: The programme seeks to achieve these goals through investing Opex in additional field support teams, covering education, operations, quality and people. As well as Capex in the form of enhanced in centre resources. Total investment in the programme to date has been $3.9 million in Opex and $5.6 million in Capex, with 224 centres being covered to date through our improvement programme, including 118 in the first half of 2021. Results have exceeded expectations with EBIT in half one of CY21. The 2019 and 2020 centre cohorts, 106 centres in total, being $1.5 million ahead of CY19 levels while other key quality and occupancy metrics are ahead of target.

Gary Carroll: Turning to slide 25, the improvement programme is on track to be completed by early 2023, with the programme being designed to ensure that the improvements becoming embedded into ongoing operations. The increased support to centre teams that has been provided through the Group's improvement programme is part of our overall strategic focus to use the Group's scale, to improve the support provided to centre teams. The employment market in the early childhood and education sector is very challenging, with reduced supply due to the numerous factors, such as reduced migration and dwindling university graduate pools, coupled with increased demand from new centre openings. To counter this challenge the Group has undertaken numerous initiatives in half one to enhance team member experience and engagement such as Centre Manager remuneration changes and enhanced study and induction programmes. Further initiatives are planned for half two, including external cleaning and enhanced service recognition programmes.

Gary Carroll: Turning to network growth and optimization, two Greenfield centres are planned to be opened during the second half of CY21, while lease agreements for 10 Greenfield centres have been executed and these centres are expected to be operational in 2022. As outlined previously, progress on the Group's divestment programme remains on track. The build of the new HRIS and rostering system is substantially complete, with the testing programme being well-advanced. Implementation of the system across our support office and one or two states is expected to occur by the end of CY21. Our new finance management system is now in the build stage, with roll out of the system on track to be achieved by the end of CY21.

Gary Carroll: Slide 26 contains an update in relation to the employee payments remediation programme. The Group's focus has been ensuring prompt payment to impacted team members and enhancing our systems and processes to ensure this does not occur again. The programme, which was announced on the 8th of December 2020 is well progressed, with an initial payment of approximately $17 million made in mid July to 8,388 current impacted team members. A second payment will be made to current team members in coming months. Those payments include amounts for backpaid wages, superannuation, payroll tax and interest.

Gary Carroll: Communication with former impacted team members has commenced to obtain current bank and tax details, which will allow payments to be made to these former team members. As announced in December 2020 total programme costs were estimated at between $50 million to $80 million. While certain payments have been

made, validation work in respect of some matters continues and engagement with the Fair Work Ombudsman following G8's self reporting is ongoing. The Group maintains this provision of $80 million pre-tax, $57 million after tax, less costs incurred today. The overall remediation programme covering training, reporting and system enhancements to achieve the targeted controls is well-advanced with the measures taken to date producing high confidence in the Group's go forward wage compliance.

Gary Carroll: Turning to the second half trading environment, starting with COVID impacts on slide 28. COVID-19 related movement restrictions continue to impact revenue with $1.9 million of fees waived in half one to support families and retain enrollments. Currently the provider funds these fee waivers. Sector level discussions continue with the Federal Government relating to subsidies being paid to providers where movement restrictions are in place. The impact on earnings in half one was not material, and the net earnings impact was also not material in July, with downside risk to earnings from August onwards in light of tightening restrictions. Looking after our team and families remains our priority, including keeping our doors open to support families in line with government requirements. Ensuring a safe and trusted environment for children and teams, providing employment surety and wellbeing support. Waving the gap or discounting parents fees for centres impacted by lockdowns. And additional external cleaning for centres from August 2021, including increasing half two cleaning costs by circa $3 million.

Gary Carroll: The current trading and outlook is summarised on slide 29. Occupancy recovery was on an encouraging trajectory in half one, recent lockdowns have impacted the seasonal trend in half two, with the progressively stricter lockdowns expected to weigh on attendances in several states. The gap on CY19 occupancy narrowed to one percentage point in early July, but widened again to be 2.6 percentage points lower at 72.6% as at 15th August, driven by the lockdown states. And attendance levels in recent lockdowns have ranged from 15% to 80%. Net earnings impact was not material in July, with downside risk to earnings from August onwards in light of tightening restrictions.

Gary Carroll: And the earnings impact for the reminder of half two is dependent on multiple variables, including attendance levels in response to evolving lockdown scenarios, any further government support and how we adapt our operations. As Sharyn stated, the states unaffected by lockdown, wages as a percentage of revenue and margins are forecast to be flat on half one. Despite the short term challenges presented by government mandated movement restrictions, the Group remained committed to investing in teams, family, and quality. The Group's focus is on retaining and attracting families to maximise the anticipated uplift in occupancy that was experienced following cessation of prior lockdowns.

Gary Carroll: Strategic programmes, including our improvement programme, network growth and exiting impaired centres, are expected to support and drive this recovery. Attracting and retaining talent remains the greatest challenge facing the sector, and the Group has formulated a coordinated response plan addressing remuneration, benefits,

working environment and engagement activities. The Group is demonstrating an ability to effectively respond and adapt operations to the impact of the prevailing environment. Our strong balance sheet and conservative leverage provides increased resilience to such short term challenges. That concludes

Gary Carroll: That concludes the formal part of the presentation. I'll now hand back to Harmony, to start the Q and A session.

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

Tim Plumbe: Hi guys. Can you hear me?

Gary Carroll: Yep.

Sharyn Williams: Yeah, we can.

Gary Carroll: Hey. Just one question from me, maybe for Sharyn. Lots of moving parts, obviously in the first and the second half. And, and I guess to a certain extent, it doesn't matter because of what's happening with the COVID lockdowns, but when we're talking about typical seasonality, how should we think about what the seasonality would have looked like, given that relationship between the pricing increases and the wage increases going through, compared to the usual seasonality?

Sharyn Williams: Hmm, sure, Tim. So two things, the COVID subsidy of 5 million [inaudible] we increased, was certainly bringing more earnings into the first half. So, it would soften that. In terms of the margin compression being felt more in the second half, that really relates to, as you suggested, the fee increase not coming through to offset that wage increase. So, that usual seasonality during this year was expected to soften materially.

Sharyn Williams: Now it is a bit hard to comment, in the absence of what's going on, but that comment around the second half wages and operating EBITDA, at least margins staying fairly flat on the first half, should help you there in terms of that softening.

Tim Plumbe: And just one other question, in relation to lease costs, is there any opportunity to go back and have discussions with providers, similar to what happened during the first lockdown, to renegotiate some of those leases in the short term?

Gary Carroll: We're not expecting to be able to do that at this point, Tim. I mean, as you know, a number of states have introduced a framework around how landlords and tenants deal with each other during COVID. Large providers like ourselves are not included in that framework and we're not expecting them to make a material change to that over the coming months.

Tim Plumbe: Great. Thanks guys.

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

Marni Lysaght: Good morning, Gary. Good morning, Sharyn. Thanks for taking my question. I just wanted to, I guess in terms of some of the early trading comments, can you talk in more detail, those areas unaffected by lockdowns and changing edicts, what are you seeing?

Gary Carroll: Yeah, thanks Marni. So, it's a really mixed bag out in our network at the moment. States unaffected by lockdowns are feeling pretty normal from a seasonal occupancy growth perspective. WA, Queensland for the most part, South Australia for the most part. I'd contrast that with states that have locked down where even they are mixed, where the lockdown conditions are very strict, like ACT. They're at the top end of the non-attendance range that we called out. Other states like New South Wales today, where it hasn't been as strict, haven't suffered as big a drop in attendance.

Marni Lysaght: That's clear. And are there any subsets of Sydney that you say that the population has reacted more strongly to the changes because the infection rate could be higher in that given LGA or just more clarity around Sydney?

Gary Carroll: There's probably two ways to answer that, Marni. First is, it is reasonably centre specific. We've got a full range of outcomes in New South Wales where we've got non-attendance. And I would say as a general rule, the three LGAs that have been materially impacted from the get-go would have the lowest level of attendance, and they've been consistently lower than the rest of greater Sydney. As more LGAs of concern, I think we're up to now 12, we're expecting that they may start to follow that trend. Even within those LGAs, so we've got a centre that might still have reasonably good attendance. So, it's really hard. We've been clearly looking at the numbers in detail and it's still a struggle to draw a complete trend line through on a greater Sydney basis.

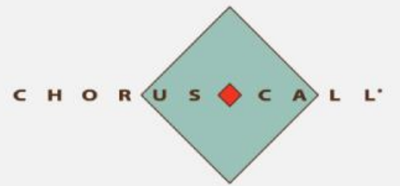
Marni Lysaght: Okay. Okay. And just a final question from me and I'll jump back in the queue, but just on your balance sheet, I understand a fair amount of that has to be allocated towards the payments made for the wage remediation programme in July. When we think about your growth, it's mainly just going to be greenfields.

Gary Carroll: So, I think we're very happy with the strength of our balance sheet now. It does give us opportunities to grow both organically and inorganically over time. Given the prevailing environment, it would be fair to assume that it's very much an internally focused piece at the moment. Our focus is around health safety and getting through COVID just at this point.

Marni Lysaght: That's clear. Thank you, Gary. Thank you, Sharyn. I'll jump back in the queue.

Operator: Thank you. Once again, if you wish to ask a question, please press star one on your telephone and wait for your name to be announced. We'll pause for any further questions to register.

Operator :	Once again, to ask a question, please press star one on your telephone.
Operator y:	Thank you. There are no further questions at this time. I'll now hand back to Mr. Carroll for closing remarks.
Gary Carroll:	Thanks, Harmony, and thanks everyone for your time today. I appreciate there's lots going on, not only in terms of results.
Gary Carroll:	Oh actually, Harmony, we may have another question come through.
Operator:	Thank you. We do have a question from James Bales from Morgan Stanley. Please go ahead.
James Bales:	Yeah. Thanks, guys. I just wanted to understand a bit about how you're thinking about the reopening and into calendar '22. When you talked about normalising quite quickly with the change in the cost structure that you're seeing in the second half, how much of that do you see as a permanent rebasing higher?
Gary Carroll:	Yeah, without getting line by line, James, we've got a pretty decent investment programme built into half two because we are keen to maximise the opportunity that'll be there post-lockdown and we're particularly focused on how we engage and drive our team and support our team during that period. What we'll be looking to do as part of our budget exercise leading into 2022 is varying an assessment of what the operating environment will be in 2022, assessing the results of the spend we've got today, plugging in what we think is a reasonable fee increase and then hanging I guess, our cost cloth to those expectations. That's a roundabout way of saying you would expect the chunk of that would be expected to flow through on a more permanent basis, but we'll continue to be agile in how we manage it, to get the balance right between driving growth and managing flexibility in the environment.
James Bales:	And so how do you think about the fee increase that you're likely to be able to put through next year, versus what you've done historically pre-COVID?
Gary Carroll:	Certainly in terms of timing, it'll be at the front part of the year. I think we're in a cycle now where we'll continue to do that. In terms of the quantum, we're currently analysing that now. We are getting some market intel of people that have moved in July to help inform that view. We'll also be looking at what we're doing for families and the investments we need to make and putting all of those into the mix.
James Bales:	Got it. That's really helpful. Thanks, Gary.
Operator:	Thank you. There are no further questions at this time. I'll now hand back to Mr. Carroll for closing remarks.
Gary Carroll:	Thanks, Harmony, and thanks for everyone's time. I appreciate it's an incredibly busy day, not only in terms of results, but in terms of what's happening in the broader environment. So no doubt we'll catch up with a large number of you over the coming days, and goodbye, everyone.



Sharyn Williams: Thanks, everyone.

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

[END OF TRANSCRIPT]