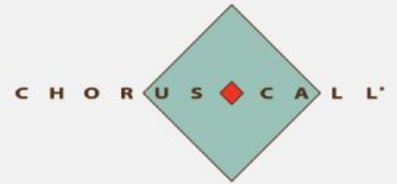


TRANSCRIPTION

Company: **G8 Education Limited**

Date: **23 February 2021**

Time: **9:00am (AEDT)**

Duration: **49m 14s**

Reservation Number: **10012374**

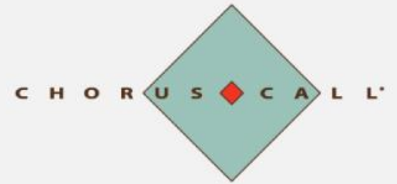
[START OF TRANSCRIPT]

Operator: Thank you for standing by, and welcome to the G8 Education Limited Full Year Results Briefing 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 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, Rachel, and good morning, everyone. And welcome to the 2020 Full Year Results presentation for G8 Education Limited. My name is Gary Carroll, and I'm the CEO and Managing Director of G8 Education. I'm joined today by the group CFO, Sharyn Williams. As Rachel outlined, we'll walk through the investor presentation that was posted on the ASX earlier this morning, and then provide time for any questions.

I'd like to begin by acknowledging both the Jagera people and Turrbul people who are the traditional custodians of the land in which we're conducting the meeting today. We respect their spiritual relationship with their country and we pay our respects to elders past, present, and emerging. And I'd like to extend that respect to any Aboriginal and Torres Strait Islander people that are joining us today. I'd also like to recognise the entire G8 Education team for their outstanding efforts during what was an incredibly challenging period during 2020. The commitment and resilience demonstrated by our team members this year has been extraordinary. They have and continue to provide the best learning foundations for our children and support for our families.

Moving now onto the formal part of the presentation. Slide five sets out the highlights of the group in 2020, both from an operational and strategic execution perspective. Now key barometer of performance occupancy recovered strongly from the COVID-related lows in April and performed better than expected in the second half of the year. This has allowed us to deliver an underlying EBITDA $105.2 million for the year on a pre AASB 16 basis slightly above consensus while also re-investing the quarter for government subsidy into centre quality, as well as delivering on the employment guarantee.



For us, this was the right thing to do and serves the best interests of the group and its shareholders, as it achieves the right balance between short-term results and medium-term sustainable quality.

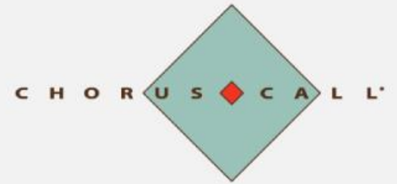
The group's cash conversion performance continued to be strong during the second half of 2020. And we ended the year with a strong balance sheet and a net cash position of $21.8 million. In terms of strategic execution in a challenging environment, the group has not lost sight of its strategic priorities. We adapted well to deliver results in line with or better than target in all four strategic areas of focus despite the capital and other constraints that were present in 2020. Centre quality continues to improve with 85% of centres meeting or exceeding national quality standards at the end of 2020, above that target and ahead of national averages. And we're committed to building on this further in 2021 and beyond. The group's improvement programme is on track with 94 centres being completed in terms of learning environment, training and work retains.

COVID has resulted in delays in receiving incentive resources for about 40% of those centres. However, the centres that have had resources implemented have delivered encouraging early signs of occupancy growth. We expect to receive resources for the remaining centres in the next four to six weeks. As reported at the half-year results, wage performance for GI has been good, with roster efficiency benefits being captured during 2020 in line with expectations.

Finally, our portfolio optimization programme is on track with agreements raged to divert 10 centres and active processes is underway covering another 15 centres. We're expecting to open around 10 Greenfield centres in 2021 using our new capital-light acquisition model. Pending to the financial summary for 2020, which is set out on slide six, underlying EBIT for the full year was 105.2 million. That includes a $12 million CY 20 expense, relating to the employee payment remediation programme, which I'll talk about a bit later. This result is 10.4% behind the prior corresponding period, with both revenue and costs for the group being significantly impacted by government support and COVID.

The headline statutory loss after tax of $197 million was driven by the $237 million non-cash in payment expense, that was booked in the first half following a review of forecast cash flows as a result of COVID. The grid capital base is strong, with a net cash position following the $301 million equity capital raising in April, and the bank debt refinance was completed in February, delivering lower interest rate costs, increased flexibility, and longer tenant. Dividend payments remained suspended with the group to consider dividend payments following the first-half results in 2021.

Sending for review of operations for the year, slide seven shows the occupancy performance during 2020. The recovery that had been described at our half-year results, continued for the balance of the year with the gaps for the prior year narrowing significantly over the second half. December occupancy was one and a half percentage points below the prior year. This was a result of children being kept



in care longer than the prior year.

Pleasingly, strong occupancy growth occurred during the second half, despite the cessation of free childcare in July. On the slide, we've segmented the year to demonstrate the impact of key events that occurred during the year. It's also worth pointing out that the usual relationship between occupancy and revenue was not present during 2020 due to the impact of various subsidy packages. A state-by-state breakdown of occupancy is provided on slide eight, with occupancy trends being broadly consistent with the exception of firstly Victoria, which was impacted by more extensive lockdown restrictions, and the ICT where occupancy was impacted by higher than average centre manager and team turnover. Overall like to like occupancy for 2020 was 69.2%.

The groups' wage performance is depicted on slide nine. The utilisation of the forecasting component of the group's new rostering system assisted in achieving the targeted rostering benefits during the year with lower-wage as hours per booking in 2020 relative to the same occupancy levels in 2019. These improvements are not impacted by the employee payment remediation programme.

It was certainly a significant level of COVID-related volatility that impacted on roster levels during the year from large swings and attendance levels through employment guarantees by the government subsidies. Overall, I was very pleased with how the team adapted to the challenges presented by this volatility during the year.

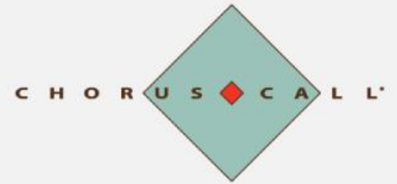
The final point worth noting on wages is the impact of occupancy on wage efficiency. With the group recording higher wage hours per booking from October driven by lower occupancy compared to the prior year. Turning to slide 10, the employee payments for mediation programme announced on the 8th of December, 2020 remains on track covering training, reporting, and system enhancements to achieve the targeted controls.

Payments to impact the team members are expected to be substantially completed by 31st of July 2021. As announced in December 2020, title programme costs were estimated at between 50 to $80 million before tax or 35 to $56 million after-tax. Analysis and validation work is ongoing and the group has recognised the provision of $80 million in its CY 20 financial statements.

GA continues to engage with the fair work ombudsman regarding the matter after we voluntarily self-reported to FWO last year. I'll now hand over to Sharon to provide detailed overview of the group's financial performance.

Sharyn Williams: Thank you, Gary. I'll now walk through the financial drivers of the gross results, including the statutory and pre AASB 16 results and the underlying performance of the business over the past year. Turning to slide 12, the key drivers of the full year result are outlined and the full-year snapshot on slide 13 sets out the statutory and underlying results of the group.

Revenue of 797 million is 14% lower than the prior-year and reflects the impact of



COVID-19 and the various government support packages for the sector. The decrease in revenues was predominantly experienced in quarter two, where the government funding model effectively kept revenue based on a reference period coinciding with the seasonal low point of the year, and irrespective of occupancy levels.

This relief package protected the group's revenue from parents, withdrawing children from care in the early stages of COVID-19 restrictions. However, it also removes Parent Co-Payment, otherwise known as CCAP fees. As a result cost management was a key focus during this period. During quarter three Parent Co-Payment reinstated as released from the government subsidy package was housed. And then in quarter four, the government subsidy was further reduced to focus mainly on the state of Victoria.

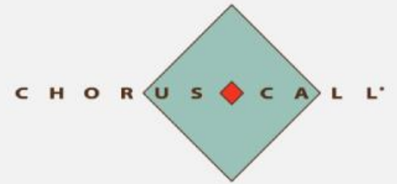
From a statutory result perspective, the group experience the net loss after tax of $197 million. The key driver was the previously announced 237 million after-tax impairment, which was non-cash in nature and reflected the reduction in carrying value of assets on the balance sheet. This impairment was announced to the market in June 2020 and was comprised broadly of two items.

Firstly, a 150 million impairment of Goodwill driven by the COVID-19 impact on the group's future cash flows, particularly the near-term expectations. The second material driver was the strategic review of the portfolio, which resulted in 52 centres being identified as underperforming and subsequently impaired. This resulted in circa $90 million after-tax of AASB 16 right of use asset and plant and equipment assets being paired. You will recall that this right of use asset was brought onto the balance sheet following the implementation of the AASB 16 leases standard in January 19, and now forms an additional asset companies must test for impairments.

From pre AASB 16 perspective, the pro forma columns on slide 13 reflect key changes to the P&L from the change leasing standards, which can be seen in the reduced occupancy cost lines offset by increases to the depreciation and finance cost lines. In terms of the profit and loss cash flow and balance sheet impacts of the standards, we have now provided two years of pre and post AASP 16 financials to show the impacts of this accounting standard.

These financial statements have been outlined in detail in the appendix. And it impacted the leasing standard on the 2020 results was circa 2.7 million on the impact line. This is done from 8.7 in 2019, due to the reduction in depreciation of the right of use assets, reflecting the impairment of the carrying value. Going forward, the group will report on a statutory post AASB 16 basis only. And the impact of the standard is expected to be broadly neutral at the impact level in 2021.

The group experienced to statutory loss off the text of 197 million. However, after adjusting to the impairment and non-cash items outlined in the notes to the financial statements, the group achieved an underlying EBIT and 105 million and impact of 60 million. Its underlying EBIT result is 12% lower than the 2019 year reflecting the



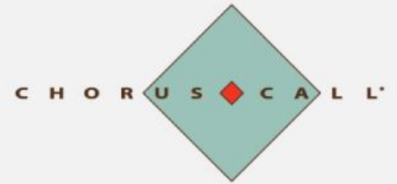
impact of COVID and the various revenue models relating to government support packages for the sector.

In response, the group remained agile and manage wages and cost-effectively in response to periods where revenue

Attendance is varied and employment guarantees were a requirement of the government support. The second half of the year was stronger than the first half. As the revenue model returned to parent copayments movement. Restrictions began to ease and government support continued albeit at lower levels. Then in quarter two, the underlying EBIT result includes an allocation of wages to both 2020 and 2019 years. Reflecting an estimate of the wage remediation relating to those years. The underlying impact result of 60 million was 11% lower than the prior year from a net profit perspective. Reduced finance costs relating to borrowings of $9 million are reflective of the benefits of the refinance of the Singapore notes and repayment of the revolving facility using equity raised funds, turning to a more detailed overview of operating performance on slide 14, the various government support packages and reductions in the cost base of evidence with an organic EBIT margin results at 22%, despite significantly lower revenues and the planned March 2020 fee increase not being implemented as a condition of the government support.

In addition to managing wages to attendance levels, the job people subsidy and employment guarantees required to access the government release subsidy, introduce further variables or complexity to our wage management. The combination of effective roster management optimising the job keeper subsidy and utilisation of annual leave resulted in organic wages before the benefit of job keeps subsidies reducing by 2%. Rental costs for the year reduced by 1.6% year on year, with annual rent increases offset on COVID rental abatement negotiations. It's worth noting that the underlying rental rates continue to increase in line with the lease arrangements for rental reviews and the rental abatement are only a temporary decrease. Other costs increased by 12% compared to the prior year, driven by an additional 10 million investment in quarter four, stronger than expected, Q3 results gave us confidence to reinvest the majority of the quarter for government support into the areas of physical centre, repairs and maintenance, increased educational resources and increased support for the enrolment and transition process.

The 2017 to 2020 acquisition cohorts along with visibility of the 52 in impaired centres are also outlined in the table. All cohorts reflect improve performance, although it is difficult to insert the underlying earnings improvement of these recently acquired centres, given the COVID and government subsidy impacts during the 2020 year. Gary we'll touch on the performance of the Greenfield centres as part of the strategy update later in the call. From a support office cost point of view, net costs were flat on the prior year. However, this did include a 2.7 million job keeper subsidy offset, which will not repeat in 2021. As mentioned earlier, the planned March 2020 fee increase was not implemented due to the government subsidy arrangements. However free increase has now been implemented in 2021 to partially cover the cost base inflationary increases experienced the both 2020 and 2021. At London slide.



She's seen at the peak cashflow and capital drivers of group.

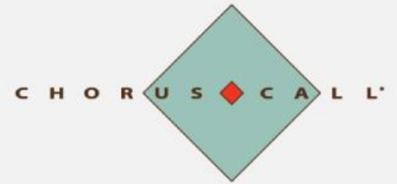
The balance sheet is strong and in a net cash position, following the equity raise earlier this year, the recent debt refinance provides the group more flexibility in tenor in its debt profile, as well as lowering funding costs, but 16 outlines the cashflow statement of the group. As a reminder, the double line is based 16 Lisa's implementation has no impact on the net cash flows generated by GA. To assist investors, we have provided pre WSD 16 numbers for the second year to allow compatibility. The presentation impact of the standard is to increase operating cash flows with an offsetting outflow in financing activities. The rental payments are comprised of an interest in principal payment. The principal portion during the year of 58 and a half million can be seen in the table, moving from operating to financing cash flows, with net cash flows remaining unchanged.

The interest portion is included in the interest pipeline. During the year performer operating cash flows of 131 million funded maintenance CapEx and intangibles of 27 million and the 2019 deferred dividend payment of 19 million. The 11 million of acquisitions during the year comprised full Greenfield centres, the final centres in the historical development pipeline. Interest payments for borrowings were $19 million. In terms of cash flows relating to financing costs.

During the year, the equity raise contributed net $219 million and was partially used to repay the 95 million Revolving Bank Facility, with the remainder being left as cash on hand that you rent. Subsequent to December, 200 million of these funds have been used to repay the term senior facility lowering interest costs and leaving 100 million term debt now drawn.

Turning now to slide 17, which outlines a balance sheet group, the material call-outs on the balance sheet includes the group being in a net cash position, following the equity rates and the strong cash flows during the year, there's been a reduction in intangibles and the right of use assets. Following the impairment earlier this year, a provision relating to the wage remediation has been recognised at $80 million or 57 million net of tax benefit. The balance sheet is in a strong position to withstand COVID impacts moving forward and to take advantage of sensible growth opportunities.

Turning now to slide 18, which outlines the capital management areas of the gross. The net proceeds of the equity raise earlier in the year are reflected in net debt. As the operational cash flows have supported the business requirements. And therefore there has been no requirements draw from these funds, cash conversion of the business measured on a lease adjusted basis for strong during the year, driven by cost control, the timing of quarter for expenses and cash preservation. During the period CapEx was $30 million and 10 million of planned CapEx deferred until the 2021 year as mentioned earlier for Greenfield centres were settled and is now complete their historical pipeline. Springfield centres moving forward will be at significantly lower capital outlays and reflect to the commercial lease arrangements.



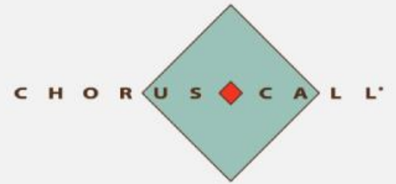
The capital raise significantly reduced leverage with the group in a net cash position at December 2020 of circle 21 million. This provides the group with significant liquidity and cash with cash reserves to buffer a sustained period of COVID impacts. The dividend policy remains temporarily suspended as outlined earlier this year, and the board will reconsider the dividend policy in August 2021 subject to financial performance.

No dividend was declared in relation to the 2020 year. However, the 2019 dividend was paid to shareholders in October. The forecast, 2020 CapEx is estimated to be in the range of 50 to $65 million and focused on continued investment in centre quality. Cash on hand at December of 378 million resulted in a net cash position of circuit 22 million as a result of better than expected, second half results. The debt facilities and the group were drawn to 300 million at December. However, has since been restructured in February 2021 to allow the repayment of the 200 million drawn senior debt facility in full.

This leaves only the subordinated Phyllis facility of 100 million metronomes. The re structural also extended the average debt expiring to three years with a staggered profile of expires out to October 2025. The additional benefits of the recent refinance is the ability to low interest costs or converting the 200 million of term debt to a revolving facility. Reducing the debt capacity from 500 mil to 400 million, given the improved liquidity of the group and including sustainability link performance elements, reinforcing the importance of quality and safety to the board.

Heading now that's where our capital Metro spot on slide 19. The group's key financial ratios are least adjusted with net debt to EBITDA, fixed charge, cover and gearing. Net debt levels ended the period in a net cash position. And therefore leverage was neutral. Six charge cover ratio remained at 1.6 times due to interest in rentals, reducing during the year in the last EBIT group currently has no hearing. The capital position is strong based on the recent equity rates and the refinance from a return perspective, return on capital employed has reduced during this period, reflecting the decrease in earnings and the increase in capital from the equity race offset by the reduction from the impairment. The level of gross debt will reduce in the coming period, given the repayment of 200 million of debt facilities, I'll now hand back to Gary for the strategy update.

Gary Carroll: Thanks Sharyn. Well now send you an update on the implementation of the group strategic plan in slides, 21 and 22, we provided an overview of the group strategic direction and key strategic goals, as well as outlining the key strategic objectives and programmes of work. As that launched in previous investor day presentations, the strategic focus to date has been on building a scalable foundation for the business, including implementing scalable systems, such as childcare management system explore, a new rostering and human resource information system, driving rollout of a curriculum framework and quality standards incentives, implementing proper support structures for centres, covering HR, education and quality and conducting foundation research on both the customer and team member experience. Now that the foundations have largely in place, we will build on those foundations to further lift quality, continue to build a market leading team and deliver a differentiated education



and care offering through our GA families.

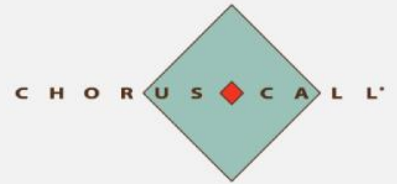
We've taken the opportunity in the last few months to review the group strategy and reaffirm our key strategic objectives, goals, and programmes of work. We've also worked with the broader GA team to refresh our purpose, vision, and values. These elements are critical building blocks as we build the culture that will differentiate Jade in the market. And Mike is the employer of choice in the sector. Slide 22 sets out the group, strategic objectives and programmes of work, starting with our objective in relation to fulfilling children's learning potential. A team in child safety programmes and education programme are well underway and are on track. Team safety in particular has seen excellent results without LTI half performance improving by around 47% in the last 12 months. At People Pathways Programme covers their roster and HR system rollout, which is on track to be completed by mid 2021, including implementing the enhanced controls in relation to award compliance.

Now People Programme covers professional development training and study pathways for our educators as well as organisational capability development in areas such as leadership. The key programme to drive operational excellence is our improvement programme with around 200 centres to be covered by this programme in 2021, as stated previously results from a 2020 cohort have been in line with expectations, delivering occupancy, quality and work routine improvements.

Our fourth strategic objective is to drive profitable growth with the focus being on optimization of our network, including divesting in impaired centres and sensibly growing our network under a more efficient capital model. We've also been implementing an upgraded finance management system in 2021. Finally, we'll be conducting a targeted pilot of a differentiated end to end experience in a small number of centres in 2021 covering elements of physical design, technology, products and services, education, and process re-engineering. We are in the process of enhancing our reporting in relation to the is that greenfield portfolio, to provide improved transparency of greenfield performance and to better distinguish between the greenfield and core portfolios. A sample of the amended reporting format is set out on slide 23. We will be scheduling a separate session to walk our investors through the greenfield reporting suite to allow adequate time for review and questioning.

Planning for the current trading and outlook, which is set out on slide 25, the group expects 2021 to be a recovery year, given the absence of additional government subsidies and the continued impact of COVID-19 particularly on occupancy, either directly through movement restrictions or indirectly through economic impacts such as high unemployment.

COVID-related movement restrictions continue to impact revenue and EBIT with $800,000 of fees waived year to date in 2021 to support families. The current position is that the provider funds these fee waivers. Victorian government COVID support match measures ceased on the 31st of January 2021. Sector level discussions continue with the federal government relating to subsidies being paid to providers



where such movement restrictions are in place.

The occupancy gap relative to 2019 levels has continued to narrow, with the circuit four and a half percentage point gap that was present in November 2020. Reducing the circuit four percentage points in February 2021 in line with our expectations. Year to date wage performance is tracking to expectations. Strategic earnings, growth priorities in CY21 remained in our improvement programme, network growth, and exiting impaired centres.

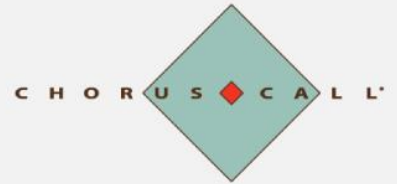
The improvement programme is expected to gain momentum and CY21 based off positive results today and the medium term earnings potential of this programme. The cost of this increased activity will be managed to ensure they are funded by the benefits of the strategic programmes. Approximately 10 new greenfield centres are expected to open in CY21 for capital outlay of circled $4 million. Startup trading losses in CY21 are expected to be circled $4 million based on current centre opening dates with strong returns expected over the medium term as the centres mature. CapEx differed from CY20 of $10 million will be released in CY21, taking the expected total to $50 to $65 million. As we conclude, the formal part of the presentation let me express once again at gratitude to the GA team and all of our GA families for their work and support during a challenging year. I'll now hand back to our hosts to start the QA session.

Operator: Thank you. If you to ask a question, 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 press star then two, if you were using a speakerphone, please pick up the handset before asking your question. Your first question comes from Tim Plumbe from UBS. Please go ahead.

Tim Plumbe: Hi guys. Just two questions from me. I'll jump back in the queue and ask some others afterwards, but Gary, just in terms of that refresh strategy, can you remind us how fast through you are in terms of that strategy and maybe also, how are you guys thinking about the occupancy benefits that can float through once they've all been implemented, please?

Gary Carroll: Yeah, thanks Tim. So I'll take you back to our November 2019 investor day, we talked about three phases. Building the foundations, then accelerating, and then harvesting the benefits or maturation. We're in that harvesting the benefits phase. The foundation phase is largely done, we'll be delivering our HRAS system mid this year, finance system later this year. But we are a number of our activities are more around how do we now accelerate growth and the key tree, which we've been calling out for a while being our improvement programme.

And to somewhat answer your second question. Now, we've talked about Tim as key objective of that programme is to improve centre quality by working towards centre becoming a meeting centre is worth mid single digits in terms of occupancy growth. And going from meeting to exceeding is probably two or three percentage points. So we included those sorts of targets into our improvement programme and progress debates certainly been in line with that kind of target. We'll call that it's very early



days, because it's very hard to measure in a COVID world, what occupancy growth was and most of the 94 centres we did in 2020 were in Victoria, but they had certainly, as a cohort started the year in a pleasing session, the other two components of our acceleration programme around exiting our administered centres. And then lastly, it's about sensibly growing our network team using a capital light model.

Tim Plumbe: Got it. And just the second question in terms of the centre divestments, I think you mentioned 10 centres that you're divesting, negotiations around another 15. How should we think about the EBIT losses that are attached to both of those groups?

Gary Carroll: Yeah, so the 10 that had done today you'd say would be more of the low hanging fruit of the $12 million. They would be slightly lower as a proportion of the overall portfolio, still decent, we're happy with the results we've received. The next thing may be a bit more material but we're thinking they may also take a little bit longer.

Tim Plumbe: Thanks guys.

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

Marni Lysaght: Good morning, Sharyn. Good morning, Tim. I just wanted to double check just on when you've spoken about occupancy for this early calendar year, Gary and Sharyn. Just a bit more colour in terms of the gap and perhaps if you could elaborate just those comments about phase and it'd be good to have an update on pricing.

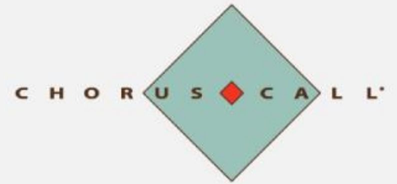
Gary Carroll: Yeah. Thanks Marni. So we continue to chip away at the gap and where we are today with right in line with where we thought we would be and what we've been positioning to the market as a reminder with where I had forecast for the market. The path back to 2019 will take quite a period of time. We will chip away at that during 2021. We won't be back in 2019 levels by the end of this year. So we started the year in line with where we thought we'd be around 4% down on 2019 levels, which is an improvement on the back end of 2020. So we're very comfortable with the trajectory that we're building in our occupancy improvement profile. In terms of pricing, we did implement a fee increase that took effect at the beginning of February in the mid 4% range that takes our average figure around $119.

Marni Lysaght: Okay. I just have one further question and I'll come back in the queue, but just in terms of unoccupancy, are there any cohorts or centres where occupancy would be at pre-pandemic levels you can't give that granularity?

Gary Carroll: Yeah, we don't share that kind of granular level. That's probably hard to give you any more colour on that.

Marni Lysaght: Understood. Thanks for taking to my questions.

Operator: Thank you. Your next question comes from Aaron Muller from CGS. Please go ahead.



Aaron Muller: Okay, Hi Sharyn. Just a couple of things. At the moment, given we all could be jiggish. Could you just give us a sense of the sensitivity on EBIT from a 1% increase or decrease in occupancy is it difficult at some times at any point in time?

Gary Carroll: Yeah. We'd flagged up over the years, errant 1% would be somewher $10 or $11 million of revenue that would be about consistent, and we'd flag somewhere in that three-ish million dollars from an EBIT perspective, but obviously we'd need to work our way through it. Some of the leaders that have been in place previous years have been impacted with subsidy et cetera, but as a general rule, it's that 10 or $11 million worth of revenue from a 1% movement in occupancy.

Aaron Muller: Thanks. And then just in terms of the new greenfields that have being opened, what's the timing of that first half, second half?

Gary Carroll: I think nearly all of them are in the second half of the year.

Aaron Muller: All right, great. That's it for me. Thanks.

Gary Carroll: Thanks.

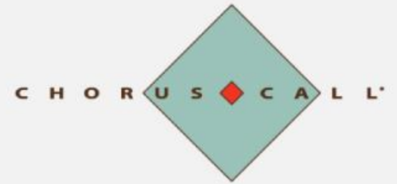
Operator: Thank you. Once again, if you wish to ask a question, please press the star key followed by the number one. Your next question comes from Gareth James from Morningstar. Please go ahead.

Gareth James: Oh, hi guys. First question is just on... You mentioned high employee turnover in the ICT. Are you able to elaborate on that at all? And also centre manager turnover for the group. How that's progressing?

Gary Carroll: Yeah. Thanks Gareth. I can't really give you the specifics, but we did have higher than average turnover in both centre managers and a team in the ICT. It's a very competitive labour market there and I think we aren't the only player to be challenged a bit with the war for talent in the ICT. In terms of overall turnover, team turnover was quite positive for the year finished around 21%. We did actually have an uptick in centre manager turnover in November and December. We were tracking for results around mid 16% for the year. We had an uptick in November and December and finished the year at 18.8, which we're actually disappointed with that result and would certainly work underway on how we can recover that. Then January we have recorded a better result, but we need to get that trend back more on a favourable basis over the coming months.

Gareth James: Sure. And just on the uptake curve towards the end of the year. I guess that kind of comes into another question that I have with regards to the supply outlook. What are you seeing with regards to supply? You know is it very strong at the moment and is that an impact on your turnover, do you think?

Gary Carroll: It's a good question, Gareth. So from GA perspective, we're not seeing a relative increase in supply impacting our centres. That said, supply for the second half 2020 was certainly at a level higher than what we were forecasting and it looks like that elevated supply has continued into 21 on a market basis. We'd been a little bit less



impacted from a specific GA point of view, but still presents a challenge. Does it play into challenges around retaining team members? Yes, it does, we think. Across the sector, our understanding is vacancy rates are a bit elevated and the war for talent is a little bit hotter due to that supply.

Gareth James: Okay. Thanks. Just a couple more for me. So just on the impairment, with regards to what's happened with the economic outlook, would that impairment have been materially different knowing what you know now, if you'd have had those expectations when you made the impairment?

Gary Carroll: So when we do our impairment, Gareth, we look at our forecast cash flows under a number of scenarios. We partnered with Deloitte access

I'm interested in trying to form a view as to what our likely occupancy and financial performance was going to be. On that basis, I don't think we would have changed any of what we'd done in relation to impairment, knowing what we do now, acknowledging that it's a point in time assessment, right?

Gareth James: Sure. And just a final one on strategy. You talked a couple of years ago about potential brand consolidation. Is that still on the agenda?

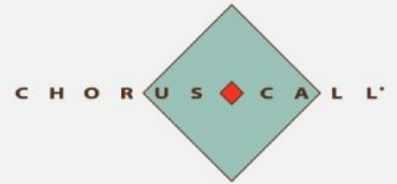
Gary Carroll: It is. Our first priority apart from the issues that I talked about in terms of improvement programme, et cetera, we are doing a small pilot on building a differentiated offer, end to end. Depending on the results of that pilot, that may play into a more broad based action, which may include some movement in terms of brands, but very early days on that.

Gareth James: Okay. Thanks guys.

Operator: Thank you. Your next question comes from William Cunning from Carter Bar Securities. Please go ahead.

Pete: Yeah. Hi Gary and Sharyn. It's not Will. It's Pete here. I've just got a question on the wage bill inflation. Just trying to understand, I guess, the moving parts that you're going to have in '21 versus '19. And I think one of the big pieces is just the wages bill given that I think there was a fair bit of wage inflation last year. You couldn't offset that with fee increases. Can you just talk through, I guess, that feature, what influence that will have this year?

Sharyn Williams: Sure. So in terms of the key driver, you're right, Pete, it is the absence of the fee increase in 2020. So when you compare the two years of wage inflation versus the one year of fee increase, you do get a couple of percentage points uplift in wages as a percentage of revenue. We have realised efficiencies in 2020 year, in terms of that rostering. So it's really that, as you suggested, the inflationary aspects that causes that temporary increase in wages as a percentage of revenue. There is some inefficiency from lower occupancy, as you can see in the pack, although, we're trying to address this through rostering as the year unfolds.



Pete: Okay. And then how do we think about that additional 12 million in wages costs, from the underpayment in 2020. Obviously that 12 million wasn't in '19. Has that been more or less offset by the wage efficiency from the new system?

Gary Carroll: Yeah, so two parts to the answer, Peter. So we did restate our 2019 results to take account of estimated impact of the remediation programme. So you would see that flow through in terms of restated 2019 numbers, more than $13 million or thereabouts. Moving forward with our rollout of our new roster system, et cetera, we're saying we absorb those costs so they don't have any material impact moving forward.

Pete: Okay. And then just two more features. Just firstly, obviously depreciation expense was lower in '20 versus '19. Could you give us a bit of a steer of what that might look like this year, given that CapEx is going to be a lot higher and then the other factor is just, is there going to be some sort of saving in '21 versus '19 from divested centres, and what sort of order of magnitude in terms of EBIT would that be?

Sharyn Williams: So in terms of the depreciation, you are right with the increased CapEx spend, you're probably looking at depreciation around the 24, 25 level. Now, in terms of the statutory point of view, you will have depreciation on leases, which over the last two years has reduced, given the impairment. Probably the easiest way to look at that would be making sure that the net profit after tax and before tax is neutral from any adjustments from AAC-60.

Pete: Okay. And then on the divested centres?

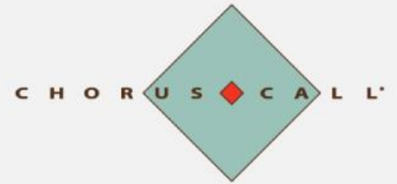
Gary Carroll: Quantum depreciation. That really depends on the progress. That's a bit of a thumb suck at this point, Pete, in terms of the progress on our sales activity. We had called out when we announced that, that we do expect that to be quite a prolonged process. So not seeing anything material just in the 20-21 year.

Pete: Okay, great. Thanks very much guys.

Operator: Thank you. Your next question comes from John Hynd from Wilsons. Please go ahead.

John Hynd: Good morning, Gary and Sharyn. Thanks for your presentation. If I could just touch on some of the cost lines, just to confirm, the support office costs, would they have been closer to 43 mil this year without JobKeeper? And I mean, if that's the case, it's pretty big step up in terms of percentages. How should we think about that going forward? And then just one more question in a similar line. Are other expenses at the centre line increased materially? I'm sorry if you've touched on this earlier, but what's in that? I think it's about close to 10 mil. What drove that as well, please, and how should we think about it going forward?

Gary Carroll: So you're right. Without the JobKeeper, it was around the 43. The increase was driven by our investment in our strategic programmes, predominantly our improvement programme. That involves some increased resourcing into our centres to drive improvements.



How should you think about that moving forward? Well, we are doubling the activity level in 2021, and we called that the benefits from the strategic programmes will fund that increased expenditure, so it doesn't drag on the bottom line. But we do expect an increase in that in '21 because we're getting good results. In terms of the increase in other centre costs, that was the re-investment of the quarter four subsidy in areas like R and M in centre resources, et cetera. So that is more of a one-off increase.

John Hynd: By reinvestment of subsidy into resources, what does that actually entail? Is it more educational programmes for the children or is it wider ranging than that?

Gary Carroll: So, in centre resources, they're expensed equipment, books, toys, other educational resources. And then there was R and M, so improving the physical quality of the centres. They were the two main drivers. We obviously needed to keep our obligation around employment guarantees, so that soaked up a bit of the subsidy. That would have flowed through more in your wages line, not your other costs line.

John Hynd: Okay, thanks. So one more from me, and again, apologies if it's been touched on, but slide 8 on occupancy, the supply's up three and a bit, of 3.7 and occupancy for G8's down, closer to six. How are you talking to the gap there, given the investment you have been making in trying to turn these centres around? How do you talk to that spread?

Gary Carroll: For us, John, 2020 is not a great year to draw a correlation line between supply and occupancy, given the lockdown restrictions and COVID impacts on occupancy. I think it's a very valid observation in a more normalised year, like 2021, that if you have a look at Victoria as an example, that reduction in occupancy was very much driven by lockdown restrictions, not around supply.

John Hynd: Okay. And I mean, the ACT is meant to be quite a popular region for childcare at the moment. It's meant to be, I understand quite a lot of demand. Is there a new entrant that's taking occupancy here or has added capacity? I'm just wondering about the 16% change there, and look, granted you've only got nine centres.

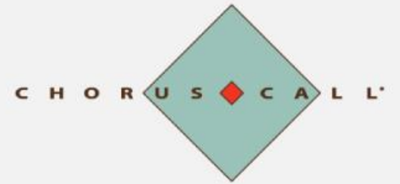
Gary Carroll: Yeah. I mean, it is a small part of it. It's popular both in terms of demand and supply and it's a very small market. So there was a lot of capacity added to that market in preceding years. And I think we're starting to see the flow and impact. That said we can do a better job in the ACT, and we're not shying away from the fact that we think we can turn around that performance and we're focused on doing so.

John Hynd: Okay. Thanks guys.

Operator: Thank you. Once again, if you wish to ask a question, please press the star key followed by the number one and wait for your name to be announced.

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

Gary Carroll: Thanks Rachel and thanks everyone for joining us. No doubt we'll catch up with a large number of you over the next three days, and we thank you for your time today. Thank you.



Sharyn Williams: Thank you.

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

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